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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 24-Jul-2019 | Report No: PIDC26871

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Bangladesh	P170688		Bangladesh Private Investment & Digital Entrepreneurship Project (P170688)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	Feb 28, 2020	May 29, 2020	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Economic Relations Division	Bangladesh Economic Zones Authority, Bangladesh Hi-Tech Park Authority	

Proposed Development Objective(s)

To promote private investment and job creation in economic zones and digital entrepreneurship in hi-tech parks in an environmentally sustainable manner.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	500.00
Total Financing	500.00
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

Environmental and Social Risk Classification	Concept Review Decision
High	Track II-The review did authorize the preparation to continue

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Other Decision (as needed)

B. Introduction and Context

Country Context

Bangladesh is expected to shortly attain middle-income status following decades of sustained economic growth. Bangladesh is in many ways an economic success story. In 2018, the gross domestic product (GDP) per capita in purchasing power parity terms reached US$3,879.[1] The equivalent average annual growth rate increased from 4.5 percent in the 1990s, to 6.2 percent in the 2000s, and to 7.2 percent in 2010-18. The growth of the services and industrial sectors has in the last decades produced a more balanced economy. Bangladesh is the world's second largest exporter of garments after China with export revenue exceeding US$30 billion in 2018. Bangladesh's exports have steadily grown more dependent on the garment industry, however, and value addition remains modest. The trade deficit has more than doubled in the last two years due to rapid growth in goods imports. The current account balance has turned negative during the same period. But country has achieved near self-sufficiency in food production for its population of 168 million. A combination of strong focus on human development, a vibrant private sector, strong inflows of financial remittances, and a dynamic microfinance sector have helped transform Bangladesh. The country is a lower-middle-income economy that could attain middle-income status by 2026 with sustained growth.

The pace of the country's economic transformation is matched by the pace of its social progress. The current life expectancy of 72 years is significantly higher than in India (68) and Pakistan (66). The national birth rate has been cut by more than two-thirds since 1980 and is today roughly at the replacement fertility rate of 2.1 children per woman. Bangladesh has met most of the education and health targets of the United Nations Millennium Development Goals and the national poverty rate has dropped from 31.5 percent in 2010 to 21.8 percent in 2018, which is a significant step towards reaching the first Sustainable Development Goal target of eradicating extreme poverty by 2030. Recent data put the extreme poverty rate at 11.3 percent. In 2018, Bangladesh met the criteria to graduate from the United Nations' classification of 'least developed country' to the classification of 'developing country' by 2024. Bangladesh's rapid social progress is leaving its population healthier, better nourished, and more highly educated.

Bangladesh needs to increase private investment and especially foreign investment to diversify the economy, raise productivity and maintain high economic growth over time. This is essential to create better opportunities for the growing and rapidly urbanizing population. The Government of Bangladesh (GoB) has been unable to attract foreign direct investment (FDI) that could help propel the next phase of economic transformation. Inflows of FDI remained relatively low and static in 2015-17: or around US$2.2 billion per year. FDI jumped to US$3.6 billion in 2018 but the entire increase was linked to the acquisition of a Bangladeshi tobacco company by a Japanese tobacco company. China is emerging as a leading source of FDI in addition to the European Union and the United States. Recent anecdotal evidence indicates that Chinese and other manufacturers are turning to Bangladesh to diversify their production and help overcome rising import tariffs abroad. But Bangladesh is behind other emerging economies in the region such as Cambodia, India, Myanmar and Vietnam when it comes to FDI inflows per capita or as a share of GDP.

Two of the main constraints to private investment and job creation are poor access to land and high transaction costs imposed by the public administration. First, 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 and much of the land is either water logged or otherwise disconnected from roads and utilities. Opaque land records and an unpredictable judiciary do not help. Without an emerging market for serviced industrial land, Bangladesh is unlikely to attract the private investment it needs to transform manufacturing and industrial production. Second, rapid economic growth in the past seems to have reduced the internal urgency for GoB to reform the public administration. Bangladesh has fallen behind most countries in terms of the World Bank Group's ease of doing business ranking: or from 65th out of 155 countries in 2006, to 176th out of 190 countries in 2019. Only a handful countries associated with frequent social, economic and political turbulence impose higher transaction costs on businesses in the formal economy. Yet the World Bank Group are supporting the GoB to arrest the deterioration and improve the overall investment climate through the Bangladesh Investment Climate Fund 2 Project. In the last year the GoB has finally accelerated the reform agenda at the national level.

The growth in the number of new jobs has slowed and decoupled from the economic growth record. The growth in employment has declined especially in the formal sector. In 2003-10, employment grew on average by 3.1 percent per year. In 2010–16, as economic growth accelerated, job growth fell to 1.8 percent per year. Moreover, value added per worker in the industrial sector has grown at only half the level for the economy overall. The achievements of the garments industry are laudable, and it now generates 84 percent of total exports. However, there are few signs that Bangladesh is developing other major export sectors that can help diversify trade, and the national tariff rate policy does not help. Garment exports keep growing but the number of jobs in the sector has stagnated. In 2010-13, employment in the apparel sector grew by 6 percent per year despite 15 percent annual growth in output.[2] More recently, exports have grown somewhat slower and the total number of garment jobs has hardly changed. Three out of five Bangladeshi workers find themselves in vulnerable employment. And Bangladesh's urbanization rate of 3.2 percent is expected to rise and increase the supply of labor outside agriculture: the population density places Bangladesh in the global top but the share of the population residing in urban areas places Bangladesh in the bottom quartile.

[1] Current US$. Source: World Bank World Development Indicators (2019).

[2] "Farole, Thomas; Cho, Yoonyoung; Bossavie, Laurent; Aterido, Reyes. 2017. Bangladesh Jobs Diagnostic. Jobs Series; No. 9. World Bank, Washington, DC. World Bank.

Sectoral and Institutional Context

Bangladesh's labor force has attributes that could make it a magnet for efficiency seeking investors. The economic growth record and the large pool of consumers should make it a magnet for market seeking investors. First, Bangladesh has a large, youthful and rapidly growing labor force. Approximately 2.1 million Bangladeshis reach working age each year. Second, unit labor cost is still relatively low and competitive from an international perspective despite rapid salary growth in the last decade. According to ILO (2017), Bangladesh's 4.9 million workers in the garments, textile and footwear industry earns 28 percent of their colleagues in China, which is the largest exporter in this sector.[3] Third, as the garment industry has proven, labor productivity can be high within corporate environments and with proper training. Preferential market access helped catalyze garment exports from Bangladesh, but other countries enjoy preferential access to leading markets in high-income countries too so rising labor productivity has been an important differentiator. Fourth, the domestic private sector is highly dynamic and more capable firms have access to finance, make long-term investments, and build productive partnerships with foreign companies and suppliers. Fifth, and as outlined above, the economy has grown rapidly as both public and private consumption expand. In addition, Bangladesh has the eighth largest population in the world and its 168 million citizens make up a large and growing consumer market. Thus, it is striking how Bangladesh, despite its highly dynamic economy with a large labor force and even bigger consumer base, has failed to attract transformational investments. There are emerging signs, however, that Bangladesh may be reaching an inflection point where this situation could change for the better.

The GoB is taking bold steps to address the challenges of access to serviced industrial land and high transaction costs associated with private investment in productive industries. This complements other efforts to implement economy-wide reforms. One of the legislative accomplishments in the last decade was to create two authorities to spearhead the push towards industrialization with greater involvement of the private sector. The Bangladesh Economic Zones Authority Act and the Bangladesh Hi-Tech Park Authority Act (both of 2010) created two semi-autonomous agencies—the Bangladesh Economic Zones Authority (BEZA), under the Prime Minister's Office, and the Bangladesh Hi-Tech Park Authority (BHTPA), under the Ministry of Information, Communication and Technology (ICT)—tasked to oversee the expansion of economic zones (EZs) and hi-tech parks (HTPs) in the country. The objective was to move away from the old export processing zones (EPZs) regime regulated by the Bangladesh Export Processing Zones Authority (BEPZA), which was publicly owned and operated, and instead introduce a modern regime that relies on private capital and expertise to build and operate the facilities with the GoB acting mainly as regulator and facilitator.[4] The EPZs catered only to exporters and were criticized for creating few backward economic linkages. The EZs and HTPs, on the other hand, serve both domestic and foreign markets, and offer better opportunities to establish backward linkages.

