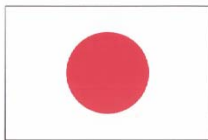

Private Sector Development (PSD) Donor Mapping 2006

Part Two:
Consultants' Report on Gaps,
Overlaps and Fields of
Collaboration



From
the People of Japan



Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH commissioned by the Federal German Ministry for Economic Cooperation and Development (BMZ), 2006
Embassy of Japan in Bangladesh, 2006

All rights reserved.

The views expressed in this report are those of the authors and do not necessarily reflect the views and policies of either the Government of Germany and Japan or GTZ.

The Government of Japan and GTZ do not guarantee the accuracy of the findings included in this publication and accept no responsibility for any consequences of their use.

Co-published by GTZ Office Dhaka and the Embassy of Japan in Bangladesh, 2007.

GTZ Office Dhaka
Road 90, House 10/C,
Gulshan 2
Dhaka 1212, Bangladesh

Embassy of Japan in Bangladesh
Plot # 5 & 7
Dutabash Road, Baridhara
Dhaka 1212, Bangladesh

PSD-LCG Donor Mapping Exercise 2006

Part II

About the exercise

The Private Sector is an engine of growth that is essential for poverty reduction in Bangladesh. In order for this country to maximize its potential, development partners are working together through such mechanisms as the Local Consultative Group (LCG).

Sharing knowledge among the development partners about their activities helps to avoid overlaps, and promotes coordination and collaboration. It is hoped that this “donor mapping exercise” will serve as an important element of such knowledge. It has been conducted on behalf of LCG Private Sector Development Subgroup (PSD-LCG).

The Government of Japan through its Embassy has provided funding to mobilize Bangladesh Enterprise Institute (BEI), who conducted the previous exercise in 2003, to put together information provided by PSD-LCG members and to conduct some data analysis. This forms Part I of the exercise which is termed ‘Project Database and Matrices’ and is published separately.

GTZ, commissioned by the Federal German Ministry for Economic Cooperation and Development (BMZ), mobilized three international experts to look more deeply into the three “hot topics”, namely, (i) Business Enabling Environment (BEE), (ii) Corporate Social Responsibility (CSR), and (iii) Trade. This forms Part II of the exercise and is termed the “Consultants’ Report”.

UNDP will organize a workshop to share and discuss the findings of the mapping exercise with our partners in the government, the private sector, and civil society in Bangladesh.

In sum, the overall mapping exercise 2006 consists of (i) the stocktaking done in Part I, (ii) the preliminary analysis done in Part II and (iii) concludes with a dissemination workshop.

The exercise was driven by a Working Group consisting of Takafumi Ueda (JICA), David Ambadar (GTZ), Jessica Murray (UNDP) and Richard Boulter (DFID). Richard is the current Chair of the PSD-LCG.

About Part II

Stocktaking or mapping is a first and important step towards better harmonization among PSD activities in Bangladesh. Evaluating the stocktaking and drawing conclusions is a second step. This is the point of departure for Part II. It provides a preliminary analysis of the PSD portfolio with respect to gaps, overlaps and potential areas of collaboration. The analysis is confined to the three 'hot topics'.

Many issues addressed in the report cannot be satisfactorily solved through analysis by external consultants but rather through open and constructive discussions within Bangladesh. In this light, the report should be interpreted as a starting point. It merely points the reader into a direction as where to look for gaps, overlaps and potential areas of cooperation within certain areas of the PSD portfolio.

Since Part II was based on the data base and matrices of Part I, the report is subject to the same constraints and challenges. The views expressed in this report do not necessarily reflect the views and policies of the PSD-LCG members. We do not necessarily agree with everything expressed in the report. Despite these limitations, it was decided by the PSD-LCG to make the findings of Part II available and share them with a wider audience.

The findings do not claim to be comprehensive and this is by no means a perfect report. But we hope that the overall "donor mapping exercise" will form a good basis to further promote coordination and collaboration.

In particular, we hope that Part II serves to stimulate fruitful discussions among development partners, the government, the private sector and the civil society.

PSD-LCG Donor Mapping Working Group

Takafumi Ueda, JICA
David Ambadar, GTZ
Jessica Murray, UNDP
Richard Boulter, DFID

LCG - PSD Donor Mapping 2006 **Private Sector Development**

**Report on special focus areas:
Business Enabling Environment
Corporate Social Responsibility
Trade**

By:

Wilhelm Elfring
Sabine Kittel
Patrick Neyts

Commissioned by:
LCG-PSD, Bangladesh

Commissioned by:
The German Federal Ministry of Economic Cooperation and
Development (BMZ) through GTZ Bangladesh

Contents

- 1. Introduction2
 - a. Background and design of the donor mapping2
 - b. Specific objectives of the international consultancy.....2
 - c. Benefits of the donor mapping3
 - d. Methodology3

- 2. General observations4

- 3. Gaps, overlaps and observations on special focus areas5
 - 3.1 Business enabling environment.....5
 - a. General observations5
 - b. Gaps or critical areas remaining unaddressed8
 - c. Overlaps9
 - d. Potential fields of collaboration9

 - 3.2 Corporate Social Responsibility 10
 - a. Context 10
 - b. General observation 11
 - c. Overlaps between programmes 11
 - d. Gaps or critical areas remaining unaddressed 12
 - e. Potential fields of collaboration 13

 - 3.3 Trade 13
 - a. General observation 13
 - b. Gaps or critical areas remaining unaddressed: 14
 - c. Overlaps between programmes 15
 - d. Potential fields of collaboration 15

- 4. General observations on private sector development portfolio coordination 16

- Annex 18

1. Introduction

a. *Background and design of the donor mapping*

In 2003, the Private Sector Development Local Consultative Group of donors (PSD-LCG) supported a mapping of the various programmes¹ being implemented or planned in Bangladesh. Due to the large volumes of new programmes, and the increasing need to avoid duplication and overlap, the PSD-LCG commissioned a follow up study in 2006. The initiative was originally proposed by UNDP and GTZ to map Post Multifibre Agreement (Post-MFA) programmes, which PSD-LCG welcomed and decided to build on, to cover all the existing and planned programmes in the area of Private Sector Development in Bangladesh.

The overall objective of the exercise is to map out all programmes supported by development partners, including donors, the private sector (including associations and chambers), and the Government of Bangladesh (GoB) in the arena of private sector development. This involves players outside of the LCG members such as NGOs and international organisations. LCG-PSD defines private sector development programmes as including: financial market development and reform, market development interventions, IT development and vocational skills training to support economic growth, trade promotion and capacity building, investment and business climate reform, regulatory reform, environmental and social compliance work including those by the private sector, business linkage and promotion programmes, corporate governance, state-owned enterprise (SOE) reform, enterprise training support, and export promotion.

Bangladesh Enterprise Institute was commissioned to compile a database of all ongoing and pipeline programmes in private sector development. Additionally, three international consultants were contracted in order to further investigate three “hot topics” of private sector development in Bangladesh.

b. *Specific objectives of the international consultancy*

The objective of the international consultancy was to concentrate on:

- inputs to the identification of gaps or critical areas remaining unaddressed
 - inputs to the identification of overlaps between programmes
 - suggestions on potential fields of collaboration between/among development partners
- in the special focus areas of business enabling environment, Corporate Social Responsibility (CSR) and trade. The international consultancy was commissioned to focus on donor interventions in these areas; government, civil society and private sector initiatives were not taken into account.

