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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A PROPOSED CREDIT

IN THE AMOUNT OF EUR 459.8 MILLION
(US\$500 MILLION EQUIVALENT)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR A

BANGLADESH PRIVATE INVESTMENT AND DIGITAL ENTREPRENEURSHIP PROJECT

MAY 26, 2020

Finance, Competitiveness And Innovation Global Practice
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 7, 2020)

Currency Unit = EUR

EUR 1 = US\$1.0876

US\$1 = 84.95 BDT

FISCAL YEAR

July 1 – June 30

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ABBREVIATIONS AND ACRONYMS

ASSET	Accelerating and Strengthening Skills for Economic Transformation Project
BEC	Bid Evaluation Committee
BEZA	Bangladesh Economic Zones Authority
BHTPA	Bangladesh Hi-Tech Park Authority
BSMSN	Bangabandhu Sheikh Mujib Shilpa Nagar
C&AG	Comptroller and Auditor General
CCU	Central Coordination Unit
CETP	Common Effluent Treatment Plant
CPF	Country Partnership Framework
DA	Designated Account
DLI	Disbursement-linked Indicator
DRM	Disaster Risk Management
E&S	Environmental and Social
EDGE	Excellence in Design for Greater Efficiencies
EEP	Eligible Expenditure Program
EFA	Economic and Financial Analysis
EPZ	Export Processing Zone
ERD	Economic Relations Division
ERR	Economic Rate of Return
ESA	Environmental and Social Assessment
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESRS	Environmental and Social Review Summary
ESS	Environmental and Social Standards
EZ	Economic Zone
FAPAD	Foreign Aided Project Audit Directorate
FDI	Foreign Direct Investment
FI	Financial Intermediaries
FM	Financial Management
FTE	Full-time Equivalent
GBV	Gender-based Violence
GDP	Gross Domestic Product
GoB	Government of Bangladesh
GNP	Gross National Product
GRS	Grievance Redress Service
GWP	Global Warming Potential
HR	Human Resource
HTP	Hi-Tech Park
ICT	Information and Communication Technology
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association

IFC	International Finance Corporation
IMD	International Master Developer
IPF	Investment Project Financing
IRR	Internal Rate of Return
IT	Information Technology
ITS	Information Technology Services
ITeS	Information Technology-enabled Services
IUFR	Interim Unaudited Financial Report
LEED	Leadership in Energy and Environmental Design
LMP	Labor Management Procedures
M&E	Monitoring & Evaluation
MPA	Multiphase Programmatic Approach
NPV	Net Present Value
OA	Operating Account
PAD	Project Appraisal Document
PC	Project Coordinator
PDO	Project Development Objective
PEZ	Private Economic Zones
PIU	Project Implementation Unit
PPP	Public-Private Partnership
PPSD	Project Procurement Strategy for Development
PRIDE	Private Investment and Digital Entrepreneurship Project
PSDSP	Private Sector Development Support Project
PV	Photovoltaic
RESA	Regional Environmental and Social Assessment
RMG	Ready-made Garment
RPF	Resettlement Policy Framework
SAN	Statement of Audit Needs
SCD	Systematic Country Diagnostic
SEP	Stakeholder Engagement Plan
SEZ	Special Economic Zone
SME	Small and Medium-sized Enterprise
SOE	Statement of Expenditure
SORT	Systematic Operations Risk-Rating Tool
SOU	Special Operations Unit
SREDA	Sustainable and Renewable Energy Development Authority
STEM	Science Technology Engineering and Mathematics
STP	Software Technology Parks
SUF	Scale Up Facility
TF	Trust Fund
UGC	University Grants Commission
UIH	University Innovation Hub
WACC	Weighted Average Cost of Capital
WB	World Bank
WBG	World Bank Group



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DATASHEET

BASIC INFORMATION

Country	Project Name	
Bangladesh	Bangladesh Private Investment & Digital Entrepreneurship Project	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P170688	Investment Project Financing	High

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input checked="" type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
19-June-2020	31-Dec-2025
Bank/IFC Collaboration	Joint Level
Yes	Joint Project - involving co financing with IFC (loan, equity, budget, other) or staffing

Proposed Development Objective(s)

To promote private investment, job creation, and environmental sustainability in participating economic zones and software technology parks in Bangladesh.

Components

Component Name	Cost (US\$, millions)
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1. Creating an enabling environment for private investment and sustainability	56.00
2. Developing a greener and climate resilient BSMSN	416.00
3. Creating a dynamic private market for serviced industrial land	43.00
4. Strengthening the digital entrepreneurship and innovation ecosystem	40.00

Organizations

Borrower:	People's Republic of Bangladesh
Implementing Agency:	Bangladesh Economic Zones Authority Bangladesh Hi-Tech Park Authority Economic Relations Division

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	555.00
Total Financing	555.00
of which IBRD/IDA	500.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	500.00
IDA Credit	500.00

Non-World Bank Group Financing

Counterpart Funding	55.00
Borrower/Recipient	55.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Bangladesh	500.00	0.00	0.00	500.00



Scale-up Facility (SUF)	500.00	0.00	0.00	500.00
Total	500.00	0.00	0.00	500.00

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2020	2021	2022	2023	2024	2025	2026
Annual	0.00	37.28	72.51	102.54	109.05	122.04	56.58
Cumulative	0.00	37.28	109.79	212.34	321.38	443.42	500.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Energy & Extractives, Infrastructure, PPP's & Guarantees, Social Protection & Jobs, Water

Climate Change and Disaster Screening

This operation has been screened for short- and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● High
8. Stakeholders	● Moderate
9. Other	● Substantial
10. Overall	● Substantial



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).



Legal Covenants

Financing Agreement, Section I.A, Schedule 2: The Recipient shall maintain, within the Economic Relations Division of its Ministry of Finance until Project completion, the CCU, with functions and resources satisfactory to the Association, and with staff in adequate numbers and with the qualifications, experience and terms of reference satisfactory to the Association.

Financing Agreement, Section I.A, Schedule 2: The Recipient shall cause, each Project Implementing Entity to maintain, until completion of the Project, a Project Steering Committee, each with a composition acceptable to the Association.

Financing Agreement, Section IV, Schedule 2: The Recipient through its CCU shall computerize its FM systems within one year from the Effective Date.

BEZA Project Agreement, Section I.A.: BEZA shall establish and maintain at all times during the implementation of its Respective Part of the Project, the Project Implementation Unit (PIU) with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.

BEZA Project Agreement, Section I.B: BEZA shall set up a PPP SOU comprising of dedicated staff to manage the bidding processes, deal with proposals, negotiate contractual arrangements and monitor and coordinate the enforcement of contractual arrangements for the pipeline PPP transactions

BHTPA Project Agreement, Section I.A: BHTPA shall establish and maintain at all times during the implementation of its Respective Part of the Project, the Project Implementation Unit (PIU) with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.

BEZA Project Agreement, Section I.B.1: For the implementation of Part 4.1 of the Project, BHTPA shall appoint a private operator, with the experience, qualifications and terms of reference as further specified in the BHTPA Project Operations Manual.

BEZA Project Agreement, Section I.B.2 :BHTPA Project Agreement : For the purpose of implementation of Part 4.2 of the Project, BHTPA shall enter into implementation agreements with select private operators to implement the Start-up Facility and for setting up the University Innovation Hubs in accordance with eligibility criteria, assessment, due diligence and procedures set out in the BHTPA Operations Manual.

Effectiveness Covenants:

The BEZA Project Operations Manual, in a form and substance satisfactory to the Association, has been adopted by BEZA.

The BHTPA Project Operations Manual, in a form and substance satisfactory to the Association, has been and adopted by BHTPA.



I. STRATEGIC CONTEXT

A. Country Context

1. Bangladesh has made rapid social and economic progress in recent decades, reaching lower-middle income status by 2015. Gross domestic product (GDP) growth averaged close to 6 percent annually since 2000 and, according to official estimates, accelerated to over 8 percent in FY19. Strong labor market gains contributed to a sharp decline in poverty, with the national poverty rate falling from 48.9 to 24.3 percent between 2000 and 2016, while extreme poverty declined from 34.3 to 12.9 percent. However, the pace of poverty reduction slowed in recent years even as growth accelerated, particularly in urban areas and in the west of the country. Similarly, the progress on shared prosperity slowed between 2010 and 2016 after a decade of improvements, with annual consumption growth of the bottom 40 percent trailing that of the overall population (1.2 versus 1.6 percent). Bangladesh entered the COVID-19 crisis with a relatively strong macroeconomic position. Garment exports and remittances narrowed the external deficit in recent years and international reserves were adequate at the end of April 2020 at US\$32.9 billion, equivalent to six months of imports. While tax collections are amongst the lowest in the world, under-execution of the budget has contained the fiscal deficit, which has been below 5 percent of GDP since FY01. As a result, public debt is low and stood at 33.7 percent of GDP at the end of FY19. A key economic vulnerability is in the banking sector where the non-performing loan ratio is high at 9.3 percent of outstanding loans in December 2019, and is underestimated considering significant under-provisioning, regulatory forbearance, and gaps in the legal framework.

2. Growth declined sharply as the COVID-19 pandemic brought about major disruptions to economic activity. In the first half of FY20 (July to December), growth decelerated as slower global trade and deteriorating external competitiveness lowered exports and tighter access to finance constrained private investment growth. With declining ready-made garment (RMG) orders, exports declined by 5.8 percent (y-o-y) during this period. A sharp contraction in capital goods imports (3.4 percent, y-o-y) suggests private investment also declined. Growth during the first half of the year was primarily supported by remittance-fueled private consumption. The initial phase of the pandemic in early 2020 disrupted the supply of intermediate goods from China, reducing manufacturing output. As the pandemic intensified abroad, export orders from Europe and the United States declined precipitously and an estimated US\$3.2 billion in RMG orders were cancelled or suspended.¹ The government introduced a national shutdown on March 26, which has been implemented for an extended period to control an accelerating domestic outbreak of the virus. Control measures resulted in a sudden stop of many components of the service and industrial sectors. Remittance inflows declined by 24.3 percent year-over-year in April 2020 and exports declined by 82.9 percent in the same period. In FY19, inflation remained modest at an average of 5.5 percent, primarily driven by a rise in non-food prices. Demand for food surged with precautionary purchases ahead of the national lockdown but has eased more recently as government food distribution programs were implemented. Overall inflation reached 5.5 percent y-o-y by the end of March 2020.

3. COVID-19 has darkened the economic outlook through domestic economic disruptions, declining exports and remittances, and rising stress in the financial sector. FY20 GDP growth is projected in a range between 1.6 percent and a downside scenario of 1.0 percent. The downside forecast is based on a situation in which (i) lockdown measures are extended and mobility remains significantly constrained; and (ii) the global outlook deteriorates further. In FY21, growth is projected between 1.0 and -3.0 percent. In the downside scenario, a second round of infections and a prolonged global recession would result in the realization of some contingent liabilities, especially from the financial sector. The extended national shutdown is likely to depress economic activity across all sectors in the last quarter of FY20, and varying levels of control measures are likely to continue in FY21. Private consumption, the main engine of growth, is expected to slow

¹ Bangladesh Garment Manufacturers and Exporters Association (BGMEA), as of May 22, 2020.



and declining remittance inflows reduce household income. The unprecedented uncertainties related to COVID-19 are likely to further dampen private investment. The decline in exports is expected to persist, as developed market recessions depress demand for RMG. A shortage of intermediate inputs is expected to lower industrial production, while labor shortages could adversely impact all sectors. Transportation disruptions are expected to dampen agricultural growth, particularly production of perishable products like dairy, poultry, and vegetables. The recovery is expected to be very gradual, with ongoing economic disruptions and increasing fragilities in the banking system. In the medium term, a gradual recovery in growth is expected, with some increase in export demand and higher public spending.

4. In the aftermath of the COVID-19 pandemic, Bangladesh will need to increase private investment—and especially foreign investment—to raise productivity levels, diversify exports and accelerate economic transformation.

Bangladesh has not been attracting near enough foreign direct investment (FDI) to help propel a new phase of economic transformation. Inflows of FDI remained low and static in 2015-2017 at US\$2.2 billion per year. FDI jumped in 2018 but the increase was linked to the foreign acquisition of a local tobacco company. Recent anecdotal evidence indicates that some East Asian manufacturers are turning to Bangladesh to diversify their production and overcome rising import tariffs. Bangladesh would have much to gain from the capital, technology, innovation and managerial knowhow that may accompany FDI. Thus, the country will have to compete more fiercely in the future to attract investments. In addition, when the pandemic is under control the priority for the Government of Bangladesh (GoB) will be to secure a quick economic recovery with employers rehiring workers. Three out of five Bangladeshi workers already found themselves in vulnerable employment at the start of the COVID-19 outbreak. Most families rely on male breadwinners with 36 percent of women compared to 82 percent of men in the labor force. Women's lower labor force participation and employment is due to factors such as lower skills, deficient workplace infrastructure, gender discrimination in the labor market, and issues of safety and sexual harassment. The pandemic will likely accelerate the digital delivery of services and Bangladesh would have much to gain if it prepared the labor force for this global trend.

5. Private investment is generally deterred by the uncertainty and transaction costs imposed by the public administration and impeded by the lack of unencumbered and connected land for greenfield projects.

Bangladesh ranks low on major business environment indicators. The country has fallen behind in the World Bank Group's (WBG's) Ease of Doing Business ranking: from 65th out of 155 countries in 2006, to 168th out of 190 countries in 2020. Greenfield investors face serious constraints to establish and expand due to the limited availability of land suitable for industrial production. Bangladesh has the world's highest population density among non-city states. Much of the land is water-logged or disconnected from roads and utilities. Opaque land records do not help. The confluence of these circumstances has elevated Bangladesh's spatial development agenda to the top of the GoB's economic policy program. In the 1980s and 1990s, export-oriented companies flocked to the country's export processing zones (EPZs). While successful, the EPZs served a modestly sized segment of the economy. The GoB concluded in the 2000s that it needed to create a market for serviced industrial land to establish stronger local supply chains and build new manufacturing industries.

6. Bangladesh's location renders it vulnerable to the adverse impacts of climate change and extreme weather events, and the population density and modest economic standards render it vulnerable to pandemics.

Bangladesh ranks among the top-10 most affected countries by climate change in the 2019 Global Climate Risk Index. It faces considerable development challenges posed by its low and flat topography and vulnerability to floods, torrential rains, erosion, storms and tidal surges due to severe cyclones and landslides. Its vulnerability is exacerbated by a climate change induced increase in frequency and intensity of extreme weather events, a rise in the sea level, and so on. Recent studies estimate that under a pessimistic ('high carbon') scenario, by 2050, income per capita in severe climate 'hotspots' would decline by nearly 15 percent. Bangladesh could see an estimated 13 million internal climate migrants. It would have significant consequences for air and water pollution and unsustainable consumption of natural resources, while putting pressure on urban labor markets. New investments in infrastructure for industrial production and manufacturing must therefore increasingly incorporate resilience to extreme weather events.



B. Sectoral and Institutional Context

7. The economy has been propelled by a dynamic manufacturing sector that in recent years has been served by the GoB's bold steps to improve access to serviced industrial land for greenfield investors. The realization of recent investment commitments will determine the strength of the economic recovery from the COVID-19 pandemic. One of the legislative accomplishments in the last decade was the creation of two authorities to spearhead the push towards industrialization and greater use of information technology led by the private sector. The Bangladesh Economic Zones Authority (BEZA) Act and the Bangladesh Hi-Tech Park Authority (BHTPA) Act (both of 2010) created two statutory organizations—the BEZA, under the Prime Minister's Office; and the BHTPA, under the Information and Communication Technology Division of the Ministry of Posts, Telecommunications and Information Technology—tasked to oversee the expansion of economic zones (EZs), hi-tech parks (HTPs) and software technology parks (STPs) in the country. The objective was to move from the publicly developed and operated EPZ regime to a special economic zones (SEZ) regime that relies more on private capital and expertise, serves domestic as well as foreign markets, and strengthens backward and forward economic linkages. This policy agenda helped Bangladesh attract its first major international anchor investments. Billions of dollars of investments were committed in EZs that if realized will support the economic recovery from the Covid-19 pandemic as well as the modernization of the economy in the coming decade.

8. BEZA was established to lay the foundation for a market of serviced industrial land to attract private investment and create jobs in manufacturing. After a slow start, it has built significant momentum. The first years following the adoption of the BEZA Act in 2010 were dedicated to issue regulations, recruit a management team, and put in place basic operational structures. This process was slow and by the middle of 2013 two-thirds of an IDA credit approved to establish the institution was cancelled. In 2014, under new leadership, BEZA's operational momentum picked up and a public land bank was built up. It issued its first license for a private economic zone (PEZ) in 2016 followed by 4 more in 2017, 2 in 2018 and 3 in 2019. The BEZA also leased its first public land plots through an open competitive bidding process to developers in Mongla (Dec. 2015) and in Mirsarai (Dec. 2017). In May 2019, a joint venture was announced between the BEZA and Sumitomo Corporation to establish an EZ outside Dhaka. Several East Asian and South Asian companies have leased land from the BEZA to setup factories serving domestic and international consumers.

9. The BEZA's vision of establishing 100 EZs and creating 10 million jobs by 2030 is bold and the GoB is determined that industrial expansion takes place in EZs. Bangladesh's population of 165 million live on a land area of less than 150,000 km². Between 1989 and 2015, the share of land that is arable declined by an average of 0.6 percentage points per year to reach 59.7 percent. The GoB's policy of concentrating industrial agglomerations in EZs serves agricultural production and food security objectives as well as economic and job creation objectives. To date, the BEZA has attracted private investments worth US\$3 billion and developed a prospective investment pipeline of more than US\$20 billion. Bangladesh could become a new frontier market for market-seeking foreign investment and possibly for efficiency-seeking foreign investment, but old concerns about its ability to partner with foreign investors must continuously be addressed. The COVID-19 pandemic may result in a contraction of the Bangladeshi and global economy in 2020. But the economic fundamentals that investors appreciate in Bangladesh will remain: the large, young and inexpensive labor force, and the prospects of rapidly growing consumption by the new middle class.

10. The BEZA needs to tackle some considerable capacity constraints to build upon its early success and manage the economic fallout of the COVID-19 pandemic. The BEZA has gained a reputation as an accessible and committed partner to private investors—domestic as well as international—and it plays a leading coordinating role between government entities. It is regarded as a positive change agent that is genuinely striving to improve Bangladesh's investment climate. But, after five years of rapid business growth, the BEZA faces some considerable capacity constraints. The institution needs to strengthen its core expertise and urgently build capacity in areas critical to its continuing success, including in planning, asset and financial (pricing) management, social and environmental safeguards management, social inclusion



and gender, monitoring and regulatory enforcement, and in proactively inviting and structuring private participation. There are not enough systems in place to guide work and ensure the institution's performance.

11. The market entry of foreign multinationals could be transformational if BEZA delivers on its commitments to provide streamlined business services, improve logistics and utility services, and offer a stable policy environment. The PEZ concept can attract credible developers-operators if the GoB refrains from establishing publicly owned and operated facilities that undercut market rents. More foreign anchor investors will follow if BEZA delivers on its commitments with private developers. Adopting a strategic approach to leverage partnerships with the private sector is essential to improve service delivery and reduce public investment requirements. Development outcomes could improve if BEZA integrates sustainable and resilient infrastructure solutions that help minimize risks from natural disasters and ensure business continuity for export-oriented industries. BEZA's ability to hone its commitments to investors will be instrumental for the economic recovery following the lockdown.

12. The demand for serviced industrial land is highest along the national transport corridor between metropolitan Dhaka and Cox's Bazar, with a focus on south-east Dhaka and Mirsarai-Feni. The biggest undertaking along this corridor is the ongoing IDA financed work under the Bangladesh Private Sector Development Support Project (PSDSP), which is developing an EZ in Mirsarai-Feni referred to as the Bangabandhu Sheikh Mujib Shilpa Nagar (BSMSN). The first phase of this development covers nearly 2,000 acres in two plots referred to as the BSMSN-1 and the BSMSN-2. The BSMSN-1 (548 acres) is leased to a joint venture of domestic companies and is not the focus of this project. The BSMSN-2 (1,411 acres) is allocated to 104-unit investors/industrial tenants, mainly in light industry/manufacturing. The land for the BSMSN-2 has been raised under the PSDSP and will be ready for construction in mid-2020 (see Annex 3). A super-dike, breakwater and a new access road to the Dhaka-Chattogram highway—financed by the GoB—are almost completed.

13. The BSMSN is conceived as an agglomeration of EZs that will be developed in phases under its recently revised Master Plan. The market response has been strong, and expectations are high. A recent demand assessment of 104 unit investors in the BSMSN-2 conducted by the World Bank (WB) found that the lease holders plan to invest US\$789 million over five years in the base scenario. They estimate that they would need to hire 242,000 workers over the same timeframe. The demand for factory space would cover between 1.4 million m² (cautious) and 3.5 million m² (optimistic).

14. The information technology services (ITS) and information technology-enabled services (ITeS) sector has grown rapidly in Bangladesh. The demand for the digital delivery of services—from telemedicine to e-payments—which has been accelerated by the pandemic offer new business opportunities. Estimates of the size of the digital economy range from 5 percent to 15 percent of GDP and information, communication and technology (ICT)-related exports are estimated at US\$1 billion in 2019. Nearly 300,000 Bangladeshi professionals code software, design software applications and serve clients at home and abroad through peer-to-peer digital marketplaces compared to less than 10,000 five years ago. The digital economy is increasingly affecting traditional industries. But there are relatively few ITS and ITeS companies that have grown large. More traditional businesses are adapting to digital platforms and use ITS and ITeS to improve operations. There is an increasing demand for facilities offering connectivity, funding, market access, and physical and virtual workspaces for digital entrepreneurs. Estimates suggest that four out of five ITS and ITeS businesses operate from non-commercial or residential areas. The sector has the potential to create a lot of jobs for educated women. The share of female employees varies across STPs with an average of 33 percent. STPs provide a unique opportunity to promote female employment and entrepreneurship in the ITS and ITeS sector, which is generally lower than in some other sectors.

15. The BHTPA has under the PSDSP supported small and medium-sized enterprises (SMEs) with training and some modest incubation pilot services. It is seeking to scale up this support to implement the GoB's 'Digital Bangladesh' 2025 vision. The BHTPA is planning to establish incubation centers within the STPs and select technical universities to strengthen the entrepreneurship ecosystem and encourage digital entrepreneurship. The BHTPA has also issued a license



for a private STP operator that is aimed to serve external tenants. It highlights BHTPA's important role as facilitator although the missing market in the digital ecosystem warrant public engagement to catalyze support services. Utilizing private sector expertise and integrating incubation, acceleration and mentorship programs based on good international practices could have such an outcome. Bangladesh needs to strengthen the pipeline of ITS and ITeS companies that have the size and capabilities to leverage private equity and venture capital for growth. A thriving ITS-ITeS sector would not only generate export revenue and high paying jobs but also raise productivity in the domestic economy.