BEZA was established to lay the foundation for a market of serviced land to attract private investment and create jobs in manufacturing and industrial production. The first years following the adoption of the BEZA Act in 2010 were dedicated to issue regulations, establish the physical structure of the institution, recruit the core management team, and put in place basic operational structures. This process was slow, and it was not until 2014 that BEZA became fully operational. The targets that BEZA set may seem too ambitious and unrealistic as BEZA aims to license 100 EZs by 2025, including in underdeveloped regions, and host ten million workers. Following a slow start and the change of management, BEZA has gone from strength to strength. It has in a short period of time built one of the largest public land banks in the country, issued eleven licenses to private economic zones, allocated land to many domestic and foreign investors, and developed a prospective investment pipeline worth US$18 billion. It has quickly become the indispensable partner to private investors and to large industry. It is seeking to fulfill its mandate using a wide variety of public, private and mixed arrangements. It is at an early stage of developing economic zones with counterparts from China, India, Japan and South Korea under government-to-government initiatives. A joint venture was launched in May 2019 between BEZA and Sumitomo International to create the first economic zone in Bangladesh developed and operated by a company with a proven international track record. In 2018, Honda established a plant in the private Abdul Monem Economic Zone to produce 200,000 two-wheelers by 2021. **These two flagship—or anchor—investments signal that Bangladesh has reached the stage in its development process where foreign multinationals are willing to commit and enter markets beyond footloose light manufacturing.**

BEZA has announced its first anchor investors that over time could prove to be transformational. However, this young institution faces challenges that it needs to address to not arrest the positive progress. BEZA is today regarded as an accessible, committed and capable partner to private investors—domestic as international—and it plays a leading coordinating role between government entities in the areas in which it operates. It is regarded as a positive change agent, and investors stress the need for BEZA to maintain its momentum in the implementation of its comprehensive development agenda. The announcements of deals and the entry by foreign investors in economic zones will only be transformational if the GoB can deliver on its commitments to provide streamlined business and administrative services, improve connectivity for logistics and utility services, and offer a conducive policy environment. Privately developed and operated EZs can only take off if the GoB refrains from establishing publicly owned and operated equivalent facilities that are subsidized and/or undercut market rents. The entry of Honda and Sumitomo International are important signals to other international investors that Bangladesh is open for business and that the GoB is committed to make productive investments viable in the country. If BEZA delivers on its side of these partnerships, more anchor investors will likely follow, and this is what would catalyze a real transformation of the Bangladesh economy. The objective of PRIDE is to support BEZA to do just that. Adopting a more strategic and structured approach to public private partnerships is critical to improve service delivery and reduce the investment requirements on behalf of the GoB.

Extensive consultations with various stakeholders highlight areas in which BEZA could clarify its role and adjust its approach to strengthen development outcomes:

a) **BEZA should focus on securing and realizing the biggest developments that are underway** (e.g. Bangabandhu Sheikh Mujib Shilpa Nagar (BSMSN) in Mirsarai and Moheshkhali) and not divert scarce resources to the numerous unsolicited proposals they receive. Strategic public investments should gravitate towards locking in high quality projects by credible investors that can help diversify the economy and generate meaningful employment. Reviewing and updating the numerical targets in BEZA's vision and mission statements to focus more on quality is one way to do this.

b) **BEZA needs to strengthen its coordinating mechanisms.** BEZA acts as a strong convening force that coordinates the interface between private operators/investors and multiple ministries, departments, districts, public agencies and state-owned enterprises. However, there is a general perception that this role is becoming more

[3] ILO (2017), Asia-Pacific Garment and Footwear Sector Research Note Issue 8 | October 2017.

[4] The Bangladesh Export Processing Zones Authority Act of 1980 was aimed to boost industrialization and job creation through the promotion of trade and investment. The Act led to the establishment of the Bangladesh Export Processing Zones Authority (BEPZA), which leases serviced land to exporters in eight EPZs across the country. Investors enjoy incentives of a fiscal (tax holidays, duty free imports, exemptions of dividend tax, etc.) and non-fiscal (100 percent foreign ownership permissible, full repatriation of capital and dividend, etc.) nature in addition to a host of support services aimed to help investors navigate the formidable bureaucracy linked to doing business. BEPZA has been successful in achieving its objectives in EPZs situated in strategic locations. However, since 2010, BEPZA is not allowed to expand its footprint under the BEPZA Act, and it operates at capacity in most EPZs. It hosts half a million workers.

critical with investor concerns that some public partners slow down the development process. BEZA's nascent One-Stop Shop for administrative simplification is a step in the right direction but it will not be enough: stronger and dedicated coordination for large economic zones is a necessity for success. The establishment of well-resourced and autonomous special purpose vehicles at the local level has been the way forward in numerous other countries to address protracted coordination failures.

c) **BEZA requires much stronger functional expertise.** Its expanding responsibilities and investment portfolio of projects require a rapid expansion of its team with more capable technicians that rely on systems and institutional structures to deliver across the board. Building technical departments of excellence in core functions is a key priority. BEZA is in the process of recruiting 18 technical staff but this is not enough as the lack of qualified staff acts as a break on development. Identifying the critical functions, bringing in qualified permanent staff, and empowering them to grow and deliver will allow BEZA to deliver on its agenda.

d) **BEZA needs to separate its role as regulator and emerging role as developer.** BEZA's role of regulator of the private economic zones could start to be clouded with its plans to venture into the role of developer. While certain market and government failures may motivate a public developer role in some cases, international experience shows that this is a risk that must be tackled by a clear separation of responsibilities—for example with a fire-wall between the roles, clarity when the government can and cannot adopt the role of developer, and mechanisms to enforce compliance with this policy.

e) **The regulations for private economic zones should be revised.** BEZA should review and further tighten the regulations around the licensing of private economic zones to reduce the risk of fiscal leakages and to strengthen (non-fiscal) incentives to create a dynamic market for serviced industrial land. Lessees of land need to be motivated to attract new, external investors rather than using EZ space for their own subsidiaries and affiliations. There is currently a ceiling of 50 percent for the EZ operators' own subsidiaries, which is arguably generous, and it may distort the emerging market.

f) **BEZA needs to improve the land allocation process to combat private speculation.** BEZA has one of the largest and growing publicly-owned land banks in Bangladesh. The process of allocating and pricing land for private investors should be fair and transparent and integrate a clear approach to phased development. Some allocation has been on a competitive basis whereas some allocation has been on a first-come-first-served basis. Streamlining this process and ensuring full transparency with enforceable phasing criteria would produce better outcomes and reduce the risk of land speculation.

BEZA has a unique opportunity to strengthen development outcomes by integrating sustainable and resilient infrastructure solutions in its development agenda. Bangladesh is consistently ranked as one of the ten countries in the world that is most at risk from climate change, and it has severe implications for the resilience of its infrastructure.[5] New infrastructure developed can help minimize risks from natural disasters and ensure business continuity for export-oriented industries. In terms of sustainability, there is increasing demand for products that are produced using sustainable production methods. Buyers face less reputational risk when they rely on suppliers who maintain high standards that leave a low social and environmental footprint. The cost of utilities can be lowered by adopting technologies that maximize the use of resources (e.g. rain harvesting connected to advanced drainage systems), share critical facilities such as common effluent treatment plants (CETPs) that produce process grade water, integrates renewables in the energy mix (e.g. floating solar panels to optimize space), and offers new services such as research and placement of specialized workers for the tenant firms. BEZA will pursue the Green Zone concept

[5] GermanWatch (2018), Global Climate Risk Index 2019, Briefing Paper.

to lower operating costs and decrease investment risk. It will also enhance the image of Bangladesh's industrial development as one that incorporates sustainability and resilience as core values. Calculations made by the task team based on technical and economic models for water, energy and waste point to useful solutions that BEZA could adopt in BSMSN in Mirsarai given the scale of investments, industry profile and location-specific attributes (see Table 1).