¹ In this document, “programmes” refer to all the development activities that come under different names such as programmes, projects, activities and so on.

c. Benefits of the donor mapping

The Donor Mapping of Private Sector Development Bangladesh 2006

- improves the transparency about on-going projects in private sector development for insiders (Development Partners) and outsiders,
- reflects the emphasis of present sector support (e.g. use of pool funding arrangements),
- allows an overview about the thematic changes over time, comparing it to the mapping exercise of 2003, and identification of trends in support to private sector development,
- encourages discussion about thematic and implementation gaps and overlaps,
- serves as input for discussion with private sector and government.

d. Methodology

In the analysis of the current portfolio, the consultants relied on the following sources of information:

1. close collaboration with the local consultants from Bangladesh Enterprise Institute and the PSD-LCG working group,
2. draft database of overall mapping by Bangladesh Enterprise Institute,
3. public documents and key national and international benchmarks retrieved from our secondary research,
4. interviews with key local stakeholders within Dhaka and
5. international knowledge on approaches in private sector development (e.g.: creation of centre of excellence in Singapore or China with a clear strategic focus on growth sectors, biotech, semiconductor, financial services in Singapore)

The mission chose international knowledge as reference point for identifying gaps, overlaps and potential for collaboration in the specific areas (benchmark approach), because a shared technical vision (government – private sector – donors) as to expansion path of the economic sectors has not been established so far and the Bangladeshi PRSP as of yet is a very broad document which does not establish clear priorities in private sector development intervention. The vision and strategy ideally should have been the reference point for private sector development portfolio analysis and adjustment. Our analysis and observations can serve to stimulate discussion between government, donors and private sector as to the establishment of a common vision and priorities.

2. General observations

During the mission, some general issues regarding donor coordination, private sector development and the current portfolio were raised. As they are not specific to one of the special focus areas, they are addressed separately at this point.

Donor Coordination:

- At present, all new country strategies and programme documents (e.g. EU, World Bank, ADB, and USAID) contain a short analysis of relevant donor activities in the country. This is an encouraging indicator for improved donor coordination in practice.
- Many programmes in private sector development are already designed as multi-donor-initiatives (cf. [Annex 4](#)). Again, this indicates a high level of donor coordination.
- The division of labour between LCG sub-groups is necessary in order to arrive at operative group sizes. Yet, any grouping will lead to thematic overlaps and therefore, might cause differences in categorization (e.g. some donors including infrastructure programmes in the mapping exercise, others excluding them).² Overall mapping results are imprecise in consequence. In the next mapping exercise, LCG-PSD could aim at a more unified definition of which programmes to include or redefine the grouping over time.

Private Sector Development:

- The lack of a shared technical vision (government – private sector – donors) as to an expansion path of the economic sectors is a major constraint for orienting government and development partners' investments. This is recognized in PRSP, as the first key target in the private sector development policy matrix reads: "Preparation of a strategic vision for Private Sector Development" (GoB 2005: 247)
- Although efforts of government and development partners resulted in a respectable enhancement in private sector development in absolute terms (strong growth trend of macro economic indicators – GDP), the relative position of the country in important aspects has partially worsened as other countries in Asia and worldwide have progressed at a faster pace. For example, World Bank indicators for Doing Business in Bangladesh show a dim picture for specific but very relevant elements of the economy (position 174 out of 175 in contract enforcement, 167 in property registration, trading across borders 134).

Private sector development portfolio:

- Apparently donors presently show a low profile in key sectors with significant growth potential for a sustainable economy, e.g. construction, logistics, water engineering.
- The portfolio at national level does not give visible recognition of the informal sector considering its enormous importance for the labour market and enterprise development
- Considering the growing need for a more qualified labour force and the high numbers of unskilled school leavers, the present private sector development portfolio shows a low level of vocational training to date, although there are some projects (EC, Japan/ADB) in the pipeline.
- Considering the scale of the present private sector development portfolio and the constraints in the implementation capacity one would expect a more intensified and massive type of support to national and regional associations and chambers.
- Although some initiative exist (e.g. SFP and Asia Invest by the EU, SEDF) the absorption capacity of the implementation partners appears to be a lasting problem and reduces the

² Other examples are: While some development partners classify social responsibility and voluntary standards as part of private sector development, others categorize this under human rights. Improvement of customs procedures was seen as part of either "good governance" or "PSD".

impact of international donor support. Low levels of programme disbursement and delays in implementation schedules are the result.

3. Gaps, overlaps and observations on special focus areas

3.1 *Business enabling environment*

a. General observations

The pressing need for a better business enabling environment is recognized by all actors in Bangladesh. Not only is the first strategic goal in the PRSP policy matrix on private sector and SME development policy “Creating an enabling environment: Improvement/ streamlining legal and regulatory framework”, the majority of Development Partners new strategy papers (WB Country Assistance Strategy 2006-2009, ADB Country Strategy and Program 2006-2009, EC National Indicative Programme 2006) feature improving the business environment as a top priority. In many cases, the framework of policies, laws and regulations especially for business operation seem to be acceptable, the main bottleneck to remain being the implementation of this framework.

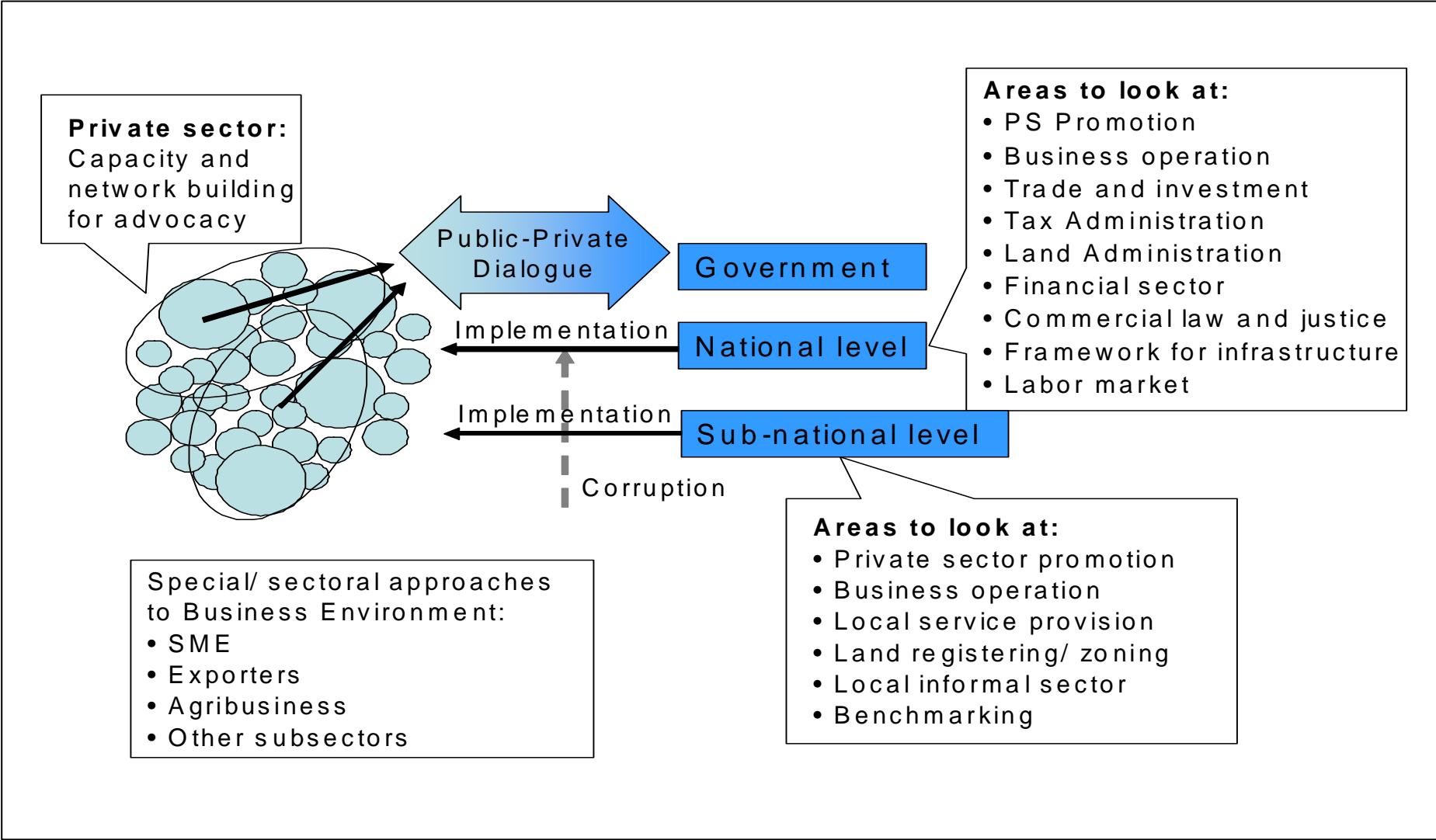
As the Donor Mapping PSD 2006 works with a benchmark approach regarding international knowledge, this section starts with a brief glance at the areas which are currently addressed internationally in promoting business enabling environment in a narrower sense:

