

Coherence or co-existence?

A study on the implementation of the aid, trade and investment agenda in three transition partner countries: Bangladesh, Ethiopia and Kenya.

Terms of Reference
May 2018

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Abbreviations

ADD:	Addis Ababa, Ethiopia
AIV:	Advisory Council on International Affairs
BIS:	Office for International Cooperation (MFA)
BRICs:	Brazil, Russia, India and China
BZK:	Ministry of the Interior and Kingdom Relations
CBS:	Statistics Netherlands
CPI:	Corruption Perception Index
DAC:	Development Assistance Committee (OECD)
DAF:	Sub-Saharan Africa Department (MFA)
DDE:	Sustainable Economic Development Department (MFA)
DHA:	Dhaka, Bangladesh
DIO:	International Enterprise Department (MFA)
DNB:	Central Bank of the Netherlands
EIU:	Economist Intelligence Unit
EODB:	Ease of Doing Business
EU:	European Union
FDI:	Foreign Direct Investment
GII:	Gender Inequality Index
GINI:	Gini coefficient (measure of income and wealth distribution)
HDI:	Human Development Index
IHDI:	Inequality-adjusted Human Development Index
IND:	Immigration and Naturalisation Service
IOB:	Policy and Operations Evaluation Department (MFA)
ISB:	Inspection and Evaluation Unit (MFA)
MASP:	Multi Annual Strategic Plan
MDGs:	Millennium Development Goals
MFA:	Ministry of Foreign Affairs
MIT:	Massachusetts Institute of Technology
MPI:	Multidimensional Poverty Index
NAI:	Nairobi, Kenya
NGO:	Non-Governmental Organisation
ODA:	Official Development Assistance
OECD:	Organisation for Economic Cooperation and Development
PSD:	Private Sector Development
PvdA:	Social democratic political party
RMG:	Ready-Made Garments
RVO:	Netherlands Enterprise Agency
SER:	Social and Economic Council of the Netherlands
SRHR:	Sexual and Reproductive Health Rights
SRoL:	Security and Rule of Law
TI:	Transparency International
ToC:	Theory of Change
ToR:	Terms of Reference
UNCTAD:	United Nations Conference on Trade and Development
VVD:	Conservative liberal political party
WB:	World Bank
WRR:	The Netherlands Scientific Council for Government Policy

1 Introduction and Background

These terms of reference (ToR) concern an evaluation of the implementation of the Aid, Trade and Investment policy of the Dutch Ministry of Foreign Affairs (MFA) in three partner countries. The government regulation on periodic evaluation research (Ministerie van Binnenlandse Zaken, 2014) requires evaluating each policy area periodically at the level of budget articles. The Policy and Operations Evaluation Department (IOB) will perform a policy review¹ of the sustainable trade and investment policy, which covers article 1 of the budget chapter XVII of foreign trade and development cooperation, in 2020. Several evaluations will form building blocks that are or will be available to feed in to this policy review. It is common for these evaluations to follow the evaluation guidelines (Ministerie van Buitenlandse Zaken, 2009), based on the Organisation for Economic Co-operation and Development's (OECD) guidelines (OECD, 1991). Following these guidelines, evaluations usually look at criteria like effectiveness and impact. Although the evaluations will cover a large part of article 1, there is no evaluation looking specifically at the integrated agenda of aid, trade and investment as such and the intended synergy². This evaluation will specifically look at that integrated character of the new agenda and focus on the policy process instead of effectiveness. As such, this evaluation will be part of the broader policy review and study how the integration of aid, trade and investment and the transition from aid to trade worked out in practice in three partner countries. This study will thus not look at the effectiveness and impact of the aid, trade and investment agenda, but provide a policy reconstruction and study synergy and coherence in the context of three partner countries.

Ideally, Terms of Reference (ToR) are written before research activities start. In this case, IOB was asked to join two ISB-inspection missions to Ethiopia and Kenya and was able to combine inspection work and research activities in order to minimize the burden for the embassies. In December 2016, IOB joined an ISB-mission to Ethiopia, and in February 2017 IOB joined an ISB-mission to Kenya. In order to visit the third country in the same period, IOB went to Bangladesh in May 2017. As a follow-up of the IOB report on Kenya, IOB was asked to moderate the portfolio review in Kenya in June 2017, which also contributed to this research.

In these ToR, we will start with a short introduction on the policy on aid, trade and investment in chapter 2. The focus of this research, the selection of the countries and the research questions will be outlined in chapter 3. The fourth chapter will provide a very brief description of the three selected countries. In Chapter 5 and 6, the methodology, organisation and planning are described.

¹ 'Beleidsdoorlichting' in Dutch

² Synergy is defined as the combination of private sector activities and development cooperation in which they strengthen each other.

2 The policy context

In October 2012, the conservative liberals (VVD) and social democrats (PvdA) concluded a coalition agreement entitled 'Building Bridges' (Rutte & Samsom, 2012). According to the coalition parties, it reflected the search for the best of both (conservative liberal and social democratic) worlds. 'Bridges were built' for instance between the Ministry of Foreign Affairs and the Ministry of Economic Affairs by installing a Minister for Foreign Trade and Development Cooperation at the Ministry of Foreign Affairs (MFA). The combination of portfolios was presented as an endorsement of the importance of coherence between both policy areas. In response to questions from parliament about the new policy, the minister emphasised the possibilities to further develop policy coherence for development (Tweede Kamer der Staten-Generaal, 2013). Precisely at this interface of aid and trade the minister saw opportunities for achieving mutual benefit. Examples were given of increasing the potential of small and medium enterprises to trade with and invest in developing countries, and for the creation of new partnerships between companies, Non-Governmental Organisations (NGOs), scientific institutes and government.

