

***Capacity Building in OIC Member Countries
-Bangladesh Perspective
[A short view on Bangladesh Bank's(Central Bank of Bangladesh) efforts]***

Presented by

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What is Capacity Building?

Capacity building often refers to assistance that is provided to entities, societies which have a need to develop a certain skill or competence, or for general upgrading of performance ability. Capacity Building is not limited to international aid work. More recently, capacity building is being used by government to transform community and industry approaches to social and environmental problems. Capacity building is an ongoing process through which individuals, groups, organizations and societies enhance their ability to identify and meet development challenges. Specifically, capacity building encompasses the country's human, scientific, technological, organizational, institutional and resource capabilities. A fundamental goal of capacity building is to enhance the ability to evaluate and address the crucial questions related to policy choices and modes of implementation among development options, based on an understanding of environment potentials and limits and of needs perceived by the people of the country concerned.

Capacity building is a long-term, continuing process, in which all stakeholders participate (ministries, central bank, local authorities, non-governmental organizations and utility user groups, professional associations, academics and others).

Capacity Building is much more than training that includes:

- *Human resource development, the process of equipping individuals with the understanding, skills and access to information, knowledge and training that enables them to perform effectively.*
- *Organizational development, the elaboration of management structures, processes and procedures, not only within organizations but also the management of relationships between the different organizations and sectors (public, private and community).*
- *Institutional and legal framework development, making legal and regulatory changes to enable organizations, institutions and agencies at all levels and in all sectors to enhance their capacities.*

Why is Capacity Building Needed?

The issue of capacity is critical and the scale of need is enormous, but appreciation of the problem is low.

The link between needs and supply is weak.

There is a lack of realistic funding.

There is need for support for change.

Training institutions are isolated - communications are poor.

Development of teaching materials is inefficient.

Alternative ways of capacity building are not adequately recognized.

Who are the Clients?

Local government, Monetary Authority, Financial Sector (such as Central Bank, Banking industry, Non Banking Financial Institutions), Communities and NGOs are the main clients, but central government and the private commercial sector also need support. Community groups, often with strong NGO support, need to improve their capacity to plan, organize and manage their neighbourhoods. Departments of local government play an increasingly important role in enabling community groups to enhance their capacities and effectiveness.

Capacity building encompasses human resource development (HRD) as an essential part of development. It is based on the concept that education and training lie at the heart of development efforts and that without HRD most development interventions will be ineffective. It focuses on a series of actions directed at helping participants in the development process to increase their knowledge, skills and understandings and to develop the attitudes needed to bring about the desired developmental change.

Another essential mechanism for capacity building is partnership development. Partnerships give a local NGO access to: knowledge and skills; innovative and proven methodologies; networking and funding opportunities; replicable models for addressing community needs and managing resources; options for organizational management and governance; and strategies for advocacy, government relations and public outreach.

Capacity Building -Bangladesh Perspective (a short view upon the financial sector's linkage with Capacity Building)

Strengthening Bangladesh Bank, the Central Bank of Bangladesh:

Bangladesh is implementing Central Bank Strengthening Project for-

- 1 Reorganization of the Bangladesh Bank*
- 2 Greater use of information technology for faster information gathering and processing with a view to availing real data for analysis, research development and policy formulation.*
- 3 Capacity building in the central bank through human resource development and policies and training with special reference to Risk Management, Bank Supervision, Basel II Implementation, Stress Testing, Environmental and Climate Change Risk Management, Agriculture and Small and Medium Enterprise Financing.*

Strengthening Risk management and Supervision

- 1 For smooth functioning of banking sector and ensuring steady growth in performance trend, risk management is being considered to be an essential strategy for the financial institutions in Bangladesh.*
- 2 BB identified five core risks such as balance sheet risk, credit risk, foreign exchange risk, internal control and compliance risk, and money laundering risk, involved with daily banking operations and issued guidelines in managing those risks.*
- 3 Review of some other risks are going on that include IT risk, operational risk, market risk, liquidity risk, reputation risk, insurance risk, and sustainability risk.*
- 4 BB has recently been involved in Stress Testing that covers **techniques for stress testing, frame work for regular Stress Testing, scope of Stress Test, methodology and calibration of shocks** (Credit Risk, Interest Rate Risk, Duration GAP & Price Sensitivity, Exchange Rate Risk, Equity Price Risk, Liquidity Risk).*

- 5 *BB has recently issued guidelines on 'Risk Based Capital Adequacy for Banks' for their compliance with international best practices and to make the bank's capital more risk-sensitive as well as build the banking industry more shock absorbent and stable.*
- 6 *With the aim to fully implement a Risk Grading System, an Integrated Credit Risk Grading Manual for all exposures has been developed.*

Concentration on CSR activities

Bangladeshi Banks have been found to be involved in a number of fields like disaster management, education, health, sports, art & culture etc. Moreover, whether the banks are financing environment friendly projects like Solar Energy/Bio-gas Plant, Wastage Processing/Recycling Plant is also observed. Similarly, the portion of a bank's loan portfolio that has been made to industries having Effluent Treatment Plant (ETP) is also considered for the evaluation of "Management (M)".The amount of expenditures for CSR activities made by the banks is evaluated with an emphasized focus.

