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"THE MISSION OF TRIODOS FACET IS TO CONTRIBUTE TO SUSTAINABLE ENTERPRISE DEVELOPMENT"
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1 Introduction

This report is the pre-mission draft for the forth country report, covering the PSD program in Bangladesh. This report is part of a series of four country studies covering Bangladesh, Vietnam, Burundi and Ethiopia, for the purpose of the IOB Policy Review on Private Sector Development. The findings of the four country studies are analyzed in the Synthesis Report that in turn is part of the aforementioned IOB Policy Review. A more detailed methodology is presented in the synthesis report, including the approach chosen for the four country studies.

1.1 Evaluation objectives and research questions

The overall aim of the country study is to analyze how the Dutch PSD policy was applied in Bangladesh in 2005-2011; what were the underlying rationales that have led to the PSD program, how did actors engage with each other, and what can be said about the effects that the PSD program has had. Below table summarizes the overall research, the items in green and italic represent the part that are investigated in this country study.

<table>
<thead>
<tr>
<th>#</th>
<th>Main questions</th>
<th>Sub-questions</th>
</tr>
</thead>
</table>
| 1 | What is the Dutch PSD policy, what are its objectives, instruments and expenditures? | 1.1 What is the Dutch PSD policy, what was its rationale?  
 1.2 What instruments are used, and which problems do these instruments seek to solve? |
| 2 | Is the PSD policy applied in the way the PSD Policy intended?  
 Is there a link between the PSD instruments used, is there synergy? | 2.1 Are the instruments in line with the Policy?  
 2.2 How is Dutch PSD Policy applied in country X?  
 3.1 What kind of relationships exist between the PSD instruments in country X?  
 3.2 Is there synergy between the PSD instruments in country X? |
| 3 | Are the instruments and PSD programs driven by demand of the actors in the countries? | 4.2 What are the methods used to determine demand drivenness and how is compliance assured by Dutch PSD instruments?  
 4.3 To what extent has the PSD approach, resulting program and have the projects undertaken been driven by demand of actors in country X? How is demand-drivenness assured in specific country circumstances? |
| 5 | What is known about the effects (outcomes and impacts) of the PSD Policy in the four researched countries? | 5.1 Which evaluations are available that describe effects (outcome, and/or impacts) at enterprise level?  
 5.2 What other sources are available that describe effects on enterprise level?  
 5.3 What is known about effects beyond enterprise level (sector and systemic level) in evaluations, and other sources? |

1.2 Structure of the report

The structure of this Bangladesh country report is as follows. In chapter 2, a background is provided to contextualize the Dutch efforts for private sector development in Bangladesh. To this end, the country’s relevant macroeconomic indicators as well as the Bangladeshi governments’ PSD policies are described. In addition, the chapter provides a listing of the binding constraints affecting private sector development.

Chapter 3 highlights the coming into being of the Dutch approach for PSD development. This approach is described taking into considerations the views and role of a series of stakeholders in the development of this approach. Relevant stakeholders in this regard include the Royal Netherlands Embassy, Dutch government agencies responsible for the Central instruments, DDE and last but not least the Bangladeshi private sector itself.

Chapter 4 details the objectives and effects of the PSD projects which have been undertaken in Bangladesh over the 2005 – 2011 period. As much as possible, the reported results in the chapter are based on previous project evaluations. Throughout the chapter, the reported effects are evaluated against developments in the private sector at large as witnessed by movements in the binding constraints earlier identified in chapter 2.

In Chapter 5, assessments are provided for the PSD Approach developed by Dutch actors, the relationships between programs, and program synergy of the Dutch PSD policy and program in Bangladesh.

Chapter 6 summarizes the country study, and highlights the main conclusions drawn.
2 Private sector development in Bangladesh

In this chapter, an overview is provided of the state of private sector development in Bangladesh. The overview includes a brief outline of economic development in the country (section 2.1), the most important government policies to foster private sector development (section 2.2), as well as a listing of the challenges or constraints affecting private sector development (section 2.3). In all, the background provided in this chapter serves to contextualize the efforts and results of the Dutch PSD policy in Bangladesh.

2.1 Economic development in Bangladesh

Bangladesh has gone through a difficult path of economic development; since it became independent from Pakistan in 1971, its history, policies, geography and demographics have been a challenging mixture:

First, Bangladesh is the most densely populated country in the world (apart from city states); an area of 147,570 sq km houses over 150 million people (by comparison, in the Netherlands 41,543 sq km are inhabited by 16 million). Since independence in 1971, population has more than doubled. A significant proportion of the country is regularly flooded and threatened by tropical rainfalls and cyclones1. Second, independence was the result of a civil war, and led to nationalization of initially all Pakistani-owned industries, and the adoption of a socialist development model. At the same time, while a democracy from the start, the country has frequently been ruled by military governments. In the early period of development, Bangladesh was one of the poorest countries in the world, with high levels of child mortality, low GDP per capital and a very basic infrastructure to build on. Since then, Bangladesh has come a long way, adopting market economic principles for a large part, and opening its economy for a more export-led development approach. Since the 1990ies, the economy has grown at an average rate of 5,8%, while population growth has declined in the same period from over 2,5% to 1,7% per year.

In the period 2005-2011, the Bangladesh economy has continued to grow with an average 5-6% per year, and managed to grow at a steady pace, despite the financial crisis starting in 2008, and the internal political crisis the country’s political system underwent during 2006-2009. In 2006, civil unrest led to the need for a military-led caretaker government. The caretaker government held elections in December 2008 that were deemed free and fair by international observers and resulted in a peaceful transfer of power.2

More than half of GDP in Bangladesh stems from the service sector. Almost 30% is produced by industry and a declining part of 20% of the GDP is produced by the agricultural sector.3 Ready-made garments (RMG) and remittances have emerged as the twin drivers of the economy4, resulting in a vibrant export sector (of which over 75% is RMG), while remittances have grown from around 4 billion USD per year to over 12 billion per year. Net ODA, for comparison has been relatively steady at 1,4 billion USD per year in the same period.

The data presented in the table below further show that Bangladesh’s labor force is growing at a rapid pace; annually 1-2 million people newly enter the labor force. Despite the growth of the labor force, Bangladesh has a relatively low unemployment rate of around 5%5.

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1 http://data.worldbank.org/country/bangladesh
5 However, this is typically not a rate associated with “full employment” in a developing country.
## Table 1: Developments in the macroeconomic indicators of Bangladesh (2005 – 2011)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita, PPP (current US$)</td>
<td>1164.6</td>
<td>1226.4</td>
<td>1290.7</td>
<td>1356.3</td>
<td>1419</td>
<td>1488.3</td>
<td>1568.4</td>
</tr>
<tr>
<td>GDP per capita (current US$ billion)</td>
<td>428.8</td>
<td>434.8</td>
<td>475.2</td>
<td>546.8</td>
<td>607.8</td>
<td>674.9</td>
<td>735</td>
</tr>
<tr>
<td>Population, in millions</td>
<td>140</td>
<td>142</td>
<td>143</td>
<td>145</td>
<td>147</td>
<td>148</td>
<td>150</td>
</tr>
<tr>
<td>GDP (current US$ billion)</td>
<td>60.2</td>
<td>61.9</td>
<td>68.4</td>
<td>79.5</td>
<td>89.3</td>
<td>100.3</td>
<td>110.6</td>
</tr>
<tr>
<td>GDP growth (annual %)</td>
<td>5.96</td>
<td>6.63</td>
<td>6.43</td>
<td>6.19</td>
<td>5.74</td>
<td>6.07</td>
<td>6.66</td>
</tr>
<tr>
<td>Life expectancy at birth, total (years)</td>
<td>66.93</td>
<td>67.31</td>
<td>67.67</td>
<td>68.00</td>
<td>68.33</td>
<td>68.63</td>
<td>68.94</td>
</tr>
<tr>
<td>GINI index</td>
<td>33.22</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>32.12</td>
<td>..</td>
<td></td>
</tr>
<tr>
<td>Inflation, consumer prices (annual %)</td>
<td>7.05</td>
<td>6.77</td>
<td>9.11</td>
<td>8.90</td>
<td>5.42</td>
<td>8.13</td>
<td>10.71</td>
</tr>
<tr>
<td>Labor force, in millions</td>
<td>65</td>
<td>66</td>
<td>68</td>
<td>69</td>
<td>71</td>
<td>72</td>
<td>..</td>
</tr>
<tr>
<td>Unemployment, total (% of total labor force)</td>
<td>4.30</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>5.00</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Foreign direct investment, net inflows (% of GDP)</td>
<td>1.35</td>
<td>1.13</td>
<td>0.95</td>
<td>1.27</td>
<td>0.80</td>
<td>0.91</td>
<td>0.72</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>23.05</td>
<td>25.24</td>
<td>26.70</td>
<td>28.75</td>
<td>26.55</td>
<td>25.02</td>
<td>31.21</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>16.58</td>
<td>18.97</td>
<td>19.78</td>
<td>20.34</td>
<td>19.43</td>
<td>18.41</td>
<td>22.70</td>
</tr>
<tr>
<td>Net ODA received per capita (current US$)</td>
<td>9.38</td>
<td>8.58</td>
<td>10.53</td>
<td>14.23</td>
<td>8.34</td>
<td>9.52</td>
<td>..</td>
</tr>
</tbody>
</table>


### 2.2 PSD policies in Bangladesh

Although the overall governance setting is marked by poor law and order, systemic corruption, and declining quality of the civil service, several positive aspects of governance explain Bangladesh’s success in accelerating growth and poverty reduction. Since the 1990s, the Government has increasingly supported private sector development through sound macroeconomic management and measures to open up the economy. Macroeconomic stability and an increasingly open trade environment have contributed to vigorous annual export growth of 11% with substantial employment generation, especially in the ready-made garment sector.

In recent years, the economic situation in Bangladesh has been strongly influenced by the political turmoil between 2006 and 2009; which included a military caretaker government in 2007-8. During this time, natural disasters have hampered agricultural production, and continuous strikes and uncertainty about the country’s direction have reduced domestic and foreign investment. On the bright side, the financial crisis of 2008 has not led to a dent in the growth performance; other than the majority of Asian economies, GDP growth remained stable during this crisis.

Despite a legacy of political discord, Bangladesh’s successive governments have been firmly committed to private sector development and to private sector-led growth. The national policy for accelerated poverty reduction and social development emphasizes that progress toward poverty reduction will require (i) an open and competitive environment that is conducive to private investment, with a particular emphasis on exports and rural development; (ii) raising poor people’s capability to participate more fully in growth through access to higher-quality education, health care, safe water, and nutrition; and (iii) that the government improve its administrative and management capacity, promote local governance, tackle corruption, enhance justice for the poor, and improve security and public order to protect private property rights. Development priorities include (i) accelerated growth in rural areas and the development of agriculture and off-farm economic activities; (ii) developing manufacturing SMEs; (iii) rural electrification,

---

*Country strategy and program 2006–2010 Bangladesh, ADB 2006, p.1*
In general, the Government of Bangladesh has formulated several strategies, often in alignment with the main donors in Bangladesh (WB and ADB) to address reduction of poverty (about 33% of the population are considered to be (extremely) poor), by increasing productivity and stimulating economic growth. While there is no dedicated strategy on private sector development, several policy documents address PSD indirectly. The National Strategy for Accelerated Poverty Reduction (NSAPR) defines a ‘road map for accelerated poverty reduction’. This road map focuses on three policy areas: pro-poor economic growth, human development and governance. The pro-poor economic growth is most relevant in the PSD-context. The NSAPR sets strategic priorities which are: Employment, Nutrition, Quality Education, Local governance, Maternal Health, Sanitation and Safe Water, Criminal Justice and Monitoring.

The NSAPR describes eight ‘avenues’ - four strategic blocks and four supporting strategies- through which the goal of poverty reduction should be reached. For PSD two blocks are relevant: supportive macroeconomics and choice of critical sectors. According to the NSAPR supportive macroeconomics should ensure rapid growth with particular focus on stable macroeconomic balances, improved regulatory environment, higher private investment and increased inflow of FDIs, effective trade and competition policies, and, poor and gender sensitive budgetary process. The strategic block choice of critical sectors is about maximizing pro-poor benefits from the growth process with special emphasis on the rural, agricultural, informal and SME sectors, improving connectivity through rural electrification, roads, and telecommunications.

The successor (NASPR II) is mostly in line with the predecessor. The main differences are: more attention to infrastructure which is a separate strategic block in this policy, the (extra) attention to the influence of climate change on the development strategy of Bangladesh and the extra supporting strategy about science and technology.

A noticeable aspect is that most of the PSD-related strategies emphasis strongly the role of government in stimulating PSD (directly), rather than developing a view how an “ideal private sector” should eventually look like. Most private sector actors or -representatives spoken to would globally see the problem less in policies and more in the theme of “governance”, i.e. the general ability of GoB to enforce a policy document such that it will deliver improvements for the private sector.

2.3 Binding constraints in the private sector

In this section an overview is given of the binding constraints in the private sector over the 2005 – 2011 period. The constraints are clustered using the five clusters which can be identified in the overall Dutch PSD policy: (i) Infrastructure, (ii) financial sector, (iii) judicial system, (iv) market access and development, and (v) knowledge and skills. The constraints listed below are gathered by means of a review of various reports from World Bank, IFC, ADB and papers from other sources.

Prior to the discussion of binding constraints within each of the five clusters, it is informative to give a more general overview of such constraints. To this end the results from the World Bank Investment Climate Survey for Bangladesh and World Economic Forum’s Global Competitiveness Report are particularly insightful.

The World Bank Investment Climate Survey, based on a survey undertaken in 2007, identified obstacles by asking Bangladeshi firms to list the most important obstacles for doing business from a list of 15. In this respect the three most mentioned obstacles facing businesses were:

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10 See also MASP 2008-2011, where the theme of (and the EKN effort towards better) governance is elaborated.
• Electricity (mentioned by 43% of the respondents)
• Access to finance (mentioned by 35% of the respondents)
• Political instability (mentioned by 11% of the respondents)

The report also shows the development of the investment climate over time, here from 2005 to 2012. The graph below depicts how the key indicators have developed over this period, by “distance from frontier”. This measure shows how far Bangladesh is from the best performance achieved by any economy since 2005 on each indicator in 9 Doing Business indicator sets. The closer to 0 the better the indicator would be. The emerging picture is that Bangladesh is still far from most indicators, as is its overall ranking – 124 in 2012, out of 185 countries. Interestingly, none of the indicators has improved (the 2005 values are closer or equally far from the frontier values).11

![Figure 1: Development of Doing Business Indicators over time (2005-2012)](source: DBI, 2013)

In 2011, the World Economic Forum’s Global Competitiveness Report, using a similar survey technique, found the most mentioned obstacles to be:

• Inadequate supply of infrastructure (20% of the respondents)
• Problems with corruption (17% of the respondents)
• Access to financing (10% of the respondents)

The top five constraints did not alter that much in these four years; access to finance and infrastructure or electricity remain top three obstacles for doing business. Also topics around government bureaucracies (fourth constraint in 2011), corruption (mentioned by 4% of the enterprises in 2007) and political instability score high on constraints for doing business (third place in 2007, sixth place in 2011).

The 2011 reports further points out that ‘insufficient capacity to innovate’ (1.4 percent), ‘restrictive labor regulations’ (1.1 percent) and ‘poor public health’ (.8 percent) are the least constraining obstacles.

11 Doing Business 2013, World Bank 2013, p.9
Figure 2: The most problematic factors for doing business in Bangladesh

In all, the reports available conclude that doing business in Bangladesh is a significant challenge, compared to global standards. Bangladesh is rated in the bottom league of countries, and its ranking has not improved (and even worsened) during the review period. However, the ranking is not directly linked to economic success, as Bangladesh’s growth rates show, and India, seen as another emerging market ranks only a few places higher than Bangladesh does.

2.3.1 Binding constraints in the financial sector

Private entrepreneurs’ limited access to credit is a binding constraint for doing business in Bangladesh. Both the World Bank Investment Climate Survey and the World Economic Forum’s Global Competitiveness Report mention access to finance to be a top three constraint for businesses in Bangladesh.

Globally, Bangladesh stands at 83 in the ranking of 185 economies on the ease of the IFC getting credit indicator in 2013. Bangladesh compares favorably in terms of domestic credit to the private sector. However, sufficient access to long-term loans and access to loans for smaller firms is a significant constraint in Bangladesh. Access to credit for (M)SMEs was a problem in 2005: ‘In 2005, bank lending to both urban and rural MSMEs accounted for just 2 percent of total lending in 2005’ and ADB’s country strategy of 2011 reported on the lack of access to SME for medium and long-term credit.

The doing business indicators offer an overview on developments throughout the 2005-2011 period; there are no significant changes over the years in (i) legal rights of borrowers and lenders in collateral and bankruptcy laws and the (ii) Scope and accessibility of credit information. The number of individuals and firms listed in public credit registry as percentage of adult population fluctuates but is negligible, as can be concluded from the table below.

Table 2: Bangladesh, components of the IFC’s Getting Credit indicator (2005-2011)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strength of legal rights index (0-10)</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Depth of credit information index (0-6)</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Public registry coverage (% of adults)</td>
<td>0.7</td>
<td>0.4</td>
<td>0.6</td>
<td>0.7</td>
<td>0.6</td>
<td>0.9</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: IFC Doing Business Reports (http://www.doingbusiness.org/data/exploreeconomies/bangladesh)

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The country’s credit information bureau is operated by the central bank and only contains information of current loans above 50,000 Taka (EUR 500), does not have the full history of borrowers and is not computerized.\textsuperscript{13} The finance sector has a large degree of state involvement. There are four state-owned commercial banks, which hold 28% of the country’s bank deposits.\textsuperscript{14}

Although generally the soundness indicators of the finance sector in Bangladesh have improved, the non-performing loan ratio remains a concern: The gross weighted average NPL ratio for all banks in March 2011 was 7.3%, and SCB’s NPLs accounted 14.8% of total loans. This high NPL ratio can be ascribed to priority lending to state-owned enterprises in the past, deficient legal and debt-recovery framework and weak loan and screening supervision.\textsuperscript{15} Banks are still hesitant to enter the SME lending market. Due to the low quality of the credit information system and the ineffective legal system for contract enforcement banks have to rely heavily on collateral, in the form of land or machinery, to secure their loans. And due to the lack of innovation MSME lending still entails low-value transaction costs and high transaction costs for commercial banks.\textsuperscript{16}

As a consequence access to finance for SMEs is low: 75% of rural firms report a need for additional financing, but only 3% applied for a formal loan to meet their financing needs. Banks do not offer diversified products with price differentiation that fit MSME’s demands. The ICA report found that 80% of the MSME did not apply for a loan, because of the high collateral demands, short maturity of loans and low changes of getting approval: ‘Typical requirements for a loan is to get the financial statements audited (only 24% of small urban firms and less than 1 percent of non-metropolitan firms do that routinely), register the collateral, hold 6-7 meetings with the bank’.\textsuperscript{17}

The lack of access to finance affects mainly small and medium enterprises: the so-called ‘missing middle’. Bangladesh has played a pioneering role in developing the microfinance industry, with large MFI players such as Grameen, BRAC and ASA; its assets constituted around 3 percent of GDP in 2011.\textsuperscript{18} The MIFA publication of 2009 even stated that the microfinance sector was oversupplied; supply outgrew MFI demand.\textsuperscript{19} Outstanding loans, number of MFIs and amount of outstanding loans steadily increased over 2008-2011; in 2011 outstanding loans amounted to 173 million Taka, as can be derived from the table below.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Licensed NGO-MFIs</td>
<td>293</td>
<td>419</td>
<td>516</td>
<td>576</td>
</tr>
<tr>
<td>No of Branches</td>
<td>15,077</td>
<td>16,851</td>
<td>17,252</td>
<td>18,066</td>
</tr>
<tr>
<td>Total borrowers (Million)</td>
<td>17.79</td>
<td>18.89</td>
<td>19.21</td>
<td>20.65</td>
</tr>
<tr>
<td>Amount of Loan Outstanding (Tk. Million)</td>
<td>134,680.96</td>
<td>143,134.03</td>
<td>145,022.66</td>
<td>173,797.60</td>
</tr>
</tbody>
</table>

Source: MRA-MIS Database-2011\textsuperscript{20}

In general, the finance sector in Bangladesh focuses on short-term finance; in (semi) rural areas the average loan term was 17 months and 75% of the loans have a maturity of 1 year. As a result investment capital is scarce. This is further illustrated by the very low leverage of firms in Bangladesh; the median leverage rates 0% for small enterprises and 14% for large enterprises.\textsuperscript{21}

\textsuperscript{15} Idem
\textsuperscript{16} Idem, World Bank, 2008
\textsuperscript{17} Idem
\textsuperscript{19} MIFA 2009, Bangladesh: Microfinance and Financial Sector diagnostic Study, Final Report, March 2009, IFC and KFW.
\textsuperscript{20} Idem
\textsuperscript{21} ICA, World Bank, 2008
To sum up, Bangladesh finance constraints lay mostly in access to finance for small and medium enterprises and access to long term loans. Although Bangladesh compares favorably with its peers in terms of domestic credit to the private sector, though long-term lending as well as lending to smaller firms and firms in the rural non-farm sector has remained inadequate. Expansion of credit to smaller firms requires the adoption of modern risk-based lending methods – instead of current lending instruments based on collateral (mostly land). These rigidities of the financial system cause inefficient reallocation of resources and reduce growth potential22.

2.3.2 Infrastructure

Infrastructure, and mainly electricity supply, is perceived to be the biggest constraint in doing business in Bangladesh, according to Doing business indicators, and other similar surveys.