The demand for serviced industrial land is particularly strong along the emerging national economic corridor between metropolitan Dhaka and Cox's Bazaar, with focus on south-east Dhaka, Mirsarai-Feni and Moheshkhali. Sumitomo International is developing an economic zone (190 ha first phase) in the Narayanganj District southeast of Dhaka and it is the first BEZA partner that has the explicit objective of bringing in foreign supply chains to Bangladesh. The Moheshkhali Economic Zone 25 km north of Cox's Bazar is expected to cater to capital-intensive heavy industries in energy, power production and logistics, including investments by Korean multinationals. The biggest undertaking is the GoB's plan to over time develop nearly 40,000 ha in Mirsarai-Feni as an integrated industrial city (see map in Annex 1). The GoB, through BEZA and other public and private entities, has in the last three years invested nearly US$600 million in developing and connecting the site. The first phase covers an area that is approximately 800 ha (BSMSN-1, BSMSN-2A and BSMSN-2B). BSMSN-1 (222 ha) is being developed by a joint venture of domestic firms. BSMSN-2A (380 ha) is made up of mainly light industry/manufacturing and BSMSN-2B (182 ha) is made up of textile and garment companies. The land for plots 2A and 2B is being raised and it will be ready for industrial development and construction in mid-2020. A super-dike and breakwater and access road to the Dhaka-Chittagong highway are almost completed. The GoB is assessing the feasibility of new railway connections, a seaport and additional roads that will be developed in phases in the coming decade. It was originally conceived of as a cluster of economic zones that would be developed as self-sufficient silos. The ongoing master planning exercise financed by the World Bank Group—to be completed in September—is changing the focus to phased development of a green industrial city—the first of its kind in the country.

BHTPA was established to promote the IT and IT-enabled services (ITeS) industry and it has a more narrow and much different comparative advantage to BEZA. The GoB targets US$5 billion in ICT-related exports by 2021 as part of the Vision 2021 agenda but exports may just about exceed US$1 billion in 2019. BHTPA issues licenses to hi-tech parks that can serve both manufacturing and services companies within the broader ICT sector. However, the experience to date is that BHTPA is better equipped to deal with a sub-category of hi-tech parks referred to as software technology parks (STPs). The STPs are services-oriented clusters in urban areas that have a small spatial footprint and cater to firms with white-collar workers. There is increasing demand for facilities to host this industry with estimates that four-out-of-five IT and ITeS businesses operate in non-commercial or residential areas. The digital economy is increasingly affecting traditional industries. Nearly 300,000 Bangladeshi professionals code software, design apps and serve clients at home and abroad through peer-to-peer digital market places. As this industry matures and the businesses expand they require dedicated space complemented by advisory and support services.

BHTPA has successfully offered training programs and incentives for technical quality certification programs in the past and it is seeking to scale up this support to implement the GoB's 'Digital Bangladesh' 2025 vision. It is planning to establish the first incubation centers within STPs and select technical universities to strengthen the entrepreneurship ecosystem and encourage digital entrepreneurship. As in other leading IT and ITeS exporters, like in India and the Philippines, a few private HTP or STP licenses have to date been issued to individual IT and ITeS companies for single-tenant parks. However, on January 24, 2018, BHTPA issued a license for a private STP developer and operator. Devotech Technology Park is filling up 44,000 ft2 of plug-and-play premises in Dhaka with externally recruited digital entrepreneurs. The company is looking to expand with this business model and add dedicated incubation services. BHTPA should play the role of facilitator rather than the role of operator although the missing markets in the digital ecosystem warrant some government engagement to catalyze support services. Utilizing private sector expertise and integrating and scaling up programs based on good international practices around incubation, acceleration and mentorship/growth programs could have such an outcome. Strengthening industry-linkages to academia could also help raise industry standards. Bangladesh needs to strengthen the pipeline of IT and ITeS companies that have the size and capabilities to leverage private equity and venture capital for further growth.

Relationship to CPF

The project is supporting two of the three focus areas in the World Bank Country Partnership Framework for FY16-FY20. First, it is addressing key constraints to the Growth and Competitiveness agenda (Focus Area 1) as it is seeking to address impediments to greenfield investment and job creation. It is doing it by leveraging as much private financing as possible for infrastructure and utilities, including for renewable energy and (sea) transportation. The project has a large PPP component to respond to the Systematic Country Diagnostic's conclusion that underinvestment in infrastructure is a binding constraint to growth in Bangladesh. It directly addresses the CPF recommendations to strengthen institutions and policy dialogue. It is also designed as an investment project financing operation with disbursement linked indicator to strengthen focus on accountability and results. Second, the project is incorporating the Climate and Environment Management agenda (Focus Area 3) as a core focus. This covers both the introduction of a strong resilience lens in all BEZA activities and an even stronger sustainability lens through the management of water, solid waste and energy in private economic zones and in the Mirsarai Green Economic Zone (or BSMSN). Finally, the project is aligned with the CPF's selection criteria: (i) consistency with the GoB's 7th Five-Year Plan, to ensure country ownership; (ii) alignment with policy priorities identified in the SCD; and (iii) the WBG comparative advantage, considering the knowledge and financing support provided by other development partners.

The project is complementing other World Bank Group projects. First, it builds on the Private Sector Development Support Project (PSDSP, IDA + TF US$192m), which helped establish BEZA and BHTPA, build their initial capacity, amass a significant land bank, assess the feasibility of this land, develop a nascent private market for serviced industrial land, and develop a large investment pipeline. It also designed and supported programs to improve social and environmental standards in the country's EPZs, which will now be extended and implemented in the EZs. This project is closing shortly after the planned Board date of PRIDE and the IDA resources are fully committed. Second, the Investment Promotion and Financing Facility II Project (IDA US$357m) supports local financial institutions that offer long-term funding to private companies, including those that may build infrastructure in sectors such as waste management, water treatment, energy saving equipment, container terminals, land ports and bridges. Third, the Export Competitiveness for Jobs Project (IDA US$100m) seeks to improve technical skills demanded by industry and strengthen quality, social and environmental compliance in individual firms so they can access foreign markets and integrate in global value chain. Fourth, the Bangladesh Investment Climate Fund 2 (TF US$25m) is seeking to address cross cutting constraints at the national level to reduce regulatory red tape, reform the trade regime and facilitate trade, and improve governance in some government agencies. Fifth, the Bangladesh Jobs Programmatic DPC (IDA) seeks to modernize the trade and investment environment and strengthen systems that protect workers and build resilience. Finally, 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. Taken together, these projects complement each other well in the quest to improve competitiveness and growth.

C. Proposed Development Objective(s)

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To promote private investment and job creation in economic zones and digital entrepreneurship in hi-tech parks in an environmentally sustainable manner.

Key Results (From PCN)

The PDO will be measured by the following key outcome indicators:

(a) Total private investment (of which in EZs, of which in HTPs, of which foreign)
(b) Total number of direct jobs created (of which in EZs, of which in HTPs, of which women)
(c) Number of firms with access to shared green services/facilities.
(d) Total number of project beneficiaries.

D. Concept Description

The project covers four components. The first three components will be implemented by BEZA and the fourth component by BHTPA. The activities build on the experience from, and work done to date, under the IDA-funded Bangladesh Private Sector Development Support Project (P120843) and the joint WB-IFC Bangladesh Investment Climate Fund 2. The project is designed as an investment project financing operation with disbursement-linked indicators (DLIs) to strengthen focus on achieving important institutional and regulatory reforms. For BEZA, the project is designed to help reduce the risk of operations and significantly scale up its activities to deliver on commitments to private and public partners. For BHTPA, the project is designed to promote digital entrepreneurship and job creation for educated urban dwellers, especially women and youth. Figures 1-2 present the Theory of Chain, or Results Chain, for the proposed activities that will be implemented by BEZA and BHTPA, respectively.

