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# Review of the SDC Bangladesh

# Markets for the Poor

# Portfolio

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# 1 Introduction

The Swiss Agency for Development and Cooperation (SDC) Bangladesh is in the process of elaborating a new Cooperation Strategy 2013 – 2017. The current Strategy 2008 – 2012 focuses on the thematic domains Local Governance (LGov) and Employment and Income (E&I). Disaster Risk Reduction (DRR) is defined as special theme and gender as transversal theme.

Whereas the overall thematic orientation of Switzerland's collaboration with Bangladesh is recommended to stay the same, the strategic orientation and packaging of individual portfolios may change. SDC has decided to split the present E&I domain into two new domains, one named Skills Development, the other under the working title Market Development.

As part of the on-going strategizing process, SDC has commissioned a brief review of its current portfolio of projects that would be grouped under the Market Development Domain. The main purpose of the review is to critically review the strategic set-up and performance of the present project portfolio, to assess its relevance within the context of Bangladesh and to propose options for future portfolio development in the frame of the new Cooperation Strategy 2013 – 2017.

# 2 Present portfolio

## 21 Thematic orientation, modalities, partners

The present portfolio consists of four core projects and several pilot activities; in addition scoping missions have been fielded for topics that are under the radar of the SCO.

### Core projects

1. **Katalyst** (Developing Business Services' Markets) is the flagship project of the portfolio. It has pioneered the Making Markets Work for the Poor (M4P) approach in Bangladesh but has also been one of the first projects globally that applies this approach.

   Katalyst is funded by donor consortium of varying composition and with varying contributions since 2002. Current budget shares are 50% for DFID, 30% CIDA, 10% Dutch Embassy and 10% SDC (SDC's contribution was higher in the 1st phase). Since its start, Swisscontact is implementing Katalyst.

   The current phase 2 (internally for SDC phase 3) will last from March 2008 to March 2013; the SDC budget share is CHF 5.4m of the total phase budget of CHF 50m. A Mid-term Review (MTR) was conducted in 2011 and an Outcome-to-Purpose (OPR) review in April/May 2012.

2. **Samriddhi** is the product of a merger of two earlier SDC projects that had been started in 2004: LEAF (Livelihood, Empowerment and Agro-forestry) and Saakti (Sustainable Access to Agroforestry Knowledge, Technology and Information).

   Conceptually, Samriddhi is something of a hybrid. It applies the M4P approach along with a component that addresses local governance and local economic development (LED) related issues.

The first phase (internally classified as LEAF phase 3) was started in August 2010 and will last until July 2013. The phase budget is CHF 8.35m. Like its predecessor projects, Samriddhi continues to be implemented by Helvetas Swiss Intercooperation. An MTR was conducted in May 2012.

3. The **M4C** project (Making Markets Work for the Chars) has recently started in December 2011. Its applies the basic M4P approach, complemented by livelihood approach elements. M4C is implemented by Swisscontact. The first phase will last until November 2016; phase budget is CHF 8.2m.
4. The **AFIP** project (Agro-Forestry Improvement Partnership) started in 2004 and is currently in its third and last (exit) phase 3, from July 2010 to December 2012. Helvetas Swiss Intercooperation implements AFIP; total phase budget is CHF 1.5m.

In addition to its core projects, SDC finances four **pilot projects** under its Small Actions budget:

(i) TechMark on applying M4P to low-cost technology market systems[1];

(ii) SanMark on applying M4P to private sector led development of the sanitation market;

(iii) Flood Insurance (with Oxfam);

(iv) M4P in Disaster Risk Reduction (DRR).

The following **project ideas** are contained in the financial planning pipeline for the period 2013 to 2015 (status April 2012):

- SHIREE (Extreme Poverty Challenge Fund); on-going consultations with DFID on co-financing arrangements;
- LED (scoping mission commissioned in May 2012);
- Micro Insurance Facility/Programme (first steps pending).

# 22 Summary assessment of E&I portfolio

The following chapter summarizes the main findings on the portfolio based foremost on the reviews of the core projects. As M4C has only recently started and AFIP is in its last year of operations, the focus is foremost on the two core M4P projects Katalyst and Samriddhi.

## Performance

### Outreach and impact

The envisaged outreach targets set in the different ProDocs are certainly large and ambitious. Katalyst intends to reach 2.3m (mostly rural) households (the SDC 10% share would allow a 'claim' to 230,000); the Samriddhi target is 1m households; M4C and AFIP each should reach 2m households. The total cumulative SDC financed outreach is therefore 5.23m households. On a purely mathematical basis, outreach per household would thus cost SDC approximately CHF 4.50.[2]

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[1] However, the iDE report of December 2011 on Strengthening Low-Cost Technology Market Systems does only partly follow an M4P approach and advocates setting up of parallel systems as well as a new extension mechanism called agri-clinics (p3).