If we look at infrastructure overall, compared to other countries in the region, Bangladesh’ general infrastructure is comparatively functional. The World Bank’s Logistics Performance Index (LPI) enables to compare Bangladesh’s infrastructure performance with other countries in the region. On the “quality of trade and transport-related infrastructure” index, on a scale of 1 to 5, with a higher score representing better performance, Bangladesh scored 2.29 in 2007. Only India scored better amongst the South Asian countries. In 2010, the index had improved somewhat, amounting to 2.4923.

Access to energy or electricity is the key concern the Doing business indicators highlight: the relative ranking of Bangladesh is 185, out of 185 countries, in 201224. Whether or not Bangladesh is indeed the world’s worst place to get access to electricity25 the challenges for the private sector are huge. Bangladesh suffers from structural power supply problems; in 2009 power generation was 3267 MW against a national demand of 5200 MW26.

The root cause for the lack of reliable electricity supply, and the shortage of serviced connections is in the country’s energy system that relies almost entirely on imported fossil fuels (heavy diesel or CNG). At the same time, energy is heavily subsidized: a kwh costs 5-6 BDT (0,008 EUR), compared to e.g. 0,40 EUR in Europe. Oil prices surges directly affect energy prices, and the government’s ability to subsidize the cost of energy. Also, exchange rates deteriorate at the expense of export earnings, which is equally not attractive. Finally, much of the power sector used to be in state hands, while only recently well managed power plants have been allowed to enter the power markets. As a consequence, electricity supply has struggled to keep up with demand spurred by solid economic growth. The private productive sector reports significant losses as a result of power scarcity. The issue is particularly detrimental to MSMEs who cannot afford generators. Manufacturing firms blame the low capacity utilization primarily on scarce power. Estimates put the cost of electricity shortages to Bangladesh at as much as 2 percentage points of annual GDP growth. Over time, this problem has not been reduced: even though supply of electricity has increased since 2005, so has demand, and the “power gap” has not been reduced significantly. “Load shedding” (regular cut-offs from electricity) is a daily feature in summer season everywhere in Bangladesh. Matters are not made better by government policies: e.g. in 2010 Bangladesh made getting electricity more difficult by imposing a moratorium on new electricity connections from April 2010 to March 2011 because of an electricity supply shortage. This moratorium has led to long delays for customers and has increased the time to obtain an electricity connection27.

Since the government’s financial resources are limited, private investment is needed to meet the power requirements. Although the government is committed to power reforms since 1994 and the Power Sector Reform Road Map for 2006–2008, state-owned energy and gas companies are still not fully corporatized. Because the government is keeping the electricity tariffs low, the sector remains unattractive for private sector investments or pioneers in alternative ways of electricity generation. In addition, implementing fair

22 ICA, World Bank 2008, p.12
23 The LPI Index is included in World Bank’s databank: http://data.worldbank.org/country/Bangladesh
25 The ranking is after all a result of a survey, which may not be an accurate perception of reality.
27 Doing Business 2013, World Bank 2012, p.37
and reliable tender processes remain a challenge for the government of Bangladesh, according to ADB. Nevertheless, investments in energy with private sector participation surged in 2008, amounting up to 153 million USD, as can be derived from the table below. Over the 2006-2010 period, although a growing trend is visible, investments have fluctuated significantly.

The table also does not provide a clear upward trend on investments in telecoms. Even though the number of (mobile) telephone subscribers clearly grew in the period 2005-2010. In 2011 the number of mobile telephone subscribers was 56,5 people per 100 people (WEF 2012), compared to 6,6 per 100 people in 2005. The number of internet subscribers is low and did not increase substantially.

Table 4: Investments in Bangladesh Infrastructure with private participation (USD)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in energy with private</td>
<td>19,000,000</td>
<td>8,000,000</td>
<td>153,000,000</td>
<td>66,000,000</td>
<td>97,000,000</td>
<td>97,000,000</td>
</tr>
<tr>
<td>Investment in telecoms with private</td>
<td>480,000,000</td>
<td>1,110,000,000</td>
<td>1,350,000,000</td>
<td>900,000,000</td>
<td>380,000,000</td>
<td>520,000,000</td>
</tr>
</tbody>
</table>


In addition to power and telecoms supply, the quality of physical infrastructure in Bangladesh is considered inadequate to sustain the country’s rapid economic growth. The ADB 2011-2015 country strategy states that ‘Low public and private investment and complex regulatory procedures have limited the ability of the national transportation system to respond to user needs’\(^{28}\). Transport projects generally suffer from implementation delays, which decrease the return on investments, and make the sector less attractive to private parties.

As can be derived from table below, the rail line network in Bangladesh was not increased from 2005 to 2010. The performance of Bangladesh Railway has even declined with decades of underinvestment and inefficient management. Efficiency is reduced because the Bangladesh railway has two systems. The most important corridor from Dhaka to Chittagong is a meter gauge line, which has lower capacity than broad gauge (ADB, 2010).

Table 5: Bangladesh, selected infrastructure development indicators (2005 - 2011)

<table>
<thead>
<tr>
<th>Infrastructure related indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy production (kt of oil equivalent)</td>
<td>19344</td>
<td>21230</td>
<td>22132</td>
<td>23395</td>
<td>24838</td>
<td>-</td>
</tr>
<tr>
<td>Access to electricity (% of population connected to the grid)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>41%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Quality of port infrastructure 1:underdeveloped-7:well developed</td>
<td>-</td>
<td>-</td>
<td>2.4</td>
<td>2.6</td>
<td>2.9</td>
<td>3.4</td>
</tr>
<tr>
<td>Roads; total network (km)</td>
<td>239,226</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Roads; paved (% of total roads)</td>
<td>10 (2003)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Rail lines (total route-km)</td>
<td>2855</td>
<td>2855</td>
<td>2855</td>
<td>2835</td>
<td>2835</td>
<td>2835</td>
</tr>
<tr>
<td>Mobile and fixed-line telephone subscribers (per 100 people)</td>
<td>6.6</td>
<td>13.0</td>
<td>22.5</td>
<td>28.7</td>
<td>-</td>
<td>56.5 (mobile only)</td>
</tr>
<tr>
<td>Fixed broadband Internet subscribers (per 100 people)</td>
<td>0</td>
<td>-</td>
<td>0.03</td>
<td>0.03</td>
<td>0.04</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Source: http://www.tradingeconomics.com/bangladesh/indicators and WEF 2012

According to the trading economic indicator the ‘quality of port infrastructure’ improved with one point, from 2.4 to 3.4. ‘Major changes in organization, security, and labor and berth management since 2007 have considerably improved port operations and container handling speed, as well as increased port productivity’\(^{29}\).

\(^{28}\) ADB, 2010  
\(^{29}\) Idem
In general domestic and regional connectivity are a problem to the private sector; road, rail and inland waterways are inadequate and inefficient. This hampers regional economic integration and prevents the port of Chittagong from realizing its potential as a gateway for the region’s international trade. This connectivity was remarked by both ADB’s country strategies written in 2005 and 2010.

In sum, lack of adequate infrastructure is a significant obstacle for PSD in Bangladesh; in particular, electricity is notorious problem, hampering ability to produce directly. This constraint has not improved or changed dramatically, as demand keeps outstripping supply. Other parts of the infrastructure are problematic, but not as much as power supply. Some improvements have been realized, yet overall, access to infrastructure is a key problem in 2011 as it was in 2005.

2.3.3 Access to skills and knowledge

Bangladesh has a large and young workforce, which is a key competitive resource in export markets – abundant supply of low-wage workers is one reason why textiles are a successful export product. However, the flip side is that the skill level, and subsequently the knowledge developed within enterprises is low.

Overall, basic education is a limiting factor for any productivity increases, due to a still relatively undeveloped education system. Secondary school enrolment is only 42% in 2011, rank 119 out of 142 sampled countries. Tertiary education enrolment is also low, 7.9% or rank 116. Half of the labor force is working in low skill agricultural activities. While unemployment is reported at 5% in 2009, underemployment is at 29% signifying a mismatch between the supply of skills and demand in the labor market.

Approximately 80% of the workforce is employed in the informal sector experiencing unproductive, uncertain, and unregulated underemployment. The economy needs to diversify and expand. To benefit from the demographic dividend productivity increase of the labor force needs to be accelerated with emphasis on soft skills and market responsive TVET.

The need for knowledge and skills is however an increasing concern as there is an emerging need for product diversification, particularly in exports in order to stay competitive. Though exports account for about 20% of the Bangladesh GDP, about 85% of these exports are based on only 7-8 products. Thus, continued weak demand from export markets could have considerable impact on the GDP in the coming year(s).32

The TVET sector is highly fragmented with a large number of ministries claiming to offer TVET programs through their respective line ministries, with little or no coordination on standards, lack of equivalence across different training programs and levels, and almost no way to meaningfully accredit training programs, and ensure that trainees have achieved the minimum level of competencies expected of their programs.

A further problem here is that the current TVET system does not provide the skills needed by the labor market. Overly centralized structures and procedures makes it difficult for institutions to ensure demand orientation and leaves little room for industries and employers to play a significant role in identifying the skills that are in demand or the standards needed by industry. Only 60% of the capacity of institutions providing Diploma in engineering is used. Bangladesh spends less than 1.5% of its education budget on all technical education and training in the country.33

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31 WEF 2011, p.2
32 Bangladesh: Skills for Employment, ADB, Dec. 2011, p.3
33 Project Appraisal Document, Skills and Training Enhancement Project, World Bank 2010, p.5ff
For the industries immediately affected, often the solution is to organize own education systems within firms or sectors. BGMEA, the representation of the garment industry in Bangladesh, confirmed that most of their members prefer to develop on-the-job training systems to address the increasing demand in the sector. In their view, the problem is becoming more critical as other, even cheaper countries enter the world markets. Bangladesh needs to increase value-add per piece in order to stay competitive, which in turn requires more skilled workers and engineers. BGMEA confirms the impression from reports that though the problem is growing, no changes have been achieved by GoB to significantly alter the shortage of skilled labor.

2.3.4 **Legal and regulatory framework**

Bangladesh is considered to have a significant problem with its enabling environment, and the legal and regulatory parts thereof are seen as the core issue. The general theme in reports (and in interviews with businesses) is that the low level of “governance” has resulted in an uncontrollable government apparatus, that interferes with red tape (and subsequent abundant opportunities for corruption) in almost all spheres relevant for PSD. Reports (such as the Doing business surveys) rank Bangladesh at the lowest end of the scale, in most aspects. Furthermore, there are no general signs of improvements: the rank in 2011 was 122, down from 118, and the trend continues into 2012. (In 2005 no composite indicator was made by this report). As mentioned above, the investment climate has not improved, or worsened compared to “peer” countries.

In below table a selection of rankings for various items is shown; apart from paying taxes, and resolving insolvency, few indicators are below 100, and many are in the very bottom league, such as getting electricity (183 in 2011, even 185 out of 185 in 2012). Some improvements were made, for instance in starting (registering) a new business.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Time to ... in 2005</th>
<th>Time to ... in 2011</th>
<th>International ranking in 2011 (out of 185 economies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Ease of Doing Business indicator</td>
<td>-</td>
<td>-</td>
<td>122</td>
</tr>
<tr>
<td>Starting a business</td>
<td>35 days</td>
<td>19 days</td>
<td>86</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>-</td>
<td>201 days</td>
<td>82</td>
</tr>
<tr>
<td>Getting electricity</td>
<td>-</td>
<td>-</td>
<td>183</td>
</tr>
<tr>
<td>Registering property</td>
<td>-</td>
<td>245 days</td>
<td>173</td>
</tr>
<tr>
<td>Getting credit</td>
<td>-</td>
<td>-</td>
<td>126</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>-</td>
<td>-</td>
<td>79</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>-</td>
<td>-</td>
<td>18</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>-</td>
<td>-</td>
<td>49</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>365 days</td>
<td>635 days</td>
<td>114</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>4 years</td>
<td>2.5 years</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: IFC Doing Business Reports (http://www.doingbusiness.org/data/exploreeconomies/Bangladesh)

In general, laws and regulation are subject to complex political processes, involving many stakeholders and institutions; even though Bangladesh is a democratic state, its politics are unstable. The EKN’s MASP 2011 considers that ‘Whichever party or military ruler is in power, the basic character of leadership remains the same. It is always highly personalized, based on patronial authority and loyalty, and maintained through a complex, informal network of patron-client relationships. Rulers use the state to further their party rather than the other way around.’

34 A *history of Bangladesh*, Willem van Schendel, 2009
resources to marginalize and take revenge on the opposition. In this process political competition has become very unhealthy.\(^{35}\)

As a consequence, regulation is seen as a political tool to please constituencies, according to interviews with businesses. Sometimes, it is business interests that win the battle; sometimes the result favors other groups, or institutions. A key feature is that whatever change takes place, it takes a long time, and – due to frequent changes of government – there is little consistency, or strategy in the policy making towards the private sector.

### 2.3.5 Market access and development

Access to markets can be distinguished in access to local markets (e.g. smallholder farmers’ access to city markets within Bangladesh) and access to international markets (e.g. Bangladeshis’ manufacturers’ access to markets in Europe and beyond). We briefly discuss both below:

#### Access to local markets

A key constraint mentioned by Katalyst and other PSD programs is the poor infrastructure that inhibits extensive local market linkages. Lack of electricity supply, cost of transportation, time, and transport capacity are a bottleneck for many rural businesses, especially outside the main commercial areas Dhaka and Chittagong (see above chapter on infrastructure). Other impediments are related to lack of information: rural businesses and farmers do not have the systems in place to use opportunities in local markets profitably, a bottleneck the Katalyst program is addressing in several of its programs.

#### Access to international markets

Since Bangladesh has turned towards an open, more export-oriented development approach, accessing international markets has become a priority for policy makers. The ending of the MFA (Multi Fibre Accord) in 2004 has not led to a dent in exports, but to more competition, which in general Bangladesh’s export industry (75% is garment) managed to overcome. In fact, the growth in exports is impressive; in the review period exports have more than tripled, both in USD, value and volume. The value index has increased faster than the volume index which implies a faster growth of value addition in exports. In 2011, 23% of GDP is generated through exports, compared to 17% in 2005.

The exports have also been resilient to the financial crisis in 2008 and later; while export growth stalled briefly, strong growth continued in 2010 and 2011.

<table>
<thead>
<tr>
<th>Table 7: Bangladesh, export trends 2005-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator Name</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
</tr>
<tr>
<td>Exports of goods and services (billion current US$)</td>
</tr>
<tr>
<td>Export volume index (2000 = 100)</td>
</tr>
<tr>
<td>Export value index (2000 = 100)</td>
</tr>
</tbody>
</table>


In summary, Bangladesh has become a much more open economy in the recent past, even though by Asian standards, export is not (yet) the dominant source of GDP growth. A caveat is that exports are heavily reliant on garments (75% of the total export) and are still relatively labor intensive.

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\(^{35}\) The State of Governance in Bangladesh, Institute of Governance Studies, BRAC university
3 Dutch PSD Policy in Bangladesh 2005-2011

In this chapter, an overview is given of the Dutch PSD Policy in Bangladesh over the 2005-2011 period. The Dutch PSD policy is derived, as much as possible, from the annual plans of the Embassy in Dhaka. The objective of this chapter is to show what the rationale for the Dutch PSD policy was, how it evolved over time, and which stakeholders had a say in the design of this PSD policy. In this regard, in addition to the views of the Embassy, the views of DDE and the Bangladeshi private sector are discussed as well.

3.1 The view of the Royal Netherlands Embassy

The Embassy in Dhaka has traditionally a significant budget for development cooperation; in the review period, on average more than EUR 100 million per year. However, throughout the period, private sector development – although a part of the strategies formulated in the MASP – is only a small fraction of the total. The main focus is on other themes, notably education and water management. The PSD component is only 2% over the years, as below example (MASP 2008-2011) shows:

![Figure 3: Distribution of EKN expenditure (2008-2011)](image)

In the later (revised MASP for 2010-11), the figure became less than 1%, and only increased in the MASP for 2012-15, beyond the review period. In the review period, it is clear that PSD has not been a main theme of the EKN. The PSD component of the EKN is thus not overly complex: essentially three programs were executed in the review period.

<table>
<thead>
<tr>
<th>Project</th>
<th>Total expenditures, 2005-2011</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Electrification Program, REB</td>
<td>15,848,076</td>
<td>85.9%</td>
</tr>
<tr>
<td>Procurement Assistance REB</td>
<td>47,524</td>
<td>0.3%</td>
</tr>
<tr>
<td>KATALYST, Phase II</td>
<td>2,342,598</td>
<td>12.7%</td>
</tr>
<tr>
<td>PSD Fund</td>
<td>216,764</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,454,962</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

One program, the support to REB for a rural electrification program (incl. the procurement assistance project), absorbs more than 85% of the EKN expenditures. The other significant expenditure is a

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36 The “Procurement Assistance” project was a service contract in support of the EKN-funded REB programme, and thus part of one intervention.
contribution (about 10%) to a large project (Katalyst) operated by SDC. Next to that a small PSD fund has been installed which has resulted in a number of small projects aimed at developing new PSD programs for the EKN.

**Period 2005-2008**

The period until 2010 is characterized by a relatively cautious attempt to develop a PSD program. The large REB program was already perceived in 2000, and thus “inherited” from earlier decision-making. Aside from this a small PSD fund was the only tangible intervention in PSD, in terms of actual expenditure. Next to that the EKN attempted to focus on a policy dialogue that should aim to improve the “enabling environment” and activities to support Dutch investment and trade. In specific, EKN aimed to:

- Intensification and strengthening of the policy dialogue with GoB on the development of a more enabling business environment and investment climate. This will be realized in co-operation with DBCCI (members) and other DPs in the framework of the PRSP in general and PPPs in particular.
- A Dutch Trade Show of Products and Services is targeted.
- PSD intervention(s) will have been designed (first half of 2007) and started (second half of 2007) as part of the overall governance framework.
- PSD support fund will have been set up for small(er) activities that are supportive to the overall PSD intervention strategy.
- Embassy will have been more actively involved in Local Consulting Group PSD, e.g. agenda setting.
- Satisfactory progress in the Corporate Governance Strengthening Project and with the Independent Economic Review of Bangladesh and satisfactory co-operation with partners such as DBCCI.
- Exit rural electrification sector

Effectively, the results of the above objectives were mixed: the policy dialogue was mentioned to consist mainly of accompanying meetings of DBCCI with high ranking politicians, but not much more activity was found in reports. The trade show did eventually take place, though much later than planned. New PSD activities were not designed, even though the PSD fund was set up and attempted to develop more background understanding for PSD interventions. EKN involvement in LCG PSD was noticed, but with no reported results, and the exit from the rural electrification sector did happen eventually in 2008. Also, the EKN did its share in supporting the first PSOM tender in 2006. Also, an agreement with Dutch NGOs to examine possibilities to enhance co-operation was made.

The EKN’s own assessment in MASP (2008-2011) did not consider the overall outcomes as satisfactory: “We were less successful in enhancing private sector development and stimulating Dutch private investments in Bangladesh. Frequent changes and relatively long vacancies in the post of economic officer contributed to this situation. Moreover the modest interest of Dutch business community in trade with and investment in Bangladesh, identified in the previous MASP, did not increase substantially over the years." In the midterm review of the MASP 2005-2008 (published in the annual plan 2007) PSD is not mentioned.

**Period 2008-2010**

In the MASP 2008-11 is more ambitious than the previous MASP; in part due to the (optimistic) expectation of the GoB that by 2020, Bangladesh will be a mid-income country, which implies eventually an exit of the development-oriented support, and a move towards a bilateral economic relationship, for which this MASP is intending to make a start. As a consequence, the theme of PSD requires modification: “...the [PSD] program will engage in a few strategic activities which focus on helping to improve the enabling environment for private sector development and a more equal distribution of economic growth. At the same time efforts will be continued to increase Dutch interest in doing business with and in Bangladesh by providing relevant and up-to-date information on promising economic sectors...”.

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37 See MASP 2006 and 2007
38 JP 2006, p.4
41 EKN, ‘MASP 2008-2011’, p.9
The intervention strategy is however, not substantially different compared to earlier years, and focusing on:

- Political and policy dialogue on private sector development
- Donor harmonization and alignment around private sector development
- Visible EKN inputs in relevant fora
- Financial support to a relatively small number of strategic projects such as Katalyst (developing service markets for the poor), BWCCI (women’s chamber of commerce) and roll-out of market development approach to WMOs.

Although the focus on PSD is expanded, only 2% (6 million) of the committed budget is allocated to PSD.\footnote{EKN, ‘MASP 2008-2011’, p.18,19} Also, the planned allocation of human resources is not increased. A recurrent theme in all the MASPs, and confirmed by interviews at the EKN, is the challenge to fill vacancies in the Embassy, for any of the themes, including PSD. Dhaka is considered a “hardship duty station Category 13”, which implies that it is one of the least attractive posts in the Embassy network of the Netherlands, particularly because of high pollution, lack of facilities in general, few schooling options, and insufficient medical emergency facilities. For the PSD activities this has resulted in high staff turnover (staff leaving much earlier than planned), and prolonged periods in which no staff was available to develop the PSD program. Also, due to lack of choice, according to the EKN, not always have the candidates with the best PSD profile been chosen for the position. In the years 2008-2011 four different diplomats have managed the PSD portfolio, according to EKN. The MASP 2008-11 planned to have 0.7 fte (international) and 0.3 fte (local) allocated to the PSD program. Over the period this was not achieved, which demonstrates a severe lack of human resources to fulfill the planning made in the MASP with regard to PSD.

