



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
EXPORT COMPETITIVENESS FOR JOBS PROJECT
APPROVED ON JUNE 1, 2017
TO THE
PEOPLE'S REPUBLIC OF BANGLADESH

FINANCE, COMPETITIVENESS AND INNOVATION GLOBAL PRACTICE

SOUTH ASIA REGION

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ABBREVIATIONS AND ACRONYMS

CERC	Contingency Emergency Response Component
DPP	Development Project Proposal
EC4J	Export Competitiveness for Jobs
ERF	Export Readiness Fund
ESQ	Environmental, Social and Quality
GDP	Gross Domestic Product
GoB	Government of Bangladesh
IDA	International Development Association
MPPE	Medical and Personal Protective Equipment
PDO	Project Development Objective
PIFIC	Public Infrastructure Facility for Infrastructure Constraints
PIU	Project Implementation Unit
RMG	Readymade Garment



BASIC DATA

Product Information

Project ID P156113	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 01-Jun-2017	Current Closing Date 30-Jun-2023

Organizations

Borrower People's Republic of Bangladesh	Responsible Agency Ministry of Commerce
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Project Development Objective (PDO)

Original PDO

The Project Development Objective (PDO) is to contribute to export diversification and more and better jobs in targeted sectors.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-60420	01-Jun-2017	05-Nov-2017	18-Dec-2017	30-Jun-2023	100.00	19.27	84.59

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. PROJECT STATUS

1. **The Export Competitiveness for Jobs (EC4J) Project, approved on June 1, 2017 and declared effective on December 18, 2017, is at the heart of the Government of Bangladesh's (GoB) export diversification agenda.** The Project Development Objective (PDO) is to contribute to export diversification and more and better jobs in targeted sectors. The project's parallel government Development Project Proposal (DPP) was approved seven months after the approval by the World Bank Board of Executive Directors, and an early revision of the DPP took another nine months, which delayed the award of critical turnkey advisory contracts until late 2019. However, following this difficult start, there is real momentum and implementation is progressing across all planned activities. The Export Readiness Fund (ERF) under Component 1.2 has been established and awarded 222 matching grants under its first window that supports Environmental and Social Quality (ESQ) standards with several additional awards pending. Moreover, it has launched windows 2-3 that will lead to the award of larger grants by the end of 2020. In addition, the institutional plan and feasibility studies for the planned technology centers under Component 2 has been delivered and Public Investment Facility for Infrastructure Constraints (PIFIC) will launch calls for proposals in November. By September 30, 2020, US\$19.3 million had been disbursed from the US\$100 million International Development Association (IDA) credit.

B. RATIONALE FOR RESTRUCTURING

2. **Since March 2020, the COVID-19 pandemic has had a severe impact on public health in Bangladesh and it led to a drastic drop in economic activity in the spring of 2020.** As of October 6, 2020, the number of confirmed Covid-19 cases in Bangladesh was 371,637 and the number of confirmed deaths 5,405. Besides the severe impact on public health, the coronavirus is inflicting a high economic cost. The World Bank estimates that inflows of financial remittances will drop by 25 percent, or nearly 2 percent of Gross Domestic Product (GDP) in 2020, with hundreds of thousands of overseas Bangladeshi workers expected to return home. The economy has started to bounce back with the lifting of the lockdown in May, but the spread of the coronavirus remains a serious threat to public health as well as the economy.

3. **Few hospitals and health clinics in Bangladesh have access to adequate medical and personal protective equipment (MPPE) to treat the affected population.** There is little local production of MPPE and imports of MPPE and inputs in MPPE supply chains are severely disrupted. The global market for medical and personal protective equipment (MPPEs) is highly concentrated and countries such as Bangladesh are vulnerable to changes in export policies in source countries. Excess demand has in many cases driven up prices to levels that are out of reach for Bangladesh's health system. Many suspected infections therefore go untreated as medical staff are unable to attend to the ill in fear of their own health, which exacerbates the negative impact of the health crisis. Bangladesh's ability to administer testing, conduct expedient laboratory analysis, and treat its Covid-19 patients determine health outcomes as well as the pace of the economic recovery. The demand for diagnostic and clinical equipment and personal protective equipment, including face shields, gloves, gowns and footwear covers, masks, thermometers, respirators, and ventilators among others, is expected to remain high for some time.

