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**WORKING POLITICALLY IN PRACTICE SERIES**  
**– CASE STUDY NO. 7 –**

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**LEATHER SECTOR REFORM IN BANGLADESH**

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*March 2016*

*Dan Harris*





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MARCH 2016

DAN HARRIS

The knowledge developed prior to, but used in the creation of this publication, was obtained through the financial support of the Australian Government to The Asia Foundation under the DFAT-TAF Partnership arrangement.

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# Foreword

For several decades, The Asia Foundation has been implementing development programs through a highly responsive, politically informed, iterative ‘searching’ model of assistance. Variations of this approach have been an important element in the Foundation’s work going back to its founding in 1954. While each program varies, this model is broadly characterized by a heavy emphasis on contextual knowledge and relationships, combined with multiple small, nuanced, and carefully targeted interventions working closely with local partners. This stands in sharp contrast to the conventional, pre-planned ‘projectized’ approach that has long been the standard in the development industry. Especially in cases where a development problem may seem to be politically intractable, an approach that focuses on building relationships and expanding knowledge of the landscape of interests and influence, while retaining the flexibility to adjust program strategy and tactics as new information or unexpected opportunities become available, is more likely to yield good results.

An important component of this work has been The Asia Foundation’s partnership with the Australian Department of Foreign Affairs and Trade (the DFAT-TAF Partnership). This Partnership has provided the Foundation with a unique opportunity to trial, analyze, and learn from program initiatives that are taking a politically-informed searching approach to reform processes. By reflecting on and analyzing such programs, the DFAT-TAF Partnership has helped to shape and sharpen the discourse on this topic that is now taking place within the development community. To help improve the quality and objectivity of this research, the Foundation turned to the Overseas Development Institute (ODI), one of the world’s most preeminent development think tanks.

The Overseas Development Institute has been providing analysis of different approaches to development assistance for more than 50 years. More recently, ODI has been linking its analytical work on politically informed and iterative approaches to its provision of strategic advice and training to different organizations on how these approaches can be implemented in practice. ODI’s work focuses on the dynamics underpinning sectoral reforms in a variety of African and Asian countries, focusing on service delivery, justice and security, agriculture, water, transport and more. ODI’s collaboration with TAF has supported action research in three countries, which has followed three adaptive programmes over a process of 18 months, generating insights into how these programmes develop over time and documenting their learning in real-time.

*Leather Sector Reform in Bangladesh*, is the first of these case studies. While current literature has gone a long way in explaining why a politically-informed approach to programming is useful in development and what the broad principles for working in this way should be, little has been written about the nuts and bolts of how this approach plays out in practice. This is, in part, because most case studies are retrospective, rather than being conducted in real-time to capture the twists and turns of what it takes to work in flexible and political ways.

This case study tells the story of how the Asia Foundation’s program in Bangladesh operationalized a politically-informed approach to working in the leather sector. While the results of this work are still emerging, significant accomplishments have been made to relocate the leather tanneries in Dhaka to a more environmentally and economically sustainable location – a move which has the potential to significantly increase exports for this sector. This case study highlights four traits that characterize the politically-informed and flexible way the implementing team worked. These were: (1) adopting a ‘mixed management approach’ which relied heavily on local partners for implementation, but stopped short of fully devolving program responsibilities to them; (2) a heavy investment in technical and political information gathering through research, implementation of activities, and key relationships; (3) continuous learning and iterating within the program cycle, and; (4) being politically informed about local institutional arrangements and key actor interests, as well as politically astute regarding the needs and incentives of various powerful actors. Importantly, the author found that the principles of thinking and working politically were applied in the Bangladesh case in ways that diverged from many other documented cases, including how the team worked with local partners and delegated management functions, underscoring the point that iterative politically informed approaches are likely to be quite heterogeneous.

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# Acknowledgements

Many thanks are due to numerous counterparts at The Asia Foundation for their enthusiasm and support in the development of these case studies. This includes Debra Ladner, Mark Koenig, and Lavinia Tyrrel, who provided constructive engagement and feedback throughout the research process, including detailed and thoughtful comments on the case study reports, as well as Bill Cole, Jaime Faustino, Matthew Arnold, and Patrick Baron for their involvement at particular points along the way. Special thanks are due to the reform team in Bangladesh, whose dedication, patience, and openness were critical to the action research approach, and to the various partners and other individuals who made themselves available for the discussions that informed this work. Thanks as well to Ann Bishop for her assistance with editing the final report.

Additional inputs from colleagues at the ODI were also invaluable, including from Alina Rocha Menocal at inception and mid-term workshops that helped shape the research, and detailed feedback from David Booth on the reports and the research more broadly. I am particularly grateful for the numerous exchanges with Lisa Denney (author of the Cambodia case study) that were invaluable in prompting bigger questions about this approach and challenging my thinking on this case.

Finally, this research would not have been possible without generous funding from the DFAT-TAF Partnership. Any errors are my own.



# Contents

<b>EXECUTIVE SUMMARY</b>	<b>9</b>
<b>1. INTRODUCTION</b>	<b>13</b>
1.1 Origins and purpose of the ‘Working Politically in Practice’ action-research initiative	13
1.2 Approach and methods of the case study	13
<b>2 .THE CONTEXT AND FOCUS OF THE REFORM</b>	<b>15</b>
2.1 Conditions imposed on the reform initiative	15
2.2 Issue selection	15
2.3 A persistent challenge: previous attempts at reform	19
2.4 The wider reform context	22
<b>3. THE REFORM INITIATIVE</b>	<b>23</b>
3.1 The Asia Foundation and its partners	23
3.2 Early learning, relationship development, and strategic framing	24
3.3 Narrowing the focus internally	25
3.4 Brokering the signing of the MoU	25
3.5 Implementation of the MoU and facilitation of relocation	28
3.6 Tracking Post-MoU progress	31
3.7 Maintaining momentum and future prospects	33
<b>4. ISSUES AND CHALLENGES</b>	<b>35</b>
4.1 Reform team roles and management	35
4.2 Research and knowledge gathering	37
4.3 Learning and iteration	38
4.4 Working politically	39
<b>5. CONCLUSION</b>	<b>43</b>
<b>6. REFERENCES</b>	<b>44</b>
<b>7. APPENDIX</b>	<b>47</b>
7.1 Revised Bangladesh Bank Circular	47
7.2 Bangladesh Leather Sector Initiative - Selective Time-line of Major Events	49

# Abbreviations

**BDT** - Bangladesh taka  
**BELA** - Bangladesh Environmental Lawyers Association  
**BFLLFEA** - Bangladesh Finished Leather and Leather Footwear Exporters Association  
**BSCIC** - Bangladesh Small and Cottage Industry Corporation  
**BTA** - Bangladesh Tanneries Association  
**BUET** - Bangladesh University of Engineering and Technology  
**CBP** - Centre on Budget Policy  
**CETP** - Centralized effluent treatment plant  
**CP** - Cleaner production  
**CTG** - Caretaker Government  
**DE** - Development Entrepreneur  
**DFAT** - Australian Department for Foreign Affairs and Trade  
**DFAT-TAF** - Department for Foreign Affairs and Trade–The Asia Foundation  
**EU** - European Union  
**INSPIRED** - Integrated Support to Poverty and Inequality Reduction through Enterprise Development  
**LFMEAB** - Leather Goods and Footwear Manufacturers and Exporters Association of Bangladesh  
**M&E** - Monitoring and evaluation  
**MoU** - Memorandum of understanding  
**ODI** - Overseas Development Institute  
**PSIL** - Program Strategy, Innovation, and Learning (Unit)  
**RE-TIE Bangladesh** - Reduction of Environmental Threats and Increase of Exportability of Bangladeshi Leather Products  
**RMG** - Ready-made garment  
**SANEM** - South Asian Network on Economic Modeling (SANEM)  
**SME** - Small and medium-sized enterprises (SMEs)  
**ST** - Strategy Testing  
**USAID** - United States Agency for International Development

# Executive Summary

In 2012, the Australian Department for Foreign Affairs and Trade (DFAT) and The Asia Foundation (the Foundation) began work under a strategic partnership agreement. The DFAT–TAF Partnership activities include a wide range of reform initiatives that have explicitly aimed to ‘work politically in practice’. This case study is one of three (Cambodia and Mongolia forthcoming) that present an account of work undertaken by the Foundation and its partners in specific country and sector contexts—in this case, economic development in the leather tanning sector in Bangladesh. This case, which is based on research conducted in real time alongside programs that have actively sought to work in a more flexible and politically savvy manner, aims to shed light on the operational realities of the emerging consensus on the need to think and work politically. While the other papers in this series suggest such methods will be applicable across a range of contexts and thematic interests, at a time at which private sector engagement and trade facilitation are of interest within DFAT, this case may shed useful light on alternative approaches to these issues.

In each country undertaking a DFAT–TAF Partnership initiative, the Foundation’s offices were provided with a relatively small amount of money over a limited time frame, and teams were required to embrace an explicitly flexible, adaptive, and politically oriented approach. They were also to aim for transformational, rather than transactional changes, the impact of which would be visible in terms of concrete, tangible outcomes. The Foundation had experience with the ‘Development Entrepreneurship’ approach developed by staff in its Philippines office, and the Bangladesh case was, at least in part, an explicit effort to determine whether that approach might work in other contexts.

As the Foundation’s team in Bangladesh attempted to identify an issue on which they might work under the required conditions, they developed a set of four criteria:

- The issue selected should constitute an economic reform challenge that, if solved, would lead to significant impact on the country and its economic prospects;

- The issue should be subject, at least to some degree, to complex political dynamics and not simply a technical challenge;
- There should be at least a limited number of influential people who could sincerely support the reform process; and,
- There needed to be a partner capable of, and fully committed to, driving forward the reform process on its own merits.

Initially, the team invested time and effort in scoping potential land reform initiatives and partners, but unsatisfied, they turned to persistent challenges in the leather sector as one of their key focus areas. The leather sector is one that has shown impressive growth in recent years, and yet is seen as failing to have lived up to its full potential. Unlike the ready-made garments sector that Bangladesh has come to dominate, the raw materials for the leather sector are locally available owing to significant slaughter of cattle and goats for the festival of Eid al-Adha. This means that the benefits of activities along the full length of the leather and leather goods value chain can be captured domestically (for a full time-line of key events and initiative achievements, please see Appendix 2).

Among the major constraints to leather sector growth, however, are longstanding issues arising from practices in the leather tanning sub-sector, and its location in Hazaribagh District along the Buriganga River in Dhaka. The absence of space and other features of the current site limit growth of the industry as a whole, and the feasibility of establishing treatment facilities for the significant quantities of industrial effluent produced as a part of the tanning process. That effluent is dumped, generally untreated, into the river, generating significant and well-documented social, environmental, and economic costs.

There have been several previous efforts to address these issues and improve practices in the tannery sub-sector. These range from international donor technical assistance on the adoption of cleaner production methods, to domestic challenges in the Bangladeshi court system. The latter achieved a number of significant High Court rulings ordering the tanneries to relocate to a new industrial estate in Savar; (Figure 1)

and yet, little changed in practice. More than 10 years after the initial High Court ruling, a lack of environmental compliance remains a significant constraint to growth of the industry, and the well-being of citizens who live along the Buriganga River and beyond.

At the outset of their work, the team's diagnosis found that legacies of mistrust were significant, and to some degree, justified. The first critical step was to find a way of approaching the issue that would put some distance between current reform efforts, and the unproductive engagement of the past. Rather than emphasize environmental and health concerns, as previous reform efforts had, the team focused on the potential economic gains of relocation. This was an approach that had come up in early conversations with tannery entrepreneurs, and it was one which would appeal to government as well.

As the Foundation's team identified partners (formal and informal) and narrowed its focus to a set of outcomes associated with increasing export growth, it began to build a coalition capable of resolving the seemingly fundamental disagreements. This included, but was not limited to, disagreement on how to finance a centralized effluent treatment plant (CETP) and other relocation costs. This process had two broad phases: initial efforts to get government and the tanneries to sign a new memorandum of understanding (MoU) resolving core disagreements on the roles and responsibilities for relocation, and then on-going problem solving over the course of implementation. Leading up to signing of the MoU on October 13, 2013, the team engaged in a variety of tactics. This included pre-meeting strategy sessions with both sides, often held after working hours, to identify potential points of conflict and refine messaging, both of which helped to ensure that meetings between industry and government were fruitful.

Significant emphasis was placed on developing consensus so that a small number of more reluctant tanneries could not undermine the MoU's progress, and it required the team to deal with frequent objections. These were both genuine objections, and ones from those attempting to delay or derail the process. Tracking, understanding, and responding to these events required consistent engagement, with the team shepherding the signing of the MoU through potential roadblocks, and dealing with each objection in turn.

Yet, while inclusion was a priority in gaining agreement on CETP cost sharing and the signing of the MoU, subsequent steps following the signing of the MoU depended largely on the decisions of individual tanneries. From a purely technical standpoint, a critical mass of tanneries at the new site was necessary for

the production of enough effluent for the CETP and associated facilities to operate. However, the coalition believed that if a group of prominent tanneries with strong incentives to relocate led the process (principally due to their engagement with export markets that demand cleaner production), then the remaining tanneries would follow. Many of the latter are connected to the leading export firms via backward production linkages and subcontracting job-work agreements. There was some initial concern, though, that such a strategy could backfire, undermining work that the coalition had been doing to secure consensus on the signing of the MoU. However, the proposed approach resonated with the subset of insiders with whom the program team had been working closely, and this would inform the reform strategy going forward.

This strategic reorientation is reflected in how the coalition handled financing issues that became the focus after the MoU was signed. The team did some technical work on the allocation and distribution of the Bangladesh taka (BDT) 2.5 billion relocation compensation package, but because this was such a small amount relative to the core business costs and benefits associated with relocation, the team gave much more attention to accessing additional concessional loans, and to the issuance and implementation of a Bangladesh Bank Circular. The latter provided guidance on how to address both the current financial obligations of the tanneries, as well as future loans. While there were some setbacks, significant progress on this bank circular and support for entrepreneurs' efforts to access 'soft' (subsidized) loans encouraged tannery owners to commit their own funds to the relocation process.

The latest figures available (September 1, 2015) indicate that of the 155 tanneries allocated plots at the new Savar estate, 148 had begun substantive construction (including piling and stages beyond). Of the others, two tanneries had constructed only a boundary wall, three had constructed only a boundary wall and guard shed, and of the two that had not begun construction, one had recently received approval to begin construction, and the other lacked approval. Progress on construction of the CETP and other infrastructure at the new industrial estate has been slower than initially planned in formal project documentation, but it continues to move forward in line with the government's need to show results and the business interests of tannery owners. Some work remains on establishing effective arrangements for managing the CETP's operations and maintenance, but there is little doubt that impressive results have been accomplished on this issue, which has been an important development challenge for decades.

These achievements and the evolution of the coalition's approach provide a number of insights into what it means in practice to adopt more flexible, politically informed approaches to development assistance. This paper highlights the following four areas of emerging interest:

- **The distribution and management of roles in the reform network:**

The Bangladesh case is an example of a mixed approach that was neither an indirect model of the sort used by the Foundation's Philippines office in its Development Entrepreneurship<sup>1</sup> work, which relies far more on local partners for its implementation; nor was it a direct model, in which the Foundation's staff visibly led the reform process. Inputs were sought in a number of different ways, but notably were formal (though non-contractual) dialogue processes, as well as extensive informal meetings with both industry and government partners.

- **Research and knowledge gathering processes:**

The team's research and knowledge gathering used several processes, including investment in research products, activity-based knowledge gathering, and relationship-based knowledge gathering. In all cases, but particularly with respect to the latter two, the knowledge obtained was both technical and political in nature, revealing important details of the incentives, beliefs, and positions of the key actors who were relevant for reform.

- **Learning and iteration within the programming cycle:**

The initiative's explicit attempts to use learning to iterate and adapt over the course of implementation involved both regular reflective discussions as part of Strategy Testing, and day-to-day ad hoc micro adjustments. Strategy Testing offered important opportunities

for discussion within the team across all levels of seniority, and also provided a prompt for staff to regularly consider changes in the reform context that might affect their strategy. Ad hoc micro adjustments were made on an on-going basis through problem solving and informally reflecting on tactics, which was encouraged by the initiative's culture. While the initiative's level of flexibility was critical for changing strategy during the implementation period, some constraints were notable—for example, at times the team's working relationships that extended across different activities influenced their decision-making.