In the files of the EKN, few references can be found that confirm that a proactive and effective policy dialogue has actually been established with GoB. Unsurprisingly, many other donors, such as the EU or DFID (through a major IFC-led program, Bangladesh Investment Climate Facility, addressing all issues related to the business enabling environment), are active here, and it is not evidently clear what the exact addition of a small effort from EKN would be able to add. This counts as well for the donor harmonization activity; EKN is recognized as a major player (“lead donor”) in water management, but a small actor in PSD, while others, such as DFID are taking a more prominent role in harmonization of PSD activities. The initiatives regarding women entrepreneurship were inspired by one of the small efforts undertaken with the PSD fund (see below for more details), however, eventually, this line of work was not followed up.

The main shift in terms of expenditures in this period was the eventual end of the REB program in 2008, and the start of co-investment in the phase II of Katalyst, a successful and well-known holistic PSD program, initially developed by SDC and DFID, based on the emerging “M4P” approach.\footnote{EKN, ‘MASP 2008-2011’, p.19} EKN provided app. 10% of the cost, as a silent partner in a donor consortium of SDC, DFID and CIDA.

**Period 2010-11**

Because of the turbulent political developments, a renewed MASP was made for 2010-2011.\footnote{EKN, ‘MASP 2008-2011’, p.20} Just before this MASP, Minister Koenders for Development Cooperation and Secretary of State Huizinga of Transport and Water management visited Bangladesh on 4 and 5 July 2009. This led to the intention of an intensified cooperation on water management between both countries. Koenders mentioned that it is important that the business environment improves in order to attract investors, both local and international.\footnote{MoFA ‘nieuwsoverzicht’ http://www.rijksoverheid.nl/nieuws/2009/07/28/nieuw-verbond-tussen-nederland-en-bangladesh-omtrent-waterbeheer-en-klimaatverandering.html} As reaction on the visit of the minister in 2009 an increased focus on growth and equity with the public sector as enabler and a strengthened private sector as an engine for growth is announced by the embassy. The strategic objective is reformulated to: ‘stimulating Private Sector Development through policy dialogue...’
and increased use of Dutch private sector development and economic instruments.” The underlying goal to reduce poverty remained the same. Also the link between needed governance reforms and economic growth is reassured. The intervention strategy however changed in the direction of more direct measures, e.g. the donor harmonization is not mentioned in the new strategy, and instead network and information activities are planned.

Although not every planned result is achieved according to the annual report 2011, there are several ‘notable achievements’ e.g. a monthly economic news flash and participation in the Asia E-Commerce Conference 2011, held in Dhaka, with a Holland stand. To reach the results, a budget increase of 50% for PSD is requested in the MASP 2010-2011.

New approach, 2011-date
In 2010, EKN strengthened its team for PSD, and started to evolve new approaches to PSD, with a much stronger focus on Dutch businesses, what Dutch (knowledge) institutions can offer, and CSR. There are two key motivations, one is that Bangladesh is seen to become a mid-income country eventually in 2020, and therefore gradually the content of PSD has to shift from development cooperation to economic relations. The other aspect is that PSD has to be about moving from “traditional trade to responsible trade”; i.e. PSD’s goal should be to strengthen CSR in industries in Bangladesh. This has led to an approach that is evolving much more based on “business drive” (Bangladeshi, as well as Dutch), and less (or not) based on GoB plans and interests.

- More pro-active work with Bangladesh’s business institutions, such as DICC, BGMEA and others.
- More promotion of the Dutch PSD instruments (PSI, ORIO, CBI)
- Involvement of Nijenrode University – leading to an exchange program that is researching how to attract the Dutch private sector to the work of EKN in Bangladesh
- More cooperation within EKN – leading to more PSD introduced in other areas of EKN activity, e.g. water management programs with a PSD component (such as the recently started Blue Gold program)
- Away from direct support of GoB institutions for PSD interventions, both considering the governance challenges found in Bangladesh, and the state-to-state nature of these interventions which preclude private sector involvement from the start.

A result of these new ways is the PaCT program, a program that builds on the success of the pilot done by IFC and Solidaridad (see below, chapter 2.3.5). Other than the pilot phase, the up-scaling phase of the project will involve a range of Dutch stakeholders, and business stakeholders in general, with the explicit aim to introduce “business interest” (and eventually drive) into the PSD program. The program was developed in 2011 and eventually signed in 2012.

**Partnership for Cleaner Textile, PaCT**

*Water sustainability – in terms of water consumed, and of wastewater effluent released – is a key challenge for the long-term viability and growth of the textile sector in Bangladesh, as well as for other economic and social activities that depend on a clean and reliable water supply. The overarching objective of the PaCT is to reduce environmental and related social impacts that result from prevailing practices in textile wet processing, particularly excessive groundwater extraction and surface water pollution, but including energy and chemical use. Program results will improve the global and local “license to operate” of the textile sector in Bangladesh and strengthen its long-term competitiveness.*

*Working in partnership with buyers, solution providers, financial institutions, donors, government and other key stakeholders, the Program will support textile factories, concentrated selected geographic clusters, to reduce their water footprints through:*

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47 EKN, ‘MASP 2010-2011’, p.3
48 EKN, ‘MASP 2010-2011’, p.11,12
50 EKN, ‘MASP 2010-2011’, p.21
51 Based on BANGLADESH WATER PaCT: Partnership for Cleaner Textile PROGRAM DOCUMENT
• Increasing awareness among buyers, factory owner/managers and communities regarding water-related impacts of the sector and of resource efficiency options and benefits;
• Adopting low-cost/no-cost Cleaner Production (CP) practices and measurement methodologies;
• Improving companies’ internal management and business systems related to water, energy and chemical use;
• Investing in technologies that significantly reduce consumption of water and other resources; and
• Engaging in collaborative approaches that align factories with sustainability goals of buyers, industry associations and clusters, and improve effectiveness of environmental policies and regulations.

As a result, the Program will positively impact social, economic and WASH (water, sanitation and hygiene) conditions at local community level. Following a series of awareness campaigns and good practice demonstrations, the Program will obtain initial Cleaner Production results (water and energy) in the participating factories, and build factory management motivation and confidence. The CP intervention deliberatively focuses on adoption of low-cost/no-cost Cleaner Production (CP) practices that have a short pay-back period. These initial results, in particular the awareness and growing motivation, will act as a stepping stone to investment by factory owners in technologies that are needed to further reduce water consumption, improve wastewater quality and return sustainable ground- and surface water balances.

Besides initial CP steps and supportive financing modalities, this motivation is enhanced through a ‘pull’ from buyers via their procurement guidelines, and a ‘push’ involving local stakeholders including business associations, government authorities, local communities, civil society, coordinated through a multi-stakeholder communications effort. The Program will also leverage parallel efforts of the Embassy of the Kingdom of the Netherlands (EKN) in Dhaka, to promote good sanitation practices inWASH at cluster level through its D-WASA program. The Program will engage at three levels – participating textile buyers, wet processing factories, and key stakeholders such as communities, government, civil society, sector organizations, etc. – through the following three Components:

Component 1: Buyer Capacity Building
The Program will develop a common ‘voice’ among buyers, many of whom procure from the same factories, on the need for greater water sustainability.

Component 2: Support factories setting and achieving Cleaner Production objectives
Given the generally low level of awareness about CP among factory owners and managers, this Component is delivered in three steps:

Component III: Multi-Stakeholder Engagement in Support of Cleaner Textile
An operational, multi-stakeholder Textile Sustainability Platform to raise awareness and build alignment among firms, associations, policy makers, donors, financial institutions, civil society and others, at both national and cluster level.

Major partners:
• EKN
• IFC
• Solidaridad
• Water Footprint Network/Twente University
• BGMEA
• Bangladesh Export Processing Zone Association
• Nijenrode University/NWP-Water Mondaal
• Buyers: Signatories to the EKN MoU on the Program include C&A, Carrefour, Esprit, H&M, G-Star Raw, KappAhl, Lindex, Levi Strauss & Co, New Look, Tesco, Lindex, Primark, Tesco, and WE. Discussions are underway with Li and Fung, WalMart, and Ikea regarding their joining the Program.
• Factories (200 is the target)
• Local banks (Eastern bank Ltd)
Following the 2012 pre-implementation period, the Program will be implemented from 2013 through 2016. Total budget is US$11 million, funded through a contribution of US$5.6 million from EKN, US$1.0 from IFC and Solidaridad, and US$4.4 million from buyers, textile factories and banks.

3.2 View and role of the private sector
During the mission, several interviews were held with representatives of the private sector in Bangladesh; including BGMEA, the largest private sector representation in Bangladesh. In each of these discussions the respondents were asked what their view on the private sector development in Bangladesh (2005-2011) has been, what their perception is regarding the changes and developments, the relative importance of the observed constraints, awareness and role of the Dutch PSD instruments in this process, and what the role of the private sector has been in defining the PSD program.

Below we summarize a number of statements we have heard in the interviews, which however are anecdotal evidence, rather than necessarily representative.

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Perceptions of the private sector</th>
<th>Perceptions of relative importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>“...access to credit is not the key problem, at least for medium, larger enterprises...”; “...banking sector is still influenced by politics...”; “...overall the banking sector has improved, in terms of service quality and conditions...”</td>
<td>“...not the key problem for doing business...”</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>“...access to electricity is a huge problem, and not getting better...”; “...load shedding is costly problem for business...”; “...getting a [grid]connection is getting more difficult...”; “...result of unplanned growth, particularly in Dhaka...”</td>
<td>“...the most important issue, mainly because of lack of power...”</td>
</tr>
<tr>
<td>Skills</td>
<td>“...skill shortage is an issue for higher skill levels in companies...”; “...we can educate the lower level of skilled workers, but not the upper levels...”; “...still a challenge to find good staff...”; “...growth in key sectors faster than skills can be developed...”</td>
<td>“...a growing problem, after infrastructure the biggest challenge...”</td>
</tr>
<tr>
<td>Legal</td>
<td>“...red tape and corruption, together with political instability is bad for the image and investment...”; “...unpredictable changes in regulation disrupt business...”; “...though somewhat better than 2005, not much has changed in principle...”</td>
<td>“...a serious, and fundamental problem for growth...”</td>
</tr>
<tr>
<td>Market access</td>
<td>“...government regulation is the key problem for market development and -access...”</td>
<td>“...where no rules are in the way, no problems...”</td>
</tr>
</tbody>
</table>

For private businesses, the role of government in general in Bangladesh is seen as “pervasive” – whatever is done, support from, or at least no resistance from “the government” is seen as an essential aspect of doing business. Advocacy for better regulation is done traditionally in an intensive fashion, nearly each (sub-) sector has its representation, and (as the MASP 2008 noticed), an estimated 46% of parliamentarians are businessmen themselves.

Bangladesh is considered to be an aid-dependent country (as stated in MASP 2008-2011), which also has some impact on the opinions of many businesses; “donors” are important in so far they are influencing better conditions for Bangladeshi enterprises to work in, and resolve the obstacles on the road to development, such as infrastructure, or better governance. There is little trust, it appeared, in GoB’s ability to achieve these targets without outside support.

The Dutch efforts with respect to PSD are not typically known amongst entrepreneurs; aside from PUM, none of the PSD instruments have a significant outreach in a vast economy as Bangladesh. FMO, however, is well known as a major player in the (relatively small) world of financial institutions. IFC, DFID and World Bank are the most well-known PSD-active donors, and ADB is synonymous for “infrastructure” with an annual investment of over 5 billion USD in this area alone.
The anecdotal evidence collected suggests that Infrastructure (and here mainly “power”), followed by either skills (meaning “workforce skills”), or legal & regulatory (meaning both “excessive bureaucracy”, “unpredictable policies” and “corruption”), are seen as the key problems for business, largely in line with the findings of various reports on enabling environment in Bangladesh. In the conversations, opinions are generally divided whether or not the business climate is better now: most would see some improvements on the one hand, but also deteriorating problems on the other (notably energy supply). It is strongly sector dependent what the final balance is; nevertheless, a fundamental change has not been mentioned by anyone.

3.3 Role of the Ministry/DDE

The Sustainable Economic Development Department (DDE) is a policy theme department of the Ministry of Foreign Affairs. DDE comprises 3 different divisions:

- International Markets Division (DDE/IM)
- National Policy Environment Division (DDE/NB)
- Entrepreneurship and Business Development Division (DDE/OB)

One of the goals of DDE is to stimulate growth and development of the private sector and through that to improve income and employment opportunities in developing countries. DDE tries to achieve the development of the private sector by identifying and tackling the problems in the business climate in developing countries. Other activities include the developing of the financial sector, improving trade opportunities and using trade and investment instruments to stimulate business. The latter is outsourced to organizations such as for example the Agency for International Business and Cooperation (AgentschapNL).

In Bangladesh, DDE has supported two PSD interventions: one was the support to FIRST, which is a large World Bank-funded program for financial sector development that is operating globally, and hence also in Bangladesh. The other was a co-funding of SEDF 1, a multi-donor fund led by IFC, from 2003-2009. The contribution was too small to be included in this review. EKN had no knowledge of, or involvement in both interventions.
4 The Dutch PSD program in Bangladesh

This chapter details the objectives and results of the PSD projects that have been undertaken in Bangladesh over the 2005 – 2011 period. As much as possible, the reported results in the chapter are based on previous project evaluations. Throughout the chapter, the reported effects are evaluated against developments in the private sector at large as witnessed by movements in the binding constraints earlier identified in chapter 2. The instruments and their respective effects are described per cluster.

Spending per PSD Cluster

The total PSD program for Bangladesh is EUR 236 million, of which 81% is loans (99% from FMO), as can be seen in table below.

Table 9: Grants and Loans, 2005-2011

<table>
<thead>
<tr>
<th>Type of expenditure</th>
<th>Total in EUR, 2005-2011</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>43,797,481</td>
<td>18.57%</td>
</tr>
<tr>
<td>Loans</td>
<td>192,442,887</td>
<td>81.43%</td>
</tr>
<tr>
<td>All</td>
<td>236,240,368</td>
<td>100%</td>
</tr>
</tbody>
</table>

Therefore, in the figure below an overview is presented of the distribution of expenditure over the various clusters excluding loans. This table shows that total expenditure over the period 2005 – 2011 was EUR 44 million in grants. The vast majority (70%) is in infrastructure, followed by skills, and market development. Non-loan capacity development and legal & regulatory are tiny expenditures comparatively.

4.1 Financial sector

4.1.1 Overview

Overall, the main Dutch actor in the financial sector is FMO; 99% of the loans stem from FMO’s three different funds (A-fund, MASSIF, IDF). The relatively small portion of expenditure on capacity development for banks and financial institutions is mostly done by FMO’s Capacity Development program. Cordaid, however, spent the most on capacity development in the financial sector, with 53% of the total expenditure.
### Summary of expenditures

Within the cluster “financial sector” (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported. These include – as it is the financial sector – loans disbursed, as well as grants (for capacity development). Loans naturally make up the largest part.

#### Table 10: Loans and Capacity building in the financial sector

<table>
<thead>
<tr>
<th>Type</th>
<th>EUR/%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans, 99.5% of total</td>
<td>193,022,887</td>
</tr>
<tr>
<td>Capacity Development, 0.5% of total</td>
<td>262,127</td>
</tr>
<tr>
<td>- o/w FIRST</td>
<td>16%</td>
</tr>
<tr>
<td>- o/w Cordaid</td>
<td>53%</td>
</tr>
<tr>
<td>- o/w FMO CD</td>
<td>31%</td>
</tr>
</tbody>
</table>

#### Summary of effects

The peaks in expenditure represent the disbursement of relatively large loans (see table 13), such as those for BRAC, Axiata or Orascom, rather than a change in policy preferences of FMO. Cordaid’s drop in expenditure is the result of a conscious choice to exit the micro finance sector in Bangladesh.

#### Table 11: Bangladesh, Dutch PSD instruments for the financial sector; overview of expenditures (2005 – 2011)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FMO-A</td>
<td>139,543,418</td>
<td>11,199,995</td>
<td>24,171,491</td>
<td>53,218,852</td>
<td>954,884</td>
<td>1,447,081</td>
<td>31,577,437</td>
<td>16,973,679</td>
</tr>
<tr>
<td>FMO-IDF</td>
<td>26,414,186</td>
<td>-</td>
<td>18,000,000</td>
<td>200,000</td>
<td>5,756,090</td>
<td>2,299,421</td>
<td>50,000</td>
<td>108,675</td>
</tr>
<tr>
<td>FMO-Massif</td>
<td>26,485,283</td>
<td>1,250,000</td>
<td>3,929,943</td>
<td>3,770,694</td>
<td>6,636,029</td>
<td>3,372,029</td>
<td>7,526,588</td>
<td>-</td>
</tr>
<tr>
<td>FMO-Capacity development</td>
<td>81,278</td>
<td>-</td>
<td>14,000</td>
<td>14,093</td>
<td>43,059</td>
<td>-</td>
<td>-</td>
<td>10,126</td>
</tr>
<tr>
<td>First (NL part)</td>
<td>41,578</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>34,446</td>
<td>7,132</td>
</tr>
<tr>
<td>Cordaid (loans)</td>
<td>580,000</td>
<td>580,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cordaid (capacity development)</td>
<td>139,271</td>
<td>56,889</td>
<td>42,057</td>
<td>38,000</td>
<td>2,325</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>193,145,743</td>
<td>13,029,995</td>
<td>46,115,433</td>
<td>57,203,639</td>
<td>13,390,063</td>
<td>7,118,530</td>
<td>39,188,472</td>
<td>17,099,612</td>
</tr>
</tbody>
</table>

Source: information from FMO, FIRST, and Cordaid.

The summary of effects are based on internal project documents and/or the outcomes of field interviews, and thus cannot be seen as evaluated effects.

#### Table 12: Bangladesh, Dutch PSD instruments (financial sector); overview of effects (2005 – 2011)

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Level</th>
<th>Evaluated?</th>
<th>Summary of effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMO-A</td>
<td>Enterprise</td>
<td>Not evaluated</td>
<td>Enterprises: Generally, with the exception of WWR, loans are invested in mature companies, and are repaid. FMOs engagement has succeeded to enable larger-scale transactions that were too difficult to arrange by local banks. Financial Institutions: DBH and PE Frontier offer new or novel financial products; DBBL and BRAC are maturing their products operations with the support of (cheap) funds from FMO Systemic: FMO’s own initiative to enhance trade finance did</td>
</tr>
</tbody>
</table>

52 Loans are not directly expenditures, since (a) they are paid back with interest, and (b) even if not, are part of a business model that takes into account possible defaults. However, from a Dutch government point of view, the capital provided to e.g. FMO in the past is (indirectly) expenditure. It is though impossible to recalculate what the actual expenditure per loan is.
## Objectives and Effects

### FMO

FMO, which is the Dutch development bank, finances companies, projects and financial institutions from developing and emerging markets. The institution is specialized in the sectors: financial institutions, energy & housing and agribusiness, food & water. The products and services of FMO can broadly be divided in two categories i.e. financial products and services, and capacity development.

FMO manages several funds for the Dutch government in order to support higher risk projects with possible high development impact. The IDF fund provides long-term financing for private sector infrastructure projects in developing countries. MASSIF, on the other hand, is a fund that provides financial institutions with equity and debt funding for the development of Micro, Small and Medium-sized Enterprises in developing countries. In addition to government funds, FMO also has its own funds including the FMO-A fund. The Dutch government is the majority shareholder, as a result of earlier contributions to FMO capital, and thus a “co-owner” of the effects of the A-fund (even though the loans do not represent expenditures in the review period).

In Bangladesh, during the 2005-2011 period, FMO’s funds for IDF and MASSIF were both about EUR 26 million. During the same period, through the FMO-A fund, another EUR 139 million was invested in various banks, equity investment funds and private businesses in Bangladesh. In addition FMO’s Capacity Development Fund (CD-Fund) provided technical assistance worth EUR 81,278 to a total of 136 staff members of ca. 40 banks.

The portfolio of FMO is as follows:

<table>
<thead>
<tr>
<th>Investee</th>
<th>Fund</th>
<th>Total (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AXIATA (BANGLADESH) LIMITED</td>
<td>FMO-A</td>
<td>11,662,714</td>
</tr>
<tr>
<td></td>
<td>IDF</td>
<td>18,000,000</td>
</tr>
<tr>
<td>BANGLADESH RURAL ADV. COMM.(BRAC)</td>
<td>FMO-A</td>
<td>28,263,072</td>
</tr>
</tbody>
</table>

---

55 The expenditure for FMO’s IDF is included in the section on the infrastructure cluster.
Below, we describe the FMO investments in greater detail, grouped by the type of investment – investments/loans for enterprise, for financial institutions and for systemic improvements of the financial system.

**FMO/Enterprises**

**FMO Summit Power Narayangan**
Together with DEG, FMO has funded the development of a HFO (Heavy Fuel Oil) power plant with a capacity of 102 MW in Southern Bangladesh, with the aim to reduce the power gap in Bangladesh, which was over 600 MW in 2011. The plant uses Finnish Wartsila diesel generators, requiring a foreign currency loan to be profitable. A consortium of 8 local banks could not provide this and so FMO and DEG provided 22.5 mln USD each to help cover the total project cost of 71.5 mln USD.

**Effects**
The plant has been operation since mid-2011, completed ahead of schedule. There are no operational problems, and repayment is on schedule. The company is generating slightly better than expected financial results, and is profitable. Risks are fuel prices (though largely covered) and foreign exchange rate changes.

**FMO Orascom/Banglalink**
FMO (together with DEG and several private banks) has funded long term loans (7 years) for capital expenditure of Banglalink, a Bangladeshi telecom operator. The loan (30 mln USD) is part of a package of a 325 mln USD long term facility. Aim of the investment is to service bank debt and fund expansion of the mobile network.