[2] Total current SDC phase budgets of the four projects (CHF 23.45m), divided by 5.23m households (only counting 10% of the Katalyst target).

Some caveats, however, are required when discussing the portfolio outreach and impact figures:

- Logframes neither discuss the depth of the outreach nor the magnitude of the envisaged systemic changes. Only Katalyst provides an overall target for income increase of CHF 280m; Samriddhi lists %-age increases in income, assets, women participation, etc., and sets a quantitative target for FTE jobs to be created.
- Katalyst and Samriddhi distinguish between direct and indirect clients; the latter are clearly more difficult to monitor and can only be approximated through a range of assumptions (that may or may not always hold true).
- Partly, the projects also claim impact on 'old' clients, i.e. those that were already beneficiaries of earlier phases. Unfortunately, the differences in expected impact on the various 'batches' of clients are not discussed.
- As in most, if not all, development projects, attribution remains a tricky issue. Other powerful factors (price fluctuations, weather impact, regulatory and political constraints, etc.) can never be fully accounted for and will have both positive and negative consequences for project performance. This could only be remedied with totally independent control groups or by applying difference-in-differences' techniques, both more suitable to controlled environments in laboratories than the complex reality of rural Bangladesh.
- While the envisaged quantitative impact figures (the 'breadth') are certainly impressive, the question of systemic impact (the 'depth') is less clear. Katalyst has developed its own approach where it states that it foremost addresses sub-systems, not the whole value chain or sector, as that may be too large a task for any project to undertake. The evident danger is that this may limit the projects to making progress with business innovation but leaving the system as a whole as before.
- Given the substantial human and financial resources utilised for operating the monitoring and results management (MRM) systems (in particular in Katalyst), it may well be that the limits of what reasonably can be measured have been reached. Future efforts, in particular also in less resourced projects, should look into using intelligent proxy indicators wherever possible that still produce the required impact information with reasonable levels of credibility and representativity.
- Katalyst, Samriddhi and M4C actively participate in the on-going evolution of the DCED results' measurement standard. Katalyst is the only global project that has been successfully audited so far.

**Sustainability**

Evidently, sustainability can be expected for a range of project results like, for instance, farmers successfully continuing to produce and sell, service providers permanently making a successful living, NGOs applying the M4P approach on their own, Ward Platforms continuing to function in a post-project situation, etc.

In terms of the overall strategy, sustainability should apply foremost to poor farmers who can continue to earn a better living. It is probably fair to say that changes in value chains induced by the projects will be most sustainable if they are economically profitable for the actors involved. In how far the successful inclusion of poor as well as women will remain at present levels, once the protective umbrella of the projects is gone, is unknown and would require post-project evaluations. In this context it is noteworthy that Katalyst monitors a sample of its clients until two years after the end of a given intervention.

For AFIP, indications are that the envisaged systemic impact will be sustainable in that a private sector based nursery industry has evolved and the loop is established between the nurseries, their associations and the research system.

Sustainability is an issue in Samriddhi, in particular in its component 2, where the Ward Platforms may or may not survive once the project stop supporting them. The same applies to the service provider associations and the SME networks; the MTR has therefore recommended to now withdrawing from the first generations and batches to see how they fare without assistance.

Project documents and SDC place considerable emphasis on establishing a critical mass of M4P savvy organisations in the country. Katalyst offspring companies are naturally best placed in this respect. It remains to be seen how the considerable number of 'classic' co-facilitators or partner NGOs that were trained in the approach will continue to apply it, once project funds stop. In any case, it could be counted as success if these NGOs will have graduated from their traditional hands-on and subsidy-oriented approaches to a lighter, hands-off and facilitating mode of operation.

**Leverage, policy dialogue and donor coordination**

SDC can claim to have achieved more leverage in policy dialogue and donor coordination than could be expected by a small donor with its comparatively small portfolio; this is to a large extent due to the efforts in coordination groups like the Local Consultative Group (LCG) on PSD and Trade (with a plan to also participate in the LCG on Agriculture and Food Security) as well as the Market Development Forum (MDF) that is co-financed by SDC.

A special relationship has evolved with DFID. The like-minded donors co-finance projects and are engaged in promoting the M4P approach in the country.

The recent mid-term review of Samriddhi (but also of Sharique) have pointed to untapped potential in disseminating knowledge on successful approaches to the central government and other donors. In other words, while Katalyst might be ‘overselling' its success stories, Samriddhi and Sharique are rather 'underselling', as they are not really present at central level and key persons and organisations are insufficiently aware of their good work in remote areas. This untapped potential should be put to better use.

**Innovation and knowledge generation**

Since 2004, when Katalyst first started working under the M4P label, the approach is now on the map in Bangladesh, as term but also as 'new way of doing things', i.e. the above-mentioned lighter, hands-off and facilitating modus operandi in project implementation. SDC, together with DFID, can claim to be national M4P pioneers; other donors continue to show interest in co-financing projects like Katalyst.