- **Working politically:**

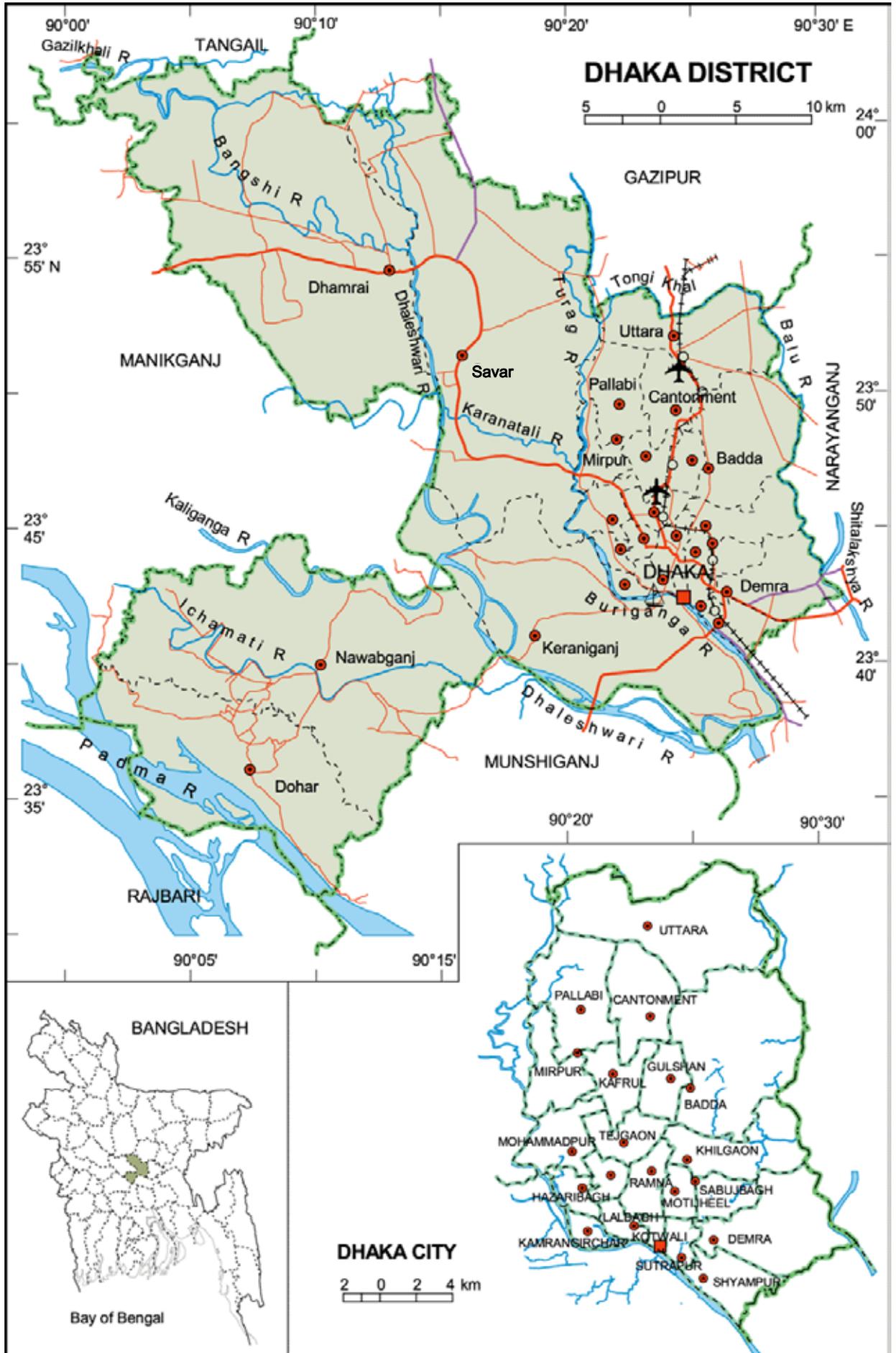
Evidence suggests that the team placed considerable emphasis on being both "politically informed" and "politically astute" (Booth and Unsworth 2014). The former constituted on-going analysis of power, institutions, and incentives that rarely appeared explicitly in the team's formal analytical outputs (no formal 'political economy analysis' was carried out), but was central to strategic discussions, and to the team developing its own (unwritten) assessments of political dynamics. Being "politically astute" involved both a deliberate and active effort to cultivate high-level political support for the relocation process; building on, rather than confronting, existing power relationships and incentives; and adapting to the risks resulting from an increasingly high profile initiative.

Together, findings in these areas suggest an approach that appears to have been largely effective in reflecting principles of thinking and working politically, but that in some ways deviated from other documented approaches, including the Foundation's Development Entrepreneurship work in the Philippines, upon which the Bangladesh initiative was modeled.

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1. For more detail on the Development Entrepreneurship approach and experiences with the approach in the Philippines, see Faustino and Booth (2014).

Figure 1: Map of Savar and Dhaka District



# 1. Introduction

## 1.1 ORIGINS AND PURPOSE OF THE 'WORKING POLITICALLY IN PRACTICE' ACTION-RESEARCH INITIATIVE

The disappointing results of many conventional development programs have prompted debate about the need to “do development differently” (Andrews et al. 2014)—including by being more problem-driven, iterative, and adaptive (Andrews et al. 2013); politically smart and locally led (Booth and Unsworth 2014); and entrepreneurial (Faustino and Booth 2014). Yet while there is an emerging body of literature that builds the evidence base for why these can be more effective ways of working, much less has been written about how to work differently.

This is one of three country case studies conducted as part of a collaboration between the Overseas Development Institute (ODI) and The Asia Foundation (the Foundation) that has sought to deliver action research on a number of reform initiatives that explicitly aim to “work politically in practice.” This has entailed conducting research in real time alongside programs that have actively sought to work in a more flexible and politically savvy manner. While this research has the limitation of not being able to point to longer-term results in the way that post-hoc research can with the benefit of hindsight, it has the advantage of telling the story of the reform process as it happened. That is, with all the bumps and murkiness that characterize development programming, but which often get left out through post-hoc research because of the tendency to tidy up and rationalize decisions and processes after the fact, and because many of the details are simply forgotten. This case study was therefore conducted very much ‘in the weeds’ of programming. It is these ‘in the weeds’ issues that are most in need of clarification within wider debates on “thinking and working politically,” and to which these case studies aim to contribute.

The three case studies under examination were funded under the partnership between the Australian Department of Foreign Affairs and Trade (DFAT) and The Asia Foundation. This DFAT–TAF Partnership was developed in 2012, specifically to provide the opportunity to test programming approaches that work politically in practice. Through the DFAT–TAF Partnership, the Foundation has implemented over 20 initiatives across 12 countries and regional programs,

including Bangladesh. These initiatives focus on addressing critical development challenges through flexible and adaptive programming. The Foundation’s Program Strategy, Innovation and Learning (PSIL) Unit has been DFAT’s program counterpart, and its staff manage the Partnership budget and reporting, as well as providing management oversight of the country-level initiatives. The PSIL Unit has also been key in promoting learning across the initiatives and in providing peer support; for example, experienced practitioners in the Philippines provided input and guidance to the Bangladesh team.

It is important to note that these cases document reform initiatives that were explicitly flexible in design, as agreed by both the funder and the implementer. This intention made possible experimentation with working politically and flexibly. However, those wanting to draw on these cases should be aware that doing so may be limited if funders or implementers do not provide the same degree of support (critically: flexible but predictable funding, freedom to adapt all aspects of the program cycle in real-time, scope to invest in relationship building, and support to use political insights in programming), to such flexible ways of working.

## 1.2 APPROACH AND METHODS OF THE CASE STUDY

Research for this case study involved three in-country visits of 2 weeks each by an ODI researcher.<sup>2</sup> Visits took place in May and November of 2014 and April/May 2015. Between visits, and in the final months of implementation between May and September 2015, additional telephone and Skype interviews with team members were used to track progress and clarify specific points that had arisen during previous visits.

This approach of periodic engagement aimed to capture the evolving story of reform, as well as the changing internal dynamics and thinking within the Foundation’s team. Early visits were necessarily devoted to reconstructing the early days of each initiative, including the logic for issue selection. Later visits served to update information on the case study, based on recent events, and explore aspects of flexibility and adaptation during the implementation period, as well as to triangulate information and fill gaps in existing material.

2. For logistical reasons, including the desire to better coincide with the availability of key team members, the third visit was split into two 1-week visits, with the first week in April 2015 and the second, three weeks later, in May 2015.

Each visit was structured around a series of semi-structured interviews with members of the reform team and its partners, as well as with external sources, including government counterparts, private sector interests, and academia. Time was also spent during each visit shadowing team members, attending external meetings, and observing internal discussions. The author had access to a significant quantity of internal documentation relating to the initiative, such as formal project documentation (including Strategy Testing documentation, annual reporting, etc.), limited internal written analytical work, and other informal documents.

While researchers were not selected for the purpose of providing additional country- or sector-specific expertise or programmatic advice, as is the case in other models, such as Coalitions for Change in the Philippines (O'Keefe et al. 2014), discussions at an inception workshop in April 2014 led to an agreement to accept the effects that interactions with researchers might have on the team. Researchers across the three case studies were thus free to participate in discussions and raise challenges to the teams without worrying that their presence was affecting the approach.

# 2. The Context and Focus of the Reform

## 2.1 CONDITIONS IMPOSED ON THE REFORM INITIATIVE

All of the initiatives carried out under the DFAT–TAF Partnership were subject to an initial set of four parameters given to country teams by the Foundation’s PSIL Unit.

**1. A relatively small amount of money:** The total budget for the Bangladesh Leather Sector Initiative was roughly \$675,000, spent over a 3-year period. An additional \$825,000 was allocated to activities in the renewable energy and telecommunications sectors that were carried out under the same Partnership agreement, but which fell largely outside the scope of this paper and were largely implemented separately to the leather sector reform initiative.<sup>3</sup> Note, these figures were not determined at the outset of operations in 2012, but rather were determined through a process of annual negotiation with the PSIL team.

**2. A limited time:** The Bangladesh Leather Sector Reform Programme operated for a period of almost 3.5 years, beginning in May 2012 and running through September 2015. The initial period for implementing activities under the DFAT–TAF Partnership was intended to end at the end of June 2015, but the PSIL team made a decision in May 2015 to extend the initiative for an additional 3 months.

**3. Embrace an explicitly flexible, adaptive, and politically oriented approach:** This would come to include participation in Strategy Testing,<sup>4</sup> which aimed to capture these aspects of the approach. While the three initiatives selected as case studies had to follow the DFAT–TAF Partnership’s monitoring and evaluation (M&E) approach, including use of the Strategy Testing framework, they were not required to participate in the case study research as a condition of their funding.

**4. Transformational change:** In initial exchanges with the PSIL Unit, the Foundation’s Country Offices proposing work under the Partnership were given explicit direction to aim for significant transformational changes, in contrast with transactional changes. Given the limited amount of funding provided, transformational impacts would likely need to come through institutional change or the resolution of some binding constraint that, once overcome, would allow actors pursuing their own objectives to deliver impact at scale. Country teams were also encouraged to think about impact in terms of concrete, tangible outcomes, as opposed to things such as “more accountable and participatory governance.”

## 2.2 ISSUE SELECTION

The process of selecting and defining the issue on which the team would focus its efforts began in earnest in 2012, following early discussions between the Senior Director of the Foundation’s PSIL Unit and the Foundation’s Country Representative in Bangladesh. Having secured funding under the DFAT–TAF Partnership, the Senior Director made an initial visit to Dhaka to discuss ways in which Partnership funding might be used in Bangladesh. Specifically, the Foundation and its DFAT counterparts were interested in replicating the Foundation’s Development Entrepreneurship approach that had been successful in the Philippines (Faustino and Booth 2014).

The Foundation’s Bangladesh team had a clear preference from the outset to identify an economic rather than a social sector issue. Not only would that help to gain broad-based support (given the perceived importance that influential elites in Bangladesh attach to economic growth outcomes), but it would also help establish a niche for the Foundation in a country in which the social sectors are saturated with nongovernment organizations.

3. The figures given are estimates provided by the program’s management.

4. For more details on Strategy Testing, see section 4.3.1.

Within this broad framing, the Foundation's Associate Director for Economic Development, now the program leader, together with a new program manager, and another now-former staff member, started consultations with a wide range of stakeholders in order to identify potential sectors in which the new Development Entrepreneurship for Business Policy Reform team might work. The scoping process began with consultations within established Foundation and personal networks, but branched out further during economic sector, and then issue, identification.

For the program leader, four criteria were the most important in selecting issues suitable for DFAT-TAF funding:

- First, the issue needed to be important for Bangladesh. In other words, it was imperative that the issue selected constituted an economic reform challenge that, if solved, would lead to significant impact on the country and its economic prospects. This reflected a desire to contribute to change at scale and aligned with PSIL guidance on transformational change and suggestions such as those in Khan (2011) on the need to focus on key bottlenecks.
- Second, the issue should be subject, at least to some degree, to complex political dynamics. That is, the blockages to reform and development identified by the project constituted challenges that were not simply technical in nature.
- Third, there needed to be at least a limited number of "good people who could be brought onside" to sincerely support the reform process. This reflected a basic desire for the Foundation to work on an issue that is not simply a priority in terms of potential impact, but also one for which there is at least a rudimentary constituency for reform. Further, this description also implied a requirement, even at an early stage, for some degree of certainty that there would be powerful actors among those that would support reform.
- Fourth, there needed to be someone capable of, and fully committed to, driving forward the reform process for its own merits. This required careful assessment of the motivations of potential partners—something that would inform the eventual selection of partners that could drive the leather sector work on a day-to-day basis.

### 2.2.1 Initial thinking on land reform

Registering and titling land was the first constraint on economic development in Bangladesh to emerge from the Foundation's consultation process as a potential issue on which the team might work. Previous efforts aimed at supporting land titling reforms feature prominently in the Foundation's narrative on "thinking and working politically" in other contexts, including work by the Foundation's Program Director for Economic Reform and Development Entrepreneurship in the Philippines who played a supporting role for the Bangladesh team during their work under the DFAT-TAF Partnership (Chikiamco and Fabella 2011; Booth 2014).

However, land reform is a highly contested area in Bangladesh, and the Foundation was not familiar with it, nor did it have well-established networks on this issue. Therefore, for roughly 3 months from August to October 2012, the Foundation invested resources to explore potential reforms in relation to this policy issue. This initial investment required significant staff time, which was mainly devoted to consulting stakeholders in order to develop better understanding of land reform issues, and to identifying potential partners, but it was relatively 'light' in using other resources, and conducting formal activities.

The program leader viewed the identity and motivation of the person the Foundation would select to drive the reform initiative as critical success factors. The scoping process initially identified a candidate who possessed influence and local networks that were attractive qualities. However, the candidate was unable to accept a substantial position to lead the land reform initiative due to a competing workload, and the level of commitment the DFAT-TAF Partnership project would require. Instead he nominated a replacement candidate. Initial discussions with the nominated replacement focused heavily on the details of the contract, including specific timing and outputs, which the team felt would make the candidate an inappropriate choice for the more flexible, adaptive approach used by the Partnership. This, in conjunction with concerns about being able to link land titling to tangible improvements in the ability of the private sector to do business, was enough for the Foundation to drop land reform as a focus area.