**Effects**
No information available on effects.

**Lafarge Surma Cement**
Lafarge, a French company, is one of the largest cement producers in the world, seeking to develop its position in Asia in general, and in Bangladesh in particular. Bangladesh has an increasing demand for cement, yet does not have access to own natural raw materials required for the production of cement. In the Northeast of Bangladesh, where Lafarge Surma Cement (LSC) is located, the raw materials can be imported from across the border in India. The total investment (in 2000) was USD 240 mln, of which FMO
contributed 15 mln, alongside other DFIs, such as CDC, DEG, EIB, IFC and ADB\textsuperscript{36}. This venture is one of the largest (or even the largest) foreign investment in Bangladesh. The uniqueness lays in the fact that it is (a) a foreign-local Joint venture, that (b) the governments of India and Bangladesh have signed a contract to enable safe trade of the essential raw materials (now flowing to the factory via a 17 km long conveyor belt across the border), and (c) is serving a critical need for the local construction industry.

**Effects**
Detailed information about the loan performance is unknown; however, LSC is operating its business generally successful, even though the company has been loss making in four of the last six years. A steadily increasing turnover suggests that the company is overall serving its purpose.

**FMO/Financial institutions**

**FMO Frontier PE Fund**
FMO has invested 10 mln USD in the first Bangladeshi private equity fund which is set up with private investors. The total fund size has eventually reached USD 88.5 mln USD in 2011, with investments from IFC, CDC, Norfund and private investors. The fund targets SMEs and mid-size companies by taking minority shares, with board representation. The fund manager is a new local team with prominent Bangladeshi businessmen, in combination with investment professionals from the PE firm, Brummer & partners (a Swedish firm). As such the fund offers risk capital to SMEs, which is a new asset class in the Bangladeshi financial markets.

**Effects**
Although the investment pace of Frontier is somewhat slower than expected, Frontier is compliant with the requirements to commit at least 25% of total commitments two years after closing. Currently, the net IRR is negative, however, two investments, Rahimafrooz and Ananta are showing good performance and Frontier estimates the current unrealized gross IRR on these investments to be respectively 43% and 19%.

**FMO BRAC Bank**
BRAC Bank is operating since 2001, as the banking wing of the much larger BRAC organization, one of the largest NGOs in Bangladesh. It is separate from the MFI operations of BRAC, and focuses on SME finance. BRAC is co-owned by BRAC (33%), and other investors, including IFC, ShoreCap, and public shares. FMO has provided a subordinated loan of 7 mln USD (as part of a convertible subordinated bond issue of 42 mln, which BRAC wants to raise to increase its Tier II capital), sharing exposure with Triodos Investment Management, who participate with 5 mln USD in the transaction. The method of raising capital is new to Bangladeshi capital markets and FMO staff supported the development, in order to set a new standard for future deals of this kind.

**Effects**
In 2012, despite the impact of the financial crisis, the loan was performing according to FMO standards. However, due to the crisis, NPL levels are increasing, of the whole portfolio of BRAC (95 billion BDT, app. 1.15 billion USD) 32.1 is a t risk. For local standards this is considered acceptable. The overall market share of BRAC Bank has nevertheless been reduced from 2.9% in 2009, to and estimated 2.5% in 2012, even though the loan portfolio has increased by about 26% in the same period. FMO rates the EDIS at 73, above the average of 66 for FMO overall, for the impact on the SMEs and the novelty of the approach to raise capital.

**FMO Delta BRAC Housing**
FMO has invested 25 mln USD in local currency into BRAC’s housing finance unit in 2010, Delta BRAC housing DBH, in shape of senior debt, with a tenor of 10 years. DBH is still, since its inception in 1997, the only specialized private housing finance institution in Bangladesh, focusing on providing finance affordable housing, and promote private ownership. However, several other banks offer mortgage lending, but not as cheap a DBH. The government maintains a public organization for low cost housing finance, BHBFC, which used to be the solo provider of housing finance in Bangladesh before. Since 1997, DBH has disbursed over

\textsuperscript{36} Projectomschijving, FMO, 2000.
500 million in loans. FMO contributes 10% to the balance sheet (FMO maximum), 25% comes from local banks, and 65% from DBH’s client deposits.

DHB offers mortgages to middle and higher income clients for housing projects, primarily in Dhaka and Chittagong. Loans for middle-income households means to buy, sometimes build, or renovate houses. The loans range from the lower range of 25-60,000 USD (20% of the portfolio) range, to 60-100,000 USD loans (70%), to loans over 100,000 USD (10% of the loans). Affordable housing here refers to “affordable to the (upper) middle income group” rather than affordable to the poor. This, according to DHB is only feasible with government-subsidized funds, which DBH does not have.

The main reason why DHB values FMOs engagement is the ability to match the tenor of its loans (usually 20-25 years) with that of DBH funding which is much shorter (3-5 years from local banks). That poses a risk to DBH, which is reduced by FMO’s (effective) 10 year maturity. DBH is a client of FMO since 2002, and is owned by BRAC, IFC, and several local and international private companies.

**Effects**

Generally, the loan is performing, and DBH is stable financially. The impact on the housing sector is not visible (yet); DBH’s loan portfolio has only increased marginally since the facility has been opened, due to ever increasing housing prices in Dhaka and an overall slow-down in the housing market. House prices have increased six-fold in 2005-11, as land is scarce in Dhaka, and even more so are areas with services (electricity and gas). Government regulation (changes) have resulted in low sales of land, and low construction activities. Also, macro economic challenges have forced the central bank to increase its lending rate dramatically, from 3 to 11% six months after the agreement with FMO was signed. As FMO’s interest was tagged to this rate (while still a local currency loan), the effect was that FMO’s fund became more expensive than local funding, for a period of time. As of lately, prices have begun to adjust downwards, and project developers have found ways around cumbersome government regulations, so that sales are picking up again.

**FMO Dutch Bangla Bank Ltd. (DBBL)**

DBBL is a commercial, private bank in Bangladesh, operating since 1995, and has been supported by FMO since then (FMO co-founded DBBL and held a 30% share in DBBL until it was decreased to 1% in 2003). DBBL funds mid-size trade clients with innovative products and marketing. 5% of the profits are transferred to a Foundation set up by DBBL for social purposes. FMO has several facilities ongoing (dating from before 2005), an export loan (5 mln USD) and a housing loan (5 mln EUR). In 2005, the latter (subordinated) housing loan was increased by another 5 mln EUR, with a tenor of 9 years. The aim is to enable DBBL to grow its business in the housing sector, offering housing finance to clients with an affordable repayment period. According to FMO, this was the first subordinated loan to a FI in Bangladesh at the time. This loan was increased by another 5 mln EUR in 2007, this time funded from A-fund, as DBBL had outgrown MASSIF requirements (from which the earlier loans were funded). Another subordinated loan specific for infrastructure of 10 mln EUR (funded from LDC resources). The objective here is to enable DBBL to provide loans to Effluent Treatment Plants (used mainly for the textile industry for dyeing) to invest into more environmentally friendly equipment. Next to that, other infrastructure projects in e.g. telecommunication or health care are possible as well. The total original amount of outstanding loans to DBBL is EUR 28.6m, excluding an equity stake currently valued at EUR 2.1m. The total current balance is EUR 20.5m, of which EUR 3.6m is under MASSIF, EUR 6.5m under LDC and EUR 10.4m under FMO-A (Trade Facility Program with ADB).

**Effects DBBL**

65% of DBBL total assets are in term loans with a focus on SMEs. The loan portfolio has shown a growth of 18% to USD 973 million in 2011, with a low NPL of 2.75% of the total loan portfolio. The largest part (around 35%) of the loan portfolio is held by the textiles industry (SMEs). The loans of FMO are repaid, yet it is unknown to what extent the SME lending portfolio, or infrastructure development has benefited from the use of MASSIF and IDF funds.

**FMO BRAC**
BRAC is currently one of the world's largest NGO's, with total assets of more than USD 574 million per end of 2006 and active in almost 70,000 villages all across Bangladesh. Micro finance is the largest activity within the organization; it accounts for almost 60% of BRAC's total assets and 50% of its income. BRAC continues to roll-out its microfinance program throughout the country. In 2007 around USD 140 million external funding is required. It will further grow in existing areas and establish branches in new areas.

The microfinance activities are being supported by so called income generating activities in sectors such as fisheries, agriculture, poultry and livestock. In 2006 these activities made up 20% of total income of BRAC. Furthermore a number of enterprises have been setup by BRAC to link poor, rural producers with the expanding urban markets.

In 2006 FMO, Citicorp, KfW and three local banks closed a securitization of BRAC's micro credit receivables for a total amount of USD 180 million. A SPV has been set up with Eastern Bank as Trustee. Although the securitization is valued as USD 180 million, in fact each tranche is USD 15m in local currency to be repeated 12 times, each 6 months. Each tranche has a tenor of about 12 months, so FMO's exposure is at 30 mln USD.

A 7 year local currency loan equivalent to USD 25 million has been funded through FMO A in 2007. The long term finance is needed to fund the permanent working capital base for the microfinance loans. BRAC's branch network will double in 2007 and hence the number of new borrowers is growing substantially. The outstanding portfolio will increase from USD 333 million by the beginning of the year to USD 510 million by the end of the year. In addition to funding from savings (USD 38 million), BRAC requires around USD 140 million external funding in order to realize that growth.

**Effects BRAC**

Generally, the loan portfolio has risen by 16% between 2007 and 2011; even though the economic circumstances have caused a higher NPL (from 5.7% to 8%), and the portfolio has shrunk since 2008. The number of borrowers has dropped by a million from 6,4 million to 5,45 in 2010. Generally, however, BRAC's microfinance activities are in good health according to FMO, and no concerns are risen about BRAC's ability to service commitments. One of the reasons is that BRAC is an NGO that pays no (or few) taxes, receives significant financial support and grants, which is enabling a profit. Other commercial enterprises and MFIs have to pay taxes for the same activity and would make a loss with the same performance. FMO has encouraged BRAC to park its MF activities in a commercial entity (which would pay normal taxes), yet without result so far.

**FMO/Systemic improvements of the financial system**

**FMO Trade Enhancement Facility TEF**

The concept of TEF was to expand the ability of 6 local banks to provide clients with confirmed Lcs for imports. Via the local branch of Standard Chartered Bank the existing limits of USD 16 mln were increased to 27,5 mln USD. To objective has been to enable smoother transactions fro crucial imports such as inputs for garments or machine parts.

**Effects**

By end of 2007 (TEF expired in early 2008), only 3,9 mln USD of the facility was in use. Working with SCB was an unsatisfactory experience for FMO, which may have contributed to the low utilization. However, no major losses were incurred under the guarantee scheme, according to FMO.

**ADB Trade Finance**

Since September 2009, FMO has participated in the pan-Asia ADB Trade Finance Facility Program (TFFP) through a Risk Distribution Agreement (RDA). The TFFP provides guarantees on trade finance transactions for 60 issuing banks in 9 Asian countries. FMO enables ADB to increase existing limits on these clients by providing an initial USD 50 million unfunded guarantee facility. This facility has currently only been used by Bangladeshi banks but the aim is to include banks from Vietnam and Mongolia in the near future as well. The ADB TFFP offers three products, in each of which FMO can take a risk share up to a maximum of 50%.

These products are:
• Risk Participation Agreement (RPA): 50%/50% risk sharing (so for FMO: max. 25%) on LCs under bank lines for issuing banks through confirming banks that have signed the risk participation agreement with ADB.

• Credit Guarantee Program (CGP): 80% to 100% credit guarantee (FMO: max 50%) for LCs on a deal-to-deal basis, used when confirming banks have limited lines available and approach ADB for the guarantee.

• Revolving Credit Facility (RCF): Funded facility for short-term trade finance. Not used for transactions in which FMO was involved so far.\(^57\)

FMO guarantees 50 mln USD for 10 participating banks, 5 of which are in Bangladesh.

**Effects**

FMO’s participation in ADB’s Trade Finance Facility Program (TFFP) has been relatively successful. So far, TFFP has supported USD 89.5 million in Bangladeshi trade of which FMO’s risk share has been almost USD 30 million (of the 50 million USD committed). The number of issued guarantees has increased strongly since the inception of the program in September 2009 and utilization rates are rising. It is expected that utilization rates will rise further when more banks are added and as the program matures.

Trade finance is crucial especially for the RMG sector in Bangladesh that is depending on export, and contributes 70% to all of Bangladesh’s exports. A collapse of trade due to financial uncertainty (banks mistrusting each other’s solvency, and refusing to guarantee letters of credit for transactions) would have had significant macroeconomic consequences, which Bangladesh generally managed to avoid, as mentioned in the introduction chapter: growth rates have not been reduced since 2008, despite the financial turbulences elsewhere.

The TFFP program is similar in its objective as TEF above, but in the frame of a pan Asia ADB program. The total funding of the ADB program is now a 1 billion USD, from USD 150 mln before the financial crisis in 2008. The TFFP is considered as an important tool to enable trade by securing financial transactions between (primarily Asian) banks. ADB in Dhaka considers the program as highly successful and as one of their most popular interventions in Bangladesh.

**FIRST**

**Objectives**

FIRST is a multi-donor fund with a wide portfolio of activities across the developing world; the Netherlands is a small contributor\(^58\) to this fund that is managed by a separate body within the World Bank. FIRST’s specific objectives are to fund technical assistance in the areas of financial sector regulation, supervision and development, assist recipients in preparing prioritized action plans addressing financial sector development and advise clients, especially in low income countries, on the implementation of financial sector development programs\(^59\).

<table>
<thead>
<tr>
<th>Title Project</th>
<th>Year</th>
<th>Status</th>
<th>Expenditure/Budget (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity Building for Bangladesh Bank</td>
<td>2010</td>
<td>Active</td>
<td>305,100</td>
</tr>
<tr>
<td>Developing Capital Market Development Plan</td>
<td>2010</td>
<td>Completed</td>
<td>124,000</td>
</tr>
<tr>
<td>Contingency Planning</td>
<td>2010</td>
<td>Completed</td>
<td>145,000</td>
</tr>
<tr>
<td>Strengthening Internal Audit</td>
<td>2011</td>
<td>Active</td>
<td>118,870</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td></td>
<td><strong>692,970</strong></td>
</tr>
</tbody>
</table>

*Source: [www.firstinitiative.org](http://www.firstinitiative.org)*

In Bangladesh, a few projects have been implemented with a total value of about EUR 0.7 million (of which an estimated 6% or EUR 41,578 is financed by the Netherlands).

\(^{57}\) FMO internal report, ADB Trade Finance review 2011.

\(^{58}\) Ca. €6.6 million contribution during 2005-2011, of a total of 103 million EUR.

\(^{59}\) Website FIRST: [http://www.firstinitiative.org/content/index.cfm?c_tid=34&usidfrpgs](http://www.firstinitiative.org/content/index.cfm?c_tid=34&usidfrpgs)
**Effects**

No reports are available that describe the effect or impact of the individual programs undertaken in Bangladesh.

**Cordaid**

**Objectives**

Cordaid has a long standing relationship with ASA (Association for Social Advancement), one of Bangladesh’s largest NGOs with 90,000 staff across the country. ASA focuses on providing microfinance to rural poor (women), and has a loan portfolio of 570 million EUR, and nearly 5 million members in 2011. ASA traditionally supports small MFIs that are not part of their branch network, but have the same mission, and are within reach of their organization, with the aim to assure access to finance in areas where ASA is not present.

The challenges these small MFIs face is (a) access to funds, and (b) capacity to improve their operations. The funding issue is partially resolved by PKSF (Palli Karma-Sahayak Foundation), which was set up in 1990 by GoB, as a second tier apex organization with the aim to provide funds and TA to MFIs with a relevant mission, but no access to commercial funding. However, ASA figures that of the +/- 700 MFIs in Bangladesh, about 300 do not get funds either commercially or through the PKSF system (as they don’t qualify for either). Hence, ASA has engaged to support about 50 MFIs as a part of their “CSR activities”.

ASA acts as a wholesale facility to those MFIs, providing funds, overseeing the repayment of these funds, and offers on-the-job capacity building for the organizations through their own training system.

Of the 50 MFIs supported this way, 6 (SDI, IRD, DESHA, NSKS, SUK, RDS) where supported with a loan and capacity grant by Cordaid, starting in 2005. To this end Cordaid has agreed to provide a loan of EUR 580,000 to ASA with a 7% interest for on-lending, and a capacity building grant of a total EUR 139,271. The TA was used to train loan officers, improve the operational and financial management, and the set-up of internal monitoring and audit systems. The capacity building was carried out by ASA, until 2008, while the loan agreement lasted until end of 2012.

**Effects**

ASA has fully repaid the loan, none of the MFIs have defaulted on their loans. According to ASA, 3 of the 6 are now “mature enough” to get funding independently of ASA, while the remaining three are in a similar condition as before. Approximately 25,000 borrowers where serviced by the 6 organizations, according to available Annual Reports (2008), with a total of about EUR 700,000 worth of loans provided to primarily rural borrowers (95%).

In ASA’s view, all organizations have improved their internal organizations, and are more viable, and stable than before. The number of members/borrowers has increased perhaps by a small amount, and no extra branches have been set up by the six MFIs. Commercial funding of these MFIs almost succeeded (through ING bank), but was not approved by the central bank, for regulatory, not feasibility concerns. The main bottleneck for future funding – according to ASA – is less the internal strength of the organization, but the external policy/institutional arrangements that are not taking account of the needs of small MFIs in Bangladesh.

ASA has generally decided to retreat from the wholesale activity, for regulatory reasons, but keeps supporting about 12 MFIs, in order to assure their continuity. Cordaid has generally concluded that the MF sector in Bangladesh is one of the most mature sectors in the world now, and decided to exit the country for MF-related activities. This engagement with ASA was the last intervention of Cordaid in Bangladesh.

4.1.3 **The contribution of PSD instruments to resolving binding constraints**

As described in chapter 2 above, in the financial sector the following binding constraints can be identified:

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60 ASA Annual Report 2011, p.41
61 Interview with ASA, 17th of Jan. 2013.
62 Cordaid has worked with these MFIs before, outside the period under review.
63 7% is in the Bangladeshi environment with inflation rate of 7 and more effectively an interest-free loan.
Bangladesh finance constraints lay mostly in access to finance for small and medium enterprises and access to long term loans. Lending to smaller firms and firms in the rural non-farm sector has remained inadequate. Development of more modern lending and banking techniques to support introduction of more adequate financial services to SMEs.

Field interviews, evaluation reports, and project documents confirm the relevance of the Dutch PSD instruments for the financial sector. That is, the objectives of the various instruments are well linked to the binding constraints. In general, the 192 million EUR of loans are a significant effort in the context of Bangladesh. However, the addressed issues may not have dramatically changed as a result of FMO’s interventions.

- FMO did introduce innovative financing products, or supported banks with the introduction of new financial products.
- SME lending in general has not increased significantly with BRAC.
- The MF sector is maturing and serving a large portion of the underserved population, probably more so in Bangladesh than elsewhere. After all micro finance as a concept originates from Bangladesh and front runners like BRAC, Grameen and ASA are now operating internationally, exporting their knowledge and experience. FMO’s support here adds a number of small improvements to the financial architecture of BRAC, but a question mark is to what extent these activities are additional, considering the advanced state of development of BRAC.
- It is not clear from reporting, and interviews how the government funds IDF, MASSIF have made a contribution to resolving the issues for which they have been set up.

4.2 Infrastructure

4.2.1 Overview

Summary of expenditure
Within the cluster “infrastructure” various Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported. Although in the financial cluster as loan, FMO has directly invested in a power company, with A-fund resources, which is probably the most relevant addition to infrastructure, since it significantly reduced the “power gap” Bangladesh is notoriously suffering from.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DHA Rural Electrification program</td>
<td>15,848,076</td>
<td>7,402,708</td>
<td>1,406,639</td>
<td>7,038,729</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Procurement Assistance</td>
<td>47,524</td>
<td>0</td>
<td>42,754</td>
<td>4,770</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FMO-IDF</td>
<td>26,414,186</td>
<td>0</td>
<td>18,000,000</td>
<td>200,000</td>
<td>5,756,090</td>
<td>2,299,421</td>
<td>50,000</td>
<td>108,675</td>
</tr>
<tr>
<td>ORET</td>
<td>16,441,211</td>
<td>3,190,697</td>
<td>1,931,000</td>
<td>3,738,680</td>
<td>652,691</td>
<td>2,794,877</td>
<td>1,347,375</td>
<td>2,785,891</td>
</tr>
<tr>
<td>Total</td>
<td>58,750,997</td>
<td>10,593,405</td>
<td>21,380,393</td>
<td>10,982,179</td>
<td>6,408,781</td>
<td>5,094,298</td>
<td>1,397,375</td>
<td>2,894,566</td>
</tr>
</tbody>
</table>

Source: EKN (Piramide), ORET/PwC, FMO

Summary of effects
In the table below, an overview is given of the effects of the various instruments within the infrastructure cluster. It should be note that the column “summary of effects” should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.
Table 15: Bangladesh, Dutch PSD instruments [infrastructure]; overview of effects (2005 – 2011)

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Level</th>
<th>Evaluated?</th>
<th>Summary of effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORET</td>
<td>Sector</td>
<td>Not evaluated</td>
<td>• Safe removal of 2,764 tons of toxic waste (one time)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Increased capacity and safety of the railway connection between Ishurdi and Jamtoil</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• One (privately operated) training hospital in Dhaka with 250 beds; ten urban health care centers; four sub-regional hospitals and four peripheral Health Care centers operational; increased capacity for care, and higher efficiency through modern data exchange and referral system</td>
</tr>
<tr>
<td>REB</td>
<td>Systemic</td>
<td>Not evaluated</td>
<td>• Due to shortages in energy supply, the built infrastructure is not being used, or maintained.</td>
</tr>
<tr>
<td>FMO-IDF</td>
<td>Systemic</td>
<td>(partially)</td>
<td>• WWR: investment failed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Axiata: unknown</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• DBBL (part): unknown</td>
</tr>
</tbody>
</table>

4.2.2 Objectives and effects

Rural Electrification Program

Objectives

The objective of the “Intensification and Expansion of Distribution System, 2nd phase” (hereafter REB, for Rural Electrification Board, the recipient) was to expand the electricity grid to rural areas in Bangladesh in order to ensure electricity supply needed for rural development. To that end the EKN funded a “program support” style with the REB in 2002. REB would receive EUR 40.8 million of (co-)funding in order to build 12,000 km of grid and 40 substations, which would connect 348,120 people to the national grid. The Bangladeshi rural electrification program started already in 1977, with the fifth phase beginning in 1997, of which the EKN program was a part. The whole program cost was originally planned at USD 158 million, of which EKN funded USD 36 million (then worth 40.8 million EUR). Of that total, EUR 15.8 million of actual expenditure fell in the review period (three years, 2005-2007). Implementation of this 35th part of the overall electrification program coincided also with structural changes in the power sector in general, including the liberalization of energy markets, with the aim to ensure an economically sustainable energy system, independent of government support. The REB program was scheduled to be finalized in 2004, yet for a number of delays in procedures, the final end date was in mid 2007. Largely due to exchange rate changes eventually EUR 27.8 million have been spent, while EUR 13 million have been “decommitted”. (In USD terms, USD 34.2 million instead of the agreed USD 36 million where eventually paid out). NIO (now FMO) administered the procurement, and payments. During implementation, EKN brought in specialized procurement consultants to assist REB in ensuring a transparent and effective procurement process for the equipment (at a relatively minor cost of EUR 47,524).