Still, it is foremost DFID and SDC that fully subscribe to the M4P approach and way of working; some large donors, for instance the World Bank, follow similar approaches but under different names, like value chain development, market development framework, etc.

The E&I domain has positively influenced the development debate in particular related to M4P by making important contributions to (i) the SDC E&I network, (ii) the M4P hub, (iii) the DCED, as well as (iv) a range of international conferences. Katalyst is internationally acknowledged as M4P flagship project and Samriddhi recently became a case study for the

M4P hub. The SDC internal WEE debate is also profiting from experiences made in several Bangladesh market development projects.

The Bangladesh portfolio shows strategic moves to further develop the M4P approach towards what could be termed 2nd generation M4P. This applies to the 'fusing' of the narrower (rural) value chain interventions with livelihood approaches (M4C and Samriddhi), or applying M4P to DRR, low-cost technology markets, private sector-led sanitation, etc.

It has been mentioned that Katalyst is considered the frontrunner in the DCED initiated results measurement discussion but it again seems important to note that, both in terms of funding and staffing, the MRM component of Katalyst is equal in size to many standard SDC projects. Of a certain concern is especially the fact that the Katalyst MRM system is often referred to as a 'model' for other, much less resourced projects in the wider M4P community.

Katalyst, Samriddhi and now also M4C are experimenting with various extension systems, usually based on commercial-interest driven private sector actors, in order to bridge what has been named 'the last mile' between information source and client and to substitute for the grossly underperforming public extension system.

In that context, two issues stand out: First, no information exists as yet on the respective merits, effectiveness, cost-benefit ratio, etc. of the different models and systems for 'agricultural extension' that are being tested and mainstreamed. Secondly, no information is available on the actual level of collaboration between the individual SDC financed projects that operate in the same regions and sometimes in the same value chains.

The next step in extension innovation development should therefore be an investigation to compare and assess the respective merits of the different approaches. Also, if collaboration, say between Samriddhi MSEs and Katalyst trader groups, is indeed envisaged, this must become part of the respective logframe targets.

**Effectiveness**

The E&I portfolio as a whole is well managed and projects regularly achieve their annual and phase targets. The SCO is clearly effective in providing overall strategic guidance; projects appreciate the constructive inputs in steering committees, etc. A good illustration is the active interpretation of chairing the Katalyst donor consortium where SDC, despite being a minor donor, noticeably contributes to increasing the effectiveness of this flagship project.

The two Swiss NGOs Swisscontact and Helvetas Swiss Intercooperation professionally implement the four core projects of the market development portfolio. An important role is played by local NGOs as co-facilitators or partners. This arrangement is effective in the sense that the 'job gets done'.

Questions can be asked in terms of NGOs applying the 'hands-off' M4P approach in future. The issue of needing a rather large but well-versed 'field army' to achieve sizeable impact with the interaction-intensive M4P approach has been discussed already in phase 1 of Katalyst, where it was partly solved by subcontracting to project spin-offs.

It has been mentioned that untapped synergies and effectiveness gains exist, given the fact that the three M4P projects operate in the same North-western region (Rajshahi, Bogra, Rangpoor, etc.).

**Efficiency**

Overall, the portfolio is implemented efficiently, as is evident from the calculated outreach cost of CHF 4.50 per household reached. Compared to earlier cooperation strategies, the ongong portfolio adjustment to concentrate on fewer but larger projects has also led to efficiency gains and allowed a more focused portfolio management by the SCO.

From a design point of view, Samriddhi has the most efficient organisation, with its head office in the project area, along with regional teams in sub-areas. M4C runs a head office in the project area but also has a liaison office in Dhaka. Katalyst, on the other hand, operates mainly from its central office in Dhaka, requiring frequent travel to project sites; only monitoring staff is stationed in the two small field offices.

It goes without saying that the difficulties to find qualified staff willing to work in distant locations are not to be underestimated and to a large extent explain the chosen 'Dhaka-heavy' set-up for Katalyst (and, to a lesser extent, M4C).

An important efficiency issue is the fact that the three projects work with co-facilitators or partners, which claim their own establishment costs (accounted for under project administered funds). Adding the human resources provided by the co-facilitator to those made available by the projects gives reason for questioning the efficiency in the use of resources overall. In Katalyst for instance, there are just as many project staff in some sectors overseeing co-facilitators as deployed by the co-facilitator. In Samriddhi, a de-facto division of work has resulted in NGOs mainly implementing component 2 (Ward Platforms, etc.) while the project team concentrates on developing the value chain component 1. Efficiency gains thus seem possible by designing leaner project set-ups.