The coalition agreement was further elaborated in the policy paper 'A world to gain: A New Agenda for Aid, Trade and Investment' published in April 2013 (Ministry of Foreign Affairs, 2013). This agenda sketches developments in the world, which would require a new approach and describes changing relations in transition countries that would demand new forms of cooperation. A World to Gain describes developments in the world in 2012, like a changing and multipolar world order with fast-developing countries like China, India, Brazil and South Africa, but also developing countries growing faster than expected, such as Ghana, Vietnam and Ethiopia. Poverty patterns have changed, according to the policy note, with strong progress on some of the Millennium Development Goals (MDG's), while others lag behind³. It concludes that still 900 million people are living below the poverty line of whom three quarters are living in middle-income countries, in particular in China and India. It observes an increased importance of remittances, investments, trade flows and input from private actors, while the importance of Official Development Assistance (ODA) decreased. The relative importance of ODA in low-income countries decreased, although ODA remains a substantial source of income. It emphasizes the role of the Netherlands as an economic power, but also notices that Dutch trade still focusses on neighbouring countries in the European Union (EU) and benefits too little from economic growth in Asia, Africa and Latin America. It recognizes commercial opportunities building upon often long-term aid relations with growth countries that want a more equal relationship with the Netherlands, moving away from a traditional donor recipient relation.

These developments led to the adoption of the new agenda for aid, trade and investment by the Dutch government. The new mission was to invest and stimulate trade activities that are good for people and the environment, create jobs, and preferably accompanied by the transfer of knowledge and skills. In order to address these developments in the world, three central aims were formulated. First, the eradication of extreme poverty ('getting to zero') in a single generation; second, sustainable growth all over the world; and third, success for Dutch companies abroad.

³ Such as maternal morbidity and the non-sustainable use of natural resources.

Shifting from an aid to a trade relationship with an increasing number of countries is the aim of the new policy (See Figure 1).

The number of partner countries was reduced by the previous government from 33 to 15. It was argued that this reduction in partner countries would capacitate the organisation with country-specific knowledge and would encourage more international coordination by aligning with other donors. Countries were classified in three profiles. Profile I countries were low-income countries where aid formed an important role. Profile II countries were characterised as fragile-states, and profile III countries were described as countries with healthy economic growth (Tweede Kamer der Staten-Generaal, 2011)⁴. Seven criteria were used to select these countries, although the Ministry was selective in using these criteria (Ministerie van Buitenlandse Zaken, 2016) and this process was characterised as arbitrary by some (Schulpen, Habraken, & Kempen, 2011).

In A world to gain, the same 15 partner countries are selected and bilateral relationships are categorized by three types of relations; Aid relationships, a category with conflict-affected and post-conflict countries, fragile states, and countries with insufficient capacity to reduce poverty without assistance⁵. Criteria for these countries are the degree of poverty, the limited institutional capacity, fragility, the need for support in one of our four spearheads and Dutch benefit (Tweede Kamer der Staten-Generaal, 2013). The second category, termed 'Transitional Relationships', includes eight low- and middle-income countries⁶ with strong economic growth. Criteria for these countries are economic growth, income per capita, opportunities for results on the four spearheads and for an improvement of market access and business climate, opportunities for the Dutch business community and use of Dutch knowledge and skills (Tweede Kamer der Staten-Generaal, 2013). In these countries, aid and trade are combined with the idea that both the Netherlands and the developing country can benefit. A timeframe for this transition is not given in general, but for some countries, like Kenya, a phase out date has been determined. The third category concerns trade relationships with the main aim to promote trade and investment⁷. Criteria for these countries are the ambitions of the top sectors, the market size and growth potential and the extent to which the government can help in removing trade barriers (Tweede Kamer der Staten-Generaal, 2013). In those countries with which an aid relationship is maintained, the Netherlands will invest in a global development agenda to pursue the MDGs. Apart from the four spearheads of Dutch development policy – sexual and reproductive health and rights (SRHR), water, food security, and security and the rule of law – the Netherlands wants sustainability and a minimum level of social rights to be included in this new agenda. The four spearheads are regarded still valid and are given more attention in Dutch policy. They are seen as relevant to global poverty reduction efforts, and to further the Netherlands' economic and other interests. In devising and implementing policy, the Netherlands wanted to make use of the knowledge and expertise gained through development cooperation, the technological and other knowledge of the leading Dutch sectors, research institutions and the expertise of civil society organisations.