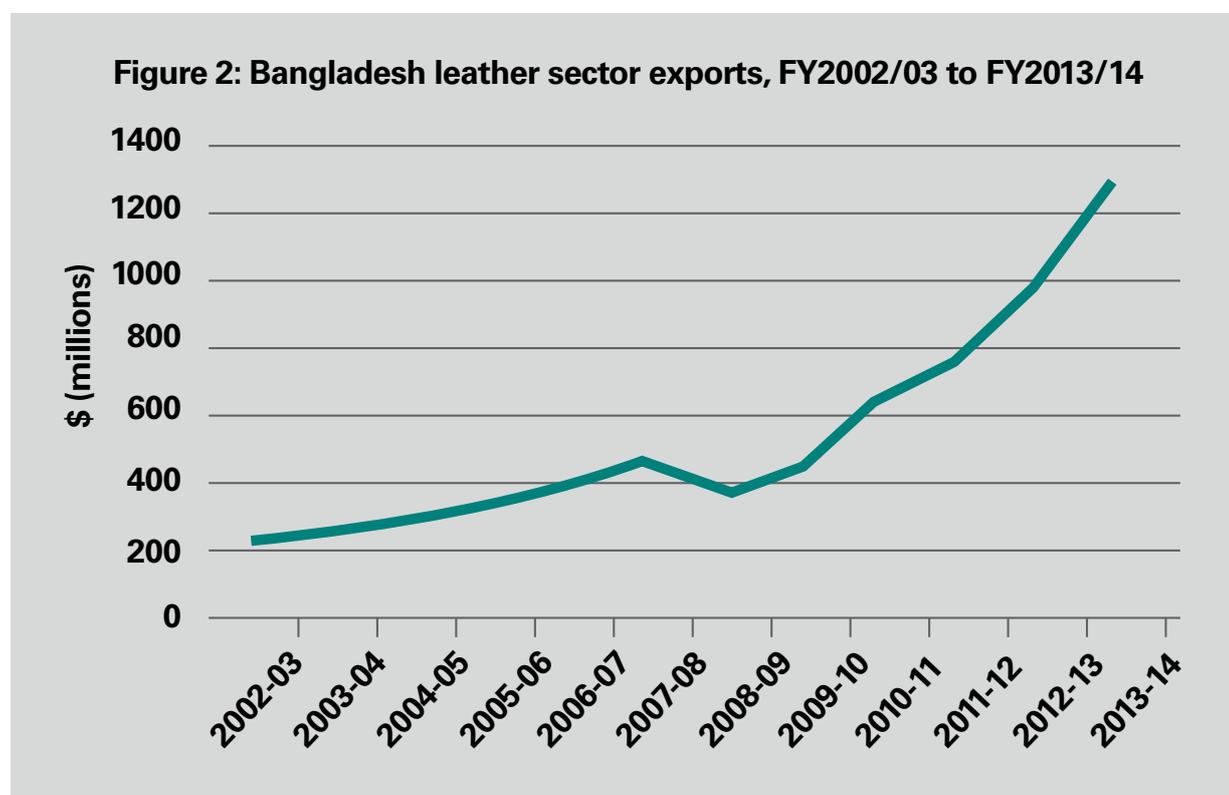
Reflecting later on this decision and on the issue selection process more broadly, team members expressed concern that their early choices could have

a negative impact on the Foundation's reputation in Bangladesh. A strong, neutral reputation, built on a track record of successful delivery, is something highly valued by members of the reform team who noted its importance for effective operation. Balancing these concerns about reputation with the need to take calculated risks and learn from failure was to become an on-going theme for the team as they worked through implementation. This theme was especially important for the Bangladesh team, given that this was their first explicit attempt at this type of programming. Practitioners more experienced with working in a flexible and politically savvy manner, and with successful cases already in their portfolio, might be less concerned about reputational risk should a particular initiative fail to produce the desired developmental outcomes.

### 2.2.2 An introduction to the leather sector problem

As the Foundation came to the conclusion that land reform was not a promising candidate for the team's first venture into more flexible, adaptive forms of programming, further consultations with contacts in the private sector and academia in late 2012 produced a viable alternative: the leather sector.

The leather sector is an important one for Bangladesh. Estimates from the time of issue selection suggested that the sector contributed roughly 3.8% of total exports (\$790 million), and employed roughly 510,000 semi-skilled and skilled workers. The sector has performed well in recent years, at least in terms of annual growth, averaging almost 16.5% growth in exports from FY2002/03 to FY 2013/14.



Source: Khondker and Eusuf 2014

And yet, to date, the leather sector was seen as having failed to realize its full potential. The comparison that resonated with the team, and that would come to be a part of its push for reform, was that with Vietnam. As documented in the team's analysis of the benefits of leather sector relocation, in 1995 both Bangladesh and Vietnam were exporting \$150 million worth of goods in the leather sector. However, over the last 20 years, Vietnam's leather exports rose to over \$7 billion, a stark contrast to the figure of \$790 million noted

above for Bangladesh (Khondker and Eusuf 2014). The growth potential in the sector is generally thought to be significant, not least because of certain natural advantages. The slaughter of significant numbers of cattle and goats as a part of Eid al-Adha, or the 'Festival of the sacrifice', provides a ready supply of hides as raw materials for the leather supply chain. Salting techniques allow the preservation of hides for production over the year that follows. This is in contrast with Bangladesh's successful, ready-made

garment (RMG) sector, which relies on the import of raw materials for processing and/or assembly—meaning that less of the RMG value chain is captured domestically. As noted below, detailed economic modeling was not carried out until later in the initiative, but the potential gains from resolution of existing bottlenecks was driven home to the team by early conversations with industry leaders, whose ‘back-of-the-envelope’ calculations estimated potential sector earnings as high as \$5 billion.

Fairly early on, the team’s analysis suggested that the binding constraint to improved sector performance was the current location of the tannery sub-sector in an area of Dhaka called Hazaribagh. The site presents significant constraints linked to the sub-sector’s development more than 50 years ago. The two principal concerns are the absence of physical space for expansion of the industry, and the lack of any sort of industrial planning. These aspects of the current site limit the expansion of individual tanneries to whether they can acquire neighboring firms. Also, and perhaps more importantly, the location limits growth of the industry as a whole, and the feasibility of establishing treatment facilities for the significant quantities of industrial effluent produced as a part of the tanning process.

Together, these constraints indicate an uncertain future for a sector that shows significant promise and has performed well in recent years; a future in which recent growth may not be sustainable. Indeed, even existing access to important export markets may be lost as international buyers turn away from sources of production with poor environmental records (TAF 2014a). The significance of this bottleneck for the future of the sector is arguably even greater when seen in light of events in the country’s RMG sector. The collapse of the Rana Plaza garment factories in 2013, which caused the deaths of more than 1,100 people, attracted considerable negative international publicity and highlighted the dangers of reliance on a single industry for the country’s foreign exchange earnings.

The salience of the issue to the lives of Bangladeshis extends beyond the immediate economic growth potential and the associated employment opportunities. The issue of relocation has also been linked to the health and welfare of workers employed by the industry, as well as members of the wider community, including the 180,000 residents of Hazaribagh, and many more living downstream on the Buriganga River. Karim et al. estimate that, “Approximately half a million residents in and around this area are at risk of

serious illness related to chemical pollution from the tanneries.” (2013: 61).

Not all observers were sold on the potential for relocation and the construction of effluent treatment facilities to produce transformational change. Pearshouse (2012) argued, “There is a widespread assumption in government circles that building a planned central effluent treatment plant (CETP) in Savar will resolve the environmental and health issues related to the Hazaribagh tanneries... A CETP will do nothing to resolve most of the problems identified in this report, such as poor occupational health and safety conditions, hazardous child labor, and the existing industrial pollution of Hazaribagh.”

Indeed, relocation of the tanneries and construction of industrial effluent treatment facilities will not solve all the problems in the sector. A complete transformation of the sector, including improved workplace conditions for tannery workers and improved environmental conditions for the residents of Hazaribagh, and wider users of the Buriganga River, will require a concerted effort over the long term.

However, the team’s analysis suggested that relocation and the CETP were fundamental issues in a sector of growing importance to Bangladesh. If successfully achieved, relocation would bring significant changes to people’s lives through a diverse set of impacts, which include the following:

- The preservation of existing access and/or development of new access to major export markets requiring compliance with international environmental standards;
- Reduced input costs for Bangladeshi and joint venture firms producing finished leather goods and leather footwear due to their being able to source leather inputs domestically;
- Additional business opportunities for tannery entrepreneurs doing job work, even if they themselves are not involved in export;
- Additional employment opportunities generated by an expanding sector; and
- Benefits to the wider national economy (e.g. increased foreign exchange earnings and reduced vulnerability to fluctuations in the RMG sector through export diversification).

These potential impacts were sufficiently significant for the Foundation’s team to believe that the tannery relocation would constitute the sort of transformational change they were looking to support.

## 2.3 A PERSISTENT CHALLENGE: PREVIOUS ATTEMPTS AT REFORM

The constraints posed by the location of the tannery industry in Hazaribagh have been well known for some time. A study carried out in 1990 by the Harvard Institute for International Development and the Bangladesh Planning Commission noted:

*Hazaribagh has, however, turned out to be a wrong place for the concentration of an industry like leather manufacturing. Firstly, the area was originally developed as a residential locality and consequently, its narrow streets and limited sewerage facilities are highly inadequate to meet the needs of a growing industry like leather manufacturing. Secondly, the unplanned growth of the industry at Hazaribagh and the limited land area available in the locality have not made it possible to make any provision for the much needed effluent treatment (Huq and Ahmed 1990).*

Subsequent work, including a Foundation-funded review of environmental pollution and mitigation measures in the leather industry by the Society for Environmental and Human Development (Gain and Moral 1998), and more recent work by Human Rights Watch (Pearshouse 2012), reiterated these concerns, and further documented the persistence of the problem over more than two decades. Understanding this persistence was a crucial part of the reform initiative. In fact, while the relocation of the industry and the construction of environmental treatment facilities at Savar have been critiqued by some as a technical fix (e.g. Pearshouse 2012), the history of previous attempts to drive the relocation process forward indicate that it is deeply enmeshed in the politics of Bangladesh.

### 2.3.1 Previous reform efforts: legal challenges

Apart from some discussion in the late 1980s regarding a plan to shift the tanneries to Madanganj, 35 kilometers southeast of their present location in Hazaribagh (Huq and Ahmed 1990), the story of the relocation of the tannery sub-sector to a new site in Savar began in earnest more than 15 years ago. In 2001, the High Court Division of the Supreme Court of Bangladesh ruled that 176 tanneries in Bangladesh, including those located in Hazaribagh, and 727 other industrial operations identified as highly polluting, needed to take immediate steps to control pollution.

By 2001, pressure had been building from environmental groups for some time. The most notable of these was BELA, the Bangladesh Environmental Lawyers Association. Since its inception, BELA, which

was initially led by Dr. Mohiuddin Farooque up to his death in 1997, and subsequently by Syeda Rezwana Hasan, has been a significant presence in Bangladeshi public interest litigation, and has worked on a wide range of environmental issues. As early as 1994, BELA was working on tannery issues through broader engagement on industrial pollution. They cited the failure to address the pollution generated by the 903 'red-flagged' industrial operations, including tanneries, and these efforts formed the basis of the 2001 High Court ruling.<sup>5</sup> While the High Court ruling could be seen as a significant victory for environmental campaigners, in this particular case, the politics of Bangladesh meant that implementation would prove to be the real challenge.

Indeed, the broader issue of enforcing compliance with environmental law, as required by the 2001 ruling, remains unresolved. Regarding the tanneries, the government re-committed to the notion of relocation, rather than in-situ enforcement of regulations and practices that could improve environmental performance. This, it could be argued, bypassed the head-on confrontation of a direct regulatory approach.<sup>6</sup>

Over the period 2001 to 2006, the Four Party Alliance that governed Bangladesh rewarded the leader of one coalition member, the Jamaat-e-Islami party, with a cabinet post—first as Minister of Agriculture from 2001 to 2003, and subsequently as Minister of Industries from 2003 until the fall of the governing coalition in 2006. Crucially, this second post had overall responsibility for issues related to the leather sector, including the tannery sub-sector.

It was during this period, in 2003, that the first memorandum of understanding (MoU) on relocation was signed by the government and the two major trade associations representing tannery firms: the Bangladesh Tanneries Association (BTA) and the Bangladesh Finished Leather and Leather Footwear Exporters Association (BFLLEA). Yet while some compromises were made for the sake of constructing the multi-party alliance, some actors were unwilling to forget the history of Jamaat-e-Islami as a party that opposed independence during the conflict that led up to the creation of the Bangladeshi state in 1971.

During the period immediately following the signing of the tannery relocation MoU in 2003, there was neither concrete progress on implementation, nor any other effective response to the 2001 High Court order. Instead, this was subverted by a lack of support from bureaucrats who did not want to be seen as aligned with Jamaat.

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5. Subsequent rulings and orders by the High Court refer back to the original Writ Petition no. 891 of 1994. In fact, the identification of these units took place in August 1986 by the Ministry of Local Government, Rural Development and Cooperatives (Karim et al. 2012)

6. While it is impossible to reconstruct the thinking behind this decision in the early 2000s, questions regarding design and enforcement of relevant regulations will be important to ensure sustainability at the Savar site, and continue to be a concern, including to the Foundation's team.

This stagnation continued until the end of 2006 when the Four Party Alliance gave way, and a caretaker government (CTG) took power. While CTGs were nothing new in Bangladesh, the 2006 CTG was noteworthy in that it exceeded its constitutional remit with respect to both the duration of its rule and the scope of its engagement. It ruled for almost two years and involved itself in a wide range of policy issues. The finance advisor for the CTG took the position that the leather industry should pay for construction of the CETP, as well as bear the costs of relocation. This position was reportedly taken on ideological grounds to reduce government spending and remove subsidies to private enterprise. While the 2003 MoU was not formally cancelled, the new government's position effectively undermined the relocation process for the duration of the CTG, a position the industry was generally happy to see, as the internal drive for relocation was not strong at that point.

The elections of December 2008 saw the re-introduction of electoral democracy in Bangladesh and the election of a new 'Grand Alliance', led by the Awami League and Prime Minister Sheikh Hasina. Hasina had been prime minister previously in the 1996 to 2001 Awami League government. In its first few years in power, the new government continued the CTG policy position that industry should bear the cost of relocation.

Frustrated by the lack of progress, further pressure from BELA returned attention to the 2001 High Court ruling, with Syeda Rezwana Hasan again acting as the petitioner on behalf of BELA and the late Dr. Mohiuddin Farooque. In April of 2009, the High Court requested the submission of reports from BELA and the government's respondents in the 2001 case. On the basis of these reports, additional testimony in June 2009, and additional affidavits submitted by BELA on June 23, 2009, the High Court issued a new order, requiring: "the tanneries be relocated from Hazaribagh by 28th February, 2010, failing which those shall be shut down since the life and well being of the citizens take precedence above everything and cannot be sacrificed even for the industries" (High Court 2009).

While this ruling provided new impetus to the relocation efforts following the CTG period, and the continued stagnation in the first year of the Grand Alliance government, little was done to resolve the underlying disagreement regarding the issue of paying for the cost of CETP construction and other relocation costs. Even when, on December 5, 2011, the Finance Minister approved awarding the tender for constructing the CETP at a cost of BDT4.78 billion to

a joint venture between JLEPCL (a Chinese company) and Development Construction Ltd. (JLEPCL-DCLJV), there was still no agreement on who would bear the cost for the project.<sup>7</sup>

Further, the level of trust between the government and the tannery associations had substantially deteriorated, and a period of unproductive delay set in. Unable to come to any agreement on the financing of the move, government and the tannery associations were unable to meet the deadline established by the High Court, and on February 28, 2010, they jointly asked the High Court for a 2-year extension of the relocation deadline. The High Court granted an extension of an additional 6 months to August 28, 2010, but little changed in the interim as negotiations between the industry and government stalled. On October 30, 2010, the government and the tannery associations again asked the High Court to extend the relocation deadline by 2 years, and again the High Court granted an extension of 6 months, to April 30, 2011.

At this point, the barriers to reform were seen by most observers to be significant. It does appear, from the capacity of the industry to resist implementation of environmental legislation and previous attempts (e.g. by BELA and the High Court) to force the tanneries to move, that historically, there has been a reasonably powerful group of people capable of organizing to block reform. In the historical narrative presented here, powerful interests most likely include members of three overlapping groups:

1. The association of tannery interests represented by the BTA (which the coalition viewed as more politically and ideologically driven than the more pragmatist BFLLFEA).
2. The subset of tannery owners that stood to incur costs due to relocation, but did not anticipate benefits. For example, those that were not concerned with environmental compliance because they produce only for the domestic market or for export markets that do not require compliance.
3. The 'tannery owners' associated with non-operational tanneries who nevertheless retain a voice in industry associations. These, including an estimated 50 tanneries that have closed or sold their tannery businesses in Hazaribagh over the last 20 years, do not necessarily gain from the sector remaining in Hazaribagh, but were incentivized to maximize the returns they might gain from their agreement to move, with little worry about potential future losses if the sector collapses.

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7. However, the situation was further complicated as the tender remained stuck in legal limbo for a number of months, as the second place bidder challenged the award. The High Court issued a stay order on December 11, 2011, directing the authorities concerned not to issue any notification of award, signing of the agreement, or work order for the construction and implementation of the CETP for a period of 3 months. However, the court subsequently discharged the stay order on March 4, 2012 after the Ministry of Industries appealed.

The Foundation's team also identified potential sources of opposition from associated industries (e.g. chemical supply firms) for whom provision had not been made to relocate (and for whom compensation would not be provided). More modern/efficient production processes could reduce demand for their goods and services (e.g. reduced chromium usage, if chromium recovery by the CETP was substantial).

### 2.3.2 Previous or on-going donor interventions

In addition to work done by BELA and others seeking to effect change in the leather sector through the legal system, the sector has been the subject of a number of donor interventions in recent years. These interventions vary considerably in the extent to which they focus on the challenges in the tannery sub-sector, but a brief review of three programs here gives a sense of where external actors have sought to engage with these issues.

