

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
CONCEPT STAGE**

Report No.: PIDISDSC20363

Date Prepared/Updated: 10-Feb-2017

I. BASIC INFORMATION

A. Basic Project Data

Country:	Bangladesh	Project ID:	P156113
		Parent Project ID (if any):	
Project Name:	Export Competitiveness for Jobs (P156113)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	13-Mar-2017	Estimated Board Date:	31-May-2017
Practice Area (Lead):	Trade & Competitiveness	Lending Instrument:	Investment Project Financing
Borrower(s):	People's Republic of Bangladesh		
Implementing Agency:	Ministry of Commerce		
Financing (in USD Million)			
	Financing Source		Amount
	BORROWER/RECIPIENT		0.00
	International Development Association (IDA)		100.00
	Total Project Cost		100.00
Environmental Category:	B - Partial Assessment		
Concept Review Decision:	Track II - The review did authorize the preparation to continue		
Is this a Repeater project?	No		
Other Decision (as needed):			

B. Introduction and Context

Country Context

Bangladesh's economic performance has been characterized by strong growth for more than a

decade. Between 2000 and 2015, the size of the economy in purchasing power parity terms (PPP, current US\$) more than tripled to US\$537 billion. During this time period, exports of goods and services and inflows of personal remittances increased on an annual average of 15.5 percent and 15.2 percent, respectively. In the decade to 2015, gross domestic product (GDP) per capita (PPP) increased annually by 6.8 percent to US\$3,333. To realize the GoB's vision of attaining middle income status by 2021, Bangladesh need to accelerate economic growth rate to above 8 percent. Bangladesh's continued integration in trade and international production networks will play an important role in this process.

Bangladesh continues the impressive poverty reduction but most Bangladeshis remain near or below the poverty line. The updated international poverty line, US\$1.90 per day at 2011 PPP, indicate 18.5 percent poverty rate in 2010. Important drivers of poverty alleviation include increases in labor income, agricultural productivity, female labor force participation and personal remittances. Bangladesh has attained near universal access to primary education with gender equity in both primary and secondary education.

More than 20 million youth will enter the labor market in the coming decade. More, better, and more inclusive jobs are required to continue to reduce poverty and provide a brighter future for a nation in which 30 percent of the population is 14 years or younger. Nearly Nine out of ten Bangladeshi workers are operating in the informal sector and three out of five workers find themselves in vulnerable employment. Rapid urbanization coupled with significant youth unemployment and underemployment indicate that inclusive economic growth is required, but not necessarily sufficient, to maintain political stability. An important contribution to formal job creation in productive sectors could come from tradable sectors in which Bangladesh has a comparative advantage. Raising export competitiveness is essential in realizing this economic potential.

The economy has undergone important structural shifts and the industrial sector has become a large contributor to growth and employment. The share of manufacturing in GDP has risen from 13 percent in 1981 to 17 percent in 2015. Industry's contribution to growth increased from around 1 percentage point in the 1980s to nearly 3 percentage points in 2015. The share of the services sector has stabilized at 53-54 percent of GDP whereas its contribution to GDP growth was over 3 percentage points in the 2000s. By contrast, agriculture's share in GDP has dropped from 30 percent in 1981 to 15 percent in 2015, making a modest contribution to GDP growth. Industrial growth has been largely linked to the manufacturing sector whereas growth in the services sector has been led by wholesale and retail trade and transport, storage and communication. In 2002-13, net new employment was predominantly generated in manufacturing (37%) and services (33%).

The Bangladesh economy is increasingly integrated in the world trading system but the country could do better at leveraging trade and foreign direct investment (FDI) for growth. Trade as a proportion of GDP increased from 18 percent in 1985, to 29 percent in 2000, and to 45 percent in 2014. The main origins of imports are regional trade partners such as China, India, Singapore and Malaysia whereas the main export destinations are the European Union and the United States. While exports have expanded rapidly, Bangladesh keeps financing a significant and persistent trade deficit through its inflow of financial remittances from Bangladeshis working abroad.