C. Relevance to Higher Level Objectives

16. This Project supports the jobs agenda and the economic recovery efforts from the COVID-19 pandemic. It underpins two focus areas in the WBG Country Partnership Framework (CPF) FY16-20 discussed by the Board on April 5, 2016 (CPF Report # 103723-BD). The economic recovery will depend on the GoB's determination to address supply-side constraints for industry and manufacturers, the ability of these producers to restart production, and the capacity of Bangladeshi digital entrepreneurs to capitalize on increased demand for the digital delivery of services. This Project is designed to address these challenges. First, it tackles key constraints to the Growth and Competitiveness agenda by removing impediments to greenfield investment and job creation. The Project has a large public-private partnership (PPP) component to respond to the Systematic Country Diagnostic's (SCD) conclusion that underinvestment in infrastructure is a binding constraint to growth. It addresses the CPF recommendations to strengthen institutions and policy dialogue. Disbursement-linked indicators (DLIs) aid the focus on accountability and results. Second, the Project incorporates the Climate and Environment Management agenda as a core focus by introducing a strong resilience and sustainability lens in all activities. Finally, the Project aligns with the CPF's selection criteria: (i) consistency with the GoB's 7th Five-Year Plan; (ii) alignment with policy priorities identified in the SCD; and (iii) leveraging the WBG comparative advantage.

II. PROJECT DESCRIPTION

17. The Project will accelerate the economic recovery following the COVID-19 pandemic by tackling binding supply-side constraints to manufacturers and digital service providers. It mainstreams core concepts of mobilizing finance for development and climate resilience and sustainability in BEZA's and BHTPA's development agendas. It is jointly led by the World Bank and the IFC and the Project addresses the urgency of implementation by building on the success of an existing project—the PSDSP—and the proven government team's capacity to deliver. The support activities will help Bangladesh maintain and then attract domestic and foreign producers that can drive transformational change and generate hundreds of thousands of new jobs in the long run for Bangladesh's growing workforce. The Project will facilitate the diversification of the economy and higher value-added production given the profile of prospective investors. It significantly strengthens the BEZA to manage social and environmental safeguards and introduces a social and environmental counselor program covering the EZs. The two implementing agencies will use the Project to test green and private solutions that can be mainstreamed once positive demonstration effects are verified. This agenda is central to the economic recovery once the COVID-19 pandemic is under control and people can return to work.

18. Disbursement-linked indicators (DLIs) are used to incentivize institutional, regulatory, procedural and policy reforms that strengthen development outcomes and resource efficiency. The funds that will disburse against the execution of eligible expenditures and verification of the achievement of DLIs are summarized in Table 1 and presented in full in Section VII. The disbursement against the achievement of certain outputs and outcomes strengthens the link to the quality of core results. Most DLIs are used to ensure that adequate capacity building efforts and institutional changes are made before the BEZA and the BHTPA deliver critical activities. The DLIs have target dates that are indicative: the



achievement of a specific DLI unlocks the underlying budget as soon or as late as it is achieved.

A. Project Development Objective (PDO)

PDO Statement

19. The PDO is to promote private investment, job creation, and environmental sustainability in participating economic zones and software technology parks in Bangladesh.

PDO Level Indicators

20. The PDO will be measured by four outcome indicators: (i) Direct private investment in economic zones (of which by BSMSN unit investors, of which in PEZs outside the BSMSN, of which from PPPs); (ii) Number of direct (full-time equivalent) new jobs facilitated by the Project (of which in the BSMSN, of which in PEZs outside the BSMSN, of which in STPs, of which women); (iii) Number of companies using green and resilient services and facilities (of which in the BSMSN, of which in PEZs outside the BSMSN, of which in STPs); and (iv) Greenhouse gas emissions avoided.

B. Project Components

21. The Project has four components. The BEZA will implement components 1-3 and the BHTPA component 4. The lessons from the PSDSP reflect that the implementing agencies should have separate components and clearly individualized activities and results targets to facilitate implementation. This holds even though they broadly seek to achieve similar outcome indicators. The GoB’s spatial development agenda, divided between the BEZA and the BHTPA, has strong complementarities without overlap under this Project: the BEZA focuses on enabling conditions for industry and manufacturing whereas the BHTPA focuses on enabling conditions for the digital services sector. The following section presents the main activities that the Project will finance by component. The following section presents the activities. Annex 2 in this project appraisal document (PAD) complements with a more detailed project description.

22. The Project will finance both direct expenditures procured under specific activities and expenditure programs associated with DLIs aimed at achieving results crucial to the achievement of the PDO. The Project will introduce international standards in governance and innovative practices to private participation. The Project will also mainstream resilience and sustainability in infrastructure development. The total project cost is estimated at US\$555 million, of which IDA financing is US\$500 million and the GoB contribution is US\$55 million. The results-based financing is 30 percent of the total IDA financing. A brief summary of the broad objectives and aggregate budgets for the DLIs are presented in Table 1. Section VII presents the full DLI matrix with sub-DLIs, timeframe and budget.

Table 1: Summary of DLIs with objectives and amounts

DLI	Objectives	Amount
1	Strengthen the institutional capabilities of BEZA and make it an effective and financially sustainable institution under Part 1.1	US\$30m
2	Level the playing field for developer-operators of economic zones under Part 1.1, 2.1 and Part 3.1	US\$25m
3	Mainstream sustainable & climate resilient practices in economic zones under Part 1.1 of the Project	US\$15m
4	Establish a PPP SOU and structure three transactions under Part 1.2 and Part 2.2 of the Project	US\$70m
5	Establish a privately-operated flagship STP under Part 4.1 of the Project	US\$10m
	Total DLI funds	US\$150m



COMPONENT 1: CREATING AN ENABLING ENVIRONMENT FOR PRIVATE INVESTMENT AND SUSTAINABILITY (US\$56M)

23. The first component will finance technical assistance, goods, training and recurrent expenditures, including operation costs, to inform and implement institutional, regulatory and administrative reforms and capacity building programs. The activities will strengthen BEZA's core competence in technical functions that will make it a more effective partner to leading investors and local stakeholders; plan for the separation of the roles of regulator and developer; mainstream resilience and sustainability concepts in EZ design; and introduce private participation in core infrastructure. The Central Coordination Unit (CCU) function and budget are also covered under this component.

1.1: Promoting good governance and building core institutional capabilities (US\$39m)

24. This sub-component will: (i) develop BEZA's National Master Plan; (ii) design and implement a comprehensive gender-informed human resources (HR) policy and plan to strengthen HR management and core technical functions within the BEZA, such as site selection, feasibility assessment, infrastructure development and maintenance, PPPs and transactions support; (iii) develop rules to reduce the scope for conflicts of interest between BEZA's role as a regulator and as a developer-operator; (iv) strengthen BEZA's capacity to implement, monitor and enforce contractual obligations and licensing requirements; (v) review and update BEZA's land allocation and pricing policy to reduce the risk of inefficient land use and land speculation; (vi) establish formal coordinating mechanisms at the local/district level and provide support to other public entities and private partners when needed; (vii) make an inventory of local micro, small and medium-sized enterprises proximate to the BSMSN to boost local procurement; and (viii) develop a national policy framework for green EZs that prioritizes green investments in the construction and management of infrastructure, utilities, buildings and common services and support the adoption and publication of national green EZ guidelines.

1.2: Structuring public-private partnerships (US\$17m)

25. This sub-component will (i) support the establishment and functioning of PPP SOU within BEZA to *inter alia* prepare feasibility studies, manage competitive bidding process, develop a BEZA-specific PPP framework, develop standard documentation, procedures and guidelines and monitor and coordinate contractual enforcement; (ii) carry out preliminary viability assessments, feasibility studies and transaction advisory services for the purpose of leveraging private capital; and (iii) facilitate the development of a pipeline of bankable PPP projects in an open and competitive manner including but not limited to a seaport in BSMSN, a tier-1 international master developer of an EZ, and for projects related to industrial waste water management, water supply, and renewable energy production.

COMPONENT 2: DEVELOPING A GREENER AND CLIMATE RESILIENT BSMSN (US\$416)

26. This component supports phased development according to the recently approved Master Plan for the BSMSN. It will finance works, goods, technical assistance and recurrent expenditures for two areas—BSMSN-2 and the BSMSN-International Master Developer (IMD)—to help catalyze the development of state-of-the-art green and resilient EZs and set an example for sustainable, resilient and environmentally sound industrial development in Bangladesh (see Map 2 in Annex 2). This will be a paradigm shift towards a more sustainable form of development in the country. A formal coordination mechanism for local authorities and stakeholders will be established in the BSMSN based on a new institutional framework document and governance structure. The land in the BSMSN-2 has been leased to 104-unit investors/industrial tenants. The following interventions will help optimize utility costs and resource utilization for the tenants and reduce negative externalities and operational risks associated with industrial production. The Project will also implement the new WB Operations Policy and Country Services guidance on environment, health and safety aspects.

2.1: Basic infrastructure to implement the BSMSN Master Plan (US\$246m)

27. This sub-component will: (i) develop on-site infrastructure and last mile infrastructure in the BSMSN-2 as outlined in



the BSMSN Master Plan, covering basic infrastructure networks including developing road network with storm water drainage, solar powered street lights, climate resilient water network (supply and sewer), power network and other utility connections; and (ii) promote investments for resilient site upgrade and green building and infrastructure development, and site level interventions for subsidence and liquefaction.

2.2: Introducing sustainable and resilient services (US\$170m)

28. This sub-component will: (i) support the design and construction of climate smart and resilient shared facilities and services within the BSMSN-2, and to expand to the residential and commercial areas where feasible; (ii) carry out feasibility studies, technical advice and necessary construction through select investments in wastewater treatment, desalination plants, climate and disaster resilient infrastructure, renewable (solar) energy generation based on a cascade approach in partnership with private operators; and (iii) strengthen capacity building and training by addressing the capacity gaps related to engineering design, construction, operation and maintenance of infrastructure and providing tools for monitoring, evaluation and improvement of the [participating] EZs.

COMPONENT 3: CREATING A PRIVATE MARKET FOR SERVICED INDUSTRIAL LAND (US\$43M)

29. The third component will help catalyze the creation of a private market for serviced industrial land and help scale national green and resilient EZ guidelines to PEZs. It will promote social and environmental compliance in EZs and implement a grant scheme aimed to increase the supply of industrial-relevant skills and to raise environmental standards in industrial production in EZs to reduce greenhouse gas (GHG) emissions. The activities will provide an incentive for unit investor/industrial tenants to invest in their workforce and offer an additional selling point to PEZs with the support aimed at directly benefiting local communities and workers.

3.1: Strengthen compliance mechanisms (US\$3m)

30. This sub-component will finance technical assistance to (i) review and revise the regulations and procedures pertaining to the licensing of PEZs; (ii) support capacity building measures to monitor and enforce regulatory commitments and contractual obligations of EZ developers-operators and industrial tenants; and (iii) support compliance with good social and environmental practices in the EZs with an emphasis on developing of gender sensitive counselor programs within PEZs.

3.2: Grant programs to encourage private investment in skills and green production (US\$40m)

31. This sub-component will finance: (i) the provision of grants for (a) the Voucher Program to build industry relevant skills formations for workers within the EZs; and (b) the Grant Program to promote the implementation of green EZ guidelines; and (ii) support for Grant/Voucher Program management.

COMPONENT 4: STRENGTHENING THE DIGITAL ENTREPRENEURSHIP AND INNOVATION ECOSYSTEM (US\$40M)

32. The fourth component, which will be implemented by the BHTPA, aims to strengthen the foundation of the digital entrepreneurship and innovation ecosystem in Bangladesh and take advantage of the increasing global and domestic demand for digital services further ramped up by the Covid-19 pandemic. It will create the country's largest agglomeration of ITS and ITeS SMEs in Dhaka's Janata STP that will be turned into a green building; and promote digital entrepreneurship more broadly among young professionals and women. Digital entrepreneurship will be supported at three levels. First, it will establish modern and professional start-up and scale-up facilities and services in STPs licensed by the BHTPA. Second, it will pilot entrepreneurship and innovation hubs in some leading universities. This will also offer accredited and rapid training programs to budding entrepreneurs and managers in the ITS and ITeS field. Third, it will offer a media-based challenge program with prizes to help change attitudes and attract more youth, women and young



professionals to consider becoming entrepreneurs. The goals are to create entrepreneurship hubs, to increase market entry and growth rates of digital startups and SMEs, and to create a gender-inclusive culture.

4.1 Establishing Dhaka's first digital entrepreneurship hub in Janata STP (US\$12m + GoB US\$10m)

33. This sub-component will: (i) recruit an experienced internationally recognized private operator for managing the expanded Janata STP (comprising of Janata-1 and Janata-2 STP respectively); and (ii) upgrade the facilities of Janata-1 STP; and (iii) build climate resilient Janata-2 STP with the construction of a new multistoried building.

4.2 Digital Entrepreneurship, training and innovation support program (US\$18m)

34. This sub-component will: (i) design and implement an Entrepreneurship Program with special emphasis on women digital entrepreneurs; (ii) design and implement a program to mentor, advise and train digital entrepreneurs for the Start-up and Scale-up Facility within select STPs; (iii) establish University Innovation Hubs in technological universities and business schools; and (iv) finance the necessary civil works in support of the same.

C. Project Beneficiaries

35. There are five primary target groups among the Project beneficiaries. First, at the institutional level, the BEZA and the BHTPA will be supported throughout the Project with technical assistance and training. Second, developers and operators of EZs and STPs will receive a combination of direct and indirect support to help make their services more attractive to tenants. Likewise, a handful of universities will establish University Innovation Hubs (UIHs) that will render them more attractive to graduate and post-graduate students. Third, unit investors/industrial tenants in EZs and ITS and ITeS companies in STPs will directly benefit from better facilities, more cost competitive utility services, and co-financed upgrading of skills and greening of production. Fourth, blue-collar workers in s and white-collar workers in STPs will benefit from improved training opportunities, more attractive job opportunities, and overall a safer work environment, which should help accelerate the economic recovery from COVID-19. This includes a disproportionately high number of women workers and business owners. Finally, families of workers and communities living within proximity of the new EZs will benefit from improvements in water supply, water treatment, and solid waste management.

D. Results Chain

36. Figure 1 presents the results chain/theory of change for Components 1-3 that will be implemented by the BEZA and Figure 2 presents the results chain/theory of change for Component 4 that will be implemented by the BHTPA. The development challenges in the first column present endogenous and exogenous factors that impede growth, including government and market failures that the Project seeks to tackle through project interventions presented in the second column. The three right hand columns then present the intermediate outcomes, long-term outcomes and finally the overall link to the PDO. Coordination failures, underdeveloped markets and negative externalities are some of the prominent market failures affecting the market for serviced industrial land. But there are also issues of limited government capacity to regulate, enforce regulations, and uphold a fair and transparent level playing field for investors.



Figure 1: BEZA: Theory of Change and Results Chain

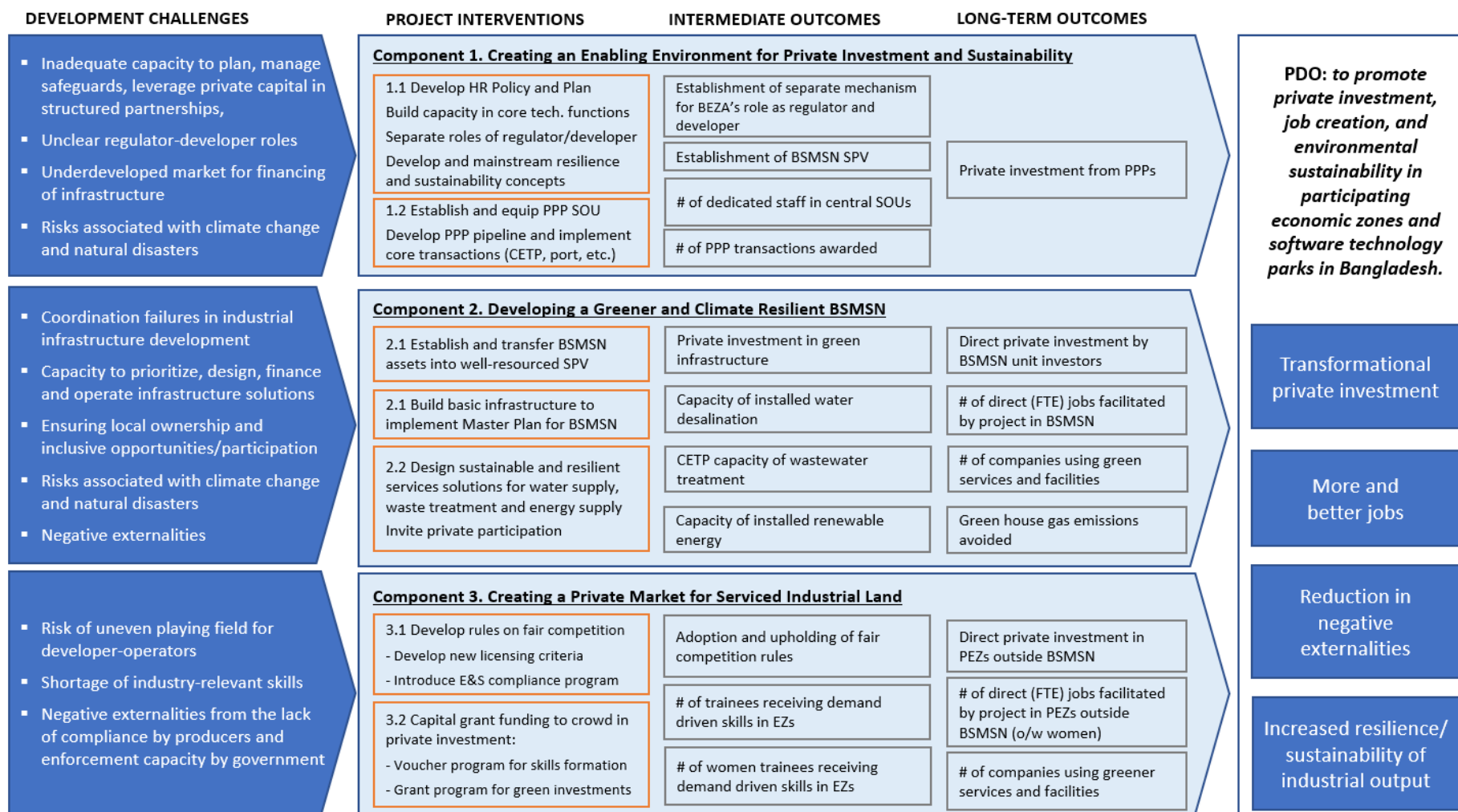
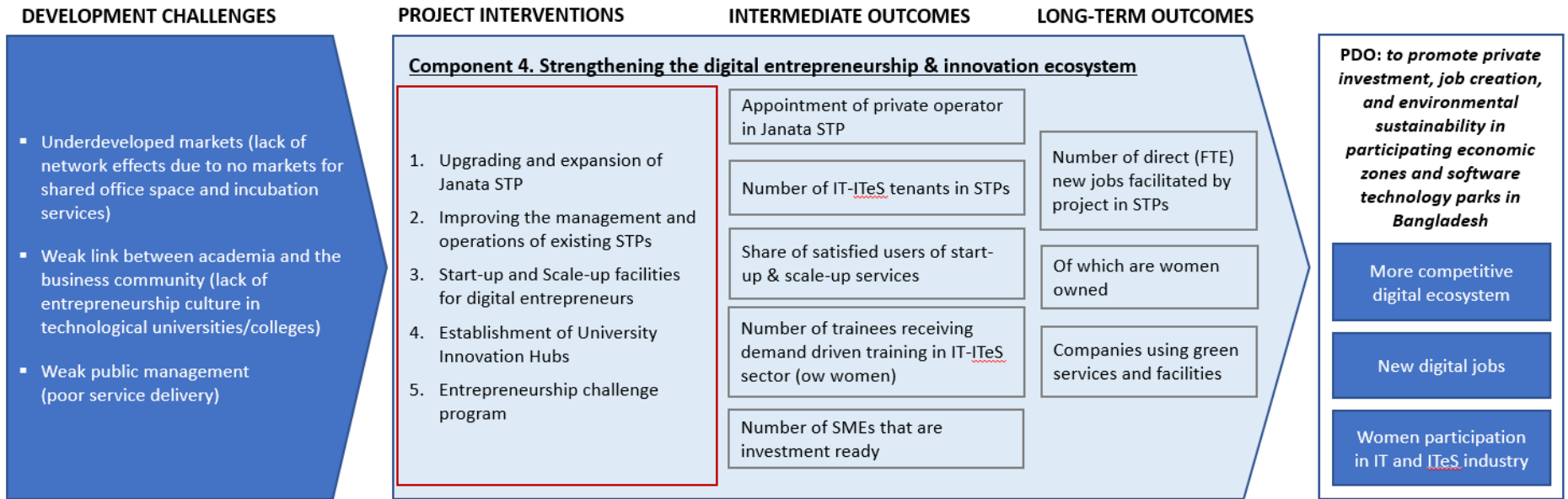




Figure 2: BHTPA: Theory of Change and Results Chain





E. Rationale for Bank Involvement and Role of Partners

37. **The COVID-19 pandemic requires a robust response to tackle supply-side constraints for manufacturers and digital service providers. This Project sends a strong message to existing and future investors and private sector partners that the GoB is serious in its efforts of providing a better environment for greenfield investment and a more conducive environment for tomorrow's service providers in the digital economy.** The WBG has worked closely with the BEZA and the BHTPA since it helped establish the authorities under the PSDSP, which allows for a rapid scale-up of implementation (see Annex 3 for PSDSP activities). The rationale for WB involvement is to aid institutional and policy reforms to strengthen development outcomes in line with the GoB's Five-year Plan, the WB's CPF and the rapidly evolving policy priorities for the economic recovery. It combines technical assistance with DLIs to lock in essential reforms and capacity building efforts that will have positive long-term effects on sustainability and performance. The Project will support an end-to-end approach to develop and deliver PPPs through the BEZA, and performance-based management contracts at the BHTPA. Successful implementation would help deliver transformational outcomes by crowding in private greenfield investments that produce more and better jobs, including by strengthening existing supply chains adversely affected by the COVID-19 pandemic, and by bringing in supply chains in new industries to Bangladesh.

38. The Project is designed to promote strong complementarities to other ongoing and planned projects under the WBG Country Program as presented in Annex 3. It also draws on expertise from numerous global practices, which together will offer the GoB holistic solutions. In addition, support from the Department for International Development under UKAID has allowed the WBG to embed advisors and provide quality control through local and international specialists. The Japan-WB Program for Mainstreaming Disaster Risk Management (DRM) in Developing Countries is also supporting the technical DRM design of the Project and technical assistance to the BEZA. The design of the Common Effluent Treatment Plant (CETP) is coordinated with the Deutsche Gesellschaft für Internationale Zusammenarbeit and the International Water Group.