4. **The EC4J Project is ideally suited to support product innovation and quickly scale up the domestic production of MPPE to respond to the Covid-19 pandemic and strengthen national resilience to tackle future health crises.** First, the inclusion of MPPE as a targeted sector does not require any change of the PDO as it fits well in the existing concept. The challenges for MPPE producers are linked to the same ESQ standards and certification criteria supported under the Market Access Support Program, which is being implemented satisfactorily. Second, some companies in the plastics and light engineering sectors that are already covered under EC4J are also seeking to diversify and meet the demand for MPPE. Several companies in the RMG sector are also moving to diversify their production to meet domestic and international demand for various forms of personal protective equipment like gowns and masks. The diversification into MPPE by



established companies in Bangladesh’s most competitive industry is encouraging and indicates that Bangladesh could build stronger firm capabilities in this sector. Third, the existing ERF under Component 1.2 is already established and adequately staffed and managed. The Project Implementation Unit (PIU) under the Ministry of Commerce has just negotiated a contractual modification with the ERF consortium that would allow for a near doubling of the grant budget through an expansion of the ERF to include a fourth window of matching grants directly targeting the MPPE industry. Therefore, the Ministry of Finance requested the World Bank to restructure the project to provide a rapid response to the Covid-19 pandemic. Once the restructuring is approved, the implementation of the Covid-19 response program can commence.

5. **Business roundtable discussions with Bangladeshi companies that are repurposing their operations and production—or planning to do so—to serve the MPPE market highlight significant business opportunities but also uncertainty and common market failures that the Project can help address.** First, there is a large and increasing domestic market to serve as frequent foreign supplier export bans and large price fluctuations on imported goods have led many domestic customers to look for stable domestic supply. Second, information asymmetry associated with the various market segments and supply chains created a risky investment environment but one which could be a potentially rewarding investment for end producers and other participants in the supply chain, as well as a public good, if an element of subsidized finance is available. Many ready-made garments (RMG), plastics, pharma and light engineering companies have recently decided to invest or are considering doing so. The increase in public and private investments in healthcare and large-scale procurement of MPPE offer a unique opportunity for those with capabilities to enter the market. Third, several companies that have moved into this space argue that the domestic suppliers and producers must rapidly raise their quality standards to remain competitive or gain market share in an open marketplace. There is also a lot of pressure to upgrade laboratories and quality accreditation institutions to serve the producers of MPPE with anecdotal interest from international testing and certification companies to enter the market. The heterogeneity of quality requirements at home and abroad offer encouragement to some to enter the market despite a general sense that only the most productive companies will survive if the market stabilizes, and trade restrictions are dropped in the coming years. Fourth, the economic contraction and pressure on banks and financial institutions mean that there is very limited financing around for productive investments, which could be induced to come forward if complemented by risk reducing targeted grants that would leverage co-funding from recipients. EC4J can help address some of these constraints within its existing structure with some minor adjustments.

II. DESCRIPTION OF PROPOSED CHANGES

6. **The main updates in this restructuring are the inclusion of the MPPE sector as a fifth targeted sector and the reallocation of project funds from Component 3 to sub-component 1.2 to introduce a rapid response window to Covid-19.** This revision is fully aligned with the GoB and World Bank Group Covid-19 priorities of supporting social and economic resilience and recovery. It will help upgrade the capabilities of companies that serve the MPPE market from Bangladesh and significantly strengthen the private sector’s Covid-19 response. It does so by adding a fourth window under the ERF that specifically facilitates private investments in ESQ improvements, innovation and diversification into the MPPE sector. It is financed through a reallocation of US\$8.0 million from Component 3 of which US\$7.5 million is earmarked for grants to investors and US\$0.5 million is for consulting services, increased supervision and impact evaluation, consistent with a relatively cost-effective grant program design.

