

**Ex-Ante Evaluation**  
**Private Sector Investment Finance Division,**  
**Private Sector Partnership and Finance Department, JICA**

**1. Name of the Project**

Country: The People's Republic of Bangladesh (Bangladesh)

Project: Bangladesh Special Economic Zone Development Project

Signing Date: August 1, 2022

**2. Background and Necessity of the Project**

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

In Bangladesh, the labor-intensive garment industry, which imports raw materials and uses cheap labor to manufacture products for export, accounts for over 80% of the country's total export value, and the growth of this industry has propelled the Bangladesh economy to achieve a stable annual average economic growth rate of 7-8% since 2016. However, this economic growth that is dependent on the garment industry is vulnerable to low-wage global competition, and there is little room for the development of domestic local industries or to add value to industries as a whole, so it is expected that it will be difficult to continually absorb the trending population growth into domestic employment. For these reasons, it is essential to develop key industries like the garment industry and diversify industries as a whole, and promoting the transfer of technology, knowledge and capital from advanced countries has become an urgent issue.

Bangladesh has a population of 160 million people and with the average age being a young 27.6 years of age, it is predicted that it will continue to enjoy a demographic dividend, from the working population being more than twice the size of the dependent population, until around 2055. Therefore, it is recognized that it has great potential as a destination for foreign direct investment due to it being an emerging nation that could be a production base with abundant manpower, as well as a large new consumer market. Japanese companies have also shown a strong desire to invest in Bangladesh, and according to a survey announced by JETRO in December 2021, despite the impact of the new coronavirus (hereafter referred to as COVID-19) infection, 68% of the surveyed companies answered that they would "expand" their business in the country, while 24% answered that they would "maintain the status quo." However, the business environment is poor due to inadequate infrastructure and complex administrative procedures (it was ranked 168th out of 190 countries in the World Bank's 2020 "Ease of Doing Business rankings"), and so, due to its lack of suitability as a destination for capital investment, the amount of foreign direct investment in Bangladesh is stuck at a mere 0.6% of GDP (2019), which is low compared to other developing countries in the vicinity, such as Vietnam (6.2%) and Myanmar (2.2%) (World Bank, 2019).

Based on this situation, the government enacted a Bangladesh Economic Zones (hereafter referred to as EZ) Act in 2010, in an attempt to help attract foreign businesses, which they hoped would lead to the development of domestic industries, and provided both physical support, in terms of the provision

of infrastructure like an electric power supply, water supply and sewerage, in addition to non-physical support, in terms of preferential tax treatment and simplified administrative procedures for permits and licenses, to lure in both companies focused on exports and those focused on the domestic market. The Bangladesh Economic Zones Authority (hereafter referred to as BEZA) was established in 2011, to promote the development of the EZ, including this project. Furthermore, Japan and Bangladesh agreed on a policy of jointly promoting the development of the EZ in Bangladesh at a summit meeting in 2014.

Under these circumstances, this project is to promote foreign direct investment and the location of diverse industries in the EZ, by developing, selling, and operating “Bangladesh Special Economic Zone” (hereafter referred to as BSEZ) in the Araihaazar District on the outskirts of Dhaka by a special purpose company that was established through joint funding between BEZA and a private business (Sumitomo Corporation), promote direct investment from mainly Japanese companies into the BSEZ, and encourage different industries, outside of the garment industry but including manufacturing industries, to locate here, thereby contributing to sustainable economic development through industrial diversification and job creation in the area. Therefore, this is consistent with Bangladesh’s developmental issues and policies mentioned above.

## **(2) Japan and JICA’s Cooperative Policies and Operations in the Private Sector**

JICA’s Country Analysis Paper for the People’s Republic of Bangladesh (March 2019) states that “the development of competitive industries, especially export industries and their supporting industries, is needed to enhance industrial competitiveness and provide good quality job opportunities, in order to achieve the basic policy of transforming Bangladesh into a middle-income country by realizing high-quality economic growth and escaping from poverty”. In addition, Japan’s Development Cooperative Policies for the People’s Republic of Bangladesh (February 2018) notes the importance of promoting the Bay of Bengal Industrial Growth Belt (BIG-B) initiative, based on the joint statement from the Japan-Bangladesh Summit (2014), to accelerate economic growth in order to become a middle-income country. Also, a policy to jointly promote the development of EZ under BIG-B was agreed upon at the 2014 summit meeting between the governments of both countries. Up to the present, in addition to creating a master plan for this project, promoting the development of the EZ, through the technical cooperation project, the Project for Development Study and Capacity Enhancement of Bangladesh Economic Zone Development Plan Authority (2015-2016), JICA has supported the application and acquisition of various permits and licenses for companies who have advanced into the market through the technical cooperation project, the Project for Promoting Investment and Enhancing Industrial Competitiveness (2017-2022), as well as the capacity development of personnel of relevant ministries and agencies involved in the establishment, management and operation of the BEZA’s One-Stop Service Center (hereafter referred to as OSSC) for the integrated response, and the improvement of the relevant legal system. Financial support has been provided through the ODA Loan “Foreign Direct Investment Promotion Project” (agreed for FY2015-FY2019, hereafter referred to as FDIPP), with its Project Sector Loans (PSL) used to finance the costs for land development with earth filling and infrastructure construction work related to this EZ, its Equity Back Finance (EBF) for BEZA’s

equity investments, and its Two-Step Loans (TSL) to promote investments for companies that move into the EZ. This project aims to provide further integrated support that utilizes Private Sector Investment Finance in conjunction with the preceding ODA loans and technical cooperation, and is in line with Japan and JICA's cooperation policies.