- Policy, legal and regulatory framework
 - Assessment of reform needs
 - Sensitising policy makers for the need for reform
 - Revision and reformulation of policies, laws and regulations (including regulatory impact assessments)
- Implementation: Organisational framework and capacity: Organisational development, capacity building and qualification (link to broader public administration reform)
- Private sector participation in political process
 - Sensitising private sector for the need for regulation and compliance
 - Organisational development, capacity building and qualification for chambers and associations
 - Fostering communication, dialogue and networking for advocacy
- Special/ sub-sector approaches
 - SME: removing anti-SME biases in policies, laws and regulations
 - Exporters/ trading firms: focussing on special needs of exporting/ trading firms
 - Sub-sector approaches: Private sector promotion alongside specific value chains, addressing specific business environment concerns of the sub-sectors in question

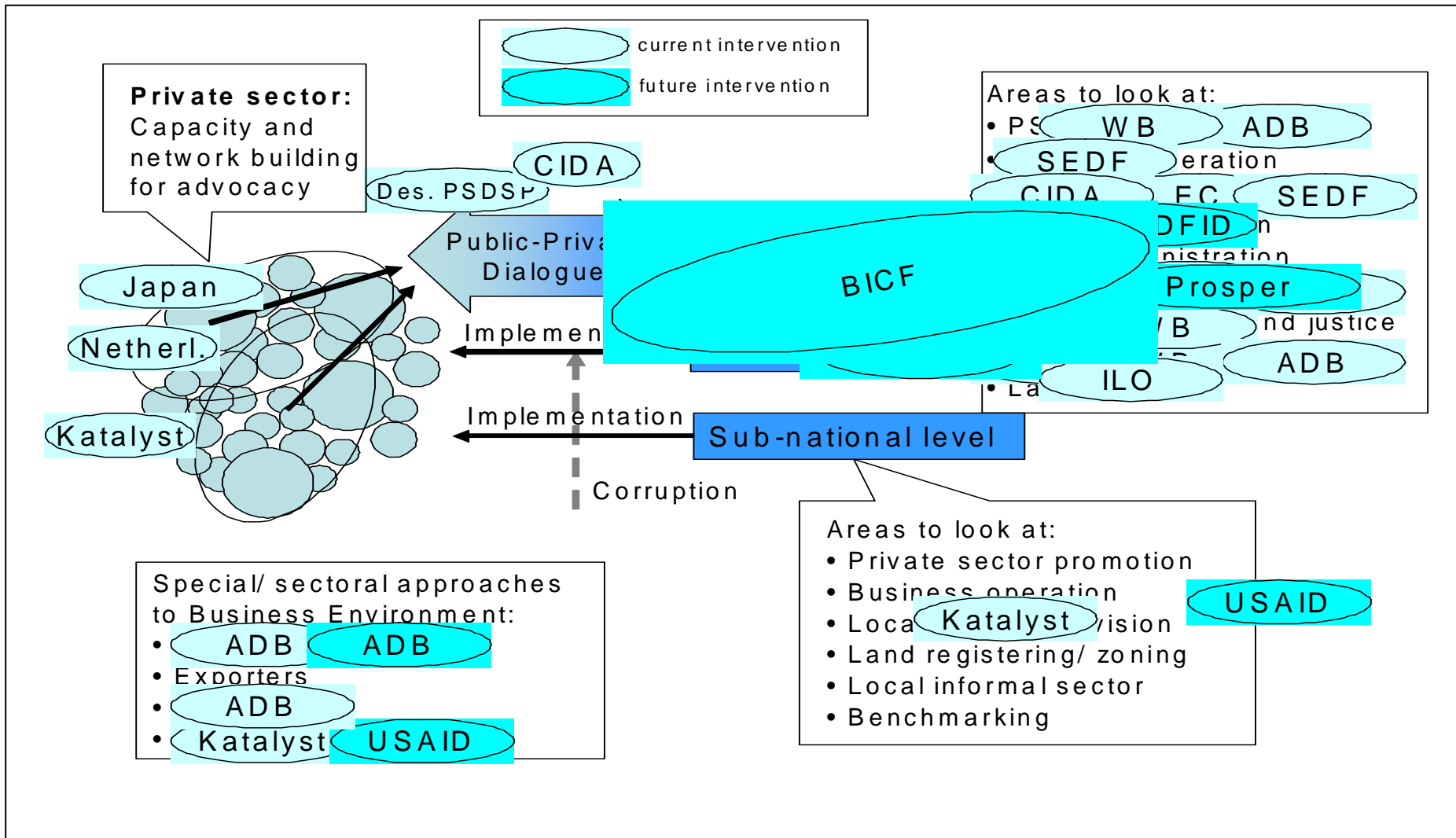
All areas ideally should be addressed on national and sub-national levels.

The following graphics illustrate the areas that, compared to international experience, could be addressed in promoting business enabling environment (Graphic 1) and areas currently addressed in Bangladesh (Graphic 2).

Graphic 1: Intervention areas for business enabling environment



Graphic 2: Intervention areas for business enabling environment currently addressed in Bangladesh



b. Gaps or critical areas remaining unaddressed

The main gap identified is ***policy, legal and regulatory revision and reform at the sub-national level***. Currently, only one project (Katalyst) focuses on this issue. Taking into account the size of the country, there seems to be scope for more donor engagement at this level, ranging from organizational development and capacity building for implementation and enforcement of sub-national policies to promoting competition and benchmarking between sub-national entities on local business environment. At the moment, the multi-donor initiative Katalyst is supporting local associations in addressing local business environment issues (local service provision and business operation issues in various sub-sectors) in selected *upazilas* in Greater Rangpur and Jessore districts. An upcoming project by USAID - PRICE (Poverty Reduction by Increasing the Competitiveness of Enterprises) /PAMA (Policy Analysis Monitoring and Assessment of USAID) - is going to work with a sub-sector approach as well, promoting 4-5 sub-sectors along the value chain. Sub-sector specific business environment issues will be addressed by this project, while it is planned to contact BICF for the work on generic constraints identified in the course of the project. A new JICA project will also take a sub-sector approach and inform the government and BICF about sector-specific business environment constraints.

A second issue that could be promoted further is ***capacity and network building with private sector institutions for advocacy***. Although it might be argued that many private sector institutions in Bangladesh are politicised and the private sector's credibility in demanding better governance in corruption control and rule of law is questionable, working on this issue remains critical for achieving a better business enabling environment. Currently, Katalyst is promoting locally organised *samities* at the national level, Japan supports capacity building of the Federation of Bangladesh Chambers of Commerce and Industries (FBCCI), focussing on trade, and the Netherlands assist the Dutch-Bangladesh Chamber of Commerce in setting up a web-site. As is noted in the general observations, one would expect more donor intervention in this area. Particularly, the work with export associations could be considered, since these organizations tend to cluster new members of the business elite, less involved with traditional interest groups (e.g. promotion of the regional umbrella and individual associations of exporters of non-traditional products in Central American countries).

Logically connected with scope for capacity building for advocacy is an unrealised potential for promoting ***public-private dialogue for a better business enabling environment***. Bangladesh features some experiences to build upon: During the design phase of BICF/PSDSP, interesting initiatives on public-private dialogue were piloted and will be continued through BICF. Also, CIDA supports the Centre for Policy Dialogue in holding policy dialogues through its project "Trade related research and policy development". Again, on sub-national level, only Katalyst is promoting public-private dialogue specific issues of business environment in selected areas.