F. Lessons Learned and Reflected in the Project Design

39. **The BEZA and the BHTPA have complementary institutional strengths and the Project has been designed to strengthen their comparative advantages to avoid institutional overlap.** The BEZA has developed capacity for investment promotion and investment facilitation in addition to land and infrastructure development. The BEZA focuses on industrial development and manufacturing that will absorb mostly unskilled and semi-skilled workers. The Project will therefore strengthen BEZA's capacity to develop land and resilient infrastructure with a focus on PPPs for industrial greenfield projects as well as building a systems-based promotion and investment facilitation/aftercare function. The BHTPA has a successful track record of supporting SMEs with dedicated skills programs, promoting uptake of quality accreditations and coaching professionals and senior managers. It is valued by ITS and ITeS companies and digital entrepreneurs who depend on highly skilled workers. The Project will strengthen BHTPA's capacity to promote digital entrepreneurship at universities and in STPs in urban areas. Based on the experiences of the PSDSP, it will not seek to build BHTPA's capacity for land and infrastructure development, which is not required to support the ITS and ITeS sector.

40. **The experience from WBG supported PPP programs indicates that the ideal PPP framework and structures depend on the national and sector contexts.** The PPP activities under the Project have been designed based on four principles:

- (a) First, **keep it simple.** There is a tendency to adopt PPP frameworks with layers of protections in the form of bureaucratic processes and approvals, which are then circumvented because they are impractical. There must be a balance between the application of institutional safeguards and ensuring that the final model can be



implemented in practice. For this reason, the BEZA is setting up its own framework rather than simply replicating the national PPP framework for those transactions where the national framework does not apply by law.

- (b) Second, **focus on the people affected by the PPP transaction.** It is tempting to focus primarily on commercial and financial fundamentals when structuring PPPs. However, the end-users and affected community need to remain at the forefront of project preparation and design to make it robust and sustainable. BEZA's new PPP SOU will develop expertise in financial fundamentals as well as in managing environmental and social (E&S) issues through community engagement. Comprehensive investments in water supply and water and waste treatment will serve both industrial tenants and new residential and commercial areas.
- (c) Third, **incorporate capacity building efforts throughout the end-to-end cycle of a PPP transaction.** The best PPP framework and the most robust transactions fail in weak institutional environments in which staff do not understand legal and financing models with associated risks. Capacity building efforts will cover formal training and learning-by-doing with embedded transaction advisors transferring knowledge at each step of the preparation phase, including the procurement process, to make each transaction a learning opportunity.
- (d) Fourth, **a PPP is a means to an end. The allocation of risks between the public and private sector must be transparent.** A PPP will not always be the best solution after assessing the feasibility and engaging with the market. The Project has therefore allocated resources for a combination of public and private investments and private operations. There must be clarity on the financial exposure for both the public and the private partner.

41. Incorporating concepts of efficiency, resilience and sustainability at the heart of planning and development of EZs will help boost the competitiveness of Bangladeshi industries and combat negative externalities. Cyclones have in the last few decades caused havoc and interrupted entire sectors. Besides aquaculture, which has been devastated overnight in certain districts, manufacturers have often had to close operations due to lengthy power outages. In 2007, Cyclone Sidr resulted in the loss of 1.2 million man-days of work in nearly 300 manufacturing entities. A recent WB report found that 41 percent of electricity outages in Dhaka are associated with storms and other extreme weather events. Investing in resilient infrastructure is therefore a national priority. The WB report also found that investments in resilience have a strong economic rationale with a potential return of four takas on each taka invested. The investments help minimize disruption and losses. They are also strong selling points to attract and maintain tier-1 investors. The lessons from implementing a green and resilient EZ agenda suggest that:

- a) **The development of a green and resilient EZ in the BSMSN needs to be anchored in national guidelines.** A policy and institutional framework at the national level should accommodate different types of zones, including eco-industrial parks. The green and resilient EZ activities under this Project will be implemented in line with the Green & Resilient Economic Zone Guidelines that are currently being developed by the BEZA.
- b) **An effective green and resilient EZ policy requires a dedicated unit within the SEZ authority tasked to regulate and monitor green activities.** A dedicated unit within the zone authority can help bridge the institutional and capacity gaps, and drive planning, implementation and monitoring of green and resilient activities in EZs. It should build a robust monitoring and evaluation framework from the inception.
- c) **Combine firm- and zone-level measures to achieve optimal energy and environmental performance.** Active measures to improve energy and resource efficiency at the firm- and zone-levels can lead to significant utility cost savings and mitigate industrial pollution and GHG emissions. Firm-level initiatives to modernize production, increase boiler efficiency, improve cooling systems designed for low global warming potential (GWP) refrigerants, introduce waste-heat-recovery, install LED lighting, and promote industrial symbiosis, raise capital productivity. Common zone-level initiatives include the installation of rooftop solar (photovoltaic (PV)) and solar street lighting, power generation from organic waste and wastewater from CETPs, and steam pipelines to enable



industrial symbiosis to minimize GHG emission. Some measures at the firm- and zone-levels have pay-back periods of 5-10 years, which require effective financing mechanisms and procurement methods to materialize.

42. The E&S counselor program implemented in the EPZs was relatively effective in improving labor relations in EPZs and it offers applicable lessons for the BEZA. Lengthy strikes, factory walkouts and other disruption resulting from a fraught relation between business owners and factory workers have affected industrial development in Bangladesh and deterred foreign investment for decades. But the E&S counselor program supported under the PSDSP helped improve the work environment in EPZs. An impact assessment concluded that in 2018 94 percent of workers in EPZs received at least the minimum wage and other compensation as per the law and salaries were paid on time. It was a significant improvement to the outside environment. An E&S program should help with dispute resolution and protect women workers. The social counselors managed a dispute resolution process that helped reduce the time it takes to resolve disputes within EPZs relative to the business environment outside EPZs. Environmental counselors also acted as catalysts for change: in 2013-2017, the issuing of Environmental Clearance Certificates tripled from 93 to 298 licenses.

43. The international experience from incubation and acceleration programs highlights the need to strengthen the quality and depth of support with a focus on the commercialization and growth process of digital startups. Successful programs, especially in Europe and East Asia, have focused on: (a) promoting and supporting the best human capital and leadership within select intermediaries (*i.e.* incubators/accelerators); (b) allowing intermediaries to access follow-on funding based on performance; (c) covering operational costs and management training costs of select intermediaries to strengthen operations and overall value added to the sector; and (d) developing strategic alliances and appointing capable partners to implement the programs. Many governments provide physical workspaces with services for ITS and ITES SMEs to promote network effects. There has been a gradual shift from direct to indirect support for workspace in the case of the STPs of India. Two developments are foreseen under the Project: in the short-term, a shift to private management contracts for operations of STPs; and in the medium-term, a shift to a build-own-operate model that leverages the private sector.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

44. The Project will be implemented by the BEZA (Components 1-3) and the BHTPA (Components 4) with the following arrangements. First, the BEZA will present regular progress reports to the BEZA Executive Committee on a semi-annual basis. Likewise, the BHTPA will provide regular progress reports on a semi-annual basis to a Project Steering Committee in charge of oversight and quality control and headed by the Secretary, ICT Division, and made up of four government officials and five private sector and business association representatives. Second, in parallel, a CCU will be established in the Economic Relations Division (ERD) of the Ministry of Finance to provide an additional layer of oversight, monitor and verify progress, and prepare Interim Unaudited Financial Reports (IUFs). The BEZA and the BHTPA will prepare Project Operations Manuals that will be reviewed and cleared by the WB ahead of effectiveness and these manuals will guide major activities. The BEZA has experience in overseeing complex technical design and the procurement and supervision of large works contracts. The Project will help strengthen core functions for resilient infrastructure, PPPs, investment facilitation and promotion, and master planning. It will also put in place HR systems and more robust information structures. Both the BEZA and the BHTPA will receive training in WB procurement and management procedures.



B. Results Monitoring and Evaluation Arrangements

45. The CCU in the ERD will employ a Monitoring and Evaluation (M&E) Specialist who will ensure that data are collected in a timely manner. The M&E Specialist will be responsible for data collection, compilation, and reporting from the BEZA and the BHTPA and preparation of regular M&E reports. The Results Framework will enable the implementing agencies to track performance, adjust implementation as needed, and demonstrate impact. The Results Framework will be linked to BEZA's and BHTPA's monitoring and review systems to ensure information flow and institutional capacity building. The CCU will engage a third-party consultancy that will be tasked to verify delivery associated with the DLIs as outlined in the Financing Agreement. The demand assessment of all unit investors in the BSMSN-2 has informed the baseline for certain PDO outcome and output indicators. The Project has also been pre-selected as a "champion" jobs project under the *Supporting Effective Jobs Lending at Scale* program, which includes a budget from the Jobs Multi Donor Trust Fund to better measure impact throughout implementation.

C. Sustainability

46. This Project is anchored within the GoB's 7th Five-Year Plan and directly supports two of its three main themes. First, it supports the GoB's economic growth agenda centered on the creation of more and better jobs. And, it does so by more effectively leveraging private capital, technology, expertise and business networks as an engine for growth. Capacity building of public agencies will leave a more competent administration behind to maintain, regulate and enforce the market for zones and parks. Second, it will catalyze a strong shift towards more environmentally sustainable production. Project interventions will contribute to reduce negative externalities by improving the use of cleaner and more efficient technology and production processes. Working conditions should improve as interventions on social and environmental counseling is rolled out in EZs. The Project promotes a sustainable development pathway that is resilient to disaster and climate change and entails sustainable use of natural resources. The political commitment is illustrated by the GoB's decision in 2017-2018 to allocate significant budget for complementary infrastructure developments around the BSMSN to various public entities, including for land acquisition, and building of a super dike and access roads. Many of the activities are the first of their kind, including the PPPs and UIHs, and successful outcomes can be replicated.

47. A screening for climate change and disaster risks concludes that the Project's overall exposure to extreme precipitation and flooding, storm surge, as well as geophysical hazard such as earthquakes is considered high. Cyclone-induced storm surges are likely to be exacerbated by a potential rise in sea level of over 27 cm by 2050, which will increase the vulnerability of EZs across selected coastal districts of Bangladesh to storm-surges (the 1970 Cyclone, 1991 Cyclone and 2007 Cyclone Sidr had wind speeds of 223-225 km/hr). Climate change may increase the frequency, peak intensity of cyclones and wind speed, which can significantly damage infrastructure in EZs such as BSMSN. Extreme precipitation and flooding could wash away roads and impair access. Roads are prone to washouts during coastal flooding resulting in a disproportionately high cost of rehabilitation to bring them back to service. The Project has integrated resilient design features throughout to mitigate these risks.

IV. PROJECT APPRAISAL SUMMARY

A. Economic and Financial Analysis



48. The Project is evaluated using a tested economic and financial model (EFA)— an infrastructure discount cash flow model—that has been applied in numerous WBG-financed investment lending projects for SEZs. It relies on a demand assessment based on survey data from 104 tenants/lease holders in the BSMSN-2 conducted during pre-appraisal. The model estimates that the BEZA would earn an internal rate of return (IRR) of 2 percent driven largely by the upfront 50-year lease payments, the low IDA interest and their low equity contribution. The economic benefits from the development of the BSMSN-2 are high with an estimated economic rate of return (ERR) of 32 percent and an economic benefit/cost ratio of 3.0. It would make a significant contribution—approximately US\$44 billion—to the gross national product (GNP) over its first 20 years. It would also be directly *and* indirectly responsible for the annual employment of some 450,000 workers (see Annex 4). The modest IRR indicates that private financing is unrealistic and the high ERR signals broad public benefits that will motivate the use of public financing from the IDA Scale Up Facility (SUF).

49. The EFA is applied for IDA financed activities representing more than 80 percent of the total project investments; or the amount under components 1.2, 2.1, 2.2 and partly under 3.2 that will reach the BSMSN-2. The 450 ha of serviced plots (out of 550 ha of total space) in the BSMSN-2 are expected to fill up within 5 to 10 years of the start of operation according to the land lease holders' feedback. The model estimates that the BEZA could expect to fund the project as follows, 10 percent using own equity funds raised through the sale of the land leases, and the remaining 90 percent of the total cost would be financed by the IDA. The model, which is presented in Annex 4, estimates that a total investment of US\$415m in the 550 ha of the BSMSN-2 would ultimately generate some 300,000 direct jobs at a cost efficiency (cost per job) of around US\$1,000. This is competitive in an international comparison partly because the industries that have leased the land on a fifty-year basis are predominantly labor-intensive industries.

B. Fiduciary

Financial Management

50. A financial management (FM) assessment as required under the WB's OP/BP 10.0 was carried out at the ERD, the BEZA and the BHTPA. Per OP/BP 10.0, the Borrower and the project implementing agencies are required to maintain adequate FM systems, including for budgeting, accounting, internal control, financial reporting and auditing systems, to ensure that they can assure the Bank that funds will be used in an efficient and economical way. The assessment concluded that the FM systems at the ERD, the BEZA and the BHTPA meet the WB's requirements provided that recommended mitigating measures are incorporated. There is basis to place reliance on the country systems for all FM aspects of the Project. FM responsibilities include: (a) ensuring compliance with all financial covenants in the legal agreement; (b) obtaining IDA funds and managing them in an efficient, effective, and transparent manner; (c) furnishing financial reports and project audit reports to IDA; and (d) carrying out overall management of payments and accounting functions of the Project, and any other requests relating to FM made by the WB. The IDA credit proceeds will be used to finance eligible expenditures that are necessary to meet the development objectives of the Project with due attention to considerations of economy and efficiency in accordance with the provisions of the Financing Agreement. The FM risk is assessed as substantial and Annex 1 presents more details. There are no overdue audit reports under the on-going project implemented by the ERD, the BEZA and the BHTPA.

Procurement

51. All goods, works, non-consulting services, and consulting services financed under the Project will be procured in accordance with the WB Procurement Regulations for investment project financing (IPF) Borrowers, dated July 1, 2016, and as revised in November 2017 and August 2018. This Project follows on the PSDSP, which has been rated moderately satisfactory due to issues of contract management. The limited experience with the procurement of PPPs for infrastructure and the lack of dedicated procurement staff in the BEZA and the BHTPA mean that the procurement risk rating is high.



52. This IPF includes five DLIs, valued at US\$150 million. To incentivize the strengthening of systems for attracting and sustaining investments under the BEZA and the BHTP, the procurement of works will include a road network, a stormwater network, a power network, water supply and sewer network, gas pipelines, and buildings of approximately US\$200 million. The services estimated at US\$6.5 million will cover transaction advisory services for PPPs in infrastructure such as a CETP, a desalination plant; rooftop, ground mounted and floating solar; a steam network, solid waste management, and a biogas plant for around US\$170 million. Other services estimated at US\$40 million will be for feasibility studies, the National Master Plan for the BEZA, PPP-related training and individual consultants. The goods include IT and office-related goods and smart city equipment, which have been estimated at US\$0.2 million. Transaction advisory services are specialized and not available in Bangladesh so they will be sourced internationally. The WB will support and prior review the selection process for these services. The BHTPA’s Procurement Plan covers US\$40 million in total, including works of roughly US\$22 million plus goods and services for the digital entrepreneurship and innovation support, which are mainly low risk small value consulting services and goods contracts. The CCU in the ERD will procure individual consultants and consulting services to verify DLIs and produce financial audits. A procurement risk assessment and management approach will be used to monitor procurement risks, risk mitigation measures and procurement performance during supervision.

53. Both the BEZA and the BHTP prepared a Project Procurement Strategy for Development (PPSD) based on the complexity of the planned procurement activities, their capacity to handle them, and the prevailing market conditions. The PPSDs include Procurement Plans for the complete budget of the Project. Tables 7-8 in Annex 1 presents the Procurement Plans for the BHTPA and the BEZA during the first 18 months of implementation. The procurement risk mitigation measures are: (a) engineers and technical staff will be supported by a design and supervision consulting firm to ensure quality control, contract management, and adherence to cost and time control measures, including results indicators, outlined in an agreed action plan; (b) procurement consultants will be recruited in both the main implementing agencies; (c) a bid evaluation committee and a proposal evaluation committee will be formed and include independent experts acceptable to the WB; (d) the Systematic Tracking of Exchanges in Procurement system will be used to record and monitor procurement progress; (e) project staff and engineers will be trained on innovative approaches of the WB’s procurement framework, PPPs, contract management, and fiduciary due diligence; (f) all national procurement will adopt e-government procurement; (g) individual consultants and consultancy firms will be hired to ensure compliance with environmental, social, health and safety requirements in the bidding processes for works contracts; (h) the BEZA’s procurement team will support the procurement activities of the CCU; and (i) the Procurement Plans in the Development Project Proforma prepared by the implementing agencies and the PAD must be fully aligned. Given the high risk associated with the procurement of PPPs, for example on a build-operate-transfer basis, the Project will finance a contract procured under PPP arrangements only if the selection process complies with WB Procurement Regulations.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

54. The Policy on Project on International Waterways is not triggered, as the water demand and supply requirements for project financed activities can be met from desalination, recovered water and groundwater from confined aquifers.



D. Environmental and Social

55. The Project will follow the WB's Environmental and Social Framework (ESF), which consists of ten Environment and Social Standards (ESS). From the likely activities of the proposed investment, the E&S risk is classified as high. The relevant E&S standards are: ESS1 - Assessment and Management of Environmental and Social Risks and Impacts, ESS2 - Labor and Working Conditions, ESS3 - Resource Efficiency and Pollution Prevention and Management, ESS4 - Community Health and Safety, ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement, ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources, and ESS10 - Stakeholder Engagement and Information Disclosure. There are also E&S risks of associated facilities that are not funded by the WB. The ESF mandates that the requirements of the ESF are equally applicable to associated facilities of a project. The identification of the current and foreseeable associated facilities and the assessment of their E&S risks are continuous tasks. The Environmental and Social Impact Assessment (ESIA) covers this aspect and includes Associated Facility Screening Formats and the necessary steps to be followed once they are identified so that the E&S risks can be managed properly.

56. First, the possible anticipated adverse impacts of project activities at the *construction* stage will include: (i) generation of solid and liquid waste; (ii) impact on air quality and noise level; (iii) impact on surface water quality; (iv) impact on bio-diversity; (v) impact due to labor influx and migrant laborers; (vi) potential loss of land, livelihood and shelters for land acquisition; (vii) gender-based violence; (viii) impact on community health and safety; and (ix) impact on traffic management. It is expected that the completion of the Project will result in the establishment of light and heavy industries with medium to high potential of environmental pollution unless appropriate measures are taken. Second, the potential adverse environmental and social impacts at the *operation* stage may include: (i) impacts due to generation of hazardous solid and liquid waste; (ii) air pollution; (iii) impact on bio-diversity; (iv) stress on water and electricity sources due to increased demand; (v) impact due to labor influx and migrants labor; (vi) gender-based violence; (vii) impact on community health and safety; (viii) generation of e-waste by the innovation hubs, university-linked incubators; and (ix) impact on traffic management.

57. The **BEZA** prepared and disclosed its Environmental and Social Assessment (ESA) for the Project on March 10, 2020. The objective of the ESA is to identify potential E&S risks of the planned activities under the Project in the BSMSN-2 for which design and location are known. The assessment has considered the potential E&S impacts during pre-construction and construction. The assessment has also taken into consideration the impacts during the operational phase to flag potential E&S risks and ways and means to handle those risks by the BEZA. Cumulative impacts of the Project and other projects being implemented or planned in and around the proposed Project site have also been considered on a limited basis. In-depth assessment of cumulative impacts will be conducted through a Regional Environmental and Social Assessment (RESA) exercise that is expected to be completed by September 15, 2020. A Stakeholder Engagement Plan (SEP) and Labor Management Procedure (LMP) were prepared and disclosed to fulfill the requirements of ESS10 and ESS2, respectively, in country and on the WB's external website.

58. The activities for which the scale, design and exact locations are unknown, an Environmental and Social Management Framework (ESMF) has been prepared and disclosed along with a Resettlement Policy Framework (RPF). The documents describe procedures to be followed during planning, design, and implementation of activities. Moreover, as the Project is supporting the phased development of an agglomeration for which a master plan has been prepared with support from the World Bank, a RESA will be carried out to identify the E&S risk and potential impacts in the area of influence of the proposed industrial agglomeration. In addition, the **BHTPA** prepared and disclosed an ESIA and an ESMF on March 10, 2020, in country and on the World Bank's external website, for the assessment and management of E&S risks of its planned activities during the life cycle of the Project.



59. The capacity of the BEZA and the BHTPA to implement their Environmental and Social Management Plans (ESMP) during the construction phase has been assessed as part of the ESA and the ESIA. Moreover, the BEZA will assess the E&S risk on an ongoing basis during the construction phase, prepare the ESMP and monitor its implementation while maintaining close co-ordination with the developers and unit investors. The ESA and the ESIA cover the needs of the BEZA and the BHTPA to strengthen their capacity, including human resources and legal expertise and capacity for policy formulation. The planned sub-component 1.1 will enhance the capacity of E&S management of the BEZA during the operational phase.

Gender

60. The Project places great emphasis on promoting women’s employment and supporting female entrepreneurship. The gender gap in labor force participation is wide in Bangladesh and the country has a particularly low share of female-majority ownership of formal enterprises—a mere 1.7 percent of firms are owned by women. These gaps are particularly pronounced in the science, technology, engineering and mathematics (STEM) sectors. Women face constraints to accessing quality jobs and starting and operating businesses. One of the main constraints is the lack of skills that lead to quality jobs. For example, women account for only 28 percent of graduates from tertiary education and 20 percent of graduates from STEM fields. There is discrimination in the labor market with many employers expressing the view that women “disrupt the work environment”. Similarly, once in a job, women are only half as likely as men to receive on-the-job training. Other constraints include lack of access to finance, markets, information, and networks as well as safety and sexual harassment issues, deficient workplace infrastructure, norms around childcare and household work that make it challenging to balance work and family, and social norms and perceptions of women’s work and potential as entrepreneurs. This Project seeks to address these constraints and facilitate women’s economic activity by supporting skills training and job placement for women, supporting work environments conducive to women’s work, and changing perceptions on women’s work and entrepreneurship.

61. The Project’s gender-based violence (GBV) risks are substantial due to the labor requirements to deliver civil works. The Project could include some minor land acquisition, which would be financed by the GoB, and it will include major civil works with the influx of labor. The large-scale labor influx may have significant adverse impacts on the women and girls in the communities near to the Project area. The labor influx could potentially increase the risk of forced marriage of adolescent girls to employed men working at the Project. The influx of workers may potentially increase the demand for sex work, sexual abuse, workplace harassment, etc. The BSMSN is situated close to the sea route that might increase the risk of women and children trafficking. Considering the GBV risks, the Project will develop a stand-alone GBV action plan. The plan will include a code of conduct for contractors and subcontractors that will cover GBV risks and relevant service provisions in the bidding documents. The action plan will also include a separate grievance redress mechanism with GBV referral pathways and response protocol. In addition, a supervision team comprising of social and GBV specialists of the implementing agencies will monitor and support the implementation of the action plan. The action plan will suggest specific provisions to ensure safety for and feedback from women and girls within some of the EZs. Besides stakeholders’ involvement, GBV sensitization training for the contractors, workers and affected community will be organized to mitigate the potential risks. The BHTPA will also include a GBV referral system in its Project Grievance Redress Mechanism.

