

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Project

Country: The People's Republic of Bangladesh

Project: Foreign Direct Investment Promotion Project (II)

Loan Agreement: May 29, 2019

2. Background and Necessity of the Project

(1) Current State and Issues of the Private Sector and the Priority of the Project in Bangladesh

Bangladesh has achieved an average of over 6% economic growth in recent years and become one of the low- and middle-income countries in 2015 according to the World Bank income classification by country. The growth driver of the country is the garment industry, which accounts for about 80% of exports. However, in order to achieve sustainable economic growth, it is necessary to break away from the dependence on exports of garment products and foster industries with high export competitiveness by increasing the added value of industries other than the garment industry, such as the manufacturing industry, etc. To do so, it is effective to promote Foreign Direct Investment (hereinafter referred to as "FDI").

The Government of Bangladesh has promoted industrial development by establishing the Export Processing Zone (hereinafter referred to as the "EPZ") and promoting FDI since the 1980s. However, in principle, only export-oriented companies that import raw materials and process the materials at low labor costs are allowed to enter the EPZ. So the linkage with domestic industries located outside the EPZ is small and it is difficult to strengthen the competitiveness of the whole industry. As a result, the Government of Bangladesh has changed the policy to establish Economic Zones (hereinafter referred to as "EZs") where export-oriented companies as well as companies targeting the domestic market can also enter, instead of the EPZ. After the establishment of the Bangladesh Economic Zones Act in 2010, the Bangladesh Economic Zones Authority (hereinafter referred to as "BEZA") was established in 2011 to work on EZs development. Against this background, the Government of Bangladesh decided to establish the EZ for Japanese companies in the suburbs of Dhaka to attract more investment from Japanese companies in particular.

The Foreign Direct Investment Promotion Project (II) (hereinafter referred to as the "Project") develops the EZ for Japanese companies in Araihasar,

Narayanganj District, a suburb of Dhaka. The Project is positioned as a project for the diversification of the manufacturing industry, strengthening the export industry, and employment promotion, which are priority areas of the Seventh Five-Year Plan (FY2016–FY2020) of the Government of Bangladesh. In addition, the National Industrial Policy (2016) sets the strengthening of industrial competitiveness through promoting FDI and diversified industries as the basis for economic growth. The Project is, therefore, consistent with the plan and policy.

(2) Japan and JICA's Cooperation Policy and Operations in the Private Sector

The JICA Country Analysis Paper for Bangladesh (March 2019) analyzes as follows: with the basic policy to become a middle-income country by realizing high-quality economic growth and overcoming poverty, it is necessary to strengthen industrial competitiveness and provide high-quality employment opportunities by developing competitive industries, especially the export industry and supporting industries. In addition, Japan's Country Assistance Program for Bangladesh (February 2018) identifies one of Bangladesh's priority targets and sectors as being to accelerate economic growth so that everyone can benefit as Bangladesh strives to become a middle-income country. The Project is, therefore, consistent with the policy and analysis. By promoting investment and local employment in Bangladesh, the Project can contribute to SDGs goal 8, "Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all," and SDGs goal 9, "Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation."

To date, JICA has selected candidate sites for the EZ through the technical cooperation for development planning called the Project for Development Study and Capacity Enhancement of Bangladesh Economic Zone Development Plan Authority (2015–2017), and has supported the introduction of one-stop service (hereinafter referred to as the "OSS") for issuing permits and licenses in the EZ, intended for the Bangladesh Investment Development Authority (hereinafter referred to as "BIDA"), BEZA, and the Ministry of Industry, through the technical assistance related to ODA loan called the Project for Promoting Investment and Enhancing Industrial Competitiveness (2017–2022).

(3) Other Donors' Activities

In conjunction with the establishment of BEZA, the World Bank has been implementing the Private Sector Development Support Project since August

2011. The project has supported EZ feasibility studies (F/S) in candidate sites, such as Mirasarai in the suburbs of Chittagong, etc., and the construction of off-site infrastructure. The International Finance Corporation (IFC) has provided support to BIDA and other organizations for improving the investment environment through technical assistance by the Bangladesh Investment Environment Fund.

3. Project Description

(1) Project Objective(s)

The objective of the project is to accelerate economic development of Bangladesh by promoting private sector investment in Bangladesh and FDI from Japan through the implementation of development projects such as the development of EZs and/or other industrial parks/estates, etc., and the smooth flow of financing for those enterprises doing business in such zones with enhanced financial intermediary functions.