Bangladesh is increasingly attracting FDI but the absolute amounts are still relatively small and insufficient to transform the broader economy. Net inflows of FDI grew 26 percent per year in the

last decade but FDI was almost non-existent up until 2002. In 2014, net inflows of FDI were US \$2.5 billion, or the equivalent of 1.4 percent of GDP. Total private investment has remained stagnant at 20-22 percent of GDP. This rate is by no means low but there is a general recognition in the GoB that it needs to increase further for Bangladesh to raise its growth rate. While Bangladesh attracted US\$16 per capita of FDI in 2014, other export-oriented emerging markets like Cambodia (US\$113) and Vietnam (US\$101) were significantly more successful in leveraging international capital, technology and expertise for their development agendas. Bangladesh's goal of diversifying the export basket would be helped if the GoB could increase inflows of FDI.

Garments make up 83 percent of exports and export diversification is a policy priority. The rise of the ready-made-garments (RMG) sector is a remarkable success story. Bangladesh is the world's second largest garment exporter after China and exports reached an estimated US\$26 billion in the year ending March 31, 2015. Bangladesh hosts around 5,000 RMG factories employing over four million people of which some 61 percent are women. While the RMG sector's performance should be celebrated, and has the potential to continue to grow, it is a sector that is highly sensitive to labor cost, dependent on the efficiency in logistics chains and generosity of tax incentives, reliant on fashion conscious customers, and increasingly sensitive to international perceptions of environmental and labor standards in the countries where garments are produced. Bangladesh would have much to gain if it could diversify its export basket and replicate the RMG success story in other sectors.

The GoB has identified the leather, footwear, plastics and light engineering sectors (see Annexes 3-4) as high potential priority sectors. Exports of leather and leather goods are growing fast but value addition is impeded by domestic husbandry and slaughter practices, inadequate technology, environmental degradation and compliance requirements in foreign markets. Its 6,200 firms employ nearly one million people of which a majority are women. Exports of footwear have doubled every four or five years for more than a decade and the sector has many similarities with the RMG sector in terms of strengths and weaknesses. The plastics and light engineering sectors produce essential intermediate products used in supply chains of many other sectors but the sectors are increasingly directly exporting its output. The plastics industry is made up of roughly 5,000 firms employing 600,000 workers whereas the electronics industry's 2,500 firms employ some 70,000 workers.

Sectoral and Institutional Context

The 7th Five-Year Plan (FY2016-20) and Vision 2021 aim for Bangladesh to attain middle-income economy status by its 50th anniversary as an independent nation. The plan's objective is to develop strategies, policies and institutions to accelerate inclusive growth, reduce poverty, empower citizens and promote sustainable development. The plan aims to attract higher domestic and foreign investment to raise productivity of capital and labor. Initiatives that can help improve the investment climate, address skills shortages and increase investment in infrastructure and manufacturing are high priorities. Concrete targets for 2021 include to: (i) increase gross investment from 29% to 34% of GDP; (ii) increase private investment from 22% to 27% of GDP; (iii) generate FDI worth US\$10 billion; and (iv) generate exports worth US\$54 billion. The GoB will seek to achieve these targets by improving regional and global integration through trade liberalization and trade facilitation to promote higher value added manufacturing; invest in industrial infrastructure to develop the private market for economic zones and increase the supply of electricity; strengthen institutions to manage a larger and more complex economy and foster a business friendly environment; and improve technical education and skills formation.

Bangladesh's economy is in need of investment climate reforms at the national level and targeted support activities to address binding constraints at the sectoral level. The investment climate reforms will need to address a range of factors adversely affecting investment incentives and the allocation of productive resources. Bangladesh is currently in the 92nd percentile in the Doing Business ranking and well behind countries such as India, Pakistan and Sri Lanka. New entrepreneurs and emerging sectors bear the brunt of excessive transaction costs which discourages formality, female participation in the economy, entrepreneurship and innovation. The tariff policy is unfavorable to export-oriented firms that rely on imported inputs, which reduces export competitiveness through anti-export bias. Unequal access to bonded warehouse regimes creates stronger incentives to invest in RMG than in other export sectors. There is no consolidated investment policy law, which has left a fragmented and dispersed investment framework with often inconsistent and contradictory support policies. The Companies Act is out of date and impedes growth of small companies, provides weak protection to minority investors, and makes business exit mechanisms expensive and complex.