**Relevance**

The overall relevance of SDCs E&I portfolio can hardly be questioned. Analysts, the government and the donor community agree that rural poverty alleviation, which is at the heart of the programme, remains a serious issue, despite recent progress made in this respect.

SDC concentrates its activities in four of the six areas that have been identified as most vulnerable in a WFP vulnerability assessment and mapping exercise[3]:

- **Northwest** – subject to frequent natural disasters and high in-country migration by household heads;
- **North-central chars** – characterized by unstable land, high levels of functional landlessness and frequent flooding;
- **Drought zone** – in particular the Barind tract area north of the Padma river;
- **Haor basin** – Sunamganj district and surrounding areas that are frequently flooded and prone to waterlogging.

Among the most pertinent strengths contributing to the relevance and thus visibility of SDC's domain portfolio are: (i) flexibility, reliability and transparency as partner, (ii) pro-active participation in various coordination mechanisms, (iii) the approach to first test and pilot, and then scale up (or exit); (iv) the multi-level intervention approach (from field to national level), and (v) the strategic involvement of implementing and partner organisations. Not to be forgotten is the general perception that SDC projects do deliver. Consequently, despite being

[3] The remaining two areas are the CHT and Costal Zones. See: WFP Country Programme Bangladesh, 2007-2010, p.11; see also: Extreme Poverty Policies of Donors in Bangladesh: An Overview. Desk Study by shiree, June 2009, p.16

a niche player, SDC has a stronger voice than could be expected from the financial resources at its disposition.

As has been explained above, the core deficit in terms of relevance is the required attention that should be paid to systemic change instead of merely achieving the (high) quantitative targets set in the ProDocs. SDC Bangladesh has prioritised this issue and will address it as part of the planned domain level MRM system.

A second promising line of change to further increase relevance is to explore potentials for a gradual 'Bangladeshisation' of the portfolio by specifically inviting the most competent but at the same time least donor-dependent national organisations (for instance PKSF, etc.) for project tenders.

## 23 Main conclusions and lessons

Given the generally weak performance of the public sector, it seems advisable to continue keeping development of the private sector as first priority and to focus on commercial interest as main driving force for sustainable systemic change.

This implies to continue concentrating on the economic active poor rather than the extreme poor or destitute. However, inclusion related criteria should keep on playing a role in intervention selection processes.

Scale will remain essential in the Bangladesh context but mere numbers should not deviate projects from the need to initiate and sustain systemic change. Systemic impact should therefore be of equal if not more concern than reaching impressive quantitative targets. SDC projects should consequently also define the expected *systemic* changes in outcomes and behaviour and track progress against them.

The Bangladesh portfolio has strong potential to continue to be innovative and contributing substantially to the further conceptual evolvement of the M4P approach; a range of pilots has been initiated to this end.

Based foremost on sound field level results and credibility, the successful policy dialogue and harmonisation efforts have increased leverage and overall impact beyond the comparatively limited budgets. The discussion of how to deliver aid (in a systemic way, by working as facilitator, etc.) is being influenced by utilising existing channels like the MDF; further channels can be opened up. In this context, the 'remote' projects (currently foremost Samriddhi) should be more present in national level dialogues.

Results of the projects, though following a similar approach (M4P) and working with similar (DCED standard-based) monitoring systems are not really comparable. The variations in the portfolio of projects are pronounced as they are (i) active in different areas and topics, (ii) work under different conditions, (iii) apply variations of approaches, adjusted to specific situations, etc. It does thus not seem advisable to work towards more project uniformity, as this would reduce flexibility and the advantage of developing situation-specific solutions.

Ultimately, issues of comparability, attribution and aggregation have to be dealt with in an MRM system at domain and overall programme levels, to ensure that the whole of the programme is larger than the sum of its project parts. To this end, the SCO has already started to develop an MRM system at portfolio level.

In terms of single projects, finally, (i) project designs should aim at a leaner and more efficient and effective set-up, and (ii) those working in the same areas and/or same value chains of sectors should be further integrated and the appropriate mandatory coordination mechanisms developed.

# 3 Future development of the portfolio

## 31 Evolution of E&I related Cooperation Strategies

In the **Cooperation Strategy 2003-2007**, the economic development related activities focused on MSE promotion through providing business development services and on microfinance; first steps in market development were made through participating in the Katalyst donor consortium. In the sustainable land use domain, mainly related to agriculture and forestry, access to markets was promoted and community based organisations were set-up.

The **Cooperation Strategy 2008-2012** introduced a specific employment and income (E&I) domain: it focused on (i) market and skill development, and (iii) frame conditions or enabling environment. Next to the 'standard' M4P project Katalyst and, at least to some extent Samriddhi, livelihood concepts had already been integrated in LEAF and now more recently in M4C. Pilot projects have been initiated in market driven development of low-cost technology and rural sanitation; pilot studies were commissioned on LED, M4P in DRR and post-harvest technology.

