

Aid for Trade Series



Evaluating Aid for Trade on the Ground



Lessons from Bangladesh

By Fahmida Khatun, Samina Hossain and Nepoleon Dewan
Centre for Policy Dialogue (CPD)



International Centre for Trade
and Sustainable Development



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LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---------|--------------------------------------------------------------------------------|
| AAA | Accra Agenda for Action |
| ADB | Asian Development Bank |
| ADP | Annual Development Programme |
| AEU | Aid Effectiveness Unit |
| AfT | Aid for Trade |
| AIMS | Aid Information Management System |
| APTA | Asia-Pacific Trade Agreement |
| BAB | Bangladesh Accreditation Board |
| BBS | Bangladesh Bureau of Statistics |
| BCCRF | Bangladesh Climate Change Resilience Fund |
| BCCSAP | Bangladesh Climate Change Strategy and Action Plan |
| BCCTF | Bangladesh Climate Change Trust Fund |
| BDXDP | Bangladesh Export Diversification Project |
| BDT | Bangladeshi Taka |
| BEPZA | Bangladesh Export Processing Zone Authority |
| BEST | Better Work and Standards Programme |
| BFTI | Bangladesh Foreign Trade Institute |
| BGMEA | Bangladesh Garment Manufacturers Exporters Association |
| BIMSTEC | Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation |
| BKMEA | Bangladesh Knitwear Manufacturers and Exporters Association |
| BLSC | Bangladesh Leather Services Centre |
| BoI | Board of Investment |
| BQSP | Bangladesh Quality Support Programme |
| BSCIC | Bangladesh Small and Cottage Industries Corporation |
| BSTI | Bangladesh Standards and Testing Institution |
| CEP | Competitiveness Enhancement Programme |
| CIDA | Canadian International Development Agency |
| CPD | Centre for Policy Dialogue |
| CRS | Creditor Reporting System |
| CSO | Civil Society Organization |
| DBI | DCCI Business Institute |
| DCCI | Dhaka Chamber of Commerce and Industry |
| DFID | Department for International Development |
| DF-QF | Duty-Free Quota-Free |
| DP | Development Partner |
| DTC | Design and Technology Centre |
| DTIS | Diagnostic Trade Integrated Study |
| EBA | Everything But Arms |

| | |
|---------|-----------------------------------------------------------------------------------------------|
| EIF | Enhanced Integrated Framework |
| EPB | Export Promotion Bureau |
| EPZ | Export Promotion Zone |
| ERD | Economic Relations Division |
| EU | European Union |
| FDI | Foreign Direct Investment |
| GCI | Growth Competitiveness Index |
| GCR | Global Competitiveness Report |
| GDP | Gross Domestic Product |
| GIZ | Deutsche Gesellschaft Fur International Zusammenarbeit |
| GoB | Government of Bangladesh |
| GSP | Generalized System of Preferences |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit |
| HIES | Household Income and Expenditure Survey |
| HIPC | Heavily Indebted Poor Countries |
| ICTSD | International Centre for Trade and Sustainable Development |
| IDA | International Development Association |
| IF | Integrated Framework |
| IMF | International Monetary Fund |
| ISBBPB | Institutional Strengthening of BEPZA, Board of Investment, Privatization Commission and BSCIC |
| IT | Information Technology |
| ITC | International Trade Centre |
| JCS | Joint Cooperation Strategy |
| LCG | Local Consultative Group |
| LDC | Least Developed Country |
| MDG | Millennium Development Goal |
| MFA | Multi-Fibre Arrangement |
| MFN | Most Favoured Nation |
| MoC | Ministry of Commerce |
| MoF | Ministry of Finance |
| MoI | Ministry of Industries |
| MTBF | Medium Term Budgetary Framework |
| NBR | National Board of Revenue |
| NGO | Non-Governmental Organization |
| NITTRAD | National Institute of Textile Training Research and Design |
| NORAD | Norwegian Agency for Development Cooperation |
| NSAPR | National Strategy for Accelerated Poverty Reduction |
| NTB | Non-Tariff Barrier |

| | |
|----------|---------------------------------------------------------------------------------------------|
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PFM | Public Financial Management |
| PIU | Project Implementation Unit |
| PP | Perspective Plan |
| PPCR | Pilot Project for Climate Resilience |
| PROGRESS | Promotion of Social, Environmental and Production Standards in the Readymade Garment Sector |
| PRSP | Poverty Reduction Strategy Paper |
| PSD | Private Sector Development |
| PSES | Promotion of Social and Environmental Standards in the Industry |
| RMG | Readymade Garment |
| RoO | Rules of Origin |
| RTA | Regional Trading Agreement |
| SAFTA | South Asian Free Trade Area |
| SAWTEE | South Asia Watch on Trade, Economics and Environment |
| SDC | Swiss Agency for Development and Cooperation |
| SEDF | South Asia Enterprise Development Facility |
| SFYP | Sixth Five-Year Plan |
| SIDA | Swedish International Development Cooperation Agency |
| SME | Small and Medium Enterprise |
| SMEDEEP | Small and Medium Enterprise Sector Development Programme |
| SPS | Sanitary and Phytosanitary |
| TAPP | Technical Assistance Project Proposal |
| TEU | Twenty-foot equivalent unit |
| TBT | Technical Barrier to Trade |
| TSMU | Textile Sector Monitoring Unit |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNIDO | United Nations Industrial Development Organization |
| USAID | United States Agency for International Development |
| USD | United States Dollar |
| WDI | World Development Indicators |
| WEF | World Economic Forum |
| WTO | World Trade Organization |

FOREWORD

This paper assesses the effectiveness and impact of aid for trade (AfT) in Bangladesh. It is part of a series of eight country studies—Bangladesh, Cambodia, Ghana, Guatemala, Malawi, Nepal, Peru, and the Philippines—undertaken by the International Centre for Trade and Sustainable Development (ICTSD). These studies seek to complement existing approaches to monitor AfT led by the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) by providing an independent, comprehensive, and integrated perspective on the unique experiences of individual countries in enhancing their capacity to trade. The studies offer fresh insights into the dynamics of AfT on the ground as well as the institutional set-up underlying the initiative and its weaknesses.

The eight studies were undertaken using a unique methodology developed jointly with the Nepal-based South Asia Watch on Trade, Economics and Environment (SAWTEE). The methodology, based broadly on the Paris Principles on Aid Effectiveness, allows an assessment of AfT effectiveness, using a combination of quantitative indicators and information from key stakeholders obtained through surveys and interviews. The indicators are intended to measure critical aspects of the initiative, such as the additionality and predictability of funds, AfT mainstreaming, local ownership of the initiative, and donors' alignment and coordination. These objective indicators are complemented by an impact assessment of AfT projects at the macro level and in a particular sector (e.g. rice and ready-made garments, respectively, in Cambodia and Bangladesh) or category (e.g. trade facilitation in Peru and the Philippines, and regional development in Ghana).

To conduct each study, a bottom-up approach was followed. Local independent researchers worked in close collaboration with policymakers, government agencies, development partners, the private sector, and other local stakeholders, collecting data and information through structured interviews. Before finalizing a study, the draft report was presented and discussed at a multi-stakeholder policy dialogue in each country, where the study's findings were shared with various stakeholders, whose insights were incorporated in the final report. Such dialogue served the purpose of both informing the research and building ownership of its findings. As a last step, each study underwent extensive peer reviewing by experts in the country concerned and internationally.

The case studies do not seek to offer a conclusive statement about whether AfT has or has not worked in a given country. Instead, they focus on identifying those factors or circumstances that appear to enhance the effectiveness of AfT with a view to teasing out lessons of best practice that could inform and enhance the initiative in the future.

Following the various elements of the ICTSD/SAWTEE methodology, this study suggests that the results of AfT are somewhat mixed for Bangladesh. On the one hand, AfT has addressed some significant supply side constraints and has contributed to enhance export competitiveness in a few key sectors for the country's socio-economic development. For instance, donor-supported projects in the ready-made garment sector have enhanced some critical aspects for the industry, such as capacity building of workers and fulfilment of compliance requirements, which in turn helped improve the overall competitiveness of the sector. Moreover, AfT is aligned with countries' development policies, and the implementation of projects often benefited from effective coordination mechanisms among donors and between donors and the government. On the other hand, key stakeholders, such as private actors interviewed as part of this research, lamented that they are not adequately involved in the formulation, implementation, and monitoring of AfT. Moreover, AfT programmes and projects are not effectively mainstreamed into national policies. More important, the study shows that the lack of efficient administrative mechanisms, limited human capacity, political instability, and

stringent donor requirements are major reasons for low absorption capacity. Indeed, this limits the overall effectiveness and impact of AfT in Bangladesh.

Through this analysis, ICTSD aims to contribute to the ongoing discussion on the AfT Initiative and to provide information and evidence to guide developing countries and their trade and development partners in designing and implementing more effective AfT programmes in the future.

I hope you find this work of interest and look forward to your feedback.



Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

1. INTRODUCTION

1.1. Background

International trade is generally viewed as an important instrument for economic development and poverty reduction (Winters et al. 2004; Dollar and Kraay 2004; Frankel and Romer 1999; Sachs and Warner 1999; Irwin and Terviö 2002; Noguer and Siscart 2005). It facilitates the spread of technology, innovation, competition, and knowledge. From this vantage point, the World Trade Organization (WTO) promotes international trade by establishing a rules-based trading system, which increases market access by encouraging members to reduce or remove tariff and non-tariff barriers (NTB). However, several poor countries are not able to take advantage of the benefits of global trade in spite of the preferential trade schemes accorded by their industrialized partners (Huchet-Bourdon et al. 2009; Hoekman and Nicita 2010; Portugal-Perez and Wilson 2009). This is because of their limited market access, which is due to internal constraints such as the lack of resources, poor infrastructure, weak productive capacity and technological base, low competitiveness, weak institutions, bureaucratic complexities, and the lack of trade-related professional expertise. This makes countries - particularly least developed countries (LDCs) - less competitive in the global market. For example, in 2012-13, Bangladesh ranked 118th out of 144 countries on the Growth Competitiveness Index (GCI) list¹ (WEF 2012). The GCI report cites inadequate infrastructure, corruption, and inefficient governance as the major hindrances to business in Bangladesh. Overall, LDCs systematically rank at the bottom of the GCI league.

In order to help LDCs overcome these obstacles, several global initiatives by development partners have been undertaken. They provide technical and financial support to enhance trade performance by diversifying exports and improving the quality of products exported. The most notable examples are the Joint Integrated Technical Assistance Programme, established

immediately after the Uruguay Round to help African countries participate in the WTO negotiations; the Integrated Framework (IF), launched in 1995 to support LDCs to build trade capacity and integrate trade issues into overall national development strategies; and the Trade Integration Mechanism, introduced by the International Monetary Fund (IMF) in 2004 to help Member countries meet balance-of-payments shortfalls caused by trade liberalization measures implemented by other countries.

Unfortunately, most of these efforts failed to improve critical trade capacity and enhance the competitiveness of LDCs because of the lack of funds and weak coordination between donors and national governments (Guvheya 2008; Deere 2005; Agarwal and Cutura 2004). This resulted in the formation of a Task Force on an Enhanced Integrated Framework (EIF) to look into broader scopes of trade support. The Task Force observed the implementation gap with the previous mechanism - the IF - and made recommendations for the establishment of the EIF. It concluded that the IF had failed to mainstream trade into national development policies such as the Poverty Reduction Strategy Paper (PRSP). In addition, it had not provided adequate financial and human resources to LDCs to deliver the intended outcomes.² These shortcomings and others led to the launch of the Aid for Trade (AfT) initiative at the Sixth WTO Ministerial Conference in Hong Kong in December 2005. It was intended as a coordinated effort to help developing countries - especially LDCs - overcome supply-side constraints and improve their trade capacity. The AfT process incorporated broader aspects of trade development, such as economic infrastructure and productive capacity-building. LDCs could gain access to AfT resources through the EIF mechanism, thus helping to bridge the gap between the demand and supply for AfT and to mainstream trade into national development plans.³

Since the launch of the AfT initiative, four Global Reviews have been conducted by the

WTO and the Organisation for Economic Co-operation and Development (OECD) - in 2007, 2009, 2011, and 2013 - to monitor and evaluate AfT. As AfT is a subset of official development assistance (ODA), these reviews assess the implementation of the AfT initiative in line with the principles of the Paris Declaration,⁴ as recommended by the 2006 WTO Task Force on Aid for Trade. The main findings of the four Global Reviews of AfT indicate that, since the establishment of the initiative, there has been a significant increase in resource mobilization for trade-related development assistance. For example, commitments of AfT to LDCs rose from USD 5.2 billion in 2002 to USD 12.6 billion in 2011, a 142 percent increase in real terms compared to a growth rate of 67 percent for global AfT flows. Similarly, disbursements also rose from USD 5.2 billion in 2006 to USD 8.9 billion in 2009 (OECD/WTO 2011).

In addition to the official process of evaluating AfT, there have been limited attempts to monitor the effectiveness of AfT in recipient countries in a comprehensive manner. A few studies have made partial assessments of the impact of AfT on recipient countries by focusing on one category or one item from a single category of AfT. A comprehensive study by Calì and te Velde (2011) finds that AfT reduces the cost of both exports and imports. Several studies also find AfT to be useful for projects and sectors that are crucial for the integration of the country in the global economy (Hoekman and Wilson 2010; Helble et al. 2009; Lederman et al. 2010; Huchet-Bourdon et al. 2009; Brenton and von Uexkull 2009; Vijil and Wagner 2010; Abe and Wilson 2009; Wilson et al. 2003; Wilson et al. 2005).

However, the impact of AfT has not always been equally successful for all recipient countries. A recent study reveals that, even though AfT may lower trade costs and therefore play an important role in helping developing countries benefit from trade, this is not the case for LDCs (Busse et al. 2011). The authors argue that this is not only due to inherent disadvantages of LDCs, but also because of the relatively low aid flows to these countries. According to them,

a country needs a considerable amount of aid before it affects cost-lowering. There also have been concerns on the effectiveness of AfT. In the words of Joseph Stiglitz, "Some parts of Aid for Trade have been quite successful but more broadly it has been less successful than one had hoped."⁵

Indeed, assessing the effectiveness of trade-related development assistance has been at the centre of the international debate on AfT. As part of this debate, the International Centre for Trade and Sustainable Development (ICTSD) and the Nepal-based South Asia Watch on Trade, Economics and Environment (SAWTEE) have developed a methodological framework for conducting country-level assessments of the effectiveness of AfT. The methodology, which is built along the lines of the Paris Declaration, includes a number of qualitative and quantitative indicators. It has so far been applied to various developing and least developed countries, including Bangladesh.⁶

Each country study is conducted by a group of independent local researchers, in coordination with the ICTSD. In order to conduct the analysis, local researchers collect data and information, and conduct structured interviews with key national players in the AfT field. These country-level studies have reported mixed results about the effectiveness and impact of AfT (see for instance Adhikari et al. 2011; Said et al. 2011; Siphana et al. 2011; Paredes 2012). This paper on the examination of the effectiveness and impact of AfT in Bangladesh is part of this series of studies undertaken by the ICTSD.

The selection of Bangladesh is justified on several counts. First, Bangladesh has made enormous progress in integrating into the global economy through increased trade activity in the last few decades. This was made possible by the opportunities for Bangladeshi goods and services in the global market, as well as domestic policies. Second, as an LDC, even though Bangladesh receives special and differential treatment and preferential market access in the markets of developed and developing countries, these preferences have

only provided partial benefits because of several supply-side constraints. The country is yet to make any meaningful headway towards export diversification, and its exports continue to remain concentrated only within the boundary of apparel exports (more in Section 2). Third, the country has also received support for capacity-building in the area of trade through various special programmes such as IF and AfT to overcome its supply-side constraints. Fourth, there has not been an in-depth independent study on the effectiveness of the AfT initiative in Bangladesh since its launch in 2005.

1.2. Objectives of the Study

At the Hong Kong Ministerial Meeting, WTO Members decided to keep the AfT initiative independent of developments in the Doha Round. This was a positive move, especially since past experiences with support for improving trade capacity have not been encouraging for many LDCs, including Bangladesh. For example, under the IF, Bangladesh had identified thirty-four projects for support (Bhattacharya and Rahman 1999). Of these, only one project, which focused on the marketing of leather products, received USD 291,000 from the International Trade Centre (ITC).⁷ Because of these negative experiences, Bangladesh was less enthusiastic to take part in the EIF, and it only became a Member in November 2009. Currently, a second Diagnostic Trade Integration Study is being prepared by the World Bank, in collaboration with the Ministry of Commerce (MoC) of the Government of Bangladesh (GoB). The diagnostic study, which will prepare a list of projects for possible support under the AfT, aims to document constraints faced by the export-oriented sectors of the country and to identify sectors with the greatest export potential.

In view of the unsatisfactory performance of the previous global initiatives for trade promotion in Bangladesh, the national and international policymakers, as well as the private sector and other stakeholders, might benefit from a thorough assessment of the implementation of AfT in Bangladesh since

the Hong Kong Ministerial Meeting. Such an evaluation could shed some light on the AfT situation in Bangladesh and guide policymakers to prioritize their actions with regard to improving the effectiveness of AfT.

In the above context, the objectives of this study are as follows:

- i. Measure the progress of AfT commitment and disbursement, and evaluate the overall effectiveness of AfT in the country;
- ii. Quantify the impact of AfT flows on the country's trade performance, based on data and information from both primary and secondary sources;
- iii. Offer a broader understanding of the AfT initiative from Bangladesh's perspective;
- iv. Provide stakeholders with appropriate recommendations for policy measures, based on the analysis performed in the study.

1.3. Methodology

The study applies the methodological framework proposed by Adhikari (2011), which provides an integrated approach to assess the effectiveness and impact of AfT. Aid effectiveness in Bangladesh is assessed by examining the following aspects: AfT funds trajectory, ownership, alignment, donor coordination, South-South cooperation, coherence, absorptive capacity, and environmental sustainability. The macro-level impact of AfT has been analysed by looking into variables such as export performance, diversification levels, private sector development, infrastructure, local productivity, governance, and human resource development. Data from the OECD Creditor Reporting System (CRS), World Development Indicators (WDI) and Bangladesh Bank have been used for this analysis.

In addition to the macro-level evaluation, a micro-level impact analysis of AfT projects in the readymade garment (RMG) sector of Bangladeshis was carried out to capture the ground realities of the effectiveness of AfT

in Bangladesh. The RMG sector was selected because it is an important source of income and employment in Bangladesh (details in Section 3). Adhikari (2011) suggests that projects should be assessed based on four criteria: relevance, efficiency, effectiveness and sustainability.

In Bangladesh, national databases do not account for AfT projects separately. The Annual Development Programme (ADP) report contains investment and technical assistance projects for various ministries, but there is no category for trade-related development projects as per the definition provided by the Task Force on AfT.⁸ While the flow of ODA is overseen by the Economic Relations Division (ERD) under the Ministry of Finance (MoF), there is no separate unit or cell to monitor AfT. The Aid Effectiveness Unit (AEU) located within the ERD monitors AfT as part of its overall ODA-related activities. However, no separate database on AfT is maintained by the AEU.

Therefore, most of the data for the study was collated from the OECD CRS database and complemented by a review of various national policy documents, such as the Sixth Five-Year Plan (SFYP) for the period 2011-15, the Perspective Plan (PP) 2010-21, and industrial export and import policies. Relevant reports and documents produced by the GoB; donors such as the World Bank, the IMF, and the Asian Development Bank (ADB); and international organizations, including the WTO, the United Nations Development Programme (UNDP), and the United Nations Conference on Trade and Development (UNCTAD), were also reviewed for the analysis. To better understand the monitoring and implementation process of AfT projects, interviews were carried out among GoB officials, donors, experts and representatives of the private sector, non-governmental organizations

(NGOs), and civil society organizations (CSOs). Interviews revealed insight into the challenges and details of the projects and stakeholders' viewpoints on AfT and its effectiveness in Bangladesh. The list of interviewees is presented in Annex I.

1.4. Structure of the Paper

The paper is divided into four sections. The introductory section presents the background of the AfT initiative and the setting for the current research. It also describes the study's objectives, methodology, and sources of data.

Section 2 provides a brief overview of trade and AfT trends in Bangladesh. In this section, major indicators of the external sector, the extent of trade openness, the composition of trade, and Bangladesh's engagement in various trade agreements are discussed. It also thrashes out the priorities mentioned in the national policy documents and the manner in which trade has been featured in these documents. Additionally, Section 2 delves into major donor initiatives in Bangladesh and the flows of AfT in various sectors of the economy.

Section 3 contains an evaluation of the AfT initiative in the context of Bangladesh, which looks into various indicators. The assessment in this section was done both at the macro and micro levels. For the micro-level assessment, donor-funded projects undertaken in the RMG sector since 2002 were selected. This section also presents an overview of major donor support to the RMG sector.

Section 4 summarizes the major findings on the AfT initiative in Bangladesh through overall and project-level assessments. It also presents a set of recommendations for policymakers in Bangladesh on the basis of lessons learned.

2. OVERVIEW OF TRADE AND AID FOR TRADE IN BANGLADESH

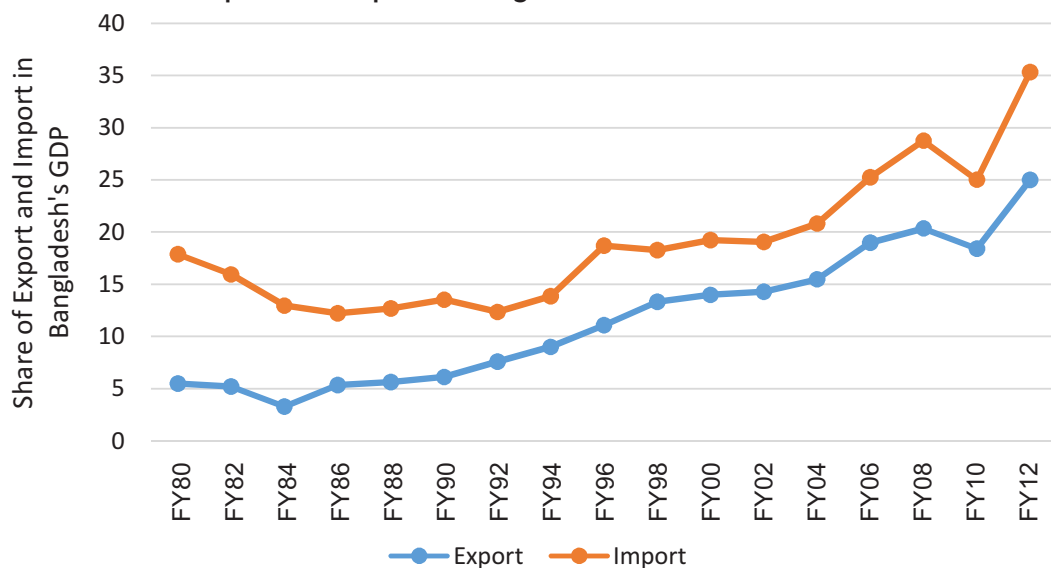
2.1. Role of International Trade in Bangladesh

In just over two decades, Bangladesh has evolved from an aid-dependent country to one that boasts a vibrant and outwardly-oriented economy. The degree of openness of the country's economy, which is estimated by the percentage share of the sum of exports and imports in the gross domestic product (GDP), increased from 16.36 percent in 1981 to 50.54 percent in 2011 (GoB 2011b). The openness of the economy can be attributed to the implementation of domestic policies such as market-oriented reforms and tariff liberalization, and the pursuance of an export-oriented growth strategy since the 1980s. The aim of this reform was to move from import-substituting, public sector-led, and inward looking development strategies to an export-oriented, private sector-led, and outward looking strategy. In the early 1990s, significant reductions of various customs duties and waivers in the tariff were introduced, along with the removal of trade-related quantitative restrictions, the elimination of import licensing

procedures, and the unification of exchange rate regimes. Recent trade policy initiatives in Bangladesh are designed to boost the export performance of identified sectors and products through various targeted incentives and policy supports. At present, higher tariffs are applicable for finished products, while lower or zero tariffs are in place for intermediate or primary products as well as machineries. Export-oriented inputs enjoy zero tariff duty (Centre for Policy Dialogue 2008; Rahman et al. 2012; WTO 2006b).

The economic reforms initiated in the mid-1980s played a crucial role in helping the country integrate into the global economy through increased exports and imports (Figure 2.1). The reforms caused a significant move from traditional exports such as jute and jute goods, tea, and raw leather to non-traditional items such as RMGs, knitwear, frozen foods, and shrimp. The import basket is composed of commodities such as machinery equipment, petroleum, textile yarn, fabrics, iron steel, raw cotton, edible oil, and foodgrain (GoB 2011b).

Figure 2.1: Share of export and import in Bangladesh's GDP



Source: GoB 2011b.

In addition to a favourable domestic policy environment, as an LDC, Bangladesh benefits from preferential access in the markets of several developed and developing countries for a number of its products. For example, Bangladesh enjoys preferential treatment in the European Union (EU) under the Everything But Arms (EBA) initiative and in the United States, Canada, and Japan under their respective Generalized System of Preferences (GSP) schemes. The items under these schemes include high export items such as jute and jute products, shrimp and frozen food, leather and fertilizer exports, and apparel, though the US-GSP does not cover the latter, making this exclusion a source of long-standing debate between the US and Bangladesh. Some other developed countries such as Australia and South Korea also offer preferential market access to Bangladesh. Under regional trading arrangements and bilateral initiatives, Bangladesh also enjoys preferential market access in China and India. Some of the notable trading agreements are the South Asian Free Trade Area (SAFTA), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the Asia-Pacific Trade Agreement (APTA). Under the SAFTA accord, Bangladesh receives preferential tariff treatment from India, Sri Lanka, and Pakistan for items outside of their respective sensitive lists, many of which have significantly reduced in size over time. Under APTA, China and South Korea have eliminated customs duties for 83 and 139 goods, respectively.