Component 1: Creating an Enabling Environment for Private Investment, Sustainability and Job Creation (US$100m)

The first component will inform and implement institutional, regulatory and administrative reforms; strengthen BEZA's core competence in technical functions that would allow it to be an effective partner to leading private investors; and embed resilience and sustainability concepts into its development of infrastructure and associated services. It covers a significant budget for activities that disburse against the execution of eligible expenditures and verification of the achievement of DLIs. The link between some of the disbursement against the achievement of certain outputs and outcomes will emphasize and incentivize the quality of core results that are paramount to reduce certain risks associated with BEZA's activities and at the same time allow it to scale up and accelerate its development activities. The use of DLIs will motivate the undertaking of policy and regulatory actions of the sort that, because they do not generally require financial outlays, are otherwise difficult to support. The technical assistance and DLIs will incentivize good governance, good international practices, sustainability and climate-friendly investments, and be associated with expenditures incurred under Components 2-4.

Sub-component 1.1: Promoting good governance and administrative efficiency (US$15m + DLIs)

This sub-component will promote good governance and administrative efficiency by rendering BEZA a more effective autonomous authority. It will help BEZA to crowd in and realize the most attractive proposals in its US$18 billion, and growing, investment pipeline. It will also help ensure that these investments are properly implemented and generate strong public benefits by reducing the risk of negative social and environmental externalities, and fiscal exposure of the treasury. It will allow BEZA to build on its achievements over the last five years and strengthen the authority and its operations to deliver on its commitment to public and private partners. Key priorities are to separate the regulator role and developer role; create special operations units within core functions; update operational procedures to reduce the risk for land speculation; introduce stronger incentives for productive private participation; and integrate green economic zone concepts of resilience and sustainability in the management and financing mechanisms of all infrastructure, utilities and associated services. The DLIs will be linked to a selection of the core outputs and outcomes as follows:

a) Review and revision of BEZA's mission and vision statements;

b) Design and implementation of a comprehensive human resources policy;

c) The establishment, recruitment, training and equipment of special operations units—some of which may become centers of excellence—within BEZA around:

   - Site selection, feasibility evaluation and master planning,
   - Investment facilitation and promotion,
   - Social and environmental management,
   - PPPs and transaction support,
   - Green economic zone development - sustainable and resilient infrastructure, including post-disaster recovery strategies;

d) Development and expansion of BEZA's nascent one stop shop services center to introduce streamlined administrative services;

e) Establishment of formal coordinating mechanisms to allow BEZA to play a more effective role vis-à-vis other public entities and private partners, including at the division level;

f) Develop and implement clear rules when economic zones may have public ownership/participation;

g) Clearly separate the regulatory and developer roles;

h) Establishment of special purpose entities when economic zones have public participation to improve governance and promote inclusive development; and

i) Development of a practical framework and guidelines for green and resilient economic zones at the national level and application at the local level for all economic zones supported under the project.

Sub-component 1.2: Promoting public private participation (US$15m + DLIs)

The project will finance technical assistance and training to support the PPP Special Operations Unit develop a PPP program, including the delivery of specific PPP transactions, with the aim of attracting internationally reputed developers and operators of economic zones and associated services. The project will provide support for legal, regulatory and institutional reforms. It will develop procedures and guidelines for identifying, selecting, preparing, structuring, negotiating, implementing and monitoring PPP transactions. It will provide resources to BEZA for inter-agency coordination with entities such as the PPP Authority, the Chittagong Port Authority, etc., when collaboration is required. It will build the capacity of a core team of 3-4 staff plus embedded consultants and experts who will be responsible for managing the PPP preparation, tendering and transaction implementation process. Structured training programs will cover PPP concepts and best practices, including on transaction structuring, risk allocation, procurement best practices, assessing value for money, PPP standard contractual provisions, contract negotiation, etc. The DLIs will be linked to the compliance with the due diligence process of openness and competition and then support expenditures under the GoB's counterpart investments.

The project will also provide technical assistance to prepare and implement a few concrete PPP transactions. It will finance capital contributions when needed to make transactions financially viable, especially where green, resilient and smart investments need to be commercially viable. The preliminary pipeline of potential transactions includes:

a) **PPP for Green Zone Master Developer (200 ha, in two phases):** feasibility study, transaction advisory services, capital contribution for land elevation, and possibly partial capital contribution for key green infrastructure. The latter may include one or more services/activities such as desalination, rain water capture, water resource management, solid waste management, waste pyrolysis/energy, solar energy production, sewage management, waste water treatment, flood management, etc. The selection will depend of findings of feasibility studies and market response.

b) **PPP for Sea Port, Port Facilities and Land Reclamation:** feasibility study, transaction advisory services, support to help mobilize public financing for port superstructure, capital investment from other financing sources for port superstructure, etc. Total funding would likely amount to approximately US$1bn. BEZA has received credible but unsolicited proposals and the project will integrate them in an open and competitive selection process.

c) **PPP for Desalination and Wastewater Treatment:** feasibility study, transaction advisory services and capital investment to buy down the cost of green, best practice solutions. Other green zone activities such as solar power, rain water capture and flood management will be considered at the pre-appraisal stage.

Component 2: Supporting phased development of the BSMSN Green Economic Zone (US300m)

The second component will support the phased development of the BSMSN Green Economic Zone along the Dhaka-Chittagong corridor, following the formal adoption of the Master Plan for the greater industrial city of BSMSN. This is a unique opportunity to properly plan and establish a new economic agglomeration with an ideal institutional setup, inclusive leadership, joint facilities to tackle negative externalities associated with industrial production, promote private participation in the development of the site, and integrate resilience and sustainability concepts into the design and operation of new infrastructure and services.[6] BEZA has an investment pipeline covering 1,610 ha for 58 investment projects—some of which have already been allocated land. The investors originate mainly from Europe,

[6] Note that the project will not build "a new city" but rather support comprehensive and holistic planning and coordination jointly led by BEZA and other key government entities to integrate social infrastructure and services beyond the industrial areas. This is the only way to make the development of this area socially and environmentally sustainable and allow for an organic yet orderly transformation. It is imperative from a social perspective but also from an investor's perspective due to the demand for labor.

Asia and the Pacific and include many Bangladeshi textiles and garments producers, and various producers of food and beverage, chemical engineering, footwear and pharma. The 58 investment projects are estimated to be worth US$12.3bn and could employ more than 150,000 workers if realized.

This component would catalyze the development of a state-of-the-art green economic zone and set an example for sustainable, resilient and environmentally sound industrial development in Bangladesh. While BSMSN could ultimately cover approximately 40,000 ha by 2040, the project would focus on three plots of land: BSMSN-2A (380 ha), 2B (182 ha) and 200 ha of GoB land that have not yet been allocated and which would go through a rigorous concession process to attract a developer and operator (i.e. an International Master Developer, IMD) that has a proven international track record to bring in leading participants in global supply chains. The land development for 2A and 2B is in progress and will be ready before the effectiveness of the project. As the first areas in BSMSN that will host large-scale production it is critical for BEZA to use 2A and 2B to set expectations of quality and managerial standards at a high level for subsequent phases of development. It is also essential to get 2A and 2B right to ensure synergies with expected developments of residential areas and a commercial center in the greater BSMSN region. This entails shared environmental and social infrastructure such as water, waste water, solid waste and social facilities. GoB support to crowd in investments by private developers and operators is partly motivated by the public good that shared facilities must bring to workers and new residents in the area.

