



Bangladesh: Second Public-Private Infrastructure Development Facility

Project Name	Second Public-Private Infrastructure Development Facility														
Project Number	42180-013														
Country	Bangladesh														
Project Status	Approved														
Project Type / Modality of Assistance	Loan														
Source of Funding / Amount	<table><tr><td colspan="2">Loan 3045-BAN: Second Public-Private Infrastructure Development Facility</td></tr><tr><td>Ordinary capital resources</td><td>US\$ 100.00 million</td></tr><tr><td colspan="2">Loan 3046-BAN: Second Public-Private Infrastructure Development Facility</td></tr><tr><td>Asian Development Fund</td><td>US\$ 10.00 million</td></tr><tr><td colspan="2">Loan: Second Public-Private Infrastructure Development Facility</td></tr><tr><td>World Bank</td><td>US\$ 99.50 million</td></tr><tr><td>Japan International Cooperation Agency</td><td>US\$ 96.00 million</td></tr></table>	Loan 3045-BAN: Second Public-Private Infrastructure Development Facility		Ordinary capital resources	US\$ 100.00 million	Loan 3046-BAN: Second Public-Private Infrastructure Development Facility		Asian Development Fund	US\$ 10.00 million	Loan: Second Public-Private Infrastructure Development Facility		World Bank	US\$ 99.50 million	Japan International Cooperation Agency	US\$ 96.00 million
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Strategic Agendas	Environmentally sustainable growth Inclusive economic growth														
Drivers of Change	Partnerships Private sector development														
Sector / Subsector	Finance - Infrastructure finance and investment funds														
Gender Equity and Mainstreaming	Some gender elements														
Description	<p>The Second Public-Private Infrastructure Development Facility (PPIDF II or the Project). PPIDF II builds on the efforts of Public-Private Infrastructure Development Facility (PPIDF I) in helping address the infrastructure deficiencies in Bangladesh by providing long-term debt financing and catalyzing private sector participation through IDCOL. This will support poverty reduction through enhanced investment, economic growth, and increase in employment opportunities. The design of the Project serves to attract commercial financing for infrastructure projects, thereby reducing the pressure on the public budget. An additional objective of the Project is to help provide the rural population and small to medium enterprises in off-grid areas with access to environment-friendly electricity.</p> <p>The financing modalities of the Project. PPIDF II comprises two components, namely: (i) component 1 which uses the proceeds from the ordinary capital resources (OCR) sovereign loan of \$100 million to provide IDCOL with long-term additional resources for the financing of medium to large-sized private sector-led infrastructure projects with a total project cost of minimum \$10 million; and (ii) component 2 which routes the proceeds from the sovereign Asian Development Fund (ADF) loan of \$10 million through IDCOL for the further expansion of its successful SHS program which has so far provided financing of more than 2 million SHS through a microfinance-based, direct sales program in rural off-grid areas to provide households and small businesses with a renewable source of energy. Component 1 will provide funding directly to subborrowers in form of providing long-term loans to infrastructure project while component 2 will channel funding from IDCOL through participating organizations (POs) to the end-user which are typically households in off-grid areas.</p>														