Integrated Support to Poverty and Inequality Reduction through Enterprise Development (INSPIRED) is a majority European Union (EU)-funded program to support the development of small and medium enterprises (SMEs) in Bangladesh (EU Contribution: €19 million [96.34% of total]). The 5-year program is operating from 2012 to 2017. The program includes three components: the first aims to support the development of an action plan for a national SME development strategy; the second is a €5.2 million SME Competitiveness Grant Scheme that awards small grants to trade chambers and associations; the third component aims to enhance SME access to finance and banking services. Component 2 is of most direct relevance to the leather sector, with two grants having been awarded to the Leather Goods and Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB). The first of these was to provide "support for the development of the value-added leather products (footwear and leather goods) clusters and value chain by means of opening 2 centres of excellence and procuring specialised equipment" (INSPIRED 2014), while the second provided "support for the development of the value added leather products by strengthening the capacity of the LFMEAB" (INSPIRED 2014).

The Poverty Reduction by Increasing the Competitiveness of Enterprises (PRICE) program was a United States Agency for International Development (USAID)-funded, Chemonics-implemented program,<sup>8</sup> targeting value chain improvements in three major industries: horticulture, aquaculture, and leather.

The 5-year program was implemented from 2008 to 2013, with a total budget of \$12.9 million. Within this total envelope, the PRICE program did not make a sector-wide budgetary allocation at the project level. However, program staff and documentation suggest a proportionate prioritization across all three sectors in the first 3 years before a shift in focus to horticulture during the last 34 months, in order to align with the USAID Feed the Future (FTF) priority.<sup>9</sup>

Most of the PRICE leather sector activities were contrasting/complementary to those undertaken by the Foundation's team and its partners (focusing mainly on networking to support creation of downstream forward and backward linkages between SMEs and the large firms producing finished goods and footwear, some upstream investments to improve playing practices, and some activities relating to market access—e.g. facilitation of attendance at trade fairs, etc.). The tannery sub-sector, however, was not a part of PRICE, and was explicitly avoided. USAID staff involved in preparing the PRICE report said that the decision not to engage on the tannery relocation issue was made, in large part, due to the challenges (not least, the political dimension) being "beyond our manageable interests."

The SWITCH-Asia Reduction of Environmental Threats and Increase of Exportability of Bangladeshi leather products (RE-TIE Bangladesh), is a second majority EU-funded program targeting the leather sector. The program operated for just under 4 years from 02/2009 to 11/2012, with a total budget of €2,071,001 (EU contribution of €1,863,901[90% of the total]). More than either of the two interventions described above, RE-TIE Bangladesh aimed at the intersection of environmental performance and economic development—the heart of the problem identified by the Foundation.

However, in contrast to the approach taken by the Foundation and its partners, the RE-TIE Bangladesh program placed significant emphasis on technical assistance, aimed in large part at institutionalizing cleaner production (CP) methods, including:

- Training for 15 national experts on cleaner production (CP) matters;<sup>10</sup>
- Implementation of CP, facilitated by selected experts and sector units of up to 25 entrepreneurs/enterprises;
- Institutionalization of outreach: establishment of about 15–18 sector units, each led by one

8. Chemonics was the lead implementer, but program implementation also included the use of subcontractors (Chemonics 2014).

9. "The project's 'End of Project' date was extended from February 2013 to December 2013, with an additional budget of \$2 million to facilitate the new focus on FTF" (Ortiz et al. 2014).

10. "CP could include strict water management systems, float recycling, segregation of streams (especially chrome bearing), segregation of solid waste, avoidance and monitoring of banned/hazardous substances, desalting of wet salted hides and skins, de-liming low ammonium salts, full-scale chrome management, low-energy drying, solar appliances, water-based finishing and simple energy saving methods" (RE-TIE undated).

facilitator who would be trained, coached, and employed;

- Dissemination of innovations, results and guides through the sector units to approximately 400 SMEs; and
- Training of local experts and factory staff, including practical demonstration of methods, and documentation in guides and videos (RE-TIE *undated*).

Notably, program documentation does describe a role in influencing physical infrastructure relevant for cleaner production at the new industrial site for the leather industry (Savar), suggesting that the signing of a contract for CETP construction demonstrates the impact of RE-TIE on relocation (RE-TIE 2012). However, while a contract was signed, it was signed without a financing agreement in place, leaving it unable to proceed. RE-TIE documentation also asserts “The BMOs [business membership organizations] representing the tanners are now in a better position to assure that the CETP will serve their needs” (RE-TIE 2012: 3). This is more plausible, as the Foundation reform team’s experience was that some entrepreneurs were active in making demands, such as those concerned about quality control on CETP design and function.

There does appear to be a degree of complementarity between the interventions. Regardless of the relocation process, the other types of changes envisioned by these interventions would appear to have benefits for industry leaders and employees. In fact, the ultimate outcomes sought by the Foundation will benefit from improvements all along the leather sector value chain. However, it does seem fair to suggest that despite the interventions discussed above, the single biggest obstacle to future growth of the sector remained.

## 2.4 THE WIDER REFORM CONTEXT

Regarding specific impediments to the relocation process, the wider literature points to a number of important features of the political economy of Bangladesh that make progressive reform difficult.

In brief, previous analysis has pointed to persistent and deep divisions in society along party lines—what Mirza Hassan has called the “partyarchy” (Hassan 2013) in which party affiliation permeates almost all aspects of life. Such dynamics are particularly problematic given the way in which dynastic and personal elements related to politics, together with animosity between leaders, have generated a context in which “parties that alternate power between them are divided by paralyzing acrimony and devote their time out of power to preventing the other party from accomplishing anything at all” (Carothers 2002).

These features of the Bangladesh context have a number of implications for the prospects for reform, and many of these are explored below in greater detail. However, it is useful to note at the outset that these features are relevant for understanding both the underlying nature of the problem (e.g. the potential for, and indeed the expectation of, a change in the dominant coalition of elites that contribute to wariness about larger, longer-term investments [Khan 2013]), and the strategies of nongovernment organizations such as the Foundation that hope to effect positive change, regardless of the party in power.

While these critiques are clearly established in the literature, the nature of the political settlement is complex and appears to be evolving over time. One leading Bangladeshi political economist noted around the time of the 2014 elections (Khan 2013), “The rules of the game have changed. While we have only a little more than one year on which to judge this assertion, it is possible that the competitive clientelism that has characterized the political settlement since the advent of the caretaker system is on the way out and that a shift towards a model of dominant party clientelism is underway. There would appear to be little incentive for the Awami League to go back to the previous settlement. They are already planning a vision for the country’s development to middle income country status by 2021, with longer term planning efforts targeting 2042.”

# 3. The Reform Initiative

## 3.1 THE ASIA FOUNDATION AND ITS PARTNERS

### 3.1.1 The Asia Foundation team

Within the Foundation's Bangladesh office, the Associate Director for Economic Development led the Development Entrepreneurship for Business Policy Reform Team working on leather sector reform, as well as on DFAT-TAF-funded initiatives in renewable energy and broadband technology. This program leader had an extensive background in international assistance to improve economic development in Bangladesh, both as an implementer and previously as a donor staff member. The team at the Foundation's Bangladesh office also included a program manager, and two senior program officers. The members of the team worked across the three DFAT-TAF Partnership issue areas, with the program manager and one of the senior program officers engaging substantively on the leather sector reform.

### 3.1.2 Partners

As noted above, exploration to identify potential partners carried out in the first few months of 2013 was closely tied to the issue selection process. Specifically, the early consultations the Foundation held with contacts in the private sector and academia included a meeting with a professor at the Department of Economics, University of Dhaka, who was also the Executive Director of the South Asian Network on Economic Modeling (SANEM). In that meeting, the professor directed the team to a professor of development studies at the University of Dhaka and SANEM Fellow, as someone with whom the team might be able to work. While this professor had no background in the leather sector, he had been working for several years on economic development issues in Dhaka and had a deep familiarity with the broader institutional issues affecting growth in the country. Furthermore, this new candidate for the team's Development Entrepreneur (DE) exhibited the 'soft' characteristics that the program leader was looking for in a partner, such as the level of personal commitment and motivation noted above (see section 2.2).<sup>11</sup>

As part of the funding arrangements for the country program, the team received guidance from the PSIL Unit and others in the Foundation whose experiences with the Development Entrepreneurship model in the Philippines (Faustino and Booth 2014) provided the

initial model for work in the leather sector. While the approach in Bangladesh would ultimately differ from the Philippine model, the initial guidance on partner selection encouraged the team in Bangladesh to avoid getting bogged down in preparing a detailed terms of reference and focus instead on identifying individuals who displayed a willingness to engage on problems for which the solution might not be clear at the outset. The professor's early conversations with the program leader focused on the nature of the challenge and the objective towards which the team might work. The program leader recalled later that when he met the professor for the first time he was impressed as he could see that the professor genuinely wanted to do something good for Bangladesh.

The partnership with SANEM was finalized in March of 2013, when the first grant agreement was signed by the Foundation and SANEM. Following that grant agreement, the professor worked closely with the Foundation's team. Additional inputs over the duration of the project were also provided by both a professor in the Department of Economics, University of Dhaka, and a lecturer at the University of Dhaka. The former's contributions were primarily detailed economic analysis and modeling to support the coalition's arguments for relocation, while the latter assisted with the team's frontline engagement with the broader set of relevant stakeholders.

### 3.1.3 The coalition (formal and informal)

The public face of the tannery reform movement is a broadly inclusive collection of stakeholders involved in the leather tannery relocation process. This group, which is referenced in materials such as the website developed as a part of the initiative to support the export of Bangladeshi leather and leather goods ([www.promotebdleather.com](http://www.promotebdleather.com)), includes the leading industry associations in the tannery sub-sector: the Bangladesh Tanners Association (BTA) and the Bangladesh Finished Leather and Leather Footwear Exporters Association (BFLLFEA), The Asia Foundation, SANEM (and later the Centre on Budget Policy – CBP), the Bangladesh Small and Cottage Industry Corporation (BSCIC) under the Ministry of Industries, the Ministry of Industries, Bangladesh Bank, parliament members, and relevant policy makers.

11. See Box 1 in section 4.1.2 for additional detail on how the team defined the characteristics of a Development Entrepreneur. The Partnership has established a minimum frequency of sessions per year, but not a maximum. Some program managers report updating their TOCs far more frequently.

In addition to its formal coalition partners, the Foundation worked consistently with a group of influential actors as a part of its reform efforts. Some of these partners were entrepreneurs affiliated with major tanneries, while others had formal representative roles in the tannery community, including the associations noted above and the Leather Footwear Manufacturers and Exporters Association of Bangladesh (LFMEAB<sup>12</sup>). The latter, for example, is an industry group which the team has come to count on as a partner of sorts in developing a larger network of parties interested in the relocation process. This has included providing the link to a Chittagong-based, Taiwanese-owned leather goods and footwear firm that has provided insight into potential opportunities that might emerge for tanners in domestic supply chains.

These contacts were not formal partners in the same sense as SANEM or CBP, and with the exception of a collaboration with the LFMEAB on the production of a baseline study of leather goods export activity in the country, they were not funded under the DFAT-TAF initiative through any sort of grant or sub-contracting arrangement. They were, however, critical in their role as industry insiders providing background for the team's understanding of the relocation issue, as well as insights into the various constituencies involved, their interests, and incentives. This first-hand information would prove critical to the team's process of strategy development and their associated approach to reform

### 3.2 EARLY LEARNING, RELATIONSHIP DEVELOPMENT, AND STRATEGIC FRAMING

At the outset of its work, the team diagnosed that the dominant problem was legacies of mistrust, and this was, to some degree, justified. For the tanneries, mistrust can be traced, at least in part, to changes in the government's position regarding cost sharing for relocation. Notably, the 2007 decision essentially invalidated the 2003 MoU and required the industry to cover the entire cost of relocation. From the government's perspective, on the basis of its previous experience, there was little reason to think that the tanneries would comply with existing environmental legislation. This diagnosis subsequently informed the program's ways of working, but the first critical step was to find a way of approaching the issue that would create some distance between current reform efforts, and some of past efforts' negative engagement.

#### 3.2.1 Strategic choice: issue framing

Previous arguments in favor of relocation had stressed environmental concerns directly, generally in reference to established legislation (including the Constitution of

Bangladesh) and the various court rulings and orders described above. Significant qualitative work had been done to document the nature of the problem (e.g. Gain and Moral 1998; Pearshouse 2012). Considerable empirical work had also been carried out on the environmental science of tannery pollution (Saha and Ali 2001; Shams et al. 2009; Zahid et al. 2006; Training Institute for Chemical Industries (TICI) 2005; United Nations Industrial Development Organization [UNIDO] 2000). More recently Karim et al. (2013) reviewed the health impacts of environmental damage (see also, Anawar et al. 2000; Zahid et al. 2006; and Maurice 2001).

This framing, which emphasizes environmental and health concerns, had been used to develop the legal case for relocation and the adoption of new environmental protection infrastructure. Yet, little empirical analysis existed to indicate the potential economic gains from relocation. This was an issue that came up in the team's early conversations with the group of tannery owners and operators who, in the years to come, would provide the team with industry insights.

Reframing the issue in economic terms, which was a natural approach given the background of team members, would become an important part of efforts to convince leather sector entrepreneurs that relocation was in their financial interests. In the early stages of the coalition's work, the team relied on the comparisons with Vietnam noted above, and back-of-the-envelope calculations. For example, the early estimate that relocation and cleaner production could increase exports from \$1 billion to \$5 billion was based on a rough estimate provided by one industry source, based on his interactions with international buyers.

Thus, to build the case for reform, these estimates were used together with anecdotal accounts that emphasized the potential losses from not relocating. In a presentation to a number of leading leather sector companies and relevant government departments, a member of the reform team recounted the following story of a leading tannery losing a significant business opportunity as a result of poor environmental compliance.

In 2013, the Bengal Leather Corporation Ltd. (BLC) invested substantially in developing samples for the Italian leather goods company, Geox. The buyers onsite, satisfied with the quality of the product, verbally committed to an order of 2.5 to 3 million square feet of finished leather for the production of their 2015 winter line. However, prior to completion

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12. The LFMEAB should not be confused with the BFLLEFA tanners association or the Leather Sector Export Promotion Bureau associated with the Ministry of Commerce, but includes a set of members overlapping with the former.

of the order, the Geox board cancelled the purchase on the grounds that leather produced in Bangladesh is not environmentally friendly due to the lack of an effluent treatment plant. While the environmental concerns were relevant, the anecdote resonated with tannery owners because of the financial impact.

Subsequently, the Foundation's team would go on to invest in more formal economic modeling to add analytical depth and detail to the Geox/BLC story. Following the signing of the MoU, the coalition partner, SANEM, was commissioned to complete the economic model. The preliminary results of this research, which were consistent with the anecdotal stories, were presented to the Minister of Industries on April 6, 2014 to help build the case for relocation. However, the far simpler narrative of economic opportunity, which the team developed prior to the signing of the 2013 MoU, was a critical part of the coalition's approach to convincing the tanneries to agree to the relocation.

### 3.3 NARROWING THE FOCUS INTERNALLY

By March 2013, when the 'problem' to be addressed had been clarified, and the economic development narrative had begun to coalesce, the Foundation team defined two objectives (TAF 2013). The first objective was to "Promote export growth in the leather sector through appropriate policy measures" (TAF 2013), which the team anticipated as involving three outcomes:

- "Design of business model and compensation package for tannery industry relocation
- Allocation and Disbursement of Compensation Package
- Initiate the shifting of Leather Industries and develop step-by-step guideline for shifting"

The second objective, as stated in the team's program documentation, was to "promote FDI in leather sector by meeting environmental standard/compliance" (TAF 2013) which again was associated with a set of outcomes:

- "Foreign Investors and Buyers acknowledge the qualitative change accomplished in leather sector through relocation
- Land and licensing related regulations and procedures are operationally simplified for foreign investors through establishment of Special Economic Zone (SEZ)"

However, as the team began to construct the coalition to push for reform on the first objective, their work on the second objective began to fall away, and FDI promotion disappeared from subsequent program documentation (TAF 2014a, b, c). The initial inclusion of the second objective and its associated outcomes reflected a combination of at least three factors. First, the outcomes reflected continuity with previous Foundation programming. Previously, the Foundation had worked on the 2010 Special Economic Zone Act and was keen to make the connection between this and the leather sector work. Second, at the time, the team was trying to accommodate requests made during its initial consultations with industry leaders. Third, some members of the team suggested that it may reflect a more traditional "project" mentality in which listing as many positive changes as possible would help to make the initiative look good.