Citizens’ Engagement

62. The Project will engage with stakeholders following the agency specific Stakeholders Engagement Plans prepared by the BEZA and the BHTPA. Extensive consultations have taken place with business communities and associations, potential industry owners in the BSMSN-2, local communities, civil society organizations and relevant government departments at different stages of project preparation and development of the SEP for the BEZA components. Similarly, consultations have been held with STP owners and users and universities. The SEPs detail the strategies for engagement with



stakeholders throughout the project lifetime, including a Grievance Redress Mechanism to be formed for the Project. In addition, a beneficiaries' satisfaction survey will be incorporated in measuring achievements in two indicators of the results framework (3.2: Number of trainees receiving demand driven skills in EZs...of which women and; 4.4: Number of trainees receiving demand driven training in the ITS-ITeS sector).

63. The E&S risk is rated as high given the size of the project areas, the relative inexperience of the BEZA to manage E&S risk, and the nature of the activities of the proposed investments. The required assessments and ESF documents to plan mitigation measures for the risks have been prepared properly by the implementing agencies. The anticipated risks of the Project will be mitigated by implementing the plans in the ESIAAs. Requisite training and orientation will be provided to the designated staff for the implementation of the plans, including those mentioned in the Environmental and Social Commitment Plan (ESCP). Both BEZA and BHTPA have developed ESCPs following the recommendation of the studies. The ESCPs include actions which would be taken to ensure E&S safeguard compliance during implementation.

V. GRIEVANCE REDRESS SERVICES

64. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported Project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

65. The overall risk rating for the Project is substantial due to the risk ratings for: (a) political and governance; (b) macroeconomic; (c) technical design of the Project; (d) institutional capacity for implementation and sustainability; (e) fiduciary; and (f) other; and the high-risk rating for (g) environment and social.

66. **Political and governance risk is substantial:** The serviced industrial land agenda is of high priority for the GoB. Policy reversal is not considered a risk but there are nevertheless governance challenges. Most important, there is a complex political economy associated with the land allocation process. Corporate interests and an entrenched political patronage system may lead to unfair allocation of land to preferred investors—some of whom are land speculators and mainly interested in seeing the value of their land rise without making capital investments. The Project is introducing some mitigation strategies to promote good governance and reduce incentives for land speculation by promoting phased developed of land. Most important, the operation will support the professionalization of zone management via the recruitment of credible international developers and operators who bring industry best practices.

67. **Macroeconomic risk is substantial:** Both the BEZA and the BHTPA offer tax concessions to attract investors, which is in line with the BEZA Act and the BHTPA Act. The concessions offered by the BEZA could be ineffective if the BEZA does not closely scrutinize investment proposals and monitor implementation to ensure that establishments do not simply move existing factories into EZs. The investments required to develop EZs are substantial and the PPP pipeline



must be developed to avoid unnecessary contingent liabilities. The scarcity of long-term finance, high interest rates and currency risk will require innovative and flexible PPP solutions. Early involvement of the PPP Authority and extensive use of experienced PPP advisors are essential to tackle these challenges. The GoB's COVID-19 response has been resolute to date (mid-April) but the long-term economic impact of fiscal deficits coupled with a depressed outlook for growth and a reduction in capital inflows will result in macroeconomic uncertainty.

68. Technical design of Project risk is substantial: There are three main challenges. First, Component 1 supports a series of policy, regulatory/procedural and institutional reforms and some of them may face resistance. The use of DLIs incentivizes the necessary reforms identified by the implementing agencies. Second, the work to introduce solid waste and wastewater management in the BSMSN will be time-consuming and requires the establishment of new institutions as the Project pushes the technical frontier. This work starts without legacy systems and there is an opportunity to embed financially sustainable methods to develop these areas given the application of the Eco-Industrial Park International Framework guidelines with private participation. Third, implementation of the PPP agenda may encounter concerns about capture. The recent joint venture between Sumitomo and the BEZA is a good example of what is possible. A holistic, end-to-end approach to PPPs with targeted models will reduce the risk of capture and weaknesses in the domestic market. The WBG will provide extensive technical assistance supported by bilateral donors. Finally, the BEZA has experience of handling the design and procurement of large works.

69. Institutional capacity for implementation and sustainability risk is substantial: The BEZA is an experienced counterpart and capable implementing agency. The organization has a special reporting line to the Prime Minister and has been staffed with capable managers and a growing number of technicians. The BEZA has a track record of implementing donor-funded projects in a satisfactory manner for the last 3-4 years. It is familiar working with safeguard policies. However, Component 1 requires a significant expansion of BEZA's capacity to handle complex operations. It requires strong functional expertise to handle PPPs and integrate resilience and sustainability concepts in all EZs. The BEZA's organization will need to be revised, expanded, and functional competence developed in the coming years. The Project will support this agenda.

70. Fiduciary risk is substantial: The Project will be implemented by the BEZA (93.5 percent of the IDA credit), the BHTPA (6 percent of the IDA credit) and the CCU under the ERD (0.5 percent of the IDA credit). The overall financial management arrangement is handled by a CCU at the ERD. BEZA's core functions will be strengthened to handle the activities. Further, it is the first time that the BEZA and the BHTPA will manage DLIs. The WB conducted a fiduciary risk assessment covering financial management and procurement capacity with conclusions presented in Annex 1.

71. Other risk is substantial: The COVID-19 pandemic is expected to result in an economic downturn besides the human suffering. Many factories were under lockdown in April 2020 and severe disruptions started affecting logistics and supply chains. It is unclear how long the disruption will continue. The negative effects on private investment and job creation in 2020, and perhaps 2021 too, will be significant. There is a risk that the pandemic leads to a major economic contraction that does not only strike Bangladesh but the countries that represent its main sources of foreign investment as well as its main export markets. The longer the economic contraction the higher the likelihood that some of BEZA's investors become insolvent and abandon the land that they have leased in the BSMSN and started building on in PEZs. However, this Project was at the heart of the GoB's economic policy agenda before the outbreak of the pandemic, and it will remain there once the economic recovery efforts kick in. In addition, the support to digital entrepreneurship will also be central to the recovery as more citizens will rely on the ITS and ITES sector for everything from essential services to job opportunities: the pandemic will likely accelerate the digitization of the economy and jobs.



72. **Environment and social risk is high:** The BEZA and the BHTPA are familiar with the WB's old E&S safeguard policies from the PSDSP but not the new ESF. E&S issues may arise during the pre-construction and construction phases of the Project, including adverse impact on air quality, noise, ground and surface water quality, labor management and GBV, which require implementation of the ESMP and continuous monitoring. The BEZA must follow the procedures set out in the ESMF to ensure provision of the ESF and the GoB regulations. Some sub-projects may require a full ESIA once detailed designs are ready. Many local and migrant laborers of various categories will be hired, which requires implementation of the LMP to comply with the provisions of ESS2. The ESMP, the LMP, etc. will guide the preparation of the bidding documents. Any land acquisition or resettlement needs to comply with the ESS-5. The BEZA needs E&S specialists to manage E&S risk during construction. Some industrial entities in the BSMSN may generate high to medium E&S risk. Strong capacity building to handle the E&S risks is therefore planned. This might require policy formulation/revision, preparation of operation guidelines and incorporating E&S staff in the organogram.

73. The Project could affect residential and commercial structures due to land acquisition although most of the physical space in the BSMSN-2 is entirely free of encumbrances. Affected people, including squatters, could lose land, houses and livelihoods, and some may need to resettle. The adverse impacts on vulnerable project affected populations may be significant and it will be determined in the ESIAs. During the construction phase, labor influx will result in risk of gender-based violence in the communities adjacent to project sites. The construction and operation of new industries will result in long-term changes in the communities with regards to labor influx, gentrification, voluntary in-migration of new industrial workers, managers and suppliers to the area. Potentially, both the positive and negative impacts will not only be limited to the Project's footprint area but spread over adjacent areas. A RESA with cumulative impacts will reveal the potential impacts on the Project's area of influence. The BEZA will strengthen its capacity to manage the BSMSN and complexity regarding associated facilities and/or common approach.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Bangladesh

Bangladesh Private Investment & Digital Entrepreneurship Project

Project Development Objectives(s)

To promote private investment, job creation, and environmental sustainability in participating economic zones and software technology parks in Bangladesh.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Direct private investment in economic zones								
1. Direct private investment in economic zones (Amount(USD))		1,780,000,000.00	2,300,000,000.00	2,530,000,000.00	2,780,000,000.00	3,060,000,000.00	3,370,000,000.00	3,700,000,000.00
...of which by BSMSN unit investors (Amount(USD))		0.00	0.00	50,000,000.00	110,000,000.00	210,000,000.00	320,000,000.00	390,000,000.00
...of which in PEZs outside BSMSN (Amount(USD))		1,780,000,000.00	2,300,000,000.00	2,480,000,000.00	2,670,000,000.00	2,850,000,000.00	3,050,000,000.00	3,310,000,000.00
...of which from PPPs (Amount(USD))		0.00	0.00	0.00	20,000,000.00	40,000,000.00	70,000,000.00	100,000,000.00
2. Number of direct (FTE) new jobs facilitated by project (Number)		0.00	0.00	5,500.00	11,500.00	45,000.00	88,000.00	150,000.00
...of which in BSMSN (Number)		0.00	0.00	0.00	500.00	23,000.00	37,000.00	85,000.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
...of which outside BSMSN (Number)		0.00	0.00	5,000.00	10,000.00	20,000.00	47,000.00	61,000.00
...of which women in EZs (Percentage)		0.00	0.00	8.00	9.00	10.00	12.00	20.00
...of which in STPs (Number)		0.00	0.00	500.00	1,000.00	2,000.00	3,000.00	4,000.00
...of which women in STPs (Percentage)		33.00	33.00	34.00	35.00	36.00	38.00	40.00
3. Number of companies using green and resilient services and facilities (Number)		0.00	0.00	9.00	20.00	45.00	90.00	150.00
...of which in BSMSN (Number)		0.00	0.00	4.00	10.00	15.00	38.00	80.00
...of which in PEZs outside BSMSN (Number)		0.00	0.00	5.00	10.00	15.00	22.00	30.00
...of which in STPs (Number)		0.00	0.00	0.00	0.00	15.00	30.00	40.00
4. Greenhouse gas emissions avoided (Tones/year)		0.00	0.00	0.00	1,000.00	3,000.00	15,000.00	30,000.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Component 1: Creating an Enabling Environment for Private Investment and Sustainability								
1.1 Proposal for institutional arrangements governing BSMSN adopted		No	No	No	Yes	No	Yes	Yes



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
by BEZA Executive Board (Yes/No)								
1:2 Establishment of BSMSN Special Purpose Vehicle (Yes/No)		No	No	No	No	Yes	Yes	Yes
1:3 Number of dedicated full-time staff in SOUs: (Number)		0.00	8.00	12.00	13.00	13.00	14.00	14.00
...of which in PPP (Number)		0.00	3.00	4.00	4.00	4.00	4.00	4.00
...of which in social and environmental (Number)		0.00	3.00	6.00	6.00	6.00	6.00	6.00
...of which in engineering and maintenance (Number)		0.00	2.00	2.00	3.00	3.00	4.00	4.00
1:4 Number of PPP feasibility studies completed (Number)		0.00	0.00	3.00	6.00	6.00	8.00	8.00
1:5 Number of PPP transactions completed (Number)		0.00	0.00	0.00	0.00	2.00	3.00	3.00
Component 2: Developing a Greener and Climate Resilient BSMSN								
2.1: Private investment in green and resilient infrastructure (Amount(USD))		0.00	0.00	0.00	5,000,000.00	10,000,000.00	20,000,000.00	35,000,000.00
2.2: Capacity of installed water treatment (Cubic meters/year)		0.00	0.00	0.00	0.00	10,000.00	25,000.00	25,000.00
2.3: CETP capacity of wastewater treatment (Cubic meters/year)		0.00	0.00	0.00	0.00	10,000.00	10,000.00	15,000.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
2.4: Capacity of installed renewable energy (Megawatt)		0.00	0.00	0.00	10.00	20.00	35.00	40.00
Component 3: Creating a Private Market for Serviced Industrial Land								
3.1: Adoption and upholding of fair competition rules (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
3.2: Number of trainees receiving demand driven skills in EZs (Number)		0.00	0.00	1,000.00	4,000.00	10,000.00	15,000.00	20,000.00
...of which women (Percentage)		0.00	0.00	20.00	20.00	25.00	30.00	30.00
3.3: Number of firms with internationally recognized sustainability and resilience certifications (Number)		0.00	0.00	0.00	20.00	30.00	40.00	50.00
Component 4: Strengthening the Digital Entrepreneurship and Innovation Ecosystem								
4.1: Appointment of private operator in Janata STP (Yes/No)		No	No	No	Yes	Yes	Yes	Yes
4.2: Number of IT-ITeS tenants in STPs (Number)		86.00	86.00	96.00	101.00	111.00	126.00	151.00
4.3: Share of satisfied users of start-up & scale-up services (Percentage)		0.00	0.00	50.00	55.00	60.00	65.00	70.00
4.4: Number of trainees receiving demand driven training in IT-ITeS sector (Number)		0.00	0.00	750.00	1,500.00	2,250.00	2,750.00	3,000.00
...of which women (Percentage)		0.00	0.00	0.00	40.00	40.00	40.00	40.00
4.5: Number of SMEs that		0.00	0.00	0.00	10.00	30.00	50.00	80.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
are investment ready (Number)								

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
1. Direct private investment in economic zones	Greenfield investment in EZs not including land.	Bi-Annual	Project Progress reports (PPR)	Survey of operators/tenants	CCU
...of which by BSMSN unit investors		Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which in PEZs outside BSMSN		Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which from PPPs		Bi-Annual	PPR	Survey of operators/tenants	CCU
2. Number of direct (FTE) new jobs facilitated by project	Full-time equivalent (FTE) jobs, not including external construction workers.	Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which in BSMSN		Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which outside BSMSN		Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which women in EZs		Bi-annual	PPR	Survey of operators/tenants	CCU
...of which in STPs		Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which women in STPs		Bi-Annual	PPR	Survey of operators/tenants	CCU
3. Number of companies using green and resilient services and facilities	Companies that benefit from activities financed under Components 1.2, 2.2, 3.2, 4	Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which in BSMSN		Bi-Annual	PPR	Survey of operators/tenants	CCU
...of which in PEZs outside BSMSN		Bi-Annual	PPR	Survey of operators/tenants	CCU



...of which in STPs		Bi-Annual	PPR	Survey of operators/tenants	CCU
4. Greenhouse gas emissions avoided	From solar/biogas/waste heat to steam generation/energy efficiency of CETP/desal.	Bi-Annual	PPR	Survey of operators/tenants	CCU

Monitoring & Evaluation Plan: Intermediate Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
1.1 Separation of BEZA's role as regulator and developer	As acceptable to IDA	Quarterly	PPR	BEZA reporting	CCU
1:2 Establishment of BSMSN Special Purpose Vehicle	As verified by third-party	Quarterly	PPR	BEZA reporting	CCU
1:3 Number of dedicated full-time staff in SOUs:	With TORs approved by IDA	Quarterly	PPR	BEZA reporting	CCU
...of which in PPP	With TORs approved by IDA	Quarterly	PPR	BEZA reporting	CCU
...of which in social and environmental	With TORs approved by IDA	Quarterly	PPR	BEZA reporting	CCU
...of which in engineering and maintenance	With TORs approved by IDA	Quarterly	PPR	BEZA reporting	CCU
1:4 Number of PPP feasibility studies completed	Approved by BEZA Exec.Com.	Quarterly	PPR	BEZA reporting	CCU
1:5 Number of PPP transactions completed	Finalization of process	Quarterly	PPR	BEZA reporting	CCU
2.1: Private investment in green and resilient infrastructure	Covering solar energy, rainwater harvesting, green building, desalination, wastewater treatment, financed with private contribution (PPP or full private capital investment).	Bi-annual	PPR	Survey of operators/tenants	CCU
2.2: Capacity of installed water desalination		Bi-annual	PPR	BEZA reporting	CCU
2.3: CETP capacity of wastewater treatment		Bi-annual	PPR	BEZA reporting	CCU



2.4: Capacity of installed renewable energy		Bi-annual	PPR	BEZA reporting	CCU
3.1: Adoption and upholding of fair competition rules	In compliance with the National Master Plan for BEZA as approved by IDA.	Quarterly	PPR	BEZA reporting	CCU
3.2: Number of trainees receiving demand driven skills in EZs		Quarterly	PPR	Skills voucher program	CCU
...of which women		Quarterly	PPR	Skills voucher program	CCU
3.3: Number of firms with internationally recognized sustainability and resilience certifications	EDGE, LEED, ISO 50001 or equivalent, sustainability or resilience certifications	Bi-annual	PPR	Survey of operators/tenants	CCU
4.1: Appointment of private operator in Janata STP	Award contract signed by the Managing Director of BHTPA	Quarterly	PPR	BHTPA reporting	CCU
4.2: Number of IT-ITeS tenants in STPs		Quarterly	PPR	Survey of operators/tenants	CCU
4.3: Share of satisfied users of start-up & scale-up services	Share of users who respond with 'agree' or 'strongly agree'	Bi-annual	PPR	Survey of beneficiaries	CCU
4.4: Number of trainees receiving demand driven training in IT-ITeS sector		Quarterly	PPR	BHTPA reporting	CCU
...of which women		Quarterly	PPR	BHTPA reporting	
4.5: Number of SMEs that are investment ready	Project-supported companies with verified proof of a completed due diligence or an equity investment/loan from a professional investor	Quarterly	PPR	Survey of operators/tenants	CCU



Disbursement Linked Indicators Matrix

DLI	Total Financing Allocated to DLI (US\$'m)	As % of Total Financing Amount	Indicative Timeline for DLI Achievement						
			DLI Baseline	June 30 2021	Dec. 31 2021	June 30 2022	Dec. 31 2022	June 30 2023	Dec. 31 2023
DLI 1: Strengthen the institutional capabilities of BEZA and make it an effective and financially sustainable institution under Part 1.1	30	6	None	1.1: Establish a dedicated Environmental & Social Unit and appoint at least three specialized staff tasked with the monitoring and compliance of developers, operators and unit investors (US\$5m)	1.2: Adopt & publish the BEZA National Master Plan with phased land development on the BEZA website (US\$7.5m)	1.3: BEZA Executive Board adopts a financial policy and institutional revenue model, with revised financially sustainable annual land lease rates and fair competition rules (US\$7.5m) 1.4: Adopt & publish a revised HR Policy linked to the fulfillment of the BEZA National Master Plan (US\$5m)			1.5: Publish an annual report on the BEZA website with standard reporting criteria for all entities with a final economic zone license, including on tax deductibles/compliance, investment and jobs (US\$5m)
Allocated amount for DLI#1 (US\$'m)	30			5	7.5	12.5			5
DLI 2: Level the playing field for developer-operators of economic zones under Part 1.1, 2.1 and Part 3.1	25	5	None	2.1: Update BEZA's policy on the ratio of third party-to-affiliate unit investors in PEZs from 50% to 60% by December 31, 2022 and 65% by December 31, 2023 with non-compliance provisions for newly approved PEZs (US\$10m)	2.2: Adopt & publish PEZ developer qualification requirements, PEZ license application & approval procedures, a periodic monitoring system tracking compliance with PEZ requirements, and PEZ license termination procedures (US\$5m)	2.3: BEZA Executive Board adopts an institutional framework document and governance structure for a formal coordination mechanism in the BSMSN (US\$10m)			
Allocated amount for DLI#2 (US\$'m)	25			10	5	10			



DLI	Total Financing Allocated to DLI (US\$'m)	As % of Total Financing Amount	Indicative Timeline for DLI Achievement						
			DLI Baseline	June 30 2021	Dec. 31 2021	June 30 2022	Dec. 31 2022	June 30 2023	Dec. 31 2023
DLI 3: Mainstream sustainable and climate resilient practices in economic zones under Part 1.1 of the Project	15	3	None	3.1: BEZA Executive Board approves the National Guidelines for Green Economic Zones (US\$5m) 3.2: Establish an engineering unit with 3 full-time specialized staff for the technical design and maintenance of infrastructure (US\$5m)	3.3: BEZA Executive Board includes a condition for the BSMSN-2 in all land lease agreements that requires lessees to use waste and waste heat, and treated wastewater when available (US\$5m)				
Allocated amount for DLI#3 (US\$'m)	15			10	5				
DLI 4: Establish a PPP SOU and structure three transactions under Part 1.2 and Part 2.2 of the Project	70	14	None	4.1: BEZA Executive Board adopts BEZA Guidelines complying with the national PPP Law (US\$10m) 4.2: Launch an open competitive PPP tendering of the CETP (US\$10m) 4.3: Recruit a dedicated technical team with at least three full-time staff members for a PPP SOU (US\$10m)	4.4: Launch an open competitive PPP tendering for a tier-1 international master developer (US\$20m) 4.5: Launch an open competitive PPP tendering of one green priority infrastructure service (US\$20m)				
Allocated amount for DLI#4 (US\$'m)	70			30	40				



DLI	Total Financing Allocated to DLI (US\$m)	As % of Total Financing Amount	Indicative Timeline for DLI Achievement						
			DLI Baseline	June 30 2021	Dec. 31 2021	June 30 2022	Dec. 31 2022	June 30 2023	Dec. 31 2023
DLI 5: Establish a privately-operated flagship STP under Part 4.1 of the Project	10	2	None		5.1: Launch an open competitive PPP tendering process for an internationally recognized operator of Janata-2 (US\$2m)		5.2: Award operator contract for Janata-2 (US\$8m)		
Allocated amount for DLI#5 (US\$m)	10				2		8		
Totals	150			55	59.5	22.5	8		5



Verification Protocol Table: Disbursement Linked Indicators

DLI 1	Strengthen the institutional capabilities of BEZA and make it an effective and financially sustainable institution under Part 1.1
Description	This activity will help BEZA strengthen its institutional capacity to fulfill its mandate while remaining solvent.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	
DLI 1.1	1.1: Establish a dedicated Environmental & Social Unit and appoint at least three specialized staff tasked with the monitoring and compliance of developers, operators and unit investors
Description	This activity will establish an SOU and the hiring of technical full-time staff members to strengthen environmental and social compliance with the BEZA Act and licensing rules.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review BEZA Executive Board Minutes that approves the recruitment of at least three full-time staff members for the E&S Unit; (ii) review the terms of reference of the technical roles to ensure that they are relevant for the E&S Unit; and (iii) review the contracts of the selected team members to validate that the candidates fulfill the criteria in the TOR.
DLI 1.2	1.2: Adopt & publish the BEZA National Master Plan with phased land development on the BEZA website
Description	BEZA National Master Plan adopted by BEZA Executive Board and published on the BEZA website.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board Minutes approving the National Master Plan; (ii) obtain a copy of the approved National Master Plan; and (iii) review the BEZA website for the published National Master Plan.
DLI 1.3	1.3: BEZA Executive Board adopts a financial policy and institutional revenue model, with revised financially sustainable annual land lease rates and fair competition rules
Description	This activity will help ensure that BEZA remains solvent and upholds fair competition in the market for serviced industrial land.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board's Minutes approving the new financial policy; and (ii) institutional revenue model acceptable to IDA.



