Bangladesh is modernising quickly, supported by solid annual economic growth averaging 6 per cent over the last 10 years. During this period poverty levels have halved and real per capita GDP almost quadrupled. In July 2015, the World Bank elevated Bangladesh’s status from a low income to a lower-middle income country. Bangladesh’s continued progress will be linked to the Government’s ability to provide stability, reduce inequality, and to support citizens to be active participants in the country’s economic, social and political life. Political instability has had a disproportionate impact on the poor, exposing them to higher security risks, price rises, and limited opportunities to earn an income due to reduced mobility.1

As Bangladesh grows, so does its significance to Australia. During the last decade our bilateral trade has increased from around $160 million to more than $1.1 billion on the back of sustained growth in the Bangladesh economy2. Further growth will be mutually beneficial as Bangladesh will continue to value our agricultural commodities and universities, and Australia will continue to favour Bangladesh’s cost-competitiveness in garments. Growth also offers the opportunity to diversify our economic relationship into fields crucial to Bangladesh’s continued progress: oil, gas and coal extraction; power generation; transport and trade infrastructure. Bangladesh’s geographic position, with two sea ports, opens up opportunities for further economic progress through regional integration, especially for landlocked countries like Nepal and Bhutan, and for north-eastern parts of India.

An active civil society has given Bangladesh a reputation for innovation. It is the birthplace of microfinance and Grameen Bank; the developer of oral rehydration therapy and; the home of the world’s largest NGO, BRAC, which counts the world’s largest mobile banking network amongst its many achievements. A vibrant middle class is emerging, supported by a productive manufacturing sector and a large and growing labour market. The country’s garments industry has become the world’s second largest and a major employer of women, while the export of Bangladeshi labour sustains remittances of around 11 per cent of GDP.

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1 DFAT did not commission a separate growth analysis for this AIP, drawing instead on a number of existing sources including, but not limited to The DFID-USAID Inclusive Growth Diagnostic, June 2014, the EU Country Wide Political Economy Analysis of Bangladesh, February 2014, World Bank Bangladesh Development Update, April 2015.

2 Trade Advocacy and Statistics DFAT, June 2015.
Development challenges and constraints to growth

Poverty has steadily declined over the last 20 years in Bangladesh. However 47 million people still live in poverty - the highest levels in South Asia - and 28 million of these people are classified as extremely poor\textsuperscript{3}, which means they are not able to satisfy their minimum food needs. Another 26 million people are also at risk of falling into poverty. Elimination of extreme poverty is seen by many as one of the hardest challenges facing Bangladesh. The poor often do not have adequate foundational education, skills, or assets to participate in and gain from growth in the economy. To survive they rely on low skilled, sporadic and informal employment. This precarious access to income makes them vulnerable to economic shocks and the country's frequent natural disasters. Access to a better quality education that enables development of higher value skills, and more productive livelihoods combined with effective tax transfer schemes, such as social protection systems, can help the poor cope with shocks by giving them resources to engage with the growing economy.

A key driver of economic growth in Bangladesh has been the private sector, through productivity gains in agriculture, small-scale entrepreneurship and garment export. Agriculture remains the largest employer in Bangladesh with approximately 22.7 million people or 48 per cent of the labour force working in the sector\textsuperscript{4}. The garment and textile sector has contributed to growth through its improved capacity to produce relatively simple garments at export quality. This has led to jobs creation, but resulted in increasing demand for low skilled labour, with no evidence of increased labour productivity. Diversification is also important to ensure the economy can flexibly adapt to emerging market opportunities as other countries become more competitive in the garment and textile industries.

Skills, especially cognitive abilities, are strongly related to growth and employment opportunities in both rural and urban areas. Bangladesh’s labour market is growing quickly, with the majority of employment being low skilled and informal. It is estimated only 20 per cent of the labour force has received any training, and of that, only 11 per cent has received training classifiable under the national qualification framework\textsuperscript{5}. Women are over-represented in low skilled and underemployment statistics. Improving their productivity will provide them with better employment opportunities, including the possibility to move towards formal employment.