Though the export sector of Bangladesh has registered commendable growth rates, the export basket is rather less diversified. The range of exports is disproportionately dependent on RMGs and knitwear, which constituted 79 percent of total exports in 2011. Therefore, export diversification should be part of a comprehensive trade strategy that is linked with coordinated programmes to increase the country's export capacity.

2.2. Priorities in National Development Policies

The major development policies and plans of Bangladesh focus on reducing poverty

and inequality by improving dynamism and interlinkage among various sectors of the economy, including trade. The long-term development plan of Bangladesh for the period 2010-21, the PP, emphasizes the need for a trade policy regime that will “ensure productivity and export competitiveness while facilitating emergence and expansion of new export products” (GoB 2012a). The Government expects to achieve these objectives by raising the efficiency of trade facilitation measures. In order to address issues related to the multilateral trade regime, the PP aims to pursue actions in a number of areas, including duty-free, quota-free (DF-QF) market access, non-agricultural market access, trade in services, rules of origin (RoO), anti-dumping, and AfT. The Government also wants to play a proactive role in seeking opportunities through regional cooperation in South Asia and in the Asia-Pacific region.

The PP is to be carried out through two consecutive five-year plans. The SFYP for 2011-15 sets midterm targets necessary to achieve the goals outlined in the PP. Some of the export-related strategies laid out in the SFYP include: (a) the acceleration of economic growth and employment; (b) the growth of the labour-force and labour quality; and (c) the improvement of factor productivity through information technology (IT). In this regard, the SFYP emphasizes three aspects of the trade policy regime to be pursued by the Government, namely: (a) ensuring export competitiveness by addressing border barriers and beyond border constraints, such as infrastructure; (b) reducing the anti-export bias of the trade regime by reducing tariffs and subsidies; and (c) reducing anti-diversification bias by broadening the focus towards other sectors in addition to the RMG industry (GoB 2011c; 2011d).

Trade promotion has also been the objective of many other sectoral policy documents of the GoB, which include industrial, export and import policies. The Industrial Policy 2010 aims to raise the contribution of industry to GDP from the current 28 percent to 40 percent by 2021.⁹ The Industrial Policy recognized the need to

reduce supply-side barriers such as unreliable electricity, lack of port facilities, and inadequate financing. The Export Policy 2009-12 encourages further trade liberalization in accordance with the WTO agreements. The export policy also aims to diversify export products and develop the necessary infrastructure to increase the volume of export items.¹⁰ The Import Policy Order 2009-12 outlines several product-specific measures to simplify the procedures for importing capital machinery, technology, and industrial raw materials in order to promote exports.¹¹

2.3. Bangladesh and Development Cooperation

2.3.1. ODA in Bangladesh

The role of ODA in relation to the Millennium Development Goals (MDGs), which target

the areas of health and education, is quite pronounced. Although Bangladesh has made major progress through a high and steady economic growth of around 6 percent during the past decade, the country continues to be home to a large number of poor people. The Household Income and Expenditure Survey (HIES) of Bangladesh reveals that 31.5 percent of its population lives below the poverty line and cannot afford the nutritional requirement of 2,122 calories per day in 2010 (BBS 2010).

The volume of ODA to Bangladesh has increased both in terms of commitments and disbursements (Figure 2.2), though, as a share of GDP, it decreased from 5.8 percent in 1981 to 1.6 percent in 2011 (GoB 2011b). Despite this gradual decline, at present about 50 percent of Bangladesh's ADP budget is supported by ODA.¹²

Figure 2.2: Commitment and disbursement of ODA to Bangladesh

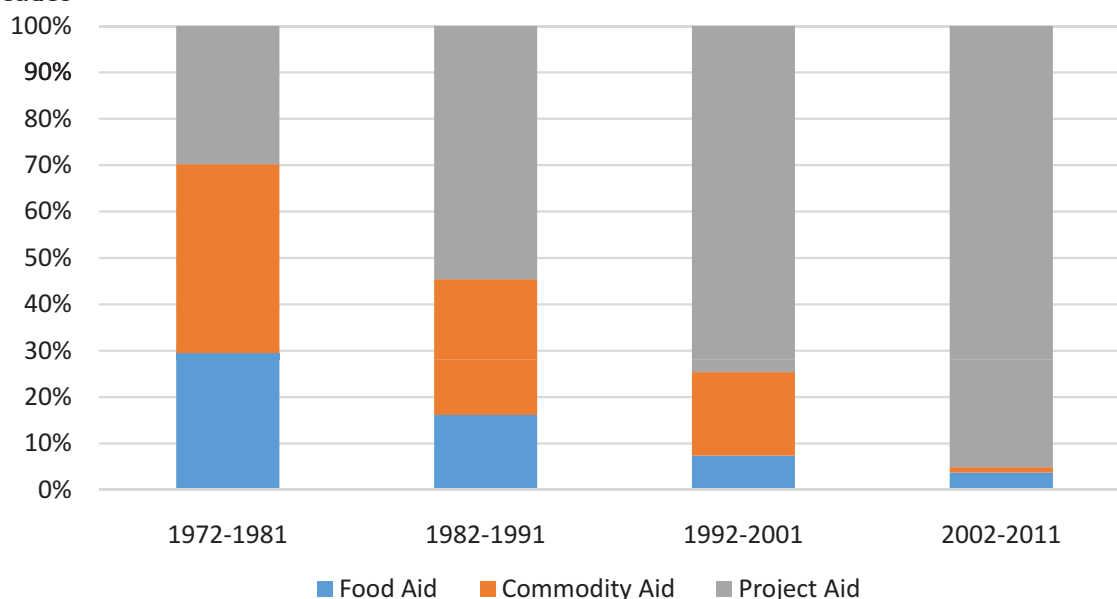


Source: OECD CRS database.

The nature and composition of ODA to Bangladesh have, however, changed over time. Loans constituted 49 percent of all foreign aid in the first decade after independence (1971-80), but this share increased to 68 percent in the period 2000-10.¹³ In terms of types of aid, project aid and budget support received the highest allocation during this latter period.¹⁴ During 1971-80, commodity and food aid constituted 42 percent and 32 percent of the

total aid to Bangladesh, respectively. However, as the country developed, they accounted for only 4 percent and 2 percent of total aid, respectively, during 2001-12. Conversely, the share of project aid grew from 26 percent during 1971-80 to 94 percent during 2000-10 (Figure 2.3). These shifts demonstrate Bangladesh's reduced dependence on food aid and its greater capacity to implement development projects and repay project loans.

Figure 2.3: Share of project, commodity and food disbursements to Bangladesh over four decades



Source: GoB 2012b.

Major sources of ODA to Bangladesh include the World Bank, the ADB, and Japan, which collectively constituted about 52 percent of the total external assistance to the country during 1972-2010. Among these donors, the World Bank alone provided 23 percent of total aid to Bangladesh in 2011.¹⁵ Assistance from the World Bank and the ADB has been primarily in the form of loans, whereas aid from Japan,

the largest bilateral donor for Bangladesh, has been almost evenly split between loans and grants.

In the recent period (2006-11), among the top ten donors to Bangladesh, Japan provided more than 80 percent of its support in the form of a grant, while the rest gave their entire support as grants (Table 2.1).

Table 2.1: Top ODA donors to Bangladesh in recent and base periods

| Base Period (2002-05) Total ODA Disbursement | | | | Recent Period (2006-11) Total ODA Disbursement | | | |
|----------------------------------------------|----------------|----------------------|-----------|------------------------------------------------|-----------------|----------------------|-----------|
| Rank | Donor | Amount (USD million) | Grant (%) | Rank | Donor | Amount (USD million) | Grant (%) |
| 1 | IDA | 2,618.48 | 0.26 | 1 | IDA | 3,123.26 | 3.49 |
| 2 | Japan | 1,244.07 | 71.84 | 2 | Japan | 2,278.02 | 80.46 |
| 3 | United Kingdom | 635.56 | 100 | 3 | United Kingdom | 1,518.90 | 99.84 |
| 4 | United States | 437.36 | 100 | 4 | EU Institutions | 915.21 | 100 |
| 5 | IMF | 398.63 | 0.00 | 5 | United States | 713.40 | 100 |
| 6 | Netherlands | 308.64 | 100 | 6 | ADB | 593.02 | 0.53 |
| 7 | Canada | 225.86 | 100 | 7 | Netherlands | 501.99 | 100 |
| 8 | Germany | 170.07 | 100 | 8 | Canada | 445.96 | 100 |
| 9 | Norway | 162.76 | 95.53 | 9 | Germany | 364.99 | 100 |
| 10 | Australia | 159.68 | 100. | 10 | Australia | 326.54 | 100 |

Source: OECD CRS database.

2.3.2. Overview of AfT in Bangladesh

The support scheme under the AfT initiative may be divided into two time periods, based on the official initiation of the AfT process during the Hong Kong Ministerial Conference in 2005: the base period between 2002-05 and 2006-11, the most recent years for which official records are available (OECD CRS database). Bangladesh received a substantial amount of trade-related assistance, even before the institutionalization

of AfT in 2005 (Table 2.3). AfT commitments have been increasing at the global level in the post-Hong Kong Ministerial period. Average global AfT commitments increased 47 percent between the base period 2002-05 and the recent period 2006-11 (Table 2.2). By contrast, total AfT commitments to Bangladesh only increased by 35 percent between the two periods. Similarly, the share of global AfT flowing to Bangladesh has decreased from 3.11 percent to 2.86 percent.

Table 2.2: Global AfT commitments vis-à-vis Bangladesh (USD million, constant 2010 prices)

| Sector/Time period | Global (average per year and growth) | | | Bangladesh (average per year and growth) | | |
|------------------------------|--------------------------------------|-----------|------------|------------------------------------------|----------|------------|
| | 2002-05 | 2006-11 | Growth (%) | 2002-05 | 2006-11 | Growth (%) |
| Economic infrastructure | 13,288.39 | 20,359.64 | 53.21 | 518.58 | 746.62 | 43.97 |
| Building productive capacity | 10,858.14 | 15,143.76 | 39.47 | 250.82 | 287.02 | 14.43 |
| Trade policies & regulations | 768.04 | 1,138.01 | 48.17 | 5.96 | 14.35 | 140.67 |
| TOTAL | 24,914.57 | 36,641.41 | 47.07 | 775.36 | 1,047.99 | 35.16 |

Source: OECD CRS database.

The contrast between commitments and disbursements is also stark. Global disbursements of AfT increased by approximately 67 percent during 2002-05 and 2006-11, while AfT disbursement declined by almost 29 percent in Bangladesh during the same period (Table 2.3). A sectoral breakdown reveals that disbursements towards both economic infrastructure and productive capacity show substantial decreases (20 percent and 45 percent, respectively). However, in keeping with commit-

ments, over the same period, the base average for disbursements towards trade policy and regulation multiplied almost seven-fold. The year 2003 exhibits the largest amount of disbursement, totalling USD 712 million, while in 2006 large cuts in the two major sectors (economic infrastructure and capacity-building) led to the lowest disbursement total of USD 264.29 million (OECD CRS database). Detailed data on sectoral AfT is presented in the Annex (Table 2-1).

Table 2.3: Global AfT disbursements vis-à-vis Bangladesh (USD million, constant 2010 prices)

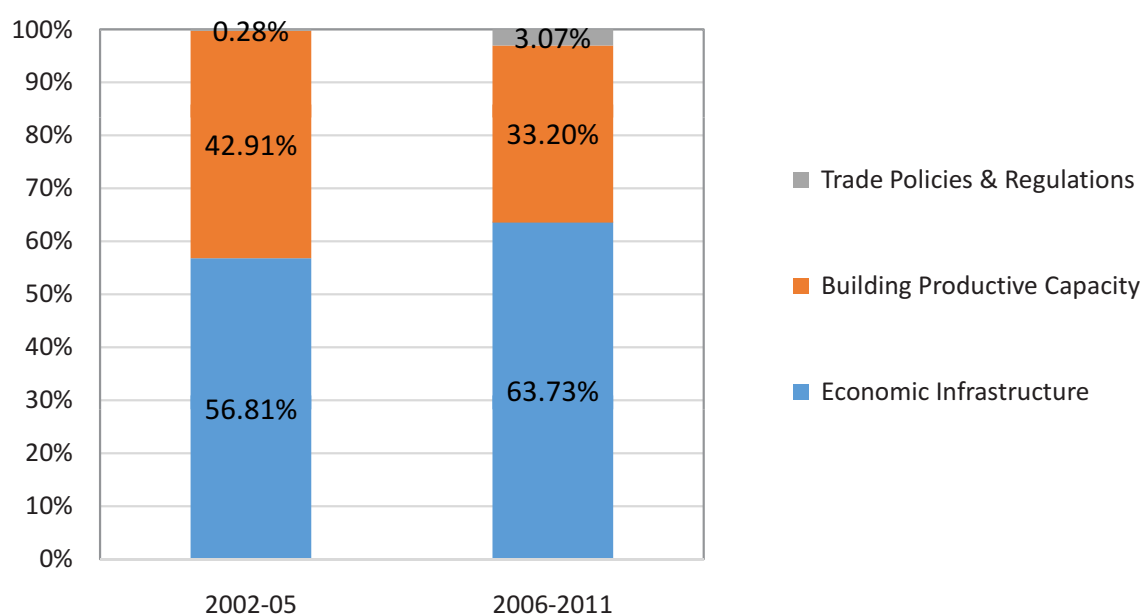
| Sector/Time period | Global (average per year and growth) | | | Bangladesh (average per year and growth) | | |
|------------------------------|--------------------------------------|-----------|------------|------------------------------------------|---------|------------|
| | 2002-05 | 2006-11 | Growth (%) | 2002-05 | 2006-11 | Growth (%) |
| Economic infrastructure | 7,861.53 | 13,987.06 | 77.92 | 312.07 | 249.66 | -20.00 |
| Building productive capacity | 7,795.73 | 12,164.03 | 56.03 | 235.68 | 130.07 | -44.81 |
| Trade policies & regulations | 508.40 | 811.12 | 59.54 | 1.53 | 12.01 | 686.03 |
| TOTAL | 16,165.66 | 26,962.21 | 66.79 | 549.28 | 391.74 | -28.68 |

Source: OECD CRS database.

In terms of the broad category of AfT, there has been a very slight change in the structure of disbursements (Figure 2.4). During 2006-11, the share of economic infrastructure in total AfT rose from 57 percent in the base period (2002-05) to 64 percent in the recent

period (2006-11). While the share of building productive capacity declined from 43 percent to 33 percent over the same period, trade policies and regulations went from nearly zero percent to 3 percent of AfT in the base period.

Figure 2.4: Share of broader AfT categories in total AfT disbursement in Bangladesh

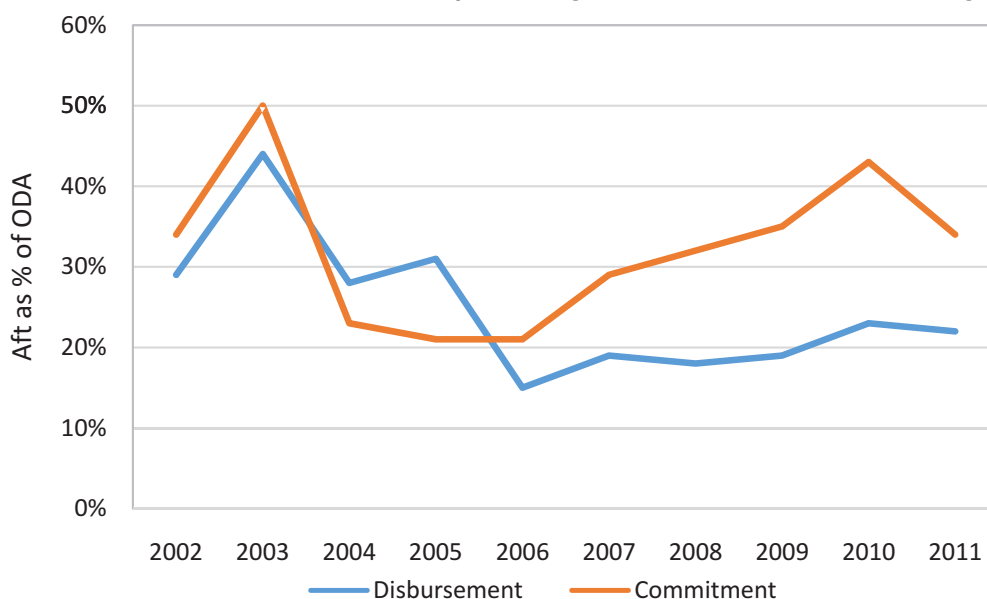


Source: OECD CRS database.

The disbursement of AfT as a share of total ODA increased very slowly after a drop in 2006 (Figure 2.4). The share of disbursement in total ODA peaked in 2003, reaching 44 percent, but declined afterwards and fell to its lowest at 15 percent in 2006. Thus, the post-Hong Kong period has not seen a boost in AfT disbursement

to Bangladesh. By contrast, the share of AfT commitment over total ODA has increased since 2006, though it has sharply declined in the most recent year for which data was available. Figure 2.5 shows this mismatch between commitment and disbursement, an issue which will be further analysed in the following sections.

Figure 2.5: Share of AfT disbursement as a percentage of ODA disbursement to Bangladesh



Source: OECD CRS database.

2.4. Conclusions on Trade and AfT in Bangladesh

Over the years, Bangladesh has evolved from aid-dependent to outwardly-oriented, largely owing to economic reforms that started in the mid-1980s and preferential market access granted by the EU and other developed countries. In spite of these impressive gains, the country still faces a number of obstacles to trade. The Government has mainstreamed trade into the national development agenda to eradicate poverty by generating employment. The role of ODA and AfT is crucial to achieving this goal. A sectoral disaggregation of the disbursed AfT in Bangladesh reveals that, though the total volume of AfT has increased since 2002, the yearly average growth rate

during 2006-11 is negative (-28.68 percent), as opposed to high positive growth (67 percent) at the global level. If the present trend of AfT flow continues, it will be difficult for the country's AfT to have a significant impact on achieving national development goals. AfT for economic infrastructure and productive capacity was lowered in 2006, leading to the lowest disbursement of the period 2002-11. Since then, flows to both categories, which together constitute about 97 percent of AfT funds in Bangladesh, followed a general upward trend (Annex II, Table A2.1). Trade policy and regulation has experienced the highest growth in the recent period (2006-11), even though the total volume is much lower than for economic infrastructure and productive capacity.

3. EVALUATION OF AfT IN BANGLADESH

In this section, an assessment of AfT in Bangladesh is made by analysing the indicators and elements of the methodology used to evaluate AfT at the country level, which was developed by Adhikari (2011). Some of these indicators are the same as for Paris Declaration, but this methodology also includes other new elements to understand the effectiveness of

AfT in terms of enhancing trade capacity in recipient countries. There are nine aspects of the methodology, under which 18 elements are included. Each element is assessed on the basis of indicators. The major aspects, elements and indicators of the framework are reproduced in Table 3.1, followed by discussions on each element.

Table 3.1: Elements for assessing the effectiveness of AfT

1. AfT trajectory

1.1 Additionality: The absolute amount and growth of AfT and non-AfT ODA in the recent period is greater than that of the base period

1.2 Predictability: Variation between commitment and disbursement, extent to which AfT projects have been completed as initially agreed without any external resource constraint

1.3 Grants versus loans: Changes in the composition of the grant and loan components over time

2. Ownership

2.1 Mainstreaming: Formal versus substantive mainstreaming, policy level mainstreaming versus programme level mainstreaming, presence of National Implementation Unit under EIF programme

2.2 Relevance: Percentage of AfT resources allocated to projects that were considered priorities by the partner country and designed by the partner country

2.3 Coordination: Formal versus substantive mode of coordination between various governmental agencies, engaging stakeholders in the process of trade policy formulation

2.4 Sustainability: The Government's financial participation in trade-related aid-funded projects, engagement of local-level institutions and individuals (experts or otherwise) in the project design and implementation as well as commitment to institutional and human resource development

3. Alignment

3.1 Alignment with the partner's development strategies: Formal and substantive level at which donor priorities are in line with the partner country's development agenda, to what extent trade has been mainstreamed by the donors as a development strategy

3.2 Use of country systems/parallel implementation structure: Extent to which donors use the public financial management and procurement system of the partner country as well as local human resource recruitment, appraisal and training

3.3 Untied aid: The level and kind of conditionalities associated with the aid

3.4 Demand-supply gap: The gap between the AfT resources requested by the country and the resources actually delivered by donors

4. Donor coordination: To what extent donors coordinate their efforts to avoid duplication and create synergy from the AfT funding

5. South-South cooperation: The involvement of South-South donors, their modes of engagement

6. Partner country limitations in absorptive capacity: To what extent the partner country has been able to utilize AfT resources

7. Coherence with environmental sustainability: To what extent AfT initiatives have maintained coherence with environmental sustainability and have focused on climatic effect

8. Impact at the macro level

8.1 Export performance

8.2 Local productivity

8.3 Diversification levels

8.4 Governance

8.5 Private sector development

8.6 Infrastructure

8.7 Human resource development

9. Impact at the micro level

Source: Adapted from Adhikari (2011).

3.1. AfT Funds Trajectory

As recommended by the WTO Task Force on AfT, “additional, predictable, sustainable and effective financing is fundamental for fulfilling the Aid for Trade mandate” (WTO 2006c). Indeed, an analysis of the AfT fund trajectory is the first important step to assess the effectiveness of the initiative at the country level. In accordance with Adhikari’s methodology, this section assesses the AfT trajectory in Bangladesh and focuses on the additionality and predictability of funds, as well as their grant and loan components.

3.1.1. Additionality

The additionality of trade-related development assistance has long been at the centre of AfT discussions. In fact, the question of whether

donors have fulfilled their pledges and whether resources have been scaled up without diverting from other ODA sectors is still debated. This is an issue of particular concern for developing and least developed countries, as reductions of non-AfT ODA can hamper the activities for sectors other than trade. Additionality not only means that AfT resources are additional to what has been received in the past, but also that these resources are not provided at the expense of other sectors.

According to the methodology proposed by Adhikari (2011), in order to assess the additionality of the commitments and disbursements of AfT, the following indicators must be taken into account. These indicators examine the increase of AfT, both in terms of volume and growth rates

during the base (2002-05) and recent periods (2006-11). AfT in Bangladesh will be deemed additional if all of the following conditions are met:

- **Indicator 1:** The total volume of AfT commitments and disbursement in absolute terms (average per year) during 2006-11 is greater than the AfT during 2002-05 in Bangladesh;
- **Indicator 2:** Non-AfT ODA in the recent period (2006-11) is greater than non-AfT ODA in Bangladesh in the base period (2002-05);
- **Indicator 3:** The growth rate of non-AfT ODA in the recent period is greater than or equal to that of the base period in Bangladesh;
- **Indicator 4:** The growth rate of non-AfT ODA in the recent period is greater than or equal to that of the period 2002-11 at the global level.

Results of the calculations for the above indicators are presented in Table 3.2.

Table 3.2: Additionality of AfT in Bangladesh

Indicator 1: AfT in recent and base periods (USD million, constant 2010 prices)

| Sectors | Commitment | | | Disbursement | | |
|------------------------------|----------------------------|----------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | Average per year (2002-05) | Average per year (2006-11) | Indicator 1 met | Average per year (2002-05) | Average per year (2006-11) | Indicator 1 met |
| Economic infrastructure | 518.58 | 746.62 | Yes | 312.07 | 249.66 | No |
| Building productive capacity | 250.82 | 287.02 | Yes | 235.68 | 130.07 | No |
| Trade policies & regulations | 5.96 | 14.35 | Yes | 1.53 | 12.01 | Yes |
| TOTAL | 775.36 | 1047.99 | Yes | 549.28 | 391.74 | No |

Source: OECD CRS database.

Indicator 2: Non-AfT ODA in recent and base periods (USD million, constant 2010 prices)

| Aid | Commitment | | | Disbursement | | |
|--------------------------|----------------------------|----------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | Average per year (2002-05) | Average per year (2006-11) | Indicator 2 met | Average per year (2002-05) | Average per year (2006-11) | Indicator 2 met |
| Total non-AfT ODA | 1,687.38 | 2,193.53 | Yes | 1,123.12 | 1,620.59 | Yes |

Source: OECD CRS database.

Indicator 3: Growth rate of non-AfT ODA in recent and base periods

| Aid | Commitment | | | Disbursement | | |
|--------------------|-----------------------|-----------------------|-----------------|-----------------------|-----------------------|-----------------|
| | Growth rate (2002-05) | Growth rate (2006-11) | Indicator 3 met | Growth rate (2002-05) | Growth rate (2006-11) | Indicator 3 met |
| Non-AfT ODA | 66.33% | 51.43% | No | 18.99% | 10.67% | No |

Source: OECD CRS database.

Indicator 4: Growth rate of non-AfT ODA in the recent period in Bangladesh and at the aggregate level for the entire period (2002-10)

| Aid | Commitment | | | Disbursement | | |
|-------------|------------------------------------|------------------------------|-----------------|------------------------------------|------------------------------|-----------------|
| | Growth rate (2006-11) (Bangladesh) | Global growth rate (2002-11) | Indicator 4 met | Growth rate (2006-11) (Bangladesh) | Global growth rate (2002-11) | Indicator 4 met |
| Non-AfT ODA | 51.43% | 48.97% | Yes | 10.67% | 69.17% | No |

Source: OECD CRS database.