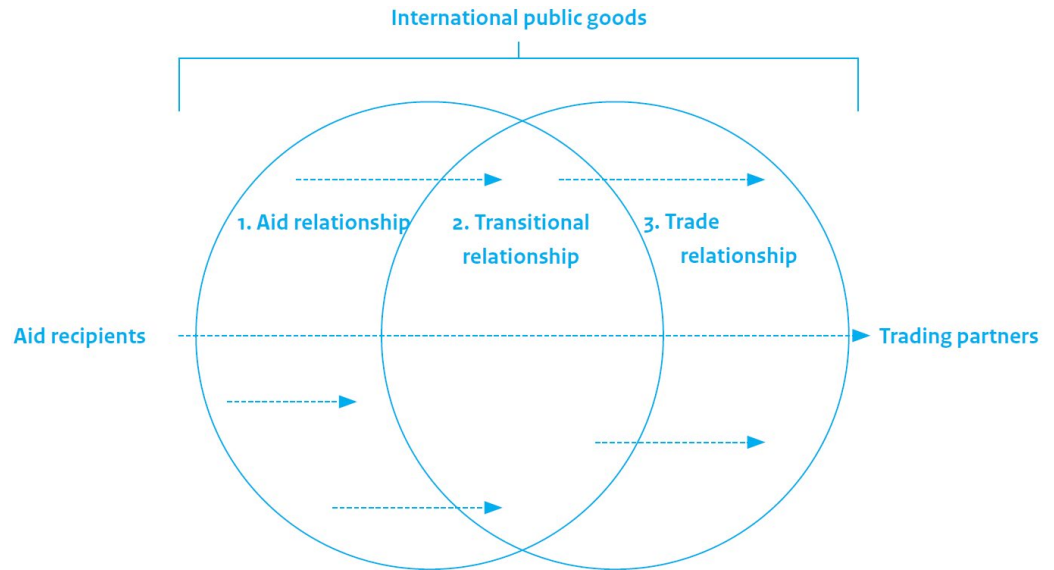
⁴ Cat. I. Benin, Ethiopia, Mali, Mozambique, Uganda, Rwanda. Cat. II. Afghanistan, Burundi, Yemen, the Palestinian Territories, Sudan. Cat. III. Bangladesh, Ghana, Indonesia, Kenya.

⁵ Countries in this category are Afghanistan, Burundi, Mali, the Palestinian Territories, Rwanda, South Sudan and Yemen.

⁶ This category includes Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda.

⁷ This category includes many countries, with a focus on Australia, Belgium, Brazil, Canada, China, Colombia, France, Germany, the Gulf States, India, Iraq, Japan, Malaysia, Mexico, Nigeria, Poland, Romania, Russia, Singapore, South Africa, South Korea, Turkey, the UK, Ukraine, the US and Vietnam.

Figure 1: Changing relationships with countries



A World to Gain states that, fighting extreme poverty is done out of solidarity, while promoting trade and investment is done mainly out of self-interest. It states that where aid and trade meet, they will act out of both solidarity and enlightened self-interest (Ministry of Foreign Affairs, 2013). This requires a thought-out weighing of interests. It recognizes that it is important to keep an eye on the underlying motives. The combination of aid and trade can result in mutual benefit but where different motives play a role tensions can arise and an assessment framework is called for.

3 Evaluation scope and research questions

3.1 Time frame and country selection

It seems logical to determine the research period for this study to commence from the start of Rutte I in October 2010 up to and including 2017. The report "Less pretention, more ambition" of the Netherlands Scientific Council for Government Policy (WRR), published in early 2010, formed a guideline for the Rutte I policy on development assistance. Starting point was the shift from aid to investment with a stronger emphasis on business. This was further sustained under Rutte II with the appointment of a Minister for Foreign Trade and Development Cooperation. Under Rutte I, the number of partner countries reduced from 33 to 15, this number remained the same under Rutte II. Private Sector Development (PSD) instruments can be used in all 68 eligible low- and middle-income countries. In the 15 partner countries, a country specific bilateral ODA-budget is available. In order to look at the integration of aid, trade and investment, partner countries with a transition relationship in particular seem to lend themselves well to research the transition from aid to trade policy (See Figure 1). Countries for the transitional category were selected based on economic growth, income per capita, potential for results on the four thematic areas and improvement of market access and the business climate, and opportunities for Dutch companies and use of Dutch knowledge and expertise (Tweede Kamer der Staten-Generaal, 2013, kst 33625-5). Eight transitional countries were identified in 'A World to gain', which are Bangladesh, Benin, Ethiopia, Ghana, Indonesia, Kenya, Mozambique and Uganda. In order to increase the likelihood of determining the effects of the policy, partner countries with the high volumes of Dutch ODA, imports, exports, number of Dutch companies active in that country and the FDI-stock (See Table 1) are good candidates. We were able to visit Ethiopia and Kenya with an ISB-mission. Based on these criteria we also selected Bangladesh for a case study.

Table 1: Key statistics transitional countries

Country	ODA ^a	Bilateral Import ^b	Bilateral Export ^b	# Dutch Comp. ^c	FDI ^d	Group ^e
Kenya	\$23	€394	€224	125	€1.538	L
Bangladesh	\$52	€815	€166	58	€41	L
Ethiopia	\$73	€150	€96	130	€224	L
Uganda	\$21	€85	€52	50	€1.136	L
Mozambique	\$42	€77	€42	3	€442	L
Benin	\$27	€4	€122	10	€106	L
Indonesia	\$-9	€2.576	€756	175	€15.613	LM
Ghana	\$29	€620	€920	100	€4.603	LM

Sources:

- a) OECD. Average net ODA from the Netherlands 2012-2016 in million US Dollars.
- b) CBS. Average bilateral import and export with the Netherlands between 2012-2016 in million Euro's.
- c) MFA – Koningsfiches. Number of Dutch companies active and know by embassy.
- d) DNB. Average Dutch foreign direct investments (stocks) in millions 2009 - 2014.
- e) World bank 2012. L = Low-income country; LM = Low-middle income country.