Project Rationale and Linkage to Country/Regional Strategy	<p>Bangladesh has achieved substantial economic growth over the last 15 years. From 1996 to 2009, the gross domestic product (GDP) increased at a compounded annual growth rate of 5.6%. During FY2012, the Bangladesh economy has continued to grow at 6.3%, which can mainly be credited to the growth in the manufacturing and agricultural sectors, although growth has slightly slowed from 6.7% in the previous year.</p> <p>Deficient infrastructure. Underinvestment in infrastructure causes serious constraints in power, gas, ports, railways, and roads and prevents Bangladesh from achieving its full growth potential. Many years of underinvestment have taken a toll and resulted in poor access to basic infrastructure for a large part of Bangladesh's population, particularly the economically-disadvantaged and those in rural areas. The deficient infrastructure situation and the absence of deep-rooted regional integration restrict investment including foreign direct investments in Bangladesh.</p> <p>Bangladesh suffers from a chronic shortage of energy which adversely impacts the economy. Gas, the main source of energy, is insufficient to meet the current demand. Power supply is 28% short of demand. Energy shortages are undermining the country's competitiveness causing an annual estimated loss of 2% of GDP. The situation is not expected to improve in the short term as gas production is expected to decline from 2019. Securing new sources of energy locally or abroad (e.g. coal, liquid natural gas) will take time because of the need for policy decisions largely related to setting energy tariffs at market levels. Energy efficiency measures can, to some extent, provide a cost-effective response to energy shortages. The public sector is the dominant provider of infrastructure. As it is the case in most of South Asia, the public sector has been the main provider of basic infrastructure in Bangladesh. However, public financing alone will not be able to generate the investments needed to provide the required level of infrastructure facilities. At present, most public service providers show weak financial performance and inadequate investment. Recognizing the need for creating an enabling environment for attracting private investments on a sustained basis, the Government has taken a number of actions, such as: (i) the introduction in 2009/2010 of a PPP budget and a Policy and Strategy for PPP in 2010 and (ii) enabling arrangements for bridging the enormous deficit in infrastructure financing especially for long-term funds, for instance, through the establishment of the Bangladesh Infrastructure Finance Fund Limited, a long-term capital funding vehicle that seeks to raise debt capital markets funding from retail and institutional investors to support construction and take-out financing for PPP projects.</p> <p>Underdeveloped capital markets impede the availability of infrastructure financing. Private investors in Bangladesh, however, face the challenge to source long-term financing required for infrastructure domestically. Bangladesh's capital markets, including long-term corporate debt market, remain underdeveloped. So far, the volume of funding sourced from the local debt and equity market for private investment expenditure in Bangladesh has been quite small and private sector sponsors still rely more on banks and internal resources than on market borrowings, indicating weakness in debt markets. Commercial banks in Bangladesh are facing maturity mismatches in their asset and liability management as they rely on short-term deposits as their financial source, and this prevents them from providing long-term financing for infrastructure projects. Currently, the Infrastructure Development Company Limited (IDCOL) is the only financial institution in Bangladesh that has the ability to provide dollar financing with long tenor.</p> <p>Opportunities. ADB's country partnership strategy 2011-2015 for Bangladesh emphasizes the need for support of private sector-led infrastructure development. This is in line with Bangladesh's Sixth Five-Year Plan for 2011-2015, which focuses on accelerating the growth rate of the economy and reducing poverty by substantially boosting private sector investment and developing infrastructure. In particular, it emphasizes the need to triple infrastructure development, from 2% to 6% of GDP, with substantial participation of the private sector through PPPs. Moreover, the objectives of the Project are in line with ADB's Financial Sector Operational Plan, which prioritizes capital market development for infrastructure finance and financial inclusion.</p>
Impact	Enhanced development of infrastructure, including renewable energy facilities
Project Outcome	
Description of Outcome	Increased PSP in infrastructure development including in renewable energy facilities
Progress Toward Outcome	IDCOL, the implementing agency has a sound pipeline of 5 sub-projects which are expected to reach financial closing by end of 2016. \$15 million has already been disbursed to 1 sub-project in the energy sector. Another \$10 million is expected to be disbursed by the third quarter of 2015 for a loan to an inland container terminal. Due diligence for this sub-project is at an advanced stage.
Implementation Progress	
Description of Project Outputs	<ol style="list-style-type: none"> 1. Increased availability of long-term debt financing for innovative infrastructure subprojects 2. Increased availability and accessibility of financing for SHS
Status of Implementation Progress (Outputs, Activities, and Issues)	See above
Geographical Location	
Safeguard Categories	
Environment	FI-C

