

Ex-Ante Evaluation

1. Name of the Project

Country: People's Republic of Bangladesh

Project: Foreign Direct Investment Promotion Project

Loan Agreement: December 13, 2015

Loan Amount: 15,825 million Yen

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

2. Background and Necessity of the Project

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

The People's Republic of Bangladesh (hereinafter referred to as "Bangladesh") has maintained a high growth rate of over 6% per annum in recent years, driven by the influx of European, North American, and Japanese apparel manufactures as well as the inflow of money sent by Bangladeshis working abroad (accounting for approx. 10% of the GDP). The country is expected to maintain steady growth going forward. In particular, with the advantage of low labor cost compared to China and other countries, Bangladesh's sewing industry has grown, accounting for 80% of the country's exports. Nevertheless, the industry has brought few economic benefits to Bangladesh other than the increase in the earnings of sewing workers. It is because it has maintained its role as a manufacturer of outsourced, low-priced clothing for Western markets and therefore remained susceptible to economic conditions in these export markets. Another problem is that it is highly depending on the import of raw materials. Moreover, it has had only a small ripple effect in other relevant industries, leaving local industries undeveloped. As a result, the economic structure of Bangladesh has remained fragile, exposed to intense international competition with low-wage countries. In order to break away from this fragile economic structure and promote further economic development, Bangladesh needs to create higher added value for sewn products, nurture export-oriented manufacturing industries with a competitive edge, and eventually diversify its industrial structure. To this end, it is essential to expand investment, preferably foreign investment accompanied by the transfer of technology.

Nevertheless, the amount of foreign direct investment in Bangladesh has remained low, only at 1.1% of the GDP (as of 2013). On a stock basis, it is still low, at 6.1% of the GDP, compared to the South Asian average of 10.9%, and the Southeast Asian average of 44.1% (all figures presented as of 2013). Therefore, it is urgent for Bangladesh to attract foreign direct investment. However, its poor investment environment, such as the limited access to financing opportunities for companies operating in the country, the lack of basic infrastructure, and the complicated administrative procedures, is discouraging foreign companies to expand into Bangladesh.

In order to address these circumstances, it is critical to improve the investment environment by expanding medium- and long-term financing for foreign firms and developing

infrastructure. It is also essential to simplify the complicated administrative procedures so that large-scale infrastructure, such as industrial parks, can be developed so as to attract foreign direct investment. These efforts can facilitate the implementation of public-private partnership (PPP) projects, which can also contribute to the strategy of Japan to promote the export of infrastructure systems.

(2) Development Policies for Private Sector Development in Bangladesh and the Priority of the Project

As the most important national development strategy of Bangladesh, the Sixth Five Year Plan (from FY2011-2012 to FY2015-2016) identifies the following as priority issues: diversifying manufacturing industries and strengthening export-oriented industries. Meanwhile, the National Industrial Policy 2010 puts an emphasis on the private sector-led development of domestic industries, among others. This Project is in line with these plans and policies of Bangladesh.

(3) Japan and JICA's Policy and Operations for Private Sector Development

The JICA Country Analysis Paper for Bangladesh (issued in April 2013) indicates that "JICA will place the most emphasis on support for the improvement of the investment environment, including the development of special economic zones, to contribute to the economic development of Bangladesh and the further promotion of economic exchanges between Japan and Bangladesh." Meanwhile, the Country Assistance Program for Bangladesh (issued in June 2012) also identifies "accelerating inclusive economic growth towards becoming a middle income country" as a priority area. Thus, this Project is consistent with the policy and analysis of the Japanese Government and JICA. Moreover, the promotion of PPP projects can contribute to Japan's Growth Strategy, which aims to promote the export of infrastructure systems. Recent major cooperation projects implemented in this sector are listed below.

- Loan assistance: Financial Sector Project for the Development of Small and Medium-sized Enterprises (approved in FY 2011)
- Technical cooperation: Dispatch of Investment Climate Improvement Advisors (from 2012 to 2014 and from 2014 to 2016) and Industrial Policy Advisor (from 2013 to 2015)

(4) Other Donor's Activity

The World Bank is supporting the development of the legal system for special economic zones and the establishment of high-tech parks (IT industrial parks). The Asian Development Bank is supporting small and medium business finance and PPP projects to develop industrial parks.