The mission did not investigate in depth the approaches of the various interventions focussing on different aspects of revision and reformulation of policies, laws and regulations. Nevertheless, scope for an ***increasing focus on implementation*** was perceived. Reform needs are identified regularly, the most visible initiative being the WB/DFID/SEDF Investment Climate Assessment. Sensitising policy makers for reform constituted a main ingredient in the design phase of BICF/PSDSP and will be continued once these programmes are implemented. Yet, the organisational capacity and framework needed for implementing revised policies might need more attention than is given at the moment. This area shows considerable potential for coordination and cooperation with LCG Governance and its programmes on administrative reform.

From the data and information available, none of the donors systematically take into account the policies, laws and regulations governing **land administration** or implementation of these. As those regulations in Bangladesh are a century old and poorly implemented, this constitutes a major inhibiting factor for starting or expanding business (DFID 2004: 27). Current work on land administration seems to be focussed specifically on agribusiness, and land administration pilots seem to be planned by DFID for PSDSP and support to Samata (land rights) (WB 2006a: 98). It is recommended to investigate further whether there are donor initiatives addressing this constraint in other sub-groups and how to link them to business enabling environment interventions.

c. Overlaps

Although **interventions in policy revision and reform** seem to cluster at the national level, this does not necessarily indicate overlap. Most of the interventions shown in Graphic 2 are part of infrastructure interventions whose TA-components work on policy, laws and regulations governing the sector in question in the respective line ministries. Only in some cases different donors/ projects intervene in the same area (trade and investment/ financial sector). For a more detailed overview of interventions in this area, see [Annex 6](#). This accumulation is the main area for collaboration recommended in the next section.

d. Potential fields of collaboration

As mentioned above, one of the main fields of collaboration identified with regard to business enabling environment is the **accumulation of policy reform interventions at the national level**. Although they do not necessarily constitute a major overlap, coordination and exchange of experience between the different projects and components of larger programmes might allow for synergy in implementation. A facilitating role for networking between these initiatives could be given to BICF.

A certain level of coordination between ADB's SMESP and Katalyst is ongoing and reflects the **link between an SME-specific and a local sub-sector approach** to business environment. This should be fostered by the donors involved in both initiatives. USAID's upcoming PRICE /PAMA will address 4 sub-sectors to be selected. Coordination of PRICE/ PAMA and Katalyst can create joint learning experiences and avoid duplication of work in the same areas.

LCG-PSD chose a quite focussed approach to Business Environment which allows a certain depth in the analysis. Nevertheless, especially regarding **infrastructure and general governance issues**, important aspects of the business environment remain unexamined. Here, a close cooperation with the two subgroups should be sought by the LCG-PSD. Implementation of policies, laws and regulations is closely linked to public administration reform. The latter, with developing human resource policies for the public sector and creating new incentive structures for performance, address issues critical to govern rent-seeking behaviour and increase transparency and accountability of public service. Should these issues not be worked on, policies, laws and regulations, however perfectly they are formulated, will not be implemented effectively and cannot contribute to a better business enabling environment.

3.2 Corporate Social Responsibility

a. Context

Corporate Social Responsibility

The term social responsibility is a very broad term which can be applied both of communities, society and organisation. It is often viewed as a simile to sustainability (definition by Brundtland 1987). The scope of the analysis has been corporate social responsibility (CSR). CSR is “*Those responsibilities and obligations organisations in order to respond to the economic, societal (labour and social) and environmental requirements and/or needs in a balanced manner*”³ These requirements can either be **mandatory** (legislation, contractual ...) or **voluntary** (in response to expressed stakeholder needs). An example of voluntary requirements would be codes of conduct such as issued by H&M, Gap Inc and others in response to consumer requests or the Timberland Inc project in the Chittagong area (in collaboration with CARE International) as a response to a workers needs assessment done in factories producing Timberland product.

Ready made garment industry:

Given the extent of the ready made garment (RMG) industry in Bangladesh and its export to other countries, especially EU and US, the end of Multi Fibre agreement (MFA) was expected to impact the Bangladesh economy, the RMG industry and retrenching workers. With WTO protection measures the impact seems to be delayed until 2008. For the RMG industry, focus on Social Compliance and Competitiveness is critical in the window of 2006-2008 and will continue to be important beyond 2008. Moreover, the competitive edge enjoyed by Bangladesh as a result of its duty-free access to the EU market under ‘Everything but Arms’ may become less pronounced if WTO negotiations deliver significant cuts or reduction schedule in tariffs for other competing countries (e.g.: China). Improvements of social, environmental and safety standards are becoming a survival issue for the garments sector. They are considered to be “entry barriers” for markets in the US and West Europe.

Global supply chain trends will continue to impact the Bangladesh RMG industry (e.g. dual sourcing, fast fashion, design at source, etc...). The ability of the RMG industry in Bangladesh to address these trends with the appropriate investment and a skilled flexible workforce is essential. The requirements on the RMG sector by international brands, driven by consumer demand, poses an extra challenge for smaller enterprises or SMEs

Other industrial sectors:

CSR requirements driven by international companies, in response to consumer demand and socially responsible investors (SRI), have evolved beyond the RMG industry. The industrial sectors immediately affected by this trend are the leather and footwear, toy, electronics and agribusiness industrial sectors. All of these sectors are present in Bangladesh and are new and expanding. It is highly likely that these requirements, if not already applied, to these Bangladeshi industrial sectors will create an extra challenge for these sectors as they establish themselves and expand, particularly in the export market.

The “informal” sector

The informal sector in Bangladesh is significant in proportion to the formal industrial sectors. It is common for ILO conventions and labour/social legislation to be inconsistently complied within the informal sector (i.e. worst forms of child labour ILO conventions 182). The

³ A. Stainer, L Stainer - International Journal of Business Performance Management, 1998

inconsistent compliance of core labour standards⁴ creates a limitation for both the economic growth and the reduction of poverty within Bangladesh.

Programme/funding areas

Most programs and funding within Bangladesh for PSD from international development partners for CSR occur within the following themes: “direct PSD”, “Good Governance” and “Human Rights”. The analysis was carried out on the programmes and funding within “direct PSD”

b. General observation

When comparing current (ending in 2006) and past programmes (in the last 5 years) with continuing and future programmes (over the next 5 years) there is a threefold increase in number of programmes and a fourfold increase in investment with the CSR “direct PSD” area. This reflects international trends⁵.

The current and past programme focused on the RMG industry makes for 80 percent of all programmes and funding. The continuing and future programmes on CSR are more evenly balanced between RMG (about 60 percent) and other industries (about 40 percent). This again very well reflects international trends on CSR as the significance of “new” industries to Bangladesh. The funding level ratio between RMG and other industries however does not change dramatically when comparing past/current programmes with continuing/future programmes. It is clear that the programmes within the RMG are consolidating and therefore will likely have more impact. The programmes within the non-RMG sector are mostly new programmes and are small in funding level, serving the purpose of demonstration programmes.

Past/current programmes focused primarily on social and labour issues within CSR. Continuing/future programmes are introducing new areas such as code of conduct awareness/compliance, broader CSR awareness/implementation and environment. This mirrors well the international evolution of CSR from a consumer/civil society, country and business viewpoint. The continuing/future portfolio of direct PSD CSR programmes is evenly split between CSR, code of conduct, social and labour issues with a minority share on environmental programmes (mainly linked with social programmes)

The nature of the programmes has also shifted from primarily study/research and implementation to same level of implementation, less study/research and introducing advocacy programmes. This demonstrates the maturing of ‘direct PSD’ CSR programmes within Bangladesh.

c. Overlaps between programmes

Although a consolidation has taken place within the RMG industry on CSR, continuing/future programmes are focused on “social compliance”. This is to be expected given the context of Bangladesh and CSR within the private sector. Many of the programmes, and hence also the overlap in programming by various development partners, are awareness and compliance

⁵ OECD SME and entrepreneurship out look 2005, ESC Sustainable social development in a Period of rapid globalization 2005, UNIDO Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries 2002, Zadek, S., Sabapathy, J., Dossing, H., and Swift, T. (2003) Responsible Competitiveness: CR clusters in action, Copenhagen Centre 2005 and OECD, Globalisation and Small and Medium Enterprises,: Country Studies, - 2004

programmes and promotion of different codes of conduct within RMG. This includes initiatives from the government of Bangladesh such as the Social Compliance Forum.

d. Gaps or critical areas remaining unaddressed

Many of the continuing/future funding programmes are targeted at association level and business owner level with minor focus on raising the skill level for CSR implementation at the operational level (lower management and supervisory level) and labour level (workers). USAID is an exception to this with “Strengthening the labor rights for the garment workers” programme.