## 32 Context dynamics

### Economic development

The Bangladesh economy has been on a solid growth path of around 6% of GDP during the last years. International analysts and rating agencies are positive on the future development of the country: Bangladesh is included in the recently updated Goldman Sachs "Next Eleven" list of countries with high potential to become one of the world’s largest economies in the 21st century, a fact that has also raised expectations in the country. In June 2012, Standard and Poor's has reaffirmed the BB- rating and a stable outlook for Bangladesh, ranking it second highest in South Asia behind India (BBB-) but ahead of Sri Lanka (B+) and Pakistan (B-). Also, progress in terms of poverty reduction has been rather impressive, from 70% in 2000, to 40% in 2005 and 31% in 2010.

While the 6% GDP growth trend is likely to continue, a real take-off towards becoming a middle income country is yet to take place and would require higher GDP growth rates of some 8% p.a. Domestic analysts also see a window of opportunity for the country to become a regional hub for the North-eastern region of the Indian subcontinent.

The government should urgently address severe deficits to stimulate growth; however, few serious efforts are discernible so far. First and foremost, this applies to the well-known and persistent regulatory and infrastructure deficits (power and roads in particular) that the country faces. In addition, political governance remains weak, macroeconomic imbalances continue and the industry is dependent on a few sectors only.

Consequently, Bangladesh’s private sector remains underdeveloped. Though the economy was liberalised substantially during the 1990s, foreign direct investment as a percentage of GDP is one of the lowest in South Asia and the developing world. This weakness in Bangladesh is a constraint in that Bangladeshi businesses are less likely to innovate new technologies and business models that could benefit the poor than businesses elsewhere.

In the future, the economy will need to cope with a labour force growing at 2.1% p.a. and, to maintain the contribution made in the past, increase labour productivity by 2% p.a. This represents a formidable challenge. The opportunities for meeting the challenge and continue to maintain rapid growth and poverty reduction can be found by increasing the rate of private sector led growth. In rural areas, this means foremost the continuing transformation in agriculture towards higher value addition; in urban and semi-urban areas it will have to be labour intensive basic industries that provide the required growth and employment possibilities.

## Agriculture

Agricultural GDP growth has been less rapid than the overall economy, so agriculture's share of total GDP has declined. However, at over 4% growth p.a., agriculture has also performed well. Agriculture continues to employ around half the workforce even though its contribution to GDP is now less than 20%.

Nearly 70% of the population live in rural areas. In 2005, more than two thirds of the rural population were landless or functionally landless (i.e. owning less than 0.2 hectares of land), 44% were below the national poverty line and 29% were classified as very poor. However, the latest household survey reported a decline in rural poverty since 2005 from 44% to 35%, not far from the overall rate of 31%[4].

This reduction in poverty has been caused to a large extent by the considerable expansion of commercial agriculture, foremost in livestock, fisheries, and high-value fruits and vegetables, i.e. the value chains where the projects of SDC are concentrated. Still, rice remains the dominant crop by far and Bangladesh is expected to be self-sufficient in rice this year.

As a consequence of increases in rural and urban (temporary and permanent) jobs, agricultural wages have progressively risen; currently an agricultural labourer's daily wage is equivalent to 8kg of rice as opposed to only 3kg several years ago. Rice farmers complain of difficulties in recruiting labourers especially during harvest and have consequently started to switch to other less labour intensive and more remunerative cash crops.

In short, the agriculture sector in Bangladesh has undergone a profound transformation in recent years and is currently on a sold growth path. Agricultural growth has been led by robust growth in consumption – increasingly also of processed foods – enabled by large inflows of remittances as well as growing demand from urban areas where wages have increased. Continuing this trend will warrant constant improvements in productivity through improved varieties and farming techniques led by strong research and development.

Opportunities in commercial agriculture have opened up and were seized, despite persistent obstacles like limited access to agricultural knowledge and agro-finance, non-tariff trade barriers for exports (standards, etc.). Remaining challenges to further growth are the still narrow commodity basket and the general low levels of technology and mechanisation.

Also, Bangladesh is expected to be one of the countries to suffer most if all the foreseeable dangers from climate change come true. Bangladeshi agriculture will therefore need to become more climate resilient by developing crops that are more tolerant to stresses of various types.

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4 Household Income and Expenditure Survey 2010 (HIES 2010), Bangladesh Bureau of Statistics (BBS), Dhaka

## 33 Government policies and priorities

After the National Strategy for Accelerated Poverty Reduction II (NSAPR II) for FYs 2009 to 2011, the current national development plan is the 6$^{th}$ 5-Year Plan (SFYP) for the FYs 2011 to 2015. Main relevant development goals of the SFYP are (i) poverty reduction, with (ii) an overall GDP growth target of 8% to be reached by 2015; (iii) agriculture development, with (iv) additional investments to be made in irrigation, food production, food security, as well as (v) in R&D, extension and rural infrastructure.