(5) Necessity of the Project

The Government of Bangladesh has identified the diversification of manufacturing industries and the strengthening of export-oriented industries as important issues. While Bangladesh is promoting the private sector-led development of domestic industries by using foreign direct investment, a key to industrial development of the country is to provide short-, medium- and long-term finance in local currencies for Japanese and other foreign companies as well as develop infrastructure required by these firms. This Project aims to improve the investment environment in Bangladesh by improving access to financing opportunities and promoting PPP projects to develop infrastructure including industrial parks. Thus, this Project is consistent with the priority assistance policy of the Government of Japan and JICA. Therefore, it is highly necessary and relevant to implement this Project.

3. Project Description

(1) Project Objective

By financing and implementing development projects in Bangladesh, such as the development of special economic zones for Japanese companies, this Project aims to solve the problems that impede investment, such as the limited access to financing opportunities, the lack of infrastructure, and complicated bureaucratic procedures, to promote foreign direct investment, thereby contributing to the economic development of the country.

(2) Project Site/Target Area

Throughout Bangladesh

(3) Project Components

- 1) Two-step loan to finance Japanese and other foreign companies for their short-, medium-, and long-term capital investment and operations
 - 2) Equity-back finance for the Government of Bangladesh to promote PPP projects undertaken by the Government in cooperation with Japanese companies to develop large-scale infrastructure for attracting foreign businesses (e.g., industrial parks in special economic zones)
 - 3) Development of basic infrastructure that can directly benefit foreign companies operating in Bangladesh, such as access roads and electricity and gas infrastructure in their operating sites
- * Through the three components mentioned above, this Project will involve the Governments of Japan and Bangladesh, which is expected to streamline complicated bureaucratic procedures.
- 4) Consulting services: assistance for the selection of participating financial institutions and the monitoring of the progress of the Project

(4) Estimated Project Cost (Loan Amount)

23,349 million Yen (Loan Amount: 15,825 million Yen)

(5) Schedule

This Project is planned to run from December 2015 to April 2025 (113 months in total). Project completion is defined as the completion of the disbursement of the two-step loans (in April 2025).

(6) Project Implementation Structure

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

2) Guarantor: N/A

3) Executing Agency:

i. Two-step loan

[Executing agency] Bank and Financial Institutions Division, Ministry of Finance (hereinafter referred to as "BFID")

[Operating agency] Bangladesh Bank (hereinafter referred to as "BB")

ii. Equity back finance

[Executing agency] Financial Division, Ministry of Finance (hereinafter referred to as "FD")

[Operating agency] Bangladesh Infrastructure Financial Fund Ltd. (hereinafter referred to as "BIFFL")

iii. Infrastructure development

[Executing agency] Prime Minister's Office (hereinafter referred to as "PMO")

[Operating agency] Bangladesh Economic Zones Authority (hereinafter referred to as "BEZA")

4) Operation and Maintenance System:

The operating agencies (BB, BIFFL, and BEZA) are responsible for the operation of this Project. While BEZA is responsible for budgeting and implementing the maintenance of relevant infrastructure, technical aspects will be handled by agencies to construct the infrastructure (e.g., the Roads and Highways Department of the Ministry of Road Transport and Bridges (hereinafter referred to as "RHD")), the Local Government Engineering Department of the Ministry of Local Government Rural Development and Cooperatives (hereinafter referred to as "LGED"), and Power Grid Company of Bangladesh Limited (hereinafter referred to as "PGCB").

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

1) Environmental and Social Consideration

① Category: FI

② Reason for Categorization:

This Project is classified as Category FI, according to the JICA Guidelines for Environmental and Social Considerations (published in April 2010), because its sub-projects cannot be specified prior to JICA's approval of funding and because those

sub-projects are expected to have a potential impact on the environment.