Effects

According to the end report of REB to EKN, eventually 12,220 km and 39 substations have been constructed, and 247,669 service connections have been made. Generally, the end report of REB considers that the impact of the project has had “a significant and sustained impact on the reduction of both income poverty and all dimensions of human poverty”64. However, the EKN final report is not sharing this assessment: it rates the project as “C”, citing that “…although (at least a part of) the infrastructure […] has been purchased, it is questionable whether the project purpose ‘to improve the socio-economic situation in rural areas’ […] has been achieved…”65. The main reason for that is the fact that while the original project appraisal assumed that “by 2005, the power gap [i.e. the lack of energy supply vis-a-vis the demand will be resolved”. However, in reality there is no sign of that: in 2011, the installed capacity is still significantly lower than the peak demand. The effective generation capacity is at 5,000-5,300 MW, while peak demand is at 6,000 MW66. That implies daily “load shedding” in urban areas, and very long power

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64 Project Summary Financed by the Netherlands, undated, Annexure B, p1
65 Final Document, EKN, 13 January 2008, p.2
outages in rural areas. The main reason for the continued lack of power supply is the countries continued dependence on gas and other fossil resources for electricity generation. Apart from logistical challenges, the increases in prices in 2000-2011 have also reduced the feasibility of building new plants. As a consequence, not only is the effective supply through the electricity lines much lower than planned for (reducing the beneficial effects for the target group), also the “...it is questionable if there will be sufficient maintenance and quality management [of the newly installed grid]...”67, according to EKN. In interviews, the concern of EKN staff is that much, if not most of the funded infrastructure is by now not used, obsolete and dysfunctional. REB did not agree to hold a meeting on this matter.

ORET

ORET (Development Relevant Export Transactions)’s objective is ‘to enforce sustainable economic growth and the business climate in developing countries’. This happens by facilitating investments in economic and social infrastructure. The program reduces the costs of a project by donations for the purchase of capital goods, services or works68. ORET finances a maximum 50% of the project costs and requires Dutch company involvement (tight aid).

In the period 2005-2011 ORET funded three projects in Bangladesh:

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Expenditures 2005-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of Safe Obsolete Chemicals Storage</td>
<td>EUR 362.838,55</td>
</tr>
<tr>
<td>Railway Stations Signaling and Interlocking</td>
<td>EUR 1.219.006,00</td>
</tr>
<tr>
<td>DAB Healthcare Program</td>
<td>EUR 14.841.959,47</td>
</tr>
<tr>
<td>Total 2005-2011</td>
<td>EUR 16.423.804,02</td>
</tr>
</tbody>
</table>

**Development of Safe Obsolete Chemicals Storage**

ORET subsidized AVR Industrial Waste B.V. to remove 2.764 tons of contaminated fertilizer that was stocked in Khulna and Chittagong in Bangladesh. The fertilizer was supplied by a US company that was tested as toxic but could not take back the fertilizer because the supplier went bankrupt. As a consequence the BADC (Bangladesh Agriculture Development Cooperation) tendered the removal of the waste in the international market in 1999. AVR’s proposal exceeded the available budget which motivated them to contact ORET. The fertilizer would be repacked and transported to the Netherlands where it would be processed and transported to Germany for further recycling. This was done to prevent further damage to the environment and the health of Bangladesh’s population. In addition to the waste removal AVR would offer safety trainings to local employees. The project indirectly aimed to (i) contribute to knowledge transfer on the treatment of toxic waste; (ii) initiate awareness raising of the dangers of toxic chemicals; and (iii) map other storage locations and advising on safer storage methods. ORET contributed EUR 775,884 of the total project expenditures of EUR 1,581,44. In the period 2005-2011 ORET financed EUR 362,838.

**Effects**

ORET reported that the direct objectives of the project were reached; the toxic waste was removed.

**Railway Stations Signaling and Interlocking**

The objective of this project was to increase efficiency and safety of the railway connection between Ishurdi and Jamtoil, by the implementation of a modern interlocking and signaling system on seven stations in the Western zone of Bangladesh railway. The service provider was Vialis NMA Railway Signaling B.V.. Next to the supply of the materials Vialis would also train four engineers in the Netherlands on design and application of the different signaling systems and would provide a six-week training to Bangladesh Railway employees in Bangladesh how to work with and maintain the supplied material. ORET financed EUR 4,246,737 of the total project of EUR 8,493,474. In the period 2005-2011 ORET funded EUR 1,219,006. In May 2004 the implementation of the project started. The technical specifications of the project were

\[67\] Final Document, EKN, 13 January 2008, p.3
\[68\] Ministry of Foreign Affairs, Staatscourant, nr 97 p. 10, 2006
established in coordination with Bangladesh Railway. The project was delayed due to contract negotiations with Dutch and Bangladeshi sub-contractors; the monsoons; and the problematic cooperation with the Bangladesh government. The system was launched in June 2005. The Bangladesh Railway was however not satisfied on the delivered system. In 2006 and 2007 Vialis and the Bangladesh Railway eventually agreed on changes and Vialis made some minor adjustments. Eventually in 2008 the government gave out the finalization certificate. In December 2009 ORET reported that all the objectives of the projects were reached. The following services were delivered: design, supply, installation, testing and transfer of signaling and interlocking systems on seven stations; supply and installation of equipment; management and supervision; trainings and maintenance. The training of the four Bangladesh Railway engineers was provided from June 28 until July 16, 2004 in the Netherlands. The trainings for the Bangladesh Railway employees were in the form of on-the-job trainings; knowledge was transferred during the assembling and installing of the system.

**Effects**

No detailed information on effects is available. According to ORET, this system will increase efficiency and safety of the Western Bangladesh railway track.

**DAB Healthcare Program**

DAB, Diabetes Association of Bangladesh (currently known as BADAS), received a grant from ORET of EUR 19.3 million to build a comprehensive health care system in Bangladesh; the Health Care Development Project (HCDP). Simed International BV (a Dutch company) is implementing the project with its Bangladeshi partner Hema Enterprises. The objective of the project is to provide quality health care services throughout all regions of Bangladesh. The project has mapped Bangladesh’s population; analyzed disease patterns and local health demand. According to the CEO of Hema Enterprises, Mr. Imam Hossain, BADAS is part of the communities for decades and is therefore well aware of demand. In the nineties BADAS found that an urban health facility received around 3000 patients on the OPD in the morning. By decentralizing the health system both patients and travel costs could be decreased. To this effect BADAS designed a health system to cover all areas within the districts; from primary health care facilities in peripheral areas to a research hospital in Dhaka. By a solid referral system and human resource retention system quality health services are meant to be guaranteed. The project started in 2000 and was planned to be completed in October 2010. The ORET funding was designated to build and equip a training hospital in Dhaka with 250 beds; a regional hospital with 200 beds; ten urban health care centers; four sub-regional hospitals and four peripheral HealthCare centers. ORET is the main donor of the project. The total project costs were EUR 38.547.742. In addition to ORET, the Norwegian Government (NORAD); the Rockefeller Foundation and ORBIS contributed to the system. These donors supported the education & research provisions, the health care information system and the eye care chain of the system, respectively. The project had some start up difficulties; the project’s kick off was in 2000, however implementation only started in 2006. The government of Bangladesh had to approve the project, yet directly after this approval the government changed and the project had to be approved again which added one year to the planning phase. Also, other constraints in the regulatory environment caused delay; local banks needed 3 months to disburse any of the payments, the development plan of the hospital ground changed which changing building regulations, and other bureaucracy-related issues had to be addressed. Furthermore, there were many discussions with FMO about the exact structure of the grant. 50% had to be delivered by Dutch companies, which was not feasible (due to inter alia a large local construction part) for this project. Eventually an adjusted structure was approved in 2004. In addition, the government needed to be the guarantor for the project, in order to secure the funding of 50% contribution of the Bangladeshi side. Initially the 20 facilities were supposed to be completed in October 2010, now the completion will be in 2013.

**Effects**

At the time of writing all twenty health care facilities have been built and equipped and are running at the capacity that was agreed upon, according to Hema. HCDP employed 1293 health personnel members in December 2012 and provided health care services to 3,649,081 patients until June 2012. BADAS currently works in 64 districts and covers roughly 20% of the country with its health care services. Health services demand per district is around 1500 to 2000 hospital beds. Next to the government, BADAS is the largest private health care provider. The project was designed to sustain itself, through the human resource
retention system; staff is trained by BADAS and there is a career building system to keep staff motivated to serve also in the more remote areas. In addition, there is a patient recordkeeping system, which is unique for Bangladesh. These parts of the system were, however, not funded by ORET.

FMO/IDF

IDF is a government fund aimed at infrastructure development and operated by FMO. In Bangladesh, three investments have been made with IDF: Axiata Ltd., a telecom provider, WWR, and a part of the loans to DBBL (described in above chapter).

Axiata Ltd.
The project consists of financing Telekom Malaysia International (Bangladesh) Limited (TMIB), which is now called Axiata, one of the largest mobile phone companies in Bangladesh, operating under the brand name AkTel (in 2010 rebranded to Robi). At the time of the FMO-LDC investment in 2005, TMIB was a joint venture established by TeleKom Malaysia International (TMI) (70%) and A.K. Khan Group (30%). In 2004, TMIB decided to invest in the expansion and upgrading of its existing network technology in order to exploit its momentum, support sustained growth and strengthen its market position in response to expected new providers. FMO financing comprised a subordinated 10-year loan from the LDC Infrastructure Fund, of the initial Taka equivalent of USD 15 mln, which was later raised to an equivalent of EUR 18 mln. In addition, a 7-year senior FMO-A loan (USD 15 mln) was also provided. The total envisaged investment amounted to USD 330 mln for the period 2004 to 2007.69

Effects
The LDC fund has been evaluated by IOB, including this specific investment of the LDC (now IDF) fund. The assessment was that FMO’s involvement is considered to be additional, but not catalytic. The planned expansion and upgrading of existing network technology were, at least partly, realized. The investments contributed to the expansion of mobile phone use and increased competition in the market. Competition led to price effects that, in turn, further promoted the use of mobile phones70.

World Wide Recycling BV
WWR BV has initiated a compost facility in Dhaka to recycle organic waste from local markets with a capacity of 100 tons/day. FMO funded 49% or 6,2 mln EUR of the total project cost of 12,8 mln EUR, the remainder coming from DBBL, Triodos and WWR, by providing equity and a loan with a 10 year tenor. The funding came from the LDC (now IDF) fund. The main objective is to provide finance to a company that can realize significant environmental and social benefits.

Effects
The LDC fund has been evaluated by IOB in 2009, including this specific investment of the LDC (now IDF) fund. However, the project was in a too early stage of development to draw any conclusions on effectiveness71. According to FMO information at the time of writing, the project has stopped, due to problems in the business and with the management team, the company went bankrupt, and the investment has been (or is being) written off.

4.2.3 The contribution of PSD instruments to resolving binding constraints
As described in chapter 2 above, regarding infrastructure the following binding constraints can be identified:

- A shortage of power and electricity is hampering economic growth possibility significantly
- Roads, railways and connecting transport infrastructure are not sufficiently addressing the country’s needs

In chapter 2 it was also noted that infrastructure bottlenecks were a key issue in 2005 and still are in 2011, with power supply having probably worsened rather than improved. Considering the shortages, the

69 Investing in Infrastructure, an evaluation of the LDC infrastructure fund, IOB 2009, p. 157
70 idem, p. 161
71 idem, p. 175
majority of the Dutch funding for infrastructure has addressed relevant constraints, primarily in the power sector. However, some qualifications:

- The FMO loan (which is though not from the IDF fund, but from FMO’s A-fund, see financial cluster) to fund a power generation plant has been successful, and achieved a significant contribution to the core of the problem around power shortage, adding about 100 MW to a power gap of 600 MW.
- The grant-funded REB program, however, did not achieve it results, as it focused on distribution, and not power generation. It has also cost much more to achieve eventually much less than the FMO loan.
- The ORET programs have largely been in health, which is not directly relevant for PSD; the rail investment (potentially) has been relevant, though on a minor scale compared to the needs.

Nevertheless, the overall contribution of Dutch instrument is very small; even though 55 million EUR have been invested in grant and loans, this is dwarfed by the current portfolio of ADB alone, standing at 60 billion USD in 2011.

4.3 Cluster skills and knowledge

4.3.1 Overview

Summary of expenditures

Within the cluster “skills and knowledge” various Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported. A total of EUR 7.6 million has been spent on skills and knowledge building in the review period.

<table>
<thead>
<tr>
<th>Skills Cluster</th>
<th>Total 2005-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>PSOM/PSI*</td>
<td>5,458,005</td>
</tr>
<tr>
<td>PUM</td>
<td>1,204,494</td>
</tr>
<tr>
<td>Bop Inc</td>
<td>82,351</td>
</tr>
<tr>
<td>Woord en Daad</td>
<td>832,074</td>
</tr>
<tr>
<td>Total</td>
<td>7,648,967</td>
</tr>
</tbody>
</table>

*) Noet that the figures of PSI refer to total expenditures per project, not annual expenditures per project (info not available)

Summary of effects

In the table below, an overview is given of the effects of the various instruments within the infrastructure cluster. It should be note that the column “summary of effects” should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Level</th>
<th>Evaluated?</th>
<th>Summary of effects</th>
</tr>
</thead>
</table>
| PSOM/PSI     | Enterprise | Evaluated | • 11 joint ventures funded  
|              |          |            | • Jobs (global average) 81 per project, BD = 82.3  
|              |          |            | • Sales (global average) EUR 0.8 M per project  
|              |          |            | • Follow up investment (global average) = EUR 0.5 million per project  
|              |          |            | • BD: 702 people trained |
| PUM          | Enterprise | Not evaluated | No information on outcome level available |
| BoP          | Sector   | Not evaluated | Too early to say |
4.3.2 Objectives and effects

PSOM/PSI

Objectives
The PSOM/PSI programs aim to contribute to poverty reduction by stimulating sustainable investments in innovative business in developing countries. Worldwide, the program provides subsidies to finance up to 60% of the investment costs of joint venture companies with local entrepreneurs. In Bangladesh, the subsidy was 60% until 2009, and became 50% thereafter. The subsidies usually cover part of the project’s hardware costs as well as training activities. The program is centrally managed from The Hague by the Agency NL. In Bangladesh, 11 PSOM/PSI projects in Bangladesh with a total contribution of EUR 5,459,886 million were approved and started during the period 2005-2011.

Unsurprisingly, the majority of the PSI projects are in the textile sector, Bangladesh’s premier exporting industry. The zero expenditure in 2010 and 2011 reflect that in the (preceding) years’ tender rounds no project for Bangladesh was submitted or approved. Considering the small quantities per annum (average 1 or 2 projects) this is not significant, in general. One project was approved in 2011, but did not start until 2012, outside the review period.

Figure 5: PSI investments per sector

Effects
The evaluation of the PSOM/PSI portfolio covered the period 1999 – 2009. The evaluation report did not evaluate projects in Bangladesh. The evaluation report concludes globally that the effectiveness of projects is high. Projects have significant employment effects in labor intensive sectors like garment manufacturing. The wages were found to be slightly above minimum wages. Most projects have more attention for CSR issues than typical ‘local’ businesses. Projects invest in training and knowledge transfer, whereby the majority of the trainees were informally trained on the job.
The evaluation further shows that the average completed PSOM/PSI project generates on average 81 jobs, and creates company income of EUR 0.84 million per year. In the table below, the average results for completed PSOM/PSI projects as described in the evaluation are listed, and are compared to the values found in PSI reports for Bangladesh.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Average per completed project</th>
<th>Reported average for Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow up investment</td>
<td>EUR 576,257</td>
<td>n/a</td>
</tr>
<tr>
<td>Sales per year</td>
<td>EUR 845,475</td>
<td>n/a</td>
</tr>
<tr>
<td>Direct jobs</td>
<td>81</td>
<td>82.3</td>
</tr>
<tr>
<td>Trainees</td>
<td>388</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Evaluation of PSOM/PSI 2001-2009 (2010), PSI information on projects in Bangladesh (n=10)

The table shows that the number of jobs created is very close to the global average, while the number of trainees is lower. It should be noted that these figures are strongly dependent on industry and country characteristics, and deviate strongly. Nevertheless, considering the overall positive rating on effectiveness (and impact) of the PSI program (until 2009), it can be concluded that the total effects of PSI in terms of employment – a total of 823 jobs created - can be treated as an established effect.73

PUM

Objectives

PUM is advising businesses in developing countries and emerging markets. PUM links these businesses, at their own request, to senior Dutch professionals who deliver expert services on a voluntary basis. In the period from 2005-2011 PUM carried out 180 projects in Bangladesh. The amount of projects has been stable between 26 and 29 per year until 2010. In 2011, 16 projects are listed. A project list can be found in annex 3. Most projects were executed in the healthcare sector, the textile and leather sector and the business support and management sector as can be seen in the summary of projects in figure 5. In the country policy and action plans it is stated that PUM has currently four local representatives in Bangladesh. Most projects have been in the two big cities i.e. Dhaka and Chittagong. Since the year plan 2011 also some activities are mentioned in the southwest (Bagherhat, Pirojpur) and middle (Bogra, Mymensingh, Feni) of the country.

Figure 6: Bangladesh, number of PUM projects per business sector (2005-2011)

72 Based on information of PSI, see http://www.agentschap.nl/programmas-regelingen/private-sector-investeringsprogramma-psi
73 The evaluation of PSOM/PSI concluded that on average the proposed jobs exceed the realised jobs at completion. Four of the 11 projects are ongoing and the proposed figures have been included.
Source: PUM

Effects
On PUM neither reported nor evaluated effects can be mentioned since project reports and evaluations are not available. PUM is considered as an important facilitator of some of the PSI projects that have eventually started, according to the PSI country manager.

BoP Inc

Objectives
BoP Innovation Center’s objective is to facilitate sustainable Base of the Pyramid (BoP) innovations. BoP believes there is vast potential in engaging people at the BoP as producers, consumers and entrepreneurs to reduce poverty and drive economic growth for both communities and the private sector. BoP provides an incubator space where private parties can develop business strategies towards BoP markets in a multi-stakeholder environment. In Bangladesh DGIS contributed EUR 82.351 to the ‘Development and launch of biogas socket in Rwanda and Bangladesh’ pilot project. The project is part of BoP ‘3 Pilots for Pro-Poor Innovation’ (3PPi) program, which aims to gain more knowledge and experience on market-driven pro-poor innovations. The pilot project aims to find a sustainable solution for the lack of access to energy of rural households in Asia and Africa. The biogas socket is developed to generate energy from biogas digesters which are used for cooking. The socket will generate small amounts of energy to charge mobile phones or feed two light bulbs. The project aims to bring the BoP product to the market in Bangladesh and Rwanda. The research organization TNO is developing the product together with SNV, BoP is coordinating the project. The project kicked off in 2011, with some delays in Bangladesh. One reason was the required approval of the Bangladesh Council for Scientific and Industrial Research (BCSIR), which took 5 months. According to the local SNV representative the work so far has been focused on the development of a prototype. SNV sees potential for the socket for the households that make use of biogas already. However, there is strong competition from solar energy; which can generate the same or more energy for a similar price. SNV considers that the project was initiated by TNO and BoP and not by the Bangladeshi market, while BoP sees it as a ‘technology push model’; where the challenge is to create local ownership. In sum, so far there are no effects of this project (as it is early days); SNV has built the capacity of a local partner and got approval of the government. Product development is not finalized and the commercial viability of the remains to be proven.

Effects
Too early to report any effects.