The private sector is mentioned as key actor but no specific policy guidance is provided. Also, as part of the Bangladesh Country Investment Plan (CIP), the Food Security Programme 6 states improved access to markets, value addition in agriculture and non-farm incomes as priorities.

However, the different government policies, strategies and plans remain very broad and general, covering all possible topics in a given sector or sub-sector without prioritisation. Formal alignment to the country's strategic framework is therefore not a challenge for a donor programme.

The real challenge is the implementation of the plans, which is curtailed by weak ownership and persistent absorption and disbursement deficits. The decentralised structures of line ministries consequently remain severely under-staffed and under-resourced and are in a weak position to operate according to their mandates.

Independent observers, finally, point to a general lack of impartial leadership in the development process and to the widespread corruption as core deficits that impede the country to fully tap into its existing development potentials.

## 34 PSD related donor environment

According to available information, both multi- and bi-lateral donors are presently increasing their budgets for private sector development interventions. Consequently, it can be expected that project sizes will increase but also that new donors will enter specific areas or sectors, which may infringe on other donors that have been active beforehand in a given field. Potentially, this increases the challenge for a comparatively small donor like SDC to find suitable niches where it can make a difference to other larger ventures. The following brief compilation summarises current and future involvement of the major donors active in private sector and rural development in Bangladesh.

- The **World Bank** and the **Asian Development Bank** have traditionally been providing loan financing for macro-economic policy reforms, privatization of public enterprises, large-scale infrastructure projects (road, bridges, power stations), etc. Their emphasis remains unchanged: The World Bank will continue its focus on policy reform, development of economic zones, and large infrastructure projects. ADB continues to finance rural infrastructure, the power sector, and is also active in SME development. In agriculture, it is active in the irrigation sector.
- The **IFC** concentrates – aside from equity investments in large private businesses – on business policy reform (through BICF). In that, IFC complements the WB and ADB in improving the business environment by reducing the cost of doing business through easier enlistment processes for entrepreneurs. IFC is also active in sectors such as garment, poultry and seeds where it follows a value chain approach.

- The **EU** focuses on trade, PSD and food security. 13 projects relate to food security (total budget € 105m) and seven projects focus on trade promotion and PSD (total budget € 75m) to raise competitiveness, improve access to markets and create employment. Projects address (i) trade policy, (ii) export standards, (iii) investment climate; (iv) pro-poor enterprise development, (v) the jute sector, (vi) leather sector exportability and environmental safety, and (vii) technical and vocational education. Interestingly, the EU also finances a small (pilot) project named 'Making markets work for small farmers and producers'.
- **DFID**'s projects in what it terms wealth creation are close to SDC's interests (and both organisations collaborate in some projects). DFID is currently involved in micro-finance (Prosper), rural business development (Katalyst) and investment climate and financial services (RISE); furthermore, it targets the extreme poor (with CLP, Prosper and Prime). Planned or pipeline initiatives include a financial inclusion project, export diversification, as well as inclusive business development.
- **USAID** private sector projects concentrate mainly on the agricultural sector. PRICE and IFDC are on-going projects working on agri-business. Under its Feed the Future initiative, three new projects will be on (i) agricultural input supplier networks ($12-15m); (ii) agricultural value chains (as follow-up to PRICE) for food and non-agricultural value chains in South and South-western districts ($ 40m); as well as (iii) on improving the government extension system. In addition, USAID intends to facilitate regional trade.
- **GIZ** is foremost active in industrial development (garment sector) and the promotion of social and environmental standards in industries.
- **JICA** focuses on financial sector development for SMEs.
- Important **Bangladeshi organisations**, such as PKSF, will be involved in large-scale value chain development and financial services' projects throughout the country.

The current donor landscape in Bangladesh is thus quite dynamic with increasing budgets and donors entering into new fields. This context has to be duly taken into consideration when planning the new Cooperation Strategy:

On the one hand, SDC may find it increasingly difficult realise unique projects, in terms of approaches, regions, sectors, and interventions. This relates in particular to tailor-made 'light touch' ventures that will have to compete with large, disbursement driven programmes. On the positive side, this situation can also be perceived as opportunity to find like-minded co-financing partners for new and innovative projects.

# 35 Domain name and claim discussion

No decision has been taken yet as to how to name the new domain. The existing E&I domain name has to be changed because Skills Development will become a new domain on its own. Currently, three alternatives are on the table: (1) M4P, (2) Access to Markets, and (3) Market Systems' Development.