DLI 1.4	1.4: Adopt & publish a revised HR Policy linked to the fulfillment of the BEZA National Master Plan
Description	This activity will help BEZA put in place the necessary HR policy with associated system and structures to deliver on the mandate and the BEZA National Master Plan.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board’s Minutes adopting the revised HR Policy; and (ii) review the revised HR Policy to ensure that it is aligned with the new BEZA National Master Plan.
DLI 1.5	1.5: Publish an annual report on the BEZA website with standard reporting criteria for all entities with a final economic zone license, including on tax deductibles/compliance, investment and jobs
Description	This activity will help provide public oversight of the economic outcomes of the economic zones policy and individual private economic zone licenses.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board’s Minutes approving standard reporting criteria on economic zones; and review the published Annual Report to ensure it meets the standard reporting criteria.
DLI 2	Level the playing field for developer-operators of economic zones under Part 1.1, 2.1 and Part 3.1
Description	This activity will seek to build the foundation for a fair, transparent and competitive market for economic zone development by reducing the risk for unnecessary fiscal leakage, clarifying BEZA’s role as regulator versus developer, strengthening BEZA’s regulatory capacity and allowing the Government of Bangladesh to administer the establishment of a major industrial agglomeration in BSMSN.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	
DLI 2.1	2.1: Update BEZA’s rules that increase the ratio of third party-to-affiliate unit investors in PEZs from 50% to 60% by December 31, 2022 and 65% by December 31, 2023 with non-compliance provisions
Description	This activity will reduce the scope for unnecessary fiscal leakages and seek to achieve the objectives for BEZA’s original establishment of creating a market for industrial tenants in privately developed economic zones.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports and BEZA website
Verification Entity	Independent verification agency
Procedure	The verification process will review the BEZA Executive Board’s Minutes approving an update of the rules covering economic zones developers in the future.
DLI 2.2	2.2: Adopt & publish PEZ developer qualification requirements, PEZ license application & approval procedures, a periodic monitoring



	system tracking compliance with PEZ requirements, PEZ license termination procedures
Description	This activity will help strengthen BEZA’s guidelines and provide standardized tools for BEZA to play its role as an effective regulator.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board’s Minutes adopting the PEZ developer qualification requirements, the PEZ license application and approval procedures, the periodic monitoring system tracking compliance with PEZ requirements, and the PEZ license termination procedures; and (ii) review the publication of the new economic zones developers’ rules.
DLI 2.3	2.3: BEZA Executive Board adopts an institutional framework document and governance structure for a formal coordination mechanism in BSMSN
Description	This activity will help the Government of Bangladesh establish an inclusive governance mechanism for the planned expansion of the new industrial agglomeration of BSMSN.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board Minutes adopting the BSMSN institutional framework and governance structure; and (ii) review the adopted BSMSN institutional framework and governance structure to ensure it covers a formal coordination mechanism for BSMSN.
DLI 3	Mainstream sustainable and climate resilient practices in economic zones under Part 1.1 of the Project
Description	This activity will seek to help BEZA develop, adopt and mainstream sustainable and climate resilient practices in economic zones.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	
DLI 3.1	3.1: BEZA Executive Board approves the National Guidelines for Green Economic Zones
Description	This activity will see the adoption of National Guidelines for Green Economic Zones to facilitate a switch to sustainable and climate resilient practices.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will review BEZA Executive Board Minutes approving the National Guidelines for Green Economic Zones.
DLI 3.2	3.2: Establish an engineering unit with 3 full-time specialized staff for the technical design and maintenance of infrastructure
Description	This activity will help BEZA build the capacity needed to design and maintain infrastructure investments.
Scalability of Disbursements (Y/N)	N



Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review BEZA Executive Board Minutes that approves the recruitment of at least three full-time staff members for the engineering unit; (ii) review the TOR of the technical roles to ensure that they are relevant for the engineering unit; and (iii) review the contracts of the selected team members to validate that the candidates fulfill the criteria in the TOR.
DLI 3.3	3.3: BEZA Executive Board includes a condition for the BSMSN-2 in all land lease agreements that requires lessees to use waste and waste heat, and treated wastewater when available
Description	This activity will help strengthen the competitiveness and resilience of BSMSN-2.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board’s Minutes adopting the conditions regarding the BSMSN-2 land lease agreements, including existing ones; and (ii) review the announcement and the addendum to leases.
DLI 4	Establish a PPP SOU and structure three transactions under Part 1.2 and Part 2.2 of the Project
Description	This activity will bring in private capital, technology and managerial expertise to expand services in select economic zones.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	
DLI 4.1	4.1: BEZA Executive Board adopts BEZA PPP Guidelines
Description	BEZA adopts new PPP guidelines to provide direction for future PPP transactions
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review BEZA Executive Board Minutes approving BEZA PPP Guidelines; (ii) review the BEZA PPP Guidelines to ensure they comply with national law; and (iii) review the BEZA website
DLI 4.2	4.2: Launch an open competitive PPP tendering of the CETP
Description	This activity will help BEZA seek to bring in an external partner in the provision of industrial wastewater treatment
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the call for expression of interest for tendering of the CETP and the advertisement process; (ii) review the shortlisting documentation of the proposals received; and (iii) review the RfP to verify that a transparent and competitive process has been observed.



DLI 4.3	4.3: Recruit a dedicated technical team with at least three full-time staff for a PPP SOU
Description	This activity will help BEZA build the minimum capacity to manage the PPP transaction process.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the BEZA Executive Board Minutes that approves the recruitment of at least three full-time staff members for the PPP SOU; (ii) review the TOR of the technical roles to ensure that they are relevant for the PPP SOU; and (iii) review the contracts of the selected team members to validate that the candidates fulfill the criteria in the TOR.
DLI 4.4	4.4: Launch an open competitive PPP tendering for a tier-1 international master developer
Description	This activity will seek to bring in an international master developer to build and operate an economic zone attractive to establish international supply chains in Bangladesh.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the call for expression of interest for tendering of the tier-1 IMD and the advertisement process; (ii) review the shortlisting documentation of the proposals received; and (iii) review the RfP to verify that a transparent and competitive process has been observed.
DLI 4.5	4.5: Launch an open competitive PPP tendering of one green priority infrastructure service
Description	This activity will seek to bring in a private partner to develop and operate a green priority infrastructure service as per the recommendations of the feasibility study. It will likely be either in water treatment/supply or renewable energy.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the call for expression of interest for tendering of the green priority infrastructure service and the advertisement process; (ii) review the shortlisting documentation of the proposals received; and (iii) review the RfP to verify that a transparent and competitive process has been observed.
DLI 5	Establish a privately-operated flagship STP under Part 4.1 of the Project
Description	This activity will help establish an STP in Janata with professionally operated entrepreneurship services operated by a private operator with a proven track record.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	
DLI 5.1	5.1: Launch an open competitive PPP tendering process for an internationally recognized operator of Janata-2



Description	This activity will launch the tendering process to find the strongest partner to BHTPA.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will: (i) review the call for expression of interest for tendering for an operator of Janata-2 and the advertisement process, (ii) review the shortlisting documentation of the Expression of Interest proposals received; and (iii) review the RfP to verify that a transparent and competitive process has been observed.
DLI 5.2	5.2: Award operator contract for Janata-2
Description	This activity will conclude the search process and formalize the public-private partnership.
Scalability of Disbursements (Y/N)	N
Data source/ Agency	Project Progress reports
Verification Entity	Independent verification agency
Procedure	The verification process will review the operator contract for Janata-2 and ensure that it is aligned with the STP's operator guidelines.



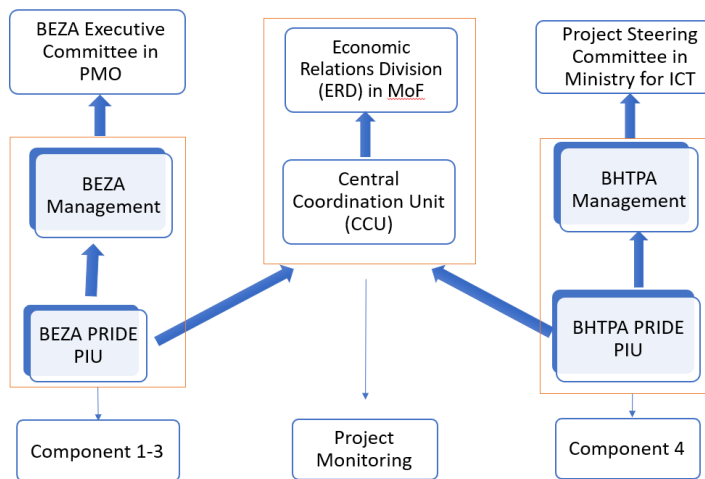
ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Bangladesh

Bangladesh Private Investment & Digital Entrepreneurship Project

1. The implementation arrangements represent a continuation from the PSDSP: a CCU function under the Ministry of Finance will act as the monitoring entity for financial matters and results progress collected from the implementing agencies--the BEZA and the BHTPA (see Figure 3). Thus, the CCU will have a role as a third implementing agency with its own budget. The BEZA will require significant capacity building as it scales up its activities. The IDA credit will finance recurrent expenditures for certain functions within the authority. The focus will be to recruit the right expertise for specialized functions that are critical for effective project implementation and delivery. The BHTPA will also require capacity building but to a lesser extent than the BEZA. As for the BEZA, the IDA credit will finance recurrent expenditures for key functions within the authority. The focus will be to recruit the right expertise for specialized functions that are critical for effective project implementation and delivery.

Figure 3: Project Reporting and Organization



Financial Management and Procurement

2. The estimated cost of the Project is US\$555 million and covers four components. The first three components will be implemented by the BEZA and the fourth component by the BHTPA. The activities build on the experience from, and work done to date, under the IDA-funded PSDSP and the UKAID-funded Bangladesh Investment Climate Fund 2, administered by the International Finance Corporation (IFC). For the BEZA, the Project is designed to help de-risk operations, enable the authority to significantly scale up its activities and deliver on commitments to private and public partners, to ensure more positive development outcomes. For the BHTPA, the Project is designed to promote digital entrepreneurship and job creation for educated urban dwellers, including women and youth.

3. **CCU:** The ERD will be the coordination unit for the Project. The CCU will be headed by a Project Coordinator who will be a senior level official of the ERD. The CCU will not have approval or clearance authority over the activities to be implemented by the BEZA and the BHTPA. It will act on financial matters based on the advice of the BEZA and the BHTPA. FM staff in the CCU will be required to periodically get trained in the areas related to: (a) submission of claims to the WB



disbursements unit under the IUFR-based electronic disbursement method; (b) awareness and training to understand the project design/concept and other innovative arrangements; and (c) additional measures required to handle the DLI-based component. A significant portion of the training effort will be concentrated in the initial 18 months of implementation of the Project to maximize impact.

4. Project Implementation Units (PIUs) in BEZA and BHTPA will be the key implementing agencies and will be responsible for dealing with flow of funds, procurement, monitoring and reporting. The PIUs will be headed by Project Directors who will be appointed on a full-time basis for the entire duration of the Project. The existing FM setup, policies and procedures of these agencies, except on areas agreed otherwise, will be applicable for the Project. In each of the project implementation teams at the BEZA and BHTPA, the FM unit will be headed by a qualified and experienced accountant who would preferably have prior experience in FM under WB or donor-financed projects. The accountants will provide guidance and direction to ensure that the FM arrangements are implemented to the satisfaction of the GoB and the WB. FM support staff, assigned or recruited for the Project by the team, will work under the accountant to support the management of routine accounting and the Project's FM activities. The Senior FM specialist and support staff will have the following minimum experience: (i) Senior FM specialist with 20 years, (ii) FM consultant with 10 years, and (iii) Junior accountant with 5 years. The Senior FM specialist will carry out an FM needs assessment before computerization. Terms of Reference will be prepared based on the assessment.

5. The accountants in the project implementation teams will be responsible for managing day-to-day FM activities, including budgeting, disbursement planning and forecasting, disbursement of funds, making payments, maintaining books and records for financial transactions, submission of quarterly IUFRs under their component, preparation of annual financial statements, and interacting with internal and external auditors on audit issues and follow-up.

6. Budgeting. The BEZA and the BHTPA will forecast the required resources to be budgeted for the Project under their respective components. These forecasts will be incorporated into their respective budgets, which are then submitted to the Ministry of Finance. A separate budget code (line item) will be set up each for the BEZA and the BHTPA. The project implementation teams will prepare detailed implementation plans in line with the detailed project budget to clearly specify the funding requirement for each component and activity.

7. Fund flow and disbursement arrangements. For utilization of eligible project expenditures, the BEZA and the BHTPA will each maintain two Designated Accounts (DA): one for the DLI part and one for the non-DLI part, and the CCU will maintain one DA where IDA funds will flow under agreed terms and conditions. In the case of BEZA, the DA will be the same for categories 2 and 6(i) of the Withdrawal Table. The designated Project Coordinator of the CCU and, in her/his absence, the Deputy, will be a signatory for the DAs to be maintained by the BEZA and the BHTPA, with the other signatory from the BEZA and the BHTPA, respectively. The designated Project Coordinator (PC) of the CCU and, in his absence, the Deputy, will be signatory for the DA to be maintained by the CCU. The DAs would be in BDT and disbursements will be made based on six-months forecasts. The PIU Project Directors and their deputies will be the authorized persons for utilizing funds in the DAs of the BEZA and the BHTPA.

8. The PIUs will send monthly Statement of Expenditures (SOEs) in an agreed format to the CCU. The CCU and the BEZA/BHTPA, as applicable will submit withdrawal applications to IDA for replenishment of the DA on the bases of actual expenditures. Direct payment from IDA's Disbursement Office can also be used for the non-DLI part.

9. Disbursements will be report-based for non-DLI components. The project implementation teams will each submit quarterly IUFRs to the CCU for consolidation and from the CCU to the WB within 45 days of the end of each quarter. The



WB will advance funds to the DAs in adequate amounts to meet forecasted expenditures for the next six months, as reflected in the IUFR. The format of the IUFR, designed in accordance with the guidelines issued by the WB, will be finalized and agreed prior to negotiations and be attached to the disbursement letter.

10. For non-DLI activities, the project implementation teams have the option of requesting a direct payment to suppliers by the WB against IDA credit for large payments. To facilitate timely fund transfers as per agreed service standards and corresponding accounting, reporting and compiling of financial information, a detailed procedure outlining roles and responsibility of the CCU and the PIUs are shown in Table 2:

Table 2: Summary of Fund Flow Procedures

PIUs	CCU
Open Designated Accounts	Receive confirmation including the name of signatories from PIUs.
Submit to the CCU advance request for six months of expected expenditures based on realistic and approved work plans/contracts.	Facilitate submission of withdrawal application to IDA.
Account for expenditure made of advances within 30 days.	Make adjustment/ reconciliation in its books. Monitor utilization of advance through receiving the monthly SOEs.
Submit monthly SOEs including direct payment details in an agreed format to CCU along with bank reconciliation.	Monitor the SOEs and status of the advance and verify with the further fund request.

11. **Accounting policies and procedures.** The accounting policies and procedures of the Project will be governed by the existing system outlined in the Project Accounting Manual of the Ministry of Finance. The PIUs will have the primary responsibility to provide accurate and timely information regarding resources and expenditure made by the implementing agencies to the CCU and copied to the WB. The CCU will provide periodic consolidated reports to the WB and the GoB on the overall financial and physical performance.

12. The key accounting functions for which the CCU is responsible are: (i) payments for eligible expenditures related to its own implementation and payment in foreign currency to third parties; (ii) disbursement of project funds to PIUs as per approved work plan; (iii) maintenance of books and bank accounts for its own expenditures and fund flow; (iv) cash flow management; (v) receiving monthly SOEs and quarterly IUFR from PIUs; (vi) preparing consolidated IUFRs for whole projects following a standard format as agreed by the WB and submission to the GoB, WB and other stakeholders; (vii) preparation of Withdrawal Application to claim funds from the WB; and (viii) assistance to the external auditor and ensuring appropriate coordination with PIUs for audit follow up.

13. The key accounting functions for which the PIUs are responsible are: (i) fund requisition to the CCU on the basis of six months estimated expenditure and approved work plan; (ii) payment for eligible project expenditure for which the relevant executing agencies are responsible; (iii) advising the CCU to request direct payments to third parties; (iv) preparation of monthly SOE, quarterly IUFR in standard reporting format as agreed by the WB and bank reconciliation; (v) submission of IUFR to the CCU; and (vi) assistance to external audit and timely response to audit.

14. **Financial Reporting and Monitoring.** The CCU will receive the financial information with bank reconciliation from the PIUs on a monthly basis within 15 working days after the end of the month. The CCU will verify the information to adjust and account for advances and will ensure that the reports have been prepared in the standard formats as agreed by the PIUs. The CCU will send a consolidated report to the WB. Computerized accounting software will be used by the implementing agencies, including the CCU, within one year of project effectiveness. Until the accounting software is in



place, the books of accounts, bank and cash book and registers for the fixed assets will be maintained manually. The Chart of Account will be developed following the GoB code of accounts and project components.

15. The PIUs will prepare an IUFR for each calendar quarter and submit it to the CCU within 30 days after the end of the quarter with a copy to the WB. The WB and PIUs will agree a format of the IUFR showing receipts, uses and balances of IDA funds and other sources (if any) and status of the procurement activities including contract wise status of payment against the contract value. Actual expenditures of the PIUs will be compared with the budget of each quarter. Budget variances and their rationale will be discussed in the IUFR. The CCU will consolidate the IUFRs of the PIUs and submit it to the Bank within 45 days after the end of the quarter. The PIUs and the CCU will also prepare the annual financial statements before August 31 after the end of each fiscal year for submission it to its auditors. The annual financial statements of the Project will follow the accounting and reporting standards of the country as applicable by the rules and regulation of the country.

16. **Internal Audit:** In view of the involvement of multiple agencies in the implementation of the Project and decentralized operation, it is recommended that the Project would undergo an internal audit to evaluate the adequacy and effectiveness of other controls in the project. The internal audit will be carried out by a professional auditing firm (recruited by the CCU) on an annual basis before an external audit is conducted. The CCU will coordinate and appoint a private audit firm with the TORs and the selection process acceptable to the WB.

17. **External Audit:** Each implementing agency complies with audit covenants of WB financed projects. Each implementing agency will prepare annual financial statements reflecting the project resources received and used on the part of the Project it implemented and submit it to the CCU. The CCU will prepare consolidated annual financial statements for the entire Project showing appropriate break down by parts of the Project implemented by each agency and make it available to the auditor by September 15, each year. Such financial statements would be audited by the Foreign Aided Project Audit Directorate of the Comptroller and Auditor General (C&AG). A Statement of Audit Needs (SAN) will be prepared by the CCU and agreed with the C&AG. The CCU will submit the consolidated audited financial statements for the entire Project not later than December 31 each year. Such audited consolidated financial statements will be submitted to the Chair of the Steering Committee with copies to the Secretary of each implementing ministry with management letters addressed to head of each implementing agency. The SAN will include an audit focus on testing efficacy of internal control arrangements at various agencies and transaction testing for detection of misuse of funds. In addition, the Project may undergo a WB-led annual integrated fiduciary review beginning in the second year, which would cover procurement and technical aspects of the Project. A Committee to be composed of FM specialists handling each component and at least two external members from the Foreign Aided Project Audit Directorate (FAPAD) will be formed for the duration of the Project to facilitate early resolution of annual audit observations from FAPAD. There are no overdue audit reports under the PSDSP.

Table 3: Reporting Calendar

Coordinating Agency	Audit Type	Auditor	Deadline
ERD CCU	Audit of Project's Consolidated Annual Financial Statements	FAPAD under the C&AG	December 31

Report	Type of Report	Start-End Date	Deadline
IDA reports	IUFR (PIU to CCU)	Quarterly	30 days after month end
	IUFR (CCU to Bank)	Quarterly	45 days after month end



	Financial Statements (PIU & CCU)	Annual	August 31
GoB reports	Standard Required Reports	Per GoB rules	Per GoB rules
Management reports	Financial Information with Bank Recon	Monthly	15 days after month end
	Statement of Expenditures	Monthly	30 days after month end

18. Financial covenants. The financial covenants of the Project include: (a) audited annual project financial statements to be submitted to the WB no later than six months of the following financial year; (b) IUFRRs to be submitted to IDA no later than 45 days following the end of the reporting quarter; and (c) computerization of the FM system within one year of project effectiveness.

19. Implementation support plan. Consistent with a risk-based approach, FM supervision activities will consist of desk reviews of internal and external audit reports, including verification of the adequacy of the resolution of major audit observations, and review of quarterly IUFRRs, supplemented by dialogue with implementation teams as needed, especially during the initial years of project implementation. The FM supervision mission will be conducted at least once every six months. The WB FM supervision will also review: (i) quarterly IUFRRs; (ii) Audit Reports and Management Letters; and (iii) Report of Operational Audit and follow-up material accountability issues by engaging with the task team leader, the Client, and/or Auditors. Other supervision tools and resources, such as transaction reviews, site visits, etc., will be used to periodically monitor the adequacy of the FM system. In addition to the regular FM implementation support, the WB team will provide training, capacity building, and knowledge sharing for FM staff, internal audit staff, and the external auditor.

20. Disbursement Arrangements. The Project is financed by an IDA credit of US\$500 million, and government contributions of US\$55 million. IDA will finance 92.55 percent of eligible expenditures of the BEZA part except category 3(i) and (ii), including taxes with the remaining 7.45 percent being contributed by the GoB. US\$8 million will be financed on a parallel basis for expenditures that cannot be financed by IDA like land acquisition, fuel, workshop allowances, sitting allowances, cash per diems and honoraria. Estimated taxes to be financed would be less than 15 percent of the financing. IDA financing in each category is detailed in Table 4 and will be inclusive of taxes. The funds will be disbursed based on IUFRRs. For DLI components, disbursements of the amounts allocated to each of the respective DLIs will start conditional on their achievement of the relevant DLI targets. Applications for requesting direct payment and reimbursement shall, when required, be supported by records of such expenditure and/or evidence of payments made by executing agencies. All documentation showing expenditure shall be retained by the executing agencies and shall be made available to auditors for audit and to the WB, if requested.

21. Incremental Operating Costs. Incremental operating costs mean the reasonable costs required for the day-to-day coordination, administration and supervision of Project activities, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, office supplies, utilities, consumables, communication expenses, translation, printing, photocopying and postal expenses, bank charges, advertising expenses, insurance, cost of clearing, forwarding, inspection, survey and transportation of goods, Project-related meeting expenses, Project-related travel, provided that such Operating Costs are paid to the eligible recipient through the banking system (except for petty cash expenses following the GoB’s existing policy); but excluding salaries, per diem, fuel, allowances, sitting allowances and honorarium of any other nature of civil servants of the GoB.