3.1.1.1. Analysis of Additionality Indicators

It can be seen from Table 3.2 that, although indicators 1, 2 and 4 fulfil the additionality criteria in terms of commitments, disbursements of AfT reveal the opposite, since indicators 1, 3 and 4 do not meet the additionality conditions. Indicator 1 reveals that the additionality requirement is met only in the case of disbursement under trade policies and regulations. Disbursement was lower in recent years for the other two categories. By contrast, commitment to all categories increased in recent years. This confirms the mismatch observed in the overview section above. The fulfilment of indicator 2 (increased volume of annual average non-AfT ODA disbursement during 2006-11 compared to that of 2002-05) implies that the flow of AfT to Bangladesh has not happened at the cost of total non-AfT ODA.

The third indicator reveals that, even though non-AfT ODA increased throughout the last few years, this growth happened at a lower rate. Similarly, disbursement of non-AfT ODA funds has taken place at a lower rate in Bangladesh than in the rest of the world (indicator 4). Since Bangladesh is the largest LDC in terms of population, this is particularly worrisome.

Discussions with stakeholders also shed some light on the non-additionality of AfT disbursement to Bangladesh. The GoB officials are ambivalent in their assessment of the additionality of AfT funds, since they are not entirely comfortable with the definition of AfT itself. They assert that data presented by the OECD is exclusively based on the donors' own perception of AfT, and there is not much awareness in the country as regards its definition and scope. The

OECD procedures for selecting AfT projects under various categories and for allocating the amount of AfT under each category are not clear to them. For example, infrastructure projects contribute not only to the development of trade, but also to the improvement of overall development. Therefore, it is not correct to include the whole allocation under AfT, and a more transparent estimation method for AfT on infrastructure is needed. Nevertheless, GoB officials recognize the need to set their own criteria - in line with the OECD - to list AfT projects and estimate their costs. In this regard, GoB officials, the private sector, and experts suggested establishing a cell within the ERD of the Ministry of Planning of Bangladesh. This unit would monitor AfT flows and develop indicators to measure the performance of AfT in Bangladesh. Without such an organized set up, it is very difficult to comment on the additionality of AfT. Donors assert that, as they continue to support trade-related activities, their incremental resources have been useful for trade promotion in Bangladesh. They also feel that awareness on the various aspects of AfT needs to be raised in order to have a better idea of the actual flows of AfT into the country and their impact.

3.1.2. Predictability

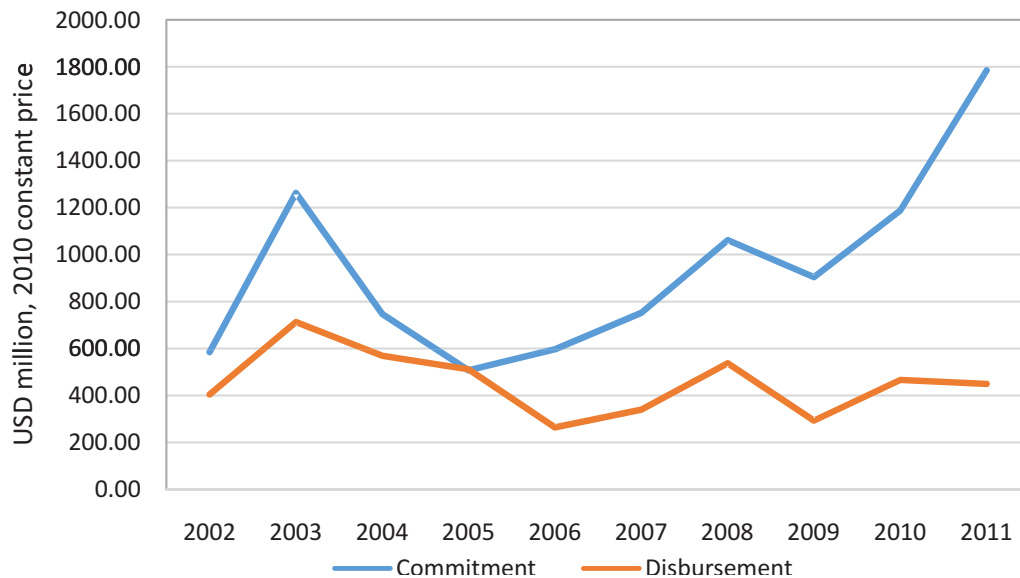
The predictability of aid remains central to the aid-effectiveness agenda. Both the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action affirm that predictability is indispensable to development aid effectiveness. According to the Paris Declaration, "aid is more predictable [if the] percentage of aid disbursements [is] released according to agreed schedule in annual or multi-year frameworks."¹⁶ Along the lines of the Paris Declaration, the

WTO Task Force also suggested that, for the AfT initiative to be effective, commitments and disbursement of funds have to be predictable (WTO 2006). Concerns were expressed by partner countries as regards the improved predictability of AfT during both the second and third Global Reviews of AfT in 2009 and 2011, respectively.

In order to assess the predictability of AfT, two issues are explored: first, the variation between commitments and disbursements in Bangladesh; and second, the question of whether Bangladesh has faced any resource constraints due to changes in donors' priorities.

In absolute terms, AfT disbursement has fluctuated in the last decade, but it has slightly increased since 2006 (Figure 3.1). Nevertheless, total disbursement as a percentage share of the total commitment of AfT declined in the recent period 2006-11, compared to the base period 2002-05 (Table 3.4). On a disaggregated level, a declining trend can be seen for economic infrastructure and building productive capacity. This is a matter of concern for the Government, as there is a huge demand for investment in the infrastructure to improve trade performance in Bangladesh.

Figure 3.1: Commitment versus disbursement of AfT



Source: OECD CRS database.

Table 3.3: Disbursement as a percentage of commitment (USD million, constant 2010 prices)

| Sector | 2002-05 | 2006-11 |
|------------------------------|--------------|--------------|
| Economic infrastructure | 60.18 | 33.44 |
| Building productive capacity | 93.96 | 45.32 |
| Trade policies & regulations | 25.62 | 83.68 |
| TOTAL | 70.84 | 37.38 |

Source: OECD CRS database.

The assessment of the second indicator of predictability - i.e. whether the GoB has experienced resource constraints when implementing AfT projects due to changes in donors' priorities - was conducted through interviews with the GoB officials and experts. They argue that it is common for donors to change their priorities after a certain period, and to move to different areas as they change their own strategies. For example, the Canadian International Development Agency (CIDA) provided support for trade-related capacity-building to the MoC as well as local think tanks. This has helped Bangladesh improve its capacity to negotiate more effectively at various WTO committees and Ministerial Conferences and take policy decisions on trade-related issues based on analytical studies conducted by think tanks. Because of its shift of focus to social sectors such as health and education, CIDA has ceased funding on trade policy issues in Bangladesh since 2009-10. It is currently working on the social sector through Sector-Wide Approach.

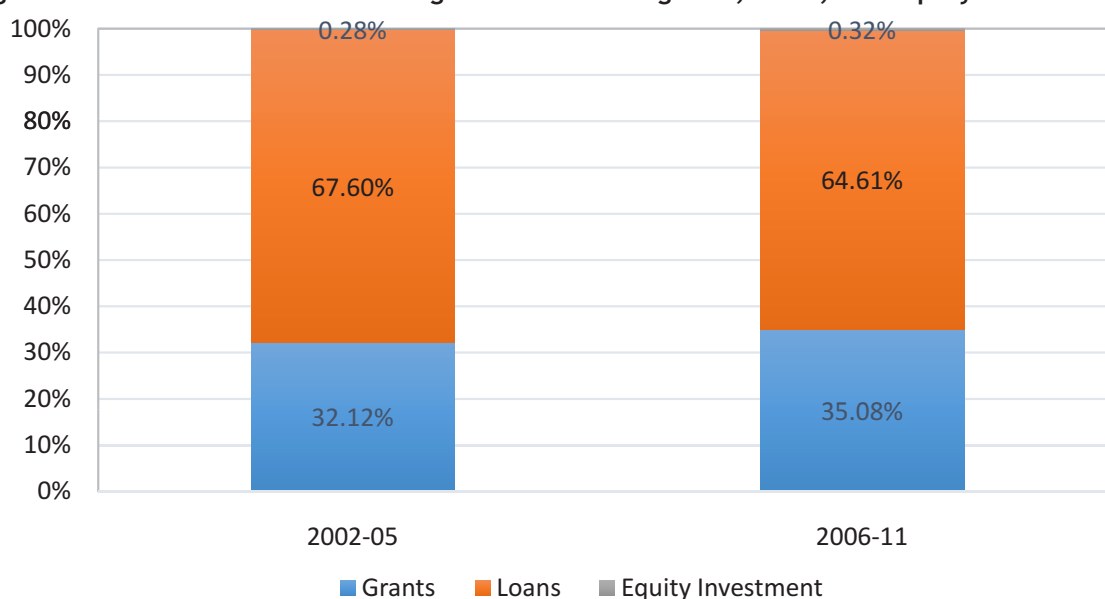
Therefore, predictability continues to be a problem in Bangladesh. A recent survey conducted by the OECD on the fulfilment of the Paris commitments indicates that 84 percent of total ODA to Bangladesh is predictable (OECD 2011). This is in fact a decline from the previous survey in 2005 when 91 percent of

aid was predictable. The GoB officials assert that foreign aid projects take longer both to initiate and to be implemented. This is because compliance issues are more stringent in the case of donor-funded projects. Delays in the procurement of goods and services for projects, the tender process, and the appointment of consultants have also been identified by the GoB officials, experts, and representatives of the private sector as reasons for the low implementation of projects. The delay in initiating and implementing projects increases their cost. In most cases, donors do not have any provision to add more funds to adjust for higher costs. Another important aspect is that the GoB officials of the implementing agencies lack the capacity to manage funds and projects when the flow is unpredictable.

3.1.3. Grants Versus Loans

Paragraph 57 of the WTO Hong Kong Ministerial Declaration argues that AfT should be provided “where appropriate through grants or concessional loans.”¹⁷ This is particularly important in view of the debt burden of LDCs, which has caused several LDCs to fall into the category of Heavily Indebted Poor Countries (HIPC).¹⁸ The OECD CRS data shows that the proportion of AfT grants is much lower than loans, though the share has slightly improved in recent years in favour of grants (Figure 3.2).

Figure 3.2: AfT disbursement to Bangladesh: Share of grants, loans, and equity investments

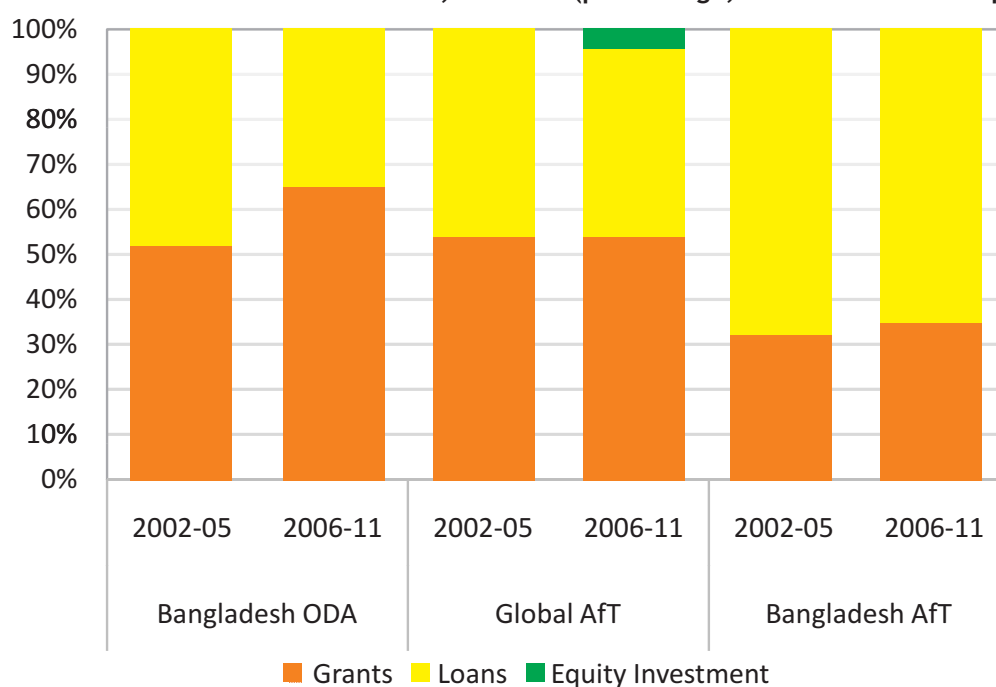


Source: OECD CRS database.

When AfT is compared with total ODA over the years, the disbursement of ODA in Bangladesh is comparatively less debt-creating in nature, contrary to the disbursement of AfT (Figure 3.3). This is evident both during the base and recent periods. In fact, more than 50 percent of ODA is disbursed in grant form; moreover, in recent years, the share of ODA grant has improved. Though the share of AfT in the form of grants has increased slightly in recent years, the bulk of trade-related assistance is disbursed as loans. GoB officials and experts feel that, as an

LDC, Bangladesh should receive more grants to enable it to invest more into physical and human infrastructure. According to GoB officials, most physical infrastructure projects are supported by loans. If grants were provided for these projects, the cost of projects will be much lower. It should be noted that, during 1972-2012, interest against loans to Bangladesh amounted to USD 4.55 billion, which is equivalent to 41 percent of the principal loans amount accumulated in that period.¹⁹ This resource could be used for poverty alleviation by investing in social sectors.

Figure 3.3: ODA versus AfT disbursement, 2002-11 (percentage, USD constant 2010 prices)



Note: The ODA flows include AfT. The composition of loan, grant, and equity investments of non-AfT ODA to Bangladesh was not obtainable, because data on ODA and AfT is only available in aggregate form.

Source: OECD CRS database.

3.1.4. Conclusions on the Trajectory of AfT

There is no additionality in AfT disbursement in Bangladesh, as disbursement of AfT has decreased during 2006-10 compared to 2002-05. Only AfT for trade policy and regulation was additional, although the actual volume is far lower than economic infrastructure and productive capacity. The predictability of funds, which has not increased since 2005, is also a concern for many stakeholders interviewed. Indeed, total disbursement as a share of the total commitment of AfT declined in the recent period, except for AfT in the

category of trade policies and regulations. Disbursement improved substantially in 2006 and 2007; however, the gap between commitment and disbursement has widened in recent years. Unpredictability is caused by changes in the strategies of donor countries and cost hikes caused by delays in the implementation of foreign-funded projects. Though the share of AfT in the form of grants has increased slightly in recent years, most of trade-related assistance is still provided as loans. Bangladesh could save a substantial amount of resources if most of the AfT was provided as grants.

3.2. Ownership

In Bangladesh, ownership of donor-funded projects has been a concern on various occasions, particularly when donor funding stops with the conclusion of a project. This was due to the lack of involvement of the GoB in setting out its own development agenda for poverty reduction and economic growth. The PRSP is a case in point. It was formulated under the instruction of the IMF and the World Bank to assist the IMF's Poverty Reduction and Growth Facility and the World Bank's Development Support Credit. As the need for PRSP did not come from Bangladesh's own initiative as part of its policies, political ownership was never established and the document became a mere mechanical exercise for receiving foreign aid during 2005-10. The lack of ownership was further confirmed by the GoB's abandonment of the PRSP and the adoption of the older five-year plan mode in 2010, which was home-grown. Since the independence of Bangladesh, five-year plans have often been used as a guideline for long-term growth and poverty reduction. This is considered a medium-term vision of the Government for economic development.

The ownership aspect of AfT in Bangladesh is analysed under four indicators proposed by Adhikari (2011): the mainstreaming of trade, the relevance of projects to domestic trade and development priorities, national level coordination and the involvement of stakeholders in trade development efforts, and the sustainability of AfT projects.

3.2.1. Mainstreaming of Trade

As noted in Section 2, trade has been mainstreamed to a large extent in national development plans like the SFYP and the PP. For example, the PP of Bangladesh states that trade should be mainstreamed in the country's national development agenda, and that it should especially incorporate AfT (GoB 2012a). The National Strategy for Accelerated and Poverty Reduction (NSAPR) - the Bangladeshi version of the PRSP - encourages rapid growth with a particular focus on trade and supporting sectors like investment and the regulatory environment.

Apart from the MoC, a number of ministries and agencies of the GoB are involved in the formulation and implementation of trade-related sectoral policies. These include the ministries of agriculture, finance, industry, food and disaster management, and communication. In addition to sectoral policies, these ministries deal with issues such as customs, tariffs, sanitary and phytosanitary (SPS) measures, subsidies, anti-dumping, patents, and trade-marks. However, observers on the ground claim that, in practice, trade activity is concentrated in the MoC with very little involvement of other ministries.

The MoC is in the process of formulating a long-term comprehensive trade policy that will provide guidelines for enhanced trade in keeping with all the existing policies and laws on exports and imports. At present, imports and exports are governed by the import and export policy orders, but only the first document has a legal status, making various facilities for the export sector non-binding or optional. A coherent trade policy will help resolve gaps in laws that pertain to trade.

Presently, there is no separate institution to monitor AfT; however, the establishment of the AEU under the ERD in 2006 was a step towards mainstreaming aid (and by default Aid for Trade) into Government programming. Members of the Government and civil society acknowledged that the unit has made strides in structuring itself (e.g. holding regular meetings and producing detailed project reports). The AEU is also accredited with launching the Joint Cooperation Strategy (JCS), a platform for donors to coordinate projects in Bangladesh. However, it is also felt that its activities have been limited to providing Secretariat services. Echoing this opinion, a UNDP document reports that the "ERD currently plays a less comprehensive role than [was] foreseen in its mandate." It "performs primarily an administrative function by processing the exchange of aid proposals between Government and Development Partners."²⁰ According to Government officials, the AEU should perform more analysis and critique of aid flows in order to function as a proper assessment body and to make the AfT initiative a success in

Bangladesh. Another concern is that the AEU is primarily donor-funded, casting doubt on its sustainability.

Efforts are under way in Bangladesh to provide substantive legitimacy to the weak agencies and institutions responsible for overseeing trade and aid-for-trade flows. For instance, Bangladesh is part of a pilot research project conducted in a small number of developing countries²¹ by the OECD and the WTO (Mozumder 2012). The project aims to develop results frameworks for AfT projects based on country-defined quantifiable targets and a set of indicators to measure the performance of AfT. The report conducted in Bangladesh assessed projects on trade facilitation, discussed existing mechanisms to manage AfT within the GoB, and examined the challenges towards introducing a country-managed AfT results framework in Bangladesh. The study found that the existing frameworks used jointly by the country's implementing agencies and donors to monitor AfT programmes should be developed more inclusively and should follow the global agenda for trade facilitation. Another initiative along these lines is a UNDP-led project titled Strengthening Capacity for Aid Effectiveness in Bangladesh, which had a project size of USD 2 million. Under this project, the UNDP is working

with the Government to develop an online Aid Information Management System (AIMS) based on a successful home-grown IT application from Cambodia. This single-entry window for aid information will help integrate aid - and consequently AfT - into national planning.

3.2.2. Relevance to Domestic Trade and Development Priorities

In line with the national objective to promote trade, several relevant projects have been formulated and included in the ADP of Bangladesh. As AfT projects are not listed separately in Bangladesh, the authors of the present report scanned all ADPs during 2002-12 and identified projects that aim to promote trade, especially exports. At the same time, trade-related objectives and strategies delineated in national development plans like the SFYP and the PP were closely examined to see how AfT projects fit into the objectives of these documents. Table 3.4 presents a sample list of AfT projects and demonstrates whether they meet many national objectives such as developing export goods like jute and leather, strengthening trade-related institutions like the Bangladesh Export Processing Zone Authority (BEPZA), and resolving supply-side bottlenecks like weak infrastructure.

Table 3.4: Major AfT projects in ADP (2002-11): Link to national plans

| | Technical assistance AfT projects in ADP | Donor/ lender | Estimated cost (external) (in '000) | Objectives of SFYP and PP |
|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Marketing skills development scheme for the leather sector | ITC, UNDP | \$283 (100%) | The Government aims to make the country's leather industry, one of the document's thrust sectors, a leader in the international market by setting up training institutes to develop human resources, modernizing production methods, running marketing campaigns abroad, and providing favourable import and export regimes for the industry. |
| 2 | Bangladesh Leather Services Centre (BLSC) for export development (Phase 1) | ITC | \$1,562 (100%) | |
| 3 | Market access and trade facilitation support for South Asian LDCs by strengthening institutional and national capacities related to standards, metrology, testing, and quality) | UNIDO | \$574 (89%) | The Government will provide accreditation and testing facilities for export and adopt various trade facilitation measures to reduce trade transaction costs and delivery times. |
| | | UNIDO, UNDP | \$755 (72%) | |
| 4 | Computerization of the office of the Registry of Joint Stock Companies and Firms | Australia | \$674 (100%) | The legal and regulatory framework will be simplified to protect investors from bureaucratic delays and legal harassment. The quality of service of the Joint Stock Companies and Firms, the Board of Investment, and other regulatory agencies will be improved by using technology. |
| 5 | Institutional strengthening of BEPZA, BOI, PC, and BSCIC (ISBBPB) | IDA, World Bank | \$841 (21%) | Strengthening institutions is an essential part of a strategy to boost manufacturing growth, exports, and employment in the SFYP and the PP. These institutions will be encouraged to provide better services to manufacturing enterprises. |
| 6 | Strengthening the office of the focal point (WTO cell of the MoC) in promoting and diversifying the trade | EIF | \$45 (100%) | |
| 7 | Small scale entrepreneurship development in diversified jute products | CFC | \$1,453 (85%) | The GoB aims to improve the production of jute for export markets by modernizing jute mills, providing support to new entrepreneurs, developing human resources, promoting jute products overseas, and producing diversified and high-value jute goods. |

| | Technical assistance Aft projects in ADP | Donor/ lender | Estimated cost (external) (in '000) | Objectives of SFYP and PP |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8 | Bangladesh Economic Growth Programme | USAID | \$21,974 (78%) | Fostering exports forms the basis of the country's industrialization strategy. Necessary measures will be taken to increase manufacturing exports and existing incentives, including those relating to trade and exchange rate policies, will be broadened. |
| 9 | Strengthening the accounting and auditing standards and practices in the corporate sector | World Bank | \$3,661 (76%) | Reforms of all banks and public financial institutions will be carried out expeditiously in order to provide long-term finance to industries and develop a world-class atmosphere for businesses. |
| 10 | Technical assistance for the development of transport corridors for trade facilitation | ADB | \$1,179 (79%) | Priority will be accorded to resolving supply-side bottlenecks, particularly those relating to finance, infrastructure, and port facilities. |
| 11 | Port efficiency improvement plan | ADB | \$537 (79%) | |
| 12 | Technical assistance for project preparation for the implementation of the export infrastructure development project under World Bank financing | World Bank | \$1,938 (87%) | |
| 13 | Strengthening the National Institute of Textile Training Research and Design (NITTRAD) and the Textile Sector Monitoring Unit (TSMU) to develop the textile sector | EU, UNIDO | \$2,424 (82%) | |
| 14 | Strengthening NITTRAD textile colleges and TSMUs to develop the textile sector | EU, UNIDO | \$2,302 (82%) | The Government aims to meet the growing demand for skilled managers and workers in the manufacturing sector by ramping up the capability of public institutions that impart business and technical education. |

| | Investment Aft projects in ADP | Donor/ lender | Estim. cost (external) (in '000) | Objectives of SFYP and PP |
|----|--------------------------------------------------------------------------------------------------------------------------|---------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Mymensingh Industrial Estate (Extension-2) | None | \$197 (0%) | The Government aims to provide access to vacant or unused space for start-up enterprises through a variety of measures, including the allotment of vacant land and the rationalization of the industrial estate programme of the Bangladesh Small and Cottage Industries Corporation (BSCIC) Priority will be accorded to resolving supply-side bottlenecks, particularly those relating to finance, infrastructure, and port facilities. |
| 2 | Preparation of the master plan, layout plan, detailed drawing and design of port facilities, including a jetty at Teknaf | None | \$25 (0%) | |
| 3 | Development and extension of the infrastructure at Benapole Land Port | | \$1,439 (100%) | |
| 4 | Procurement of cargo-handling equipment for Mongla Port | None | \$3,232 (0%) | |
| 5 | Export infrastructure development project | World Bank | \$139,366 (75%) | |
| 6 | Dredging at the outer bar in the Pussar Channel | None | \$15,008 (0%) | |
| 7 | Navigational aid to Mongla Port | None | \$2,811 (0%) | |
| 8 | Modernization of the Benapole Land Port | None | \$6,302 (0%) | |
| 9 | Development of the infrastructure of the Bhomra Land Port | None | \$2,322 (0%) | |
| 10 | Development of the infrastructure of the Nakugao Land Port | None | \$1,916 (0%) | |
| 11 | Chittagong Port Trade Facilitation Project | ADB | \$34,534 (64%) | |

| | Investment AfT projects in ADP | Donor/ lender | Estim. cost (external) (in '000) | Objectives of SFYP and PP |
|----|---------------------------------------------------------------------------------------------------|----------------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12 | Refurbishing the assets of Chittagong Steel Mills and Adamjee Jute Mills for converting into EPZs | GoB, IDA, World Bank | \$13,034 (80%) | The Government is arranging Special Economic Zones across the country for both export and local market-oriented industries to stimulate the efficient use of resources and to facilitate backward, horizontal, and forward linkages with local industries. |
| 13 | Completion of unfinished work in the Ishwardi EPZ (Phase 1) | None | \$769 (0%) | |
| 14 | BISIC Special Economic Zone (Textile), Kumarkhali, Kushtia | None | \$1,002 (0%) | |
| 15 | Establishment of the Karnaphuli EPZ in the Chittagong Steel Mills area | GoB | \$4,925 (0%) | |
| 16 | Construction of a four-storied factory building in Chittagong EPZ | None | \$3,832 (0%) | |
| 17 | Tannery estate, Dhaka | None | \$66,645 (0%) | |
| 18 | Establishment of ten textile vocational institutes (2nd Revised) | None | \$7,590 (0%) | The Government aims to meet the growing demand for skilled managers and workers in the manufacturing sector by ramping up the capability of public institutions that impart business and technical education. |
| 19 | Establishment of four textile vocational institutes | None | \$15,526 (0%) | |

Source: Prepared by the authors, based the GoB's ADP for several years, the SFYP, and the PP.