Woord & Daad

Objectives
The Christian Service Society (CSS) was founded in 1972. It is headquartered in Dhaka, the capital, with work around the whole country. It is a large multi-functional organization with different programs. It has a long standing experience in Microenterprise Development and programs in this area are among the largest in the whole W&D network. CSS’s Microenterprise development program targets the rural areas, where most adults are farmers or work as hired laborers for other farmers. Because they farm only about six months of the year, they do not earn a steady enough income to support their families. Although the majority of women is illiterate, many have skills and capabilities they could use to earn money. Their lack of literacy, exacerbated by religious and cultural traditions that block women from many forms of wage employment, makes self-employment one of their few options for earning money. Ample opportunity exists for these women to market products they make or buy to supplement their incomes. What they lack is access to credit to start a small business. The program provides seed capital to poor entrepreneurs, 86 percent of whom are women, for income-generating activities. These businesses include: puffed and pressed rice production, in which the entrepreneurs buy rice, the chief agricultural crop in Bangladesh, and make puffed and pressed rice in their homes to sell in the local markets; bamboo, cane craft and mat-making, to meet the high demand for baskets, furniture, and mats; grocery shops, to sell staples, such as rice, flour, sugar, and spices; beef fattening, to purchase cattle, raise them to full growth, and sell; and vegetable and agriculture products retailing. Under the program, groups of five meet weekly to receive business training and orientation. After the training is completed, members receive small loans while they
continue to meet for encouragement, accountability and to make loan payments. As the loans are repaid, the capital is lent again to other poor entrepreneurs, thereby multiplying the benefits of contributions to the loan fund. In 2007, CSS Bangladesh issued over 40,000 loans valued at just over $6 million to start or expand businesses. By extending credit to the poor to enable them to supplement their incomes, their families benefit from improved nutrition, health care, housing, and education. With an average family size of six members, more than 200,000 people enjoy a better standard of living due to the 2007 lending activity alone. CSS receives support for its Micro-Enterprise Development from W&D and from other donors. For W&D it is the largest micro-finance providing partner in the network. The support of W&D goes to three different categories of lending programs: MED, SMED-small and SMED. It is particularly in the area of small SMEs, where CCS and W&D have channeled a large amount of financial support.

**Effects**

An evaluation of the SMED program of CSS in Bangladesh conducted in 2007 observed that many of the target-groups in that program are Micro-enterprises. The evaluation observes that support to very small enterprises relevant for survival strategies and income generation at the family level, but generally these micro-enterprises have extremely limited potential for further growth. The support given in the micro-finance program of CSS is relevant as poverty reduction, particularly when it addresses productive and not only trade aspects, but the impact will be largely limited to family livelihoods and not economic development and creation of employment on a larger scale. Such development would require larger scale of credit-provision. The evaluators observe that in poverty-stricken contexts such as Bangladesh, such a poverty focus is well defendable, while in other more favorable economic contexts a larger economic scale might be more appropriate. The reported effects are 232 newly started enterprises (SMEs), to which loans (and technical support) have been provided.

4.3.3 The contribution of PSD instruments to resolving binding constraints

As described in chapter 2 above, regarding skills and knowledge the following binding constraints can be identified:

- A significant share of Bangladesh’s labor force is unskilled, and there is a growing demand for skills and knowledge, particularly in the exporting industry
- The education system’s scant supply of skills does not connect to the demands of Bangladesh’s economy
- Bangladesh’s vocational training system is underfunded

In general, the skills and knowledge cluster is dominated by PSOM/PSI, which accounts for 72% of the expenditures. Though an effective program, only 11 enterprises, and 702 people trained cannot be seen as a significant effect on the Bangladeshi economy, or a specific sector therein. Nevertheless, the value of PSI is predominantly in introducing new, specialist knowledge into a sector, which generates new business models and –techniques that will eventually spill over into other enterprises. The majority of PSI projects is in textile, and hence may have an effect that is more significant. However, to what extent this spill over takes place is unknown.

A further point is that this review excludes education projects, including TVET, as it is not primarily PSD in nature. Therefore, all other contributions Dutch instruments (such as Nuffic/Niche) are not included here.

4.4 Legal and regulatory framework

4.4.1 Overview

Portfolio of interventions and associated expenditure

Within the cluster “Legal and regulatory framework” three (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

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74 *Job and Income programme evaluation*, Woord en Daad, 2009
75 *idem*, p.47. The mentioned evaluation did not meet the quality criteria of IOB.
Table 19: Bangladesh, Dutch PSD instruments for skills and knowledge; overview of expenditures (2005 – 2011)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FNV Mondiaal</td>
<td>55,857</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>55,857</td>
</tr>
<tr>
<td>Solidaridad</td>
<td>134,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>67,000</td>
<td>67,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>189,857</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>67,000</td>
<td>122,857</td>
<td></td>
</tr>
</tbody>
</table>

Summary of effects
In the table below, an overview is given of the effects of the various instruments within the Legal and regulatory framework cluster. It should be noted that the column “summary of effects” should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 20: Bangladesh, Dutch PSD instruments (skills and knowledge); overview of effects (2005 – 2011)

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Level</th>
<th>Evaluated?</th>
<th>Summary of effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>FNV Mondiaal</td>
<td>Systemic</td>
<td>Not evaluated</td>
<td>• Bangladesh Business Forum set up</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Tax code for SMEs simplified</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Construction permits simplified</td>
</tr>
<tr>
<td>Solidaridad</td>
<td>Systemic</td>
<td>Evaluated</td>
<td>• Effective</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• 12 CPM</td>
</tr>
</tbody>
</table>

4.4.2 Objectives and effects

FNV Mondiaal

FNV Mondiaal supports projects in over 100 countries located in Africa, Asia, Latin America and Eastern Europe through resources from the Ministry of Development Cooperation of FNV and its affiliates. By means of its work FNV Mondiaal aims to build stronger unions in those countries. In the view of FNV Mondiaal, “a strong union can stand up for the improvement of working conditions and a fairer distribution of income”\(^76\). FNV Mondiaal is further involved in the fight against child labor and HIV / AIDS, and defends women workers, informal workers and trade union rights.

According to FNV Mondiaal data, there were several projects active in the South Asian region and including Bangladesh during the review period:

<table>
<thead>
<tr>
<th>Project</th>
<th>Sector</th>
<th>Countries</th>
<th>Expenditures</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garment WorkNet Asia</td>
<td>Textile, clothing, leather</td>
<td>Bangladesh, Cambodia, Indonesia, Sri Lanka</td>
<td>EUR 279,770</td>
<td>Sept 2009-Aug 2012</td>
</tr>
<tr>
<td>Quality improvement at partner organizations in South Asia</td>
<td>n.a.</td>
<td>Bangladesh, India, Nepal</td>
<td>EUR 92,400</td>
<td>Oct 2010-Sept 2012</td>
</tr>
<tr>
<td>Organizing and Networking Migrant and Cross Border Workers in Asia</td>
<td>Construction, wood</td>
<td>Bangladesh, Burma, China, India, Indonesia, Nepal, Pakistan, Vietnam</td>
<td>EUR 214,846</td>
<td>Jan 2011-Dec 2012</td>
</tr>
<tr>
<td>S. Asia Project on Issue-based Organizing and Promoting Social Dialogue</td>
<td>Construction, wood</td>
<td>Bangladesh, India, Nepal</td>
<td>EUR 556,933</td>
<td>Jan 2011-Dec 2012</td>
</tr>
<tr>
<td>Organizing metal workers in shipbreaking industry in South</td>
<td>Shipbreaking</td>
<td>Bangladesh, Pakistan</td>
<td>EUR 291,418</td>
<td>Feb 2011-Dec 2012</td>
</tr>
<tr>
<td>Promotion of Decent Work in Shipbreaking Industry of Bangladesh</td>
<td>Shipbreaking</td>
<td>Bangladesh</td>
<td>EUR 55,878</td>
<td>July 2011-Dec 2012</td>
</tr>
</tbody>
</table>

Source: FNV Mondiaal

\(^76\) [www.fnvmondiaal.nl/english/About_FNV_Mondiaal](http://www.fnvmondiaal.nl/english/About_FNV_Mondiaal)
Given the fact that most of these projects cross international borders, specific project expenditure figures or effects of the projects for Bangladesh could not be obtained. However, the ship breaking project was implemented in Bangladesh only, by FNV Mondiaal’s partner organization OSHE.

**Objectives**

OSHE (Bangladesh Occupational Safety, Health and Environment Foundation) was established in December 2003 by workers’ initiative to deal with OSH challenges at national level and at workplaces of different industrial sectors through a participation-oriented approach. FNV Mondiaal was one of the founding partners. The mission of the Foundation is to assist and defend workers’ rights on safety and health issues, promote a safety culture and put these into practice at workplaces. In 2011 OSHE received a funding amount of EUR 55.857 from FNV Mondiaal for the second phase of its ship breaking industry project. The Ship Breaking Industry is a booming industry in South East Asia, thanks to its low labor costs. However, working conditions in the industry are hazardous; low, or no standards on occupational hazards and unhealthy working conditions, exploitative wages, and no government regulation in place. FNV and OSHE formulated a program to (a) organize, and later unionize the workers in the industry, (b) raise awareness on occupational safety, and (c) lobby with the GoB for better regulation of the sector. In addition, they were one of the founders of a regional ship breaking industry platform.

**Effects**

According to OSHE, so far 2,000 ship breaking employees are organised in small unions (of an estimated total of 35,000 workers in the industry); 120 organizations have been registered in the total 37 shipyards in Bangladesh. In 2010 the government formally declared ship breaking as an industry. In 2012, the government eventually issued new regulation for safety and installed a tri-partite commission to oversee the regulatory enforcement and wages (with unions as one of the partners). Finally, there is a consultation mechanism that involves the Ministry of Industry, trade unions and social partners to overlook the effectiveness of enforcement of the new regulations. Also, the government has published a minimum wage table for the ship breaking Industry. Due to the awareness raising practices working practices are safer, according to OSHE; for example, safety gear is more common and the dangers of asbestos are widely known. The rate of (serious) accidents (as reported in local newspapers and monitored by OSHE) decreased, from 15 to 7 per month. The death rate is sadly not yet affected: 42 people died in 2012 in ship breaking. OSHE is pleased with the results, but is convinced that more needs to be done to increase pressure on the industry for acceptable working conditions; in their words “...we have just moved from the 17th to the 18th century...”.

**Solidaridad**

**Objectives**

Together with IFC, Solidaridad has started a Clean Production (CP) project to improve productivity of Washing Dyeing Finishing (WDF) units through introduction of CP methods, and tries to support Environmental Compliance (EC) by organizing 50 pilots of CP in exporting firms. Local capacity development in CP auditing and CP advisory services is supported in order to have replication at the sector level. In parallel, the project supports BGMEA (a sector association) with developing an auditing capacity and supports the DoE with enforcement policy. The Clean Production part aims to introduce CP methods in exporting WDF units, in order to achieve substantial savings for the exporting firms, mostly by less energy and water waste, which also has an environmental benefit. The EC component addresses the Environmental compliance of the sector at large; here the work has focused on assisting both the government and the relevant sector association, BGMEA with developing enforcement capacity on the one hand, and offer EC-services through a virtual market place to the firms on the other hand. The program is operating under the SEDF II program, managed by IFC and funded by DFID, Norad and IFC itself. Solidaridad’s role in this project is (a) co-funding the audits (40% of the cost), and (b) organizing the buyers to exert pressure on their Bangladeshi suppliers to address the environmental issues. Solidaridad also introduced the concept of “user groups”; these are established to stimulate experience exchanges between factory managers and inspire new firms to partake in the CP program. The user groups are managed by IFC/SEDF.
Effects
The program has been evaluated as a part of a Mid Term review of the SEDF II program. The results were assessed as positive; 12 pilots have been successfully completed, and 6 more were underway. The results of the pilots are highly promising: 12 pilot firms have adopted CP, yielding significant savings (the last Supervision report records USD 1 mln in private sector savings), coming from reductions in water and energy usage, yielding a reduction of 18,500 MT/year of GHG emissions.\textsuperscript{77}

4.4.3 The contribution of PSD instruments to resolving binding constraints
As described in chapter 2 above, regarding the legal and regulatory framework the following binding constraints can be identified:

- Bangladesh is rated as one of the most difficult business environments in the world, by various rating reports.
- Less the content of laws and regulation, but its enforcement, and the institutional embedding is a key concern for businesses. “Governance” is the most significant problem, resulting in unpredictable and overly intrusive regulatory policies and institutions.
- Although regulations are improving on paper, implementation of the policies on the ground lacks behind.

Overall, the investment climate is a key impediment to PSD, as recognized in many reports. Moreover, the investment climate has not improved overall, according to the same reports, and in the view of businesses spoken to. However, Bangladesh’s economy has been growing consistently and significantly in 2005-2011, which underlines that investment climate ratings are not predictive for economic growth.

There are only few interventions funded by the Ministry that are addressing this key issue, and thus it can be said that Dutch instruments have not contributed to any improvements on the “national” business climate (or to lessen the deterioration thereof). However, with comparatively minute budgets, FNV has achieved some progress in working conditions in the ship breaking industry, and Solidaridad – with equally small budgets - has made a start with introduction of more environmentally friendly production methods in a key industry in Bangladesh. EKN has not, in the review period, achieved any substantive results with policy dialogues with GoB on improving the investment climate.

4.5 Cluster market access

4.5.1 Overview

Summary of expenditures
Within the cluster “market access” (partially) Dutch funded interventions have taken place during the 2005 – 2011 period. In the table below, these interventions and associated expenditures over the period 2005 – 2011 are reported.

Table 21: Bangladesh, Dutch PSD instruments for skills and knowledge; overview of expenditures (2005 – 2011)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Katalyst Phase II</td>
<td>2,342,598</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>404,000</td>
<td>594,218</td>
<td>512,395</td>
<td>831,985</td>
</tr>
<tr>
<td>CBI (ECP only)</td>
<td>452,898</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>211,421</td>
<td>241,477</td>
</tr>
<tr>
<td>Total</td>
<td>2,795,496</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>404,000</td>
<td>594,218</td>
<td>723,816</td>
<td>1,073,462</td>
</tr>
</tbody>
</table>

Source: Author’s calculations

Summary of effects
In the table below, an overview is given of the effects of the various instruments within the market access cluster. It should be note that the column “summary of effects” should be treated with care since effects have only been validated for those projects for which evaluation reports satisfying IOB criteria are

\textsuperscript{77} Midterm review of SEDF II, 2009-2011, IFC, DFID, Norad 2012, p. 78.
available. In all other cases, the summary of effects has been based on internal project documents and/or the outcomes of field interviews.

Table 22: Bangladesh, Dutch PSD instruments (skills and knowledge); overview of effects (2005 – 2011)

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Level</th>
<th>Evaluated?</th>
<th>Summary of effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBI</td>
<td>Enterprise</td>
<td>Not evaluated</td>
<td>• Provision of EU market access info, training and export auditing to entrepreneurs, effects unknown</td>
</tr>
<tr>
<td>Katalyst/EKN</td>
<td>Sector</td>
<td>Evaluated</td>
<td>• 1.34 million beneficiaries (predominantly farmers)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Income increase between 171 and 204 million USD</td>
</tr>
</tbody>
</table>

4.5.2 Objectives and effects

Katalyst

Objectives

Katalyst is a large market development project that started in Bangladesh in 2003. Katalyst aims to increase the income of Bangladesh’s population by increasing the competitiveness of farmers and small businesses in key rural and urban sectors. Katalyst follows the pro-poor market development approach in promoting economic growth. Katalyst analyzes a market system as a whole; it partners with a wide range of private enterprises and the government to bring about systemic change. By analyzing the problems in a market system and finding smart business incentives or sustainable interest for stakeholders to provide services to the business or farmers the market system is changed from within and therefore sustainable. Katalyst focuses on sectors with high outreach to the poor, high growth potential and good opportunities to include the poor better in the socio-economic systems of the selected sectors (see below for more information on Katalyst’s approach). Katalyst is implemented by SwissContact and GIZ, under the Ministry of Commerce of the Government of Bangladesh. The first phase was funded by DFID, SDC and SIDA. The second phase of Katalyst began in March 2008 with a budget of 50.67 million Swiss Francs (app. EUR 32 million in 2008). It was jointly funded by the Swiss Agency for Development and Cooperation (SDC), the UK Government, the Canadian International Development Agency (CIDA) and the Embassy of the Kingdom of the Netherlands (EKN). The second phase had a bigger focus on the strategic coherence of Katalyst’s market development activities. It does not only focus on agricultural sectors, but also service sectors, such as health care and ICT. In addition, Katalyst promotes the uptake of their market development approach by other actors in Bangladesh to increase its impact and sustainability. The EKN contributed EUR 3,784,557 to the second phase of Katalyst, about 10% of the total second phase program. Expenditures in the review period are EUR 2,342,597 in the period 2005-2011 (as the second phase runs until 2014).

Katalyst develops pro-poor value chains with the ultimate aim to increase incomes for farmers and small enterprises in currently 7 (main) sectors: maize, vegetables, fish, prawn, furniture and crafts, potato, jute. It is striving to reach 2.3 million people and small businesses by the end of its second phase in 2013.

Katalyst’s approach

Katalyst’s approach is distinctive not simply because of its objectives for pro-poor market development but also because of how it goes about achieving them. More conventional development initiatives support the poor by providing them directly with knowledge, goods, and services. While such a direct approach can achieve quick results, it has limited sustainability, is often unable to achieve scale, and its effect on markets may be distortionary.

The project therefore works indirectly, focusing on achieving systemic change, and partnering with a wide range of domestic and international private and public

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78 Katalyst and the market development (M4P) approach, found at http://www.katalyst.com.bd/docs/160212%20flyer%20design%201-%20FINAL.pdf
sector intermediaries who have long-term business interests or a mandate in a particular sector. It actively seeks to ‘crowd-in’ domestic public and private market actors. By harnessing their resources and incentives, Katalyst’s interventions can leverage its own, thus stimulating larger-scale and more sustainable impact than if it attempted to provide solutions in isolation. Katalyst’s selection of sectors is determined by applying the three-part market development ‘lens’. This lens helps it to choose the sectors with the highest potential for achieving its poverty reduction objective.

Katalyst focuses on stimulating systemic change within selected sectors. To achieve this, it searches, analyses and addresses the root causes of constraints rather than their more obvious symptoms. This requires a thorough understanding of the dynamics of a sector, which is acquired thorough research and pilot interventions. Katalyst has learnt that the root causes of any one sector’s underperformance often lie in a related or supporting sector.

Katalyst’s emphasis on sustainability guides both the design and mode of its interventions. It works to stimulate innovation within sectors to overcome often deep-seated constraints and achieve wider systemic change. However, it avoids delivering these changes directly. Instead of implementing new methods, tools, and roles with project resources, it works with partners who have sustainable incentives to take over the implementation. If changes are to be sustainable, they must be owned and driven by market players with long-term interests – commercial and other incentives – beyond the period of the project’s interventions.

Katalyst aims to crowd-in other market actors. To achieve this, its support needs to add sufficient value to attract and influence partners but should not be excessively intensive in terms of resources or duration, as this would distort the behavior of partners or other market actors, or displace initiative. The project thus has to ensure that its support is ‘light touch’, facilitative and matched by contributions from partners to ensure their commitment.

Katalyst’s exit strategy from interventions comes from this explicit focus on crowding-in, and from its determination to avoid becoming part of the market system it is working to encourage. Initial interventions introduce and test an innovation with a partner, encouraging and monitoring its adoption until the point where the partner is able to maintain and/or expand the innovation alone.

The ambition for scale has led to several specific characteristics in the way Katalyst works: a) identifying and collaborating with scale agents with resources and incentives to achieve significant crowding-in across a sector; b) greater integration of sectors and supporting sectors to implement multi-faceted interventions which can achieve large-scale systemic change and c) active management of its portfolio of sectors, cross sectors and interventions to ensure that the balance of short-term results and long-term sustainability is maintained.

Effects
Katalyst is generally regarded as a successful program due to its innovative and sustainable approach and due to the fact that it can prove its impact. The result measurement system of Katalyst is based on the DCED standard, which is audited regularly by DCED-certified auditors. At the time of writing an audit was ongoing, and preliminary results confirm that the results will be proven, as they have been before. Considering the advanced system the DCED standard requires, the results measured can therefore be treated as established effects. As of the end of June 2011 Katalyst has reached 1.34 million beneficiaries and has reached an income increase between 171 and 204 million USD. In June 2012 the average income increase per beneficiary achieved across all sectors lies between BDT 9,200 and BDT 11,600, or an average net income of 5,500 Bangladesh Taka, which corresponds to over half of one monthly income of a rural average household. Katalyst has worked in 17 sectors and cross-cutting service industries and -themes; Maize, Vegetable, Fish, Prawn, Potato, Jute, Furniture & Crafts, Tourism, ICT, Media, Improving Local
Government Services (ILGS), Rural Distribution, Rural Supply Chain, Packaging, Fertilizer, Seed and Irrigation. Katalyst has reached its objectives in 12 of these value chains. In the other sectors objectives were not reached or were not assessed (media). The EKN co-funded Katalyst Phase 2 as a silent partner. The above mentioned effects apply to the entire program, so are not only ascribed to the second phase of the program. The EKN counted for 10% of the funding in the second phase. Roughly speaking one could state that the Netherlands has contributed 10% of ca. 60% of the program effects (Phase II is about 60% of the total, depending on exchange rates used), or overall ca. 6% of the effects mentioned. That results an approximate figure of 80,400 enterprises/farmers supported, with an income increase of app. EUR 7.8 million as a consequence of (the Dutch contribution to) Katalyst.

Illustration of impact: Making ICT work for farmers in Bangladesh

The issue
In agriculture, timely and accurate information is needed, not only to maximize production, but also to enable farmers to respond quickly to protect themselves from major losses. Katalyst carried out a survey amongst 700 of its target group farmers to find information on farmer’s information seeking behavior and demand. There are several ways farmers look for information: through public agricultural extension workers, input-suppliers, etc. However all of these channels have their shortcomings; the information often is not specific enough.