Additional reasons for the higher growth trend in recent years include: demographic transition, (including lower population growth rates); increases in savings rates - leading to greater capital per worker in both the industry and agricultural sectors; and good macroeconomic management, including restrained inflation, reduced public debt to GDP ratio, and strong foreign currency reserves.\textsuperscript{6}

\textsuperscript{3} The World Bank, June 2013.
\textsuperscript{4} Bangladesh labour market profile, 2014.
\textsuperscript{5} National Skills Development Council Secretariat, Bangladesh Skills Snapshot, National Skills Survey- Phase 1, 2012.
\textsuperscript{6} World Bank Bangladesh Development Update, April 2015.
The continuing flow of remittances to Bangladesh is also a key contributor to poverty reduction particularly in rural areas. Remittances represent around 11 per cent of GDP (rising from 3 per cent in 1994). Bangladesh has a large migrant workforce with 1 in 8 Bangladeshis working overseas. Remittances amounted to $15.5 billion in 2013-14, representing a significant source of foreign exchange reserves and account for around 63 per cent of (remittance receiving) household expenditure.

Although gains have been made in women’s employment in the garment industry, women’s labour force participation rates are less than half that of men, with only 4 per cent of women working for cash wages. Increasing women’s participation remains a constant challenge due to constraints to employment such as early marriage and motherhood. Women and girls need to be engaged in productive employment if economic growth is to be effective in poverty reduction. A recent World Bank analysis of female labour participation in Bangladesh showed that if the same proportion of women were working as men the economy would grow 1.7 per cent faster7. In addition to low labour force participation, women face exclusion from economic assets/resources; income disparities; limited public participation; and socio-economic norms that entrench systemic gender inequality.

To achieve its goal of upper-middle income status, Bangladesh needs to lift annual growth to 8 per cent. To realise this, Bangladesh will need to address significant constraints to growth. According to analysis conducted by the World Bank, the UK’s Department for International Development and others8 there are six key areas where improvements would accelerate Bangladesh’s economic growth: 1) increased investment; 2) increase in exports and diversification of the export base; 3) prioritisation of migration and remittances; 4) improvements in regulatory environment, governance and infrastructure; 5) investment in human development, skills and productivity; and 6) regional integration – leading to better transport connectivity and energy cooperation and trade in goods and services.

**Australian Aid**

Australian assistance is helping to lower poverty levels and support the next generation of Bangladeshis to participate in the economy. In 2015-16, Australia’s total ODA to Bangladesh is approximately $59.8m ($42.1 million in bilateral assistance), making it our eleventh largest country program.

Australian aid helps promote stability in Bangladesh and provides the opportunity to engage Bangladesh as a partner on a range of mutual interests in South Asia. It is in our interests to support Bangladesh’s emergence as a constructive and economically significant partner in South Asia. We will also support regional approaches to regional challenges, including resource management, improving trade connectivity and encouraging investments to empower women to participate in cross-regional trade opportunities.

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7 The World Bank, Bangladesh Development Update, April 2015.
8 Bangladesh Investment Climate Assessment World Bank 2006; DFID Bangladesh 2013.
The nature of Bangladesh’s development challenges, and the size of its population, calls for aid programs that can be delivered at scale and in partnership. With a large number of development actors and well-established coordination mechanisms, harmonisation of donor support is necessary. Australia’s ability to contribute to development impact is enhanced through effective relationships. To this end Australia’s aid program in Bangladesh will work through a limited number of proven partners in areas of common strategic interest allowing us to reach more people than if we were to work alone. This will enhance our policy influence with government and realise efficiencies by accessing the resources, quality assurance, management and reporting systems of our larger, like-minded partners. A consolidated portfolio, based strongly on a partnership model, will extend Australia’s reach while maintaining efficiency.

Australia will make larger investments in fewer areas, where we consider we can have the most impact and where we can value-add. Our sectoral focus and investments reflect choices about what we do best and what we know achieves results amongst many development priorities in Bangladesh. Importantly, our investment priorities allow programming with Government and non-Government partners, the latter in particular delivering some very innovative programs.