3.2 Theory of Change

The overall development policy does not define how the integration of aid, trade and investments should take shape and how it should lead to synergy with the instruments available. It is also unclear how resources should be shared across the three objectives of A World to Gain, as the OECD's Development Assistance Committee (DAC) concluded in its latest periodic review of the Netherlands development co-operation efforts (OECD, 2017). Which assumptions lie behind it and what kind of bottlenecks or possible conflicts of interest are involved? The Ministry has not worked out a central Theory of Change (ToC) for the aid and trade agenda, although a ToC for the private sector development (PSD) policy under article 1.3 and all spearheads are available (Ministerie van Buitenlandse Zaken, 2015). This document states that embassies play a major role in the development of synergy between aid, trade and investment. The bilateral development policy at partner country level has been primarily developed in the multi-annual strategic plans (MASP's) (Ministerie van Buitenlandse zaken, 2014) but they usually focus on the delegated budgets only and do not include centrally managed and financed instruments. In the MASP's 2014-2017, the missions included the new aid and trade agenda, all with their own accent. The embassy in Ethiopia recognises that Ethiopia will remain a very poor country for years to come and that development cooperation will still be needed for the coming 10-15 years. The Ethiopian MASP focuses on the interphase between in particular the food security programme and trade opportunities. Bangladesh also focusses on its spearheads (Water, Food security, and SRHR) and sees the promotion of commercial objectives as such connected to promoting sustainability and emphasises the importance of Corporate Social Responsibility, especially in the Ready-Made Garments (RMG) sector. In Kenya an end-date for the bilateral development cooperation is foreseen in 2020. The MASP states that the Netherlands will act as a public investor rather than a donor, as the programme will focus on investing public funds with the aim of leveraging private investments, with a focus on the spearheads water and food security.

3.3 Research Questions

Since the policy set out in A World to Gain is at a rather high level of abstraction and the aims were not formulated in a SMART way, it seems impossible to measure its effectiveness. The aim of this research is to provide an reconstruction of the policy and look at the way it takes shape in practice. Taking the above-mentioned into account, we come to the following research questions regarding the three selected partner countries:

1. How did the combination of aid, trade and investment take shape?
 - a. What (structural) changes in personnel and expertise have been made to support the policy?
 - b. To what extent did the integration of DGBEB lead to additional effort regarding the transitional countries? Which non-ODA instruments were mobilised? Was there coordination between ODA and non-ODA instruments?
 - c. What role was assigned to RVO and to what extent was this role conducive to the implementation of the aid- to trade policy?
2. What were the developments between 2010 and 2017 in bilateral aid, trade and direct investment and are there differences with the 2003 – 2010 period? How much ODA was mobilised to implement the aid to trade policy, and through which instruments? All ODA sources combined.
3. How is Dutch policy aligned with the national policies of the recipient countries? What means of donor coordination were used to further local economic development in the three countries?

4. Has the aid and trade approach contributed to strengthening the intended mutual interests of the Netherlands and the partner countries?
5. Did the policy instruments and the economic-diplomatic efforts form a logical, consistent and coherent whole and deliver synergy?
6. How are the three main goals, of the integrated agenda being served simultaneously?

4 Country descriptions

In this chapter, we will give a very brief overview of the bilateral relations between the Netherlands and the selected partner countries, Bangladesh, Ethiopia and Kenya⁸. More details about the three partner countries are provided in the appendix and will be given in the final report.

4.1 Bangladesh

The macroeconomic situation of Bangladesh is stable and the economy has a strong growth for more than a decade. Bangladesh belongs to the so-called "Next Eleven"⁹. On the global export market of RMG, Bangladesh is the second supplier with the EU as its most important destination. The rapid growth of the clothing industry in Bangladesh led on the one hand to many jobs but on the other hand to major neglect and abuses in the working conditions. This resulted in the Tazreen fire in 2012 and the Rana Plaza collapse in 2013, where many workers lost their lives. A swathe of terrorist attacks occurred across the country in the early part of 2017, following the attack on foreign nationals in the capital, Dhaka, in July 2016. The primary impact of such attacks will be economic, as each episode will have negative effects on retaining existing foreign investment and attracting new investors. Some indicators for Bangladesh are provided in Table 2.

The government has the ambition to become an upper-middle-income country by 2021, 50 years after independence. However, incomes would have to rise by more than threefold from their current level for Bangladesh to move into the next income bracket. A feat that is not expected to be achieved according to the government's timeline. The main priorities of the government of Bangladesh include alleviating poverty, expanding power-generating capacity and improving price stability. Assistance from bilateral and multilateral donors will remain important to achieving these objectives in the medium term.