22. **Training Cost.** Training means the reasonable costs required for the participation of personnel involved in training activities, seminars and workshops under the Project, which have been approved by the IDA in writing on an annual basis, including: (a) travel, hotel, and subsistence costs for training, seminars and workshop participants provided that such allowances are paid directly to the eligible recipient using the banking system; and (b) costs associated with rental of training, seminar and workshop facilities, preparation and reproduction of training, seminar and workshop materials, costs of academic degree studies, and other costs directly related to the training course or workshop preparation and implementation, but excluding sitting allowances and honorarium of any other nature. Table 5 shows the IDA financing under different categories:

Table 4: Allocation of the IDA Credit by Component

Project Cost by Component	Project Cost (US\$'m)	IDA (US\$'m)
Component 1: Creating an Enabling Environment for Private Investment and Sustainability	56	36
Component 2: Developing a Greener and Climate Resilient BSMSN	416	391
Component 3: Creating a private market for serviced industrial land	43	43
Component 4: Strengthening the digital entrepreneurship and innovation ecosystem	40	30
Sub-total	555	500

Table 5: Allocation of the IDA Credit by Category

Category	Amount of the Credit Allocated (in EUR)	Percentage of Expenditures to be Financed (incl. of Taxes)
(1) Goods, works, non-consulting services, consulting services, training and operating costs for Parts 1, and 3.1 of the Project and 3.2	46,000,000	92.55
(2) Goods, works, non-consulting services, consulting services, Training and operating costs for Part 2 of the Project	225,250,000	58.89
(3) Grants under Part 3.2 of the Project towards		100
(i) Voucher Program	13,800,000	100
(ii) Grant Program	18,400,000	
(4) Goods, non-consulting services, consulting services, training and operating costs for Part 4.1 of the Project and works for Part 4.1 (ii) of the Project	1,850,000	100
(5) Goods, works, non-consulting services, consulting services, Training, and operating costs under Part 4.2	16,550,000	100
(6) (i) BEZA EEPs	128,750,000	33.65
(ii) BHTPA EEP	9,200,000	50
(7) Interest Rate Cap or Interest Rate Collar premium		Amount payable pursuant to Section 2.03 of the Financing Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	459,800,000	



23. **DLI-based component.** Eligible expenditures and activities will be tracked and monitored by the designated staff of the CCU and the BEZA and verified by a third-party as needed. Disbursement against achievement of the DLIs at any point will be made after its achievement has been formally verified by the WB. Disbursements of the amounts allocated to each DLI will be made, conditional on their achievement of the relevant DLI targets. Section VII provides an overall summary of the five enabling DLIs with relevant DLI targets to be met, the responsible institutions for their implementation, the amounts allocated to each DLI target (column ‘Amount’), and the DLRs (the last column). Table 6 below provides the beneficiary of funds on completion of the DLI action.

Table 6: Proposed Disbursement of Funds for DLIs

DLI	BEZA (US\$’m)	BHTPA (US\$’m)	Total (US\$’m)
DLI 1: Strengthen the foundation for a robust, capable & financially sustainable institution	30	-	30
DLI 2: Level the playing field for developer-operators of economic zones	25	-	25
DLI 3: Mainstream sustainable and climate resilient practices in economic zones	15	-	15
DLI 4: Establish SOU for PPPs and structure three transactions	70	-	70
DLI 5: Establish a privately-operated flagship STP with entrepreneurship programs	-	10	10
Total DLI budget	140	10	150

24. For DLI components, the WB may advance funds to a DA of the GoB to finance eligible expenditures as they are incurred. Subsequent disbursements/replenishments will be based upon the GoB fulfilling two requirements: (a) achievement of agreed DLIs, documented in a DLI report, verified by the WB; and (b) a certification of the Eligible Expenditure Program (EEP) statements (where EEPs value should be greater than the DLI amount claimed). After verification of the DLIs achieved, the GoB will submit a request for payment of the DLI amount. Details of the EEPs of the respective implementing entity along with the budget codes are reflected below. DLIs are conditions of performance, rather than conditions of disbursement in the traditional sense. A refund will be due to the WB if the DLI is not met, even if the expenditures have been incurred.

25. Documentation of expenditures for each reporting period will be based on the lower of: (a) the total allocated amount for each of the DLI targets, which are met and verified in the reporting period of the GoB and PIUs; and (b) the total expenditures incurred and paid on EEPs by the Project in the reporting period. If total expenditures on EEPs for the reporting period are less than the total DLI amount achieved for the reporting period, the undisbursed amount will be rolled over to the subsequent reporting period. Similarly, any excess of the total DLI amount achieved against the total expenditures on EEPs for any period will be rolled over to the subsequent period for comparison with the total expenditure (including rolled over expenditure, if any) of the subsequent reporting period. EEPs can also be rolled over for the subsequent period until the closing date by the Project for disbursement purposes as mentioned above. The IUFR format will be designed to track both separately to prevent excess claims.

26. The remaining expenditures of the Project will be claimed only under the non-DLI part. The availability of eligible expenditures with budget codes and the separate DA will ensure delineation of expenditures between the DLI and non-DLI parts. The BEZA EEP means the eligible expenditure program being the expenditures incurred on goods, works, non-consulting services, consulting services, training and operating costs incurred by BEZA under Part 2.1 and 2.2 of the Project, to the extent of 33.65 percent as outlined in Table 5. The BHTPA EEP means the eligible expenditure program



being the expenditures incurred on goods, works, non-consulting services, consulting services, training and operating costs for BHPTA under Part 4.1 of the Project, to the extent of 50 percent, excluding expenditures to be claimed under Category (4) of Table 5.

27. DLI reporting and verification. The Project is expected to become effective in August 2020. Post effectiveness, the CCU will gather evidence in coordination with the implementing entities and forward a report to the IDA on the achievement of the DLIs on a regular basis. The WB will then confirm the evidence of DLI achievement and expenditure against agreed eligible expenditures. On confirmation, the GoB can forward a withdrawal application for the payment to the value of the DLI amounts and related EEPs.

28. Retroactive financing. A retroactive financing facility is supported for eligible expenditures up to US\$5 million under Category 1 and up to US\$5 million under Category 2 incurred on or after April 1, 2020. Retroactive financing is permitted for activities based on the following conditions: (a) the activities are included in the project description and are eligible under the Credit Agreement (e.g. the National Master plan for BEZA); (b) the payments are for items procured in accordance with applicable WB procurement guidelines; (c) payments do not exceed 20 percent of the credit amount; (d) the payments were made by the borrower not more than 12 months before the expected date of the Credit Agreement signing; and (e) these activities comply with the WB fiduciary and safeguard policies and procedures. The date after which payments may be made under retroactive financing provisions is agreed and recorded in the Credit Agreement. Any payments made by the borrower in expectation of retroactive financing are at the borrower's risk and do not commit the WB to approve the credit or to cover these expenditures from the credit, if these are not found eligible under the Project.

29. Procurement risk mitigation: The following measures are agreed for implementation: (i) transaction advisory services firm(s) will be recruited by the BEZA to ensure transfer of knowledge on PPP procurement and contract management; (ii) a PPP SOU will be created in BEZA made up of full-time dedicated staff supported by procurement consultants to manage competitive bidding processes, deal with unsolicited proposals, negotiate contractual arrangements and then monitor and coordinate the enforcement of contractual arrangements for PPP transactions; (iii) only standard procurement document(s) for PPPs consistent with the WB Procurement Regulations will be used; (iv) the market for selected PPPs will be sounded out to gauge interest by the private sector; and (v) the procurement process will be widely disseminated with road shows carried out at strategic locations internationally. Procurement specialists of the WB with PPP procurement expertise will provide cross support from other countries.



Table 7: BHTPA Procurement Plan in the first 18 months – main packages

Description	Number of packages	Category	Method	Approach	Budget (US\$'m)	Review	Request for Bids	Signing of Contract
Construction of Janata-2	1	Works	RFB	Int	17.0	Prior	Oct 1-21	Apr 1-22
Renovation of Janata-1	1	Works	RFB	Nat	2.0	Post	Oct 1-20	Apr 1-21
UIH Dhaka, Chattogram, Khulna	3	Works	RFB	Nat	0.6	Post	Oct 1-20	Apr 1-21
Equipment for UIHs	3	Goods	RFB	Nat	0.6	Post	Jan 1-21	Jul 1-21
Start-up & Scale-up Facilities	4	Goods	RFB	Nat	0.4	Post	Mar 1-21	Oct 1-21
Equipment for common facilities in Labs	4	Goods	RFB	Nat	0.8	Post	June 1-21	Dec 1-21
Transaction Advisory Services firm	1	CS	QCBS	Nat/Int	0.4	Post	Jun 1-21	Dec 1-21
Design & Supervision Firm	1	CS	QCBS	Nat/Int	0.8	Post	Oct 1-20	Apr 1-21
Startup & Scale-up Program Management	1	CS	QCBS	Nat/Int	4.3	Prior	Sep 1-21	Mar 1-22
UIH Program Management	1	CS	QCBS	Nat/Int	3.2	Prior	Sep 1-21	Mar 1-22
Training (framework contract)	1	Non-CS	QCBS	Nat/Int	2.0	Prior	Sep 1-21	Mar 1-22
Total	21				32.1			

Note: CS = Consulting Services, QCBS = Quality and Cost Based Selection

Table 8: BEZA Procurement Plan in the first 18 months – main packages

Description	Number of packages	Category	Method	Approach	Budget (US\$'m)	Review	Request for Bids	Signing of Contract
Road and Storm Water Network 2A	1	Works	RFB	Int	24.1	Prior	Nov 1-20	June 1-21
Road and Storm Water Network 2B	1	Works	RFB	Int	19.6	Prior	Nov 1-20	June 1-21
Access Road	1	Works	RFB	Int	30.4	Prior	Nov 1-20	June 1-21
Power Network	1	Works	RFB	Int	19.0	Prior	Nov 1-20	June 1-21
Water supply & treatment plant	1	Works	RFB	Int	20.0	Prior	Nov 1-20	June 1-21
Sewer Network	1	Works	Deposit Work by KGDCL	Nat	2.0	Post	Jan 1-21	Aug 1-21
Gas pipeline network	1	Works	Deposit Work by BTCL	Nat	20.0	Prior	Jan 1-21	Aug 1-21
Telecom network	1	Works	RFB	Nat	2.0	Post	Feb 1-21	Sep 1-21
Resilient Site Development	1	Works	RFB	Nat	5.9	Prior	Feb 1-21	Sep 1-21
Environmental lab & monitoring system	1	Works	RFB	Nat	0.9	Post	Mar 1-21	Oct 1-21
Canal development and lining	1	Works	RFB	Nat	6.0	Post	Mar 1-21	Oct 1-21



Security and Support Amenities	1	Works	RFB	Nat	15.0	Prior	Mar 1-21	Nov 1-21
Emergency Response Centre	1	Works	RFB	Nat	2.9	Post	Mar 1-21	Oct 1-21
Furnished OSS Centre	1	Works	RFB	Nat	1.2	Post	Mar 1-21	Oct 1-21
CETP	1	Works	RFB	Int	24.0	Prior	Apr 1-21	Dec 1-21
Solid waste Management	1	Works	RFB	Int	15.0	Prior	Apr 1-21	Dec 1-21
Biogas Plant	1	Works	RFB	Int	4.0	Prior	Apr 1-21	Dec 1-21
Waste Storing & material recovery facility	1	Works	RFB	Int	4.0	Prior	Apr 1-21	Dec 1-21
Testing Laboratories	1	Goods	OTM	Nat	0.5	Post	Apr 1-21	Dec 1-21
Financial Management System	1	Goods	OTM	Nat	0.1	Post	Jan 1-21	Aug 1-21
National Master Plan for BEZA	1	Services	QCBS	Int	1.8	Prior	Aug 1-20	Feb 1-21
Feasibility Studies	1	Services	QCBS	Int	1.0	Prior	Feb 1-21	Oct 1-21
Regulatory reform and advisory services	1	Services	QCBS	Int	0.8	Prior	Oct 1-20	May 1-21
PPP Training Firm	1	Services	QCBS	Int	1.8	Prior	Oct 1-20	May 1-21
PPP Guidelines	1	Services	QCBS	Int	0.7	Prior	Jan 1-21	Aug 1-21
Port Feasibility Study	1	Services	QCBS	Int	1.6	Prior	Jan 1-21	Aug 1-21
Port Transaction Advisor	1	Services	QCBS	Int	1.5	Prior	Jan 1-21	Aug 1-21
IMD Green Zone & Transaction Advisor	1	Services	QCBS	Int	1.5	Prior	Jan 1-21	Aug 1-21
Desalination Transaction Advisor	1	Services	QCBS	Int	1.2	Prior	Jan 1-21	Aug 1-21
Solar Power Feasibility & Transaction Advisor	1	Services	QCBS	Int	1.0	Prior	Jan 1-21	Aug 1-21
Solid Waste Management, steam and Biogas Feasibility & Transaction Advisor	1	Services	QCBS	Int	1.2	Prior	Apr 1-21	Dec 1-21
CETP Transaction Advisory	1	Services	QCBS	Int	0.2	Prior	Apr 1-21	Dec 1-21
Infrastructure Planning & Financing modalities + master plan for BSMSN Commerce & residential	1	Services	QCBS	Int	1.6	Prior	Apr 1-21	Dec 1-21
Monitoring & Supervision Engineers for PPPs	3	Services	QCBS	Int	1.2	Prior	Apr 1-21	Dec 1-21
Design & Supervision Consultant	1	Services	QCBS	Int	8.8	Prior	Apr 1-21	Dec 1-21
Environmental & Social Consultancy Services	4	Services	QCBS	Int	0.8	Prior	Apr 1-21	Dec 1-21
Skill & Social Development Program	1	Services	QCBS	Nat	1.5	Post	Apr 1-21	Dec 1-21
SME Inventory and portal	1	Services	QCBS	Nat	0.1	Post	Jun 1-21	Jan 1-22
HR design, Implementation and Systems	1	Services	QCBS	Int	1.4	Prior	Jun 1-21	Jan 1-22
IT systems, website, automation	1	Services	QCBS	Nat	0.9	Post	Jun 1-21	Jan 1-22
Development Company Policy formulation	1	Services	QCBS	Nat	0.3	Post	Sep 1-21	Mar 1-20
Voucher and Grand Management Firm	1	Services	QCBS	Int	5.0	Prior	Jan 1-21	Oct 1-21
Total	47				254.3			

Note: RFB = Request for Bid, RFQ-Request for Quotation, QCBS-Quality and Cost Based Selection, ICS-Individual Consultant Selection, OCS-Open Competitive Selection



ANNEX 2: Detailed Project Description

COUNTRY: Bangladesh Bangladesh Private Investment & Digital Entrepreneurship Project

1. This annex complements the main text under the headline ‘Components’ without replicating the text therein.

COMPONENT 1: CREATING AN ENABLING ENVIRONMENT FOR PRIVATE INVESTMENT AND SUSTAINABILITY²

Sub-component 1.1: Promoting good governance and building core institutional capabilities (US\$39m)

2. The first sub-component will finance technical assistance, goods, training and recurrent expenditures/operating costs to strengthen the foundation for a robust, capable and sustainable institution (DLI #1). It will create a more level playing field for developer-operators of EZs (DLI #2). It will also develop and mainstream sustainable and resilient practices in EZs (DLI #3). The support activities will allow the BEZA to realize transformational private investment proposals in its pipeline, which will result in better development outcomes. They will help ensure that investments are properly implemented and generate public benefits by reducing the risk of negative social and environmental externalities. The BEZA will be able to build on its recent achievements and deliver on its existing commitments to various public and private partners.

3. This sub-component will: (a) develop a National Master Plan for the BEZA, which prioritizes green and resilient public investments and updates the BEZA’s mission and vision statements; (b) design and implement a comprehensive and gender-informed human resources (HR) policy, including with numerical targets of female and technical staff, and plan to strengthen HR management and core technical functions such as (i) site selection, feasibility assessment and master planning, (ii) investment facilitation and promotion, (iii) social and environmental management and social inclusion, (iv) green and resilient infrastructure development and maintenance; (v) PPPs and transactions support, and (vi) green and resilient EZ development; (c) reduce the scope for conflicts of interest between BEZA’s role as regulator and developer-operator, including by developing clear rules when EZs motivates public ownership/participation; (d) strengthen BEZA’s capacity to implement, monitor and enforce contractual obligations and licensing requirements; (e) review and update BEZA’s land allocation and pricing policy as necessary to reduce the risk for inefficient use of land and land speculation; (f) establish formal coordinating mechanisms at the local/district level and provide support to other public entities and private partners when needed; (g) produce an inventory of local micro, small and medium-sized enterprises around BSMSN with the aim of boosting local procurement; and (h) develop and adopt a national framework, with guidelines, for green and resilient EZs related to resilience and sustainability in the construction and management of infrastructure, utilities, buildings and common services.

Sub-component 1.2: Structuring public-private partnerships (US\$17m)

4. The second sub-component will finance technical assistance to build a capable PPP Special Operations Unit (SOU) in BEZA that will commission and supervise consultants, prepare feasibility studies, structure projects, manage competitive bidding processes, deal with unsolicited proposals, negotiate contractual arrangements and then monitor and coordinate the enforcement of contractual arrangements for PPP transactions (DLI #4). The SOU will be made up of at least three full-time, dedicated technical staff with strong legal and financial expertise. It will develop standard documentation, procedures and guidelines for identifying, selecting, preparing, structuring, negotiating, implementing and monitoring PPP transactions. Standard PPP models to be adopted will focus on achieving best value for money and management of

² Supporting documents are available in the Operations Portal: Part IV The BSMSN Master Plan and the Green and Resilient Economic Zone Guidelines.



public contingent liabilities, awarding projects to bidders who require the least BEZA and GoB support. The SOU will provide resources for inter-agency coordination with entities such as the PPP Authority. Structured training programs will cover PPP concepts and best practices, including on transaction structuring, risk allocation, procurement practices, assessing value for money, PPP contractual provisions and contract negotiation. No fund transfers are required for SOUs. The objective is to leverage private capital, technology, innovation, expertise and business networks through strategic long-term engagements with credible private partners.

5. The Project will provide a structured approach to develop a pipeline of bankable projects and to the extent possible deliver them in an open and competitive manner. The sub-projects to be supported are: (i) a tier-1 IMD of a resilient EZ on 250-500 acres that incorporates green industrial park principles. The investment will set an example for sustainable, resilient and environmentally sound industrial development to attract international supply chains. The capital contribution for this sub-project will be for land elevation; (ii) specialized core and common facilities and services that require technical solutions and expertise that are mainly available outside Bangladesh, that would significantly enhance the quality of services and the reputation of the BSMSN, and that are critical to attract high quality unit investors/industrial tenants to BSMSN; and (iii) a new resilient seaport in the BSMSN, which would greatly facilitate the flow of inputs and output of the industrial agglomeration and facilitate trade in this sea-facing location. Project financing under Component 2 will be used to develop government-owned land, buy-down the cost of greening of infrastructure (ensuring that the cost of green infrastructure results in affordable tariffs for infrastructure services) and bridge the cost of infrastructure during the period of transition, as the zone occupancy grows and revenues for infrastructure services ramp-up over time.

6. The Project will build capacity through the development of a robust PPP framework in parallel with continuous transaction support. The PPP framework is essential to set the tone for transaction implementation and will cover: (a) procedures and guidelines for identifying, selecting, preparing, structuring, negotiating, implementing and monitoring PPP transactions; clear decision points and decision-making authority, (b) procedures for coordination with other public sector agencies like the Prime Minister's Office, the Ministry of Environment, the PPP Authority, etc., (c) model documents and templates such as project concept notes, pre-feasibility studies, feasibility studies, and public outreach campaign, and (d) model tender documents for a Master PPP Developer for a green and resilient zone. The PPP Framework will provide model PPP structures designed to achieve best value for money. For example, it will rely on bidding processes to identify the structure requiring the least BEZA and government support in addition to clear guidelines of how to manage contingent liabilities. The PPP Framework is not replacing but simply complementing the PPP Authority's guidelines.

7. A capacity building program will finance consultants and technical experts—local and international—as well as experts embedded in the PPP SOE to augment the capacity of existing staff and provide regular training, workshops on PPP fundamentals for the BEZA staff and potential investors on PPP sub-project selection and preparation. Individual consultants will include: (i) legal and procurement experts to help establish the PPP framework, standard documentation and processes, and manage transaction preparation, (ii) commercial and financial experts to guide the BEZA through financial analysis of sub-projects, identifying and mitigating financial risks, modelling of financial context of sub-projects and provide guidance on BEZA and GoB support to sub-projects and associated fiscal implications, (iii) technical experts to assess preliminary sub-project structuring, technical risk identification and mitigation, development of technical specifications and key performance indicators, (iv) environmental and social specialists to help design the environmental and social framework for the PPPs, assessing environmental (including GHG emissions) and social risks and their mitigation, and designing key performance indicators, and (v) monitoring and evaluation to establish a regime for the BEZA's PPPs framework and establishing key performance indicators.



COMPONENT 2: DEVELOPING A GREENER AND CLIMATE RESILIENT BSMSN³

Sub-component 2.1: Basic infrastructure to implement the BSMSN Master Plan (US\$246m)

8. This sub-component will finance works, goods and technical assistance for onsite and last mile resilient infrastructure in BSMSN-2 as outlined in the Master Plan for BSMSN. Given the risk for natural disasters in the area, the infrastructure will be developed with enhanced resilience to climate impacts. The main investments in works are presented in Table 9 and they will integrate measures resilient to flood and seismic risks. The investments will also be made towards resilient site upgrades and green buildings, including green and gray coastal protection and buffers, water and energy efficiency design for buildings, and site level interventions for subsidence and liquefaction. Smaller works, goods, technical assistance and recurrent expenditures are covered in the PPSD.

Table 9. Estimated budget breakdown of basic infrastructure/works for BSMSN-2

	Description	Quantity	Cost
Road Network	All Weather resilient arterial and non-arterial roads, footpath and plot entry culvert to increase readiness and resilience to natural hazard events (access and evacuation roads during natural disasters and extreme climate events).	30 km	US\$49m
Storm Water Network	An integrated stormwater management network for BSMSN-2 including resilient drains, infiltration and retention facilities including nature-based solutions to drain the increased surface run-off from extreme precipitation and flooding.	31 km	US\$25m
Power Network	Green and resilient Internal Power Distribution (OHT) Distribution, Transformer, Street Light (LED / Solar), and Internal Substation.	39 km	US\$19m
Water Supply Network	Water treatment plant with a capacity of 75 MLD to be developed in modules with potential expansions up to 120 MLD, including green and resilient supply and storage of industrial and potable water considering climate vulnerability and extreme weather conditions (together with the Desalination proposed under 2.2) for BSMSN-2.	120.000 m ³ /day	US\$45m
Sewer Network	Green and climate resilient sewer network to enhance resilience against heavy rainfall and flooding.	25 km	US\$2m
Gas pipeline	Connection of the zone with gas pipeline to distribute natural gas and biogas.	28 km	US\$20m
Resilient Site upgrade and Building Development	Additional green and gray infrastructure and site development measures for BSMSN-2 to enhance resilience against flooding from the increase surface run-off from extreme precipitation and liquefaction resilience performance of flood prevention measures (super dike, embankments, site development) through green and gray investments (open Space/ Land scaping, Greenery along road; Percolation Pits, etc.), infrastructure maintenance, environmental lab and monitoring system, canal development and lining.	n/a	US\$13m
Security and Support Amenities	Security/boundary wall, key public buildings and facilities for BSMSN-2 such as fire stations, administrative buildings, and emergency response center, security digital surveillance, including gender-sensitive infrastructure such as separate washrooms for women and men and proper lighting.	n/a	US\$24m
Telecoms	Connection of the zone with resilient telecommunication systems	25 km	US\$2m
Land development for BSMSN-IMD	10,000,000 m ³ for 500 acres.		US\$30m
	Total		US\$229m

³ Supporting documents are available in the Operations Portal: (i) technical assessment on how to strengthen resilience of BSMSN's general infrastructure; ii) Green and Resilient Economic Zone Guidelines; (iii) BSMSN-2 Water Supply Plan; Industrial Symbiosis, Waste Management and Desalination in BSMSN-2; and (iv) BSMSN-2 Maximizing investments in Solar Energy.