Sub-component 2.1: Developing environmentally sustainable and resilient infrastructure (US$230m)

This sub-component will finance works, goods and technical assistance to apply and implement the new International Framework for Eco-Industrial Parks in BSMSN 2A-2B and in the BSMSN-IMD area.[7] The approach will eventually be scaled up at a national level under a parallel technical assistance. The Master Plan for BSMSN and associated demand analysis show strong demand mainly from labor-intensive light industries. A preliminary analysis of the measures required to incorporate resilience and sustainability as a core strategy in the development of BSMSN 2A-2B are presented in Table 1 and in Annex 2. These investments would significantly reduce negative externalities from industrial production by helping to optimize the use and cost of utilities and resources (e.g. water, drainage, electricity, gas) and reduce the environmental footprint and operational risks. The investments would enhance the attractiveness of BSMSN 2A-2B to tenants since they render supply chains more effective and cater also to more demanding international multinationals and buyers. The investments would also generate positive externalities to households in surrounding residential areas because the expected demand for clean water, renewable energy and waste management services for civilian needs will be incorporated in the design and phased development of services that primarily serve industrial demand.

Table 1 presents a gap analysis for BSMSN 2A-2B that applies the criteria defined in the International Framework for Eco-Industrial Parks. The preliminary list of interventions has been classified by sustainability or resilience depending of the type of service. Services under the sustainability category optimize the use of resources (water, waste, energy), including through effective and innovative recycling solutions that can be profitable. These solutions are already established in many countries, but most have yet to be introduced or implemented in Bangladesh. Services under the resilience classification minimize the loss of services after natural disasters and under changing climate conditions

[7] The International Framework for Eco-Industrial Parks was jointly developed by the World Bank Group, UNIDO and GIZ to outline critical elements, in the form of performance requirements, for establishing EIPs that are economically, socially and environmentally sustainable. It is intended as a guide to policymakers, practitioners and the private sector to provide a common understanding of sustainable and inclusive economic development through EIPs. The Framework aims to support developing and emerging economies in decoupling economic growth from resource use and emissions and provide a sustainable environment for companies to compete, grow and create jobs. To date, WBG has projects on EIPs in Turkey, Vietnam, Ethiopia, China and Pakistan that have leveraged this framework.

before, during and after natural disasters and extreme weather events. The preliminary investment assessment indicates that some of the services can be provided through private participation. Activities under sub-component 1.2 will help inform the process of selecting appropriate developer and operator modes. The pre-appraisal of the project will evaluate and prioritize these infrastructure investments.

There will be a mix of public and private participation. Some of the investments will be partially financed by the government to make green solutions viable. The financing strategy of the interventions for BSMSN 2A-2B will be based on a cascade approach to classify and prioritize the investments that can be performed considering various private and public sources. Infrastructure classified as resilience services and primary infrastructure such as roads and bridges or connecting pipelines for utilities and general services (see sub-component 2.2) will be financed through public investment, including with funds released from DLIs under Component 1. The PPP options will be explored during project pre-appraisal, including with the IFC, and will concern: (a) serving BSMSN-2A and BSMSN-2B with desalination and wastewater treatment, renewable energy sources (floating solar, rooftop solar), and solid waste management; and (b) social services and logistics for the greater BSMSN Green Industrial City, such as a new seaport, a hospital, an international school, etc. Some of these sub-projects will be completed within the timeframe of this project while other sub-projects will be planned, prepared and possibly transferred to a second phase of the project, or spun off and incorporated in other government projects.

Table 1: Indicative list and preliminary investment assessment for BSMSN 2A and 2B

Type of Intervention	Potential intervention	Area (ha)	Equity (30%) IRR	Investment assessment
Sustainability	Waste water plant (CETP)	7.2	9%	US$110m
Sustainability	Desalination plant	4	9%	US$100m
Resilience	Underground electric line (15km)	4.5	n.a.	US$10m
Resilience	Innovative draining system	102	n.a.	US$100m
Sustainability	Floating solar	35	19%	US$67m
Sustainability	High temperature pyrolysis plant (associated to SWM)	0.6	19%	US$27m
Total				**US$404m**

Sub-component 2.2: Last mile infrastructure to implement the Master Plan for BSMSN (US$70m)

Besides the infrastructure under sub-component 2.1, the project will also finance last mile infrastructure to connect BSMSN-2A, BSMSN-2B and BSMSN-IMD to local roads and grids, and in some cases factory units within these sites. The investments will follow the priorities identified in the Master Plan for BSMSN. The sub-projects have been identified and their details are available in this plan, which follow international best practice standards.

Component 3: Creating a dynamic private market for serviced industrial land (US$75m)

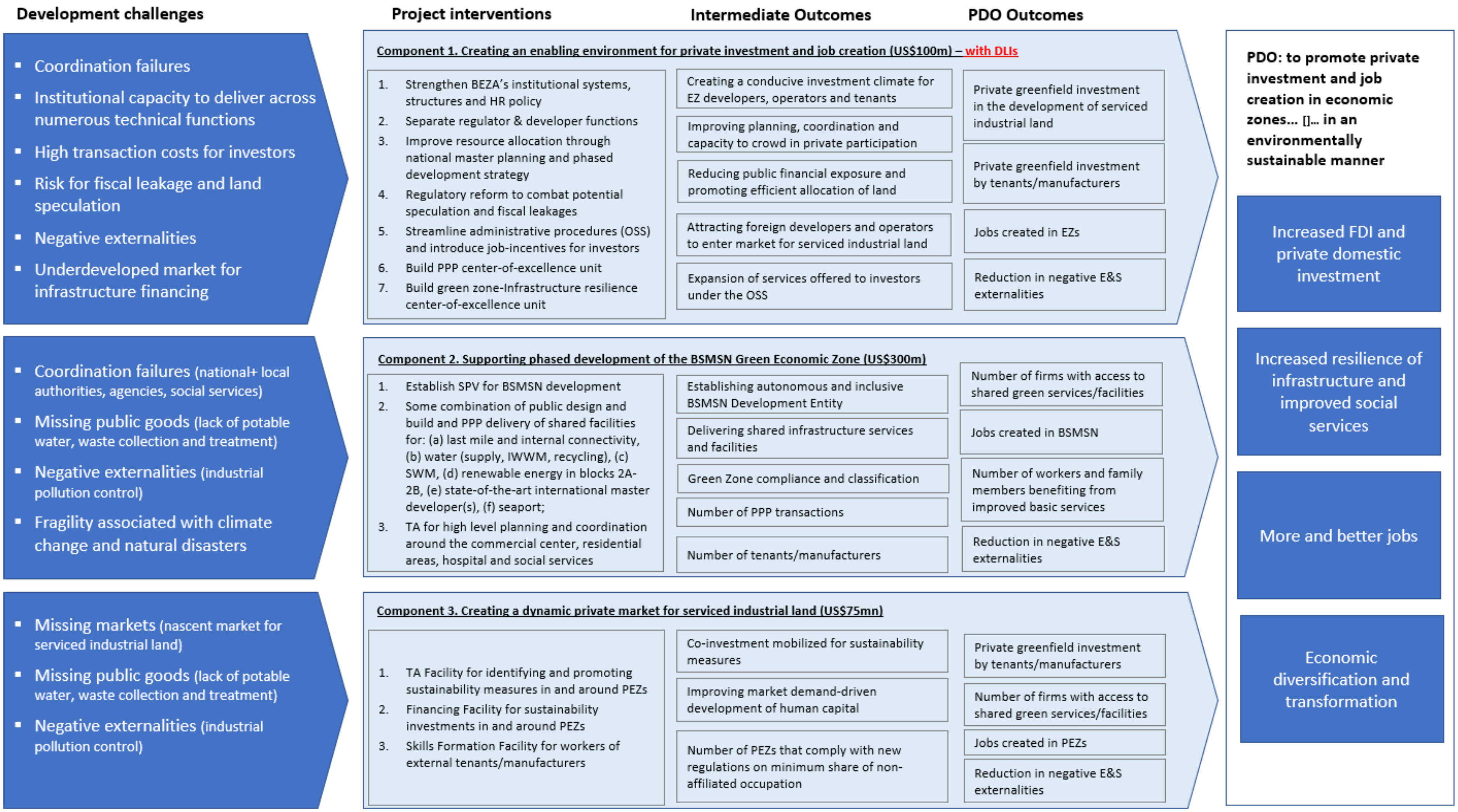
The third component will help create a dynamic private market for serviced industrial land that serves external investors unaffiliated with the developer or operator. Eleven private economic zones have been licensed in the last three years but a minority of these eleven PEZs have so far attracted investors that are unaffiliated to the licensed operator. Two of the PEZs have in the last 18 months attracted credible foreign investors. A preliminary assessment of the nascent PEZ market suggests three forms of interventions that would be included to help accelerate the development of this market.