The Netherlands and Bangladesh have maintained good diplomatic relations with each other since 1972. Dutch development policy in Bangladesh focusses on water, food security and sexual and reproductive health and rights (SRHR). The textile sector (RMG) is receiving special attention in Bangladesh, especially since the Rana Plaza disaster in 2013. Bilateral relations are increasingly focusing on economic and trade relations while the delegated development cooperation budget is decreasing and not compensated by increased spending from central funds.

The MASP 2014-2017 states that the "Bangladesh and the Netherlands' relationship is transitioning from a traditional aid relationship to a responsible trade relationship. Practically, this means that the Embassy's development cooperation programme more and more links trade and investment to the three priority areas: water, food security and sexual reproductive health and rights. Bangladesh's goal is to be a middle-income country by 2021. The transition relationship between Bangladesh and the Netherlands aims at phasing out development cooperation in the run up to middle-income status for which 2025 seems to be a more realistic date for achieving that. The projects funded by the Netherlands will contribute to increasing trade and investment. Corporate social responsibility, improving working conditions,

⁸ Much information in this chapter is based on the country reports from The Economist Intelligence Unit, see <http://country.eiu.com> and on information from Regiobureau Atlas from the Ministry of Foreign Affairs.

⁹ Goldman Sachs identified eleven countries as potential next BRICs; countries that could be among the largest economies in the 21st century (Sachs, 2007).

addressing sexual harassment, and improving the tender system are integral to this” (Ministry of Foreign Affairs, 2014a).

Table 2: Indicators Bangladesh

Indicator ¹⁰	EODB Rank	CPI Rank	GINI	HDI	GII	IHDI	MPI
Value	177	143/180	32.1	0.579	0.520	0.412	0.188
<i>Year</i>	2017	2017	2010	2015	2015	2015	2014

4.2

Ethiopia

Ethiopia has a state-led economy and aims for rapid economic development. The country has strong economic growth, and at the same time suffers from relatively high inflation. The government has translated the fight against poverty and striving to become independent of food aid as quickly as possible in an ambitious five-year plan, underpinned by an effort to transform the country from an agriculture-based economy into a manufacturing hub. The government will continue to focus on investment in transport, energy facilities, health and education, urban and rural development and the creation of industrial clusters. Some indicators for Ethiopia are provided in Table 3.

These ambitions also have a downside, and since 2015, there are tensions that started as a response to the planned expansion of Addis Ababa into the Oromia region. The state of emergency was declared twice, and many people died and many more were detained. Foreign companies were targeted several times, including Dutch companies. Although there was a cabinet reshuffle and the prime minister resigned recently, the Ethiopian government is still struggling to address entrenched ethnicisation, anti-government sentiment and lawlessness.

The Netherlands and Ethiopia have maintained good diplomatic relations with each other since long. Dutch development policy in Ethiopia focusses on food security, sexual and reproductive health and rights (SRHR), and Security and Rule of Law (SRoL). Around 80% of the Dutch companies in Ethiopia are active in agriculture and food security is by far the most important spearhead with roughly two thirds of the budget. Bilateral food security activities are increasingly related to the economic agenda and aimed at attracting Dutch agricultural entrepreneurs to Ethiopia. Support is provided to horticulture, dairy, seeds and sesame being the most important subsectors. In addition, support is provided to the development of promising the subsectors poultry, potato, soy, spices and aquaculture. Attention is given to improvement of the business climate, capacity building of small farmers, improvement of (agricultural) logistics and climate issues (Ministry of Foreign Affairs, 2014b).

Table 3: Indicators Ethiopia

Indicator ¹⁰	EODB Rank	CPI Rank	GINI	HDI	GII	IHDI	MPI
Value	161	107/180	33.2	0.448	0.499	0.330	0.537
<i>Year</i>	2017	2017	2010	2015	2015	2015	2011

4.3

Kenya

Kenya is a key regional player in East Africa, and a major communications and logistics hub. Its economy has developed strongly over the past decade with a strong growth over the past decade. The main challenge for policymakers will be to

¹⁰ Indicators: EODB; Ease of Doing Business, CPI; Corruption Perception Index, GINI; income and wealth distribution, HDI; Human Development Index, GII; Gender Inequality, IHDI; Inequality-adjusted HDI, MPI; Multidimensional Poverty Index

improve structural constraints such as the inadequate infrastructure. A weakness of the Kenyan business climate is corruption.

The current president of Kenya was re-elected for a second five-year term, in the presidential election rerun in October 2017, a rerun, which the opposition boycotted. In March a surprise reconciliation between the president and the main opposition leader ends a campaign of defiance and non-co-operation launched by the main opposition party Nasa. Other challenges to political stability are security risks associated with terrorism (and ethnic rivalries), and institutional turf wars arising from reforms in the new constitution introduced in 2010. A clearer separation of powers and the devolution of authority to the county level may boost accountability over time, but will also continue to fuel power struggles between and within the various arms of government. Other main policy challenge in the medium term will be to alleviate structural obstacles to more rapid economic growth, such as infrastructure deficiencies and skills shortages. Some indicators for Kenya are provided in Table 4.