Objective
Seeing the surge of the telecommunications market in Bangladesh, Katalyst explored ways to use ICT providers as information channels was not the norm amongst farmers, behavior is not easy to change; and the level of awareness among farmers how ICT services can be of use for their work. On the supply side; Telecom providers in Bangladesh were not focused or aware of ICT demand from the rural population at all. Still Katalyst believed in the potential of the ICT services supplying information to farmers on scale.

Research
In the first phase Katalyst carried out action research to look for the right ICT service provider model. It found that income from only information services would be low in comparison to revenue from other services; service bundling was a prerequisite for designing a commercial viable model. Subsequently, Katalyst piloted the model with two local private service providers; they would invest to set up the required infrastructure; Katalyst would invest in the content of the information services and in promoting the service to the farmers. This resulted in the set-up of three Rural ICT Centers (RICs) where the rural population could access different services, such as word processing, emailing and access business specific information services. The three RICs broke even in the first twelve months and hosted between 3500 and 4000 visitors in the first three months.

Up-scaling possibilities
Encouraged by the first successes of the model Katalyst looked for ways to reproduce and upscale the model. Katalyst understood that this ‘high volume but low margin’ businesses model needed the backing of large market players. For this, Katalyst needed to have a deeper understanding of the market conditions that were impeding large telecom operators to enter the rural market; the systemic constraints. Without addressing these constraints ICT service provision to the rural poor would not be able to materialize.

Obstacles on the road
The constraints could be found in the absence of the supporting functions of the RICs: (i) the content of the information in the tele-centers would have to be continuously validated and updated, which was

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79 Based on Making ICT work for Bangladesh’s farmer, found at http://www.katalyst.com.bd/res_cStudies.php
something beyond the scope of the center entrepreneurs; (ii) constant innovation and product development relevant to the rural population was required to ensure continued commercial viability; (iii) technical and managerial capacities of service providers was required in order to create sound businesses; (iv) Significant investments in awareness raising to induce behavioral changes amongst the target group were required to create demand. In addition, there was also the need to address supporting rules of the ICT sector: (i) extension officials’ approval of information services through ICT services would greatly stimulate demand. However, no guideline existed for the public and private sector to collaborate in disseminating agricultural information; (ii) there was need for a policy instrument that could recognize ICT based agriculture information services as authentic and reliable sources of information; (iii) social and cultural barriers to use ICT for information had to be addressed; having public agency endorsement could be one way to change the mind set of farmers.

Partnership
Katalyst partnered with the largest telecom operators in Bangladesh: Grameenphone. They agreed to jointly establish 200 Community Information Centers (CICs). Although the revenue of these centers was not going to be profitable in the short term, the companies wanted to be well-placed once this promising market would kick off. Katalyst worked on all the issues they had analyzed as systemic constraints. To address demand-side weaknesses of the model, Katalyst worked with Grameenphone’s communication team and created the concept of E-Krishok, ‘e-farmer’ to structurally raise awareness on the CICs.

Sustainable services
Once it became clear that the promotional function needed to be permanent the e-krishok model was adjusted; E-Krishok is now a service not a campaign. It is owned on a commercial basis by a private company; Bangladesh Institute of ICT in development (BIID). BIDD will roll out a private agricultural extension service that uses technology to source, locate and deliver information. BIDD designed the right packages to ensure customers; some services are free of charge. BIDD arranged private sector sponsorship of input supply companies to cover part of the costs. In return BPs will promote the inputs when relevant to the farmers, who in turn can be sure these inputs are locally available. In addition the BPs are paid in a three-structured way: firstly for achieving a targeted number of subscribers, secondly for follow-up and quality assurance and thirdly for advice resulting in positive farm outcomes.

Results, so far
Early 2008 Grameenphone had established a network of 200 licensed CICs in rural areas; an estimated 41,000 farmers have accessed information through the CICs in 2008/2009. Moreover, there are signs of a deeper system-level change. For example: Grameenphone has moved the CIC’s from special project to their mainstream Fixed Broadband and Channels Team, with fifteen full time staff members. Furthermore, competitors such as Airtel are moving into the market targeting players in agricultural value chains.

CBI

Objectives
The Centre for the Promotion of Imports from developing countries (CBI) is an agency of the Ministry of Foreign Affairs and part of the development cooperation effort of the Netherlands. The mission of the CBI is to contribute to equitable economic development of selected developing countries and countries with economies in transition by providing services aimed at strengthening the competitiveness of exporters on the EU and EFTA market. CBI aims to achieve its mission through four different types of products. These products are: Human Resource Development (Training), Business Support Organization Development (BSOD), Market information (MI), and Export Coaching Programs (ECP). Internationally, the biggest part of CBIs’ budget is allocated to ECP.

In Bangladesh, over the period 2005-2011 realized a total project expenditure of EUR 452,898, all for the Export Coaching Program. Expenditures only took place in the last two years of the period, 2010 and 2011. There have also been expenditures for Bangladeshi exporters that participated in trainings, but no disaggregation of cost is available for these cost (also, many of the trainees are also part of the ECP program, but it is not known to what extent). In total, 49 enterprises took part in the ECP program, and a three year on-site coaching program by CBI experts to support companies with export aspirations to
succeed with this objective. The ECP program contains an initial audit for export readiness, an action plan to achieve the goal of export, coaching and support, and support with making business contacts, by involvement in European or international trade fairs. Approximately 50 individuals also participated in CBI training events, in Bangladesh and outside. No BSOD program has been developed until the end of the review period.

**Effects**

There is no information available to what extent the Bangladeshi ECP program has yielded results, or what the effect of the trainings has been.

4.5.3 **The contribution of PSD instruments to resolving binding constraints**

As described in chapter 2 above, regarding market access the following binding constraints can be identified:

- Private enterprises forego business opportunities due to a lack of information on market structures, suppliers, and customers.
- Smallholder farmers lack access to markets; a key cause of that is also a lack of appropriate rural infrastructure.
- Export, or access to international markets is not a key obstacle, but exports are labor intensive, low value added and concentrated in a few products.

The Dutch support to the Katalyst program has a direct bearing on making rural markets function better, and enable local businesses to benefit from greater reach for clients, inputs and information. The contribution of the Katalyst program can be considered as significant: even with a population of 150 million, reaching 1.3 million private businesses is a sizable effect. Also, an income increase of around 170-200 million USD is a big effect, for a program that costs a fraction of this. However, EKN did not invent the concept, and funds only 10% of the Phase II budgets, so “owns” only 10% of the mentioned effects. This though is (a) still a good investment, and (b) even so, by far the biggest established effect on PSD of all Dutch instruments.

CBI’s activities have been small in the review period, and the effects are not known. Generally, ECP programs are designed to add new exporters to international markets, which does address the concern of low export diversification. Even if effective, however, the ECP program is only to 50 enterprises.

4.6 **Multi-cluster projects**

**PSD Fund**

**Objectives**

In 2007 the EKN created a PSD Support Fund with the broad objective to facilitate PSD program development and support small activities to contribute to a better business enabling environment. The PSD Support Fund was proposed to be the first step of a more integrated approach to PSD under EKN’s overall Good Governance umbrella. The appraisal BEMO explains that the fund should be a catalyst for the Embassy’s PSD approach, as it enables quick and direct contracting of organizations and activities. The PSD Fund was planned to run from 2007 to 2010 and contained 350.000 euro.

From April 2007 onwards several small projects were funded from the PSD Fund. The funding size ranged from 2.800 Euros to 55.000 Euros. At the end of 2011 216.764 Euros of the 350.000 Euros were spent. Activities or projects funded were on the following topics: stimulating women entrepreneurship (two activities); CSR and corporate governance (two activities); promotion of the Dutch private sector instruments (several seminars); market scan of the Bangladesh water sector (one study). In addition, general support to the Embassy of a senior economic advisor was financed from the Fund and the ‘Bangladesh Investment Guide’ was written and published.

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80 Piramide, BEMO appraisal document PSD Fund
None of the funded projects have been evaluated. All the closing documents in the EKN’s archive files say: ‘This is an umbrella activity, therefore only the contracts and commitments can be closed’. Effects or results are therefore derived from end-reports or the deliverables of the contracted authorities.

In 2007 an ‘International seminar on CSR in Bangladesh; current issues and future trends’ was held. The seminar was preceded by a survey amongst 50 Bangladeshi businesses in 18 sectors. The narrative report concluded that CSR is a challenge for Bangladeshi firms, but paramount for inclusion in the international market. In 2008 the Corporate Governance Strengthening Project (CGSP) 2004-2008 of the Bangladesh Enterprise Institute (BEI) was assessed to explore possibilities for longer term strategic relationships. The evaluation concluded that (i) generally the Corporate Governance Strengthening Project has done good ground work; (ii) the EKN could play a leading role in corporate governance by involving with like-minded groups, for example through the Local Consultive Group (a donor/multinational platform) and (iii) the EKN should improve its (financial) reporting systems and capacity assessments of partner’s before funds are disbursed.

In the area of women entrepreneurship the PSD Fund supported the Bangladesh Women Chamber of Commerce and Industry (BWCCI) from 2007 to 2008 (see text below) and funded a study: ‘Baseline Determination of Position of Women Entrepreneurs and Identification of Possible Intervention’ carried out end 2008. The end memo stated that the report complied with the ToR and provided useful insights in determining possible future interventions to strengthen the position and capacity of women entrepreneurs in Bangladesh. In addition, the EKN was recommended how to achieve the MASP results and identified possible partners for cooperation. According to EKN’s ‘Economic Affairs and Trade Advisor’ the Embassy is currently considering how to use these recommendations in future women entrepreneurship promoting activities.

In 2009 and 2010 the Embassy, in cooperation with several regional Chambers of Commerce, has organized five seminars ‘on business to business support programs of the Netherlands’. During these seminars Dutch funding instruments were presented; in 2009 these were PSI and MMF, in 2010 ORIO was also included in the presentation. In June 2011 EKN published ‘Investing in Bangladesh; A Guide for New Investors’.

In 2010 a market scan on the Bangladesh water sector was carried out. Through a survey amongst the Dutch and Bangladeshi public and private sector business opportunities in the non-consumption water sector were identified. The report was used as input for EKN’s Water Mondiaal activities.

**Effects**

No information on effects is available.

### BWCCI - Bangladesh Women Chamber of Commerce and Industry

**Objectives**

BWCCI is a non-profit organization aiming to stimulate women’s participation in the private sector by promoting a women friendly business environment and by working on women’s economic and social empowerment. BWCCI’s members (currently over 3000) are individual entrepreneurs of micro, small and medium enterprises and NGOs engaged in promotion of women in economic sectors. BWCCI specifically focuses on developing micro rural entrepreneurs to more sustainable small and medium sized entrepreneurs, which are ready to enter the export market. BWCCI works with several funders, including USAID, CIDA, ADB, DANIDA and DFID, and receives between 300.000 and 500.000 USD a year in grants for various activities. The support granted from EKN was meant to enable BWCCI tom provide women entrepreneurs with trainings, management, financial resources expertise and support networks.

BWCCI’s project aimed to link women entrepreneurs to international markets, since – according to BWCCI - these markets guarantee women solid orders and provide possibilities to add value to the product. By sending the micro entrepreneurs to international trade fairs these women gain confidence and awareness of the demands of the international market. EKN supported the BWCCI with 55.000 EUR for a small pilot project that operated from July 2007 to June 2008: ‘Capacity Building of the Bangladesh Women Chamber
of Commerce and Industry as a means to Increasing Participation of Women Entrepreneurs in National Private Sector Development’. According to BWCCI, the project had two focus areas: (i) train women entrepreneurs in basic business skills and (ii) let women entrepreneurs participate in (international) trade fairs. The agreement was that BWCCI would train 260 women entrepreneurs and 70 women entrepreneurs would participate in trade fairs.

**Effects**

There is no outcome information available in the reports. EKN’s closing memo stated that: ‘BWCCI has an overoptimistic view on the impact of their activities (specifically their advocacy activities)’. Effects of trainings and participations in international trade fairs in terms of growth, employment or changes in the enterprises therefore are unclear. For WBCCI, the main effect is in the empowering of women, who have gained more confidence and respect vis-à-vis their husbands in conducting their business.
5 Assessments

5.1 The role of the Embassy with regard to PSD

PSD has been a small part of the work done by EKN; and 85% stem from an infrastructure program (REB) that was identified in the relatively distant past. The other major expense is a co-funding as a silent partner in a big program (Katalyst). The PSD fund reflects the search for direction in PSD.

PSD, as undertaken by EKN has been hampered by several factors: one is the general lack of interest in PSD prevailing in the plans of the Embassy. For EKN, PSD was not a priority, as it was seen as no policy priority in “the Hague” either. Only 1 or 2% of the budgets have been assigned to the theme, while at the same time the need for economic development is seen as crucial. The view taken can be considered “traditionalist”: solving problems for, and with the Government of Bangladesh, through funding projects and programs.

Another factor has been the perception that Bangladesh is an unattractive destination for businesses, and hence not much can be done with PSD until the key obstacles are removed, such as weak governance, education and other major development challenges. This has resulted in a low profile on PSD generally, including the work with and for the central instruments (such as PSI, CBI and others). This view, however, is not consistent with the overall strong growth performance of the Bangladeshi economy in the review period. Also, not all central instruments have seen the challenges as being so severe: FMO has granted loans of EUR 192 million in the review period, which is a sizable engagement by FMO’s standards.

Finally, human resources at EKN (i.e. high staff turnovers, long vacancies, and lack of adequate PSD background) have had a strong influence on both on the (lack of) direction detected in MASP, and the ability to achieve the often ambitious objectives mentioned in the MASP. There is a mismatch between ambitions and the means to achieve them in the MASP until 2011: goals that would engage EKN in an e.g. “energetic policy dialogue” on PSD, governance and other “large issues” were unlikely from the start to be achievable by an Embassy with a requested (but not realized) 0.9 fte staff for PSD. Also, EKN is a small player in PSD while other donors, bilateral and multilateral, have much more scope to interact with GoB on PSD related subjects.

On the whole, the EKN approach to PSD has resulted in a loose collection of projects that do not appear to have a common binding element, or stem from the same strategic concept. Nevertheless, the two major investments made do reflect the binding constraints, and one of these (Katalyst) did so (very) effectively.

This has changed towards the end of the review period, in 2011: with new staffing, and a renewed interest in PSD, EKN has developed an approach for PSD in Bangladesh that relies on business drive, rather than working (mainly) through government, engages Dutch knowledge networks and businesses, and focuses on achieving a specific objective, namely “responsible trade”, or supporting CSR in key Bangladeshi industries. The result so far has been the formulation of the PaCt program with the exporting textile firms in Bangladesh. This program was developed in 2011, and has been signed in 2012. Also, PSD in built into other EKN programs to enhance the outcomes there, such as in the water management programs, where EKN is primarily engaged in.

5.2 Effects of PSD in Bangladesh

5.2.1 Dutch PSD instruments and the DCED indicators

In the table below, an overview is provided of the DCED indicators of the various Dutch PSD instruments in Bangladesh as far as these could be established from evaluation reports and/or project documents. It should be noted that effects can only be considered validated for those instruments for which satisfactory evaluation reports on Bangladesh country level are available. Unfortunately, that is only the case for PSOM/PSI and IFC.
Nevertheless, based on interview outcomes and the instruments’ project documents in a modest number of cases, DCED indicators can be retrieved. This type of information is primarily available regarding the indicators “number of enterprises” and “investments”.
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<tbody>
<tr>
<td><strong>Financial Sector</strong></td>
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<tr>
<td>FMO-A</td>
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<td>Sector</td>
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<td>8</td>
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<td>FMO-IDF</td>
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<td>2</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>FMO-Capacity development</td>
<td>0.08</td>
<td>Grant</td>
<td>Sector</td>
<td>N/Y</td>
<td>30</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>First</td>
<td>0.04</td>
<td>Grant</td>
<td>Systemic</td>
<td>N/Y</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>Cordaid (loans)</td>
<td>0.58</td>
<td>Loan</td>
<td>Enterprise</td>
<td>N/N</td>
<td>6</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>Cordaid (capacity development)</td>
<td>0.14</td>
<td>Grant</td>
<td>Sector</td>
<td>N/N</td>
<td>6</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DHA Rural Electrification program</td>
<td>15.85</td>
<td>Grant</td>
<td>Systemic</td>
<td>N/N</td>
<td>1</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>Procurement Assistance</td>
<td>0.05</td>
<td>Grant</td>
<td>Enterprise</td>
<td>N/N</td>
<td>1</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>ORET</td>
<td>16.44</td>
<td>Grant</td>
<td>Enterprise</td>
<td>N/N</td>
<td>3</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td><strong>Legal &amp; Regulatory</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FNV Mondial</td>
<td>0.06</td>
<td>Grant</td>
<td>Systemic</td>
<td>N/Y</td>
<td>n/a</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>Solidaridad</td>
<td>0.13</td>
<td>Grant</td>
<td>Sector</td>
<td>Y/Y</td>
<td>12</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td><strong>Market Access</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Katalyst Phase II</td>
<td>2.34</td>
<td>Grant</td>
<td>Sector</td>
<td>Y/Y</td>
<td>80,400</td>
<td>7.8</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>Bop Inc</td>
<td>0.08</td>
<td>Grant</td>
<td>Sector</td>
<td>N/N</td>
<td>3</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>CBI (ECP only)</td>
<td>0.45</td>
<td>Grant</td>
<td>Enterprise</td>
<td>N/N</td>
<td>49</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td><strong>Skills &amp; Knowledge</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSOM/PSI</td>
<td>5.46</td>
<td>Grant</td>
<td>Enterprise</td>
<td>N/Y</td>
<td>11</td>
<td>unknown</td>
<td>823</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>PUM</td>
<td>1.20</td>
<td>Grant</td>
<td>Enterprise</td>
<td>N/N</td>
<td>179</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>Woord en Daad</td>
<td>0.83</td>
<td>Grant</td>
<td>Enterprise</td>
<td>N/N</td>
<td>390</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td>PSD Support Fund</td>
<td>0.22</td>
<td>Grant</td>
<td>Sector</td>
<td>N/N</td>
<td>n/a</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td>unknown</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>237.1</td>
<td></td>
<td></td>
<td></td>
<td>81,103</td>
<td>7.8</td>
<td>823</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Author’s calculations*
Given the limited availability of information on DECD-indicators it is hard to qualify the effect of the Dutch PSD instruments in the country in terms of those indicators. The DCED indicators also do not distinguish between e.g. very large enterprises (such as most FMO clients) and small ones, such as the farmers/micro enterprises in Katalyst, which account for the largest part. The large number of unknown DCED indicator is the result of the lack of evaluations and the fact that few projects report on DCED indicators. Even Katalyst, where a large part of the DCED standard methodology was developed only reports on two of the six indicators.

**Spending per cluster**

In numbers, the below table shows that almost three-quarters of the grants went into infrastructure, while legal & regulatory had less than half a percent of the expenditures.

<table>
<thead>
<tr>
<th>PSD Cluster</th>
<th>No. of instruments</th>
<th>Expenditures in EUR, Grants (2005-2011)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>3</td>
<td>913,519</td>
<td>2.07%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>3</td>
<td>32,336,811</td>
<td>73.44%</td>
</tr>
<tr>
<td>Legal &amp; Regulatory</td>
<td>2</td>
<td>189,857</td>
<td>0.43%</td>
</tr>
<tr>
<td>Market Access</td>
<td>2</td>
<td>2,877,847</td>
<td>6.54%</td>
</tr>
<tr>
<td>Skills &amp; Knowledge</td>
<td>4</td>
<td>749,457</td>
<td>17.02%</td>
</tr>
<tr>
<td>Multi cluster</td>
<td>1</td>
<td>21,674</td>
<td>0.49%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>15</strong></td>
<td><strong>44,029,371</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

*Source: Author’s calculations*

**Spending size per instrument**

Spending per PSD program/instrument is heavily tilted towards infrastructure: the REB program of the EKN and ORET (3 projects, one accounting for most of the expenditure) make up over EUR 32 million of the EUR 43 million (grants). This of course excludes the (FMO) loans, which are EUR 192 million, nearly four times the total grant expenditures.

*Figure 7: Size distribution, PSD programs Bangladesh (without loans)*

*Source: Author’s calculations*

Only five of the Dutch PSD programs/instruments report expenditures above EUR 1 million over the whole period, namely ORET, EKN/REB, PSOM/PSI, Katalyst and PUM.
Table 24: PSD programs larger than 1 m EUR

<table>
<thead>
<tr>
<th>Size</th>
<th>Total expenditures 2005-2011</th>
<th>No. of instruments*</th>
<th>% of total expenditure 2005-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 1 million EUR</td>
<td>41,341,908</td>
<td>5</td>
<td>95%</td>
</tr>
<tr>
<td>&lt; 1 million EUR</td>
<td>2,036,071</td>
<td>7</td>
<td>5%</td>
</tr>
</tbody>
</table>

*) EKN is considered here to be one instrument

Channels

The expenditure comes through essentially four different channels: De-central (the Embassy), central (instruments based in the Hague and funded by DDE directly), Multi-lateral (pooled funds funded by DDE), and civil society (NGOs funded through DDE). The distribution in Bangladesh has been as in table below.

Figure 8: Expenditures by type of PSD channel, grants 2005-2011

Source: Author’s calculations

It is quite clear that centrally organized and funded instruments dominate the PSD program in 2005-2011; 54% of all expenditures are from central instruments. Multi-laterally funded instruments are 7% of the total. The Embassy’s role is significant, 36% of the expenditure comes from the Embassy, followed by 3% from the civil society programs. Note that in this chart the loans and investments of FMO are not included.