Late in the spring of 2014, two things happened that led the team to narrow the focus of the program to the sole high-level objective of export growth, and an associated set of outcomes that prioritized establishing agreement on cost sharing for relocation and construction of the CETP, plus gaining the trust required to achieve that agreement.

First, the team received feedback from Foundation staff in the Philippines with extensive experience with Development Entrepreneurship approaches to avoid the temptation to bring too many issues into the program. Instead, the team was advised to focus on the core issue of relocation. Foreign direct investment (FDI) would then come as a secondary effect, but should not be an objective on an equal footing with export growth. Second, through its contact with various actors in the sector, the team was engaged in a process of learning that enabled them to better judge the strategic motives of each actor. As the Foundation's team gathered more information and reflected further on the positions that had been expressed, they came to view their initial inclusion of the FDI objective as a strategy that some in the leather industry had promoted in order to access additional land on favorable terms. Together, these two factors led the Foundation's team to take action to revise their objective.

### 3.4 BROKERING THE SIGNING OF THE MOU

#### 3.4.1 Gaining government agreement

In order to resolve the damaging legacies of the previous failed MoU, the process of brokering a

new MoU between the Bangladesh Small and Cottage Industry Corporation and the two industry associations required government agreement on two principal components of a cost-sharing model. First, was the need to resolve the question of responsibility for the financing of the CETP. This issue had been lingering since the caretaker government (CTG) made the decision to assign responsibility to the firms—a decision never accepted by the tanneries. Second, the parties needed to reach agreement on the level

of compensation that would be provided to tanneries to cover the costs of lost income during the relocation process. Previous agreements had set the amount of this compensation at BDT2.5 billion, though the industry associations had for some time rejected that, arguing in favor of an increase in the size of compensation proportionate to the increase in the total project cost (Table 1), which would have led to a figure of \$155.57 million as compensation.

**Table 1: Changes in project cost 2003–2013 (crore BDT)**

Year	2003	2005	2007	2013
<b>Total cost</b>	<b>175.75</b>	<b>No cost extension made until end-2006/beginning-2007</b>	<b>545</b>	<b>1,078.71</b>
<b>Grant: (Relocation compensation for tanneries)</b>				<b>250</b>
<b>Equity: Government contribution</b>				<b>663.4</b>
<b>Loan: To be repaid by tanneries as payment for plots over 15 years</b>				<b>165.6</b>

On August 13, 2013, the Executive Committee of the National Economic Council (ECNEC) reviewed and accepted the revised project proposal, including government funding of 80% of the cost of CETP construction, and payment of BDT2.5 billion compensation. Getting to this point required a concerted effort on the part of the coalition to establish a precedent for the government sharing the burden of funding. The coalition did so by first prioritizing achieving consensus among the tannery owners, which allowed the reform team to manage both the message and the tone of engagement between industry and government. In some cases, consensus was difficult to achieve and required significant investments of time in ad hoc meetings prior to any contact with government, and more regular Saturday evening strategy sessions.<sup>13</sup>

This approach helped to avoid a direct confrontation over specific values by referring to an external standard (in this circumstance, the use of international cases that demonstrate grounds for state investment in public goods). An appeal to external standards is not necessarily a strategy one would expect to find in a locally grounded initiative, but in this case, the position of refusing to pay for the CETP was not strongly held by the current government. Instead, it was, as described above, an inherited position that was driven by the ideology of the CTG. For the Minister of Finance and the Prime Minister, the potential political payoffs from demonstrable progress on tannery relocation were far more valuable in advance of the elections at the end of the year, than was adherence to an old government position.

### 3.4.2 A shift in tannery owner behavior

Interviews suggest that at least five potential factors listed below may have contributed to the apparent shift in the willingness of tannery entrepreneurs to relocate.

First, one of the most widely cited reasons for tannery owners' greater willingness to move was the pressure placed on the industry by pending regulations in key export markets (mainly the EU). While none of the interviewees consulted could point to a specific document establishing an EU regulation, or a specific deadline for compliance, multiple interviewees consulted during initial field visits in 2014, and a number of media reports prior to that date, suggested that EU regulations would require European firms to stop importing Bangladeshi leather by 2014 unless effluent treatment facilities were put in place. This reason for moving was similar to the BLC Ltd./Geox example used by the coalition in its efforts to build consensus on relocation, though with a formal EU legal requirement as the driver, rather than a firm-level decision to stop buying leather from Bangladesh. In addition, while further field visits by the author in 2015 found that there was still little specificity regarding the relevant EU legislation, this narrative persisted, though generally with reference to a 2016 deadline for EU restrictions.

Second, for some tannery entrepreneurs, it was possible that the concessions from government changed the cost-benefit calculation with respect to relocation. Observations from members of the coalition, including sector insiders, indicated the

13. This tendency to work outside of formal working hours was both practical (as tannery owners were often committed to their own business activities during the day) and strategic, as it contributed to a more informal tone.

perceived value of the concessions would vary in importance across different types of actors in the sector. Any detailed cost-benefit calculations at the time the MoU was signed would have been complicated by the fact that there was, as yet, no formula for distributing the allotted compensation. Nevertheless, the compensation package would almost inevitably be perceived differently by different firms as a result of factors such as the value of compensation relative to the overall size of business operations (this is noted below in relation to the strategy adopted by the coalition).

Third, changes in the leadership of the tannery associations appear to have been important, though to differing extents in the two associations. In the case of the BTA, the team viewed the evolving position of the association as substantially dependent on internal relations between the General Secretary and association members. While the team was initially unsure of the position of the various actors involved, as their personal relationships within the sector developed, the picture became clearer. In the case of the BFLLEA, a change in personnel shortly after the start of the coalition's work was far more important, with a new, more dynamic and well-connected figure as the association's chair quickly becoming a key coalition partner.

Fourth, the results of the 2014 elections may have changed the calculations of tannery entrepreneurs and increased their willingness to relocate. While this dynamic would not have affected the coalition's earliest activities,<sup>14</sup> the electoral process and results of the 2014 elections brought home to those tanneries holding out for a BNP victory, that there was a need to re-evaluate their thinking. The 5-year gap until the next round of elections, in conjunction with the impending deadline for compliance with EU regulations described above, meant it was no longer an option to wait for political allies to be in power. The best option for the tanneries appeared to be to work with partners that at least seemed to be unbiased, and the emerging coalition offered this at an opportune time.

In practice, it is difficult to know how much weight to assign to this dynamic. Reportedly, business interests in the leather sector are subject to the same system of high-level 'political allegiance games' that operate throughout the country. Owners of major businesses know that they will need to operate under whatever government is running the country. Given the historical pattern of rule alternating between the two major parties, most major business owners maintain

relationships with both parties, regardless of who is in power.

Fifth, a change in the composition of the sector likely contributed to a shift in the balance of influence within the two tannery associations in favor of a set of actors more inclined to support the relocation. Given the pace and pattern of growth in the sector in recent years, and specifically increases in exports of higher value-added finished leather and leather goods (Figure 3), the BTA has arguably lost influence relative to the pragmatist BFLLEA. The latter principally comprises firms with an interest in exports to Europe and other potential markets that are concerned with environmental compliance (e.g. the United States), and this provides a stronger incentive to relocate. Additionally, in the future vision for the sector, many of these firms will continue to be dependent on smaller BTA-member tanneries for sourcing domestic leather for finished goods production or outsourcing the early stages of the tanning process. In this sense, the incentives of BFLLEA members are not only to move towards compliance, but also to take reticent firms with them.

### 3.4.3 Final hurdles to the signing of the MoU

As the core team of Foundation, SANEM and CBP staff worked to develop the inclusive coalition that would sign the MoU on cost-sharing, they realized that the large group, including all tanneries, was proving cumbersome. Particularly problematic, according to the team's assessment, was that in the broad industry group which was part of the full, formal coalition, were a small number of tanneries with little interest or incentive to actually relocate. These tanneries tended not to oppose relocation outright, but instead were more vocal in raising demands to be added to the MoU. At one point, the coalition felt compelled to threaten to walk away if the tanneries made any more major demands.

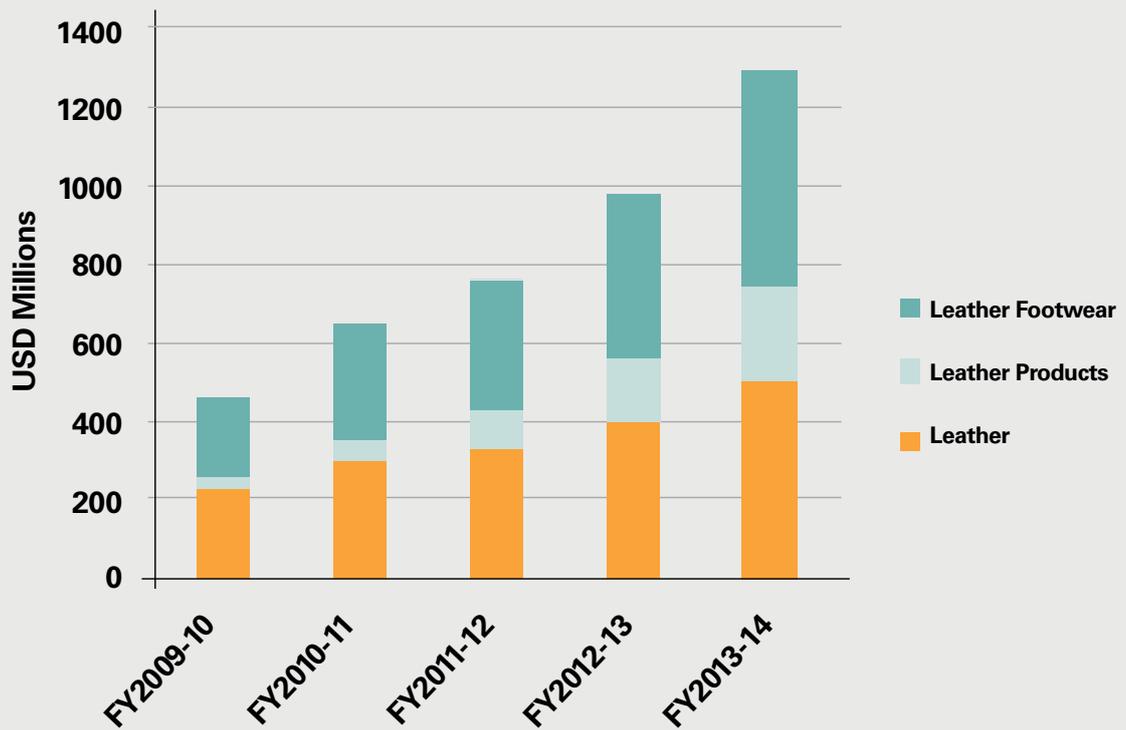
The agreement on CETP financing and compensation formed the basis for the MoU that would eventually be signed; however, in the weeks between August 13 and October 13, 2013, when the formal signing of the MoU took place, various actors within the tannery community raised a number of objections that could have undermined the MoU process. Perhaps the best example of this need to respond to unexpected roadblocks was the point in mid-September 2013 when leather sector representatives raised the issue that the RAJUK<sup>15</sup> building code would require factories in Savar to leave ~30% of their land undeveloped, leaving too little land to build the required factory size.

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14. While it is true that this dynamic might not have been present when the reform team began its work at the end of 2012, even prior to the 2014 elections it became clear that the BNP would not contest the election, which means that this dynamic would likely have existed for much of 2013 when the MoU negotiations were taking place.

15. The urban planning authority for the capital city, Dhaka.

**Figure 3: Leather sector exports by type, FY2009/10 to FY2013/14**



Source: Khondker and Eusuf 2014

At times, it was difficult for the team to know exactly how to respond to these challenges, as they had doubts about how serious the objections were. The Foundation suspected that in many cases, these objections were simply attempts to delay or derail the process. In any case, it became clear that the team would need to shepherd the MoU signing through the potential roadblocks, dealing with each objection in turn. In the case of the land use question, within a week, the coalition had organized a series of meetings with RAJUK officials, who confirmed that the factories in Savar would not be subject to this constraint of the Dhaka building code, and that after relocation, factory owners would be free to use the vacated land in Hazaribagh as they pleased.

### 3.5 IMPLEMENTATION OF THE MOU AND FACILITATION OF RELOCATION

After the signing of the MoU, the reform team turned its attention to implementation of the various components of the agreement that would be necessary to achieve relocation. While the substance of reform would remain fairly consistent from this point, the core team's strategy would shift substantially.

#### 3.5.1 Strategic shift from consensus to 'selective' tactics

At this point, discussions within the team began to consider whether the strategy they had chosen for engaging with tannery sector entrepreneurs was still the best choice. Specifically, program management once again posed the question of whether the initiative would be better off attempting to gain the collective buy-in of *all* tannery stakeholders, or instead identify a small number of tanneries to 'lead the charge'.

Early in the initiative, it was tempting for the core team to think of taking a 'short cut' to achieve consensus among the tanneries on the need to relocate by identifying a few 'early movers'. However, there were a number of practical challenges to doing so. For example, while major firms within the sector had been supportive of the move from the earliest stages of the coalition's activities, they had been reluctant to take a public position. They feared that if their firms were seen as driving the reform process, it might generate resistance from other firms, to the detriment of their relationships with the rest of the industry.

Following these initial discussions, in the summer of 2013, the team chose to invest heavily in a widely consultative approach to the MoU development process, with meetings on a number of occasions involving many, if not most, of the tanneries. In retrospect, the team's decision to work through to consensus on the MoU appears to be justified as they felt that even minor players would be able to effectively veto the MoU, given the form of the negotiations and agreement. More specifically, because the MoU had to be signed by the industry associations on behalf of all tanneries, there was no option for a subset of tanneries to agree. Thus, if the associations had not been able to develop consensus, the MoU might well have been derailed and the CETP financing lost.

Yet, the idea of implementing some form of 'selective' tactics did not disappear, as the team's analysis continued to suggest that multiple tanneries were simply interested in extracting the maximum value of concessions as a part of the relocation process, without any intention to move and operate tannery facilities at the new industrial estate. While inclusivity had been a priority in gaining agreement on CETP cost sharing and the signing of the MoU, subsequent steps following the signing of the MoU depended largely on the decision-making of individual tanneries. While the team did not fix a specific number, certainly a critical mass of tanneries would be necessary, as no individual tannery moving alone would suffice. From a purely technical standpoint, the CETP and other facilities at the new site require a certain amount of effluent and by-products to operate. Further, relocation of one or two tanneries would be insufficient to resolve the current situation in Hazaribagh, threatening the potential health and environmental benefits associated with the relocation.

The team thus faced a situation in which a fully inclusive coalition was now not necessary, and brought with it a host of problems, but it was clear no individual tannery was able to lead the way on its own. The solution that emerged was that of identifying an informal sub-set of tanneries that would not need to wait for relatively minor concessions before making an initial investment on the ground. These firms could then be rewarded in some way to encourage them to move.

The initial idea, as proposed by the Foundation's program leader, was met with mixed enthusiasm. Some, including the team's Development Entrepreneur

(DE), were concerned that such a strategy could backfire, undermining work the coalition had been doing to secure consensus around the signing of the MoU. However, the notion resonated with the subset of insiders with whom the program team had been working closely. These industry leaders not only reacted positively to the proposal, they indicated that no additional incentive for early movement would be necessary. There was, they said, a subset of tannery firms ready to move without waiting for the minor issues to be resolved and they could supply a list of 20 such tanneries to the team. For these firms, which shared a number of key characteristics (larger size, export orientation, backward linkages to smaller 'job work' tanneries), disbursement of the official compensation and other similar issues, when weighed against the potential costs and benefits of relocation (e.g. lost revenue from core business operations), were sufficiently minor to be almost irrelevant.

While the Foundation and its partners continued to play a more general role in facilitating the relocation process and reminding the broad range of stakeholders of their commitments, the strategy for achieving implementation thus shifted towards finding ways to support these leading tanneries in relation to a set of issues. One significant example of this would be the reform team's engagement on financing issues.

### **3.5.2 Engagement on financing**

Three issues emerged as key components of the debate on financing that occupied much of the reform team's time following the signing of the MoU:

- Allocation and distribution of the BDT2.5 billion compensation package;
- Issuance and implementation of the Bangladesh Bank Circular providing direction regarding current financial obligations and future loans to the tannery industry; and
- Access to additional concessional loans.

### **Compensation**

One of the key features negotiated as a part of the October 2013 MoU between the Government of Bangladesh and the tannery entrepreneurs, was the BDT2.5 billion compensation package to be paid to the entrepreneurs as a grant. Following the MoU signing, the design and implementation of a set of criteria for disbursement was an important issue.