Australia’s aid program can promote growth and reduce poverty by improving the productive capacity of Bangladesh’s people. By focussing on education and economic resilience - including social protection, livelihoods and skills programs - we are responding to Bangladesh’s skills gap with a particular focus on the extreme poor and women. Our support will seek to ensure that the most disadvantaged are not left behind and have opportunities to participate in the economy.

Specifically the Australia–Bangladesh program is focussed on investing in human development, skills and productivity. Our two objectives are:

1) **Improving education access, equity, efficiency and learning outcomes; and**

2) **Building resilience by reducing vulnerability and improving inclusion in the growing economy.**

In both objectives, we will prioritise gender equality by focussing on empowering women and girls.
Objective 1: Improving education access and learning outcomes

Supporting primary education will assist Bangladesh to address some of its productivity constraints by improving literacy, numeracy and overall ‘trainability’ of the future workforce. Over 43 per cent of the population remains illiterate and the average years of schooling among the labour force is just under five years, which is very low compared with countries that are currently competing with Bangladesh’s garment sector9. Low levels of literacy and inadequate years of schooling make skill acquisition more difficult.

While primary school enrolment rates are strong for girls and boys, drop-out rates are high, especially among extremely poor girls. Of those children who remain only a quarter of graduates at the grade five level have competency in Bangla and maths. This low rate is in part attributable to an emphasis on rote learning techniques. Most primary schools run double shifts, limiting the exposure each student has to the curriculum. Household poverty and early marriage, for which Bangladesh has the highest rates in South Asia, are among the main causes for drop-out rates among girls. Ensuring children, particularly girls, graduate from primary school literate and numerate will help the next generation access better paid and more highly skilled jobs or sustainable self-employment.

The Government of Bangladesh has demonstrated a commitment to reform through its primary education program, which ties donor funding to performance. We will support this reform drive by actively participating in the program’s policy and management working groups, complemented by our budget support and funding for technical assistance through other development partners.

Bangladesh provides the majority of funds for its primary education program, but seeks engagement from Australia and other donors to help it deliver services more efficiently and effectively. As part of a focus on quality education Australia, building on our 16 years of experience in the sector, will work with other donors to support improvements in:

(i) education data collection, analysis and usage;
(ii) learning assessment methods and approaches to improve learning;
(iii) financial management and accountability; and
(iv) exploring opportunities to promote innovation and encourage private sector and non-government engagement in the sector.

Australia will also expand access to education opportunities for Bangladeshis. We will work with BRAC, the largest non-government organisation in Bangladesh, to provide second-chance education. This benefits children, predominantly girls from poor families as well as children with a disability, who have dropped out or never enrolled in school.

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9 UNICEF data Bangladesh, December 2013.
Objective 2: build resilience by reducing vulnerability and improving inclusion in the growing economy

Although Bangladesh has achieved lower-middle income status, extreme poverty will only be eradicated if the whole community, including the most disadvantaged, benefit from and contribute to economic growth. Creating opportunities for the poorest parts of the population to regularise their engagement in the economy will help promote resilience and stability. In addition, social protection programs can help break the cycle of inter-generational poverty by overcoming the savings and credit constraints that prevent households from investing in the education and health needs of Bangladesh’s youth.

We will assist extremely poor people, predominantly women, to find pathways out of poverty, building on the lessons and successes of our existing investments. Our livelihoods programs provide people with cash transfers, productive assets, training and access to free health services. This package of support has been proven to increase income earning capacity amongst the poor. Communities in Cox’s Bazar district, which is host to Rohingya refugees and undocumented Myanmar nationals, will also receive increased support for nutrition, food distribution and income generating support under this objective.

We will also work with the Government of Bangladesh and other partners to help strengthen social protection systems and programs. Over a third of those living in poverty in Bangladesh are not receiving any social protection assistance at all. Effective income support from government social protection programs increases the poor’s purchasing power. In addition, social protection assistance improves the poor’s ability to mitigate risk, invest in income generating activities and access the labour market. While Bangladesh’s own systems for responding to the immediate impact of disasters and food security are tried and tested and have strong donor partner buy-in, better social protection programs will support the ability of the poor to return to school or employment following natural and man-made shocks. We will also integrate disaster risk reduction strategies across our portfolio.