3.2.3. National Level Coordination and Stakeholder Involvement

Most AfT projects are managed by the relevant ministries and departments of the Government. The MoC has taken the lead in implementing trade-related projects supported by donors. Other major ministries and institutions in charge of trade-related projects include the Ministry of Textile and Jute, the Bangladesh Standards and Testing Institutions (BSTI), and the Dhaka Chamber of Commerce and Industry (DCCI). The implementing agencies work in coordination with the Government's ERD on matters related to fund release. Therefore, there is an institutional mechanism for project coordination.

Opinion about stakeholder involvement in the planning and implementation of AfT projects varied. Public officials widely agreed that donors dictate project design. One former senior policymaker observed this trend in many projects aimed at reducing the costs of doing business. According to national consultants and experts working for donor agencies, local counterparts are also to blame for not investing enough effort in the early planning stages. A high-level official working closely with DPs at the MoC refuted this claim and said that, in many cases, donors approach Government officials at the last minute, preventing any possibility of proper input. The two groups also expressed different opinions about the inclusiveness of project planning. One expert from a donor agency leading the Diagnostic Trade Integrated Study (DTIS) described the lengths taken to engage the Government, from day-to-day communication to forming representative steering committees. The government officials argued that many of these measures, like consultation workshops, are ceremonial. A national consultant admitted that voices of stakeholders from these meetings are not always honoured. He also noted that unilateral and non-transparent terms of reference skew the ownership of AfT projects. From the interviews, it is understood that stakeholder involvement is not very substantive.

To some extent, complaints against local counterparts are valid, because the interviews revealed a crisis in the national coordination of AfT projects. Representatives from across sectors voiced their frustration over the lack of interministerial coordination. Redundant departments like the Ministry of Industries (MoI) are hindering AfT activities, while other ministries like the MoC are taking on too many responsibilities. In addition, some agencies are dealing with matters that are outside their mandate, e.g. the intervention by the National Board of Revenue (NBR) on tariff issues. In matters of trade, coordination between the MoI, the MoC, and the Ministry of Foreign Affairs, as well as coordination between the MoF's ERD, the MoC's WTO Cell, and the WTO is weak. Multiple interviewees pointed out the ambiguity of ministerial roles and the proliferation of institutions and redundant roles, such as the high number of authorities overseeing economic zones. The weak management capacity of national institutions and their lack of awareness of AfT were also found to be severe problems. Furthermore, many highlighted the absence of a national aid policy or platform (like Cambodia's Trade Sector-Wide Approach) that could assist in coordinating and negotiating AfT projects. Officials from the ERD, however, hinted that an outline for a national aid policy has been drafted.

Collaboration between the private and public sector is not free of problems either. Representatives from the private sector allege that the Government is occasionally domineering and uncooperative in issues that matter to businesses like standard compliance. It was felt that the Government engages the private sector more than before; however, this is primarily in policymaking and seldom in project implementation. Businessmen admitted that the private sector is not very committed to AfT because of the lack of knowledge on the topic. Overall, these gaps in national coordination are undermining Bangladesh's ability to influence AfT project design and implementation. The scenario is expected to improve with the completion of the AIMS and

other steps being taken by the Government and DPs to strengthen aid effectiveness in the country; however fundamental problems will persist if the public sector is not overhauled.

3.2.4. Sustainability of AfT Projects

The sustainability of AfT can be defined as the capacity of the partner country to carry on AfT projects or programmes even after donors withdraw. As suggested by Adhikari (2011), the share of the GoB's spending on projects can be a proxy indicator to examine whether the Government is capable of sustaining these

projects. A survey of major projects listed in the ADPs during 2002-10 indicates that the GoB bears a substantial share of the cost of trade-related investment projects. In fact, during the preparation of a project, the GoB must always allocate a counterpart fund. Even in the case of technical assistance projects, the Government shares part of the cost (Table 3.5). Although the figures below are projected costs and not actual expenditures, they demonstrate the GoB's commitment to trade-related projects. It should be noted that the table below does not cover projects that are exclusively in the private sector.

Table 3.5: Cost-sharing of trade-related projects by the GoB and donors

| Period | Share (%) of cost in investment projects | | Share (%) of costs in technical assistance projects | |
|---------|------------------------------------------|-------|-----------------------------------------------------|-------|
| | Government | Donor | Government | Donor |
| 2002-05 | 55.2 | 44.8 | 4.8 | 95.2 |
| 2006-11 | 60.6 | 39.4 | 10.9 | 89.1 |

Source: Compiled by the authors from the ADPs, multiple years, GoB.

According to GoB officials, long-term trade-related programmes have been sustainable because they involved institutional capacity-building. Short-term trade-related technical assistance programmes, on the other hand, focus on rapid training sessions and the purchase of office equipment. Officials at the MoC cited the establishment of the Bangladesh Foreign Trade Institute (BFTI) in 2003 as an example of a successful long-term AfT programme. The BFTI was formed to strengthen the capacity of the MoC, other line ministries, and export-oriented businesses to deal with trade-related matters. It provides short-term training and technical assistance as well as long-term trade capacity-building. Moreover, the BFTI exhibits the traits of a stable local institution, as it was formed under a public-private partnership, and is steered by the MoC with financial and technical support from the local private sector in addition to donors. Officials said that, in spite of decreasing donor support, the BFTI has been able to deliver outputs such as training sessions and studies for clients from both the public and private sectors.

The business community had similar views to the MoC officials and highlighted capacity-building as a key to ensuring sustainability. A high-level executive presented the example of the ill-fated Design and Technology Centre (DTC),²² which was established in 1998 by the DCCI and the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). The purpose of the DTC was to train SMEs in product design and to make them competitive in the domestic and international markets. Nonetheless, the DTC eventually dissolved into scattered activities. The DTC imported German tools and knowledge of design and hired undergraduate design students from Germany along with a few local architects to provide training. Several formulaic trainings and awareness programmes took place; however, short-sighted planning - such as the failure to include experienced consultants, incorporate local design knowledge, and create a channel for information exchange with local and global markets - reduced the prospects of this initiative. In fact, the tendency of donors to use resources and strategies from their home country as well as appointing underqualified

consultants was found to be a common source of frustration among stakeholders. A better model of capacity-building that extensively engaged local expertise would have helped the DTC to flourish.

On the other hand, the DCCI Business Institute (DBI), which was established in 1999 with financial support from GTZ, has been far more successful. The purpose of the DBI is to groom entrepreneurs in Bangladesh to compete in the world market. The senior executive commented that it is now a permanent, locally sustained initiative of DCCI. Originally conducting only certificate and diploma courses, DBI now runs a four-year Bachelor's programme since 2010 and aspires to become an accredited professional business school. Similarly, engineers and coordinators of BKMEA's Productivity Improvement Program spoke positively about GTZ's contribution to this service, which promotes lean production in RMG factories. The training of instructors led by GTZ has produced consultants who are now steering the programme independently.

The above examples suggest that capacity-building has been a key to the survival of donor-funded projects, but that the quality of the training matters. As one senior expert commented, "capacity building is not just creating an organogram;" rather it should be a systemic reform with extensive internal work. Moreover, in many cases, those who receive training are transferred to other ministries or should not have received training to begin with. Besides weak capacity-building, the disruption of programmes by regime change and the inability to instate local revenue-generating mechanisms were found to be severe hindrances to sustainability. For example, one former high-level Government official was not confident in the survival of the controversial quick rental power plants, given their poor pricing. Overall, the frustration of donor and partner organizations over repeating the same projects year to year, like the ongoing work in customs and tax collection, attests to the low sustainability of donor-funded programmes in Bangladesh.

3.2.5. Conclusions on Ownership

National policy documents recognize trade as an important impetus for growth, and several ministries are involved in the formulation of trade-related policies, though the bulk of trade activity is concentrated in the MoC. AfT has not even been mainstreamed formally, let alone substantively. Broadly speaking, even the AEU, which is the principal institution in Bangladesh to oversee aid flows, has failed to perform its role as an assessment body. Nevertheless, the Government and donors are making earnest efforts to strengthen institutions that are pertinent to AfT. These initiatives include the formulation of a trade policy, the launch of the AIMS, and studies to investigate country-specific approaches to monitor AfT flows. In terms of relevance, trade-related foreign-assisted projects are generally found to be strongly in line with national development priorities.

Weakness in national level coordination is possibly the topmost impediment to the ownership of foreign-assisted projects. Stakeholders agreed that donors generally dictate project design, but there was difference of opinion as to who was more responsible for this. Experts working for donor agencies claimed that local counterparts are disorganized and lack expertise, while public officials involved in project planning argued that donors give little scope to provide input. It is hard to judge who is correct, although there is some truth in both testimonies. The poor coordination and distribution of responsibilities among Government agencies is a compelling reason for strong donor influence. Moreover, a national platform like the donors' LCG, whereby local counterparts can plan AfT projects, is missing in Bangladesh. Business leaders also expressed discontentment over the Government's attitude towards the private sector, but relations seem to be improving. The lack of awareness about AfT in the business community is part of the problem.

In spite of the gloomy state of national coordination, the GoB has shown that it can shoulder a large share of the cost of donor-

supported investment projects. In fact, the GoB share has risen in the post-Hong Kong period. Although financial solvency is critical to sustaining donor-funded projects, long-term and substantive capacity-building surfaced as a far more important factor while discussing case stories with stakeholders from both the public and private sectors. Capacity-building initiatives are not always successful, as proven by the repetition of the same programmes year after year. Interviewees recollected that the failure of some past initiatives was caused by sourcing of strategies and experts from outside Bangladesh, appointing underqualified consultants, and targeting the wrong people for training. Disruptions by regime change and poor revenue-collecting mechanisms were also mentioned as reasons for low sustainability.

From the above analysis, it can be deduced that ownership of trade-related aid programmes is gaining momentum at the formal level, but not as vigorously at the substantive level. Reforming the public sector and empowering Government officials to dictate AfT flows will be a critical area to address in order to make AfT demand-driven. Although AfT is not yet widely recognized by the Government or the business community, efforts to strengthen the management of trade-related aid projects in Bangladesh are creating the groundwork for establishing AfT.

3.3. Alignment

Alignment requires the government of the partner country to play a leadership role in the AfT process. Donors also need to deliver their assistance according to the policies of the partner countries. In order to successfully align around a country policy and budgetary process while using the public financial management and procurement systems, partners must strengthen their systems. Donors need to provide support by transferring financial resources, goods, and expertise, and by avoiding parallel processes that undermine local systems and procedures. These issues have been explored in the following sections through the four indicators of alignment suggested by Adhikari (2011). These are: the alignment with partners' development

strategies, the use of country systems, untied aid, and the demand-supply gap.

3.3.1. Alignment with Partners' Development Strategies

In the Paris Declaration, the primary benchmark to measure whether "aid flows are aligned on national priorities" is for 85 percent of bilateral aid to be directed to activities related to Government-sector budgets, primarily through "programme based approaches," by 2010. Bangladesh has been able to meet this target. The survey result shows that 100 percent of aid flows to Bangladesh were aligned with national priorities by 2010. This is also the case for trade-related development assistance. A former senior Government official admitted that local planners could make greater efforts to present national priorities to donors as a guide for their development programming. He also suggested that Bangladesh request more budget support to allow for flexible planning. For example, the World Bank's Development Support Credit has granted this flexibility, provided that Bangladesh meets certain criteria like having a sound procurement system. ADB has also historically provided Bangladesh budgetary support.

3.3.2. Use of Country Systems

The use of both PFM and the country procurement system has declined in 2010 compared to 2007 (OECD 2011). The GoB officials feel that Bangladesh has made progress in laying the foundation for an effective public procurement system, particularly by enacting the Public Procurement Act in 2008. Donors refer to constraints such as the low reliability or absence of resource management systems in the GoB as factors responsible for the low use of recipient country systems by donors in their support programmes. There has been a reduction in the number of parallel project implementation units since 2005. This is because of an increased capacity in Government institutions to implement projects. However, the target for strengthening capacity by avoiding parallel PIUs as set by the Paris Declaration (Target 6) is yet to be fulfilled. During the interviews

for this study, donors indicated that they now align their analytic and financial support for capacity development for various projects in the country. GoB officials believe that the capacity-building support provided by donors is now better coordinated and consistent with national and sectoral priorities.

3.3.3. Untied Aid

There has been improvement in terms of aid being untied. In 2009, the share of untied aid to the country was 93 percent of total aid received, as opposed to 89 percent in 2005 and 2007 (OECD 2011). The GoB officials mentioned that, even though aid conditionality has reduced over time, donors continue to attach strings by appointing foreign consultants, which, at times, becomes a major project expenditure. They also note that the transfer of knowledge does not happen through such consultancy, which means that consultants need to be employed on a continuous basis. In addition, officials and business executives claimed that these consultants are not always well qualified and that equally - if not better qualified - human resources are available in Bangladesh. Donors, on the other hand, maintain that such highly specialized, technical knowledge is not found nor cultivated in the country, which makes hiring foreign consultants a necessity. According to stakeholders, consultancy fees can range from 70 to 90 percent of total project costs. More worrisome is the impact of the foreign consultants and their exorbitant salaries on the morale of local workers. It was also widely acknowledged that Bangladesh lacks many national systems such as strong monitoring and evaluation schemes. In some cases, conditions have increased because of the deteriorating credibility of local institutions.

3.3.4. Demand-supply Gap

According to GoB officials, the availability of ODA has not been an issue for Bangladesh as its repayment record is good and the debt-GDP ratio is far lower than in many LDCs. The GoB officials and experts highlighted that Bangladesh needs more support in areas such as health and education, gender empowerment, and climate

change. Although Bangladesh's performance in achieving the MDGs is noteworthy and the country is on-track to meet most of its MDG targets, certain other critical targets, such as maternal mortality, still continue to be a challenge. Additional resources can help the country fulfil these targets. Furthermore, Bangladesh is also facing the brunt of climate change. Resources for adaptation measures to tackle the impact of climate change are in the range of billions of dollars, an amount that Bangladesh cannot afford to mobilize from domestic sources. The Comprehensive Action Plan (2009-14) on climate change prepared by the GoB estimated that USD 5 billion would be needed in the first five years to undertake activities such as strengthening disaster management, research and knowledge management, capacity-building and public awareness programmes, and urgent investments such as cyclone shelters and selected drainage programmes (GoB 2008).

The private sector, on the other hand, expects more external support in the area of infrastructure, which it sees as a serious constraint on the improvement of business environments. As the Government has to deal with competing priorities while being committed to reducing poverty and improving social protection, it has to rely on foreign aid for large investment projects. The private sector representatives believe that, as a dynamic and expanding economy, the country has larger requirements for infrastructure development, particularly for roads, highways, energy, and power. They also feel the need for more support in product diversification and quality improvement.

3.3.5. Conclusions on Alignment

The flow of ODA in Bangladesh has been aligned with national priorities to some extent, as observed from the medium and long-term plans of Bangladesh. There has been a reduction in the number of parallel project implementation units since 2005. In addition, aid has also become untied over the years. In 2009, the share of untied aid to the country was 93 percent of total aid received. However, requirements for health, education, gender empowerment,

climate change, and infrastructure are enormous in comparison to the flow of aid. Improved alignment of AfT projects is expected to have a positive impact on the delivery, implementation, and sustainability of projects.

3.4. Coordination Among Donors

Coordination of aid delivery among donors and the recipient country is crucial to avoiding duplicating aid efforts and incurring high transaction costs. It involves harmonizing and streamlining the activities of different aid agencies. The Paris Declaration states that donors should commit to implementing, where feasible, common arrangements at the country level for planning, funding, disbursements, monitoring, evaluating and reporting to the Government on donor activities and aid flows. The increased use of programme-based aid modalities can contribute to this effort. At the global level, harmonization is still a rhetoric that is not being implemented at the ground level. In many cases, donors are reluctant to change their administrative practices and aid mechanisms. At times, coordinators from partner countries even find it difficult to get acquainted with the bookkeeping and accounting methods of donors.

Bangladesh has made progress in moving towards common arrangements, especially in social infrastructure, but the pace of improvement is slow. The MoF's ERD, which is in charge of aid matters, has a facility for coordinating aid missions, but very few donors make use of it. Donors reported that they prefer to coordinate themselves simply because it is less time-consuming and more efficient. Dealing with donor missions and different donors imposes high transaction costs for the Government; however, the inability of the Government to lead, coordinate, and manage aid remains at the root of weak harmonization.

Strong, balanced mechanisms to ensure mutual accountability between donor and partner countries are necessary for aid to be harmonized and effective. Bangladesh does not have a mutual accountability system involving all stakeholders, but it made significant progress

in improving aid relationships through the JCS for 2010-15. The JCS, which presents a shared intention between the GoB and 18 donors supporting Bangladesh, aims to harmonize and streamline programmes supporting the development plans and strategies of the country.

Bangladesh has also implemented a formal dialogue structure between the Government and donors in the form of the local consultative group (LCG), which consists of institutionalized forums at the national and sector/thematic level. LCG has been a good platform for interaction and transparency on various donor initiatives. However, experts expressed their concern that limited reviews of the performance of the Government and donors, combined with the absence of a consolidated aid policy, are major challenges to fully effective aid. Experts have also mentioned that, without the participation of the CSOs in LCGs, decisions cannot be claimed to be fully participatory and inclusive. Donors feel that LCGs have been successful in reducing the duplication of project financing since donors regularly share their programmes and try to collaborate when they have similar interests. In some cases, coordination among donors has also improved (detail in Section 3.9).

3.4.1. Conclusions on Donor Coordination

A few steps have been taken towards the harmonization of aid. The LCG, a platform of donors and the Government, has proven useful for ensuring transparency on various donor initiatives and avoiding the duplication of projects. Aid relationships have also improved thanks to the JCS between the GoB and donors. However, mutual accountability by way of involving all the stakeholders in the country has yet to be out in place.

3.5. South-South Cooperation

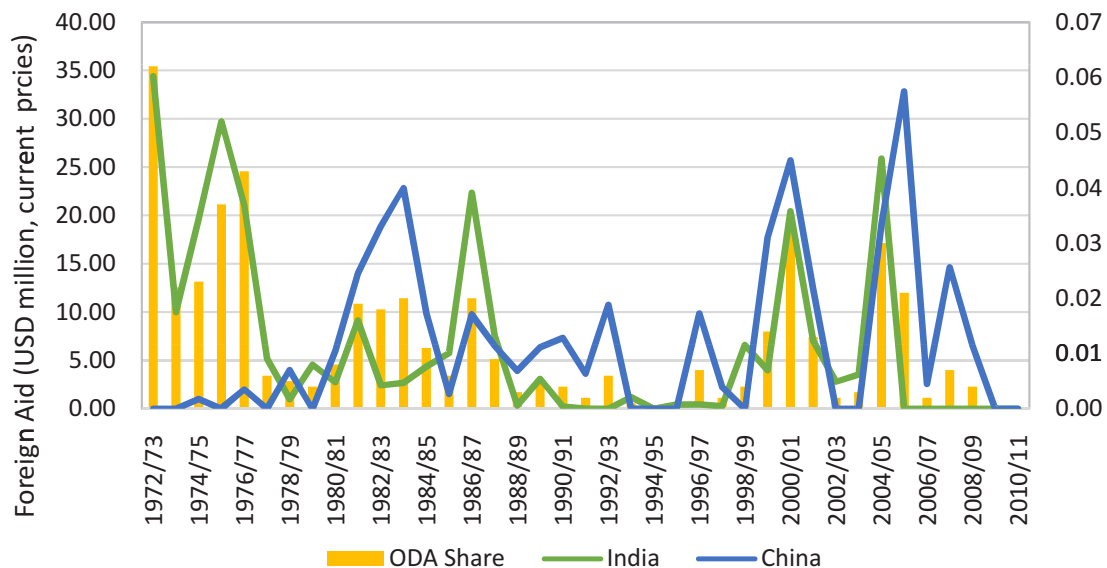
India and China are Bangladesh's main economic partners in the Asian region. However, Bangladesh has a significant trade deficit with both countries (Figure 3.4). Together, they accounted for about 35 percent of Bangladesh's

import payments, but only about 3.6 percent of its export receipts in 2011.²³ In 2011, Bangladesh's trade deficit with India and China amounted to USD 4.05 and USD 5.59 billion, respectively.²⁴

In an attempt to improve trade relations with Bangladesh, both India and China have offered duty-free market access for a number of Bangladeshi products. India provided Bangladesh and other LDCs with duty-free access for all items, excluding those on the negative list, by reducing tariff rates to zero in July 2008. In late 2011, India reduced its sensitive list for LDCs under SAFTA from 480 items to 25 items and granted zero basic customs duty access on all the items.²⁵ Since 1972, ODA disbursements

from India and China have been inconsistent. Their share of total ODA has been fluctuating, ranging from less than 1 percent to 4 percent in recent years. Compared to India, China has increased foreign aid disbursements to Bangladesh, albeit erratically (Figure 3.4). India provided development aid in the first two decades after independence. However, since the early 1990s, the role of Indian development assistance to Bangladesh was minimal. This can partly be linked to the political relationship between Bangladesh and India, which was not smooth during the larger part of the period after the independence of Bangladesh. Development assistance by India and China has been mostly in the form of project loans and lines of credit.²⁶

Figure 3.4: Contribution of India and China to total ODA in Bangladesh (1972-2011)



Source: Flow GoB 2012b.²⁷

In 2010, India extended a line of credit (LOC) worth USD 1 billion to Bangladesh, primarily for infrastructure, communication and transportation (including the supply of locomotives and passenger coaches), the procurement of buses, and dredging projects. At the time, it was the largest commitment India had made to any country. Terms of the LOC included an interest rate set at 1.75 percent and a requirement that 85 percent of the projects' goods and services be imported from India. The GoB objected to these burdensome conditions, having struggled for months to implement projects financed by the LOC.²⁸ In May 2012, India finally agreed to

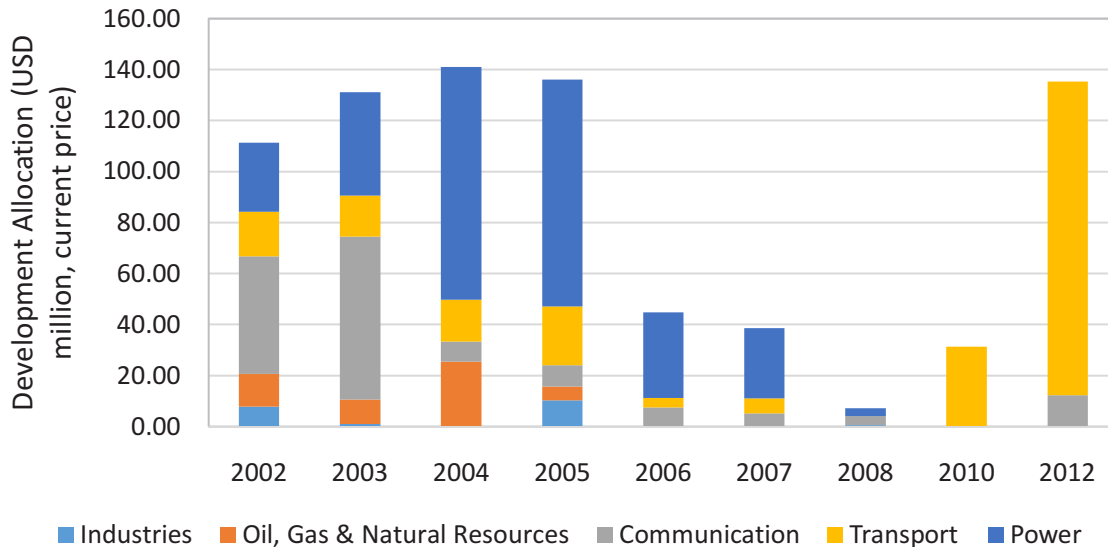
ease the conditionalities. The interest rate for 81 percent of the LOC was reduced to 1 percent (with the rest to be converted to grants) and the quota for procurement was trimmed to between 65 and 75 percent. All 2012 transportation aid allocations shown below were from India, with a large share likely from this LOC.

China has also taken steps to address concerns relating to trade imbalance and is working to reduce tariffs imposed on jute and textiles, two of Bangladesh's chief exports. Since 2010, China has granted duty-free access to its markets for 4,721 Bangladeshi products, provided that local

value additions are at least 40 percent. China's notable contributions to Bangladesh are the six friendship bridges, a massive conference centre, and a fertilizer factory in Chittagong through concessional lending. China is also seeking to mitigate Bangladesh's energy deficit

(and its own) by constructing nuclear power plants and developing the country's natural gas resources. Bangladesh and China are also planning to construct a Bangladesh-Myanmar-China road link through Kunming to enhance economic cooperation.