The GoB has identified several sectors besides RMG that could play an important role in economic and export diversification. The 7th Five-Year Plan for FY16-20, the Vision 2021 and the Bangladesh Export Policy for 2015-18 identify growth sectors that are increasingly competitive in international markets or showing signs of comparative advantage. Besides RMG, agro-processing, leather and leather products, footwear, light engineering (bicycles, electronic and electrical products), plastics, pharmaceuticals, jute and jute-based products, furniture, toys, luggage and ship building are industrial sectors that feature prominently in the GoB's policy agenda.

The GoB requested support from the International Development Association in FY16 to support the development of the leather, footwear, plastics and light engineering sectors. Leather and leather products, (leather and non-leather) footwear, plastics and light engineering are labor-intensive growth sectors in which Bangladesh has a revealed comparative advantage in several niche segments. The sectors face market failures linked to negative externalities. For example, side-effects of polluting production in sectors like leather production is often best solved by investment in common goods, like common effluent treatment plants (CETPs), and public goods, like access roads to industrial parks. There are frequent coordination failures where market participants are poorly organized to effectively address issues of mutual interest, such as policy advocacy, articulation of demand for skills of labor, and agreeing on common criteria and needs for technology adoption. Buyers - from end consumers to multinationals in high-income markets - and regulators in key client markets require adherence to various standards and accreditations that change over time. There are serious concerns of information asymmetry between foreign buyers and Bangladeshi sellers. Sometimes the issue is about market signals not reaching prospective suppliers. While compliance may be essential to gain market access, markets for business development services and accreditation and testing mechanisms are underdeveloped. Some of these functions, including training institutes, are controlled by public institutions with poor governance that lack competition or incentives to perform.

The identified sectors employ largely poor, low-skill workers and there is potential to strengthen backward linkages and increase domestic value addition. The Bangladeshi plastics and light engineering sectors are successful in certain international niche markets. In addition, both sectors are critical providers of inputs in the value chains of other export sectors in Bangladesh. For example, the plastics industry is essential as provider of inputs in RMG, footwear, furniture, toys, and luggage products. Up to 90 percent of the exported production of plastics is 'deemed exports'

- i.e. for every \$1 in direct exports there is \$9 in indirect exports that is recorded in other product categories. There is strong anecdotal evidence that multinationals are assessing Bangladesh as the next frontier for large investment in these sectors. Samsung was in advanced negotiations with the GoB about a new US\$1 billion plant in the electronics sector. The investment did not materialize reportedly because the GoB could not provide land for the green field investment. Instead, Samsung established the plant in Vietnam, and Samsung's suppliers followed and invested considerably more in the production of intermediate goods.

The proposed project would address constraints to growth mainly in the four identified sectors but many of the solutions will benefit other sectors. Annex 3 presents the reasoning behind the GoB's selection of target sectors. Important selection criteria were: (i) scope to create new jobs/labor intensity; (ii) perceived private interest and scope to generate more investment and export potential; and (iii) relevance and scope for project additionality

Binding constraints in the targeted sectors are linked to issues of market access, skills shortages and weak institutions for technology upgrading, and infrastructure weaknesses. First, adherence to various technical and process quality standards, testing and accreditation mechanisms, and social and environmental standards are increasingly essential to export leather, leather products, footwear, plastics and light engineering products. The identified sectors rely on skilled technical workers and increasingly on R&D, product development and process engineering developed in partnership with institutions of higher education. A strong small and medium sized enterprise (SME) cluster underpinning the leather, leather products, footwear and light engineering sectors is essential to raise competition and productivity. Natural entry barriers in terms of high costs of modern machinery shuts out many prospective entrepreneurs. But there are proven business models of shared centers for technology adoption and diffusion where initial public subsidies help the SME segment access modern technology, product development and training facilities. In addition, there are binding infrastructure constraints negatively affecting the development of some of the industrial clusters.