(2) Project Site / Target Area: Throughout the country

(3) Project Component(s):

1) Two Step Loan (hereinafter referred to as "TSL")

To provide short-term, medium-and and long-term loans to foreign investors mainly for Japanese enterprises and related Bangladeshi enterprises

2) Equity Back Finance (hereinafter referred to as "EBF")

To provide equity back finance for the Government of Bangladesh to develop EZs and construct large-scale infrastructure, thereby promoting PPP between the Government of Japan and Bangladesh

3) Project Sector Loan (hereinafter referred to as "PSL")

To provide loans to develop off-site infrastructure for the EZs including access road, power infrastructures and gas pipeline so that foreign enterprises will be benefit

4) Consulting services

To provide assistance in management, monitoring and capacity development of implementing agencies and also provide assistance in drafting basic design and supervising the implementation of sub-projects under PSL

(4) Estimated Project Cost (Loan Amount)

79,110 million Yen (Loan Amount for the Project: 21,147 million Yen)

(5) Schedule: December 2015 - April 2025 (113 months) (The completion of TSL is recognized as termination of the Project)

(6) Project Implementation Structure

1) Borrower: The Government of the People's Republic of Bangladesh

2) Guarantor: None in particular

3) Executing Agency:

Financial Institutions Division, Ministry of Finance (TSL)

Prime Minister's Office (EBF and PSL)

Implementing Agency:

Bangladesh Bank (TSL)

Bangladesh Economic Zones Authority (EBF and PSL)

4) Operation and Maintenance System

Bangladesh Bank and BEZA will oversee the Project. As for monitoring PSL, land development and retention pond and retention canal will be managed by BEZA and access road will be maintained by Local Governance Engineering Division and Roads and Highways Division. Bangladesh Power Development Board, Titas Gas Transmission and Distribution Company Limited and Bangladesh Telecommunications Company Limited will take responsibility of management for power infrastructures, gas pipeline and telecommunication respectively. SPC will be in charge of construction and monitoring of on-site infrastructure inside EZs.

(7) Cooperation and Sharing of Roles with Other Donors

1) Japan's Activity: The Project take advantages of achievements of the advisor for investment climate improvement (2015-2017), the cooperation for establishing OSS by the Project for Promoting Investment and Enhancing Industrial Competitiveness (2017-2022) as well as the series of cooperation for capacity enhancement of BEZA.

2) Other Donors' Activity: None in particular

(8) Environmental and Social Consideration / Poverty Reduction / Social Development

1) Environmental and Social Consideration

① Category: FI

② Reason for Categorization: The Project as a whole is classified as Category FI according to the JICA Guidelines for Environmental and Social Considerations (Published in April 2010), because its sub-projects

cannot be specified prior to JICA's approval of funding and because those sub-projects are expected to have a potential impact on the environment. As scopes of land development, access road, retention pond and retention canal, telecommunication and power infrastructures and gas pipeline in the PSL component have already been specified, the category of those construction turn out to be Category A.

③ Environmental Permit:

The Environmental Impact Assessment (EIA) report on land development, development of access roads, retention canal and retention pond, and telecommunication line was approved by the Department of Environment (hereinafter referred to as "DoE"), Ministry of Environment and Forests of Bangladesh in May 2018. In addition, the EIA report on the gas pipeline and power infrastructures (power plant, power sub-station, and transmission line), which are additional scopes for the PSL project, was prepared and approved by DoE in February 2019.

④ Anti-Pollution Measures:

During the land and embankment development and the access road construction, negative impacts on air quality, water quality, noise, and vibration are expected. Under the supervision of BEZA, the executing agency, the contractor will take measures for reducing the impacts, such as using vehicle covers before driving, regular water sprinkling, regular maintenance of work vehicles and heavy equipment, prohibition of work in rainy weather, using low noise/vibration equipment, restrictions on nighttime construction, installation of temporary sound insulation walls, etc. After opening, exhaust gases and dust will be discharged by tenant companies and surface water and groundwater will be contaminated by corporate activities, but their impacts will be minimized by taking mitigation measures, such as establishing buffer zones, composite wastewater treatment by tenant companies and Special Purpose Company (hereinafter referred to as "SPC"), etc. Both during construction and after opening, mitigation measures will be taken and monitoring will be conducted to ensure compliance with environmental standards of Bangladesh and international standards such as the IFC EHS guidelines.

In addition, BEZA will consider waste disposal methods and site options that take into account the amount of waste discharged, treatment costs, transportation costs, and treatment capacity, processing

technology, and treatment ability of the receiving side for both non-hazardous waste and hazardous waste, and will decide where to accept waste discharged from the zones before the start of land development scheduled in September 2019.