The Netherlands has maintained good relations with Kenya for more than 40 years. The Dutch embassy in Nairobi has an intensive aid and trade relationship with Kenya in the water, food security and safety and rule of law sectors. The embassy also houses the regional office of the Immigration and Naturalization Service (IND) and advisers from the Ministry of Economic Affairs (agriculture attaché), BZK and Defence. The development relationship with Kenya will be phased out in the coming years and bilateral relations will focus even more on investment and trade relations. In the MASP 2014-2017, the Netherlands is presented as an investor rather than a donor (Ministry of Foreign Affairs, 2014c). The MASP states that the delegated development cooperation programme will focus on investing public funds with the aim of leveraging private investments (or investments from international financial institutions). The last delegated ODA-payments are foreseen in 2020. Many central PSD programs for Dutch companies are open to requests in Kenya. There are opportunities in, among other things, agriculture and infrastructure. The Dutch flower and vegetable sector is strongly represented in Kenya.

Table 4: Indicators Kenya

Indicator ¹⁰	EODB Rank	CPI Rank	GINI	HDI	GII	IHDI	MPI
Value	161	143/180	48.5	0.555	0.565	0.391	0.166
<i>Year</i>	<i>2017</i>	<i>2017</i>	<i>2005</i>	<i>2015</i>	<i>2015</i>	<i>2015</i>	<i>2014</i>

5 Methodology

The new policy set out in 'A World to Gain' focusses on coherence between different policy fields. To describe the settings in which this policy is implemented, we rely on qualitative explorative research in the form of interviews and we will make use of secondary data. IOB interviewed 111 policy makers, implementers and stakeholders for this research. This primary data will be combined with the data sources mentioned in the Evaluation matrix on the next page.

Deliverables:

The result of these efforts will be put together in a report of which the rough outline will be as follows:

- Executive summary
- Introduction
- Evaluation scope and research questions
- Policy review
- Chapters on Bangladesh, Ethiopia and Kenya
 - Short overview on politics, security, economy, development and the bilateral relation with the Netherlands
 - Description of the bilateral and central portfolio
 - Description of the bilateral trade
 - Description of the bilateral direct investments
 - On the transition from aid to trade
- Cross country conclusions and policy recommendations
- References
- Appendix

Research Question	Specific topics	Information sources
1. How did the combination of aid, trade and investment take shape?	<ul style="list-style-type: none"> • Description of the portfolios of the 3 countries • Description of the policy process 	<ul style="list-style-type: none"> • Data portfolio reviews • Interviews • Policy documents • Parliamentary documents • Berichtenverkeer • MASPs and economic work plans of the embassies
2. What were the developments between 20012 and 2017 in bilateral aid, trade and direct investment and are there differences with the 2007 – 2012 period?	<ul style="list-style-type: none"> • Description of trends in bilateral aid, trade and investment 	<ul style="list-style-type: none"> • Import/export figures – CBS/ OEC • FDI – DNB and central banks of partner countries • Data piramide/SAP • Data portfolio reviews
3. How is Dutch policy aligned with the national policies of the recipient countries?	<ul style="list-style-type: none"> • Comparison of priorities of the Netherlands and the recipient countries 	<ul style="list-style-type: none"> • Policy documents NL • Policy documents recipients • Interviews • Other IOB reports (water, food, economic diplomacy, etc.) • MASPs and economic work plans of the embassies
4. Has the aid and trade approach contributed to strengthening the intended mutual interests of the Netherlands and the partner countries?		<ul style="list-style-type: none"> • Business surveys embassies • Trade and investment data • Interviews
5. Did the policy instruments and the economic-diplomatic efforts form a logical, consistent and coherent whole and deliver synergy?		<ul style="list-style-type: none"> • MASPs and economic work plans of the embassies • Portfolio reviews • Available ToC's of the spearheads • The BIS overview of Best practices in aid and trade • Interviews • Achilles
6. How are the three main goals, of the integrated agenda being served simultaneously?		<ul style="list-style-type: none"> • MASPs and economic work plans of the embassies • Portfolio reviews • Interviews

6 Organisation and Planning

Evaluators: Bart van Rijsbergen, Otto Genee

Internal reviewers: Pim de Beer, Martine de Groot

Reference group: Peter Henk Eshuis (chair), BIS, DAF, DDE, DIO, embassies NAI, ADD and DHA

Missions:

03 – 17 December 2016 Ethiopia (ISB-mission; Otto & Bart)

13 February – 02 March 2017 Kenya (ISB-mission; Otto & Bart)

12 – 26 May 2017 Bangladesh (Otto & Bart)

19 – 22 June 2017 Kenya (Portfolio review; Bart)

Mid-April: ToR finished

End of June: Report finished

Internal reviewers IOB: Martine de Groot, Pim de Beer,

Reference group: Peter Henk Eshuis (chair), embassies Dhaka, Addis Ababa, and Nairobi, DDE (Robert van der Hum), DAF, BIS, DIO

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8 Annexes

8.1 Country descriptions

8.1.1 *Bangladesh*

General

Bangladesh is four times the size of the Netherlands in dry season (3 times in wet season) with 163 million inhabitants (UN, 2016). Bangladesh gained independence from Pakistan in 1971, and is a republic with a parliamentary democracy nowadays.