### **3. Project Description**

#### (1) Project Objective

The objective of this project is to promote foreign direct investment and the location of diverse industries in the EZ, by developing, selling, and operating “Bangladesh Special Economic Zone” (BSEZ) with an area of around 190 ha, located in the Araihasar, Narayanganj District on the outskirts of the capital city of Dhaka (approximately 30 km north-east of the Dhaka city center), thereby contributing to sustainable economic development in Bangladesh including industrial diversification and job creation.

#### (2) Project Site/Target Area

Araihasar, Narayanganj District, Bangladesh

#### (3) Project Component

Support for the development of BSEZ through the financing to a special purpose company (SPC) set up by BEZA and a private company (Sumitomo Corporation). JICA's investment will be allocated for purchasing and developing land, rental factory construction costs, EZ infrastructure construction costs, and selling and administrative costs.

#### (4) Total Project Cost: 130.4 million dollars

#### (5) Project Implementation Structure

- ① Investee: Bangladesh Special Economic Zone Limited (hereafter referred to as BSEZL)
- ② Executing Agency: BSEZL
- ③ Operation and Maintenance Agency: BSELZ

#### (6) Environmental and Social Considerations, Cross-sectional Items, and Gender Classification

##### 1) Environmental and Social Consideration

- ① Category: A
- ② Reason for categorization: This project falls under the industrial development sector listed in the Japan International Cooperation Agency Guidelines for Environmental and Social Considerations (announced in April 2010).
- ③ Environmental approval and authorization: The Environmental Impact Assessment (EIA) Report was approved in May 2018 by the Ministry of Environment, Forests and Climate Change, as it was included as a component of a preceding ODA loan project (FDIPP).
- ④ Anti-pollution measures: Land development with earth filling, and the construction of access roads, is expected to have an adverse impact on air quality, water quality, noise, vibrations, and so on. Therefore, contractors, under the supervision of BEZA, will be expected to employ mitigation measures such as driving with covers on their vehicles,

routinely using water sprinklers, carrying out regular maintenance of on-site vehicles and heavy machinery, avoiding construction work when it's raining, using low-noise equipment with minimal vibration, refraining from working at night, and installing temporary noise barriers. Mitigation measures and monitoring activities are scheduled to be carried out to ensure that domestic and international environmental standards, prescribed by Bangladesh and the World Bank Group's EHS Guidelines, are satisfied during both construction and operation. The plan for dealing with waste is that each tenant company will outsource this to a waste disposal company in accordance with Bangladesh domestic law. With regard to the tenant companies' impact on air quality, water quality, waste, noise, vibrations, etc. during operation phase, buffer zones will be installed and a two-stage water treatment will be carried out by the tenant companies and the SPC, as well as other mitigation measures by each tenant company, so the impact is expected to be minimized.

- ⑤ Natural environment: The site for this project does not correspond to any vulnerable areas or their surroundings, such as national parks, etc.
- ⑥ Social environment: 14 households including indivisible businesses will be involuntarily resettled, and it will affect residents of 14,009 households. The procedures for land acquisition and resettlement will be carried out according to a resettlement plan that was drawn up in accordance with Bangladesh domestic law and JICA's Guidelines for Environmental and Social Considerations. In addition, the outcome of holding consultations with residents confirmed that there were no affected residents with particular objections to the project.
- ⑦ Other things and monitoring: In this project, the contractor, under the supervision of BEZA, will carry out monitoring on the state of progress of the dredging and land development work before the construction work. During the construction work, the contractor will monitor the EZ, under the supervision of the SPC and BEZA. And when it's in operation, the SPC will monitor communal facilities in the EZ like the sewage treatment plant, under the supervision of BEZA, and the tenant companies will monitor the factories in the EZ, under the supervision of the SPC and BEZA.

2) Cross-Sectional Items: None in particular

3) Gender Classification: [Not covered] ■GI (Gender mainstreaming needs and analysis item)  
<Reasons for classification> As although gender mainstreaming needs were confirmed, it did not result in any specific initiatives that contribute to gender mainstreaming.

(7) Other Important Matters: None in particular.

#### **4. Project's Effects**

(1) Quantitative Effects: Measurements of the development area, the sales area, the number of employment created, the amount of direct investment, the amount of foreign direct investment, and

the occupancy rate of industries outside of the garment industry.

(2) Qualitative Effects: Increased added value of industries, enhancement of industrial competitiveness, and promotion of investment in Bangladesh by Japanese businesses.

#### **5. External Factors and Risk Control**

None in particular.

#### **6. Lessons Learned from Past Projects**

(1) Evaluation Findings of Similar Past Projects

The lessons learned from the “Construction and Operation of an Industrial Park in Vietnam Project” (Private Sector Investment Finance (Loan)) were that (1) the core company showed a strong commitment to the operation of the project, and (2) setting up a system for smooth decision making among the shareholders, were useful for the harmonious advancement of the project.

(2) Lessons for the Present Project

Based on these lessons, this project, (1) obtained a strong commitment from Sumitomo Corporation, as a core investor (76% of the initial investment). (2) Regarding mutual understanding between shareholders, while Sumitomo Corporation has substantial control, from here on JICA plans to participate as an investor, and through advice and dialogue, utilizing its experience and the trust it has built up from previous ODA loans and technical cooperation, will ensure compliance with the expectations and policies of the Bangladesh government in the development of the EZ, and smooth relations between Sumitomo Corporation and BEZA.

#### **7. Evaluation Results**

As described above, this project is in line with Bangladesh’s developmental issues and policies, as well as Japan’s cooperation policies, its necessity has been acknowledged, the project plan is appropriate and there is a sufficient expectation of success, so it is highly meaningful to support the implementation of the project.

#### **8. Plan for Future Evaluation**

(1) Indicators to Be Used: As shown in Section 4.

(2) Future Evaluation Schedule (estimate): Ex-post evaluation 3 years after the completion of sales.

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