Australia will also support skills development through our partnership with BRAC and DFID. Jobs for women are important as they can change the way households spend money and invest in the education and health of children. A variety of structural barriers exist that limit women’s access to employment. Australia will help women, young people and people with a disability find employment through skills training programs that are consistent with labour market demand. This will be pursued through discussions with BRAC as part of a new phase of funding.

Across both objectives our investments will have a strong focus on women and girls. In addition, our scholarships (including short courses) and volunteers programs will help to build human capital in key public and private institutions, both within the focus areas of this AIP and also in other areas of shared interest.
Implementation approaches

Leveraging our aid

Total aid flows to Bangladesh constitute approximately 1.8 per cent of its GDP (and of this Australian aid is roughly 3.3 per cent), meaning our aid needs to focus in areas where we can make a difference and where our resources can most effectively and efficiently be deployed.

Working with Government allows us to leverage our contribution to strengthen national systems and promote more efficient use of domestic resources over time. Support for non-government partners helps Australia to deliver large scale, high quality and innovative programs, complementing government services.

Efficiency and effectiveness

We have narrowed our sectoral priorities to areas where we have a comparative advantage and where we know we can achieve results with the resources available. To improve impact as well as efficiency, a consolidation agenda has been progressively implemented over the last two years. We will continue to move to a smaller number of larger investments. By the end of FY 2016/17 the number of investments in the Bangladesh program will reduce from 17 to 9.

After careful consideration, it has been decided to exit from the health sector as well as from climate change and emergency response. Although health remains important to Bangladesh’s development, larger donors are better placed to work with the Government of Bangladesh to tackle challenges in the sector. While Bangladesh remains vulnerable to natural disasters, our assessment is that Government has capacity for all but the most severe events and that other donors are better positioned to work in this space. Our continued focus on social protection will support the ability of the poor to return to school or employment following natural and man-made shocks.

The transition out of these sectors has been gradual, with ongoing support to help affected partners. Former partner organisations are still eligible for Australia Awards and volunteer placements. Australia will also continue to advocate on health and climate change issues where appropriate.

Working through partners

We will maximise the impact of our aid by working through a select number of proven partners in areas of common strategic interest. Our main partners are the Government of Bangladesh, BRAC (the world’s largest NGO), the United Kingdom, and World Food Programme (WFP). Working with larger partners allows Australia to reach more people than if we were to work
alone. It also enhances our policy influence with government through coordinated and combined advocacy. Our choice of government and non-government partners will be based on due diligence checks and informed by the Assessment of National Systems that was completed in 2013 and our Fraud and Anti-Corruption Strategy.
## Performance management

### Performance benchmarks[^10]

<table>
<thead>
<tr>
<th>Aid objective</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance objective</td>
<td>improve education access and learning outcomes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance benchmark</td>
<td>The quality of end of primary cycle examination is improved.</td>
<td>35% (up from target of 25% in 2014-15)</td>
<td></td>
<td></td>
<td>This is an indicator of increased proportion of competency based questions (as opposed to questions that test memory/recall only).</td>
</tr>
<tr>
<td>Performance benchmark</td>
<td>BRAC meets targets for numbers of children completing a course of primary or pre-primary education.</td>
<td>438,000 (up from target of 368,450 in 2014-15)</td>
<td></td>
<td></td>
<td>Figures come from the Strategic Partnership Arrangement.</td>
</tr>
<tr>
<td>Performance benchmark</td>
<td>50% of donor disbursement for PEDP3 linked to results achieved, with the remaining 50% subject to meeting annual audit requirements.</td>
<td>50% (consistent with target in 2014-15)</td>
<td></td>
<td></td>
<td>Joint Annual Review Mission and Joint Consultation Meeting records. Payment dependent on extent to which nine Disbursement Linked Indicators are met.</td>
</tr>
</tbody>
</table>