Level of Effects

In the figure below, an overview is provided of the Dutch PSD expenditure in Bangladesh distributed over the level of results these instruments (potentially) have (i.e. results at the enterprise, sector, or systemic level). The distinction is made by looking at the specific interventions made by each instrument and judging whether these are directly supporting enterprises, or have predominantly an effect on a sector, or affect – in principle – all enterprises. In Bangladesh, the “systemic” level is relatively prominent, but this is due to the assessment that the REB program – providing electricity to rural areas, is considered a systemic intervention, given the scale and outreach (the effect, however, has probably been very low, as mentioned). Without REB, the systemic level would be less than 1%. Sector level expenditure is low, and the majority of funds have effects on enterprise level (55%).
Evaluation coverage

The limitations on effect reporting are obvious; only two IOB-approved evaluations exist that are directly evaluating a PSD program in Bangladesh, covering just 5% of the grants. Indirectly, another 12% of the expenditures are covered (though not in the same review period) by evaluations that have evaluated the instrument globally, but not in Bangladesh. Nearly all of that is due to the PSOM/PSI evaluation (that, however, only covers the period until 2009). In all 18.7% of the (grant) expenditures are covered by IOB approved evaluations. On top of this, 13% of the grant expenditure has been evaluated by the instruments, but the evaluations were insufficiently meeting the quality criteria of IOB. A further evaluation (FMO LDC fund) covers a significant part of the IDF loans in Bangladesh, a total of 10% of the loans.

Table 25: Evaluation coverage, PSD programs in Bangladesh

<table>
<thead>
<tr>
<th>PSD program</th>
<th>Total expenditure 2005-11</th>
<th>Evaluations directly covering BD, in %</th>
<th>Evaluations generally covering instrument, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katalyst Phase II</td>
<td>2,342,598</td>
<td>5.40%</td>
<td></td>
</tr>
<tr>
<td>Solidaridad</td>
<td>134,000</td>
<td>0.31%</td>
<td></td>
</tr>
<tr>
<td>First</td>
<td>41,578</td>
<td>0.10%</td>
<td></td>
</tr>
<tr>
<td>FMO-Capacity development</td>
<td>81,278</td>
<td>0.19%</td>
<td></td>
</tr>
<tr>
<td>FNV Mondial</td>
<td>55,857</td>
<td>0.13%</td>
<td></td>
</tr>
<tr>
<td>PSOM/PSI</td>
<td>5,458,005</td>
<td>12.58%</td>
<td></td>
</tr>
<tr>
<td>Total grants</td>
<td>43,377,979</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total evaluation coverage (grants)</strong></td>
<td><strong>18.7%</strong></td>
<td><strong>5.71%</strong></td>
<td><strong>12.99%</strong></td>
</tr>
<tr>
<td>FMO IDF</td>
<td>19,946,650</td>
<td>10.33%</td>
<td></td>
</tr>
<tr>
<td>Total loans</td>
<td>193,022,887</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total evaluation coverage (loans)</strong></td>
<td><strong>10.33%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s calculations

Therefore, whether the PSD program as a whole has been effective and relevant cannot be judged on the basis of these documents. Although 18% of the expenditures have been evaluated according to IOB quality criteria, it should be noted that

- this concerns only 6 of the 14 PSD programs (and in the case of PSOM/PSI this does not cover the last two years of this review period),
- two instruments account for over 98% of the evaluated expenditures, and
• the main (grant) expenditures, the REB program of the Embassy, and ORET are not evaluated, who together account for over 70% of the total alone.

5.2.2 Contribution to resolving binding constraints

In the table below, an overview is provided of the contribution of Dutch PSD instruments to changes in binding constraints for Bangladesh’s private sector. The information reported below shows that, although the economy is growing, the binding constraints for doing business have not improved over time, in fact have become slightly worse. For example, a key constraint, lack of (access and supply of) electricity is not a diminishing problem, but a growing issue, and most of the regulatory regime are not seen or measured as better than in 2005.

Given the size of Bangladesh’s economy and the activity of other donors in the country, the Dutch PSD program is very small, and diverse. Thus, a major contribution of the Dutch PSD instruments to changes in binding constraints or the development of the private sector in Bangladesh as a whole are not expected.
<table>
<thead>
<tr>
<th>Cluster</th>
<th>Change in binding constraint (2005 – 2011)</th>
<th>Dutch contribution to observed change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Access to term credit for small and medium sized businesses remains a bottleneck; access to micro finance has improved</td>
<td>Significant, FMO’s engagement in the financial sector is large in size (192 million) and focuses for a significant extent on innovating financial services. However, major impacts on e.g. SME lending are not visible. Provision of microfinance to small enterprises has grown, but not significantly by Dutch support.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>The key constraint, lack of power, has worsened, not improved. Demand for electricity continues to outstrip available supply.</td>
<td>The REB program was unsuccessful; no contribution. FMO’s loan to construct a major power plant has contributed significantly to lessen the power shortage.</td>
</tr>
<tr>
<td>Skills</td>
<td>The shortage of skilled labor in Bangladesh persists.</td>
<td>Small, the Dutch PSD program mostly contributes to skills development at enterprise level.</td>
</tr>
<tr>
<td>Legal</td>
<td>Governance in general is weak and has not improved, regulation is still a major impediment</td>
<td>Small, FNV Mondial has engaged in improving working conditions for a particularly hazardous industry (ship breaking), and Solidaridad has supported introduction of Clean Production Mechanisms in pilot exporters of textiles.</td>
</tr>
<tr>
<td>Market access</td>
<td>Smallholder farmers lack access to markets Export is dependent on a small and labor intensive product portfolio</td>
<td>Significant effect on the local markets through Katalyst program, 10% is due to Dutch funding. Small, CBI’s efforts to strengthen the exporting capacity are limited to a small group of enterprises.</td>
</tr>
</tbody>
</table>

Two instruments can be considered to have had an effect of some scale: FMO and Katalyst. However, even here the effects on the overall binding constraints are not leading to a fundamental change, partly also because there is no fundamental change in the binding constraints.

### 5.3 Links and synergy between instruments

During and after the field visits, the research team has conducted interviews with PSD instruments, and the EKN assessing whether and to what extent links and synergy exist between the PSD instruments and their interventions.

The criteria used to define and report the results are as below (see Inception report):

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Definition</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overlap</td>
<td>Two (or more) PSD instruments try to achieve the same objective</td>
<td>No. of Interventions/% of total PSD expenditures in country X that overlap with other projects</td>
</tr>
<tr>
<td>No interaction</td>
<td>Instruments that could cooperate do not exchange information</td>
<td>No. of Interventions/% of total PSD expenditures in country X that do not interact with other projects</td>
</tr>
<tr>
<td>Information exchange or cooperation</td>
<td>Instruments exchange information, or collaborate</td>
<td>No. of Interventions /% of total PSD expenditures in country X that are exchanging information or cooperate</td>
</tr>
<tr>
<td>Joint interventions (synergy)</td>
<td>Two (or more) instruments develop joint interventions</td>
<td>No. of Interventions /% of total PSD expenditures in country X that are have joint interventions</td>
</tr>
</tbody>
</table>

### 5.3.1 Findings

The respondents were asked to what extent their instruments are cooperating with other Dutch PSD instruments. The following was established during interviews:

**Overlap**

We found two cases of overlap, in the above described sense (PSD instruments that have the same objective).
- FMO Capacity development and FIRST are two initiatives with the same objective, namely improving the provision of (SME) finance. In these cases (although little information is available on the FIRST initiative in Bangladesh) not only the objective, but also the content of the trainings and the audience of trainings and support appears very similar to that of the FMO CD fund.
- EKN/REB, FMO-IDF and ORET address the same objective of funding infrastructure projects (with either grants or soft loans).

Overlap can have two effects; one is that instruments have the same objective and are obstructing each other by trying to do the (exact) same in the same place; here effectiveness would be reduced by overlap. The other effect of overlap is that resources are channeled through several instruments to achieve the same, which implies a reduced efficiency; maintaining several different institutions, instead of one, results in higher overheads (institutional cost, search cost, transaction cost in general) than in case one institution addresses the issue. We have not found any evidence of instruments obstructing each other; rather, the instruments are trying to achieve (generally) the same, but through different means, approaches and channels.

**Exchange/collaboration (Links)**
Instruments are generally in touch with the Embassy, and through the Embassy have some degree of overview who else is generally operating in the country. However, the contact is in most cases limited to information and contact, and is depending on the instruments’ willingness to share information.

Between instruments, collaboration is limited to information exchange, no case of a more significant collaboration (as a result of information exchange) has been observed.

**Joint interventions (Synergy)**
In Bangladesh, none of the PSD instruments and projects has been observed undertaking joint interventions. Therefore, there is no synergy in the PSD program in Bangladesh.

**Summary**
If we summarize the above findings, we can see the following, as in the table below: there is overlap in 5 of the 14 PSD instruments/programs deployed in Bangladesh, which account for 25% of the expenditures, including all loans. Few instruments exchange information or collaborate with at least one instrument (we have not seen any direct evidence of the latter). Synergy has not been observed.

<table>
<thead>
<tr>
<th>Links and synergy</th>
<th>Total expenditures</th>
<th>% of total PSD expenditures</th>
<th>No. of PSD programs</th>
<th>Total No. of PSD programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overlap</td>
<td>58,873,853</td>
<td>25%</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Exchange/Collaboration</td>
<td>n/a</td>
<td>n/a</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Synergy</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

No exchange of information also frequently occurs; the NGOs, as well as ORET and FMO do not actively seek collaboration. Note that these findings refer to the instruments reviewed in Bangladesh; in some cases information exchange may take place on management level, or informally; however, with the interviewed instruments working in Bangladesh, no evidence of exchange could be detected.

The figure below offers a graphic view of the findings; as can be seen there are overlaps (red) in two of the five clusters, in finance and infrastructure. Exchange (light blue) is limited: only EKN and three central instruments seem to collaborate to some extent (and most of that is of recent times). The EKN has been relatively passive, and until 2010/11 not actively promoted central instruments, due to various reasons as discussed above. Since neither of the actors has displayed an interest to develop a PSD program that

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81 ORIO is the successor of ORET, however, no ORIO project has yet evolved to a stage where significant expenditures and effects are visible, hence ORIO has been excluded from this country review.
would engage several instruments, nothing of the kind came into existence. It will be interesting to watch how the below figure alters as the envisaged PaCT program comes active.

**Figure 10: Links and Synergy, PSD program in Bangladesh**

5.3.2 **Observations**

Based on the above findings a few observations can be made:

**Overlap**

The observed overlap is not obstructing the effectiveness of the instruments, as mentioned; at the same time, several instruments are addressing the same objective with different methods. Whether or not this represents inefficiency is depending on the nature of the instruments that are overlapping: if the instrument is addressing the same problem in a different way which can help to achieve results that the other instrument would not be able to (efficiently) achieve, the overlap can be seen as beneficial. On the other hand, if overlap means there is a different approach, but one that does not resolve the same problem better it would be logic to choose either of the two, rather than having two.

In the case of infrastructure, three instruments approach the objective of better (access to) infrastructure in fundamentally different ways, and with different clients. That is, the clients of ORET, in the case of Bangladesh, would not have been able to access FMO IDF funds, and vice versa. However, the difference between ORET and the EKN-funded REB infrastructure is less obvious; REB was a government-to-government sector/program support program, yet managed by NIO (part of FMO, who also managed the ORET program at the time of inception). Here, only the way the project was developed differs, not the content.

FIRST and FMO Capacity Development seem to have very similar objectives as well as factual programs and clients; hence, there is no clear case why both instruments are funded by DDE.

**Links**

There are more opportunities to at least exchange information and explore possibilities than are used; many instruments are unaware of each other’s activities. Most respondents agree that this is the case, but also mention the limitations for exchange and collaboration: where organizations are based in the country,
networking becomes easier, and more intensive; also, where instruments are trying out new ways and approaches it helps to work with partners.

Apart from FMO, there are only few PSD instruments that are having significant operations in Bangladesh, considering the size of the country or its economy. Although the “typical” set of central instruments has been active in Bangladesh in the review period, the intensity has been lower than in other countries (like the also researched Ethiopia and Vietnam), in a very large country and economy. Also, the PSD interventions have started relatively late or did not expand strongly during 2005-2011. FMO, the most active player, does not generally seek collaboration with other PSD instruments. As a consequence, “not much there to cooperate with”, as was mentioned. Equally, most of the NGOs focus on non-PSD activities, as does the Embassy. To many of the interviewed NGO managers, this is one reason for low level of exchange and collaboration: the coverage is relatively “thin”, and so it is a rare occurrence to find collaboration possibilities in the first place.

**Synergy**

First of all, synergy is not necessarily a requirement – few opportunities exist where the extra cost for search, design and coordination are justified by the benefits of synergy.

The reasons are similar to the above, namely a relatively low density and intensity of PSD interventions (in a large country/economy). Also, the EKN did not play a significant role (up until the end of the review period) in PSD either, but had only few activities that were not linked to each other. Consequently, no impulse for a more ambitious and more synergetic PSD program could come from this source.

Another factor is that, apart from the infrastructure projects, most interventions are small in size, on average EUR 852,976, over six years. That implies that e.g. PSOM on average funds only two projects, while other interventions are significantly below EUR 100,000 per year, and often split into many small activities. Therefore, the incentive to engage in a time-consuming effort to generate synergy is often not present, in the view of the instruments.

FMO, the by far largest PSD actor in Bangladesh is working intensely with other DFIs, local banks, and private banks, which creates synergy, but exclusively within the banking world, and not with the other PSD instruments.
6 Summary

6.1 The approach

The Embassy in Dhaka has traditionally a significant budget for development cooperation; in the review period, on average more than EUR 100 million per year. However, throughout the period, private sector development is only a small fraction of the total. The PSD component is only 2% over the years. One program, the support to REB for a rural electrification program, absorbs more than 85% of the EKN expenditures for PSD. The other significant expenditure is a contribution (about 10%) to a large project (Katalyst) operated by SDC.

PSD, as undertaken by EKN has been hampered by several factors: one is the general lack of interest in PSD prevailing in the plans of the Embassy. Another factor has been the perception that Bangladesh is an unattractive destination for businesses, and resulted in a low profile on PSD generally, including the work with and for the central instruments. This view, however, is not consistent with the overall strong growth performance of the Bangladeshi economy in the review period, and the strong engagement of FMO. Also, human resources at EKN were insufficient to manage the relatively small PSD program.

On the whole, the EKN approach to PSD has resulted in a loose collection of projects that do not appear to have a common binding element, or stem from the same strategic concept. Nevertheless, the two major investments made do reflect the binding constraints, and one of these (Katalyst) did so (very) effectively.

This has changed towards the end of the review period, in 2011: with new staffing, and a renewed interest in PSD, EKN has developed an approach for PSD in Bangladesh that relies on business drive, rather than working (mainly) through government, engages Dutch knowledge networks and businesses, and focuses on achieving a specific objective, namely “responsible trade”, or supporting CSR in key Bangladeshi industries. The result so far has been the formulation of the PaCt program with the exporting textile firms in Bangladesh. This program was developed in 2011, and has been signed in 2012. Also, PSD is built into other EKN programs to enhance the outcomes there, such as in the water management programs, where EKN is primarily engaged in.

6.2 The effects

There are in total 7 evaluations available that meet the IOB quality criteria; three are covering Bangladesh directly. However, the total coverage is 12% of expenditures of grants, and 10% of the loans. The three evaluations that account for the vast majority of evaluated grants and loans are Katalyst, PSOM/PSI (indirect), and FMO LDC. The conclusions on all three are generally positive, but given the span of the PSD program (22 instruments, programs and interventions) no generally conclusions on the effectiveness and relevance of the PSD programs can be drawn. Therefore, the report also relies on interview outcomes and the instruments’ project documents to arrive at a summary of effects.

About 73% of the (grant) expenditure of EUR 44 million is on the infrastructure cluster, and due to PSOM/PSI, 17% is on Skills and Knowledge. The remaining 10% are shared by the other three clusters. Loans, however, are nearly five times the grant expenditure, about EUR 192 million. Thus, overall, the financial cluster has absorbed 71% of the PSD activities. The majority of the effects (reported or evaluated) take place on enterprise level, 55% of the total (grants). Only 7% take place on sector level and another 38% on systemic level. The latter is almost exclusively due to the REB program, which addresses access to energy (and is therefore considered systemic). If this program was considered an effect on sector enterprise level, the systemic investments would be less than 1%.

Given the size of Bangladesh’s economy and the activity of other donors in the country, the Dutch PSD program is very small, and diverse. Thus, a major contribution of the Dutch PSD instruments to changes in binding constraints or the development of the private sector in Bangladesh as a whole are not expected. Two instruments can be considered to have had an effect of some scale: FMO and Katalyst. However, even here the effects on the overall binding constraints are not leading to a fundamental change, partly also because there is no fundamental change in the binding constraints.
6.3 Relationship between instruments

In summary, the instruments and inventions of the Dutch PSD program in Bangladesh are not linked to each other. There are a few cases of overlap, some collaboration, no case of synergy. Based on the findings of the review, there are 5 instruments/interventions that overlap, covering 25% of the total PSD expenditures (grants and loans). The degree to which this overlap may be of concern varies.

Links between instruments are scarce; in large part this has to do with the relatively low intensity with which the PSD instruments are deployed and a relatively passive EKN until 2011. This limits the opportunities to collaborate and increases the cost relative to an outcome. Synergy, as a result did not occur for this reason and the fact that the total expenditures are heavily concentrated in a few instruments in infrastructure, and finance (FMO), whose instruments are not designed to create synergy (like ORET), or who do collaborate with others, but do not seek synergy with other PSD instruments (like FMO).

Generally, the PSD program in Bangladesh during 2005-2011 shows little links and synergy; in other words, the PSD instruments pursue their own objectives, irrespective of others.
Annex 1: References Bangladesh Country Study

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## Annex 2: Interviewees Bangladesh study

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<th>Organization</th>
<th>Interviewee</th>
<th>Function</th>
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<td>Mr. Mohammad Zahid Hossain</td>
<td>Principal Country Economist</td>
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<td></td>
<td>Mr. M.M. Zillur Rahman</td>
<td>Senior Financial Officer for PSD</td>
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<tr>
<td>ASA</td>
<td>Mohammed Azim Hossain</td>
<td>Director- Finance &amp; MIS, ASA</td>
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<tr>
<td>BGMEA</td>
<td>Mr. Faruque Hassan</td>
<td>Vice President, BGMEA</td>
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<tr>
<td>BWCCI</td>
<td>Mrs. Selima Ahmad</td>
<td>Founder/President</td>
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<tr>
<td>Cordaid</td>
<td>Mrs. Jose Ruijter</td>
<td>Expert Business Unit Entrepreneurship in fragile contexts</td>
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<td>Delta Brac Housing Finance Corporation Ltd.</td>
<td>Mrs. Nahid Ahmed</td>
<td>Manager treasury</td>
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<td></td>
<td>Mr. Nasimul Baten</td>
<td>EVP, Head of Operations</td>
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<td></td>
<td>Mr. Syed Aminul Islam</td>
<td>SVP, Head of Finance</td>
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<tr>
<td>DFID</td>
<td>Mrs. Shahnila Azher</td>
<td>Head of Private Sector Development</td>
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<td>EKN</td>
<td>Mr. Carel Richter</td>
<td>Deputy Head of Mission</td>
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<td></td>
<td>Mrs. Monnujan Khanam</td>
<td>Advisor Economic and Commercial Affairs</td>
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<td></td>
<td>Mrs. Nicole Doeswijk</td>
<td>Second Secretary, Economic Affairs and Private Sector Development</td>
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<tr>
<td>EU</td>
<td>Mrs. Rubayat Jesmin</td>
<td>Senior Program Officer, Economic Development</td>
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<td></td>
<td>Mr. Zillul Hye Razi</td>
<td>Trade Advisor</td>
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<tr>
<td>FMO</td>
<td>Mr. Jeroen Horsten</td>
<td>Evaluation Officer</td>
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<td>Frontier Fund</td>
<td>Mr. Khalid Quadir</td>
<td>Managing partner</td>
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<td></td>
<td>Mr. Anders Stendebakken</td>
<td>Managing Director, Brummer &amp; partners (Asia)</td>
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<tr>
<td>Hema Enterprises</td>
<td>Mr. Mir. Md. Imam Hossein</td>
<td>CEO</td>
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<td>Katalyst</td>
<td>Mr. Götz Ebbecke</td>
<td>General Manager</td>
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<td>Mr. Markus Kupper</td>
<td>Director M&amp;E</td>
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<td>MIDAS/PUM</td>
<td>Mr. A.S.M Mashi-ur-Rahman</td>
<td>PUM country representative</td>
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<td>ORET/PwC</td>
<td>Mrs. Awa Veldkamp</td>
<td>PwC</td>
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<td>OSHE</td>
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<td>Program Manager</td>
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<td>Mr. Repon Chowdhury</td>
<td>Executive Director, OSHE</td>
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<td>PSI</td>
<td>Mr. Jan Kok</td>
<td>Project Officer</td>
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<td>Mr. Barry Brouns</td>
<td>Project Officer</td>
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<td>Simed</td>
<td>Mr. Erik Versteeg</td>
<td>Country manager</td>
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<td>Solidaridad</td>
<td>Mrs. Janet Mensink</td>
<td>International Program Coordinator Sustainable Fashion</td>
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<td>SNV</td>
<td>Mr. Rajeev Munankami</td>
<td>Senior Advisor</td>
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<td>Organization</td>
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<td>Mr. Paul Stevens</td>
<td>Country Manager</td>
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<td><strong>Triodos Investment Management</strong></td>
<td>Mr. Karel Nierop</td>
<td>Investment Officer</td>
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<td>Emerging Markets</td>
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<td><strong>Woord en Daad</strong></td>
<td>Maarten van Middelkoop</td>
<td>Director Agribusiness &amp; Enterprise Development</td>
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