The current skill level on CSR within Bangladesh is limited and proportionally undersized compared to international requirements and the size of the private sector and international trade. This is especially true at both the institutional education level (not enough formal institutions delivering CSR and competitiveness skilled professionals) and at training organisation level (not enough organizations capable of delivering short term courses to up skill workers, supervisors and management).

While there are programmes focused on gender issues in Bangladesh these are primarily focused outside the private sector, yet within the private sector there are few gender programmes available, even as part of core labour standard programmes..

The informal sector/economy is significant within Bangladesh. Factual information at international and national levels demonstrates that the worst violations of social and labour laws occur within the informal sector. Very few programmes, such as “*Prevention and Elimination of Selected Worst Forms of Child Labour (WFCL) in the Informal Economy of Dhaka City*” with the continuing/ future portfolio focus on this significant CSR topic. The cottage industry within Bangladesh is thriving on home work but the current “direct PSD” CSR programmes do not seem to focus on this.

Bangladeshi workers going abroad contribute significantly to the Bangladeshi economy. Labour and social issues for Bangladeshi workers occur at the receiving country. With the exception of one programme there are no “direct PSD” CSR funding or programmes focusing on raising awareness and ensure decent working/living conditions for Bangladeshi workers at the receiving country.

The private sector within Bangladesh is in the early stages of experiencing Industrial Relations. This results in frequent labour disputes and implementation level of Freedom of Association (ILO convention 87, 98, 135 and 154) which is lower than international standards. With the exception of smaller programmes (primarily through civil society and trade union confederations) there are few programmes with the private sector to address this critical CSR topic. This is especially important in EPZs where freedom of association has been recently introduced.

Experience clearly demonstrates that CSR and competitiveness/productivity are linked. Most programs in the current portfolio have not established this important link. International project experience has demonstrated that CSR programmes not run as compliance efforts but approached from a management improvement practice result in improved quality, productivity and overall competitiveness. A key component in this approach is the upskilling of supervisors and workers in management and/or productivity/analytical skills beyond basic work-level skills. Nascent programmes, such as GTZ “PROGRESS” and SEDFs “garment sector programme”, are available within the RMG industry.

The current portfolio of “direct PSD” CSR funding on “social compliance” is targeted at the RMG industry and focuses on gathering information and policing standards, yet there is little funding available on the remediation and improvement aspects within the industry. It is assumed that a compliance audit leads to improvement of working conditions. This is not aligned with international experience in other countries and sectors.

Environmental funding and programmes with the private sector has increased. Future programming in the environmental field within PSD seems to be under-programmed and under-funded in comparison to other CSR areas

e. Potential fields of collaboration

Opportunities exist to align continuing and future programmes and increase the effectiveness and efficiency of these programmes/funds. The main opportunities are:

- Code of conduct/social compliance programmes into a strategic approach for the RMG sector such as the “MFA Forum strategy project within RMG”
- Overall CSR strategy for PSD and private sector including indicators and monitoring
- Involvement of civil society, government and other institutions in programme design, communication and evaluation. This could be done by building on GTZ’s “round tables” for specific programmes and/or focus areas.

3.3 Trade

a. General observation

Considering the present narrow spectrum of export commodities (garment, jute, crustaceans and leather, compare ITC trade Graphic in Annex 7) support to Bangladesh’s export is fairly well covered by:

- Recently phased-out projects e.g.: World Bank export diversification project, US-AID-agro-based industries and others;
- on-going projects World Bank-trade portal, CIDA-trade related research, EC- post Cancun trade support program, EC Quality support program (UNIDO/ITC)) and
- Planned trade promotion projects or trade related project and programs (ADB-economic growth zones and export infrastructure, JETRO-Export promotion, JICA export diversification) US-AID value chain, SEDF, EU- Intellectual property rights program.

In addition, Bangladesh is included in several regional trade and investment promotion activities and facilities, which are managed and organized outside of Bangladesh and outside the immediate attention of the LCG group e.g. via EU Asia Invest, PSOM from the Netherlands, support to direct foreign investments (DFIs) from Norway into Bangladesh etc. A set of small projects (e.g. via CBI) rounds-up the picture.

Additional trade-related financial and technical support is provided through the “Good Governance” and the “human rights” pipeline (Good Governance: Customs procedures and international network; Human Rights: social standards in RMG and other export sector) These programs are presently handled by different LCG groups but are basically elements of the private sector development and its business environment. Furthermore, multinational retail chains (GANT, H&M, OTTO, IKEA, and others) are the driving forces and the *channel*

captains towards the introduction and fulfilment of voluntary⁶ social standards in Bangladesh's export economy (e.g.: garment and toys)..

Although several development projects are addressing the diversification of export commodities, progress is only moderate and the dependence from ready-made garment exports still exists until today. However, the growth rate of and the integration into the world service market (finance, labour) appears to be faster, but somehow out of the limelight of donor programs and projects.

The number of external trade projects is on the decline due to a certain stand-still in making progress (slow diversification process, slow progress in improving export infrastructure). The thematic focus shifts towards more vertical integrated approaches (e.g. value chain development by USAID).

b. Gaps or critical areas remaining unaddressed:

Since Bangladesh enjoys almost unrestricted privileges of free market access (e.g. "anything-but-arms"), more strategic projects are required in exploring the potential in a more systematic and consequent manner. The EC in its indicative program documents precisely shows the direction: *Bangladesh has a relatively high overall EBA utilisation rate (the rate at which Bangladesh's imports into the EU comply with the rule of origin and thus can benefit from the tariff reduction) of 61%, The EBA rules of origin have, together with a lack of a sufficient competitive fabric industry and the need of sourcing of materials from other countries, hampered Bangladesh's ability to fully use the preference under EBA with regard to their clothing exports. The EU offered the possibility of SAARC regional cumulation in derogation of the rules of ROO. However, when sourcing from SAARC, the garment sector would still have difficulties in complying with the value added requirements of the SAARC cumulation.....* So far, trade projects have not yet fully taken up the strategic concept of exploring the EBA trade opportunity and the LDC status of Bangladesh per se.

Regional trade agreement (SAARC, MIMST-EC) and links with ASEAN are of growing political importance. Imports from neighbouring countries are growing but exports are trailing behind. So far few donor initiatives address the subject of developing strategies and identifying trade opportunities based on regional agreement (e.g. UNIDO with Norway and India addressing regional trade out of SMTQ, GTZ in information management via SAARC). With growing importance of regional integration more and intensified initiatives might be required to open up the growth potential. Based on implementation experiences of other regional trade agreements in Asia, the harmonisation of tariff reduction schedules, monitoring of non-tariff barriers, the trade in counterfeits and plagiarism and trade in services are most likely further potential terrains of donor involvements.

In general, Bangladesh's integration constraint into the world economy for commodities is more a type of supply and infrastructural problem rather than a market demand problem. Accordingly the focus on trade facilitation and expansion requires priority setting towards expanding the export-oriented production base (e.g. through foreign direct investments or involvement of returning Bangladeshi businessmen working abroad).

Export diversification has been a topic in the past and is on the agenda for pipeline project (e.g.: USAID, value chain development and Japan). Till now, programs mainly look into

⁶ Voluntary standards are widely imposed by trading partners, but not compulsory for the entire sector. Voluntary standards increasingly gain the image of new trade barriers hindering free market access.

commodities, where services and transport might be additional areas of future growth and investment.