[^10]: Performance benchmarks for 2016-17, 2017-18 and 2018-19 to be updated once agreed.
Performance benchmark | At least 50% of scholarships in each intake awarded to women. | 50% (consistent with target in 2014-15) |  
Aid objective | Build resilience by reducing vulnerability and improving inclusion in the growing economy |  
Performance benchmark | The number of women and their households graduating from our partners’ livelihoods programs. | 105,409 | Future commitments from BRAC, Chars Livelihoods Programme, WFP. |  
Number of women and their households able to access social transfer. | 108,520 | Future commitments from BRAC, Chars Livelihoods Programme, WFP. |  
Program management |  
Performance benchmark | Reducing the number of investments to deliver targeted, efficient aid program. | 17 | 9 | Based on DFATs Aidworks system |  

**Mutual obligations**

Australia will deliver aid in line with the strategic directions of this Aid Investment Plan, against the performance benchmarks identified. Our aid to Bangladesh is consistent with the objectives contained within Bangladesh’s own rolling five year development plans. Australia directly supports this growth agenda through its aid program. We fund Bangladesh’s primary education development program, where donor funding is linked with performance against nine mutually agreed development linked indicators with the Government. Our funding for social protection aligns with the Government of Bangladesh’s draft National Social Security Strategy and has the potential to guide improvements in public expenditure. Our assistance to communities in Cox’s Bazar District is consistent with the Government’s National Strategy on Myanmar Refugees and Undocumented Myanmar Nationals in Bangladesh.
Monitoring, review and evaluation

DFAT is committed to generating credible performance information to measure the impact of Australia’s aid investments in Bangladesh. This information will be used for management, accountability and learning purposes. We will review results through regular bilateral official’s consultations; donor–government coordination forums such as the Bangladesh Development Forum; the Local Consultative Group and Primary Education Program Consortium; high level governance mechanisms with our key non-government partners; as well as through annual aid program performance reporting. Australia will evaluate and consider discontinuing programs that do not have high levels of Bangladesh engagement or where poor performance of our partners presents a significant barrier to progress.

A Performance Assessment Framework will be used to track our progress towards the strategic objectives outlined in this AIP and to assess the adequacy of our results. DFAT’s approach to performance reporting will include the following features:

- Systematic evaluation of our progress. All investments over $10 million will be subject to independent evaluation once over their life. Additional evaluations of smaller investments, thematic evaluations, health checks of the overall program and strategic evaluations by the Office of Development Effectiveness will be undertaken as required.
- Harmonise our performance assessment with partners. This includes undertaking joint performance assessment, using partners’ systems and ensuring our processes align with partners’ systems to avoid duplication and to ensure partners’ expectations and assessments of progress are aligned.
- Using partner monitoring systems where appropriate. This will help to strengthen those systems over time. Where systems are very weak, supplementary monitoring may be required combined with support for institutional capacity building.
- Annual review of progress conducted by DFAT with partners at the program and country level, summarised in the Aid Program Performance Report;
Program management

Governance and resource management

Australian aid to Bangladesh will be managed by the Department of Foreign Affairs and Trade (DFAT) in Canberra and Dhaka. Overall responsibility for aid policy, program outcomes and the divisional aid budget will reside with DFAT’s First Assistant Secretary (South and West Asia Division), while Head of Mission (Dhaka) will have responsibility for the strategic leadership of the development relationship and for the delivery of the aid program in Bangladesh.

Developing, implementing and evaluating aid investments require highly skilled staff. Our resourcing footprint in Bangladesh is lean. We will maximise our capability through innovative and flexible use of resources and by investing in staff training and development. This will be complemented by externally contracted technical resources, particularly in public financial management, monitoring and evaluation, education, social protection and gender.

Risk management

Aid to Bangladesh will continue to be exposed to a range of political, fiduciary and performance-related risks. The key strategic risks identified are recorded in the Program Risk Register. We will regularly assess, monitor and manage these risks in accordance with the table below.

Risk monitoring and communication

<table>
<thead>
<tr>
<th>Process</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update of risk register</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Management team discussion on progress of risk treatments, escalation of sector risks and any new risks</td>
<td>Monthly</td>
</tr>
</tbody>
</table>