A. ADDING A FOURTH WINDOW TO THE ERF AS A RAPID RESPONSE TO COVID-19



7. The economic rationale for the proposed substantial expansion of the grant fund mechanism follows from the unique exigencies of the pandemic. The high global demand of critical MPPE products and their inputs, which is expected to remain in the medium term, adds a broader market failure justification while the window of opportunity is expected to be adequate to justify sustainable upgrading investments, especially if incentivized through grants that lower innovative investment risk. At the same time grant funding of significant repurposing investments is expected to help catalyze a revival of bank lending through sharing of risk. The industry capabilities that will be developed will have a long-lasting diversification impact beyond the pandemic.

i) Proposed component design

8. The ERF's fourth window will support product innovation and a scale up of domestic production of MPPE to respond to the needs resulting from the Covid-19 pandemic. The budget allocation of US\$7.5 million is expected to cover approximately 30 medium grants of US\$50,000-US\$150,000 (US\$100,000 on average) and 15 large grants of US\$150,000-US\$500,000 (average of US\$300,000)¹. The fourth window will prioritize impact and therefore cover large firms in addition to the small and medium-sized enterprises (SMEs). Domestic companies and joint ventures between Bangladeshi and foreign companies will be eligible to participate with a minimum value addition of 40 percent from the domestic supply chain, inclusive of SMEs, to promote technology and knowledge transfers. Eligible expenditures cover technical and business services, including certification and accreditation costs, materials, and capital equipment for MPPE production. Land, works, vehicles and labor costs are not eligible. Applicants will need to produce inputs or outputs related to MPPE and proposals must either re-purpose or upgrade existing production capacity for MPPE production or testing and accreditation capacity in common good-type laboratories. The investor copayment will be at least 30 percent and other eligibility criteria will remain the same as under ERF windows 2-3.

9. The application process will be compressed to 10 weeks from application to decision. This includes single stage project selection or appraisal of project proposals following an initial eligibility check. There will be a combined grant approval panel of ERF management and advisory committee without outside referrals. The disbursement plan will be limited to two tranches for mobilization and delivery of agreed production. It will allow for quick access to accredited product design via joint ventures and foreign company subsidiaries, and rapid disbursement. The beneficiaries will need to adhere to government guidelines and protocols. The fourth window is expected to disburse fully within a maximum of 24 months to ensure that the ERF is effective and relevant in the development and scale up of the emerging MPPE sector in Bangladesh.

ii) Proposed implementation arrangements

10. The existing ERF management consortium will manage the fourth window. The contract negotiations were recently concluded, and the revised contract will cover an increase of the consulting services for management within the scope of allowed contract variations. The ERF governance and management structure will remain intact. The ERF will expand its technical and managerial team as per the agreed revision of the contract. The ERF Grant Operations Manual that outlines operational guidelines and selection and administration procedures will be updated by the PIU and reviewed and approved by the Task Team. There will be no changes in Financial Management (FM) and expenditures reporting arrangements for the proposed restructuring as window 4 will utilize the existing ERF FM systems in place.

B. MODIFICATIONS TO THE RESULTS FRAMEWORK

¹ The relatively large proposed maximum grant reflects the expected cost of repurposing through introduction of relatively sophisticated processes and products capable of meeting World standards for MPPE.



An additional indicator will be added to capture the specific impact on the MPPE sector.

- i. Increase in revenue from MPPE output of grantees (US\$15 million target)

In addition, the target of the following indicator will be updated from US\$10m to US\$18m.

- i. Value of private co-investments generated by the ERF

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Reallocation between Disbursement Categories	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓



Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
1. Market Access Support Program	20.00	Revised	1. Market Access Support Program	28.00
2. Productivity Enhancement Program	50.60	No Change	2. Productivity Enhancement Program	50.60
3. Public Investment Facility for Infrastructure Constraints	44.00	Revised	3. Public Investment Facility for Infrastructure Constraints	36.00
4. Project Management, Monitoring & Evaluation	4.52		4. Project Management, Monitoring & Evaluation	4.52
TOTAL	119.12			119.12

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IDA-60420-001 Currency: XDR				
iLap Category Sequence No: 1	Current Expenditure Category: Gd ex-Vhl Wks NCS CS IOC Trg P1 2 4			
33,700,000.00	2,245,621.87	34,060,000.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: Matching Grants - ERF - Part 1b			
7,650,000.00	0.00	13,100,000.00	100.00	100.00
iLap Category Sequence No: 3	Current Expenditure Category: Gd ex-Vhl Wks NCS CS IOC Part 3			