Sub-component 2.2: Introducing sustainable and resilient services (US\$170m)

9. The BSMSN offers a unique opportunity for proper planning in the establishment of a new economic agglomeration with an ideal institutional setup, inclusive leadership, strong private participation, innovative solutions for joint facilities, and resilience and sustainability concepts integrated in the design (see Maps 1-2). The BSMSN will adopt green and resilient principles as a critical approach in enhancing its competitiveness, adopting and adapting the “green and resilient industrial park principles” outlined in the International Eco-Industrial Park Framework and the Green and Resilient Economic Zone Guidelines for Bangladesh. As the first EZs in the BSMSN that will host large-scale production it is critical for the BEZA to use the BSMSN-2 to set high expectations of quality and managerial standards for subsequent phases of development. It is essential to plan and integrate the BSMSN-2 with the future residential areas and commercial center. Private partners, when feasible, will co-finance capital investments on a parallel basis (details will be presented in the Operations Manual) and contribute business and technology expertise by handling operations and maintenance. Training support will address capacity gaps related to engineering design, construction, operation and maintenance of infrastructure.

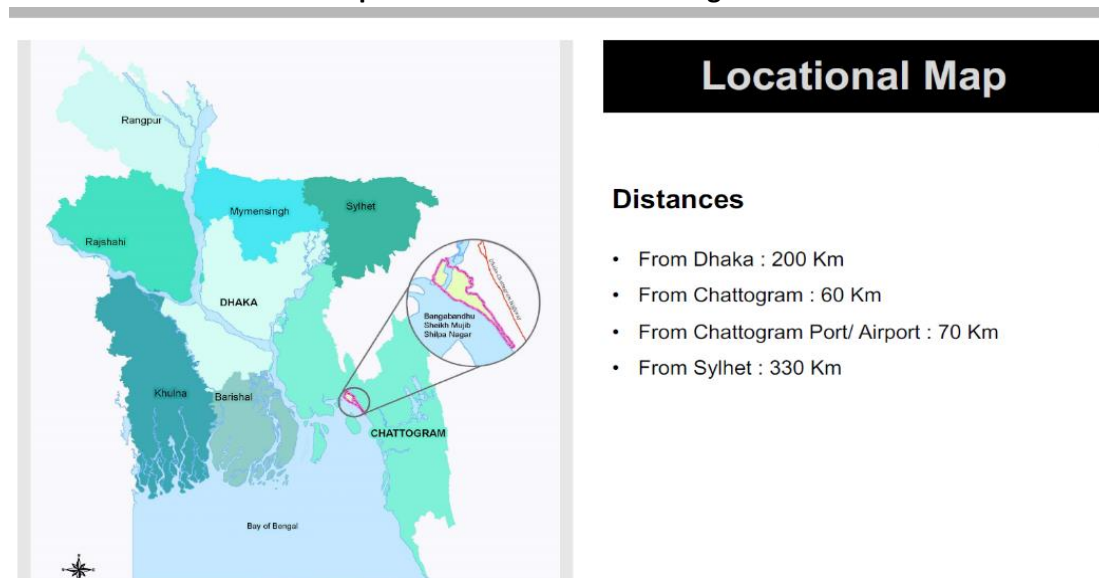
10. The limited experience of infrastructure PPPs in Bangladesh and the urgency of the development of core infrastructure means that the sub-projects, below, will be a combination of publicly developed and operated, publicly developed and privately operated, and privately developed and operated solutions. The partnership with experienced private operators will be critical to allow the BSMSN to pioneer technically innovative solutions. Some capital investments will be financed by the BEZA to make green solutions viable. The financing strategy of the interventions for the BSMSN-2 will be based on a cascade approach to classify and prioritize the investments that can be performed considering various private and public sources. The interventions will incorporate plans to benefit the residential and commercial surrounding. The following investments are among those that will be financed:

- (a) **CCETP (US\$24m):** a CETP at the Ichakhali canal by the Bay of Bengal with the capacity to treat 48,000 m³/day is required and most of the treated wastewater will be reused increasing the resilience and circularity of water resources in the EZ. 18 acres have been earmarked for the CETP where influent norms at the inlet will be set at predetermined parameters. The area for a potential expansion of the CETP and the water treatment plan for the maximization of the recirculation of the reused wastewater has been identified and earmarked. The water distribution and recirculation network are centered around the CETP that considers climate and disaster risks in its design while optimizing water and energy systems with reduction of GHG emissions.
- (b) **Desalination plant (US\$45m):** The technical assessment of potential desalination technologies points to sea water reverse osmosis with energy recovery as the best solution. The desalination plant, planned at the southern tip of BSMSN-2 (see Maps 2), will consider climate vulnerability and extreme weather conditions in the designing of the plant which will improve the quality, resilience, and sustainability of water services, while reducing GHG emissions due to energy recovery. It will require a maximum capacity of 20,000 m³/day to be developed in two modules, which can later be expanded as needed. It will supply process water with a quality that can be used without treatment by most of the industrial unit investors. The proposed solution will provide a reasonable service fee. An experienced international partner will design and manage the desalination plant.
- (c) **Rooftop, ground-mounted and floating solar (US\$70m):** This activity will support renewable energy systems using rooftop and floating solar power schemes to increase access to clean and sustainable electricity. The preliminary assessment for rooftop/ground-mounted solar capacity is 60 MWp while floating solar capacity is 10 MWp. The integration of solar power solutions in BSMSN will help reduce the environmental footprint, provide more diversified and reliable energy sources, and render the area more attractive for the adjacent residential and commercial areas in addition to industrial tenants.



- (d) **Steam network (US\$8m):** Construction of high/mid-pressure steam pipelines connecting tenant firms is most viable between the planned steel plant (the sender) and the textile companies (the receivers) in BSMSN-2. Two-way steam pipelines will be constructed along the main road network within BSMSN-2B (1.75km*2) and between BSMSN-2B and the steel plant (0.68 km*2), to send steam and receive condensate with insulation. Flood resilience measures will be integrated with the pipeline design. Ground-mounted panels will be set on one side of the super-dyke to maximize captive energy generation.
- (e) **Biogas plant, waste sorting and material recovery facility (US\$8m):** A waste sorting facility with 10 tons/hour capacity will be constructed to process waste and recover material from industrial and municipal waste, including metals, glass, paper, textiles, and plastics, as well as domestic food waste, roads and building construction waste and electronic waste. Mechanical sorting technologies will be used to ensure effective and safe material recovery from industrial and municipal waste. The facility will screen, sort, shred, and separate industrial and municipal solid waste to be recycled or sent to a biogas plant or landfill. A biogas plant will be built to process up to 100 tons of municipal solid waste per day. The waste sorted at the waste sorting facility will be used as feedstock to generate approximately 1 MW equivalent biogas. The biogas will be used as renewable source of gas to be supplied in BSMSN-2. The energy recovery from the steel plant and the production of steam contribute to the reduction of fossil fuels in the zone.
- (f) **Landfill (US\$15m):** The estimated amount of solid waste generated from the BSMSN-2 is 464 tons/day at full capacity, including industrial (hazardous and non-hazardous) and organic solid waste. Municipal solid waste and domestic sewage can be collected from point sources throughout the BSMSN. Projected design waste volumes are 40,000 m³ per year at full capacity. The total area required to meet the waste generated from the BSMSN-2 for a 20-year design horizon is roughly 220 acres to be developed in a modular way.⁴

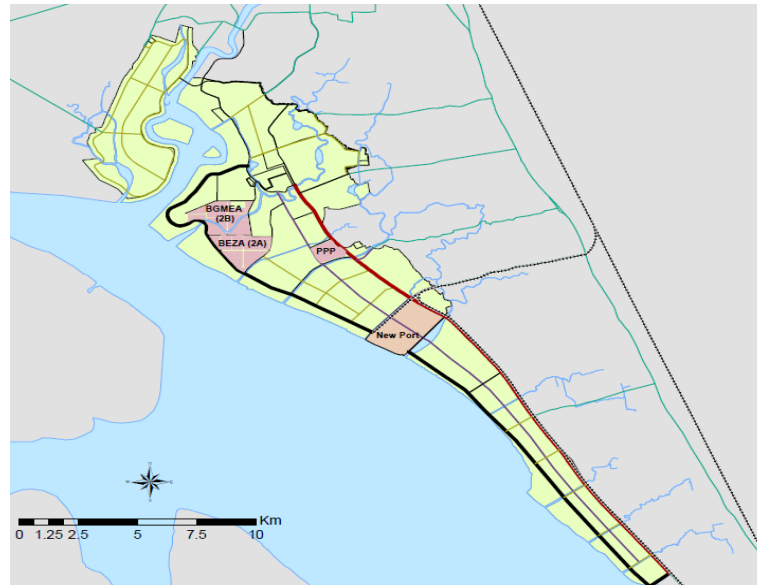
Map 1: BSMSN’s location in Bangladesh



⁴ When finalizing the site selection of the landfill, it will be ensured that there will be no risk of pollution of the Feni River.



Map 2: BSMSN Master Plan*



* BSMSN-2 is the beige block to the left marked “BGMEA (2B) and BEZA (2A)”. The seaport is the beige block to the right marked “New Port”. The proposed location for BSMSN-IMD is the beige block in the middle with the letters “PPP”. It will be ensured that none of these areas will pollute Feni River.

11. The landfill will be provided with a bottom liner system that serves as an impermeable barrier between the waste mass and underground soils/groundwater; leachate collection layer to ensure proper drainage and management of leachate that will be pre-treated and discharged to sewer; and a final cover system and stormwater management controls that consider land fill gas management and protection of the landfill site against heavy rainfall. Other design factors, such as improved billing and recording system to monitor types of waste and volumes, buffer areas to minimize disturbance to industrial tenants and residents, connection with other utilities such as the road network leading to the landfill, and groundwater and gas monitoring networks will be also taken into consideration. The landfill will be accompanied by other environmentally sustainable waste management options such as biogas plants, particularly because the availability of land is limited. Bioconversion of municipal solid waste is environmentally sustainable and cost effective. Biogas produced from organic waste can be used locally for the generation of electricity and heat or it can be upgraded for injection into the natural gas network and/or used as transport fuel. Biogas recovery from the landfill will reduce GHG emissions.

COMPONENT 3: CREATING A PRIVATE MARKET FOR SERVICED INDUSTRIAL LAND⁵

Sub-component 3.1: Strengthen compliance mechanisms (US\$3m)

12. This sub-component will first review and revise the regulations and procedures for the licensing of PEZs with the objective of leveling the playing field for developer-operators of EZs (DLI #2). The effectiveness and outcomes to date of

⁵ Supporting documents are available in the Operations Portal: (i) technical assessment on how to strengthen resilience of BSMSN general infrastructures; and (ii) Green and Resilient Economic Zone Guidelines.



these rules will be evaluated to find an appropriate balance between tax incentives and facilitation services to minimize fiscal leakages. The licensing rules for EZs will be tightened to reduce the risk of unfair competition from EZs with public participation towards PEZs with regards to rents. This sub-component will also build capacity to monitor and enforce regulatory commitments and contractual obligations with EZ developers-operators and industrial tenants. Second, it will support compliance with good social and environmental practices in the EZs. BEZA will support PEZs to develop social and environmental counselor programs based on lessons from the PSDSP. As the counselor's program is developed there will be additional efforts to protect female workers from all forms of harassment.⁶ The GoB's contribution will be to help establish these services on a voluntary basis and cover operational expenditures under a fixed time period. The objective is to catalyze early adoption of sound E&S practices at the unit investor/industrial tenant level and strengthen compliance with regulations.

Sub-component 3.2: Grant programs to encourage private investment in skills and green production (US\$40m)

13 This sub-component will finance grants under two windows that support private participation in projects with high economic returns but low financial returns in addition to a consultancy contract for program management. The objectives of grant funding are to: (i) help address industry-relevant skills shortages and raise labor productivity by incentivizing private investment in skills formation at accredited institutions, including by increasing opportunities for women to join the workforce; and (ii) to combat negative externalities and improving the health and safety of workers and women by raising environmental standards in industrial production and security standards in EZs. The support for private unit investors/industrial tenants will cover those that: (i) are either unaffiliated to the developer-operator *or* are affiliated to a developer-operator that complies with the current rules for PEZ licensing criteria; and (ii) enter a sector or market where Bangladesh has little or no presence (market seeking investors that promote economic diversification) *or* enter the market to produce in Bangladesh for foreign markets (efficiency seeking investors that contribute to exports). The voucher program under window 1 will be extended to support the formation of specialized skills required by anchor investors in EZs if they are essential for integration in global value chains.

14. **Window 1: Voucher program to build industry-relevant skills** will cover skills vouchers worth US\$15 million in a program to support industry-relevant skills formation of workers by unit investors/industrial tenants in EZs. It will seek to address the shortage of semi-skilled and skilled labor faced by new industries in Bangladesh. This is a binding constraint particularly in new industries and in high value-added industries that go beyond leveraging simple labor arbitrage. Bangladesh must attract new investments in these industries or market segments to accelerate structural transformation in the economy. The voucher will be structured to ensure relevance and responsiveness to industry needs and focus on meaningful and verifiable outcomes for employers and employees. The program will only cover the *demand side* of the skills market equation, and it will hence require modest capacity requirements in BEZA. It will catalyze the supply side of the skills market within proximity of the EZs that is supported by other GoB projects.

15. BEZA's role to support the skills development ecosystem are: on the demand side, to: (i) offer a reimbursable trainee grant (i.e. the voucher) based on jobs outcomes, (ii) provide high quality information on labor demand and career pathways, (iii) provide access to networks of employers and employer groups, (iv) encourage inclusive and fair recruitment practices, (v) encourage personnel to join governance groups, and (vi) provide access to land and utilities for training providers. It is essential that BEZA does not enter the supplier landscape since it is beyond its mandate. However, BEZA can contribute by: (i) developing an Interrogatable Labor Market Information System, (ii) offering a workflow for engagement with labor market information systems and actors, (iii) encouraging recognized and authenticated

⁶ An evaluation of the social and environmental counselor program supported under the PSDSP showed that it enhanced a gender-friendly work environment and reduced physical violence against female workers. It was not as effective in reducing some forms of harassment/verbal abuse.



certification (international where there is industry need), and (iv) encouraging a training provision that is designed to improve access for disadvantaged groups, including women. All new employees in EZs will be offered induction training and career information to make it more likely for people to access training to improve skills. 20,000 accredited training programs leading to an employment outcome will drive development of a multiple service-provider skills development ecosystem. 2,000 enrolments in training leading to a Bangladesh Qualification Framework at or above L5 Diploma or equivalent will show progression, raise aspiration and raise skills levels.

16. The voucher program will operate on a reimbursable basis using banking channels and only cover legitimate training expenditures for those who successfully complete the training and obtain certified credentials (i.e. strict focus on jobs outcomes). It will incorporate strict gender targets to encourage female labor force participation and combat gender bias in the hiring process. The gender quota for the basic voucher program will be 40 percent (15 percent for male-dominated industries where women account for less than 15 percent of employees). There will be a basic package of skills vouchers for new unit investors/industrial tenants and a flexible top-up package of skills vouchers that will depend on the economic benefits the new investor/producer brings to the country in terms of technology and innovation, creation of new domestic markets, increased access to foreign markets, economic diversification and the general level of skill requirements. There will also be a top-up scheme for companies that ensure that over 40 percent of trainees are women and another top-up scheme for firms that offer a mixed package of training and job placement for women.

17. **Window 2: Grant program to implement the Green and Resilient Economic Zone Guidelines** will finance US\$20 million worth of grants in a Grant Program that aims to raise the sustainability and resilience of the EZs by supporting the implementation of the Green and Resilient Economic Zone Guidelines. The details of the financing modalities will be presented in the Grant Manual. The Grant Program will help push the national frontier in terms of sustainability and resilience of unit investors/industrial tenants and by extension help render similar investments by the developer-operator more attractive. The beneficiaries will be those companies that seek to make their businesses more competitive by investing in qualified human resources, reducing the use of and greening the impact of their utility services, replacing old machinery and equipment with more efficient ones, and developing business continuity plans to sustain their operations in case of natural disaster events and adapt to changing climate contexts, while reducing GHG.

18. Bangladesh has 67 Leadership in Energy & Environmental Design (LEED) certified factories, some of which have already installed solar photovoltaic (PV) panels on their roofs for self-consumption. The program to promote construction of green and resilient buildings will leverage the new GoB's policy on net-metering that targets to incentivize rooftop PV adoption by industry sector. Approximately 50 percent of tenant firms can benefit from the green and resilient building program under Component 3 by adopting rooftop PV system and net metering arrangements. The rooftop PV installation will also help save up to 15 percent of annual utility fees. Tenants can enjoy preferential interest rate loans (6 percent) for 10 years, including a one-year grace period. Furthermore, they can be awarded and (partially) reimbursed their Excellence in Design for Greater Efficiencies (EDGE) certification fee by going beyond the national building codes and achieving 20 percent less energy, water use, and embodied energy in construction. The program to support energy efficient production will primarily target large energy consumers and the Operations Manual will cover the type of investments in equipment, technology and green/resilient building designs that tenant companies can apply for preferential loans. In addition to the list of equipment included in the table, other main strategies to increase efficiency encompass optimization of cooling systems at zone and firm levels. The Grant Program will support tenant companies that invest in:

- (a) **Construction of green and resilient buildings:** tenants that obtain EDGE/LEED or equivalent certification for new constructions will be reimbursed of the certification cost for the first year. Companies that adopt green and



resilient building designs such as rooftop solar PV stations, efficient cooling systems (low GWP refrigerants), energy-saving lighting and solar reflective glass will be eligible to apply for low-interest loans from commercial banks under the Sustainable and Renewable Energy Development Authority (SREDA) program. Companies that install rooftop PV and net metering equipment will benefit from feeding excess energy produced into the grid. Approximately 50 percent of tenants in the BSMSN-2 will be eligible for this program, which will also support companies design and implement factory and building level disaster resilient measures such as raising/fortification of building foundations for flood management, land subsidence and liquefaction, and advanced and rainwater harvesting and utilization.

- (b) **Energy-efficient production:** SREDA's program for increasing production efficiency helps replace obsolete machinery and equipment with high efficiency ones. The grant program will cover up to 10 percent of the investment cost to catalyze the existing SREDA's program to lower the cost of commercial loans for this type of investment. The grant program will require coordination with SREDA, the Infrastructure Development Company Limited, and Bangladesh Infrastructure Finance Fund Limited;
- (c) **Business continuity management:** unit investors/industrial tenants that adopt a certification for their business continuity management systems such as International Organization for Standardization 22301 will be able to reimburse the certification cost for the first year. The program will support companies meet and enhance their capacities for business continuity and risk management by catalyzing pre-arranged cooperation and financing arrangements and enhance the capacities of the grant beneficiaries to cope with the impacts of climate change.

19. An evaluation of the social and environmental counselor program supported under the PSDSP showed that it enhanced a gender-friendly work environment and helped reduce physical violence against female workers. However, it was not as effective in reducing certain forms of harassment and verbal abuse. Therefore, as a similar counselor program designed for the BEZA, it is critical to scale up efforts to protect female workers from all forms of harassment.

COMPONENT 4: STRENGTHENING THE DIGITAL ENTREPRENEURSHIP AND INNOVATION ECOSYSTEM

Sub-Component 4.1: Establishing Dhaka's first digital entrepreneurship hub in Janata STP (US\$12m + GoB US\$10m)

20. This sub-component will help establish Dhaka as a relevant digital entrepreneurship hub in South Asia by facilitating network effects and developing Bangladesh's first significant agglomeration of ITS and ITeS companies in the Karwan Bazar area of Dhaka. The BHTPA is acquiring the title to a land plot adjacent to Janata STP from the Dhaka Municipal Corporation to expand the STP with up to 125,000 ft² of workspace to create a cluster of nearly 200,000 ft² of micro entrepreneurs and digital SMEs in the heart of Dhaka. The current occupants serve both domestic and foreign markets and employ a large share of young women with university degrees. The Project will: (a) bring in an experienced private operator for Janata-2 under an open and transparent international competitive bidding process. If successful, this model could be extended to also cover Janata-1. The transaction advisor will structure a performance-based contract for an operator with a proven track record of managing similar facilities and promoting it to private tenants; and (b) upgrade Janata-1 STP (including energy efficiency improvements in the existing facility) and build climate resilient Janata-2 STP by adding 125,000 ft² of workspace. The BHTPA and IDA will finance on a 50:50 percent ratio the cost of these civil works. The combined new Janata STP would host approximately 200 micro entrepreneurs, 100 small firms and 30 medium-sized firms in the ITS and ITeS space.

Sub-Component 4.2: Digital Entrepreneurship, training and innovation support program (US\$18m)

21. This sub-component will finance works, goods, technical assistance and training to implement a digital entrepreneurship, training and innovation support program to attract more youth, women and professionals to become



digital entrepreneurs; provide start-up and scale-up facilities and services for digital entrepreneurs to increase the number of firms that are investment ready; and establish university innovation hubs in technological universities across the country. The activities will be integrated in existing universities and STPs.

22. First, an **Entrepreneurship Program** will promote awareness, participation and contribution in the digital entrepreneurship ecosystem through media content production for television, online streaming services, and social media. Media content will be created for a wide audience who will follow entrepreneurs of different ages, gender, socio-economic backgrounds and levels of success over time to inform and enthuse viewers. The media production, procured from professional companies that will: (i) design a multi-year media strategy; (ii) produce and develop high quality media content for each campaign and program; (iii) implement the campaigns and content, including potential media partnerships, shared through TV and social and online media platforms; and (iv) independently measure and track the effectiveness of programs in achieving results indicators and objectives. The PIU will ensure close alignment with the other support activities. Successful female entrepreneurs will be showcased to help break stereotypes in traditionally male-dominated sectors. The program will promote gender balance through specifically tailored programs for girls and women with the goal to increase the share of women-owned digital enterprises in Bangladesh. The programs will also offer innovation challenges with awards for training, accreditations, and business advisory services. The training offerings will draw on a training needs analysis, and support standards and curriculum, certification specifications and quality assurance services. The BHTPA will develop an Interrogatable labor market Information mechanism to strengthen the capacity to support the ITS and ITeS industry. At least 40 percent of the beneficiaries will be women.