③ Other/Monitoring:

In this Project, the three operating agencies responsible for respective project components are to classify their respective sub-projects according to the laws and regulations of Bangladesh and the JICA Guidelines for Environmental and Social Considerations (published in April 2010) and take necessary measures depending on the category while receiving support from consultants hired through the Project. None of the sub-projects will fall under the Category A.

https://www.jica.go.jp/english/our_work/social_environmental/id/asia/south/bangladesh/c8h0vm000090rzis-att/c8h0vm0000czwl89.pdf

2) Promotion of Poverty Reduction

None in particular.

3) Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, Consideration for the Handicapped etc.):

This Project is not classified as a gender project since it is hardly possible to take specific actions that can contribute to gender equality.

(8) Collaboration with Other Donors

The World Bank has been implementing the Private Sector Development Support (PSDS) Project since August 2011, when BEZA was established, to assist the organization in developing special economic zones (The PSDS Project is planned to run from August 2011 to June 2016, financing 120 million USD). Through the PSDS Project, pre-feasibility studies have been conducted for five potential special economic zones, which are also to be evaluated as candidates for this Project.

(9) Other Important issues

None in particular.

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline (Actual value in FY2014)	Target (in 2027) [Expected value two years after project completion]
Amount of Japanese direct investment in Bangladesh (million USD per year)	117	Increase from the baseline value
Number of Japanese companies operating in Bangladesh (companies)	181	Increase from the baseline value
Sales of the foreign companies operating in Bangladesh and benefited from this Project (million USD per year)	To be determined at the time of disbursement of sub-loans	Increase from the baseline value
Profits of the Bangladesh companies trading with the foreign companies operating in Bangladesh and benefited from this Project (million Taka)		Increase from the baseline value
Number of people employed by the foreign companies operating in Bangladesh and benefited from this Project (persons)		Increase from the baseline value

(2) Qualitative Effects

Expansion of foreign direct investment, improvement of access to financing opportunities for foreign companies, transfer and adaptation of excellent management know-how from Japanese companies, development of new technology through the transfer of business resources and the introduction of new techniques and systems, accumulation of foreign currencies and development of export-oriented industries as a result of import substitution industrialization, creation of job opportunities, and increasing benefits of consumers

(3) Internal Rate of Return

The Internal Rate of Return was not calculated because sub-projects could not be identified.

5. External Factors and Risk Control

- (1) Preconditions: None in particular.
- (2) External Factors: None in particular.

6. Evaluation Results and Lessons Learned from Past Projects

(1) Results of Evaluation of Similar Past Projects

The ex-post evaluation of the Small and Medium Scale Industry Promotion Program in Malaysia identified the following lesson for financial intermediary loan (two-step loan): when several executing agencies (financial institutions) are involved independently, it is more

effective to allow them to handle each case flexibly depending on the financing demand and scale of the targeted end user without establishing uniform standards for the selection of companies and projects to be financed or conditions for sub-loan.

Moreover, the following lessons were drawn from the Thilawa Special Economic Zone (SEZ) Development Project (Private Sector Investment Finance) in Myanmar: (1) in order to encourage private companies to make investment decisions, both Governments need to provide strong support and take measures to reduce risk; and (2) in order to attract private sector investment, it is essential to develop infrastructure in the surrounding areas.

(2) Lessons for the Project

This Project is designed to ensure the flexibility of loan conditions (interest rates). Moreover, the Project is planned to include the development of relevant infrastructure and keep pace with the discussions between the Governments of Japan and Bangladesh about tax exemption and other incentives to encourage Japanese companies to expand into Bangladesh.

7. Plan for Future Evaluation

(1) Indicators to be Used

- 1) Amount of Japanese direct investment in Bangladesh (million USD per year)
- 2) Number of Japanese companies operating in Bangladesh (companies)
- 3) Sales of the foreign companies operating in Bangladesh and benefited from this Project (million USD per year)
- 4) Profits of the Bangladesh companies trading with the foreign companies operating in Bangladesh and benefited from this Project (million Taka)
- 5) Number of people employed by the foreign companies operating in Bangladesh and benefited from this Project (persons)

(2) Timing of Next Evaluation:

Two years after the completion of the Project (ex-post evaluation)