The criteria and guidelines were agreed through a SANEM-led process that focused on a Note on Leather Sector Compensation, which SANEM developed and submitted, in consultation with the two industry associations. The criteria and weightings proposed in the Note could be set in a number of ways, all equally defensible to an outsider. Both tannery associations had reportedly agreed to the proposed set of guidelines internally, as well as at a meeting with the Ministry of Industries' Compensation Sub-Committee. The guidelines were submitted to the Bangladesh Small and Cottage Industry Corporation (BSCIC) and cleared by the project director, with optimism over the summer of 2014 that disbursement would begin in August or September. But before any disbursement, on further review, the associations suggested that they would not accept the proposed allocation. This effectively stopped disbursement for a short period until the government further asserted itself, confirming there would be no further changes to the guidelines. After that, the compensation process began to move forward again.

While resolution of the compensation issue was problematic, it is notable that the total size of the compensation package was, in fact, relatively small. In the words of the Chair of the BFLLEA, "it's peanuts." Thus, in the context of the team's reorientation to the interests of the major players, the compensation work did not demand much attention. The more significant financial issues were arguably those relating to soft loans or other forms of subsidized financing, which are discussed below.

### **Bangladesh Bank Circular**

Without a detailed picture of the internal financing of the tanneries, it was difficult for the team to know whether the owners faced legitimate shortages of funds that would prevent them from relocating, or whether they were simply looking to leverage the situation in any way possible. While the team suspected that each explanation might apply to some portion of the tanneries involved, they had no choice but to take seriously, the financing issues raised by the major players.

The coalition had a very good relationship with the Governor of Bangladesh Bank, yet when first approached by the coalition, the governor was uncertain about whether or not to reissue a 2008 circular that had

been put in place to facilitate the move. This circular (discussed in more detail below) had expired due to the length of time it had taken to gain momentum on the relocation. From a practical perspective, based on their past performance, the tanneries were perceived in some quarters as a lending risk. However, since early 2014, the team had devoted significant energy to facilitating meetings with Bangladesh Bank, including lobbying efforts by various members of the coalition that emphasized the degree to which the government seemed to be making relocation a serious objective. The bank governor himself had shown an interest in SME development and export diversification, so the team's economic arguments were likely to appeal to him.

In October 2014, the team had arranged a meeting with the governor at his office as a part of the DFAT-TAF mid-term evaluation process, and the DE took the opportunity that day to take a copy of the tanneries' request for reissuance of the bank circular. The DE presented this to the governor in the meeting, in front of the evaluators, to encourage him to take the matter forward. During the meeting, the governor made a signed note on the copy of the letter, suggesting that the deputy governor explore the issue with the relevant department, a success the DE was able to report back to the tanners' associations.

This exchange, which used the evaluation visit strategically, thus served both as an opportunity to encourage the governor to support an important part of the financing strategy for the relocation, and as an opportunity to further build trust between the associations and the Bangladesh Bank. This also served to improve the relationship between the tanners' associations and the coalition core staff. Eventually, the circular was reissued, after which the governor received calls from at least three ministerial figures congratulating him for having helped this particularly important reform agenda.

On November 2, 2014, the Bangladesh Bank issued Banking Regulation and Policy Department Circular 14: Regarding providing facilities to the tanneries shifted/shifting to leather industrial city in Savar. The complete circular is available in Annex 1, but the essential points to note include:

- Existing irregular loans for shifting tanneries may be transferred to block accounts, with an initial

repayment moratorium of 1 year, and a subsequent 8-year repayment period (with repayment from the firm's export earnings or personal sources). The interest rate on such accounts will be 10% or the current rate (whichever is lower) and certain interest charges (though not basic loan and legal expenses) can be exempted.

- The Board may consider rescheduling the loans and making the conventional down payment for new loans flexible for the tanneries engaged in the export industry. In this case, a 'no-objection' certificate from Bangladesh Bank may be received on a case-by-case basis, if necessary. If security/bond money is not adequate for granting new loans, the client will provide fresh security/bond money. Mortgaged property can be released if supporting bond money is provided, equivalent to the value of the existing mortgaged property of the tannery factories.
- This facility will be considered applicable to the rescheduled loan accounts of the shifted/shifting tanneries. Within six (6) months from the issuance of this circular, the loan receiver must apply to the concerned bank with necessary documents proving that the tannery factory has moved to the leather industrial city in Savar.

For many firms, the distribution of the costs and benefits arising from the circular (and thus the appeal of each component) relate to the way in which existing loan costs can be renegotiated, but among the most important features is the clause relating to currently mortgaged property. The Foundation's own baseline study suggests that 107 tanneries own land outright at Hazaribagh. Of these, 61 reported having mortgages, spread across 10 commercial banks. The details of how this property can be disposed of (which was a long-time concern of the tanners) is critical, as the value of the land in Hazaribagh has skyrocketed due to its location in Dhaka, and the patterns of urban population growth and physical expansion in that direction. How the value of that land is assessed and distributed among the parties would seem to be a potentially significant rent generation and distribution process.

Bangladesh Bank has the authority to issue the circular, and the circular essentially permits commercial banks to provide particular loan facilities, but it cannot

compel them to do so. The reaction of the BFLLFEA Chair Engineer Abu Taher is telling in this respect: namely that while the circular was welcome, it was the implementation of the circular that would be most significant for the tanneries, and that relied on the commercial banks. Some tanneries, which expected the issuance of the circular, submitted applications immediately following the November 2, 2014 date, but as of finalizing this paper in late 2015, their applications were still in process, with no cases of the circular having been applied.

### **Soft loans**

In addition to the financing arrangements described above, the tannery entrepreneurs have continued to push for access to soft loans (aiming for single digit annual interest rates), either from international donors or domestic sources. A number of potential sources of financing have been discussed. These include a new World Bank, regional development bank, or bilateral concessional financing facility dedicated to the leather industry, and potential changes to the rules governing existing sources of funds, such as financing for SMEs, or to support green development.

However, hopes for such mechanisms took a significant hit at a meeting held on November 25, 2014, which was hosted by the Leather Sector Export Promotion Board. The ex-officio chair of the board was the Secretary of Commerce, and attendees at the meeting included significant figures involved in financing the relocation process. The Secretary of Commerce suggested that approval processes for new financing facilities, whether from the World Bank or bilateral donors, were sufficiently cumbersome and lengthy that any financing from such sources would almost certainly not be available on the timetable currently established for relocation. Similarly, he suggested that attempts to renegotiate rules regarding the use of existing financing facilities were no more likely to be a viable option, and instead he suggested that implementation of the Bangladesh Bank Circular was the top priority.

### **3.6 TRACKING POST-MOU PROGRESS**

Prior to signing the MoU, the core team faced significant challenges in knowing the extent to which they were on track in progressing the relocation effort. Essentially, the team relied on a qualitative assessment by its Development Entrepreneur and others engaging with the tanneries and government

actors about their willingness to commit to the MoU. Through time-intensive engagement, the team developed, though did not formally document, a sense of whether they were making progress. However, due to the complexity of issues, even the concerted effort entailed in this approach encountered surprises in which a particular subset of actors would suddenly throw up some form of roadblock intended to delay or derail the relocation (e.g. the RAJUK land issue noted above).

In contrast, following the signing of the MoU, the team used a number of metrics to assess progress towards relocation. For the most part, these metrics were simple. They were collected fairly regularly by systems outside the team itself and indicative of actual progress on the ground. These are qualities that have been associated with 'measures that matter' in the literature on 'thinking and working politically' (Faustino and Booth 2014). The relevant measure depended on the stage of relocation, with attention focused first on the proportion of tanneries with submitted and approved construction plans for sites at the new estate. Later, the team would track progress on construction of the tannery facilities (see below), though always with the awareness that the tanneries would need to complete construction fairly close to the completion of the CETP in order to allow for adequate CETP operation and testing.

### **3.6.1 Tracking construction of the CETP and tannery infrastructure at Savar**

Occasional visits to the site in Savar suggested that significant, if uneven, progress was being made on construction of the new infrastructure at the industrial estate. Visually, the site would often have changed significantly from the previous visit. However, neither the researcher nor members of the core reform team had the required engineering expertise to independently assess rates of progress in much detail, leaving the team to rely on reports from the Bangladesh Small and Cottage Industry Corporation (BSCIC) engineers assigned to the project and a BSCIC Project Manager. These estimates were often contested, and the team was aware of the potential for delays, though not always sure why they might be taking place. For example, BSCIC estimates made in the autumn of 2014 suggested that the CETP was on track to be completed in the spring of 2015, which did not happen. Current estimates aim for 50%

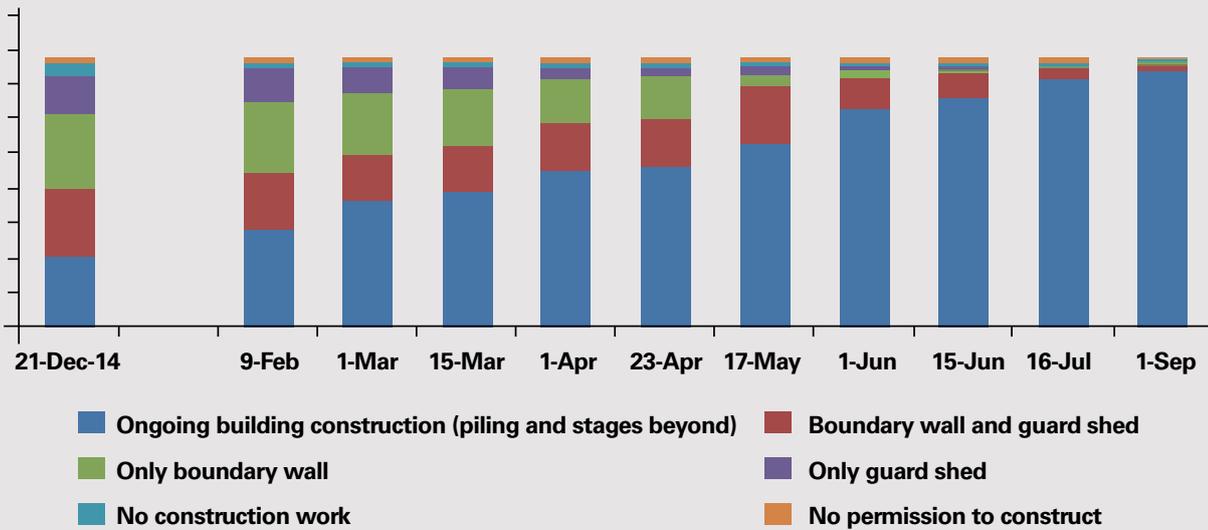
operational capacity before June of 2016, which would be sufficient to begin operations and testing of the facility.

Progress in tannery construction tended to be easier to track in some respects, but was not entirely straightforward. Following submission and approval of construction plans, most commentary on progress focused on how many tanneries had started construction on the site, but with little detail on what that might mean. In November 2014, BSCIC reported that 147 factories had started some kind of construction work, but in many cases, this was limited to an incomplete boundary wall or on-site shade building for construction workers, with only 27 having started significant factory construction.

The variance between these numbers helps to explain the way in which the relocation was being portrayed in the media. In one critical article in the Financial Express, the chairman of the environmental group Poribesh Bachao Andolon (POBA) lamented the slow pace of construction, suggesting that only 19 tanneries had just begun construction (Financial Express 2014). However, reports from the BSCIC and leading tannery entrepreneurs often emphasize the significant progress made, and refer to higher figures. The absence of a clear definition of what is meant by 'begun construction' or 'begun relocation' allowed for 'good-cop, bad-cop' reporting that was equally true, but which had the potential to significantly complicate the team's efforts to track progress.

The reform team relied on the figures it received on an ad hoc basis from the BSCIC project director. While no systematic tracking mechanism was developed internally, data collected by those working with the team enabled the concise assessment of progress presented in Figure 4. The latest figures available (September 1, 2015) indicate that of the 155 tanneries allocated plots at the new Savar estate, 153 had begun construction, of which two had constructed only a boundary wall, three had constructed only a boundary wall and guard shed, and 148 had begun substantive construction (including piling and stages beyond). Of the two tanneries that had not begun construction, one had recently received approval to begin construction and one continued to lack approval.

**Figure 4: Tannery construction progress at Savar**



Source: Project documentation (unpub.)

### 3.7 MAINTAINING MOMENTUM AND FUTURE PROSPECTS

While the section above describes important forms of progress, the delays in the reform process, including construction of both the CETP and the tannery facilities at the Savar industrial estate, did mean that the relocation process would continue beyond the end of the funding available to The Asia Foundation's Bangladesh team. Through updates in the months that followed the end of the project, two issues emerged that shed some light on the prospects for completion of the relocation, and what it means for initiatives like the Foundation's work in the leather sector.

First, not long after the end of the coalition's funded activities, questions were raised regarding the quality of CETP construction. Specifically, the Bangladesh University of Engineering and Technology (BUET) in its technical supervisory role, raised concerns that the materials being used were not up to the agreed standard.<sup>16</sup> The team's Development Entrepreneur raised the issue with the team leader and they agreed to call an urgent meeting with government counterparts at which BSCIC was asked to reject the consignment of sub-standard pipes. Such quality assurance was very much the role intended when BUET was proposed for this role, but in this case, the continued involvement of the team's DE allowed the issue to be taken directly to a level of authority capable of responding in a positive way.

More recently, and perhaps of more enduring concern, the BSCIC Project Director with whom the Foundation team had worked closely and relied upon as a partner, was removed from his position. At the time of writing in late 2015, it was not clear why, nor was it clear what the implications for the relocation process might be, given the serious commitment that the Project Director had made to push the relocation forward.

Such challenges do give some cause for apprehension regarding the successful conclusion of the relocation process, but it appears that issues that previously might have undermined the relocation, whether by compromising quality or derailing the move altogether, are now being responded to by a group of actors with a stake in reform. For the team's DE, continued involvement appears demonstrative of his personal commitment to seeing the reform through, despite the absence of financial incentives. For industry leaders, financial incentives continue to be very much a real driver of behavior as they have already committed a considerable amount of financing to the relocation efforts and not wishing to see those investments wasted. The other activities of the Foundation have stopped, but this confluence of interests developed under the coalition's funded work continues, with industry leaders returning to the DE for assistance, which suggests a form of sustainability.

16. In the course of negotiations on the MoU in the autumn of 2013, the coalition proposed using BUET in a quality assurance role, including reviewing the CETP design and on-going reviews of construction progress.

The other primary concern regarding sustainability in the coming years is the as-yet-uncompleted task of developing management arrangements for operations and maintenance of the CETP facilities. The team had hoped that the relocation would progress quickly enough (or that additional funding would become available to extend the team's activities)

and they would be in a position to engage on this issue. However, it appears likely that any subsequent engagement by the Foundation or its SANEM/CBP partners will depend on the same form of unfunded commitment demonstrated above in relation to the quality issues. How this unfolds will prove critical to the sustainability of the concrete economic development benefits envisioned in the team's Strategy Testing documentation.

# 4. Issues and Challenges

The evolution of the approach described in the section above provides a number of insights into what it means in practice to adopt more flexible, politically informed approaches to development assistance. This section focuses on four areas identified as part of a stocktaking exercise at the mid-point of the three DFAT–TAF case studies conducted in Bangladesh, Cambodia, and Mongolia. These are emerging areas of interest, common to the three cases:

- The distribution and management of roles in the reform network;
- Processes of research and knowledge gathering;
- Learning and iteration within the programming cycle; and
- Working politically.

Together, findings in these areas suggest that the initiative appears to have been largely effective in developing an operational approach that reflects principles of thinking and working politically, but which sometimes operated in ways that deviated from other documented approaches, including the Development Entrepreneurship work in the Philippines upon which the Bangladesh initiative was modeled.

## 4.1 REFORM TEAM ROLES AND MANAGEMENT

### 4.1.1 Division of labor between the Foundation and its partners

The leather sector initiative and the wider reform network were structured in a format loosely based on the Development Entrepreneurship model adopted by the Foundation in the Philippines. Indeed, this was an explicit attempt to explore what the DE approach would look like in contexts other than the Philippines. The team in Bangladesh was aware of this, and they were able to draw on the existing DE experience through several exchanges with the Philippines team that introduced and mentored them on the DE approach. As a result, the Bangladesh team tended to think of, and refer to, a variety of roles and concepts developed under the DE rubric, including: technical expertise, political skills, and networks; an ‘Insider’; and a Strategist (Faustino and Booth 2014).