On-site examination in line with international standard and norms

On-site examination to examine the books of accounts and related documents/records of the banks and non-bank financial institutions to ascertain financial soundness of the bank/non-bank financial institutions concerned, with a view to protecting the interest of depositors and stake holders and justify asset quality in accordance with international standard and norms.

Disclosure Requirements for Banks with a view to ensuring accountability and transparency

The forms of financial statements of banks and directives for preparation thereof have been amended in line with International Accounting Standards with a view to bringing in more disclosure in the financial statements of the bank companies to get adequate and transparent idea about the bank company.

Strengthening Bangladesh by Sovereign credit rating

Bangladesh has got its first ever sovereign credit rating recently from two international credit rating agencies via Standard and Poor's and Moody's which rated Bangladesh as BB- and Ba3 respectively with stable outlook. Sovereign credit rating, for the first time, by two international credit rating agencies regarded Bangladesh as a reliable destination for international creditors and investors.

Concentrating more on Agricultural financing

The agriculture credit program announced by BB for FY 10 enjoins all banks to engage in lending for a comprehensive range of on-and off-farm rural economic activities, with refinance lines available to them from Bangladesh Bank.

SME financing

- 1 Bangladesh Bank has introduced refinance schemes for banks against their loans to Small and Medium Enterprises (SMEs) multilateral development partners such as the IDA and ADB are supplementing BB's refinance programs with their co-financing lines.*
- 2 BB's refinance schemes for banks against their loans to Small and Medium Enterprises (SMEs) have been expanded from BDT 1 billion to BDT 6 billion for ensuring credit availability to this sector.*
- 3 Bangladesh Bank has formed SME and Special Programs Department to enhance investment in this sector especially to help women in increasing their contribution to industrialization*
- 4 In this regard it has been made mandatory that at least 15% of the credit will be disbursed among the women entrepreneurs and a total of BDT 24 billion will be disbursed for this sector in the current fiscal through the banking channel.*

Need for Strengthening Micro Credit Regulatory Authority (MRA) for making Micro Credit Operations more effective

At present 523 Micro Finance Institutions (MFIs) are licensed under Micro credit Regulatory Authority (MRA) and other 850 MFIs are under process of providing license. Near about .2 million people are employed in MFIs and Grameen Bank. Around 30 million poor people of Bangladesh are directly benefited from micro credit programs. Through the financial services of micro credit these poor people are engaged in various income generating activities.

Basel II and Plan for its Implementation in Bangladesh (requirement of huge capacity building)

Basel II regime has been started since January 2010 and standardized approach is now being considered for credit rating. BB's intension to switch to Internal Rating Based approach by 2012 which will require huge capacity building and technical assistance.

Practicing Anti Money Laundering Measures

- 1. Money Laundering Prevention Act'2002 has been enacted.*
- 2. Financial Intelligence Unit (FIU) has been established to comply with the international standards.*
- 3. Suspicious Transaction Reports (STRs) from banks/NBFIs is being collected.*
- 4. Cash Transaction Reporting (CTR) system has been introduced from April 2006.*

BB at present also giving concentration on Financial Inclusion (Study of different Central Bank's Activities is going on)

Capacity Building in OIC Member Countries may be activated in the following manner:

- *Central banks and Monetary Authorities of OIC member countries those require mostly like Bangladesh Bank may be provided technical know-how, technical assistance and ICT development assistance from the other OIC member countries those are comparatively more capable.*
- *Central banks and Monetary Authorities of OIC member countries may arrange training courses, seminars, work-shops etc. in the specialized institutions on various issues such as Central Banking, Money and Banking, Financial Derivatives, Financial Management, Core Risk Management, Stress Testing, Off-site Supervision and On-site examination, International Business Environment, Human Resource Development etc.*
- *Special Training of Trainers(TOT) for those are well experienced in the above mentioned areas and or conducting sessions in the respective training academy may be arranged frequently with a view to establishing Central bank's/Monetary Authorities' Training Academy of OIC member countries as a world class centre of excellence.*
- *With a view to considering risk based capital adequacy a major concern, Central banks /Monetary Authorities of OIC member countries should come forward and extend hands for smoother implementation of Basel II accord.*
- *There must have a common Shariah concept that may come out from a Central Shariah Board that the OIC member countries may practice in the best possible manner for their smooth and efficient Islamic banking operation. Guidelines on Islamic Banking of OIC countries may be studied and seminars/workshops may be arranged for detailed discussion and sharing experience.*
- *Considering current scenario, more concentration needed on Sustainable Finance, Climate and Environmental Change Risk Management, Financial Inclusion and Corporate Social Responsibilities.*
- *Greater use of information technology for faster information gathering and processing with a view to availing real data for analysis, research development and policy formulation.*
- *Capacity building through human resource development and policies and training with special reference to Risk Management, Bank Supervision, Basel II Implementation, Central Bank Study, Agriculture and Small and Medium Enterprise Financing.*
- *Strengthening Off-site and On-site Supervision*
- *Improving Sovereign Credit Rating*
- *Concentrating hard on Agricultural Financing, SME Financing and Micro-Credit.*
- *Sharing experience for establishing standard rules and regulations for strengthening NGOs, Micro Credit Institutions and Insurance/Leasing Companies*
- *Practicing vigorously Anti Money Laundering Measures*
- *Sharing experience among OIC member countries for Financial Inclusion.*

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