Political

Since 1990, the two main political parties have generally held power alternately. Bangladesh has pursued market-oriented policies since the mid-1970s, and it is expected that this approach will be maintained by the current administration, although the pace of further reforms will be slow. The Awami League (AL) is in office since 2009 with Sheikh Hasina Wazed as prime minister, the daughter of Mujibur Rahman, the "Father of the Nation". Rivalry with the other major party, the "Bangladesh Nationalist Party" (BNP) is big, which in 2014 led to great tensions in the parliamentary elections. Since then, the government has pursued a policy in which there is no room for opposition. Especially leaders of the third largest party of the country, the Jamaat-e-Islami, must suffer and several of them have been sentenced to life imprisonment or the death penalty. The AL-party is expected to win a majority in the 2018 general elections.

The government's main priorities include alleviating poverty, expanding power-generating capacity and improving price stability. Assistance from bilateral and multilateral donors will remain important to achieving these objectives in the medium term.

Economic

The macroeconomic situation of Bangladesh is stable. The economy has been growing for more than a decade by more than 6%. Not to be neglected in this are the remittances of Bengali guest workers from abroad (11.6% of GNP). Bangladesh belongs to the so-called "Next Eleven". The population is young (36% of the population is under 15) and the workforce is huge. There is a fast-growing middle class (30-50 million). The government has the ambition to become an upper-middle-income country by 2021, 50 years after independence. However, incomes would have to rise by more than threefold from their current level for Bangladesh to move into the next income bracket. A feat that is not expected to be achieved according to the government's timeline.

On the global export market of Ready-Made Garments (RMG), Bangladesh is the second supplier (after China) with the EU as its most important destination. The tariff-free access as part of the Everything But Arms Initiative for the LDCs since 2001 (European Union, 2001) and the relaxation of EU rules of origin for textiles and clothing in 2010 (European Union, 2010) have led to explosive export growth in recent years in this sector. This rapid growth of the clothing industry in Bangladesh (80% of exports, 10% of the Gross National Product) led on the one hand to many jobs but on the other hand to major neglect and abuses in the working conditions. This resulted in the Tazreen fire in 2012 and the Rana Plaza collapse in 2013, where many workers lost their lives. Loss of the tariff free access, especially for textiles

and clothing, resulting from possible graduation from EBA would certainly have major consequences for RMG exports to the EU in the short term.

The most demanding risk in Bangladesh will be the terrorist threat. A swathe of terrorist attacks occurred across the country in the early part of 2017, following the attack on foreign nationals in the capital, Dhaka, in July 2016. The primary impact of such attacks will be economic, as each episode will have negative effects on retaining existing foreign investment and attracting new investors.

Bilateral relations

The Netherlands and Bangladesh have maintained good diplomatic relations with each other since 1972. Dutch development policy in Bangladesh focusses on water, food security and sexual and reproductive health and rights (SRHR). The textile sector is receiving special attention in Bangladesh, especially since the Rana Plaza disaster in 2013. Bilateral relations are increasingly focusing on economic and trade relations while the delegated development cooperation budget is decreasing and not compensated by increased spending from central funds.

Recent developments

Due to military operations in neighbouring Myanmar's Rakhine state, an estimated 655,000 Rohingya have fled to Bangladesh since August 2017. The inflow of refugees from Myanmar is still ongoing, but Bangladesh and Myanmar agreed in January 2018 on a repatriation plan that should be completed within two years. There are many doubts about the actual implementation of this repatriation plan and also fears for radicalisation and recruitment by groups like Al Qaeda (AQIS) and other conservative Islamic groups in Bangladesh.

8.1.2 Ethiopia

General

Ethiopia is thirty times the size of the Netherlands with 101 million inhabitants (UN, 2016). Ethiopia was a feudal empire until a military coup in 1974, which fell in the early '90s. According to the 1994 constitution, Ethiopia is a federal democratic republic.

Political

Ethiopia consists of nine ethnically based federal states and two federally governed cities. The power is strongly concentrated with the Prime Minister and the ruling coalition. The function of the president is largely ceremonial. Since 1995, the Ethiopian People's Revolutionary Democratic Front (EPRDF) is in power. In May 2015, elections led to an absolute victory for the government coalition and due to the winner-takes-all system and a completely fragmented opposition, EPRDF gained all seats in parliament. In the run up to the elections, there was a crackdown on political space, control of the opposition and probably a few politically motivated murders. The ruling coalition will remain highly intolerant of criticism, and will crack down hard on anything that it perceives to be a threat to its hegemony. Ethiopia's Prime Minister, Hailemariam Desalegn, announced in mid-February that he would resign to facilitate reform. He will stay on in a caretaker capacity until a successor is named by the ruling party and parliament. After six years in the post, his resignation came as a surprise. Unless it leads to wider reform, Mr Hailemariam's resignation is unlikely to address entrenched ethnicisation, anti-government sentiment and lawlessness.

Economic

Ethiopia has a state-led economy and aims for rapid economic development. The country has strong economic growth (9.6% in the past 5 years), and at the same time suffers from relatively high inflation (hovers around 8% in the past 5 years). The government has translated the fight against poverty and striving to become independent of food aid as quickly as possible in the ambitious five-year plan called the Growth and Transformation Plan (GTP). GTP will run until 2020 and is underpinned by an effort to transform the country from an agriculture-based economy into a manufacturing hub. The government will continue to focus on infrastructure development (notably of transport and energy facilities), investment in health and education, urban and rural development and the creation of industrial clusters.