Figure 3.5: Distribution of development allocations from India and China (2002-12)



Source: ADP, FY2002-12, Ministry of Planning, GoB.

The above graph, which depicts the distribution of ADP allocations backed by Indian and Chinese financing, shows that these South-South donors focus on physical infrastructure and hardware to build economic cooperation. Nevertheless, stakeholders noted that India could play a far more active role in fostering regional cooperation. They expressed disappointment over India's reluctance to provide grants because supply credits are costly to Bangladesh and drain foreign currency reserves.

Civil society observers reasoned that India and China offer few concessional loans and little software assistance because they have not yet taken advantage of the diplomatic leverage that aid has to offer. Others surmise that Southern donors may be resisting Western models for development cooperation, in spite of the pressure from Northern donors, and prefer to experiment with their own strategies, such as the so-called Beijing Consensus. However, the Fourth High Level Forum on Aid Effectiveness, held in Busan in December 2011, showed that

there is an aggressive drive to bring China and India into the folds of global development partnership, where these emerging donors will be compelled to follow the OECD principles of aid effectiveness.²⁹

Interviews revealed that stakeholders in Bangladesh are not very confident about AfT support from Southern donors; in their view, fair access to large markets in India and China through negotiations and agreements is the best bet with these countries. According to representatives of the private sector, Bangladesh has benefited little from RTAs such as SAFTA, BIMSTEC and APTA, which are perceived to be largely symbolic. They feel that several NTBs prevent them from taking advantage of these agreements. NTBs that are faced by Bangladeshi exporters to Indian and Chinese markets include: (a) market access difficulties caused by the requirements relating to SPS measures, Technical Barriers to Trade (TBT), the certification, the labelling, the registration, the laboratory testing, and the

standardization in place in partner countries; (b) difficulties caused by infrastructural constraints that impede the cross-border movement of goods from the exporting countries (lack of infrastructure, low handling capacity, lack of warehouse facilities, etc.); (c) the imposition of para-tariffs, surcharges, value added tax, sales tax, and other duties beyond MFN tariffs; (d) the requirements of licences and permits from importing countries; (e) anti-dumping and countervailing measures; (f) the interpretation of RoO; (g) the lack of availability of adequate letter of credit facilities and necessary financial intermediation; and (h) visa difficulties (Dayal et al. 2008; Rahman et al. 2012; Rahman et al. 2010; Rahman et al. 2007).

It was also made clear that distrust among neighbours and political tensions are hindering progress in South-South cooperation. On a positive note, a business leader acknowledged that working with consultants from Asia has made business easier for Bangladeshis.

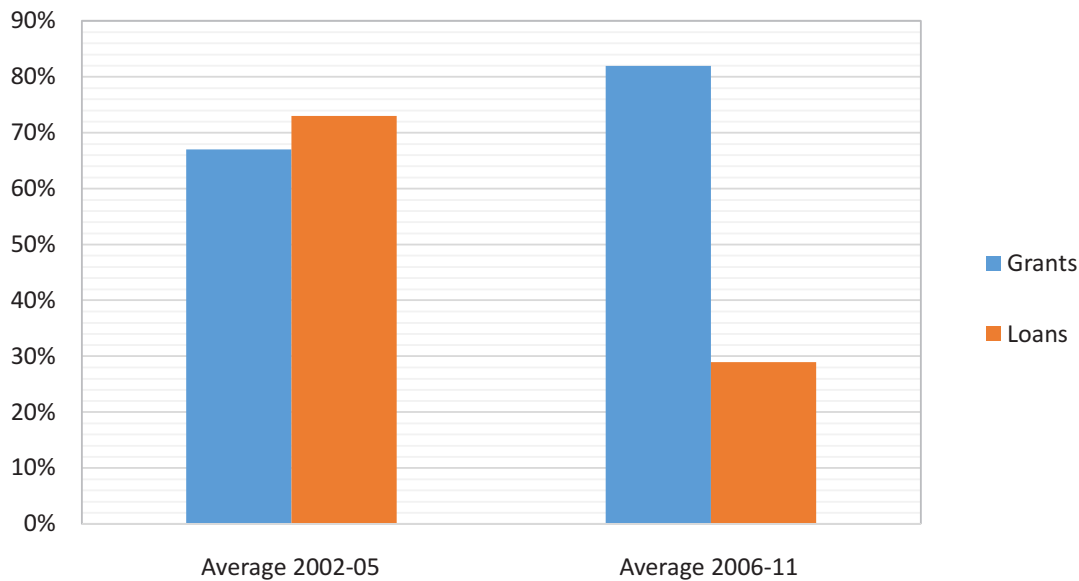
3.5.1. Conclusions on South-South Cooperation

India and China are major trading partners for Bangladesh. However, Bangladesh has a large trade imbalance with both these countries. Existing trade arrangements are not being translated into economic gains for Bangladesh because of high NTBs. Although ODA disbursement from these two emerging economies has only been around 1 to 4 percent of total ODA to

Bangladesh, the slow implementation of the USD 1 billion LOC from India is expected to change the picture significantly. Much of the ODA support from China and India comes in the form of supply credit and is used to finance infrastructure projects.³⁰ The interviews suggest that, for Bangladesh, market access is a priority in South-South cooperation. The outcome of global pressures on India and China to abide by the OECD principles of aid effectiveness is likely to have an impact on Bangladesh's relations with South-South donors. Presently, however, stakeholders are not confident about the increases in AfT flows from their neighbours, in light of recent experiences.

3.6. Limitations to Bangladesh's Absorptive Capacities

The ratio of average disbursement to loan commitment is used as a proxy to measure the utilization rate. In the case of loans, the utilization rate has decreased in Bangladesh, which is not the case for grants (Figure 3.6). The perennial problem of the lower implementation of development programmes is a reflection of the country's low absorption capacity. According to donors, the GoB's low absorption and the lack of institutional capacity are responsible for the low utilization of aid. As a result, a large amount of aid remains in the pipeline and is not disbursed, since formalities and preparations for the initiation of projects cannot be completed in time.

Figure 3.6: Disbursement to commitment ratio

Source: OECD CRS database.

Both the GoB and donors emphasized that improvements in absorptive capacity could be achieved by increasing the competence of human resources and removing bureaucratic complications. One major reason for low aid absorption is the inertia among officials responsible for implementing projects in various ministries, which is due to the lack of a punishment and rewards system. In this regard, the need for reform in the public administration has been felt by experts, members of the civil society, and the GoB officials themselves. One of the reasons for the low utilization, as mentioned by the Government officials, is that the compliance requirements of foreign-funded projects are very stringent. As a result, it takes longer to get the project started. Administrative complications such as land acquisition,³¹ invitations to tender, the appointment of consultants, the procurement of materials, and the release of funds have been identified as major bottlenecks for the timely implementation of projects. This in turn affects the utilization rate of aid. Representatives of the private sector felt that AfT projects could be channelled through them for better utilization. They also feel that political instability is a constraint to the implementation of projects in Bangladesh.

3.6.1. Conclusions on Absorptive Capacity

The low implementation of development programmes, which affects the utilization rate of aid, has been a perennial problem for Bangladesh. The lack of an efficient administrative mechanism, the low human capacity, the political instability, and stringent donor requirements are major reasons for this.

3.7. Coherence with Environmental Sustainability

Bangladesh's vulnerability to environmental problems has been well documented by the Intergovernmental Panel on Climate Change (Parry et al. 2007). Considering the massive impact, the GoB formulated the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009 and the National Adaptation Programme of Action 2009. The Government also put together the Bangladesh Climate Change Trust Fund (BCCTF) Act-2010, under which the BCCTF was created with an initial budgetary commitment from the Government of Bangladeshi Taka (BDT) 14 billion (approximately USD 171 million). This fund will be boosted by another BDT 7 billion (approximately USD 85 million). In addition, the Bangladesh Climate Change Resilience Fund (BCCRF) was

implemented with an initial amount of USD 113.5 million with assistance from donors, namely the United Kingdom, Denmark, the EU, Sweden, and Switzerland. The Pilot Project for Climate Resilience (PPCR) is also in operation under the BCCRF. Both the BCCRF and the PPCR are managed by the World Bank.

Projects under the BCCTF and the BCCSAP are not linked to trade policy and development. They are mainly designed to adapt to the impact of climate change on various sectors and reduce associated risks. The broad areas to be covered by these climate funds include: (a) food security, social protection and health; (b) comprehensive disaster management; (c) infrastructure; (d) research and knowledge management; (e) mitigation and low carbon development; and (f) capacity-building and institutional strengthening.³²

AfT projects have not been linked to adaptation and mitigation measures to address the impact of climate change in Bangladesh. A review of the technical assistance projects under the GoB's ADP during 2002-12 reveals that only one project in the RMG sector focused on environmental standards in industries (Section 3.9). The Promotion of Social and Environmental Standards in the Readymade Garments Sector project, which was funded by Deutsche Gesellschaft Fur International Zusammenarbeit (GIZ) during 2008-10, is remotely linked to climate change as it is aimed to promote trade through social and environmental compliance.

Stakeholders from the NGO community see potential for support through AfT to tackle the impact of climate change. Adaptation measures linked to both physical and social infrastructural development require a large volume of resources, which can be sought from sources such as the AfT initiative. However, since ministries tasked with addressing the impact of climate change are not familiar with AfT, no projects have currently been designed. In addition, CSO representatives also feel that environmental impact assessments of projects are not shared with the CSOs, which limits their advocacy activities towards improving the country's environmental situation.

3.7.1. Conclusions on Environmental Sustainability

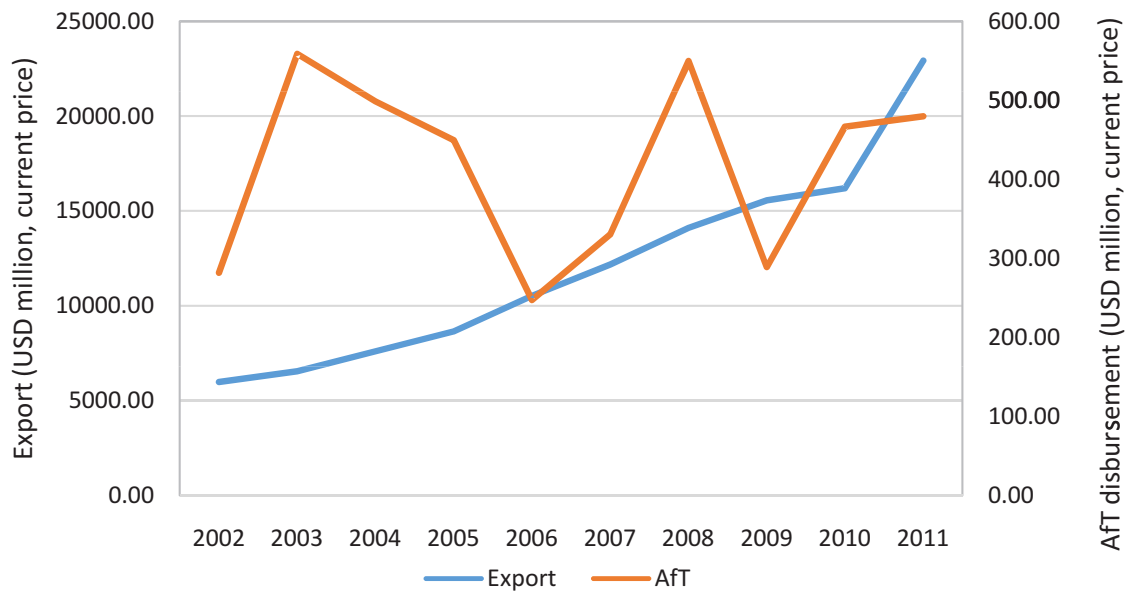
Given the vulnerability of Bangladesh to climate change, the GoB's Ministry of Environment and Forest has undertaken several projects to adapt to the impact of climate change in Bangladesh. However, AfT projects have not been linked to adaptation and mitigation measures to address the impact of climate change.

3.8. Impact at the Macro Level

3.8.1. Export Performance

In order to understand the impact of AfT on Bangladesh's export performance, a number of variables have been examined, based on Adhikari (2011). During 2002-11, both AfT disbursement to and exports from Bangladesh have increased, but with different magnitudes and directions (Figure 3.7). While exports have grown steadily during 2002-11, AfT had major ups and downs at several points in time during this period. It is difficult to make any straightforward association between AfT disbursements and export performance in Bangladesh.

In line with the data, stakeholders interviewed for this study did not perceive a substantial growth in AfT activity in the post-Hong Kong period. Some saw AfT as being simply a restoration of older, unsuccessful initiatives like the IF, while several refrained from commenting altogether, arguing that the current definition of AfT is inadequate as a basis for judgement. One former Government official acknowledged that donor support to create a better investment climate has helped increase exports. As examples, the official cited the investment climate fund, the modernization of the NBR, and the development of a procurement law; however, he believed that all these efforts were scattered and uncoordinated. On the other hand, a senior economist from the donor community attributed the improvement in trade and export performance to the efforts of local entrepreneurs, rather than aid. Officials from both the public and private sectors argued that the growth in exports is primarily the outcome of favourable national and international measures and the private sector's ability to take advantage of them.

Figure 3.7: Total export and Aid for Trade

Source: OECD CRS database; GoB 2011b.

3.8.2. Diversification Levels

As discussed in Section 2.1, RMGs have been the dominant source of high export growth in Bangladesh. Indeed, its share in the export basket has steadily risen to 79 percent (Figure 3.8). The country's dependence on a single export item makes it vulnerable to external shocks like the financial crisis in Europe, which is the largest market for RMGs from Bangladesh. During interviews, a grassroots activist expressed concern over the present donor focus on RMGs and support to production

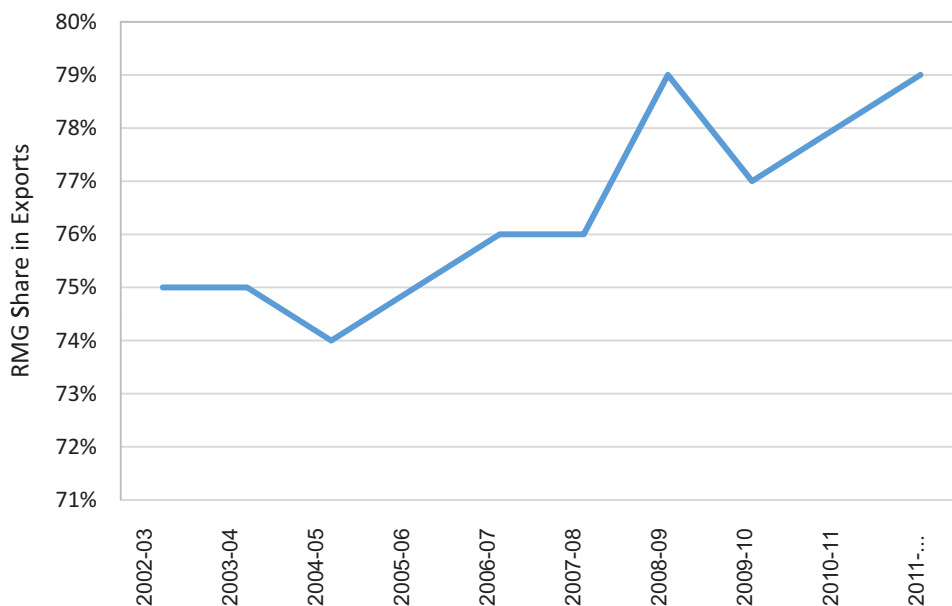
in the low end of the value chain. However, there are attempts by donors to help with diversification in both product and markets. For example, the ITC and UNCTAD have been involved in developing the leather, frozen food, and light engineering industries in Bangladesh, while GIZ is working aggressively to promote RMGs in non-traditional markets like Brazil, Japan, and Russia. The United Nations Industrial Development Organization (UNIDO) is also helping to establish training and fashion design institutes to help Bangladesh climb up the value chain of RMG manufacturing.

Table 3.6: Top ten exports from Bangladesh (in current USD million)

| Sectors | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Knitwear | 1,654 | 2,148 | 2,819 | 3,817 | 4,554 | 5,533 | 6,429 | 6,483 | 9,482 |
| Readymade garments | 3,258 | 3,538 | 3,598 | 4,084 | 4,658 | 5,167 | 5,919 | 6,013 | 8,432 |
| Other mfg products | 529 | 633 | 652 | 730 | 867 | 1,025 | 1,096 | 1,135 | 1,660 |
| Jute goods | 257 | 246 | 307 | 361 | 321 | 318 | 269 | 540 | 758 |
| Frozen food | 322 | 390 | 421 | 459 | 515 | 534 | 455 | 445 | 625 |
| Raw jute | 82 | 80 | 96 | 148 | 147 | 165 | 148 | 196 | 357 |
| Engineering products | 13 | 42 | 85 | 111 | 237 | 220 | 189 | 311 | 310 |
| Leather | 191 | 211 | 221 | 257 | 266 | 284 | 177 | 226 | 298 |
| Footwear | 47 | 68 | 88 | 95 | 136 | 170 | 187 | 204 | 298 |
| Agricultural products | 25 | 41 | 82 | 105 | 88 | 120 | 147 | 184 | 262 |

Source: Export Promotion Bureau and Bangladesh Bank.

Figure 3.8: Share of RMGs in the export basket



Source: Export Promotion Bureau and Bangladesh Bank.

3.8.3. Private Sector Development

Coinciding with the Hong Kong Ministerial Meeting in 2005, phase one of the Multi-Fibre Arrangement (MFA) in 2004 lent the Government added impetus to develop the private sector. In fact, a senior economist from one aid agency commented that private sector development (PSD) at one point was a trendy area of focus among donors. Moreover, one of the relevant working groups of the

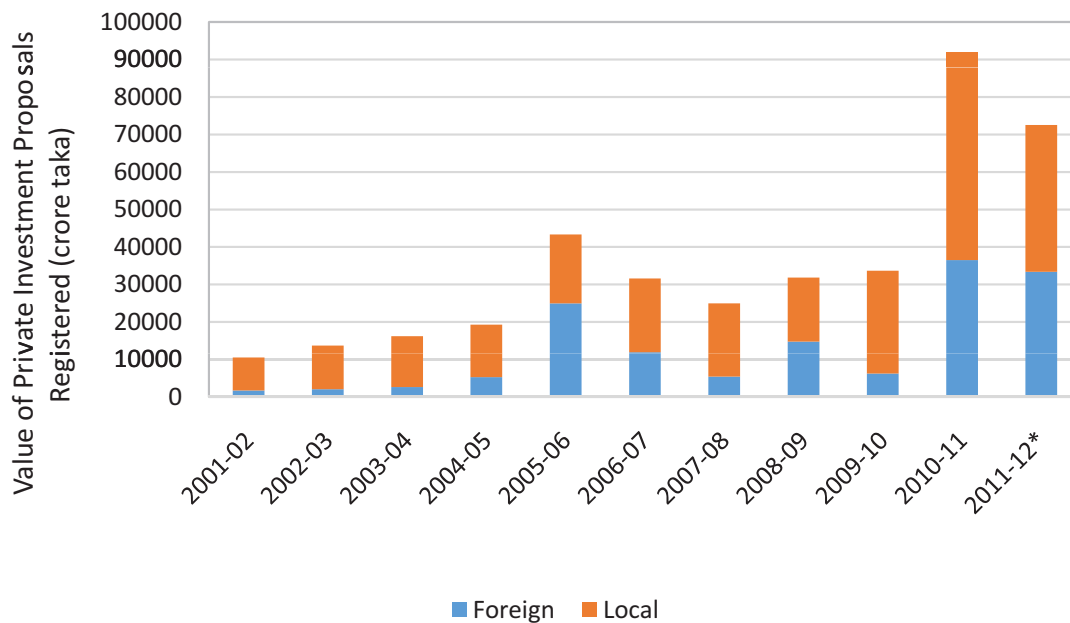
LCG was a Private Sector Development Group. A multi-donor PSD Support Fund was also formed to help coordinate PSD activities and reduce administrative burden.

In the last couple of years, donors have begun to shift their attention from PSD to developing an accommodating environment for the private sector.³³ In addition, donors are giving special attention to female entrepreneurship and SMEs. Micro-enterprises are the dominant employers

and forms of business in Bangladesh, but they are informal and rudimentary. For example, SME managers often face challenges in gaining access to the banking system, legal services, and market information. Thus, SME development has become an integral component of the modern approach to PSD. These steps by donors

demonstrate their efforts to develop the private sector in a more holistic fashion. Moreover, local businessmen remarked that assistance towards the private sector has increased, partly thanks to major players like the International Finance Corporation. Figure 3.9 presents the growth of private investment in Bangladesh.

Figure 3.9: Growth in private investment



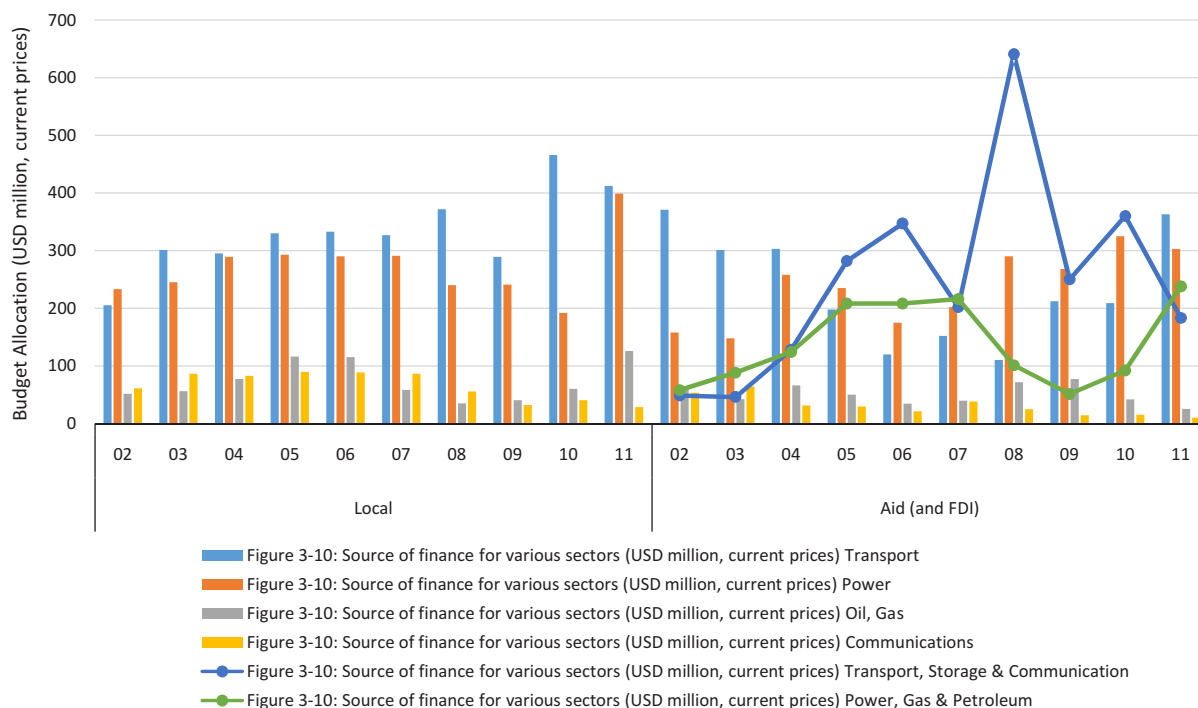
Source: Bangladesh Economic Review 2012, MoF, GoB. ³⁴

The present investment scenario in Bangladesh indicates an expanding private sector, with a sizeable contribution from foreign investors. Furthermore, the Doing Business Survey conducted by the World Bank reports that the number of days to start a business decreased from 50 days in 2004 to 19 days in 2011,³⁵ although infrastructural constraints like the erratic power supply and inadequate transport facilities continue to hinder business.

3.8.4. Infrastructure

The weak infrastructure in Bangladesh has been a long-standing complaint among businessmen there. Figure 3.10 suggests that, although the Government finances the majority of

infrastructure projects, aid towards the power and transport sectors has been increasing noticeably in the post-Hong Kong period. It is not clear, however, whether the AfT initiative is responsible for this trend. FDI has also provided a boost to the transport sector. According to Government sources, a large portion of the aid for transport comes from the ADB, followed by Japan. India, which has significant interests in trade with Bangladesh, is also emerging as one of the top donors for transportation projects. This is an interesting example of South-South cooperation. A close look at the sector-wise allocation of ODA reveals that the share of aid towards the economic or physical infrastructure is increasing for bilateral aid, but decreasing for multilateral aid.

Figure 3.10: Sources of finance for various sectors

Note: FDI shown as line graphs.

Source: ADP, FY2002-11, Ministry of Planning, GoB and FDI Survey Report, July-Dec 2011, Bangladesh Bank, GoB, and Export Promotion Bureau, and Bangladesh Bank.

One of the ADB's most notable contributions to the transport sector is the Chittagong Port Trade Facilitation Project with a loan worth USD 30 million. The aim of the project, which spanned from 2004 to late 2012, was to increase the capacity of the port by installing a computerized terminal management system and to raise its level of environmental compliance and security to the international standard. The number of containers handled at the port increased from 870,000 TEUs (twenty-foot equivalent unit) in 2006 to 1.4 million TEUs in 2011, primarily as a result of import traffic. On the other hand, performance indicators like waiting and turnaround times have not improved, showing that efficiency has not kept pace with the growth in capacity.³⁶ Political turmoil and labour unrest have frequently disrupted port activities. Recently, the ADB launched a programme to design and develop the Dhaka-Chittagong Expressway, another comprehensive infrastructure project that has been in demand for a long time.