Relationship to CAS/CPS/CPF

The project will support key priorities and objectives outlined in the World Bank 2015 Systematic Country Diagnostic (SCD) for Bangladesh (titled 'More and Better Jobs to Accelerate Shared Growth and End Extreme Poverty'). In particular, it will target two of the three foundational priorities: (i) 'strengthening institutions and the business environment'; and (ii) 'promoting human development'. In addition, it will contribute to one of the five transformational priorities: 'regional and global integration'. The Bangladesh Country Partnership Strategy (CPF) for FY16-20 is centered on three key focus areas: (a) enhancing growth and competitiveness, (b) fostering social inclusion, and (c) supporting climate and environment management. This project is designed to enhance growth and competitiveness of select labor-intensive sectors in which Bangladesh has a revealed comparative advantage or sectors that provide essential inputs in export-oriented manufacturing value chains. It will support policy reforms as well as the provision of training and technology diffusion opportunities to boost competitiveness.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to increase employment through increased trade and private investment in select sectors with export potential.

Key Results (From PCN)

- a. Number of new jobs created
- b. Value of private investment
- c. Number of formal businesses registered in the targeted sectors
- d. Number of beneficiaries (core), of which women (%)

D. Concept Description

The project will be structured around four components: (i) Market Access Support Program, (ii) a Productivity Enhancement Program, (iii) a Public Investment Facility for Infrastructure Constraints; and (iv) Project Implementation, Monitoring and Evaluation. Some project interventions at the sectoral level will also have positive spillover effects across other sectors. Successful interventions could thus be rolled out across other sectors in a second phase.

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The PIU for the project will be formed upon project approval and there is little existing capacity on management of environmental and social issues. Individual sub-projects under the project are small and will be in the safeguards Category B. The overall Environmental and Social risk is considered substantial in the absence of previous experience in the management of the issues involved. An Environmental and Social Management Framework (ESMF) will be developed for the project to manage the risks in these areas.

The site locations for the CFCs are yet to be decided and it is unclear whether land acquisition and/or displacement will occur. This uncertainty coupled with the nature of activities envisioned under the PIFIC (road upgrades, creation of access roads etc.) will potentially trigger OP 4.12. The project will develop the capacity of training centers and delivering training to unskilled labor using existing institutes and mechanisms. While two specific training institutes are mentioned, there may be more partners identified during pre-appraisal based on demand. It is not determined at this stage where these centers will be located and where the trainees will come from so OP 4.10 could be triggered. A Resettlement Policy Framework and a Tribal Peoples Framework will be prepared and disclosed prior to project appraisal, in accordance with Bank rules.

B. Borrower's Institutional Capacity for Safeguard Policies

The PIU for the project will be formed on approval of the project so there is no existing capacity on the management of environmental and social issues.

C. Environmental and Social Safeguards Specialists on the Team

Nadia Sharmin (GEN06)

Sabah Moyeen (GSU06)

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	At the concept stage, the specific subprojects that will be undertaken has not been identified but in the recognition of the potential environmental impacts, an Environmental and Social Management framework (ESMF) will be developed at

		appraisal stage. The specific measures for managing environmental impact of subprojects including developing Environmental Management Plan (EMP), will be elaborated in the ESMF.
Natural Habitats OP/ BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	TBD	There is no impact identified at this stage on indigenous people, but the project will investigate potential impact and if triggered Tribal People Framework (TPF) which will also elaborate on the Indigenous People Plan.
Involuntary Resettlement OP/BP 4.12	Yes	There will be subprojects developed throughout the country and the actual footprint and exact site(s) of any subproject requiring land acquisition has yet to be identified. A Resettlement Policy Framework (RPF) will be prepared by appraisal. The specific measures for managing social impact of subprojects including developing Resettlement Action Plans (RAPs), will be elaborated in the RPF. Any subproject site that requires land acquisition will subject to the preparation of these plans, clearance by the World Bank, and subsequent disclosure.
Safety of Dams OP/ BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

28-Feb-2017

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

The ESMF, EMP, RPF, TPF will be prepared and disclosed (February 28, 2017) before appraisal.

III. Contact point

World Bank

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Borrower/Client/Recipient

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IV. For more information contact:

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Task Team Leader(s):	Name: Michael Olavi Engman, Hosna Ferdous Sumi	
<i>Approved By</i>		
Safeguards Advisor:	Name: Takeaki Sato (SA)	Date: 21-Feb-2017
Practice Manager/ Manager:	Name: Esperanza Lasagabaster (PMGR)	Date: 21-Feb-2017
Country Director:	Name: Rajashree S. Paralkar (CD)	Date: 22-Feb-2017

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.