In relation to M4P, it has to be noted that it is first and foremost an approach of 'how to do things' and as such does not encompass 'what to do'. Domains in Cooperation Strategies, on the other hand, tend to specify content and not approaches. In addition, the term is not really known and applied outside SDC and DFID and may thus influence obtaining co-financing from other donors. In any case, it is argued that a 5-years' horizon is too long a period for tying a domain portfolio to a rather narrow term. Opportunities may arise that will not fit under this conceptual umbrella.

Access to Markets is denotes again rather narrow field where it may be difficult to subsume a thematically broader portfolio. It is therefore argued to best use **Market Systems' Development** as domain name. The term is sufficiently generic and neutral to allow activities in a range of topics, like access to markets, enabling environment, inclusive development, but also farm and non-farm, post-production activities, etc.

## 36 Existing portfolio commitments

- It is likely that Katalyst will enter in a final consolidation phase that may last up to around mid-2016 or mid-2017. The envisaged annual budget has been set at CHF 2.5m.
- The first phase of M4C will last from 2011 to November 2016; the annual budget set aside is CHF 1.5m.
- Whether Samriddhi will go in 2$^{nd}$ phase (or whether a successor project will be tendered) is still open. The new phase or the new project can be expected to last from mid 2013 to mid-2016 or mid-2017; the annual budget reserved is CHF 2m.

Consequently, an annual budget of some CHF 6m is already more or less committed by existing projects throughout the duration of the CS 13-17. In addition, it is understood that discussions with DFID for co-financing the SHIREE project have progressed far with an envisaged annual budget of CHF 1m.

Given an expected annual domain budget of around CHF 10m (or slightly more) for the coming years, a difference remains of at least CHF 3m per year, for which new projects should be designed and tendered soon.

## 37 Strategic guidelines

### Overall strategic orientation

The Market Development Domain of the new Cooperation Strategy should be designed, on the one hand, to continue building on past achievements and to profit from experiences made and expertise, however with increased emphasis on promoting systemic change ("finish the job"). On the other hand, new topics should be addressed that emerge as the country's economy develops ("prepare for the future").

Innovation will be promoted through 2$^{nd}$ generation M4P projects, i.e. by the integration of M4P with livelihood concepts and the application of market driven approaches to pilot sectors like DRR, rural sanitation, low cost technology, etc.

SDC has concentrated so far foremost on agriculture. The present good growth of agricultural productivity has improved the incomes of farmers; however, this process needs to be maintained and further expanded, which in turn requires further diversification into high value cash crops and value addition activities. Given the weak government performance in rural transformation, private sector actors will continue to be the main drivers.

Bangladesh's economy as a whole is developing well – though not at the pace that could be possible if major regulatory and infrastructural constraints would be solved. Growth rates need to increase for the country to achieve middle-income status in the medium term.

To this end, the competitiveness of the economy needs improving. The major challenges of infrastructure, restoring macro stability, dealing with corruption and improving the business environment are likely to be dealt with by the IMF, World Bank, ADB and IFC. Smaller donors such as SDC could play a significant role in supporting present and future growth industries, addressing government and market failures and the competitiveness of businesses.

## Strategic considerations

The focus on poverty and in particular rural poverty alleviation is undisputed and clearly needs first and foremost inclusive growth in agricultural and non-agricultural rural value chains. It is, however, still to be decided whether economic growth or inclusion is to be the top priority. This can be illustrated when selecting a specific value chain: is priority given to a chain where the growth potential and thus income and job creation is massive but participation of poor and women below average, or to a chain that has substantial poor and women participation but has overall limited growth potential and is not very relevant for the regional economy? In reality, naturally, compromises will have to be made but it still seems important to clarify this essential question.

Two very basic paradigms compete in this discussion: one can either argue that, in order to create sustainable numbers of jobs and substantial income increases (i.e. induce systemic change), growth potential must be given overall priority. On the other hand, it can also be argued that Swiss development cooperation, as per its mandate, should exclusively focus on the poor and extreme poor.

A pragmatic solution to this dilemma, which has already been applied in the past, is to design projects for both positions. Currently, Katalyst is closer to the growth paradigm while M4C focuses on inclusive development for the very poor. Samriddhi is probably situated between the two projects (which has led to some ambiguities in its implementation).

It may therefore be advisable to clearly differentiate future projects along these two paradigms and to avoid that a single project has to address both with the same priority.

In terms of levels of intervention, the SDC projects are mostly active on the micro and meso levels. As macro or central level issues are being already addressed by well placed and well resourced donors, there seems to be no convincing argument for direct SDC funding at this level.

SDC should therefore continue, on the one hand, its present focus on the micro and meso levels (by targeting enterprises and limited range market systems) but, on the other hand, still ensure that relevant experiences and expertise are brought to the macro level in policy dialogue mechanisms.