The country has made some strides in improving the infrastructure for trade. According to the Doing Business Survey, between 2006 and 2011,

the numbers of days to export and import were lowered by 10 and 26 days, respectively, though the number of days to get electricity rose from 137 days in 2010 to 404 days in 2013. The general perception is that foreign aid has contributed positively to trade, though it is generally in loan form and lower than local financing. Other prominent foreign-assisted programmes include the modernization of the Registry of Joint Stock Companies and the modernization of the NBR, which will be further discussed in the section on governance.

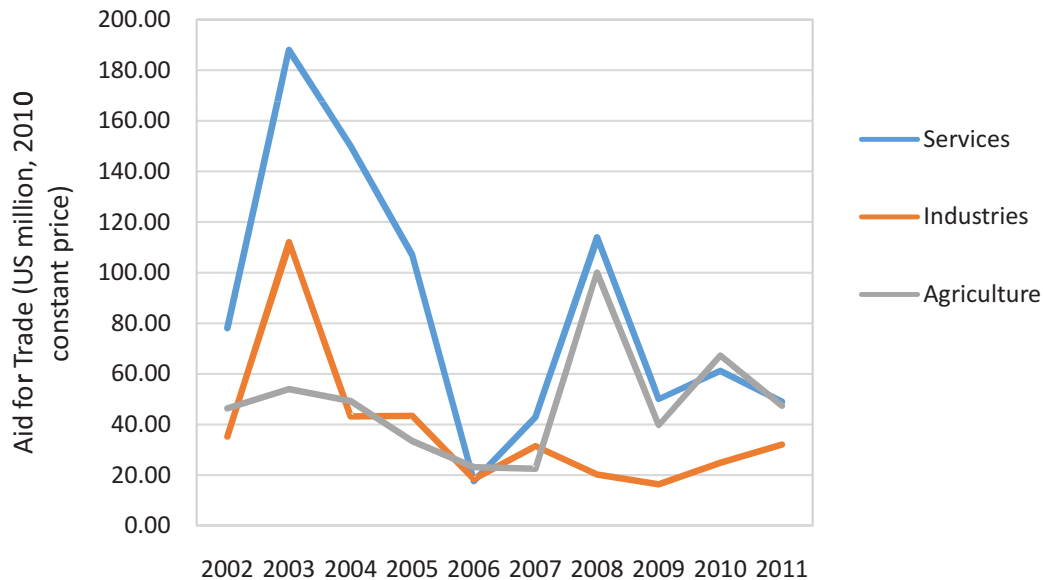
3.8.5. Local Productivity

Aid for building productive capacity has been waning over the years, though there was a modest climb in the post-Hong Kong period (Figure 3.11). The disaggregated distribution reveals that the pre-Hong Kong period was marked by an emphasis on industries, banking, and financial services, while the post-Hong Kong period has seen a greater share of aid in business-related services and agriculture. Earlier in that period, the high hopes in microfinance may have attracted aid towards banking services, since a large quantity went to informal and

semi-formal financial intermediaries. The PRSP, which also helped build confidence, spurred the IDA to offer a generous loan to support industrial development. During the recent period, the boost in agricultural aid is primarily attributed to credit from the World Bank in the wake of

the 2008 Food Crisis. Overall, the decreasing levels of aid towards industries is a concern, as Bangladesh is striving to reach middle-income status through a strong manufacturing base, though the bulk flow of industry aid towards SMEs supports pro-poor growth (OECD CRS).

Figure 3.11: AfT in major productive sectors



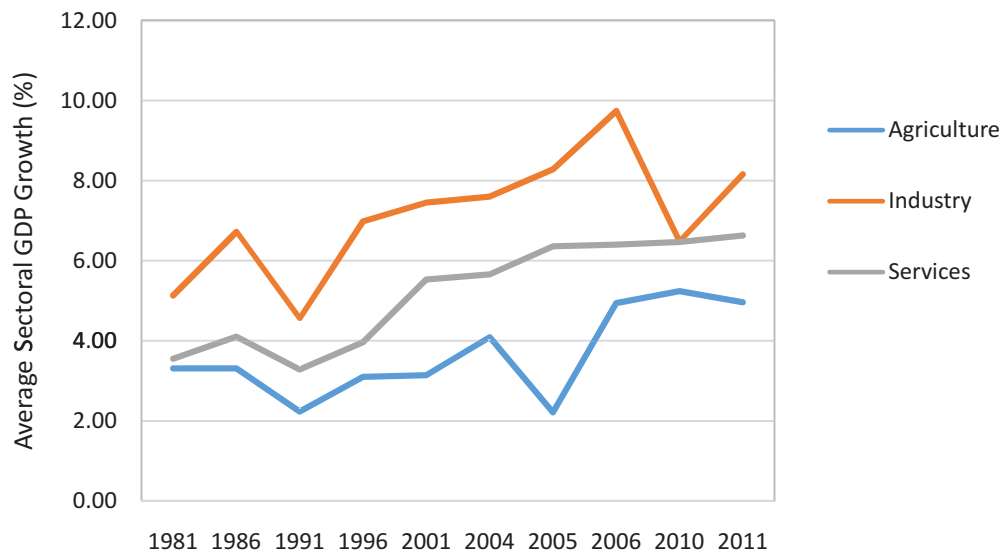
Note: "Services" combines banking & financial services, business & other services, and tourism; "industries" includes mining; and "agriculture" includes fishing and forestry.

Source: OECD CRS database.

In spite of the erratic flow of aid in these productive sectors, agriculture, industries, and services have shown steady growth in Bangladesh (Figure 3.12). It should be noted that, according to Government sources, these sectors encompass areas that the OECD does not consider to be "productivity building," such as electricity and transportation. The growth in industry is the result of remarkable performances by RMG manufacturers, who have not been a significant target of the donor community. Progress in the services sector is attributed to expansion in trade-related activities, of which wholesale and retail, as well as post and telecommunication, are dominant sub-sectors (Government of Bangladesh 2011b). Foreign assistance for the latter has come mainly in the form of FDI and joint ventures.

The impact of heavy ODA support for banking services in the base period is hard to pinpoint. One way to measure improvement in banking services is to review business perceptions of

financial services in Bangladesh through the comprehensive Global Competitiveness Report (GCR), of which the Centre for Policy Dialogue (CPD) is a partner institution. The CPD's GCR studies from 2002 to 2011 reveal increasing confidence in the "level of sophistication of financial markets," possibly as a result of large-scale automation, and moderately growing trust in the soundness of banks. The responses also suggest that it is becoming increasingly possible "to obtain collateral-free loans." However, the "difficulty in finding venture capital" remains widely recognized, and over the years, the percentage of respondents reporting that "obtaining credit for companies is becoming easier" has gone down. It seems that, while financial services have expanded, access to these services needs to be improved. From the CPD analyses and ODA data, it can be surmised that a combination of donor involvement and prudent decisions by the central bank and the Government has bolstered banking and financial services in Bangladesh.

Figure 3.12: Sectoral growth during 1981-2011

Source: *Bangladesh Economic Review, MoF (2011, 37 2006 38)*.

3.8.6. Governance

Donors have played an instrumental role in shaping Bangladesh's policies, particularly during the structural adjustment of the trade regime in the early 1990s. Our interviews revealed mixed views about the benefit of these interventions. While aid is believed to be the main trigger for policy shifts, Government officials maintain that privatization was primarily propelled by local efforts and leadership. Echoing the argument of Clemens et al. (2004), it was also stated that the IMF's budget and balance of payments support have indirectly contributed to policy reform because the partner country enjoyed more flexibility in priority areas. For this reason, budget support is preferred to technical assistance.

As for current donor activity, experts have criticized the overwhelming support for anti-corruption and good governance as opposed to institutional strengthening. Incidences of bribes and harassment by customs officials remain high. Stakeholders also hold the partner country partly responsible for slow progress in policy and regulation reforms for trade. Many found the poor discipline and management of local counterparts in donor-funded projects and studies to be a major hindrance. In the view of one economist, aid towards policy and regulation receives less state attention because

the results are not as immediate and visible as those of infrastructure projects. On the other hand, some experts and public officials have expressed little confidence in the donor-led studies. For a long period, Bangladesh's economy grew impressively in spite of its poor quality of governance, as proven by the World Bank's Governance Indicators. The World Bank (2007)³⁹ has labelled this lack of correlation between governance and growth the "Bangladesh conundrum," though this has also been the case for other high-performing economies like China, India, and Vietnam. There have been few honest, successful attempts by donors to improve trade-related governance in Bangladesh, although an example is mentioned below.

The automation of customs, or the IDA-financed Customs Administration Modernization (CAM) project, was frequently cited in the stakeholder interviews. The CAM project was a component of the massive Bangladesh Diversification Export Development Programme (BDXDP) led by the World Bank. The purpose of CAM was to improve customs policies, including the simplification and automation of procedures, the expansion of the ASYCUDA system, and the introduction of a Management Information System (MIS). The process began in 1994 with the complete automation of the Chittagong Custom House, which handles 80 percent of exports, but later expanded to other major

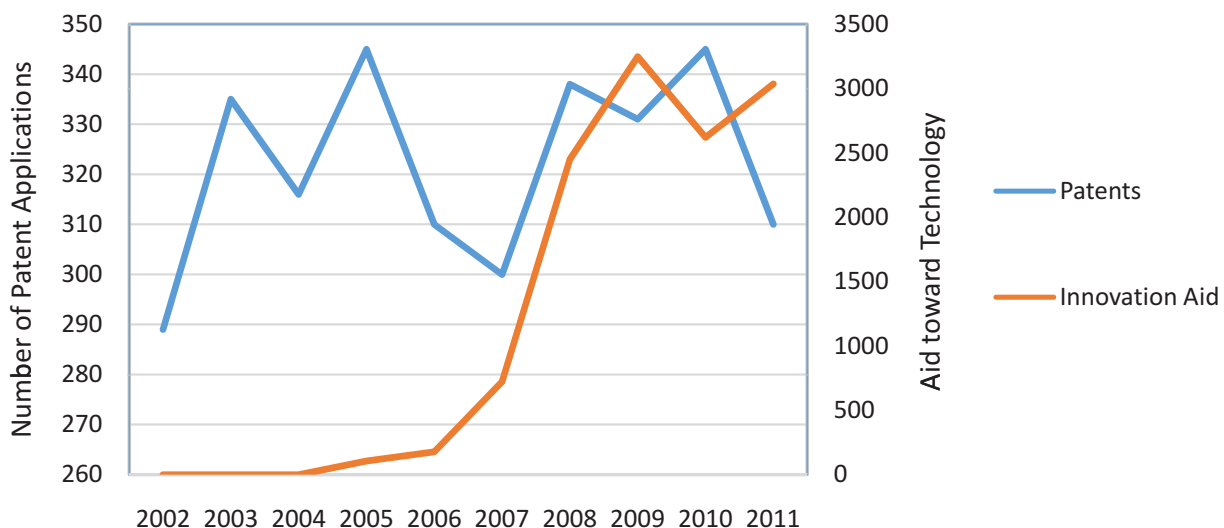
customs stations like Benapole and Mongla. Presently, about 90 percent of the flow of trade is automated. Mozumder (2012) cites several CAM achievements, including significant reductions in the physical inspection of consignments and the simplified processing of documentation. For example, the export clearance time for the majority of consignments fell from 72 hours in 1999 to 3 hours in 2002. After the completion of CAM, the IDA-financed Revenue Administration Modernization Programme (RAMP) was launched in 2005 and completed in 2009.

3.8.7. Human Resource Development

Low human capacity is at the core of many of Bangladesh's development challenges. Stakeholders across sectors mentioned that weak human capacity was a constraint in the implementation of aid-funded projects. For example, lack of human resources and poor planning prevents local counterparts from taking full advantage of costly aid loans and the expertise of hired consultants. Experts explained that inadequate salary structures and excessive bureaucracy are

also obstacles to attracting suitable people for public offices. One expert from the donor community, while commenting on the automation of the Registry of Joint Stock Companies, hinted that the authority is not always properly transferred from the donor to the local counterpart and argued that the repetitive supply of technical assistance to the same recipient indicates that aid is not being "internalised" by the staff or institution. There was also widespread scepticism about donor-financed short training programmes abroad. The selection of candidates for these programmes is not always objective. For example, high-level managers - as opposed to those who need the technical training - will attend these donor-financed international capacity-building programmes. While the above commentary points to some of the deficiencies of capacity-building programmes in Bangladesh, representatives of the garment industry generally had very positive feedback, particularly about the training of mid-level managers. Figure 3.13 also shows that donors have substantially increased financing for science, technology and innovation projects.

Figure 3.13: Aid towards science and technology



Note: "Innovation aid" is aid that falls under the Science, Information & Communication Technology sector of the ADP. This aid goes towards agencies such as the BSTI and the Bangladesh Council for Scientific and Industrial Research.

Source: http://www.wipo.int/ipstats/en/statistics/country_profile/countries/bd.html, ADPs, multiple years, Ministry of Planning, GoB.

3.8.8. Conclusions on the Macro Level Impact

The impact of AfT on export performance cannot be yet ascertained with confidence because of the erratic flow of AfT disbursements and the short period of time under study. Interviews with the stakeholders suggest that a combination of donor and state-driven policy changes starting in the late 1980s were instrumental in creating a favourable business environment to boost exports.

In the case of RMGs, which constitute the majority of exports, it is estimated that FDI played a far greater role than aid in supporting the industry. However, the dominance of RMGs in Bangladesh's export basket is worrying. The impact of the efforts of certain donors to diversify the economy by strengthening high potential sectors like leather and light engineering will not be completely clear until these industries mature and reach the productivity levels of the garment industry. Many new industries have gained a foothold thanks to the expansion of the country's private sector. The country's economy was liberalized considerably over the years, allowing private firms to thrive. In the 1990s, several donors enthusiastically joined the movement towards PSD. The donor community attempted to coordinate its efforts in PSD through various platforms, but stakeholders found the crowding of donors to be a hindrance to progress. Nevertheless, PSD strategies have become much more sophisticated and now focus on enabling factors, which local counterparts have found to be more effective.

One such enabling factor is a strong infrastructure to facilitate trade. At the backdrop of trade facilitation is good governance and human capacity. Aid is believed to have been a trigger for sweeping changes in regulation and administrative policies. The overhaul and automation of the NBR and customs are successful examples of ambitious foreign-assisted drives to improve regulatory bodies. The assessment of donor-led capacity-building programmes among stakeholders is not as optimistic, although it is considered a priority target area for aid. Moreover, donor support towards innovation is relatively recent, which makes it difficult to

determine the impact of this aid on indicators of innovative growth like the number of patents at this point.

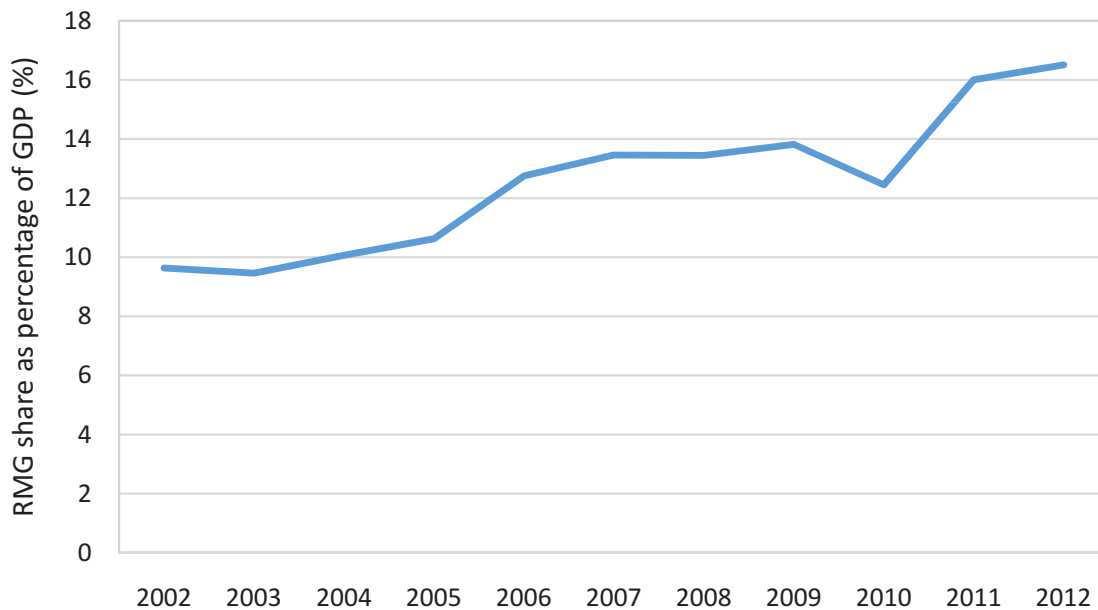
The qualitative analysis presented above on the basis of secondary data and from the feedback of stakeholders across different sectors implies that AfT has succeeded in some areas more than others. The impact is also difficult to ascertain given the short period of time under study.

3.9. Impact at the Micro Level

This section presents a case study of Bangladesh's RMGs that examines the impact of AfT. The RMG industry was selected for the project-level impact evaluation because of its contribution to the economy, as discussed below. First, the background of the sector is briefly presented with a review of the performance of the sector, its importance for improved trade performance, the existing policies, major players, and external cooperation in the sector. Second, the four indicators proposed by Adhikari (2011) will be examined to assess the effectiveness of RMG-related AfT projects: relevance, efficiency, effectiveness, and sustainability.

3.9.1. Overview of the Readymade Garments Sector in Bangladesh

The export-oriented RMG sector of Bangladesh has made significant contributions to the economic development of the country over the last three decades (Figure 3.14). The sector has played a crucial role in earning foreign exchange for the country, improving the balance of payments, and alleviating poverty for a large section of the population by generating employment. Currently, the sector employs about 3.6 million workers - an increase from the 0.12 million in 1984-85,⁴⁰ 80 percent of which are women. Figure 3.15 shows the trend in RMG exports and employment. Growth in the sector has also fostered various multiplier linkages in the economy, including forward and backward linkages to economic activities. Sectors such as cloth, yarn, professional services, housing services, bank services, insurance, real estate, storage, machinery, and cotton cultivation are closely linked with the RMG sector in Bangladesh.

Figure 3.14: Share of RMG export income as a percentage of GDP (%)

Source: Export Promotion Bureau 2011.

Several changes in the global trade environment and policy reforms within the country facilitated the rise of the RMG sector in Bangladesh in the 1980s. At that time, Bangladesh began undertaking important policy changes to fulfil loan conditions from the World Bank and the IMF. Among these, the Structural Adjustment Policy was adopted to stimulate industrial investment in the private sector and increase exports through trade liberalization. As part of this reform, the tariff structure was rationalized, the number of duty slabs was reduced, and tariff rates were brought down. Policy initiatives such as the development of domestic supply capacities, including bonded warehouse facilities, duty drawback incentives, cash compensation schemes, and improving the procurement of raw materials, especially fabrics, under back-to-back letter of credits also contributed to the expansion of the sector. Moreover, the availability of cheaper labour than in many other developing countries gave Bangladesh a comparative advantage in the global market.⁴¹

Additionally, Bangladesh enjoyed quota facilities provided by the importing countries under the MFA and zero tariff access to a number of developed country markets, most notably the EU, under the GSP. The MFA changed the global sourcing patterns of the dominant international buyers and shifted garment production from

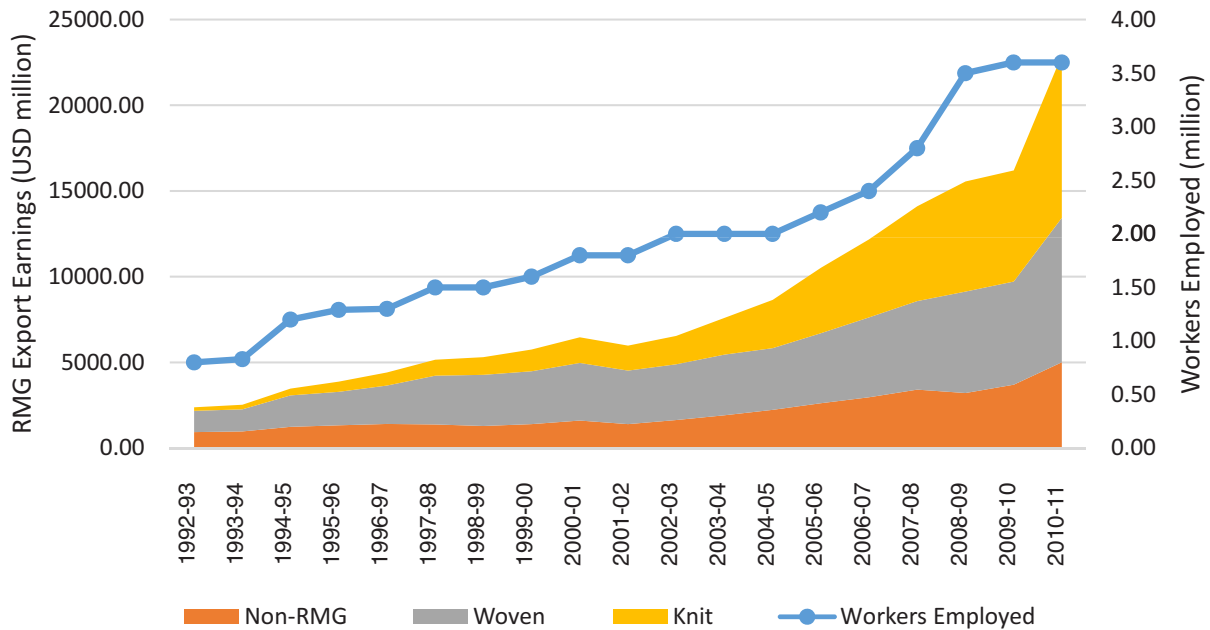
traditional Asian producers like Hong Kong, Taiwan, and South Korea to mainland China and a number of Southeast and South Asian countries. Preferential market access and GSP schemes (discussed in Section 2 of this report) played an important role in increasing RMG exports to foreign markets. RMGs constituted 89.9 percent of total export to Canada in 2011,⁴² and its sales to Japan rose sharply from USD 20.9 million in 2007 to USD 247 million in 2011 (EPB 2011). Following its entry into the EC's Customs Union with Turkey in December 2005, Bangladesh began to enjoy duty-free access to the Turkish market, where RMG sales rose from USD 28.8 million in 2006 to USD 518 million in 2011. Eighty-nine percent of apparel exports were shipped to Europe, the USA, and Canada in 2011 (EPB 2011). Apparels also constitute the bulk of exports to these markets. For example, in the case of the EU, 88 percent of total exports in 2011 were apparels.⁴³

The RMG sector of Bangladesh survived the quota phase-out in December 2004 and the global financial crisis of 2008 by becoming more resilient over time. In fact, following the end of the MFA, the value of exports increased during 2004 to 2005 for all types of RMGs. Also, during the financial crisis in 2007-08 the sector achieved a steady growth (Figures 3.14 and 3.15).

The fact that RMG exports only increased for a few markets, however, indicates the vulnerability of the sector to shocks like the Eurozone Crisis. This points to the need to diversify RMG products and explore new markets for RMG exports. Such efforts will

require more capacity in areas such as fashion and design, IT, research and development, skills development, and direct marketing in prospective countries. In this regard, AfT can play an important role in achieving these goals.

Figure 3.15: Trends in RMG exports and employment (1993-2011)



Source: GoB 2011b; Export Promotion Bureau 2011.

3.9.2. Donor Initiatives for the RMG Sector

In addition to the GoB's support in the forms mentioned above, the RMG sector has received support from a number of donors. A total of seventeen trade-related technical assistance projects were identified in the GoB's ADP documents for the period 2002-12 (Table 3.7). Twelve of them have been completed and five are still ongoing at the time of writing this report. The MoC is the implementing agency for fourteen projects. Ten major AfT projects in the garments sector are briefly described below. It should be mentioned that the projects listed in the GoB's ADP are sometimes named differently in donors' project documents and that descriptions of the following projects here are based on the latter. These projects, however, are not listed as AfT projects. The authors of this report have classified them as AfT projects after analysing the nature of the projects and conducting discussions with MoC officials and experts.

3.9.2.1. Completed Projects

Bangladesh Export Diversification Project (BDXDP): This project was implemented by the World Bank during 1999-2005 with a budget of USD 32 million.⁴⁴ The Project Coordination Unit of the BDXDP and the MoC developed a number of sub-projects, including a critical preliminary study of the Bangladesh RMG sector by the Project Coordination Unit. The study looked at the strengths and weaknesses of the sector and provided recommendations to enable the industry to meet post-MFA challenges.