GOB is reluctant to discuss the qualification of Bangladeshi workers abroad based on the argument that there are hardly sufficient qualification programs for the workforce of the domestic industries. However, the flow of remittance money is of growing financial importance for the country and the trend is likely to increase with population growth. Even an unskilled work force needs to be briefed about labour rights and obligations. The international labour market increasingly requires basic skills for non-formally trained workers. Indirectly donors are taking up the issue via the subject of channelling and investing remittance money. However, more needs to be done, since the trend of providing more qualified workers to the world market is likely to continue coupled with social and legal aspects of a migrating labour force. The efforts of the Philippines could be used for benchmark comparison.

The bulk of the trade related programs are either channelled through the Ministry of Commerce or programs are targeted to improve the capacity of the Ministry of Commerce. Only few programs (e.g.: Japan's support to FBCCI) are designed to develop and strengthen the role private sector representations and service providers. There is a general impression that present trade programs and private sector development program insufficiently support chambers or associations. The balance need to be adjusted in favour of more institutional building of non-governmental organisations and institutions.

c. Overlaps between programmes

Thematic overlaps are rare, although they exist in the field of the shrimp industry (quality) and mostly likely in the ready-made garment industry (fashion design for export).

Since most of the trade programs need a public anchor, the Ministry of Commerce is the entry point for most of the trade related projects. Several projects compete for the same resources in the Ministry. This organizational overlap need to be adjusted and balanced in order to speed-up the implementation process and strengthening the implementation capacity.

Since a significant amount of new up-coming projects and ongoing projects are linked to the ready made garment industry, a tight coordination during the process of project and program implementation is required to avoid a) over-support to the limited number of "innovative" enterprises of the garment industry and b) neglecting other potential growth sectors.

d. Potential fields of collaboration

Ideally the private sector, and here more specifically those engaged in the external trade, should be closer cooperating with the donor platform, since the donor platform as a group could create a momentum of change on its own (pro-active approach, compare Alternative B in chapter IV). In practical terms, the donor platform could assist the private sector in removing (non-)tariff barriers. (The Japanese Commerce and Industry Association of Dhaka have come-up with an example list of existing tariff and non-tariff barriers. A more refined list could be used to a) monitor or b) actively support the removal of barriers over a short period of time -say one year-).

The improvement of the (sea- and air-) port infrastructure and performance are crucial for the entire export and import business; any delay has an immediate impact on the external trade performance. Export diversification and export growth is directly linked to the port performance, which is a key bottleneck for trade growth in the country. Therefore, a closer

monitoring of the trade sectors in reaching critical milestones might be required to adjust the follow-up projects and to increase “pressure” addressing the removal of crucial constraints.

It appears that public opinion is still very sceptical about trade promotion, the role of traders (often seen as “exploiters”) and the role of Bangladesh in the international supply chain. More public awareness is required to clarify the role and benefits of international trade and the need to react to international trends (social responsibility, environment etc.). The general public is still very sceptical! A joint public awareness creation about the topic of “trade”, “economic growth” and “poverty reduction” (e.g. via briefing of journalists) would assist in slowly changing public opinion.

4. General observations on private sector development portfolio coordination

Based on the information of previous LCG activities in private sector development, we would like to highlight and stress a set of observations for further consideration by LCG-PSD when discussing role and function of the group in the future:

- **Coordinate field activities in RMG and consider shifting support to up-coming sectors:** Since many new up-coming projects (e.g. social responsibility/social standards) and ongoing projects are linked to the garment industry, tight coordination between the projects and programs is required to avoid intensified support to a limited number of “innovative” enterprises of the garment industry and neglecting other potential growth sectors. Toys and light-industries might require the same type of support.
- **Address absorption capacity:** On a short- and medium term, technical, organizational and financial efforts might be required to address the issue of absorption capacity. If economic growth and trade are going to be the driving engine of poverty reduction, the technical effectiveness of private sector development programmes needs to be further improved by expanding the implementation capacity facilitating the implementation in the planned time frame. Considering the magnitude of donor funds allocated to private sector development and the commitment of the donor community, LCG portfolio should be in a position to accelerate the economic growth of the country.
- **Establish sector memory:** To improve effectiveness, it would be useful to establish a reflection mechanism of LCG-PSD to share lessons learnt (failures and success) e.g. during the planning phase of new programs.
- **Increase flow of information between LCG sub-groups:** As mentioned in the general observations, the division of labour between sub groups leads to thematic overlaps. Many programmes e.g. in good governance are closely linked to private sector development. As LCG-PSD is consolidated internally, it might be a good next step to enhance flow of information and cooperation between neighbouring sub-groups or adjust the portfolio of each sub-group.
- **Set performance indicators for private sector development:** Monitoring common performance indicators might increase the impetus of the entire PSD donor group. This could be either done by monitoring a negative list (which might include e.g. the removal of non-tariff barriers) or a positive list (e.g. World Bank business environment indicators). Monitoring private sector development support against progress in poverty reduction and general economic growth could be other sources for indicators.

- **Build up Linkage to PRSP:** Since almost all private sector development programmes are directly or indirectly targeted at poverty reduction, an intensified dialogue between LCG-PSD and PRSP actors will be required. However, PRSP is neither finally sanctioned by parliament nor fully operational if approved, as the implementation structure has not been designed yet. PRSP does not yet serve for guiding the design of private sector development interventions towards poverty reduction. Nevertheless, LCG-PSD could advise PRSP implementation (Matrix 3) concerning economic growth and poverty reduction and promote the formulation of common priorities, as PRSP at the moment still sets a quite broad frame for interventions.

When discussing the future scope and functions of the LCG-PSP group, more donor coordination in order to improve the sector performance will always be wished for. Nevertheless, the second edition of the donor mapping exercise demonstrates a good present level of coordination in private sector development. The mission suggests considering costs and benefits of different levels of donor coordination in order to define what works best for development partners in LCG-PSD. As enhanced donor coordination does imply commitment of resources (financial/ human/ time) these might include designated professional working time. Alternative scenarios could include:

Alternative A - Improved Status Quo: creation of transparency, coordination during the planning process, performance monitoring of PSD support.

Alternative B - Pro-active Approach: impact monitoring of PSD support, pro-active support of business development by intensifying the dialogue with the business sector, encouraging the strategic orientation of Bangladesh's economy, monitoring and promoting negative/ positive lists (e.g. assist in the removal of non-tariff barriers).

Annex

- Annex 1: List of organisations visited and interview partners 19
- Annex 2: Key documents 20
- Annex 3: Workshop agenda..... 21
- Annex 4: Graphic of donor cooperation projects (pool funding)..... 22
- Annex 5: Graphic of concept Business Enabling Environment..... 22
- Annex 6: Projects and project components active in formulation and revision of policies,
laws and regulations 23
- Annex 7: International Trade Centre (ITC), Export portfolio of Bangladesh 25

Annex 1: List of organisations visited and interview partners

Agency	Name and Designation
ADB	Rezaul Karim Khan , <i>Head, Economics Unit</i> Saquib Anwar , <i>Economist</i>
The Asia Foundation	Syed A. Al-Muti , <i>Programme Coordinator, Local Economic Governance</i> Naushad Faiz , <i>Consultant</i>
Bangladesh Enterprise Institute	Shihab Ansari Azhar , <i>Senior Research Associate</i> Iftekar Ahmed , <i>Senior Research Fellow</i>
Centre for Policy Dialogue	Mustafizur Rahman , <i>Research Director (telephone interview)</i>
CIDA	Jacob Thoppil , <i>First Secretary (Development)</i> Omar Farooq Khan , <i>Senior Development Advisor</i>
DFID	Richard Boulter , <i>Senior Private Sector Adviser</i> Indranil Chakrabarti , <i>Social Development Advisor</i>
EC	Rozana Wahab , <i>Programme Officer</i> Jean-Claude Malongo , <i>Programme Officer</i>
Germany	Udo Weber , <i>Country Desk Officer Bangladesh, Federal Ministry for Economic Cooperation and Development</i>
GTZ	Dietrich Stotz , <i>Programme Manager</i> David Ambadar , <i>Project Manager</i> Ameena Chowdhury , <i>Project Manager</i> Rafique Uddin Ahmed , <i>Social Compliance Advisor</i>
IFC	Craig Wilson , <i>Program Manager</i>
ILO	T.I.M. Nurunnabi Khan , <i>Programme Officer, ILO Office, Dhaka (telephone interview)</i>
Japan	Takafumi Ueda , <i>PSD Coordinator, JICA</i>
Katalyst	Prashant Rana , <i>General Manager</i> Peter Roggekamp , <i>Programme Advisor, GTZ</i>
Oxfam	Elora Ferdous , <i>Campaign Facilitator, Livelihood Programme</i>
Royal Netherlands Embassy	Saskia Bezoen , <i>Second Secretary Economic Affairs and Private Sector Development</i> Ewout de Wit , <i>Senior Policy Advisor, Sustainable Economic Development Department, Ministry of Foreign Affairs</i>