23. Second, the financing of **Start-up and Scale-up Facilities and Services** will help create a market for, and raise demand for, mentorship and advisory services that are tailored for entrepreneurs in the digital economy. The facilities and services will first be offered to entrepreneurs in STPs and then rolled out more broadly in the industry. The services on offer will include incubation and acceleration support, market entry and market expansion advisory, and investment readiness support to help digital entrepreneurs access external sources of finance and equity funding. The services offered in the Chattogram, Janata and Jessore STPs will be provided by professional operators and initially have a permanent establishment in Dhaka and Chattogram, with gradual roll-out elsewhere. Entrepreneurs located outside the STPs will be able to access programs to create linkages and network effects in addition to a prospective pipeline of new tenants. It will cover a dedicated program to support women-owned businesses and new entrepreneurs.

24. For start-up facilities, the BHTPA will hire a firm to implement the program through a hub-and-spoke model. Some activities such as the innovation challenges cater to a broader pool of beneficiaries while other will target a smaller number (70-100) startups per year in a 12-month long incubation program. The firm is expected to: (a) ensure that co-working spaces for entrepreneurs are well branded and attractive to achieve a high utilization level; (b) organize entrepreneurship awareness activities and innovation challenges to attract aspiring entrepreneurs to apply for the start-up programs; (c) provide incubation support and assign coaches and mentors to advise entrepreneurs on developing their concepts, business models and business plans, with milestones for monitoring progress; (d) provide a specialized professional training to select entrepreneurs. The objectives of the training is to help participants launch their businesses, in realizing viable products and the proof of concept stage, and approach seed stage financing; (e) organize networking events for entrepreneurs; (f) implement dedicated programming to support women entrepreneurs; and (g) develop and document operational processes customized to local needs as well as necessary digital systems to manage programs.

25. For the scale-up facilities, the BHTPA will hire a firm to implement the program following the hub-and-spoke model and support firms plan and manage their growth strategy to increase the pool of investment ready entrepreneurs. The firm will support at least 50 entrepreneurs per year for 6-9 months. Another 50 entrepreneurs per year will benefit from



investment readiness support. The scope of the private operator will include the following activities: (a) organize entrepreneurship awareness activities to attract established entrepreneurs to apply for the scale-up programs; (b) assign coaches and mentors to advise entrepreneurs on developing/improving their business models and business plans; (c) provide specialized training to help participants in planning and realizing local and/or international growth; (d) provide investment readiness training, support and facilitation; (e) organize networking events with industry leaders, suppliers and potential customers; (f) implement dedicated programs to support women entrepreneurs; and (g) develop and document operational processes customized to local needs as well as necessary digital systems to manage programs.

26. Third, UIHs in Chattogram, Dhaka and Khulna will be established to attract more students to become digital entrepreneurs within leading technological universities and business schools, including in a women's technological university or business school. Professional operators will be engaged to design, operate and then transfer the UIHs to the universities in which they are embedded. The Project will finance refurbishment/works, including retrofitting of existing buildings with architectural or building changes that enable reduction of energy consumption, energy efficiency improvements in lighting appliances and equipment of the innovation hub spaces in existing universities as well as goods and technical assistance to ensure that these new facilities can attract top talent and service providers. This is in line with the University Grants Commission's vision and objectives to develop systematic programs that include investment into commercializing research and supporting innovative ideas.

27. The BHTPA will hire a firm to support at least 300 individuals per year and location. It will be tasked to: (a) ensure that co-working spaces are designed, established and operated following best practices, well branded and seen attractive to achieve a high utilization level; (b) organize entrepreneurship awareness activities and innovation challenges to attract undergraduate/graduate level students to apply for the start-up programs (within and outside of STPs); (c) provide incubation support, training seminars and assign coaches and mentors to advise students on developing their concepts, business models and business plans, with milestones for monitoring progress; (d) organize networking events for students; (e) establish and facilitate partnerships to conduct open innovation programs with industry; (f) implement dedicated programs to support women; and (g) design and implement a train-of-trainer program for university staff.



ANNEX 3: Project complementarities with other WBG projects

COUNTRY: Bangladesh Bangladesh Private Investment & Digital Entrepreneurship Project

1. The Project has strong complementarities to ongoing and planned WBG projects. First, it builds on the lessons learnt and achievements under the **PSDSP** (IDA + Trust Fund US\$200m), which is on track to close fully disbursed with satisfactory development objectives (see Lessons Learned section in main text). The PSDSP helped: (i) establish the BEZA and the BHTPA and put in place basic structures, rules and regulations for them to operate, (ii) build their initial capacities to issue licenses and act as regulators, (iii) assess the feasibility of public land for EZ and HTP development; (iv) develop a nascent private market for serviced industrial land and HTPs/STPs; (v) develop an investment pipeline through investment promotion and investment facilitations, including Bangladesh's first foreign tier-1 anchor investor in the EZ developer-operator market space; (vi) develop BSMSN-1 and Mongla Economic Zone and bring them to market through a private lease agreement under competitive bidding; and (vii) develop the land for BSMSN-2 and build some last mile infrastructure for the site so it could be accessed. It also financed a social and environmental counsellor program in the country's EPZs, which serviced up to 600,000 workers and thousands of tenants over the years. It also helped raise building codes and train thousands of IT workers and IT executives and support firms obtain quality certification for BHTPA clients.

2. Second, the **Export Competitiveness for Jobs Project** (IDA US\$100m) seeks to improve the supply of technical skills demanded by industry and strengthen quality, social and environmental compliance in select export-oriented sectors so they can access foreign markets and integrate in global value chain. Three technology centers established under this Project are being located within EZs and HTPs to encourage technology transfer, product development and productivity enhancing long-term skills formation. A new IPF—ASSET—plans to strengthen the supply side of the skills markets within proximity of EZs, HTPs and EPZs. Third, the **Bangladesh Investment Climate Fund 2** (TF US\$25m) seeks to address cross-cutting constraints to investment and ease of doing business at the national level by reducing regulatory red tape, reforming the trade regime, facilitating the administration of trade procedures, and improving public governance. This agenda is also covered by the **Bangladesh Jobs Programmatic Development Policy Credit** series (IDA US\$750m), which seeks to modernize the trade and investment environment and strengthen systems that protect workers and build resilience.

3. Fourth, the **Investment Promotion and Financing Facility II Project** (IDA US\$357m) is a financial intermediary lending operation that seeks to crowd in long-term finance from local financial institutions. It extends partial debt financing—up to 50 percent of the total project cost—to private sector-led infrastructure investment proposals through participating financial institutions. Developers of private sector-led EZs can utilize the debt proceed for construction of internal roads and pavements, bridges and culverts, common utilities, water treatment plants, waste treatment plants, etc. To date, the project's pipeline includes Cumilla EZ, Meghna Industrial EZ, and City Economic Zone in Kishoreganj for around US\$130 million equivalent debt financing for 12-15 years in foreign and local currency, leveraging about the same amount from local banks and financial institutions. Fifth, the **Regional Connectivity Project 1** (IDA US\$150m) is upgrading infrastructure and procedures to modernize and improve security at four key land ports. Through the development of customs modernization and ICT infrastructure, the Project will reduce trade transaction costs. Finally, the **Leveraging ICT II Project** will improve digital integration and sustainability across public-sector agencies and catalyze growth of the digital economy. These projects complement each other well in the quest to improve competitiveness and growth.



ANNEX 4: Economic and Financial Analysis

COUNTRY: Bangladesh Bangladesh Private Investment & Digital Entrepreneurship Project

1. The BSMSN-2 is planned as a 550-hectare mixed industrial zone built largely on reclaimed land protected from the sea by a 9.5-meter-high sea dyke. It is 20 km from the highway between Dhaka and Chattogram, and the GoB has upgraded and constructed access roads to the highway. There is neither power, gas or water infrastructure in the immediate vicinity but such facilities are either being developed or are proposed under this Project. The Project proposes to supplement grid power by the installation of solar panels on the roof of factories and floating. The Project will finance a desalination plant and a CETP. The gas supply will be supplemented through a projected financed biogas plant using a landfill supplemented by a waste management facility and a steam network.

2. The BEZA will construct green infrastructure and lease it to experienced operators. The BEZA will use its access to low cost financing to significantly lower lease payments, and in so doing, lower the lessee's perceived level of risk and raise the attractiveness of the offer. In this model, the BEZA is expected to provide the operators with a five-year guarantee during which they will be responsible for maintenance. After the warranty period has ended, the operators will be responsible for all operation and maintenance expenses. The BEZA will charge a service fee of 5 percent on top of the operator charges to users. A similar service fee will also be applied to electricity and gas charges. The BEZA will guarantee tenants 24/365 utility provision and these forms of arrangements are common. They lower BEZA's risk exposure and significantly raise the level of service provided to tenants. It would allow the private partner to reduce the risk attached to the initial cost of the green facilities and, provided the GoB lease rates are appropriate, both parties could expect to make satisfactory profits: the GoB partly because of its ability to borrow at concessionary rates and the green facility operators because of the opportunity offered by the concession to lease the facilities from BEZA at below market rates.

3. A survey of 104-unit investors indicates that the success of the Project depends to a large extent on domestic investors (72 percent) joint ventures between domestic and foreign investors (16 percent). 85 percent of these investors have existing manufacturing entities. Most investors are taking advantage of: (i) the inexpensive and large developed plots in the zone; (ii) the site's location adjacent to the national highway and Chattogram Port; (iii) the wealth of utilities and service provided in the zone; (iv) the investment incentives; and (v) the stable, investor friendly regulatory environment.

Demand for space in the zone

4. The survey collected data from 60 tenants who represent 75 percent of all acreage available (Table 10). The survey allowed the model to estimate three demand scenarios: (i) the cautious case scenario estimate includes only those firms who indicated that they were certain to establish in the zone at a specified time period; (ii) the base case scenario estimate includes those firms who indicated that they were either highly likely or certain to establish in the zone in a specified time period; and (iii) the optimistic case scenario estimate includes all those firms who indicated that they had any likelihood of establishing in the zone in a specified time period. This **annex presents the cautionary case scenario**.

5. The survey respondents indicated the main product they intended to produce, their intended rate of capacity build up, proposed factory space and employment at full capacity. The study extrapolated the response results of the 76 percent of the acreage to generate 100 percent of the lease holders. The results for the indicators are presented in Tables 11-12 and form the basis for the EFA. Table 13 presents the forecasts for direct jobs per sector.



Table 10: Survey response rate

Model step	Total	Total
Source of Population	Numbers	Acres
1. Companies Completing the Survey	60	785
2. Companies that did not Complete the Survey	44	245
3. Total Companies	104	1030
4. % Companies who Completed Survey	58%	76%

Table 11: BSMSN-2 total leased area ('000 m²)

TIME PERIOD	Optimistic Estimate	Base Estimate	Cautious Estimate
1 Year	1,857	1,413	869
2 Years	3,261	3,080	1,189
3 Years	3,811	3,483	2,329
4 Years	4,278	3,835	2,642
5 Years	4,315	3,870	2,677
10 Years	4,315	3,870	2,677

Table 12: BSMSN-2 total factory space demand ('000 m²)

TIME PERIOD	Optimistic Estimate	Base Estimate	Cautious Estimate
1 year	380	380	150
2 years	940	680	430
3 years	2,090	1,700	950
4 years	2,670	2,310	1,660
5 years	3,030	2,630	2,090
10 years	3,120	2,710	2,180

Table 13: BSMSN-2 direct jobs forecasts

TIME PERIOD	Optimistic Estimate	Base Estimate	Cautious Estimate
1 year	18,000	16,000	12,000
2 years	46,000	43,000	28,000
3 years	95,000	99,000	70,000
4 years	170,000	183,000	147,000
5 years	238,000	233,000	210,000
10 years	288,000	282,000	238,000



Financial analysis

6. The cautious case scenario assumes a BEZA development, at subsidized lease rates with 10 percent BEZA equity, and 90 percent IDA loan to finance investments and the EFA's cautionary demand estimates in Tables 12-13. A summary of other assumptions is presented in Table 14. In each of the options it is important to factor in the cash-flows from the developer point of view and analyze the debt servicing of the commercial and IDA credit. Developer cash-flows would depend on one or more of the following: capital costs; operating costs; debt servicing; lease payments from tenants – serviced plots; lease payments from tenants – commercial services building; maintenance fees from tenants; service fees from utility sales to tenants of the zone; and lease payments from utility operators.

Financial results

7. The cautious case scenario assumes an IDA loan for some 90 percent of the development costs at 3.63 percent fixed interest, a 30-year term and a 6-year moratorium on principal (IDA SUF). With a modified equity IRR of 2 percent, it is insufficient to attract an experienced international developer, even under the favorable IDA lending terms given the perceived level of risk. Based on Bangladesh's bond rating, the cost of equity capital in such a development should be approximately 14 percent yielding a weighted average cost of capital (WACC) of 7 percent. As the IRR is below the WACC the Project's Net Present Value (NPV) is in the red.

Financial sensitivity analysis

8. The financial results of the Project are sensitive to: (i) demand; (ii) cost of development of the site and facilities; and (iii) the lease rates for serviced plots and commercial building space. A graphical representation of the sensitivity of the IRR to each of the above factors is presented in Figure 4, which demonstrates that the IRR is most sensitive to changes in the costs of site development and least sensitive to changes in demand for serviced plots. For the developer, for the NPV of the stream of benefits to rise above zero, total costs of site development to the serviced plot stage would need to fall from US\$490 million to US\$470 million; or the 50-year serviced plot lease rate paid by tenants would need to rise from US\$30 to US\$36.50 per square meter; or the service fee applied by BEZA on all utilities charges paid by tenants would need to rise from 5 percent to 7.5 percent.

Economic Analysis

9. The financial analysis demonstrates the financial unsustainability of BSMSN-2. However, ERR offers guidance if the Project is worthwhile and international experience suggests that SEZs can be important economic drivers and make significant contributions to local, regional and national economic development through job creation and as gateways for generating new economic activities. The economic analysis is based on the concept of incremental gross value added, which contributes to the GNP of Bangladesh. The direct contribution to GNP from the Project is measured and then multiplied by an estimate of the multiplier effect to get an estimate of both direct and indirect, or the induced, contribution to GNP. This is then moderated for deadweight loss and displacement effects. Thus, this subtracts the opportunity cost of not using these resources in other projects.

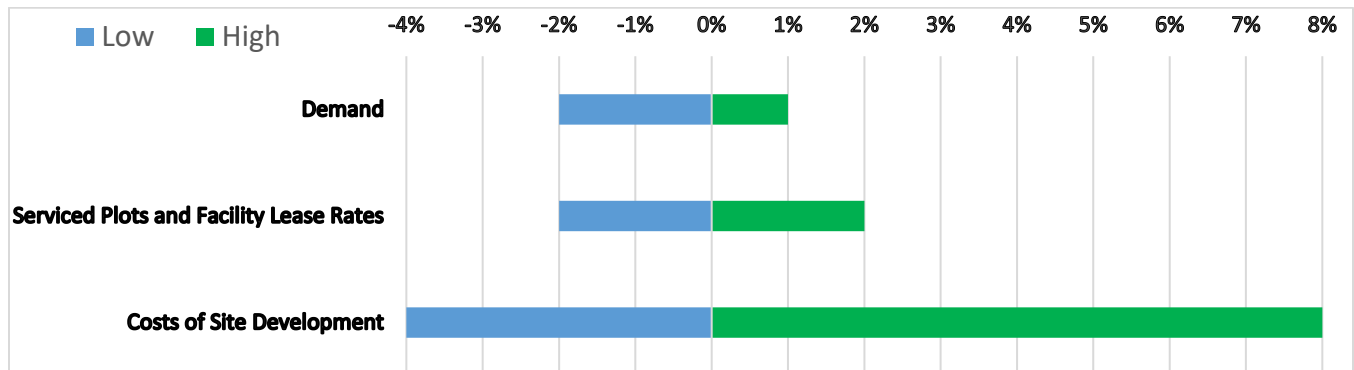
10. Incremental GNP as calculated is discounted over the project life to gain an estimate of the NPV of the contribution to GNP. An ERR is calculated for the Project from the stream of GNP contributions over the life of the Project. Further, a benefit-cost ratio is calculated from the NPV of each. Furthermore, by calculating the potential amount of duties and taxes that could be collected if the incentives provided by the zone were not in place and comparing those to an estimate of the duty and taxes that would be collected given the investment incentives provided by the zone it is possible to calculate the potential fiscal cost of the zone. This assumes that the investment would take place without the incentives. Estimates of direct and indirect jobs created by the zone are calculated and the incremental GNP per year per direct job is calculated and compared to average wages.



Table 14: BSMSN-2 cautious case scenario assumptions

Conditions		Loan Terms	
Expected Inflation	2.00%	Nominal Interest Rate	3.63%
Life of Facility (Years)	50	Nominal Discount Rate (WACC)	6.54%
Area	Hectares	Political Risk Insurance	0.00%
SFBs	0.00	Term (Years)	30
Commercial Building	0.50	Grace Period (Years)	6
Administration Building	0.50	Up Front Fees (% of Loan Amount)	0.25%
Serviced Plots including Utilities	464.00		
Other (Roads etc.)	85.00		
Total Development Area	550.00		
Development Costs		Income Factors	
	USD Millions		
Land	0.00	Commercial Building Lease Price/Sq. Meter (USD)	\$0.00
Infrastructure - Offsite	0.00	Commercial Building Space (Sq. Meters)	11,250
Infrastructure - Onsite	\$235.00	Serviced Plot Lease Price/Sq. Meter (USD)	\$1.50
Green Infrastructure	\$180.00	Service Plots Space for Lease (Sq. Meters)	670,016
Commercial Building	0.00	Nominal Lease Escalation Rate	2.00%
Administration Building	0.00	Escalation Term (Years)	50
Total Development Costs	\$415.00	Serviced Plot Sale Price/Sq. Meter (USD)	\$30.00
		Serviced Plots Space for Sale (sq. Meters)	2,876,800
		Interest Charged on Lease of Green Utilities to Operator	5.74%
		Term of Green Utility Leases to Operators (Years)	20
		Utility Service Fee Charged to Users	5.00%
		Demand Scenario	Cautious
Source of Fundis		USD Millions	
Government Land Contribution	0.00		
Government Grant	0.00		
Equity	\$41.50		
Debt	\$373.50		
Total Funding	\$415.00		

Figure 4: Sensitivity of the IRR to dependent factors





Types of impact

11. There are several types of economic impacts that need to be evaluated: (i) the **employment Impact:** direct employment impacts in the zone (development and construction of the zone, factories and administration buildings in the zone, indirect or induced employment impacts); and (ii) the **impacts on economic outputs:** partly *economic outputs from the development and management of the BSMSN itself* (expenditures of the development and construction of the BSMSN (cost), expenditures incurred by the tenants for constructing and equipping their factories (cost), payments to labor employed in the management of the BSMSN (cost and benefit), profits from development, construction and management of the zone (benefit)); and partly *economic outputs generated by tenant clients of the BSMSN* (payments to labor employed by tenant clients of the BSMSN (benefit), profits generated by tenant clients (benefit), subsidies paid to the BSMSN or its tenant clients (cost), indirect or induced economic activities generated in Bangladesh by the economic activities or its tenant (benefit), and taxes and duties collected on both direct and indirect incomes generated by the Project and sales generated by the Project (benefit)).

12. The results presented in Table 15-16 indicate that the Project, with an ERR of 32 percent and an economic benefit/cost ratio of 3.0, is economically viable and would make a significant contribution—approximately US\$10 billion NPV—to the GNP of Bangladesh. Further, it would be directly responsible for the annual employment of some 160,000 previously unemployed workers out of a total of some 460,000 jobs created by the zone. This amounts to approximately 850 jobs generated per hectare developed at an annual contribution of some US\$4,500 per worker to GNP.

Fiscal impact

13. The model estimates that the BSMSN-2 will generate tax and duty collections of some US\$15 billion over the first 20 years. If the operator and tenants were liable for all normal taxes and duties, it is estimated that tax and duty collections would total US\$17 billion. If all investments took place without the zone incentives it would imply a possible fiscal loss due to the fiscal incentives of US\$2.0 billion with an NPV of US\$1 billion. This is weighed against a net benefit stream generated by the Project of US\$44 billion with an NPV of US\$10 billion. This yields an NPV benefit cost ratio for foregone taxes of 10 and an annual fiscal cost per job, for previously unemployed workers, of US\$315.

Table 15: BSMSN-2 economic costs and benefits

Impact at Opportunity Cost	Net Economic Benefits USD Millions
Total Net Effect - Direct	18,630
Total Net Indirect Benefits (Multiplier Effect)	18,630
Total Direct and Indirect Fiscal Impact NEC	15,098
Counterfactual & Opportunity Costs	(8,793)
Total Net Benefits	43,565
Net Present Value of Net Benefits	9,865
ERR	32%
Benefits/Cost Ratio	3.0

Table 16: Total direct and indirect jobs created

Category	Impact
Construction	18,000
Industrial and Commercial Activity	444,000
Net Domestic Employment	462,000
Net Unemployed Workers Employed	160,000
Annual Payment @ Opportunity Cost per Domestic Worker (USD)	\$789
Annual Contribution to GNP @ Opportunity Cost Per Domestic Worker (USD)	\$4,500



Sensitivity analysis

14. The economic results are not particularly sensitive to prices and assumed unemployment rates. They are, however, very sensitive to the demand, cost of site development and facilities, assumed employment densities and the assumed levels of wages and salaries (See Table 17). A graphical representation of the sensitivity of the ERR is presented in Figure 5. The figure shows the range of changes to the ERR around the cautious case scenario ERR of 32 percent with respect to changes in the major factors on which the ERR is dependent. The figure demonstrates that the ERR is most sensitive to changes in the costs of site development and least sensitive to changes in the lease rates for serviced plots and facilities.

Table 17: Economic sensitivity scenarios

Parameters	Range & Results		
	Cautious	Base	Optimistic
Demand Range			
ERR	32%	36%	37%
NPV (US\$ billion)	10%	15%	16%
Wages & Salaries (% of Base Assumptions)			
ERR	80%	100%	120%
NPV (US\$ billion)	7	10	13
Cost of Site Development and Facilities Range (% of Base Costs)			
ERR	80%	100%	120%
NPV (US\$ billion)	40%	32%	27%
NPV (US\$ billion)	11	10	9
Serviced Plots and Facility Lease Rates Range (% of Base Rates)			
ERR	80%	100%	120%
NPV (US\$ billion)	32%	32%	33%
NPV (US\$ billion)	10	10	10
Employment Densities (% of Base Assumptions)			
ERR	80%	100%	120%
NPV (US\$ billion)	38%	32%	29%
NPV (US\$ billion)	13	10	8
Unemployment Rates (% of Base Assumptions)			
ERR	80%	100%	120%
NPV (US\$ billion)	31%	32%	34%
NPV (US\$ billion)	9	10	11

Figure 5: Sensitivity of the ERR to Dependent Factors