Bilateral relations

The Netherlands and Ethiopia have maintained good diplomatic relations with each other since long. Dutch development policy in Ethiopia focusses on food security, sexual and reproductive health and rights (SRHR), and Security and Rule of Law (SRoL). Food security is by far the most important spearhead with roughly two thirds of the budget. Bilateral food security activities are increasingly related to the economic agenda and aimed at attracting Dutch agricultural entrepreneurs to Ethiopia.

Recent developments

In 2015 and 2016, there were tensions that started as a response to the planned expansion of Addis Ababa into the Oromia region. The state of emergency was declared and it is estimated that hundreds of people died and ten thousands were sent to mass-detention camps. At the end of 2016, there was a cabinet change with 21 new ministers entering office, while the president announced reforms. In December 2017, there were clashes in the Oromia-Somali region. Ethnic tensions in Ethiopia are intensifying and the government is struggling to respond. Ethiopia has stated in January 2018 that "dissident politicians" will be freed and a notorious prison closed, without mentioning when, and how many people will be freed.

8.1.3 Kenya

General

Kenya is fourteen times the size of the Netherlands with 47 million inhabitants (UN, 2016). Independent from the UK since 1963, Kenya is a presidential representative democratic republic.

Political

Since 1992, Kenya has a multi-party system, although it has characteristics comparable with a two-party system, since two dominant political coalitions have dominated since the last general elections in 2007. After the elections in 2007, widespread violence broke out with more than a thousand deaths and many displaced. The International Criminal Court started an investigation into the responsibility for the post-election violence. The case was adjourned due to a lack of evidence required for the trial. The current president of Kenya, Uhuru Kenyatta, is the fourth president since independence and is the son of the first president. He was re-elected for a second five-year term, in the presidential election rerun in October 2017, a rerun, which the opposition boycotted. The tensions that arose between the ruling party and the opposition during the extended electoral process will persist in the near term. The impasse is unlikely to translate into widespread violence, despite periodic and sometimes deadly clashes between opposition supporters and the police—but the deadlock will sour the political atmosphere and poses potential governance challenges. Other main policy challenge in the medium term will be to

alleviate structural obstacles to more rapid economic growth, such as infrastructure deficiencies and skills shortages.

Economic

Kenya is a key regional player in East Africa, and a major communications and logistics hub. Its economy has developed strongly over the past decade with an average economic growth over the past decade of more than 5% per year. After years of sustained moderate growth, Kenya has reached the status of a lower average income country in 2015. The main challenge for policymakers will be to improve structural constraints such as the inadequate infrastructure. Major investment projects and structural reforms, such as deregulation and liberalization of regional trade, will stimulate economic activity. Expectations, with political uncertainties diminishing, are that real GDP growth will remain healthy, and to quicken from 5.3% in 2018 to 5.7% a year on average in 2019-2022. Inflation spiked at 8% in 2017, a five-year high, because of drought, inflation will ease to 5.5% in 2018 (revised down from 6.5%), helped by 2017's high base level. We expect inflation to average 6.5% a year in 2019-22. On the 'Doing Business' rankings of the World Bank (2016), Kenya scores a meagre 92nd place in global terms (out of 190 countries). In comparison with other African countries, however, it is a reasonable score. A weakness of the Kenyan business climate is corruption, according to the 139th position of Kenya on the 'Corruption Perceptions Index 2016' of Transparency International.

Bilateral relations

The Netherlands has maintained good relations with Kenya for more than 40 years. The Dutch embassy in Nairobi has an intensive aid and trade relationship with Kenya in the water, food security and safety and rule of law sectors. The embassy also houses the regional office of the Immigration and Naturalization Service (IND) and advisers from the Ministry of Economic Affairs (agriculture attaché), BZK and Defence. The development relationship with Kenya will be phased out in the coming years and bilateral relations will focus even more on investment and trade relations. The last delegated ODA-payments are foreseen in 2020.

Many central PSD programs for Dutch companies are open to requests in Kenya. There are opportunities in, among other things, agriculture and infrastructure. The Dutch flower and vegetable sector is strongly represented in Kenya. KLM holds 27% of the shares of Kenya Airways (KQ). Other large Dutch companies with local branches are Shell, Unilever, Nutricia/ Danone, Ned-Lloyd, Heineken and Philips, although companies with local production locations are few.

In addition to development cooperation and economic diplomacy, the Netherlands is committed to peace and security in Kenya and the region. For example through efforts to prevent radicalization. Migration is also an important issue for Kenya and the region. The Netherlands is the lead of the EU Regional Development and Protection Program for the Horn of Africa, which provides care for refugees in the region. Kenya is a focus country of this program. The Netherlands also contributes to the EU mission 'Atalanta', which focuses on security and stability in Somalia. The Netherlands extended its support in 2016 by one year until the end of 2017.

Recent developments

Tensions between the government and the opposition will persist, after the opposition boycotted the presidential election rerun, refused to accept the outcome and embarked on a campaign of non-co-operation. The impasse is unlikely to translate into widespread violence—despite periodic and sometimes deadly clashes

between opposition and the police—but will sour the political atmosphere and poses potential governance challenges.