a) Review and revision of the regulations and procedures around the licensing of PEZs. Technical assistance to strengthen the capacity to monitor and enforce the regulations. The current rules stipulate that at least 50 percent of the space in a PEZ must be rented out to unaffiliated investors and the effectiveness and outcomes to date of these rules will be evaluated;

b) Technical assistance to help identify, evaluate, design and integrate resilience and sustainability in the infrastructure investments and services provided by PEZ operators. The qualifying criteria will be strict to benefit PEZ operators that are leasing out the great majority of its space to unaffiliated tenants (i.e. complying with the revised regulations). The selection criteria for sub-projects will be based on professional assessments about the economic rate of return and the internal rates of return. A PEZ operator that brings in a reputable anchor investor in a new industry gives rise to positive externalities that can be substantial and produce transformational impact, which warrants public support; and

c) Grant mechanism program to support new tenants in PEZs that (i) are unaffiliated to the operator and (ii) enter a sector or market where Bangladesh has little or no presence (market seeking investors that promote economic diversification) or (iii) enter the market to produce in Bangladesh for foreign markets (efficiency seeking investors that contribute to exports). The grant program will be tailored to help raise labor productivity by incentivizing firm investment in skills formation by accredited institutions. The matching grant program will operate on a reimbursable basis and only for legitimate expenses for those who successfully complete the training and obtain certified credentials. Depending on demand there could also be a window to incentivize investments that implement the new International Framework for Eco-Industrial Parks.

Figure 1: BEZA: Theory of Change and Results Chain for Components 1-3



Component 4: Strengthening the digital entrepreneurship and innovation ecosystem (US$25m)

The fourth component will be managed by BHTPA and aims to strengthen the foundation of the digital entrepreneurship and innovation ecosystem in the country. Besides creating the largest cluster of IT and ITeS firms in Bangladesh, it will design and implement a program that supports digital entrepreneurship at three levels: first it seeks to change attitudes and attract more youth, women and young professionals to consider becoming entrepreneurs. Second, it puts in place start-up and scale-up facilities and services in select STPs, which will be open to all digital entrepreneurs. Third, it creates innovation hubs in three of Bangladesh's best technological universities to encourage entrepreneurship among software and other engineering and business graduates. The goals are: (a) for STPs and leading universities to evolve into entrepreneurship hubs, (b) to improve the market entry and growth rates of digital startups and small and medium-sized enterprises in the digital economy, and (c) to create a gender-inclusive culture for digital entrepreneurship.

Sub-Component 4.1. Establishing Digital Entrepreneurship Hub in Dhaka (US$10m)

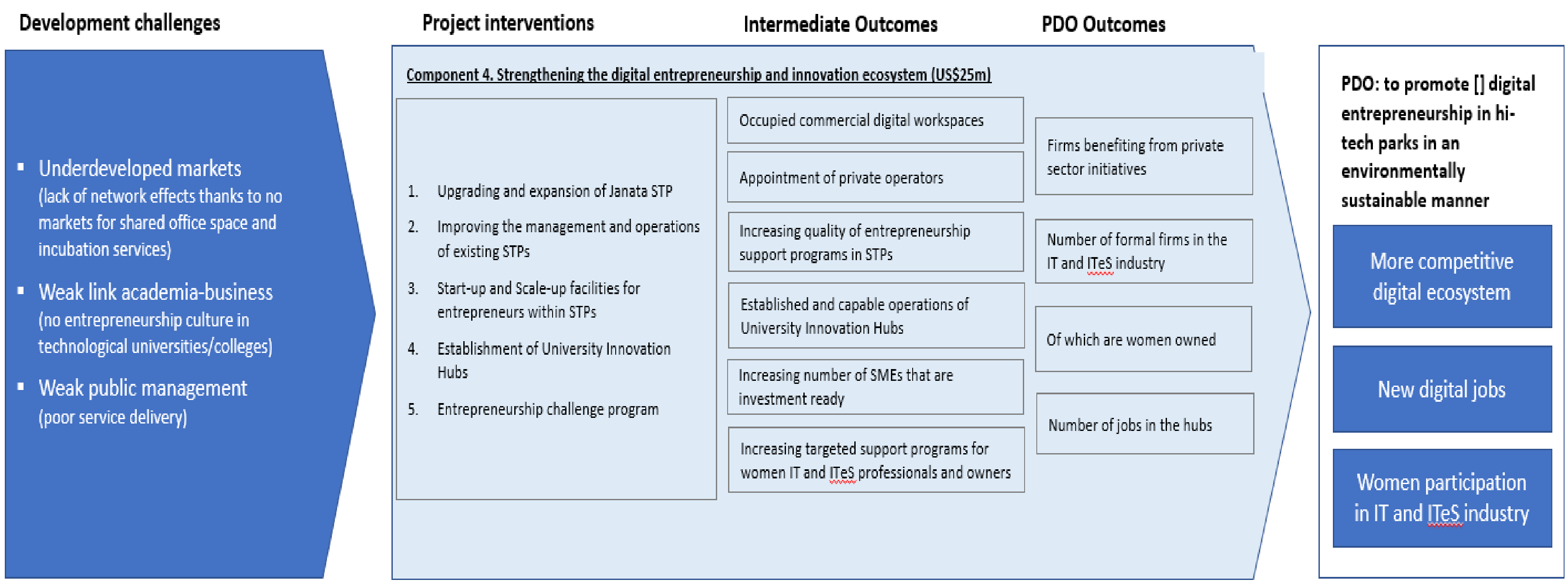
The first sub-component will help establish Dhaka as a relevant digital entrepreneurship hub in South Asia. It will do so by facilitating network effects and developing Bangladesh's first significant cluster of IT and ITeS firms. BHTPA currently operates the Janata STP in an old but ideally located government building that rents out 72,000 ft^2 of workspace to IT and ITeS firms. The building needs upgrading and improved maintenance of common spaces. BHTPA is also acquiring the land next door from another government entity to allow for an expansion of 100,000-125,000 ft^2 of workspace to create a proper cluster of up to 200,000 ft^2 of micro, small and some medium-sized enterprises that serve the digital economy. The current occupants serve both domestic and foreign markets and employ many women. The sub-component would finance works, goods and technical assistance to: (a) upgrade and expand Janata STP by adding 100,000-125,000 ft^2 of workspace through public and private investment; and (b) assess the feasibility and develop models for private participation for the expansion and management, and then promote private tenants to the site. This STP will host approximately 100 small and medium-sized firms with 2,000 professionals plus another 100-200 micro entrepreneurs.

Sub-Component 4.2. Digital Entrepreneurship and Innovation Support Program (US$15m)

The second sub-component will design and implement a digital entrepreneurship and innovation support program to attract more youth and professionals to become digital entrepreneurs; provide start-up and scale-up facilities and services for entrepreneurs in STPs to increase the number of firms that investment ready; and establish three university innovation hubs in technological universities across the country. The work will seek to make the outputs of this program financially sustainable and integrated in existing institutions (universities and STPs). First, an Entrepreneurship Challenge Program will promote participation in the digital ecosystem by financing media production that will be shared through television and various online media. The programs will target budding and existing entrepreneurs through informative and competitive programs and content where one program may follow successful entrepreneurs while another program may offer a challenge fund with participants and winners availing of grants for training or advisory services. The objective is to reach a broader audience that are potential entrepreneurs and this production will be procured from private, professional media companies.