Involuntary Resettlement	FI-C
Indigenous Peoples	FI-C

Summary of Environmental and Social Aspects

Environmental Aspects	The project is classified as financial intermediary for the environment, involuntary resettlement, and indigenous peoples. As the proceeds from the proposed ordinary capital resources loan will be used by one or more private sector sponsors to finance subprojects, there is a potential risk that some of those developers may not fully adhere to ADB's safeguard requirements during implementation. The project team will assess project-specific environmental impact assessment and/or resettlement plans as well as each sponsors' environmental management, involuntary resettlement, impacts on indigenous peoples arising from land acquisition, changes in land use, adherence to core labor standards, or restrictions of access to resources and social protection framework and policies, and assess where enhancements may need to be made by the company. IDCOL has adopted the environmental and social safeguard framework and improved its in-house capacity with ADB support.
Involuntary Resettlement	The project is classified as financial intermediary for the environment, involuntary resettlement, and indigenous peoples. As the proceeds from the proposed ordinary capital resources loan will be used by one or more private sector sponsors to finance subprojects, there is a potential risk that some of those developers may not fully adhere to ADB's safeguard requirements during implementation. The project team will assess project-specific environmental impact assessment and/or resettlement plans as well as each sponsors' environmental management, involuntary resettlement, impacts on indigenous peoples arising from land acquisition, changes in land use, adherence to core labor standards, or restrictions of access to resources and social protection framework and policies, and assess where enhancements may need to be made by the company. IDCOL has adopted the environmental and social safeguard framework and improved its in-house capacity with ADB support.
Indigenous Peoples	The project is classified as financial intermediary for the environment, involuntary resettlement, and indigenous peoples. As the proceeds from the proposed ordinary capital resources loan will be used by one or more private sector sponsors to finance subprojects, there is a potential risk that some of those developers may not fully adhere to ADB's safeguard requirements during implementation. The project team will assess project-specific environmental impact assessment and/or resettlement plans as well as each sponsors' environmental management, involuntary resettlement, impacts on indigenous peoples arising from land acquisition, changes in land use, adherence to core labor standards, or restrictions of access to resources and social protection framework and policies, and assess where enhancements may need to be made by the company. IDCOL has adopted the environmental and social safeguard framework and improved its in-house capacity with ADB support.

Stakeholder Communication, Participation, and Consultation

During Project Design	tbd
During Project Implementation	The Ministry of Finance (MOF), acting through its Economic Relations Division, is the executing agency while the Banking and Financial Institutions Division is the financial management agency, and IDCOL is the implementing agency of the Project. Policy direction and strategic oversight is provided by IDCOL's board of directors. IDCOL's project management unit, established under PPIDF I, will monitor the day-to-day implementation of the loans. The same will build capacity within IDCOL in areas of monitoring exposure limits, process improvements, risk assessment, and analysis. Further, the project management unit will ensure compliance with state and national policies and IDCOL's environmental and social safeguard framework (ESSF) which ensures compliance with ADB safeguard policies and national norms.

Business Opportunities

Consulting Services	not applicable
Procurement	Advance contracting will be undertaken in accordance with established private sector or commercial practices, which are acceptable to ADB. For funding support under the IDCOL's credit facility, potential subborrower's issuance of invitations to bid under advance contracting will be subject to ADB approval. EA, IDCOL, and identified subborrowers have been (and will be) advised that approval of advance contracting does not commit ADB to finance the Project.

Responsible ADB Officer	Peter Marro
Responsible ADB Department	South Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SARD
Executing Agencies	Ministry of Finance Economic Relations Division (ERD), MOF Sher-e-Bangla Nagar, Dhaka_1207 Bangladesh

Timetable	
Concept Clearance	28 Mar 2012
Fact Finding	18 Mar 2012 to 28 Mar 2012
MRM	16 Jul 2013
Approval	17 Oct 2013
Last Review Mission	-
Last PDS Update	04 Mar 2015

Loan

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	275.50	Cumulative Contract Awards			
ADB	0.00	-	0.00	0.00	%
Counterpart	80.00	Cumulative Disbursements			
Cofinancing	195.50	-	0.00	0.00	%

Loan 3045-BAN

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
17 Oct 2013	06 Apr 2014	12 Aug 2014	31 Jul 2019	-	-

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	375.50	Cumulative Contract Awards			
ADB	100.00	17 Oct 2013	0.00	0.00	0%
Counterpart	80.00	Cumulative Disbursements			
Cofinancing	195.50	17 Oct 2013	15.00	0.00	15%

Loan 3046-BAN

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
17 Oct 2013	06 Apr 2014	12 Aug 2014	31 Jul 2019	-	-

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	10.00	Cumulative Contract Awards			
ADB	10.00	17 Oct 2013	0.00	0.00	0%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	17 Oct 2013	1.00	0.00	11%

Project Page <http://www.adb.org/projects/42180-013/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=42180-013>

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