The Bangladesh experience provides an example of a mixed approach that was neither an indirect model of the sort used by the DE teams in the Philippines, in which the Foundation relied entirely on its local

partners for implementation, nor a direct model, in which Foundation staff directly engaged at the forefront of the reform process. Rather, Foundation staff played some roles, but not others. As evidenced by the shift from the more inclusive, industry-wide approach at the early stages of reform, to the ‘Top 20’ approach,<sup>17</sup> the program manager led much of the strategic decision-making. The day-to-day political networking, however, was primarily the responsibility of the team’s DE, who led in terms of front-line presence, particularly in engaging with key members of his network, such as the Governor of Bangladesh Bank.

The Bangladesh case also usefully illustrates the point that the various types of inputs can be sourced and contracted in different ways, even when drawn in from outside the Foundation. This is clearest with regard to the identification of ‘insiders’ capable of providing crucial insights regarding incentives and behavioral logic within industry and government. Here the reform team relied extensively on a set of official and unofficial industry leaders, engaged both through formal (though non-contractual) dialogue processes and extensive informal meetings, and similar relationships with BSCIC officials. Technical expertise was also sourced partially through non-contractual sources. While economic analysis was undertaken by the Foundation’s partners at the University of Dhaka, expertise regarding technical engineering components was brought in through BUET, though this did have the disadvantage of leaving the team without an independent, in-house assessment of design and progress.

### 4.1.2 Team management and relationships

The management style employed in the reform team placed the program leader at the apex of the program. In addition to final authority regarding strategic directions of the program, the assignment of tasks to more junior staff, for example, was commonly done in a more directive manner than in some other initiatives under the DFAT–TAF Partnership. However, among more senior staff within the program, there was extensive and fairly regular consultation on the appropriate direction for the initiative prior to decisions being made. In the broader context of the office, the Foundation’s Country Representative afforded significant autonomy to the program leader.

17. A small subset of larger, more export oriented tannery firms that were highly motivated to move. resulted in the program working very differently or quite differently than it otherwise would have.

Two additional sets of issues may be worth noting here in relation to human resources: the first relating to the staffing structures, and the second concerning the way in which performance management needs to be carried out in this type of programming.

## Staffing structures

None of the core staff in the Bangladesh team worked exclusively on the leather sector reforms. The team's identified DE (see Box 1) continued his work at Dhaka University. The various members of the team employed by the Foundation all had portfolios that

extend beyond this initiative. The program leader, for example, supervised and provided strategic thinking across all three of the DFAT-TAF funded reform areas (telecommunications, energy, and leather), as well as work on women entrepreneurs; and while the program manager joined many of the team's discussions on leather, his principal focus was the energy initiative. The relevant senior program officer was principally focused on the project, but was called upon for tasks across the other reform areas, as well as to support the program leader with other aspects of the Economic Development team's work.

### Box 1: A 'DE' defined in Bangladesh

Influenced by the Philippine model, the Bangladesh team frequently used the term 'Development Entrepreneur' or 'DE.' Discussion with the Bangladesh team to probe a bit further about what precisely they meant when using this term, generated a short list of characteristics they felt applied in the case of Bangladesh:

- demonstrable commitment to the reform issue;
- soft skills—specifically the capacity to build and manage relationships over time (Note, this should be distinguished from pre-existing relationships. While networks of the team's DE have been useful [e.g. with the Governor of the Bangladesh Bank and, more recently, the Vice-Chancellor of Dhaka University], the majority of relationships at the core of the reform [e.g. in industry and government] were not among the DE's relationships prior to the project.);
- an understanding of the overall strategy for reform as it evolves, and the ability to provide input (but this did not necessarily need to be the person who has the main responsibility for determining the strategic approach [the program leader's role was recognized here by the team]); and
- credibility, but not necessarily sector expertise (The team's DE was not a technical expert [i.e. an expert on the leather sector], and for much of the detailed economic modeling work, and other technical inputs, consultants were hired; however, as a highly capable and well-respected university professor, the DE was credible both to the leather sector team and to external partners working with the team on the reform process).

Source: Author's interviews

This stands in contrast with some of the other initiatives under the DFAT-TAF Partnership. In this case, in the sample of observations made during the author's visits and in the reflections of team members, two additional factors were observed. First, the project went through periods of greater or lesser intensity. For example, in the days prior to the signing of the October 2013 MoU, the level of commitment to the leather sector work was very high, while at other times the team put major components of the work (e.g. CERP construction) on the 'back burner' and allowed them to progress. This may be relevant when considering the nature of the reform being pursued. Achieving implementation of a process may, though will not necessarily be, of longer duration than the design and approval of a particular piece of legislation. Second, the fact that a good portion of the strategic

work (e.g. the preparatory meetings with industry leaders) took place in evenings, or otherwise outside traditional office hours, helped the team manage this work alongside other commitments. This, of course, placed considerable demands on the team and is consistent with suggestions made in a number of The Asia Foundation's Country Offices that this way of working requires a high level of commitment on the part of the team, including long hours.

## Performance management

The second set of issues relates to the question of whether operating as a team, with an emphasis on flexibility, and without a clear annual work plan, or a set of defined activities, requires a different approach to performance management. In the

case of Bangladesh, this question relates to at least two different dimensions of human resources practices: management of external contractors and management of internal staff. While there were limits on the extent to which employment information (e.g. contracts of external staff) could be shared with the author, his second in-country visit took place while the Foundation's office was undertaking annual staff performance reviews, which offered some scope for discussion of these issues.

Certain aspects of these processes would seem to lend themselves more easily to the flexible forms of working being pursued under the DFAT-TAF Partnership. One member of the team noted, in particular, that the narrative components of the assessment offered scope to present performance in a way that made sense for this type of programming. This included the Employee Self-Assessment Form and the Supervisor's Summary of Accomplishments.

The approach to setting performance objectives for the coming period, which requires detailing objectives, specific activities, outcomes, timeframe, and required support, would seem to be somewhat problematic with regard to working in a highly flexible manner. However, in practice this seems to depend on the team member and supervisor involved, and whether it is possible to be sufficiently general in writing these sections of the performance assessment form to allow for flexibility in meeting objectives, or whether objectives can be framed in such a way that they concern professional development, and do not necessarily depend on the evolution of the program.

Perhaps most interestingly, there was little sense among the team that the performance assessments meant much in terms of reward and promotion. Certainly, in a general sense, a good evaluation was better than a poor one, but there is not a particular performance-related pay reward for specific levels of achievement. Thus, while documentation may suggest that performance objectives need to be set rather specifically, the potential for this to skew employee behavior seems limited.

## 4.2 RESEARCH AND KNOWLEDGE GATHERING

### 4.2.1 Explicit investments in research products

As noted in the description of the team's approach in section 3 above, at the point when the team began to engage in the leather sector, a significant body of work existed on the problems associated with tannery operations in Hazaribagh. However, there was a dearth of analysis focusing on the economic dimensions of reform. As a result, the team placed significant emphasis on research as a mechanism to

reframe the relocation issue—reorienting the debate from one focused on environmental compliance (a costly chore for a government constrained in its ability to regulate the private sector) to one focused on the potential economic gains from relocation.

In order to achieve this, the team invested in research and development of explicit knowledge products. Early outputs included a baseline study on the tanning sub-sector (and later another on the leather goods and footwear sub-sector of the industry) as well as several studies intended to build the evidence base to support relocation, including analysis of sector export earnings (CBP and TAF 2014). A simulation exercise also estimated the benefits of relocation (Khondker and Eusuf 2014).

Subsequent studies were commissioned and undertaken by allies of the reform team in the Centre for Budget Policy, sole-sourced where necessary and justifiable to facilitate a faster turnaround time. Often highly technical economic projections, these were targeted inputs designed to support specific elements of the relocation process. Examples include a study intended to provide technical inputs into the process of developing relocation compensation guidelines, and a paper on the financial requirements for relocation. The latter of these helped tanneries to make the case for financing.

### 4.2.2 Activity-based knowledge gathering

Other than the team's explicit investments in formal knowledge products, its activities were not intended primarily for knowledge gathering. For example, in contrast to some other initiatives undertaken under the DFAT-TAF Partnership, given the nature of the change sought and the early clarity of focus on relocation, there was little scope for pilot projects or other activities designed to test possible policy solutions. Formal activities of the team, such as its public-private dialogues, brought together various combinations of the reform coalition to publically discuss specific aspects of the relocation process. These activities were generally well managed prior to the event so the team was rarely surprised by new information during the event.

### 4.2.3 Relationship-based knowledge gathering:

The limited focus on knowledge gathering activities does not, however, suggest that the team relied exclusively on its formal knowledge products. In addition to explicit investments the team made in research, members' ability to gather knowledge depended significantly on the relationships they developed and leveraged over the course of the initiative.

**Relationships with government** – Over the course of the initiative, the team developed close working relationships with counterparts in the Bangladesh Small and Cottage Industry Corporation (BSCIC). These relationships proved critical to the team’s efforts to track progress during the relocation. While the team did not establish a systematic tracking mechanism of its own, it could request copies of the progress reports that the BSCIC would submit upwards in the Ministry of Industries, and to other interested senior political figures.

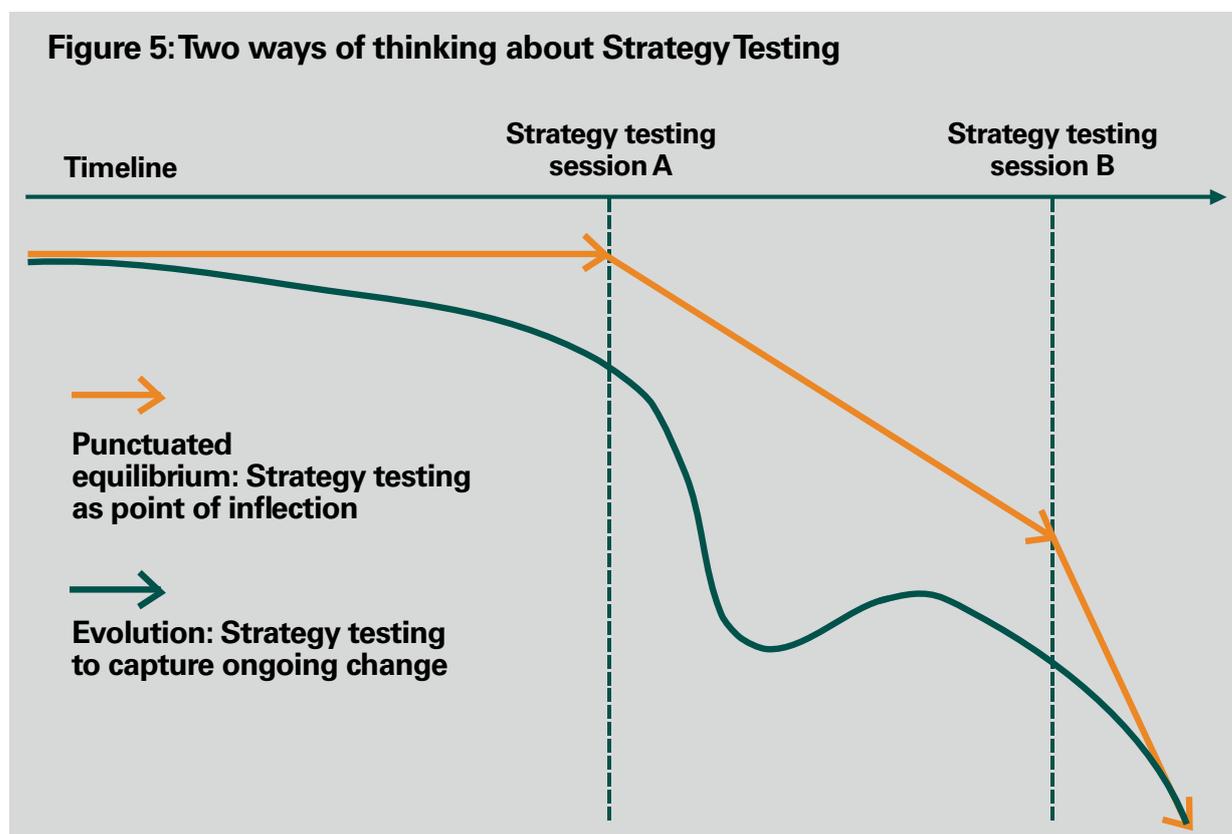
**Relationships with industry** – At no point did the team take on, either as an employee or on a contract basis, a member of the tannery industry. However, the team was able to develop a network of reliable contacts among a set of lead firms within the industry. As noted above, these relationships provided critical information to the team throughout the initiative. Key examples include the guidance provided when the team considered reorienting its strategy away from

the broad universal coalition and towards the narrower group of highly incentivized firms that would lead the relocation.

### 4.3 LEARNING AND ITERATION

#### 4.3.1 Strategy Testing and ‘iteration’ in practice

The principal tool developed to encourage the team to reflect and incorporate implementation-phase learning into strategy, was the approach known as Strategy Testing. Strategy Testing was developed by the Foundation’s Project Strategy, Innovation and Learning (PSIL) Unit in the early stages of the DFAT–TAF Partnership (Ladner 2015), and the Bangladesh team were required to use it, starting in January 2014. While the author’s country visits did not coincide with any of the Strategy Testing sessions in Bangladesh, interest in how this tool has been used across the three DFAT–TAF case studies prompted the author to ask the team a series of questions about the sessions and process.



At the extreme, the formal documentation could potentially reflect two different approaches to flexibility and iteration in practice (Figure 5). In the first interpretation, the team develops a strategic direction and pursues it until the next Strategy Testing session, at which point it considers various aspects of programming (e.g. progress, assumptions, learning, shifts in the external environment, etc.) and adjusts

the strategy accordingly. In the second interpretation, the team shifts strategy on an on-going basis in accordance with their explicit or implicit thinking about those same aspects of programming. The Strategy Testing sessions were not necessarily points at which key shifts in strategy were made, but instead served a different role to update program management documentation.

The Foundation's experience with Bangladesh leather sector reform reflects, to some degree, a blend of these two types of Strategy Testing, though the second type resonated more with the team's view of their experience. Based on the author's observations during field visits, this seems to be a reasonable reflection. In practice, the strategies employed by the team often seemed to evolve over time, and where discreet strategy decisions were made, they did not necessarily take place at the time of the Strategy Testing sessions.

However, the team did report that the Strategy Testing sessions played an important role, nevertheless, particularly in providing an opportunity for them to take stock of recent events and actions. While the team was smaller in comparison to some others operating under the DFAT-TAF partnership, one team member noted that Strategy Testing sessions helped ensure the team was apprised of what others had been doing. This seems to be particularly true with respect to ensuring that the strategic decisions being made by the program's management (principally the program leader and the DE) were shared with the rest of the team to provide them with an updated and wider picture of what was going on.

Second, the Strategy Testing sessions offered a structured opportunity for more junior members of the team to put forth ideas that might eventually be picked up over the coming months. This appears to have been the case with the team's interest in certain social issues (e.g. environmental testing). Finally, while the Bangladesh Strategy Testing documents tended to be reasonably stable in comparison to other projects operating under the DFAT-TAF Partnership, Strategy Testing offered an opportunity to update documentation to reflect changes in the program and thereby provide a record of decision-making for donor accountability purposes.

#### **4.3.2 Day-to-day learning and micro adaptation in implementation**

In addition to major changes in strategy of the sort that were captured in Strategy Testing documentation, the author also considered the potential for smaller-scale adaptation with regard to the tactics used to deliver on the strategy the team developed and re-developed throughout the implementation period. The opportunity for day-to-day learning and adaptation was limited in some respects by a more rigid management structure used with more junior members of the team who were reluctant to deviate from agreed strategy (see section 4.1 above). However, examples of this type of adaptation do exist, often by the DE as a result

of his frontline engagement with partners. The tactics used in getting the Bangladesh Bank Circular reissued provides an example of opportunistic problem solving, versus problem solving that requires formal processes to encourage teams to reflect on tactics (see section 3.5.2).

#### **4.3.3 Constraints on flexibility**

Despite the freedom to change strategy and tactics afforded by the financing terms and implementation strategy, the team's flexibility was nevertheless somewhat constrained. At least one such constraint arose as a result of the Bangladesh portfolio approach in which the team worked across multiple issue areas, making investments in each. This approach was intended, in part, to offer additional flexibility by allowing the team to pursue more promising reforms, while dropping those that were stagnating (but without implying that the program as a whole was failing). However, in some cases, this portfolio approach may have inadvertently constrained flexibility when commitments and relationships spanned multiple issue areas (i.e. telecommunications, the leather sector and energy reform).