Small Project Facilities (SPF): The SPF was implemented during 2004-07 to promote civil society dialogues and facilitate EU/Bangladesh cooperation in the areas of export diversification, trade-related matters, and economic cooperation. Under the supervision of the MoC, the project was implemented by private partners such as Micro Industries Development Assistance and Services, the Bangladesh Knitwear

Manufacturers & Exporters Association (BKMEA), and the BGMEA. Out of the total budget of USD 4 million for all components of the projects, approximately USD 90,000 was allocated for RMGs. Activities relating to the garments sector within the project were: (a) capacity-building for women entrepreneurs in the garment sector; (b) training for retrenched RMG workers in the Bangladesh Institute of Fashion Technology Sweater Manufacturing Training Centre; (c) skill development for the promotion of Bangladeshi exports in the EU countries; and (d) capacity-building for the knitwear sector through productivity improvement.⁴⁵

South Asia Enterprise Development Facility (SEDF): SEDF is a multi-donor-funded project development facility managed by the International Finance Corporation, in partnership with the DFID, the Norwegian Agency for Development Cooperation (NORAD), CIDA, and the ADB. Established in 2002, the SEDF has provided support to key sub-sectors like the RMG industry by establishing linkages between SMEs and large corporations as a source of SME growth and regional trade expansion. The SEDF has also assisted the garment industry by implementing an industry-wide monitoring system to ensure social compliance and sustain export growth.⁴⁶

Small and Medium Enterprise Sector Development Programme (project under the SEDF): The Small and Medium Enterprise Sector Development Programme (SMEDEEP) included a component called “Retraining of Displaced RMG Workers,” which provided a training programme that would allow displaced RMG workers to be gainfully re-employed, while providing the enterprise sector with a pool of workers with adequately calibrated skills to meet the expanded demand for skilled personnel. Funded by the ADB, the project was implemented during 2003-06. The total budget of the project was USD 50.6 million, of which approximately 10 percent was provided for the RMG sector.⁴⁷

Promotion of Social, Environmental and Production Standards (PROGRESS): In an attempt to guide the RMG sector towards a path of sustained growth, Bangladesh’s MoC and the German Federal Ministry for Economic Cooperation

and Development developed a project entitled Promotion of Social and Environmental Standards in the Industry (PROGRESS). The project was implemented by GIZ during 2005-09. With a budget of USD 8.7 million, the aim of PROGRESS was to contribute to poverty alleviation through economic development. PROGRESS aimed to improve the competitiveness of the RMG sector by applying social and environmental standards, developing skills and improving productivity. Another major objective of PROGRESS was RMG trade promotion through the exploration of new and emerging markets for Bangladesh’s garment exports. PROGRESS identified a number of responses to promote RMG trade. These are: (a) access to market information; (b) market development through scoping missions; (c) product development and diversification; (d) new market information provision; (e) export promotion; and (f) branding Bangladesh.

Bangladesh Quality Support Programme (BQSP): The EC, with a small contribution from the GoB and NORAD, implemented this project during January 2006-June 2010 with a total budget of Euro 13.5 million. The BQSP aimed to implement quality standards and quality management in Bangladesh to conform to international standards and to increase awareness of these standards in the business community to support the development and diversification of exports. USD 5.25 million was allocated for the RMG component of this programme.⁴⁸

Preparatory Assistance for Promoting Pro-Poor Trade: The UNDP supported the development of activities geared towards enhancing the capacity of the Government and other stakeholders and contributing to improved working conditions and a more competitive garment sector. The aim of the project was to build the capacity of the Social Compliance Forum’s Secretariat, the Compliance Monitoring Cell, which is housed in the Export Promotion Bureau of Bangladesh. With a budget of USD 996,000, the project was implemented during 2006-07.⁴⁹

Asia Invest: This project was launched by the EU in 2006 under the umbrella of its Asia Invest

Programme to establish links between the RMG industry in Bangladesh and the EU. Specific objectives of the project were: (a) raise awareness among targeted EU buyers about the market potential of fifteen RMG suppliers from Bangladesh who met the requirements of the EU market; and (b) facilitate the construction of viable commercial relationships between the suppliers and targeted European buyers. The project had a budget of USD 256,000.⁵⁰

3.9.2.2. *Ongoing Projects*

Better Work and Standards Programme (BEST): The Better Work in Textiles and Garments component of the BEST project is a continuation of the garment component of the BQSP. Its objective is to improve the competitiveness of the textiles and RMG sector as well as the working conditions, leading to the expansion and creation of better employment opportunities. With a budget of USD 2.27 million, BEST was implemented by UNIDO and GIZ in 2010.

Promotion of Social and Environmental Standards in the Industry (PSES): The GIZ component of BEST was initiated in 2010 with an allocation of USD 5.13 million. The PSES programme is designed to implement activities in three fields to promote sustainable growth in the RMG sector: social compliance, productivity improvement, and environmental compliance. The latter focuses on eco-efficiency to strengthen the overall competitiveness of the RMG sector and improve working and employment conditions, leading to the expansion of the sector and more employment opportunities. The purpose of the second phase is to consolidate and up-scale development activities and measures that

were successfully implemented during the first phase (PROGRESS). While PROGRESS introduced various projects to a small number of selected factories to assess the outcome, PSES aims replicate the success for a wider range of RMG factories.⁵¹

3.9.3. Evaluation of the Impact of AfT Projects in the RMG Sector

Keeping in mind the size of this paper, the following evaluation will touch upon a few major RMG projects under AfT, based on interviews with a cross section of people from the Government, donors, members of the BGMEA and BKMEA, officials of various business chambers, experts and representative of CSOs (see Annex I).

3.9.3.1. *Relevance*

Projects undertaken for the RMG sector are relevant to the present policy context of Bangladesh. On the one hand, this sector is helping to integrate the country into the global economy through larger exports. On the other hand, it is accelerating economic growth and reducing poverty through employment creation and income growth. To examine the relevance of AfT projects for the RMG sector for national priorities, the GoB's SFYP and PP were scrutinized. Table 3.8 presents the link between AfT projects in the RMG sector and Bangladesh's priorities for this sector. The table was prepared by examining the GoB's ADP for each financial year between 2002 and 2012 and by exploring links between these projects and the national plans of Bangladesh to establish the relevance of these projects to its broader development agenda.

Table 3.7: Link between national plans and AFT projects for the RMG sector

| | AFT projects on RMGs in the ADP | Objectives of SFYP and PP |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Bangladesh Export Diversification Project (BDXDP): product and market development, project coordination, and development support component (Closed) | Export diversification is one of the GoB's four strategies to increase the global competitiveness of the manufacturing sector in order to gain the maximum benefit from this sector. |
| 2 | Bangladesh Quality Support Export Diversification Programme (Closed) | |
| 3 | Project preparatory technical assistance for the SMEDEEP (Closed) | The development of small and medium industries, a cornerstone of the Government's industrialization strategy, will be achieved through the implementation of the Small and Medium Enterprises policy, which includes wide-ranging fiscal incentives, mechanisms for access to finance, favourable trade policies, the provision of land and site services, and technological and marketing support. |
| 4 | SPF (Closed) | |
| 5 | Developing Business Services Markets Programme in Bangladesh (Phase I) (Closed) | |
| 6 | Developing Business Services Markets in Bangladesh (Phase II) (Ongoing) | According to the national plans, the private sector will spearhead industrialization, while the Government facilitates an enabling environment to attract private investment in areas of dynamic comparative advantage. |
| 7 | Business Development Services for Private Sector Promotion (Closed) | |
| 8 | Preparatory Assistance for Trade and Human Development: Employment Implication of MFA Phase-out and Sustainable Policy Options (Closed) | According to the SFYP, the Government will encourage skill and management development in order to meet the demand for high-value products and the quality and standard requirements in the international market. |
| 9 | Bangladesh Trade Support Programme (Closed) | According to the SFYP, fostering exports forms the basis of the country's industrialization strategy. Necessary measures will be taken to increase manufacturing exports and existing incentives, including those relating to trade and exchange rate policies, will be broadened. |
| 10 | Bangladesh Trade Policy Support Programme (Ongoing) | |
| 11 | Quality Management System and Conformity Assessment Activity for the BQSP (post-MFA) (Closed) | Under the SFYP, the Government will provide accreditation and testing facilities for export and adopt various trade facilitation measures to reduce trade transaction costs and delivery time. |
| 12 | Support to Bangladesh's RMG sector in the post-MFA (Closed) | The SFYP aims to improve the RMG industry's competitive edge of by diversifying export markets, training workers, producing higher value goods, and improving productivity. |
| 13 | Support to Bangladesh's RMG sector under the Better Work in Textiles & Garments component of the BEST programme (Ongoing) | |
| 14 | Promotion of Social, Environmental and Production Standards in the Readymade Garment Sector (PROGRESS) (Closed) | The Government will ensure that industrialization in Bangladesh is environmentally sound and compliant with the health and safety and other standards required under the rules of the WTO. |

| | AfT projects on RMGs in the ADP | Objectives of SFYP and PP |
|----|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 15 | RMG Trade Promotion (Closed) | Under the SFYP, market access expansion is one of the four strategies to increase the global competitiveness of the manufacturing sector. Efforts for gaining market access will be intensified both at regional and international levels. |
| 16 | PSES (Ongoing) | The Government will ensure that industrialization in Bangladesh is environmentally sound and compliant with the health and safety and other standards required under the rules of the WTO. |
| 17 | Capacity-building of the BEPZA (Ongoing) | The Government is arranging special economic zones across the country for both export and local market-oriented industries to stimulate the efficient use of resources and to facilitate backward, horizontal, and forward linkages with local industries. |

Source: Compiled by the authors, based on the Bangladesh ADP (FY 2002-12), SFYP and PP.

The above discussion clearly indicates that the projects for the RMG sector fit well into Bangladesh's overall economic policy, as major national plans and policies have highlighted the importance of the RMG sector and put forward strategies to develop the RMG sector. The inclusion of the AfT projects described above also indicates the GoB's commitment to implement the objectives set out in the national plans and policies by mobilizing resources. The listed AfT projects focus on four broad areas: (a) capacity-building by training and developing the skills of both entrepreneurs and workers; (b) export promotion through product diversification, quality improvement, and compliance; (c) market expansion through proactive marketing abroad; and (d) analysis of the sector through studies. GoB policies put high priority on the RMG sector for its income and employment-generating nature. As reflected in the GoB policy documents, the priorities of the GoB for the RMG sector also include diversifying RMG products and markets, ensuring compliance and maintaining standards, and increasing productivity by developing workers' skills to improve the balance of payments of the country and achieve economic growth.

3.9.3.2. Efficiency

Following Adhikari (2011), the efficiency of projects has been examined through interviews with stakeholders along the following lines: (a) efficiency in project design; (b) efficiency in governance and management; and (c) efficiency in project implementation.

Project Design:

The AfT projects listed above have mostly been supply-driven instead of demand-driven. However, there are differences of opinion with regards to the involvement of various stakeholders in the project design. For example, a GIZ representative reported that the MoC had approached the Government of Germany for assistance with post-MFA challenges. Two projects - namely PROGRESS and the follow-up PSES - emerged from this initiative, which also led to discussions between the GoB and Germany in their annual talks, which alternate between Dhaka and Berlin. Similarly, lead consultants of the BQSP project implemented by UNIDO also described their project as very inclusive, pointing out the participation of a multitude of ministries and private sector organizations.

However, as also mentioned in Section 3.2, the GoB officials reported that they are rarely involved in the project design stage. Donors conceive and formulate projects according to their own priorities and then bring their proposals to the Government for implementation. For example, GIZ mainly drafted the Technical Assistance Project Proposal (TAPP) for PROGRESS, while the MoC only approved it. The GoB officials are given very limited time to scrutinize the feasibility of projects, since projects are presented to them by donors at the end of the formulation process. As a result, most of the projects are approved without detailed scrutiny by the Government. Though projects undertaken in the RMG sector were needed for its improvement, in most cases neither GoB officials nor the private sector and broader civil society were engaged in designing these projects. Moreover, in UNIDO's case, it was mentioned that the BQSP was partly borne out of the analysis conducted by the World Bank's Export Diversification Programme. While this indicates strong donor coordination, it is also an example of analysis by one donor carrying over into the design of a project by another. It is natural that information flows more easily among donors thanks to their common language and understanding of NGO culture. The concern of ownership arises when the input of other donors begins to supplant that of local stakeholders.

Governance and Management:

The MoC selects a manager to oversee the implementation of projects in close collaboration with donors and partner implementing agencies. In the case of the BDNDP, for example, the project was managed by the MoC and assisted by the BDNDP's project coordination unit. An interministerial steering committee and a technical committee comprised of members of the Government and key private sector agencies oversaw the project's implementation.

The problem that arises in this case is the shortage of human resources at the ministry level, which affects the supervision process. In addition to this, officials are transferred during

the implementation period of projects, which affects the institutional memory. For example, during the implementation of the BDNDP, the officials who received a four-week-long training on various WTO agreements were transferred to other ministries and organizations such as the Ministry of Telegraph and Telecommunications, the National Board of Revenue and Bangladesh Television.⁵²

Implementation:

With regards to the efficiency of implementation, it has been observed that the completion dates of a number of RMG projects were delayed by half to a full year. Some projects were followed up with a second phase, demonstrating the commitment of donors to complete their project mission. For example, the European Commission-led BQSP project was borne from the analysis conducted by the World Bank's BDNDP. The fact that some programmes are linked to others - like the BDNDP and the BQSP, or PROGRESS and the BQSP's PSES - demonstrates continuity in donor activity. The presence of the same staff has also helped retain institutional memory and avoid the costs of transferring tasks from one party to another. However, this also raises the question of whether sustainability is being sufficiently addressed in programme designing and whether beneficiaries are properly taking ownership.

In the case of GIZ's PSES project, it is observed that the programme is carried out at three levels - government, trade associations, and factories - across three sectors: private, public, and civil society. Partnership with service providers from civil society, such as Karmojibi Nari and the Awaz Foundation, has been instrumental in reaching out to garment workers, especially women, for skill development training.

Project implementation efficiency could be improved by establishing better coordination among various ministries. In the case of the BQSP and BEST projects, it has been observed that coordination between the MoC, which deals with businesses abroad, and the MoI has been very weak. This in turn is hindering industry-level programmes for export-oriented

industries like the RMG sector. UNIDO feels that the MoC does not have enough authority because the MoI looks after nationalized industries and state-owned enterprises, which constitute a significant proportion of enterprises in Bangladesh. Various donor representatives also expressed low confidence in the MoI's institutional capacity. Donors noted that the cooperation of counterparts was very important and that the high turnover rate of Government secretaries also impeded implementation.

Coordination between donors and implementing agencies plays an important role in the successful implementation of projects. Coordination among donor agencies seems to be stronger than between the Government and donors. For example, when the EU steering committee wished to expand the BQSP to the garment sector within the framework of the BEST programme, the EU brought GIZ on board since UNIDO was not as familiar with the garment sector as it was with the fisheries sector.

3.9.3.3. Effectiveness

The effectiveness of AfT projects in the RMG sector can be assessed by examining the performance of the project, i.e. whether projects have been able to achieve the objectives stated in the project document. According to the project completion reports and discussions with GoB officials, donors, and the private sector, projects were able to meet the stated goals. For example, the Asia Invest project contributed to improve the websites of fifteen RMG suppliers from Bangladesh, develop their company brochures and catalogues, and improve their knowledge of EU business culture. These suppliers designed sample collections and had business meetings with EU buyers.

The effectiveness of the PROGRESS project, which exclusively targeted the RMG sector, has been very impressive.⁵³ The project mainly focused on increasing the productivity of RMGs and promoting RMG trade. In order to increase productivity, PROGRESS - with the partnership of GIZ and the BGMEA - developed the Competitiveness Enhancement Programme (CEP). A productivity improvement cell was established in the BGMEA and a productivity improvement programme was undertaken in ten RMG factories. It introduced a lean manufacturing approach to four knitwear factories to help reduce waste during the production process. Training to improve productivity was provided to 150 factory personnel and more than 80 factory personnel were trained for the same reason. The outcome of this project was the increase of the average productivity of sample factories by 33.65 percent. Most factories achieved productivity gains between 20 to 30 percent. The total annual cost saved was estimated at Bangladeshi Taka 20 million (approximately USD 25,000). Labour productivity alone went up by 85 percent, thanks to the implementation of a lean manufacturing approach. This encouraged many factories to adopt the productivity-improving mechanisms introduced by the CEP.

Under the project, 60 female operators were trained as line supervisors and 20 existing factory supervisors were trained to enhance their skills. All trained female operators were offered permanent positions as supervisors and paid twice the salary of their workplace. Employing skilled supervisors allowed participating factories to enjoy productivity gains and reduced rates of rejection by buyers (Table 3.8).

Table 3.8: Skill development: Before and after implementation

| Category | Promotion of operators to line supervisors | | | Skill enhancement of existing supervisors | | |
|----------------------------|--------------------------------------------|-------|-----|-------------------------------------------|-------|-----|
| | Before | After | % | Before | After | % |
| Pieces line/hour | 86 | 102 | 18 | 110 | 125 | 14 |
| Defects line/hour | 7 | 3 | -43 | 7 | 3 | -43 |
| Complaints line/hour | 4 | 2 | -50 | 3 | 1 | -66 |
| Trainees' Salary BDT/month | 2920 | 6180 | 212 | 7680 | 9350 | 22 |

Source: Skill Development Factsheet, PROGRESS.

PROGRESS has been successful in promoting RMG exports to new markets. The BGMEA, with the help of GIZ, developed the Market Access Guide, which has highlighted the potentials of seven new markets (Turkey, Japan, South Africa, Mexico, Brazil, South Korea, and Australia) for woven garments manufacturers to penetrate and expand their business. The guide provides detailed information on market size, the competitive advantage of specific Bangladeshi RMG products, and tariff and non-tariff barriers in each country. Under the project, new market information provision was explored through scoping missions that aimed to increase the export of Bangladesh's knitwear products to new and emerging markets, and to increase the awareness and knowledge of buyers and consumers of the competitive price and the high quality of these products. During the project timeframe, the BKMEA and the BGMEA launched various scoping missions targeting the new and emerging markets of Japan, Hong Kong, South

Africa, Russia, and various countries of Latin America. The key outcomes of these missions were: (a) the registration of ten Japanese companies with the Board of Investment of Bangladesh; (b) the initiation of two Japanese quality inspection offices in Dhaka, Bangladesh; (c) the establishment of the first business contact with Brazil; (d) the first RMG exports to Chile by eight RMG producers.

PROGRESS has been effective in exploring new markets for RMGs and achieving market access, reflected through higher export growth in the year after the project's completion (Table 3.9). Though there could be other factors, such as the demand for RMG products in those markets and GoB's general policy support for RMG exports, initiatives under PROGRESS have also contributed to this growth. The effectiveness of PROGRESS has inspired the continuation of project's second phase by implementing the ongoing PSES project.

Table 3.9: Growth of RMG exports to new and emerging markets

| Country | 2009-2010 (July-June) | 2010-2011 (July-June) | Growth (%) |
|--------------|-----------------------|-----------------------|------------|
| Japan | 173 | 248 | 43 |
| Hong Kong | 26 | 42 | 62 |
| South Africa | 36 | 48 | 33 |
| Brazil | 45 | 95 | 111 |
| Mexico | 61 | 81 | 33 |
| Chile | 8 | 13 | 63 |

Source: Export Promotion Bureau.

Among the projects in the RMG sector studies, consultancies and seminars were considered less useful by GoB officials. They were sceptical about the benefits of these studies, as most of the resources are spent on consultants. For example, in the case of the Trade Support Programme, more than 80 percent of expenditures were consultant fees, according to the MoC officials. However, donor representatives argued that international consultants are necessary for technical and specialized work and that such level of expertise is not presently found in Bangladesh.

3.9.3.4. Sustainability

The sustainability of RMG projects depends primarily on their performance and the ability of the Government and the private sector to contribute the financial and human resources necessary for the continuation of project activities. In the case of RMG projects, there has been a continuous flow of support from donors, meaning that the GoB did not have to follow up on any particular project. Moreover, because of their successful completion, some projects have continued in their second phases. For example, the Developing Business Services Markets Programme funded by the DFID, the Swiss Agency for Development and Cooperation (SDC), and the Swedish International Development Agency (SIDA) completed its first phase in 2007. The project began its second phase in 2008 with support from CIDA, the DFID, the Netherlands and the SDC. Similarly, the Bangladesh Trade Support Programme was implemented during 2005-08. The second phase of the project was launched in 2009 and will continue through 2009-13. Such continuation of projects is, however, at the will of donors and does not say anything about the sustainability of projects. The private sector feels that the GoB has to play a further proactive role in mobilizing resources so that important projects can be carried out even if donors withdraw their support for this sector.

The sustainability of RMG projects has been constrained by lack of personnel. Results of the PROGRESS project have been mixed. The BKMEA has continued the project, while the BGMEA did not. However, some of the BKMEA's trainee-cum-consultants dropped out, so the BKMEA's Productivity Improvement Cell is not able to provide services to as many factories. Because of the shortage of human resources, many candidates have to wait significant lengths of time to get into the training programme.

3.9.4. Conclusions on the Micro Impact

The aforementioned projects for the RMG sector were undertaken in line with Bangladesh's broader policy context. All the relevant national policies have highlighted the importance of the RMG sector and suggested measures to improve the RMG sector with a view to alleviate poverty and foster economic growth through the enhancement of trade. Hence, the RMG sector has benefited from various AfT-supported projects. Interviews with GoB officials and the private sector also support the view that AfT in the RMG sector has been useful since it addresses some of the critical areas of the industry such as capacity-building for workers and the fulfilment of compliance requirements, which in turn helped improve the sector's competitiveness.

Though there have been concerns among GoB officials as regards their non-involvement at the project design stage, ministries of the GoB are entrusted with the responsibility for implementing projects and working in close collaboration with donors and other implementing agencies. With adequate supplies of human resources at the relevant ministries and improved coordination amongst them, the implementation of projects can be more efficient and project outcomes sustainable.

4. CONCLUSIONS AND RECOMMENDATIONS

The launch of AfT at the WTO Hong Kong Ministerial Meeting in 2005 was followed by several monitoring and assessment initiatives at the official and independent levels. The WTO and the OECD have carried out three Global Reviews for the monitoring and evaluation of AfT and, at the time of writing, are preparing a fourth. These reviews assessed the implementation of the AfT initiative in line with the principles of the Paris Declaration, since these are recommended as guidelines by the 2006 Task Force on Aid for Trade. The main findings of the three reviews indicate that there has been a significant increase in resource mobilization for AfT as well as a tangible positive impact in many developing countries.

This study, part of a larger research project coordinated by the ICTSD in various developing and least developed countries, comes within this context. It assesses the effectiveness of AfT in Bangladesh on the basis of a common and independent methodology developed by the ICTSD and SAWTEE. Bangladesh has made enormous progress in integrating into the global economy through increased trade activity. As an LDC, the country has been part of various trade capacity-building programmes such as the IF, the EIF, and AfT with a view to overcome its supply-side constraints. In this context, the assessment of the effectiveness and impact of AfT in Bangladesh is well justified.

4.1. Summary of Findings

In Bangladesh, AfT has addressed some key areas of the country's trade-related needs. Both the Government and donors have succeeded in implementing a number of trade-related technical assistance and capacity-building projects that helped to address some of its supply-side constraints. For example, AfT for capacity-building through research, training, and workshops helped policymakers understand the dynamism and emerging issues related to trade at the global level. Similarly, AfT aimed at ensuring social and environmental compliance has been useful in improving the quality of products. However, the contribution of such support towards achieving steady economic growth and poverty alleviation by way of improving its export performance has yet to be observed.

The present report looked into various aspects of AfT in Bangladesh to make an objective assessment of its effectiveness. By analysing secondary information - mainly from sources such as the WTO, the OECD, and the GoB, and interviews with key stakeholders - various aspects of the AfT initiative in Bangladesh have been examined. Major findings of the study are summarized in Table 4.1.

Table 4.1: Summary of findings on the effectiveness of AfT in Bangladesh

| Aspects | Whether AfT exhibits | According to data and documents | According to stakeholders |
|-------------------------|------------------------|----------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| 1) AfT Funds Trajectory | a) Additionality | No | No |
| | b) Predictability | No | Changes in the priority of donor countries and the delayed implementation of projects are factors of unpredictability. |
| | c) Grants versus loans | The share of grants in AfT has increased in the recent period, but the major part of aid still comes in the form of loans. | Infrastructure projects should be in grant form. |

| Aspects | Whether AfT exhibits | According to data and documents | According to stakeholders |
|------------------------------|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2) Ownership | Mainstreaming | Trade has been mainstreamed to a large extent in the national development plans such as the SFYP and the PP. However, Bangladesh's efforts to mainstream AfT into national policies are still limited. | Very few AfT projects are mainstreamed. |
| | Relevance to domestic policies | Major AfT projects meet many national objectives. | AfT projects are relevant to Bangladesh as they aim to achieve higher growth. |
| | National level coordination and stakeholder involvement | There is an institutional mechanism for AfT project coordination. | However, national level coordination of projects is weak. The scope for the involvement of broader stakeholders besides the Government and donors is very narrow. |
| | Sustainability | In spite of the gloomy state of national coordination, the GoB has exhibited the capacity to shoulder a large share of the cost of donor-supported investment projects. | Partial |
| 3) Alignment | Alignment with partners' development strategies | In the case of ODA, 100 percent of aid flows to Bangladesh were aligned with national priorities by 2010. | The flow of ODA in Bangladesh is aligned with national priorities, but there is no information on AfT. |
| | Use of country system | There is some improvement. | GoB officials believe that the capacity-building support by donors is now better coordinated and consistent with national and sectoral priorities. |
| | Untied aid | There is some improvement in terms of aid being untied. | Donors continue to impose too many conditions. |
| | Demand-supply gap | Requirements for health, education, gender empowerment, climate change, and infrastructure are huge compared to the flow of aid. | Trade-related projects are mostly supply-driven. Stakeholders expressed the need for more donor support to improve physical infrastructure. |
| 4) Donor coordination | | Coordination among donors has improved through LCGs and the JCS. | Marginal improvement on donor coordination. Donors also prefer to coordinate various activities themselves, bypassing the Government. |

| Aspects | Whether AfT exhibits | According to data and documents | According to stakeholders |
|------------------------------------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5) South-South cooperation | | Support from India and China forms only a fraction of total ODA to Bangladesh. NTBs have undermined existing trade arrangements. | For Bangladesh, market access is a priority in South-South cooperation. Stakeholders are not confident about increases in AfT flows from their neighbours in light of their recent track record. |
| 6) Absorptive capacity | | Low absorption capacity due to lower implementation of development programmes. | The lack of an efficient administrative mechanism, low human capacity, political instability, and stringent donor requirements are major reasons for low absorption capacity. |
| 7) Coherence with environmental sustainability | | Good environmental policy, but AfT projects are not procedurally linked to climate change adaptation and mitigation measures. | Ministries wanting to tackle the impact of climate change lack awareness of the AfT initiative. |
| 8) Impact | Macro level | No impact at the macro level; there has been an erratic flow of AfT disbursement. | The impact of AfT on the export sector has been marginal. The export sector flourished thanks to various national and international policies. |
| | Micro level | The RMG sector has benefited from various AfT-supported projects. | GoB officials and the private sector feel that AfT in the RMG sector has been useful. |

Source: Authors.