Second, Start-up and Scale-up Facilities and Services will help create a market for, and boost demand for, mentorship and advisory services that are tailored for micro, small and medium entrepreneurs in the digital economy. The facilities and services will be offered to budding entrepreneurs at the undergraduate/graduate levels in three technological universities and to existing entrepreneurs in STPs. 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 Chittagong, Dhaka, and Jessore STPs will be made accessible on demand to entrepreneurs located elsewhere too. It will cover a dedicated program to support women entrepreneurs. Three new University Innovation Hubs in Chittagong, Dhaka and Khulna will aim to attract more students to become digital entrepreneurs within leading technological universities. Professional operators will be engaged to design, operate and then transfer the University Innovation Hubs to the universities in which they are embedded.

Figure 2: BHTPA: Theory of Change and Results Chain for Component 4



2. Overall Risk and Explanation

The overall risk rating for the project is Substantial due to substantial risk ratings for: (a) political and governance; (b) technical design of project; (c) institutional capacity for implementation and sustainability; and (d) environment and social. The strengths and weaknesses of the two implementing agencies are well known. The design of the project plays to the strengths of each implementing agency while mitigating risks associated with their weaknesses. It also incorporates mechanisms to address risks identified by interest groups and stakeholders in extensive consultations during the scoping stage.

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. 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.

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 some resistance within the GoB or by other stakeholders. However, the use of DLIs incentivizes the necessary reforms jointly identified by the implementing agencies. BEZA's autonomy and strong continuous leadership offer comfort that there is scope for meaningful change. Second, the work to sort out solid waste and waste water management in Mirsarai will be time-consuming and requires the establishment of new institutions since the project will seek to push the technical frontier from a Bangladeshi perspective. This work starts without legacy systems and there is a unique opportunity to embed financially sustainable methods to develop these areas given the application of the EIP International Framework guidelines with private participation. Third, implementation of the PPP agenda may encounter pockets of suspicion and worries about capture. There are emerging lessons from a handful of experiences in Bangladesh that point to ways to reduce the risk of capture and strengthen performance-based incentives. The recent joint venture between Sumitomo and BEZA is a good example of what is possible; and what many private counterparts seek to mitigate country risk. A holistic, end-to-end approach to PPPs with a flexible approach and targeted models will reduce the risk of capture and weaknesses in the domestic market. The World Bank Group is also in a position to provide extensive technical assistance to BEZA and BHTPA due to financial support from bilateral donors. This will allow for close quality control and advisory services embedded in the GoB. Finally, both BEZA and BHTPA have a proven track record of handling the technical design and procurement of large works contracts.

Institutional capacity for implementation and sustainability risk is Substantial: 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. 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 includes an ambitious program that 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 economic zones. BEZA's organigram will need to be revised, expanded, and functional competence developed in the coming years. The project will support this agenda. BHTPA's activities under Component 4 are more in line its core competence and the risk is therefore moderate.

Fiduciary risk is Substantial: The project will be implemented by BEZA (95 percent of IDA) and BHTPA (5 percent of IDA). While BEZA is an experienced counterpart and a capable sub-implementing agency under the on-going PSDSP, the overall financial management arrangement was handled by a Central Coordination Unit at the Economic Relations Division. BEZA's core functions will have to be strengthened as it will be handling most of the project financing directly. Further, it will be the first time that BEZA and BHTPA will be implementing a project using DLIs for disbursements. The Bank will conduct a detailed fiduciary risk assessment, which will include financial management and capacity assessment, and will propose applicable mitigation measures. The risk rating will be updated once the fiduciary assessment is completed.

Environment and social risks are High: Notable activities under BEZA may include some land filling by dredging operation, the construction of shared infrastructure facilities within BSMSN, and a feasibility study for the construction of a sea port. Likewise, under BHTPA, the project will support the expansion of the Janata STP and establishment of a few incubation centers in the universities. There will be environmental concerns during the construction stage due to potential dredging, the design and construction of water and waste water treatment facilities, facilities for solid waste management and construction of other shared facilities such as internal roads, power connectivity, and on-site and off-site infrastructure. Mostly light but potentially some heavy industries will set up with medium to high potential of environmental pollution. These future private investments will have significant environmental and social impacts in and around the project area if appropriate measures are not taken.

The project could affect a significant number of residential and commercial structures due to land acquisition although the great majority of the physical space (BSMSN-2A and BSMSN-2B) are entirely free of encumbrances. Affected people could lose their lands, houses and livelihoods, and some will need to resettle. It is anticipated that there will be many squatters living on public land who could also be affected. The adverse impacts on vulnerable PAPs (e.g. elderly, disabled and female-headed households) may be significant and it will be determined after the environmental and social impact assessment (ESIA) is completed. 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 be limited to the project's footprint area, rather will be spread over the adjacent areas. A regional environmental and social assessment (RESA) with cumulative impacts will reveal the potential impacts on the project's area of influence. BEZA will need to scale up its institutional capacity and skills mix to adequately manage BSMSN and the resulting complexity regarding "associated facilities" and/or "common approach", which will be very significant.

B. Economic Analysis

1. Briefly describe the development impact in terms of expected benefits and costs

The project is designed to have strong and tangible development impacts. First, the development of a market for serviced industrial land and digital space will attract more private investment than in a scenario without project interventions. The spatial focus allows for the measurement of job creation and especially the jobs created in foreign firms can be attributed to the opportunities created by the project. The combination of institutional and policy reforms coupled with support for a strong PPP agenda will support this process. It will generate lessons learnt for other government entities and have positive demonstration effects. Second, new and innovative practices to improve social and environmental outcomes will reduce negative externalities: some which can be quantified and others that enhance the quality of life more generally. Third, the tightening of the regulations around private economic zones and incorporation of incentive based mechanisms for good governance and performance will reduce the scope for fiscal leakage. Overall, it will avoid the loss of tax revenue and the greater participation of the private sector will reduce the need for public investment.

The benefits of the entry of foreign multinationals in new sectors could be transformational for Bangladesh's economy. It would help build the presence of entirely new industries in Bangladesh and hence diversify the economy. It would enhance the reputation of Bangladesh as a place to invest and do business. The positive spillover effects in terms of knowledge, better management practices, enhanced market linkages and foreign market networks, and sector specific comparative advantage would boost productivity growth, which is needed to sustain economic growth and improve livelihoods. The costs are mainly associated with the servicing of the IDA credit. There are potential costs associated with environmental impacts if the project is unsuccessful in introducing better planning of social infrastructure—but this is part of the scope of the project. One positive side effect could be the relief of congestion—for example from the PPP transaction for a new port in Mirsarai and introduction of professional planning of social infrastructure as workers move to Mirsarai.

2. Rationale for public sector provisioning/financing, if applicable

The rationale for public sector financing is that the project is addressing a series of market and government failures to crowd in private sector investment and thereby generate more and better jobs in the country (see the left-hand columns in Figures 1-2). These objectives are at the heart of the GoB's development agenda. First, the project is seeking to address market failures that to date have acted as a break on both domestic and foreign private investment. The market for serviced industrial land is held back because of coordination failures, which only a strong and competent convening force such as a government can play. There are missing public goods that are required to connect and make new factories accessible and safe for workers and surrounding communities, and financially viable from a business perspective. There is a strong rationale to help foster the establishment of new and stronger markets. It is time-consuming, costly and risky—nearly impossible in some sectors— to setup a factory in Bangladesh. There are virtually no permanent structures in place for digital entrepreneurs to meet, to learn from peers, and to avail of support services that let them access capital and develop new markets.