The Foundation's program management noted that decisions to drop less promising activities across the three reform areas were affected by the fact that certain stakeholders were relevant for its work across multiple areas. At both the technical and political levels, the common relevance of actors such as the team's partners in the Ministry of Finance and the central bank or the senior political figures with whom it engaged, led to concerns that if particular streams of work were dropped, it could affect relationships in other areas. Relationships in the leather sector could therefore not be treated as isolated from the Foundation's relationships in information and communications technology (ICT) or renewable energy. Given the progress the team made in the leather sector, this did not appear to stop the team from halting otherwise problematic activities in the leather sector, but protecting its success in leather may have affected its actions in other sectors.<sup>18</sup> No simple mechanism emerged to manage this, with the team simply noting the importance of sensitive relationship management and delicate approaches to winding down particular activities in a way that preserved relationships where possible.

## **4.4 WORKING POLITICALLY**

To structure the analysis, here is a definition of "politically smart" development assistance that includes being both "politically informed" and "politically astute" (Booth and Unsworth 2014). Being

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18. This dynamic might be particularly acute in contexts such as small states, such as those in the Pacific Islands.

politically informed is defined as being “armed with the best knowledge they can muster about local political economy dynamics, and this needs to be constantly renewed, not limited to undertaking formal analysis as a one-off exercise” (Booth and Unsworth 2014: 3). Being politically astute is defined as “ways of working that use information about the politics (including political economy) with intelligence and creativity... Donors or their partners... must be not just well-informed but clever operators, with the capacity to work with the politics or around them according to what work best in the context” (Booth and Unsworth 2014). Each of these dimensions is considered below.

#### 4.4.1 Politically informed

From the outset, the team’s internal analysis of the challenges it faced included consideration of political economy dynamics, with attention paid to the centrality of the politics of reform. This rarely appeared explicitly in the analysis that was produced by the team as a part of its more formal analytical outputs, but was central to strategic discussions, and the team developing its own (unwritten) assessments of the political dynamics of the situation. No formal “political economy analysis” was carried out. Rather, the team based its analysis on the knowledge of The Asia Foundation’s staff, its partners in SANEM, and the Centre for Budget Policy (CBP), and eventually the insights of its growing set of industry and government insiders.

In the team’s analysis of the government’s evolving interest in the relocation over time, there was a clear sense of its focus on politics. A number of hypotheses could be proposed to help explain the increased interest of the government in completing the relocation. One hypothesis, expressed by members of the team as well as external informants, concerns the government’s search for legitimacy, thus connecting the specifics of leather sector reform to broader dynamics in Bangladesh’s macro political economy.

The period before and after the elections of 2013/14 was marked by significant forms of violence. While the outcome was tacitly accepted, the current government is seen by some observers as unable to make its case on the basis of electoral/democratic legitimacy. Therefore, the government has been increasingly concerned with establishing performance legitimacy. While the team observed this shift in the leather sector, it may well be a wider phenomenon, with commentators noting the Prime Minister’s efforts and rhetoric abroad, including the development

of export processing zones (EPZs) and promises of access to Japan, the Peoples’ Republic of China, the Republic of Korea, and others as a part of attempts to court foreign investment.

At home, this dynamic has resulted in infrastructure investments such as completion of the Dhaka-Chittagong highway, which had lagged for some time. However, the precise way in which the government’s quest for performance legitimacy has occurred has varied, depending on the domestic audience. For the rural poor, this comes from keeping rice prices down and delivering social protection programs. Growth and employment issues are more relevant for the urban lower and middle classes. To avoid unrest with these classes, the government needs to ensure that enough of the benefits from growth flow down from the significant wealth that elites are accumulating.

The government’s need for performance legitimacy in the post-election context would seem to offer opportunities for pushing ahead with reforms that deliver what the government needs, while still providing public goods. The leather sector relocation appears to do exactly that, allowing government emphasis on its priority performance areas, including foreign direct investment (FDI), growth and employment, while also producing public goods (e.g. health and environmental benefits). While there was broad agreement among informants on this explanation, some expressed concerns about how far all of this can go. For example, it is not clear to what extent the desire to see the long-delayed tannery relocation completed extends to the less-immediately-visible, long-term operation of the CETP, nor is it certain that quality risks can be entirely mitigated.

It is noteworthy that the team independently described their perceptions of the government’s increased performance orientation without necessarily engaging explicitly in this broader macro-political economy analysis (or without the author prompting it). Indeed it was not until the team had been working on the relocation issue for some time that members came to understand this confluence of factors (the implications of which are discussed in the following section). However, the fact that they did so independently, and well into the implementation phase, is indicative of the extent to which the political economy analysis that was taking place informally within the team was ongoing, rather than an investment of time and effort only at the early stages of operations.

#### 4.4.2 Politically astute

As noted above, the relocation process appears to have benefitted enormously from a particular political moment when the team was well positioned to take advantage of it. The implications of this were significant in at least two respects. First, the team's analysis indicating the importance of high-level political support for the relocation process led them to engage specifically in activities designed to foster that support. Second, as that support began to emerge, the team had to adapt their actions to account for the risks of an increasing profile. Additional detail on each of these effects follows.

#### Politically active

In terms of the macro politics of Bangladesh, there was little scope for the team to directly confront the political challenges of the context in which they operate. They chose instead to engage with the politics of the country by finding ways in which the interests of powerful people intersected with their reform agenda. The fundamental choice regarding the framing of the issue was critical in this respect.

Additionally, as the team moved into the implementation period, it continued to make efforts to build political momentum for relocation. In relation to the increased interest of government discussed above, the team explicitly attempted to foster interest by organizing a visit to the Savar Industrial Estate for the Ministers of Environment, Commerce, and Industries, and two Members of Parliament (MPs). One MP represented the tanneries in High Court petitions to gain more time for the relocation, and he also represents Hazaribagh. The other MP represents Savar. These individuals were invited not only for their importance to the relocation effort, but also on the basis of an analysis of their likely positions on the relocation, given their specific interests and incentives.

It was from that point onward that the level of interest and pressure from the highest levels of government increased, with the Bangladesh Small and Cottage Industry Corporation subsequently required to submit fortnightly reports to the Office of the Prime Minister (the same reports the team relied on for its progress updates). That form of high-level pressure was, in turn, extremely useful in situations when the relocation fell behind schedule, as was the case in early 2015 when blockades were blamed for CETP construction delays. In such cases, having the impetus come from senior

political figures, often in the absence of any media attention, was significant. This is something that had been fostered by the coalition from the outset.

#### Performance risks and quality assurance

The discussion above on issue selection noted the way in which the need to pick an issue on which the Foundation would have some traction and success, may have generated a degree of risk aversion. This dynamic re-emerged as the relocation generated increased interest from government in the context of a search for legitimacy through improved performance. In one respect, increased ministerial interest such as that of the Prime Minister herself could, and should be seen, as a useful tool, and a significant accomplishment in terms of developing support from powerful political elites. Yet, program management reported that the strategy adopted by the team became slightly more conservative and risk-averse, given this high-level interest. The stakes (reputational and otherwise) for failure had increased.

One example of this attitude towards risk was the team's evolving thinking about CETP construction quality. In the course of negotiations on the MoU in the autumn of 2013, the coalition proposed using Bangladesh's leading technical and engineering university, Bangladesh University of Engineering and Technology (BUET), in a quality assurance role, including reviewing the CETP's design and on-going reviews of construction progress. This was done, in part, because BUET's domestic reputation helped to allay fears among the tannery entrepreneurs regarding the quality of work done by the firm which the government contracted for CETP construction.

By April of 2014, the reform team had started to think about additional quality assurance processes that might complement BUET's inputs. This decision did not arise from a perception that existing arrangements were failing in any particular way. Rather, the team's perceptions of the risks of the CETP's highly visible failure had increased. Together with recognition that BUET, despite its reputation, had little experience specifically with CETPs, this increased the attractiveness of having a second form of checking. As one team member commented, "We would hate to find out after completion of construction that something had not been done correctly that would prevent environmental certification."

This led the team to investigate options for external verification and environmental certification to certify the CETP, and to using an auditor from Leather Working Group (LWG), a UK-based organization. In addition to providing oversight during CETP construction, LWG certification would document compliance for external buyers and foreign investors who were interested in using Bangladeshi leather in local production processes. This was seen as a step in the 'green branding' of Bangladesh leather, which, in turn, was important for attempts by industry leaders to protect and expand their markets in the EU.

As the team learned more about the LWG, however, it discovered that LWG accreditation is for tanneries, not for the CETP itself, as accreditation covers activities throughout the supply chain of each firm (so several firms could use the same CETP and end up with different ratings). The team had hoped that the auditor could at least advise on how the CETP would figure in an audit process, and provide an indication of any areas of concern, but it became clear that this would not be a viable mechanism for risk management or for

ensuring quality. Despite this idea failing to come to fruition, the team's efforts clearly indicate its attempts to grapple with their increased awareness of the risks of failure that were associated with a higher political profile.

## **Reputational risks**

Aside from the risks associated with the success or failure of the initiative, working politically brought with it a more acute sense of the need to maintain the political neutrality of the Foundation as that helps underpin its effectiveness over the long run, even as partners change. For programs that seek to operate in a politically informed and politically astute manner in other contexts, awareness of this challenge can inform several aspects of program operations. These include the selection of issues on which a donor or implementing organization might work, the decisions made about the methods used and the partners engaged, and the varied options for approaches to publicity and communications.

# 5. Conclusions

The analysis of the leather sector initiative presented above offers much to be optimistic about. Some caveats are of course necessary. Construction of the CETP and the new tanneries is not complete. The economic, health and environmental benefits envisioned by the team have largely yet to come to fruition. But the fact that tannery entrepreneurs have invested substantial amounts of their own capital in the relocation process is an important sign of their commitment to a different future for the leather industry in Bangladesh.

In concluding, two final issues emerge as clear priorities. First, it is useful to look back at the reform process and assess whether the outcomes achieved thus far would have happened anyway, without an intervention by The Asia Foundation and its partners. Specifically, given the threat of European Union (EU) legislation restricting the import of Bangladeshi leather, one question that must be asked is whether international pressure would have been enough to lead to the progress achieved, without the efforts of the coalition.

While there is no simple counterfactual, it seems clear that the intervention had important impacts on the potential for, and speed of, the relocation effort. Interviews with industry leaders suggest that international pressure might have brought some changes to the sector, but perhaps change would have come too late, and not necessarily been of the most progressive sort. Essentially, the sourcing plan and pattern of international buyers and their franchises defines their relationship with the tanneries. The relatively small percentage of supply coming from Bangladesh means many buyers might not bother investing in bringing the country into compliance. In contrast to the ready-made garment sector, in which the buyers need Bangladesh, the easiest thing for buyers of leather to do is use alternatives.

Additionally, a substantial portion of the industry is not currently producing leather for export to markets

that are likely to require environmental compliance. The sector has seen substantial growth in the past decade, in large part in markets without environmental compliance standards (principally China), and in the domestic market. Global trends in economic development suggest that these markets are likely to provide ready demand for leather goods in the future. In this case, as some countries opt out (e.g. those in the EU), producing for non-compliant markets could easily become entrenched as the dominant strategy for Bangladeshi leather firms.

In other words, while one of the industry figures interviewed commented that, “shifting to an environmentally compliant estate is fundamental for the sustainable development of the leather industry;” arguably, the real achievement of the coalition is that although this is not necessarily true, the shift to the industrial estate appears to be well underway anyway. While it may be the case that an environmentally compliant leather sector offers greater opportunities for growth and sustainability, there is a much bleaker plausible, but viable, alternative future (at least in the short to medium term).

The second issue is precisely this question of sustainability. Unlike many of the reforms associated with the Development Entrepreneurship approach as developed and employed in the Philippines, this initiative relies on more than a simple market mechanism in which reforms become in a sense self-implementing. The sustainability of the economic and social benefits associated with relocation will depend substantially on the degree to which the management arrangements for the CETP’s operations and maintenance are able to solve coordination problems on an on-going basis. Their success is necessary to avoid the destruction of another river eco-system and a return to production exclusively for markets that do not require environmental compliance. At the moment there appears to be good cause for optimism, but careful attention to the issues in this paper will be necessary in the months and years to come.

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# 7. Appendix

## 7.1 Revised Bangladesh Bank Circular

Banking Regulation and Policy Department  
Bangladesh Bank  
Head Office  
Dhaka

BRPD circular No: 14

Date: 2 November, 2014

**Managing Director/Chief Executive**  
**All scheduled banks operating in Bangladesh**

Dear Sir/Madam,

Regarding providing facilities to the tanneries shifted/shifting to leather industrial city in Savar

Letter no. BRPD (FI) 260/13/2008-114-153 issued by this office on 13/05/2008, declared some facilities for the purpose of providing a solution to the bank-related problems created due to the shifting of tannery factories from Dhaka city to Savar in accordance with the decision taken by the government.. The current government has taken the special initiative to shift the tannery industry to Savar in a speedy manner. At this stage, pending bank loan problems of the tanneries shifting to Savar need to be resolved. Hence, the following policy/method will be applicable for the tanneries that will continue their business after shifting their factories to the leather industrial city:

1. The irregular loans of the tanneries shifted/shifting to the leather industrial city in Savar may be transferred to the Block Account, and provided with moratorium facilities and flexible payment schedule. For loans transferred to the Block Account, a moratorium facility may be provided for 01 (one) year, and the following maximum 08 (eight) years may be considered as the payment period.
2. An interest of 10% on the loan transferred to the Block Account or the cost found (whichever is the lowest) shall be recoverable.
3. In applicable cases of the loans transferred to block accounts, the un-imposed interest, Interest Suspence A/C and penalty interest may be exempted. In these cases, the basic loan and suit expenses cannot be exempted.
4. The Board may consider rescheduling the loans and making the conventional down payment for new loans flexible for the tanneries engaged in the export industry. In this case, a 'no-objection' certificate from Bangladesh Bank may be received on a case-by-case basis, if necessary.
5. The loan transferred/rescheduled as a Block Loan may be adjusted from the export bill. If it is not possible to pay the installments of the loan from the export bills, the loan receiver shall pay the loan from personal sources.
6. If the loan is not recovered within the specified time, the conventional rule loan classification and provisioning shall be applicable and the bank will ensure the recovery of the loan according to its conventional rule.

7. If security/bond money is not adequate for granting new loans, the client will provide fresh security/bond money. Besides this, the mortgaged property can be released, if supporting bond money equivalent to the value of the existing mortgaged property of the tannery industrial factories is provided.

8. The issues related to the factories with legal suits against them may be resolved on the basis of “Deed of Compromise” (*solem nama*).

9. This facility will be considered to be applicable to the rescheduled loan accounts of the shifted/shifting tanneries.

10. The loan receiver must apply to the concerned bank with proof of having shifted the tannery factory to the leather industrial city in Savar along with necessary documents within six (6) months from the issuance of this circular. These facilities will be considered to be applicable if the concerned bank is satisfied about the problems of overall activities regarding shifting the tannery industry.

This circular will be effective immediately.

Sincerely,

Chowdhury Md. Feroz Bin Alam  
General Manager  
Phone: 953 0252

## 7.2 Bangladesh Leather Sector Initiative: Selective Time-line of Major Events

<b>Date</b>	<b>Activity/ Key Event</b>
<b>2001</b>	<ul style="list-style-type: none"><li>• High Court Division of the Supreme Court of Bangladesh rules that 176 tanneries in Bangladesh, including those located in Hazaribagh, need to take immediate steps to control pollution.</li></ul>
<b>2003</b>	<ul style="list-style-type: none"><li>• The government and the two major trade associations representing tannery firms sign the first memorandum of understanding (MoU) on relocation, which remained unimplemented.</li></ul>
<b>May 2012</b>	<ul style="list-style-type: none"><li>• DFAT-TAF Partnership activities commence in Bangladesh with initial issue selection process.</li></ul>
<b>October 2012</b>	<ul style="list-style-type: none"><li>• The Foundation team focuses in on the leather sector, with the tannery relocation process emerging as a potentially transformative change.</li></ul>
<b>March 2013</b>	<ul style="list-style-type: none"><li>• SANEM identified as anchoring organization by The Foundation and formally begins work brokering a new relocation agreement.</li></ul>
<b>October 2012- October 2013</b>	<ul style="list-style-type: none"><li>• Consensus building and brokering leading to signing of the new MoU.</li></ul>
<b>October 2013- May 2015</b>	<ul style="list-style-type: none"><li>• More targeted and selective engagement aimed at facilitating tannery facility relocation, including: financing work, plan approval, CETP quality control, and ad hoc trouble shooting as necessary.</li></ul>
<b>May 2015- December 2015</b>	<ul style="list-style-type: none"><li>• Post DFAT-TAF Partnership funding troubleshooting by DE and others as potential roadblocks arise.</li></ul>



## The Asia Foundation

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