Agency	Name and Designation
Embassy of Norway, Norad	Wilhelm A. Wiig , <i>First Secretary</i> Arup K. Biswas , <i>Senior Advisor</i>
SEDF	Deepak Adhikary , <i>Deputy General Manager</i> Sumi Mehtab , <i>Operations Officer</i>
SME SDP	Farook Chowdhury , <i>Team Leader</i>
UNDP	Jessica Murray , <i>Trade Expert, Poverty Team</i>
USAID	Anne Williams , <i>Office Director, Economic Growth, Food and Environment</i> McDonald Homer , <i>Private Enterprise Officer</i> Aniruddha Hom Roy , <i>Project Management Specialist</i>
World Bank	Khurshid Alam , <i>Senior Private Sector Development Specialist (telephone interview)</i>

Annex 2: Key documents

Asian Development Bank:	Country Strategy and Program 1006-2010
Bangladesh Enterprise Institute:	Donor Map PSD, 2003
Economist Intelligence Unit:	Bangladesh Country Report 2006
DFID/CIDA/JICA:	Unleashing the Bengal Tiger, Realising Private Sector Potential in Bangladesh, 2004
European Commission:	Bangladesh, National Indicative programme of European community support 2006
GoB Planning Commission:	Unlocking the Potential, National Strategy for Accelerated Poverty Reduction, 2005
International Trade Centre	Export and import trade statistics and portfolio analyses
USAID:	Bangladesh, Operational Plan 2006
World Bank 2006a:	Bangladesh, Country Assistance Strategy 2006-2009, 2006
World Bank 2006b:	Doing Business in Bangladesh, Business Indicators 2006 www.doingbusiness/exploreEconomies
World Bank 2006c:	World Bank Project and Programme Information at: http://www.worldbank.org.bd/external/default/main?menuPK=295791&pagePK=141155&piPK=141124&theSitePK=295760

Annex 3: Workshop agenda

LCG - PSD Workshop **Donor mapping 2006**

Location:

Bangladesh Enterprise Institute (BEI)
House # 20 road #5
Gulshan -1
Dhaka-1212

Timing:

Thursday November 16, 2006
15:00 to 16:30

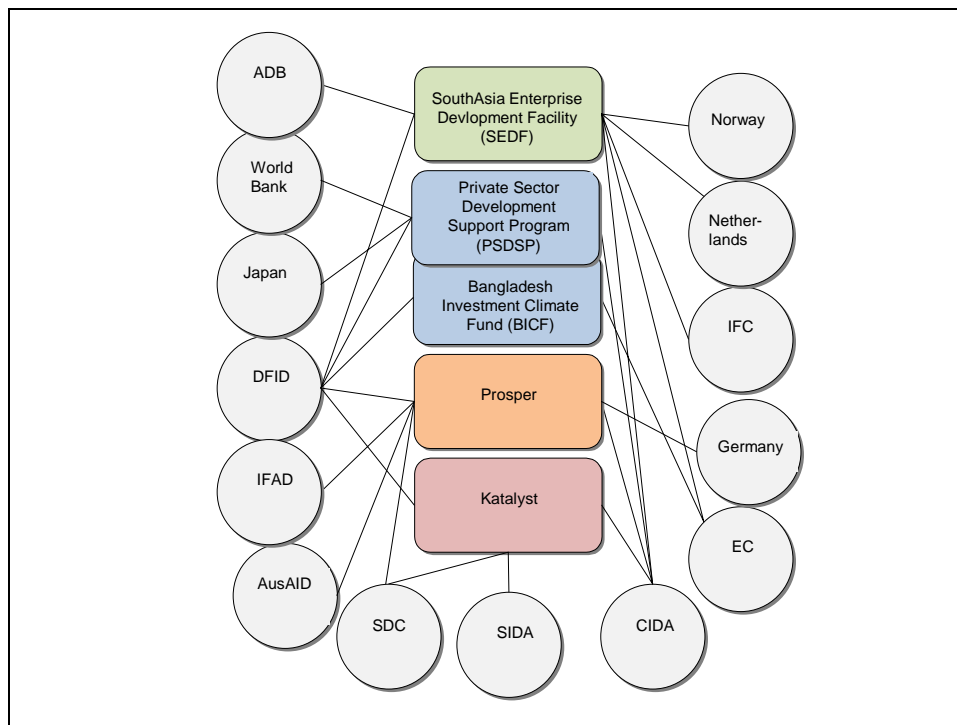
Co-Chairs:

Farooq Sobhan (BEI) and Richard Boulter (PSDLCG)

Agenda

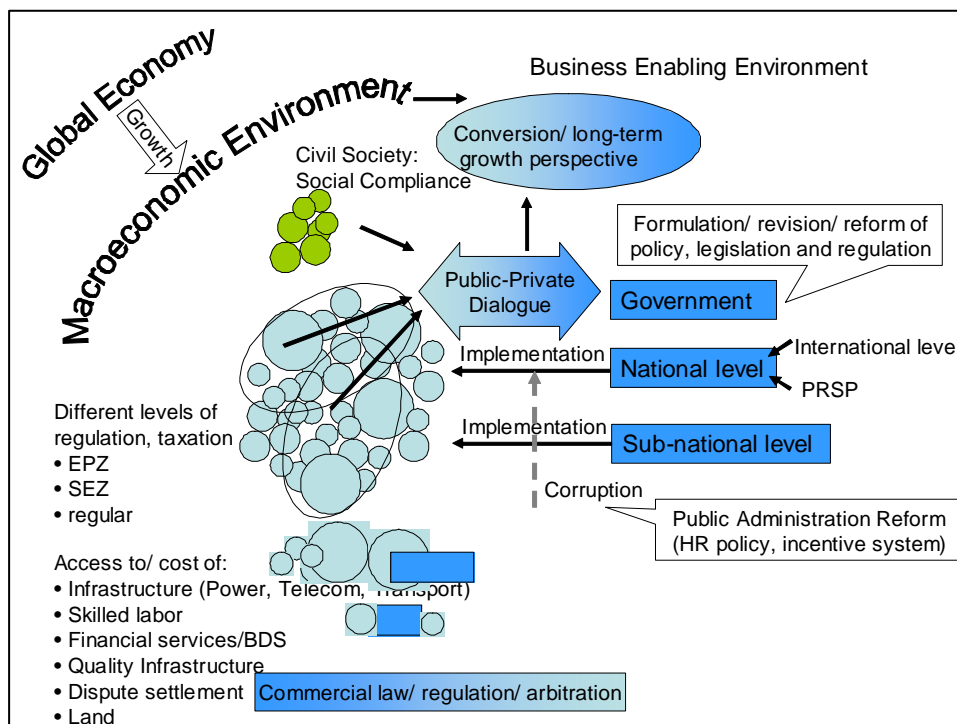
1. Chairs' introduction
2. Donor Mapping Sub-Group – Takafumi Ueda (PSDLCG)
3. BEI Database presentation – Shihab Ansari Azhar /Iftekar Ahmed (BEI)
4. Discussion on database – Takafumi Ueda (PSDLCG)
5. Gaps, Overlaps and observations in the Bangladesh Portfolio PSD
 - a. general objective of the mapping project – Sabine Kittel (GTZ)
 - b. general observations on the PSD portfolio
 - c. gaps, overlaps in the PSD portfolio
 - i. BEE – Sabine Kittel (GTZ)
 - ii. CSR – Patrick Neyts
 - iii. International trade –Wilhelm Elfring
6. General observation on donor coordination – Wilhelm Elfring
7. Discussion on gaps, overlaps and observations – Richard Boulter (PSDLCG)
8. Summary and Next Steps – Richard Boulter (PSDLCG)