On a more practical level, several strategic principles should be adhered to in future project designs:

- Less value chains with less ambitious quantitative targets but instead more focus on sustainable systemic change, along with relevant outcome and impact indicators
- Better integration and compulsory coordination of activities of projects in the same geographical area and/or in the same value chains;
- Explore the potential to increasingly involve reputed Bangladeshi organizations as lead agencies in project implementation.

# 38 Strategic options

As overall orientation, the following strategic action lines are proposed for the Domain:

## Prioritised action lines

1. Support the next step of rural growth (through existing and new projects) by applying the full-fledged M4P approach to high potential value chains, including downstream activities like post-harvest practices, grading/packaging as well as processing, mass dissemination of low-cost technology, etc.

   The main objective is to achieve more value addition, which will result on the one hand in more income for producers but also in increased income opportunities and non-farm jobs in downstream activities. However, the 'elephant in the room' remains the lack of regular power supply required for cold storage, processing facilities, etc.

2. Ensure inclusion (existing and new projects) by focusing on vulnerable groups like the very poor and women with an adjusted M4P approach along the lines of M4C. This would ensure a fair share of the portfolio to be foremost oriented towards disadvantaged groups. In addition, M4P would be introduced to DRR and WEE activities.

3. Prepare for take off in industrial growth (new projects): closely coordinated with the Skills Development Domain. The objective is to contribute to the diversification and export readiness of the Bangladeshi economy and to create regular jobs that allow surplus labour absorption.

   However, this would be a new field for SDC in Bangladesh characterised by a range of regulatory issues and also affected by the persistent infrastructure and power problems. This line would therefore best be approached through co-financing of existing or planned projects of other donors.

## Secondary options

4. The new Domain may engage in improving the enabling environment or local investment climate, most probably in the form of LED project(s) at regional and local levels. Currently, the second component of Samriddhi implements activities that could very loosely be grouped under LED (Ward Platforms to promote bottom-up local planning and inclusive economic development). The MTR has, however, proposed to drop this activity line in a possible future phase due to sustainability concerns.

   LED certainly has the potential for fostering regional (decentralised) development by breaking basic bottlenecks that hamper local level growth. However, the current political system in the country is not in favour of decentralisation, which remains a political rather than an administrative reform issue. Systemic change beyond a certain level is therefore bound to be extremely difficult.

   Consequently, it is argued that LED should only be considered with (i) a process rather than target orientation and (ii) if it can be implemented by Bangladeshi organisations that have the required insights into the hidden structures, interests and obstacles that will have to be overcome. Should this not materialise, it is in any case understood that enabling environment and regulatory issues would continue to be addressed in the M4P value chain projects, if and when required.

5. The preliminary financial planning for 2013 to 2015 also includes a budget for activities in micro-finance, more specifically in micro-insurance, foremost in crops. Currently, micro-

insurance initiatives are on going by PKSF for cattle and life insurance and by INAFI for life insurance and the World Bank has, under its Environment and Global Change Programme, started with crop insurance.

At this stage, it is argued that more research on the feasibility and effectiveness of micro-insurance is required. Should this line of action be taken up, it is advised to best join up with other donors on a pilot level with the potential for future expansion.

# 39 Additional considerations

## Aid and partnership modalities, synergies with other donors

In principle, four main project arrangements can be considered for the expansion of the current portfolio:

1. **100% SDC financed**: through **international** tender (ensuring a good level of 'Swissness');
2. **100% SDC financed**: through a **national** tender, with preference given to Bangladeshi organisations;
3. **Co-financing** arrangement with **SDC in the lead** or as senior partner (i.e. more than 50% of budget);
4. **Co-financing** arrangement with **SDC as junior** (silent?) **partner**; less than 50% of budget).

It goes without saying that these options are not mutually exclusive and will also have to be pragmatically selected if and when opportunities arise. Also, resources at the SCO have to be considered, as it can be expected that options 1 and 2 will require most inputs, followed by option 3 and, finally, 4.

Furthermore, SDC would continue to participate in the harmonisation and policy dialogue mechanisms, where it is already an active member, and take the lead wherever feasible, i.e. where it has the strongest interest and most leverage from a portfolio point of view.

## Geographical focus/concentration

It seems advisable, that SDC continue to focus foremost on the poverty prone regions and areas where it has been active over the last many years. These are, at least so far, not overly donor-crowded, and SDC can profit from the good image earned and the wide range of contacts established.

Naturally, this does not exclude opportunity-based opening up into new areas, in particular where it is possible to team up with other donor(s) and bring in, next to funding, specific Swiss expertise.

## Phasing of portfolio development

Given the predicted domain budget increases over the next years, it is evident that some major projects should start as soon as possible. It therefore seems advisable to finalise the scoping process as soon as possible (i.e. still in 2012) in order to be able to take decisions.

Co-financing of existing or soon-to-start projects should ideally start in 2013; tendering for new projects should be done in 2012/13 in order to allow project inception to start in 2014.