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	32,450,000.00	0.00	26,640,000.00	100.00	100.00
Total	73,800,000.00	2,245,621.87	73,800,000.00		



Results framework

COUNTRY: Bangladesh

Export Competitiveness for Jobs

Project Development Objectives(s)

The Project Development Objective (PDO) is to contribute to export diversification and more and better jobs in targeted sectors.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Cotribute to export diversification and more and better jobs in targeted sectors.										
Number of firms directly exporting in targeted sectors (Number)		501.00	521.00	532.00	533.00	575.00	589.00	622.00	647.00	647.00
Number of new jobs created in targeted sectors (Number (Thousand))		0.00	0.00	2.00	8.60	20.70	38.80	61.80	90.60	90.60
Average wage growth in beneficiary firms in targeted sectors (Percentage)		0.00	0.00	0.00	6.00	12.40	19.10	26.20	33.80	33.80
Direct project beneficiaries (Number)		0.00	0.00	4,200.00	11,700.00	15,700.00	21,500.00	26,200.00	31,700.00	31,700.00



Indicator Name	PBC	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Female beneficiaries (Percentage)		25.00	25.00	25.00	25.00	25.00	25.00	30.00	30.00	30.00
<i>Action: This indicator has been Revised</i>										

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
1. Market Access Support Program										
Number of ESQ compliance assessments (Number)		0.00	0.00	100.00	250.00	325.00	375.00	400.00	400.00	400.00
Number of matching grant firm beneficiaries (Number)		0.00	0.00	40.00	140.00	200.00	250.00	250.00	250.00	250.00
Value of private co-investment generated by ERF (Amount(USD))		0.00	0.00	1,000,000.00	4,000,000.00	8,000,000.00	9,000,000.00	10,000,000.00	15,000,000.00	18,000,000.00
<i>Action: This indicator has been Revised</i>	Rationale: <i>The target value has been increased from \$10m to \$18m to take into account the Covid-19 window of the Export Readiness Fund.</i>									



Indicator Name	PBC	Baseline	Intermediate Targets							End Target
			1	2	3	4	5	6	7	
Sales growth of ERF beneficiary firms (Percentage)		0.00	0.00	2.40	4.90	7.40	10.00	12.70	15.40	15.40
Number of recognized new ESQ certifications and/or accreditations obtained by ERF beneficiaries (Number)		0.00	0.00	0.00	13.00	46.00	80.00	96.00	100.00	100.00
Increase in revenue from MPPE output of grantees (Amount(USD))		0.00	0.00	0.00	0.00	0.00	0.00	2,000,000.00	10,000,000.00	15,000,000.00
Action: This indicator is New										
2. Productivity Enhancement Program										
Number of TC feasibility assessments completed (Number)		0.00	0.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Number of TCs operating (Number)		0.00	0.00	0.00	0.00	0.00	1.00	4.00	4.00	4.00
Utilization rate of installed equipment in TCs (Percentage)		0.00	0.00	0.00	0.00	0.00	30.00	32.00	42.00	42.00
Number of skill development content/modules developed (Number)		0.00	0.00	2.00	4.00	6.00	8.00	10.00	10.00	10.00



Indicator Name	PBC	Baseline	Intermediate Targets							End Target	
			1	2	3	4	5	6	7		
3. Public Investment Facility for Infrastructure Constraints											
Number of infrastructure feasibility studies completed (Number)		0.00	0.00	10.00	15.00	20.00	20.00	20.00	20.00	20.00	20.00
Firms benefiting from infrastructure improvements (Number)		0.00	0.00	0.00	0.00	5,000.00	10,000.00	15,000.00	19,000.00	19,000.00	19,000.00
4. Project Management, Monitoring & Evaluation											
Share of complaints and grievances received by the project that are recorded, addressed satisfactorily and the actions documented in the established grievance redressal mechanism (Percentage)		0.00	0.00	80.00	85.00	90.00	90.00	90.00	90.00	90.00	90.00
Beneficiaries that feel project investments reflect their need (Percentage)		0.00	0.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00



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