The analysis based on the OECD database indicates that disbursement of AfT has not increased in the recent period (2006-11) compared to the base period (2002-05). Only AfT for trade policy and regulation was additional, though the actual volume is far lower than that of other sectors. On the other hand, total disbursement as a percentage of total commitment of AfT declined in the recent period. In addition, the gap between commitment and disbursement continues to widen in the recent period. This gap, the change in the priority of donors and the delayed implementation of projects are factors of unpredictability.

In the case of ownership, AfT projects are closely linked to the objectives of national development policies, but Bangladesh's effort to mainstream AfT into these policies remains limited. The scope for involving broader stakeholders in the formulation, implementation, and monitoring of AfT is very narrow. A positive feature of ODA flow to Bangladesh in the recent past is that it has been aligned with national priorities. The number of parallel project implementation units has decreased since 2005. There is also more untied aid, but stakeholders consider that donors continue to impose too many conditions and restrictions.

Donor coordination has improved through a joint cooperation strategy between the GoB and donors, which aims to improve the aid relationship in terms of discussing and planning projects together. The LCG, a platform of donors and the GoB, helps foster transparency and prevent the duplication of projects. In terms of accessing resources from the South, Bangladesh has not been able to receive any significant amounts of aid from India and China. South-South funding from India and China forms only a fraction of the total ODA to Bangladesh. These countries enjoy a huge trade surplus with Bangladesh, and NTBs have undermined existing trade arrangements with them.

Existing data did not reveal any clear relationship between AfT and export growth in Bangladesh at the macro level. It reflects that the high export growth in Bangladesh is primarily attributed to various favourable Government measures since the 1980s in addition to a vibrant private sector. At the micro level, however, the RMG sector is found to have benefited from AfT.

4.2. Recommendations

A number of recommendations for GoB policymakers, donors, and the private sector emerge from the discussions in this report. They are expected to improve the effectiveness of the AfT initiative in Bangladesh.

Definition and Categorization of AfT: During the interviews, all the stakeholders questioned the method for calculating AfT. For example, the OECD database takes into account all projects under the sectors listed in the Economic Infrastructure category as AfT, even though many projects may have no link to trade activities. This could cause overestimations of AfT flow to the country. Therefore, the MoC and the ERD should have guidelines and a set of criteria with which the actual AfT flow to Bangladesh could be calculated and analysed.

Formation of an AfT Cell: The ERD monitors the overall ODA flow to Bangladesh through the AEU. However, AfT within ODA is not categorized separately, and thus is not recorded.

As there are now several global initiatives to review the effectiveness of AfT, AfT data must be recorded separately at the national level, and recorded maintained by a cell such as AEU with the MoF's ERD. This cell will keep a database of AfT flows to the country and monitor its implementation in close collaboration with the MoC and donors. The MoC and the ERD should identify projects under AfT based on their own criteria.

Mainstreaming Trade Policies: Trade policies have implications for several ministries and international trade rules. In addition, agreements can have direct and indirect links to these ministries. Therefore, trade should be mainstreamed for all relevant ministries and all trade-related policies and strategies should be discussed with and reviewed by concerned ministries. Interministerial and inter-agency coordination should be strengthened for the implementation and monitoring of AfT projects. In this connection, awareness on AfT must be raised among all officials of various ministries. Capacity-building for human resources, particularly in the MoC, is crucial for the coordination of the AfT projects of various ministries and the private sector. Awareness building among the private sector and representatives of NGOs and CSOs is also necessary so they can monitor AfT projects to ensure accountability and transparency. This, in turn, can contribute towards improving the effectiveness of AfT.

More Resources: The impact of AfT on export promotion has yet to be observed in Bangladesh. One of the reasons could be that the amount of AfT flow is still lower than the country's requirement. There has been substantial growth in AfT flows for trade regulation and policy. However, AfT flows should be increased in the area of economic infrastructure for a more substantial impact on economic growth and poverty eradication. AfT disbursement has to increase steadily and significantly to have an impact on export promotion in the long run. Bangladesh needs more resources to improve its social sectors such as health and education to meet the MDGs. As an environmentally vulnerable country, it also requires funds to address the impact

of climate change. Hence, AfT should also be linked to adaptation and mitigation efforts to face the impact of climate change.

Home-grown Projects: AfT projects have so far been mostly supply-driven and the involvement of GoB officials in project formulation has been very low. GoB officials should ask donors to submit their project proposals well in advance. The GoB should also conceive and formulate AfT projects in consultation with the private sector, experts, and members of NGOs and CSOs. To establish shared ownership of projects, all relevant stakeholders should be involved from

the beginning of the project all the way to the implementation phase. Stakeholders should be made aware of the potential benefits and challenges of understanding AfT projects.

Capacity-building: Capable and competent human resources are essential for dealing with donors on AfT projects and effectively implementing projects. The absorptive capacity of the ministries and departments should be improved by enhancing the skills of relevant officials. The private sector should also have the capacity to carry out analyses on trade policies and design and implement projects.

ENDNOTES

- 1 These indices are prepared by the World Economic Forum (WEF), in collaboration with Harvard University, for the Global Competitiveness Report (GCR). The GCI is based on macroeconomic stability, the quality of services provided by public institutions, corruption, infrastructure, technology, the environmental situation, and the role of international financial institutions (Sala-i-Martin and Artadi 2004).
- 2 WTO. 2006a.
- 3 See www.wto.org/english/tratop_e/devel_e/a4t_e/enhance_if_e.htm.
- 4 The key principles of the Paris Declaration include country ownership, mutual accountability, aligning aid to national development strategies, effective donor coordination, the harmonization of donor procedures, the use of programme-based aid modalities, managing for result, transparency, and predictable and multi-year commitments (OECD 2005).
- 5 See <http://thecommonwealth.org/media/news/qa-nobel-prize-winning-economist-professor-joseph-stiglitz>.
- 6 Studies undertaken so far include those in Malawi, Cambodia, Nepal, Peru, and Guatemala. At the moment of writing this report, country studies are ongoing in Ghana and the Philippines.
- 7 Information sourced from discussions with the Ministry of Commerce of Bangladesh.
- 8 According to the OECD, AfT falls under four discrete categories: 1) trade policy and regulations activities, (2) economic (physical) infrastructure, (3) the productive capacity building of industries, and (4) adjustment to trade liberalization (See www.oecd.org/dac/aft/aid-for-tradestatisticalqueries.htm).
- 9 See www.moind.gov.bd/index.php?option=com_content&task=view&id=489&Itemid=524.
- 10 See www.mincom.gov.bd/acts.php.
- 11 See www.mincom.gov.bd/acts.php.
- 12 See <http://databank.worldbank.org/data/home.aspx>.
- 13 See www.erd.gov.bd.
- 14 In government records, ODA is categorized as food aid, commodity aid, or project aid. Food aid covers payment for food and costs associated with food supply such as transport, storage and distribution. Commodity aid represents funding for consumer items, intermediate inputs, and industrial raw materials. Project aid is the financial assistance for projects and programmes, generally listed in the ADP.
- 15 See www.erd.gov.bd.
- 16 See www.oecd.org/development/effectiveness/34428351.pdf.
- 17 WTO. 2005.
- 18 Currently there are 39 LDCs that are classified as HIPC. (See <http://siteresources.worldbank.org/DATASTATISTICS/Resources/CLASS.XLS>).
- 19 See www.erd.gov.bd/images/FlowBook/1112/Tbl-7.1.pdf.

- 20 See www.undp.org.bd/bc/Jan2013/AIMS%20Bangladesh_URS_v2_20130131.pdf.
- 21 The other pilot countries that are part of this project are Colombia, Ghana, Vietnam, Rwanda, and the Solomon Islands.
- 22 Information on DTC was also taken from the proceedings of an international conference on Visions, Proposals and Tools for design research activities in Turin, Italy in 2008. The proceedings can be found here: www.allemandi.com/university/ctc.pdf.
- 23 See www.bangladesh-bank.org/econdata/import/imp_pay_country_commodity.php.
- 24 See www.bangladesh-bank.org/econdata/index.php.
- 25 See www.saarc-sec.org/areaofcooperation/detail.php?activity_id=35.
- 26 See www.erd.gov.bd/images/FlowBook/1011/Tbl-3.0.pdf.
- 27 See www.erd.gov.bd/index.php?option=com_content&task=view&id=245&Itemid=263.
- 28 See www.thehindu.com/news/international/bangladesh-to-abandon-8-projects-under-indian-credit/article2807892.ece.
- 29 See www.guardian.co.uk/global-development/2011/dec/01/china-india-aid-partnership.
- 30 See www.erd.gov.bd/images/FlowBook/1011/Tbl-3.0.pdf.
- 31 Land acquisition for project implementation is difficult and lengthy for several reasons. First, there is not enough land compared to the demand of the country. Second, land administration is very weak and suffers from the lack of governance. Acquiring undisputed land is not easy, as land titles are often incorrect and out of date. Third, for the implementation of projects under the annual development programme, concerned ministries require a large piece of land.
- 32 See www.moef.gov.bd/climate_change_strategy2009.pdf.
- 33 See psosamenwerken.files.wordpress.com/2012/07/preliminary-study-psd-bangladesh-july-2012.pdf
- 34 See www.mof.gov.bd/en/budget/12_13/ber/bn/Chapter-14%20Bangla_%202012.pdf.
- 35 See www.doingbusiness.org/Custom-Query/bangladesh.
- 36 See http://cpa.gov.bd/portal/home.php?option=article&page=82&link=statistical_info&item=port_statistics
- 37 See www.mof.gov.bd/en/budget/12_13/ber/en/chapter-2_en.pdf
- 38 See www.mof.gov.bd/en/budget/er/2006/c2.pdf?phpMyAdmin=GqNisTr562C5oxdV%2CEruqlWwoM5.
- 39 See http://mpa.ub.uni-muenchen.de/10299/1/MPRA_paper_10299.pdf.
- 40 See <http://www.bgmea.com.bd>
- 41 It has been reported that the minimum wage per month in the EPZs was USD 250 in China, USD 135 in Indonesia and USD 80 in Pakistan (Vidal 2012). In Bangladesh, the minimum wage for RMG workers has been fixed at BDT 3,000, equivalent to approximately USD 37 per month (BGMEA 2012).

- 42 See www.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag.
- 43 See www.bgmea.com.bd/home/pages/TradeInformation#.UUAZX9bcpkQ and www.epb.gov.bd/countryexportdata.php.
- 44 See www-wds.worldbank.org/servlet/WDSContent.
- 45 See www.giz.de/en/worldwide/351.html.
- 46 See www.ifc.org/wps/wcm/connect/region_ext_content/regions/south+asia/advisory+services/sedf and www.adb.org/sites/default/files/projdocs/2006/36440-REG-TACR.pdf.
- 47 See www.adb.org/sites/default/files/projdocs/2006/36440-REG-TACR.pdf.
- 48 See www.best-bd.org/bqsp/index.php.
- 49 See pses.co/index.php?option=com_content&view=article&id=100&Itemid=230.
- 50 See www.cbi.eu/download/actualiteit/Fash_Bangladesh.pdf.
- 51 See www.pses.co/index.php?option=com_content&view=article&id=100&Itemid=230.
- 52 Discussions with officials of the MoC.
- 53 The information in this section is taken from the PROGRESS factsheets, which are available at www.psesbd.org/index.php/publications/fact-sheets.

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ANNEX I. LIST OF INTERVIEWEES

1. Ministry of Commerce, Government of Bangladesh
2. Aid Effectiveness Unit, Economic Relations Division, Ministry of Finance, Government of Bangladesh
3. Export Promotion Bureau of Bangladesh
4. Bangladesh Tariff Commission
5. Bangladesh Foreign Trade Institute
6. Bangladesh Garment Manufacturers Exporters Association
7. Bangladesh Knitwear Manufactures and Exporters Association
8. Federation of Chambers of Commerce and Industry
9. Dhaka Chamber of Commerce and Industries
10. VOICE, Bangladesh
11. Karmojibi Nari
12. Bangladesh Quality Support Programme
13. Asian Development Bank
14. Canadian International Development Agency
15. Delegation of the European Union to Bangladesh
16. Department for International Development
17. Deutsche Gesellschaft für Internationale Zusammenarbeit United Nations Development Programme
18. The World Bank
19. Former Finance Adviser to the Caretaker Government of Bangladesh
20. Former Secretary, ERD, Finance Division and Former Chairman, Agrani Bank

ANNEX II

Table A2.1: Disbursement of AfT to Bangladesh (USD millions, constant 2010 prices)

| Sector/Year | 2002 | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Economic infrastructure | 241.92 | 356.19 | 324.55 | 325.63 | 203.00 |
| Transport & storage | 183.12 | 189.99 | 213.16 | 122.42 | 101.33 |
| Communications | 18.68 | 5.71 | 1.44 | 44.74 | 13.70 |
| Energy | 40.11 | 160.49 | 109.95 | 158.47 | 87.97 |
| Building productive capacity | 159.92 | 355.12 | 243.45 | 184.23 | 59.31 |
| Banking & financial services | 72.84 | 162.06 | 94.55 | 64.14 | 7.78 |
| Business & other services | 5.31 | 26.82 | 56.30 | 43.20 | 9.75 |
| Agriculture | 31.90 | 41.59 | 37.85 | 26.89 | 20.48 |
| Forestry | 2.76 | 0.03 | 1.43 | 1.07 | 0.61 |
| Fishing | 11.79 | 12.40 | 10.10 | 5.48 | 2.02 |
| Industry | 18.02 | 106.90 | 43.14 | 23.00 | 10.34 |
| Mineral resources & mining | 17.31 | 5.31 | 0.07 | 20.41 | 8.23 |
| Tourism | .. | .. | 0.01 | 0.03 | 0.10 |
| Trade policies & regulations | 2.05 | 1.32 | 0.96 | 1.77 | 1.98 |
| TOTAL | 403.89 | 712.63 | 568.96 | 511.63 | 264.29 |
| Sector/Year | 2007 | 2008 | 2009 | 2010 | 2011 |
| Economic infrastructure | 227.70 | 272.95 | 181.05 | 298.15 | 315.13 |
| Transport & storage | 105.78 | 48.70 | 82.52 | 129.66 | 147.59 |
| Communications | 21.07 | 8.35 | 15.67 | 16.76 | 5.27 |
| Energy | 100.84 | 215.91 | 82.85 | 151.73 | 162.27 |
| Building productive capacity | 97.06 | 235.55 | 106.49 | 153.38 | 128.63 |
| Banking & financial services | 29.71 | 44.10 | 32.21 | 32.77 | 20.42 |
| Business & other services | 12.52 | 70.71 | 17.80 | 28.38 | 28.30 |
| Agriculture | 17.51 | 91.24 | 36.40 | 60.53 | 38.44 |
| Forestry | 0.04 | 0.55 | 0.78 | 0.75 | 0.54 |
| Fishing | 5.01 | 8.57 | 2.78 | 5.97 | 8.42 |
| Industry | 22.25 | 20.09 | 15.92 | 22.85 | 30.94 |
| Mineral resources & mining | 9.27 | 0.22 | 0.50 | 2.08 | 1.23 |
| Tourism | 0.76 | 0.08 | 0.11 | 0.06 | 0.34 |
| Trade policies & regulations | 14.94 | 28.90 | 5.80 | 15.07 | 5.35 |
| TOTAL | 339.70 | 537.41 | 293.35 | 466.61 | 449.11 |

Source: OECD CRS database.

ANNEX III: METHODOLOGY FOR ASSESSING THE EFFECTIVENESS

Aspect 1 - AfT Funds Trajectory

| Elements | Indicators | Source of data and information |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| a) Additionality | <p>If the following four conditions are satisfied, we could ascertain that there has been additionality:</p> <ol style="list-style-type: none"> 1. AfT in country x in the recent period (r) is greater than AfT in the base period, i.e. $AfTr > AfTb$. 2. Non-AfT ODA in country x in the recent period (r) is greater than non-AfT ODA in the base period, i.e. $N-AfTODAr > N-AfTODAb$. 3. The growth rate of non-AfT ODA in country x in the recent period (r) is greater than or equal to the growth rate of non-AfT ODA in the base period (b), i.e. $gN-AfTODAr \geq gN-AfTODAb$. 4. The growth rate of non-AfT ODA in country x in the recent period (r) is greater than or equal to the growth rate of non-AfT ODA at the aggregate level (y) for the entire period of 2002-09, i.e. $gN-AfTODArx \geq gN-AfTODAy$. | OECD CRS |
| b) Predictability | <p>Variation between commitment and disbursement in a given fiscal year for the partner country's government (note: since differences in reporting and accounting systems also create gaps in commitment and disbursement, it would be necessary to corroborate the findings with a three-year moving average). Extent to which AfT projects have been completed as initially agreed without any external resource constraints.</p> | OECD CRS, interviews with Government officials from finance and commerce ministries and the Planning Commission/Ministry. |
| c) Grants versus loans | <p>Identification of the grant and loan components of AfT. Changes in composition of the grant and loan components over time.</p> | OECD CRS National Sources/ Finance Ministry. Survey of Government officials, private sector, donors, and experts. |
| Sustainability | The Government's share of funds in trade-related aid-funded projects. | ADP Yearbook, IMED project completion report, and interviews with officials. |
| | Engagement of local-level institutions and individuals (experts or otherwise) in the project design and implementation as well as commitment to institutional and human resource development. | |

Aspect 2 - Ownership

| Elements | Indicators | Source of data and information |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| a) Main-streaming | <p>Formal versus substantive mainstreaming.</p> <p>Policy level mainstreaming versus programme level mainstreaming (e.g. whether the sectoral ministries have also mainstreamed).</p> <p>Presence of the National Implementation Unit under the EIF programme in the case of LDCs/national AfT committee/similar institutions - their function and influence in the country.</p> | Interviews with stakeholders and review of policies and literature. |
| b) Relevance to domestic trade and the development priorities | Percentage of AfT resources allocated to projects/programmes that were considered priorities by the partner country and designed by the partner country (e.g. whether the issues covered by AfT fall under the Government's higher level of priority, what is the percentage of resources committed by the Government, and what is the share of donors' resources). | |
| c) National level coordination/ stakeholder involvement | <p>Formal versus substantive mode of coordination between various governmental agencies (ministries/commissions/departments) responsible for AfT (e.g. trade, finance, planning, industry, agriculture, tourism, energy, transportation, and communication).</p> <p>Formal versus substantive mode of engaging stakeholders in the process of trade policy formulation.</p> | |
| d) Sustainability | <p>Percentage of AfT projects in which sustainability aspects have been taken care of (e.g. percentage of projects funded by the Government after the completion of the project).</p> <p>Increase of Government expenditure on issues covered by AfT.</p> <p>Engagement of local-level institutions and individuals (experts or otherwise) in the project design and implementation as well as commitment to institutional and human resource development.</p> | |

Aspect 3 - Alignment

| Elements | Indicators | Source of data and information |
|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| a) Alignment with partner's development strategies/priorities | Formal and substantive level at which donor priorities are in line with the partner country's development agenda. To what extent trade has been mainstreamed by the donors as a development strategy (particularly at their local offices). | Interviews with stakeholders and review of country strategy papers and donors' assistance strategies. |
| b) Use of country systems/parallel implementation structure | Extent to which donors use the public financial management and procurement system of the partner country as well as local human resources recruitment, appraisal, and training. Number of projects implemented by the Government or through the creation of a parallel Programme Implementation Unit by donors. | |
| c) Provision of untied aid | Assessing the level and type of conditionalities associated with the aid provided. | |
| d) Demand-supply gap | The gap between AfT resources requested by the partner countries and resources actually delivered by the donors. Gap = AfT disbursed - AfT requested (based on needs assessment, where available). | |

Aspect 4 - Donor Coordination

| Elements | Indicators | Source of data and information |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| N/A | To what extent donors coordinate their efforts to avoid duplication and create synergy from the AfT funding - AfT support in which there has been duplication/where donors have been able to establish synergy. | Interviews with stakeholders. |

Aspect 5 - South-South Cooperation

| Elements | Indicators | Source of data and information |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| N/A | Identifying the involvement of South-South donors, their modes of engagement, and the extent to which they fulfil (or are at least on-track to fulfilling) at least the basic elements of the Paris Declaration. | ADP Yearbook and interviews. |

Aspect 6 - Coherence with Environmental Sustainability

| Elements | Indicators | Source of data and information |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| N/A | To what extent AfT initiatives have maintained coherence with environmental sustainability. Identifying real or potential synergy and mutual compatibility between AfT financing and climate-related financing. | Ministry of Environment policy and projects, interviews. |

Aspect 7 - Impact at the Macro Level

| Elements | Indicators | Source of data and information |
|--------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Export performance | Links between AfT and export performance at the national level as well as the sectoral level (e.g. agricultural exports). | Interviews with stakeholders. |

Aspect 8 - Impact at the Micro Level (AfT Case Study)

| Elements | Indicators | Source of data and information |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| RMGs | <ul style="list-style-type: none"> - Background - Relevance - Efficiency - Effectiveness - Sustainability/impact - Development impact | Project reports, strategy papers from donor countries, interviews with key people from the BGMEA and the BKMEA and Government officials. |

Other Relevant Issues

| Elements | Indicators | Source of data and information |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Grants versus loans | Grant and loan components of AfT. | OECD CRS |
| | Changes in the composition of the grant and loan components over time. | |
| Absorptive capacity | The extent to which the country is able to utilize AfT resources within the stipulated time period. | Project reports, policy documents, and interviews with Government officials. |
| | Whether the Government's agencies are capable of identifying needs, designing projects, implementing projects, and monitoring and evaluating programmes and projects. | |

Other Publications from ICTSD's Programme on Competitiveness and Development include:

- Evaluating Aid for Trade on the Ground: Lessons from the Philippines. By Joy Abrenica, Ramon Clarete, Loreli de Dios and María Fe Esperanza Madamba. Issue Paper No. 28, 2013.
- Evaluating Aid for Trade on the Ground: Lessons from Ghana. By Sarah Jane Danchie, Edward Brown and Abdul Mijiyawa. Issue Paper No. 27, 2013.
- Una Evaluación de la Ayuda para el Comercio en la Práctica: Lecciones de Guatemala. Por Hugo Maul, Lisardo Bolaños, Irene Flores, Rodrigo Méndez y Gustavo Sáenz. Documento de Fondo No. 26, 2012.
- A Review of Trade Preference Schemes for the World's Poorest Countries. By Sam Laird. Issue Paper No. 25, 2012.
- Una Evaluación De La Ayuda Para El Comercio En La Práctica. By Ricardo Paredes. Issue Paper No. 24, 2012.
- Evaluating Aid for Trade on the Ground: Lessons from Nepal. By Ratnakar Adhikari, Paras Kharel and Chandan Sapkota. Issue Paper No. 23, 2011.
- Evaluating Aid for Trade on the Ground: Lessons from Cambodia. By Siphana Sok, Cambodochine Dao, Chandarot Kang and Dannel Liv. Issue Paper No. 22, 2011.
- Evaluating Aid for Trade on the Ground: Lessons from Malawi. By Jonathan Said, John McGrath, Catherine Grant and Geoffrey Chapman. Issue Paper No. 21, 2011.
- Evaluating Aid for Trade Effectiveness on the Ground: A Methodological Framework. By Ratnakar Adhikari. Issue Paper No. 20, 2011.
- EU Climate Policies and Developing Country Trade Vulnerability: An Overview of Carbon Leakage-Sensitive Trade Flows. By ICTSD. Issue Paper No. 19, 2011.
- The Allocation of Emission Allowances Free of Charge: Legal and Economic Considerations. By I. Jegou and L. Rubini. Issue Paper No. 18, 2011.

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Founded in 1996, the International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank based in Geneva, Switzerland, with operations throughout the world, out-posted staff in Brazil, Mexico, Chile, Senegal, Canada, and Russia, and a first regional office in Beijing, China. By enabling stakeholders in trade policy through information, networking, dialogue, well-targeted research and capacity-building, ICTSD aims to influence the international trade system so that it advances the goal of sustainable development. ICTSD co-implements all its programmes through partners and a global network of hundreds of scholars, researchers, NGOs, policymakers and think-tanks around the world. ICTSD acknowledges the contribution of its donors in supporting this project.