Companies in many industries vote with their feet and stay away or operate in an environment where they cannot be competitive from an international perspective. This means that they cannot export abroad, and they are left vulnerable to imports. There are also negative externalities associated with industrial production that need to be addressed. Social and environmental protection through stronger institutions, more capable management and proper enforcement mechanisms warrant public engagement. Many industries require an agglomeration of businesses to share the cost of joint services and facilities, but industry coordination and public good type of infrastructure are missing. Bangladesh could and should do better. Weak regulatory capacity often means that rules are ignored to the cost of competitors and the society. The project is designing and incorporating incentive mechanisms to promote better governance through financial self-interest. In addition, it is specifically targeting programs in the IT and ITeS sector that are expected to generate good outcomes for women, which is a social imperative.

3. Value added of the Bank's support

The World Bank and the IFC have worked closely with BEZA and BHTPA since they were established. Thanks to continuous support from UKAID, the WBG Task Team has been able to embed advisors and provide extensive quality control through local and international specialists. There is therefore a high level of trust built between the implementing agencies and the WBG Task Team. It will introduce and support an end-to-end approach to develop a few bankable PPPs through BEZA and performance-based management contracts through BHTPA. In addition, the sizeable Component 1 which is a combination of TA and DLIs will help incentivize reforms and institutional changes that will have positive long-term effects on sustainability and performance that are highly unlikely to happen without the WBG's support. Successful implementation of the proposed activities would help deliver transformational outcomes by crowding in large-scale private investment and the creation of tens of thousands of jobs. It is also very likely to lead to the entry of leading international producers that bring supply chains in industries which Bangladesh has traditionally had no foothold. Finally, the Task Team includes staff members in leading technical roles from several Global Practices, which offers the GoB a holistic approach and solutions throughout the project.

4. Brief description of methodology/scope and next steps

The project is an IPF with DLIs and stresses some critical institutional and regulatory reforms within BEZA—some which will require careful study, consensus building and decisive government action. Two retreats with two-day workshops and one study tour to Jordan and Morocco were organized in FY19 to discuss and learn in preparation for the scoping and pre-appraisal of PRIDE. Eight joint Working Groups between the GoB and the WBG Task Team were formed as part of the Scoping Mission and they are due to report to the GoB within 100 days ahead of the full Pre-Appraisal Mission scheduled for the first half of October. Thanks to support from UKAID and GFDRR Japan-World Bank Mainstreaming DRM in Developing Countries Program, several missions and advisory activities will focus on the technical design of PRIDE and implementation of PSDSP activities.

In addition, several analytical and design activities are either due or scheduled to commence within for the next six months. The output will inform and feed into the preparation and then implementation process. First, the Master Plan of BSMSN, which is financed under PSDSP, will be finalized over the next three months. This will help inform the design of all the works that will be financed under PRIDE in BSMSN. Second, the procurement of a National Master Plan and Demand Study is in process and this US$2.1 million TA package will inform many of the planned activities during implementation. Third, a survey of all operators of EZs/EPZs/HTPs in Bangladesh and a survey of enterprises within and outside a sample of these zones and parks will be carried out in July-October. Nielsen Sri Lanka was contracted in the first week of July to perform this data collection exercise and the findings will help inform the project and offer a baseline for the Results Framework. This survey also covers Nepal, Bhutan and seven Indian States and is financed by a regional ASA program (P169504) which includes task team members from PRIDE. Fourth, the WBG Task Team will engage three full-time local consultants and two international part-time consultants to help BEZA prepare a PPP pipeline and capacity building exercise in anticipation of project effectiveness. The objective is to accelerate implementation progress given the time it takes to prepare for these types of transactions. Fifth, the Task Team will update the Bangladesh ICT Ecosystem report that was completed for BHTPA and the Ministry of ICT in 2017.

C. Implementing Agency Assessment

The World Bank Group has worked with BEZA and BHTPA under PSDSP, which is due to close in February 2021. It is rated satisfactory since 2016 with IDA commitments at 93 percent.

Since its establishment and fully operational phase since 2014, BEZA has turned into a strong and capable implementing agency. It has experience in overseeing complex technical design and the procurement and supervision of large works contracts. It has a sizeable core team of qualified high- and middle-level managers. It has handled the procurement and supervision of numerous consulting firms for technical assistance assignments and the trust and partnership built over time with the PSDSP Task Team has turned into a productive engagement. BEZA's weakness is arguably the result of the institution's success: the rapid growth of its activities has led to staff and consultants playing catch up to respond to numerous assignments and negotiations. Building special operations units within core functions in BEZA focusing on HR policy, putting in place systems and structures, and allocating clear roles and responsibilities with technical areas such as resilient infrastructure, PPP transactions, investment facilitation and promotion, and master planning are key priorities under the project. Extensive consultations with a wide array of stakeholders paint a clear picture of an agency with high standards of integrity, a strong dedication to deliver results, and a work ethic that is at the forefront government entities in Bangladesh.

BHTPA is a smaller entity than BEZA with a much narrower management team and relatively few technicians. The implementing agency relies to quite some extent on seconded, temporary staff and consultants, which makes it a challenge to build institutional strengths. BHTPA's performance is highly dependent on a few high performing and dedicated staff. This makes the implementing agency a riskier partner than BEZA since the institutional memory and capacity are embedded in a few individuals. However, BHTPA has been successful at procuring technical assistance and supervising smaller works contracts. And unlike in PSDSP, this project is not planning to develop land and procure works beyond for a few contracts in urban centers, which is fully within the scope of BHTPA's capacity. Instead, BHTPA will focus on promoting digital entrepreneurship through a few technical assistance mechanisms. This has worked well at a small scale under PSDSP and adjusting and scaling up such programs should offer few challenges.

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

Summary of Screening of Environmental and Social Risks and Impacts

The whole footprint (for component 2 and 4) of this project will include densely populated urban areas (the expansion of Janata STP under component 4), semi-urban and agricultural areas including mosques, temples, graves and madrasahs close to or within the project's footprint and will need to be partially or fully relocated. There are legally owned, agricultural land, houses and commercial structures as well as squatters that will be affected due to land acquisition. Physical displacement of people and labor influx for construction may induce additional risks on women and girls in communities with regards to gender-based violence (GBV).

Physical activities under the project would be mostly land filling by dredging operation, construction of shared facilities. This would include design and build the whole chain of water supply of residential and industrial water supply and waste water management (IWWM) (will include setting up a desalination plant or any other appropriate water treatment facility) and waste water treatment (considering options for reuse, recycle and treatment). This will also include design and build of facilities for solid waste management. These facilities will be designed to meet both the current and future demand. The project will also support feasibility study for construction of a sea port in the Industrial city to facilitate export/import. There will be environmental concerns during the construction stage due to huge dredging operation, design and construction of water and waste water treatment facilities, facilities for solid waste management and construction other shared facilities such as internal roads, power connectivity, on site and off site infrastructure. Identification of the associated facilities throughout the project life span and ensuring that E&S measures are materially consistent with ESF will be a critical issue.

BEZA and BHTPA would be the implementing agencies of the new project with major activities lying with BEZA. BEZA would not only be implementing the WB finance activities at Mirsarai, but also be responsible for phased implementation of BSMSN and all the other EZs spread across the country. Both the agencies are young institutions and it will take time to build the technical capacity to be effective regulators and partners in negotiations with leading industry groups and foreign multinationals.

BEZA and BHTPA are quite familiar with Bank's safeguard policies and processes. They are currently implementing the Private Sector Development Support Project, an IPF. Both the institute have a reasonable track record of implementing safeguard policies in Bank-financed projects. Their PIUs have Environmental Specialist and Social Development Specialists. However, the ESF of the Bank is new to both BEZA and BHTPA, as it is to all other implementing agencies. Given the very complex nature of this project with last mile investments, a thorough assessment of the current staffing and capacity of the PIUs with regards to E&S risk management will be conducted. The project should support the establishment of an ESMS within BEZA with adequate E&S staffing to take on the challenges moving forward. This will be documented in the Environmental and Social Commitment Plan (ESCP). From environmental and social perspective, the establishment of a strong environment and social unit at BEZA with appropriate human resources (as planned under sub-component 1.1) will need to be aligned with the ESCP and ESMS at BEZA.

Note: To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document**.**
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