⑤ Natural Environment:

This project site does not fall under protected areas, such as national parks, etc., or important habitats. On the other hand, 1,055 trees will be cut down in the project target area, but BEZA plans to carry out alternative planting based on the planting guidelines set by the Department of Forest of Bangladesh. In addition, as sediment used for land development will be collected in the nearby Meghna River, there is a concern that sediment dredging may affect river dolphins. In response to this, BEZA plans to take mitigation measures, such as using low noise/vibration equipment, restrictions on lighting, etc., and conduct monitoring in accordance with the monitoring plan.

⑥ Social Environment:

The Project is expected to involve land acquisition of approximately 220 ha and resettlement of 55 residents from 11 households among 6,343 affected residents from 1,714 households. It also involves land acquisition of approximately 4 ha and temporary land requisition of approximately 4 ha at the site where the gas pipeline will be constructed, which is expected to result in the resettlement of 45 residents from 12 households. The land acquisition and resettlement of residents will proceed according to Bangladesh's domestic laws and the resettlement action plan, which was formulated based on the JICA Guidelines for Environmental and Social Considerations. As a result of the residents' consultation on the Project, no particular objection to the Project has been made by affected residents.

⑦ Other / Monitoring:

In the Project, the contractor will monitor the progress of sediment dredging and land development work, under the supervision of BEZA. During construction, the contractor will monitor the zones under the supervision of SPC and BEZA and off-site infrastructures under the supervision of BEZA and related ministries and agencies. After opening, SPC will monitor roads and shared facilities in the zones under the supervision of BEZA, and tenant companies will monitor factories in the

zones under the supervision of SPC and BEZA. Related ministries and agencies and state enterprises will monitor other off-site infrastructures under the supervision of BEZA.

2) Cross-Cutting Issues: None in particular

3) Category of Gender: Not applicable

<Reason for Classification> The nature of the Project makes it difficult to include gender initiatives.

(9) Other Important issues: None in particular

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline (Actual Value in 2014)	Target (2027) 【Expected value 2 years after project completion】
FDI for Araihaazar EZ (Million USD)	0	130
Number of enterprises in Araihaazar EZ	0	30
TSL: Volume of production of the benefited Japanese Enterprises (Million Tk)	Record at the timing of disbursement of TSL	Increase from baseline
TSL: Profit of the benefited Bangladesh Enterprises related with Japanese Investment (Million Tk)		Increase from baseline
TSL: Number of Employment by the Japanese enterprises and Bangladesh enterprises related with Japanese Investment (Million Tk)		Increase from baseline

(2) Qualitative Effects

Value addition, diversification and competitiveness of industry and economic development of Bangladesh

(3) Internal Rate of Return

Based on the following assumptions, the Economic Internal Rate of Return (EIRR) for the Project (EBF and PSL projects) is 10.8%, and the Equity Internal Rate of Return (Equity IRR) for the EZ development project (EBF project) is 15.5%. The rates for the TSL project will not be calculated, because no sub-projects are identified. In addition, since a large part of the PSL project is land development work with a strong nature of public works, and there is no income from the work, the Financial Internal Rate of Return (FIRR) will not be calculated.

[EIRR]

Cost: Project costs, maintenance/operation costs, and costs for agricultural production equipment (excluding tax)

Benefit: Targeted outcomes by EZ project activities (including increase in the added value of the manufacturing industry)

Project Life: 40years

[Equity IRR]

Cost: Project costs and maintenance/operation costs

Benefit: Land sales costs, maintenance costs, security costs, water and sewage costs, etc. to be collected from tenant companies

Project Life: 50 years (period of granting of project rights by the Government of Bangladesh to SPC)

5. Preconditions / External Conditions

- (1) Preconditions: None in particular
- (2) External conditions: None in particular

6. Lessons Learned from Past Projects

The results of the ex-post evaluation of similar types of previous project in Myanmar revealed that introduction of mitigation measures to reduce business risk and installment of off-site infrastructure is evitable for investment promotion by enterprises. Following this, the Project has been formulated to reduce the risk by providing financial support for Government of Bangladesh through EBF as well as support for construction and development of off-site infrastructure.

7. Evaluation Results

The Project is consistent with Bangladesh's development issues and policies and with the cooperation policies and analyses of the Government of Japan and JICA. Through the promotion of investment, the Project will contribute to the economic growth, the strengthening of industrial competitiveness, and the employment promotion of Bangladesh, thereby contributing to SDGs goal 8, "Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all," and SDGs goal 9, "Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation." Thus, the necessity for JICA to support the Project is substantial.

8. Plan for Future Evaluation

(1) Indicators to be Used

As indicated in sections 4. (1) to (3).

(2) Timing

Ex-post evaluation: Two years after the project completion