Annex 4: Graphic of donor cooperation projects (pool funding)



Source: BEI-Presentation at LCG-PSD Workshop, additions

Annex 5: Graphic of concept Business Enabling Environment

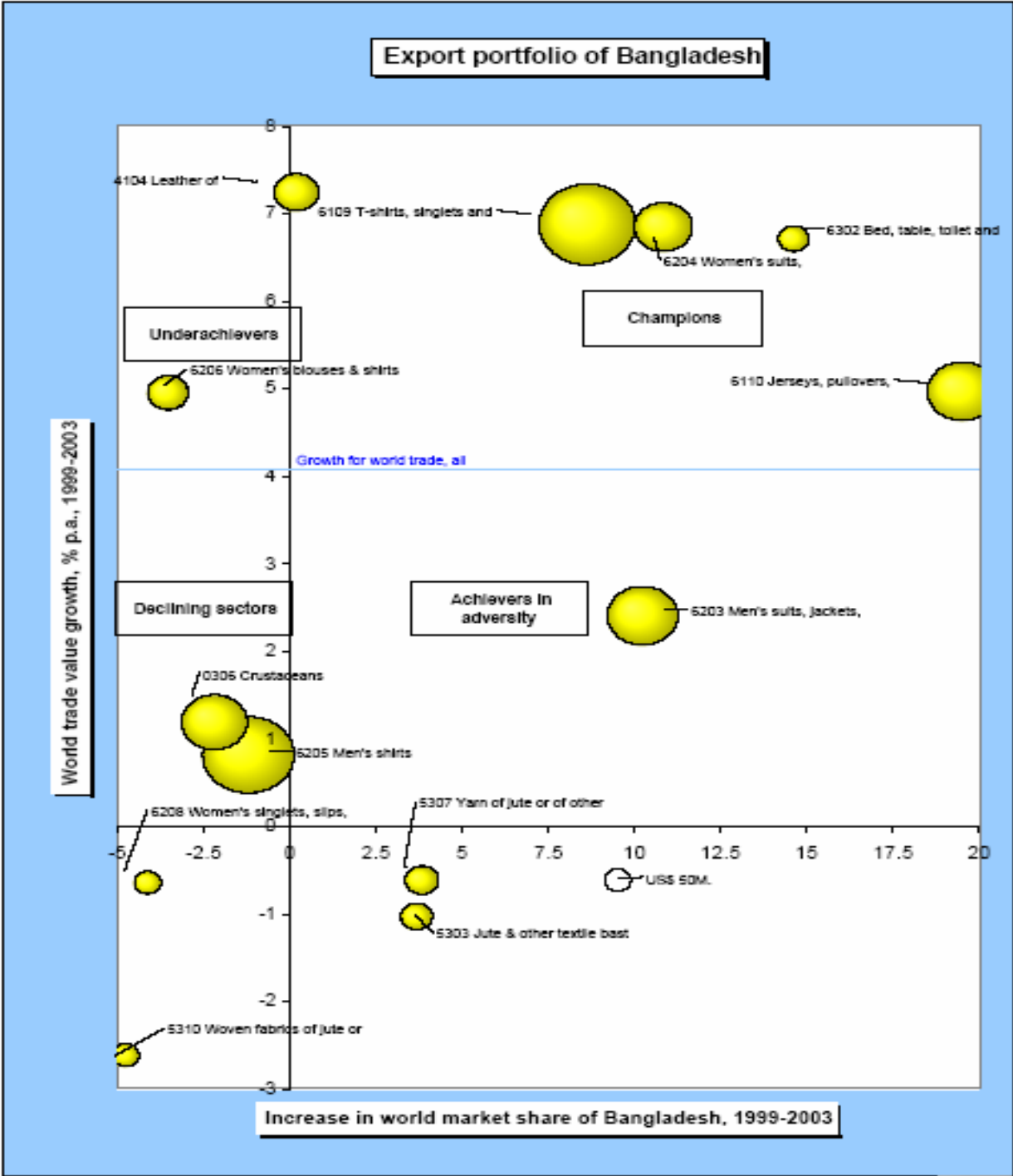


Annex 6: Projects and project components active in formulation and revision of policies, laws and regulations

Areas	Development Partners and their initiatives (<i>cursive: projects in pipeline</i>)
General	WB Economic Management TA Program EMTAP (objective: help strengthen core institutions for economic and public management and contribute to better functioning of the public administration across a broad range of sectors) EC – ILO (pipeline project) Technical and Vocational Education and Training (TVET) System reform
Business operations	SEDF: Automation of Registrar of Joint Stock Companies <i>BICF</i>
Promotional policies etc.	Reform/ privatisation of state owned enterprises: WB Enterprise Growth and Banking Modernisation SME-Policy: ADB
Trade and investment	EC Trade Support Programme CIDA Trade related assistance to MoC <i>EC Intellectual Property Rights</i> <i>BICF</i>
Tax administration	WB EMTAP: Component 2 modernizes revenue administration <i>project in design phase by WB, IMF, DFID with TA</i>
Land administration	No specific initiatives found (addressed in agribusiness, but not as a generic ingredient of business environment)
Financial sector	DFID, WB: Enterprise Growth and Banking Modernisation WB: Investment Promotion and Financing Facility (includes TA: Capacity building for Bangladesh Bank to develop its financial infrastructure for oversight over local markets and the sector) WB: Bangladesh Central Bank Strengthening Project ADB: Improvement of Capital Markets and Insurance Governance Project <i>Prosper: Microfinance Regulation</i>
Commercial law and justice	WB Legal and Judicial Capacity Building Project (objectives: improve the environment for doing business by increasing the efficiency, effectiveness, and accountability of the civil justice system, and increase access to justice, particularly for women and the poor.”)
Policy and regulation framework for infrastructure	WB Private Sector Infrastructure Development (includes TA to Bangladesh agencies and line ministries to promote private sector participation, both at a policy level and to promote specific transactions) ADB Road Maintenance and Improvement project (objectives include to increase private sector participation in the delivery of road infrastructure by establishing the enabling policy and legal environment and implementing a toll road demonstration project) <i>WB Road Sector Reform Project: Policy and Institutional component: Ministry of Communications and Roads and Highway Department</i> WB Rural Transport Improvement Project (among others, enhance the capacity of relevant government institutions to better manage rural transport infrastructure) WB Telecommunications Technical Assistance Project (objective: improve the performance of Bangladesh’s telecommunications sector through strengthening elements of the policy, institutional, and regulatory framework in order to promote the competitive provision of telecommunications infrastructure and services) WB Power Sector Development Technical Assistance Project (designed to create the institutional, and policy environment needed to scale up the development of the power sector) WB Rural Electrification and Renewable Energy Development (includes TA to support the Rural Electrification Board (REB) institutional development) USAID Economic Growth Program, FY 2007: TA for sector management rural electrification
Labour laws/ labour market	ILO Prevention and Elimination of the Worst Forms of Child Labour in the Urban Informal Economy funded by the Government of Netherlands

regulation	ILO Time Bound Programme for Elimination of WFCL – Preparatory Phase funded by DFID, Norwegian Government and USAID (through American Center on International Labour Solidarity). Partners to TBP include UNICEF and ADB
------------	--

Annex 7: International Trade Centre (ITC), Export portfolio of Bangladesh



Note: the area of the circles corresponds to the export value of the product group for Bangladesh. See explanatory sheet for details.
 Source: ITC calculations based on COMTRADE statistics.

