



Bangladesh: Public-Private Infrastructure Development Facility (Supplement)

Project Name	Public-Private Infrastructure Development Facility (Supplement)		
Project Number	40517-042		
Country	Bangladesh		
Project Status	Approved		
Project Type / Modality of Assistance	Grant		
Source of Funding / Amount	Grant 0253-BAN: Public-Private Infrastructure Development Facility (Supplement)		
	Climate Change Fund		US\$ 1.30 million
	Grant 0254-BAN: Public-Private Infrastructure Development Facility (Supplement)		
	Asian Clean Energy Fund		US\$ 2.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth		
Drivers of Change	Partnerships		
Sector / Subsector	Energy - Renewable energy generation		
Gender Equity and Mainstreaming	No gender elements		

Description

On 2 October 2008, the Board of ADB approved two loans of \$82 million and \$83 million each to the People's Republic of Bangladesh for the Project to assist the Government in improving Bangladesh's infrastructure through increased private sector participation, thereby promoting economic growth and reducing poverty.

The Project is divided into three main components having different target groups and objectives. Component A will use ADB's ordinary capital resources funds of \$82 million to provide dollar financing to the Government for relending to Infrastructure Development Company Limited (IDCOL) to finance large private sector-sponsored infrastructure subprojects of \$30 million and more in project size. Component B will provide Asian Development Fund (ADF) funding of \$50 million equivalent to the Government for relending in local currency to IDCOL to finance small and medium-sized infrastructure subprojects (SMIP) primarily located in rural and semi-urban areas, especially in the energy sector. Component C will provide ADF funding of \$33 million equivalent to IDCOL's ongoing renewable energy program.

The Project will help address infrastructure deficiencies in Bangladesh by providing long-term debt financing and catalyzing private sector participation through IDCOL which will use the proceeds to (i) finance private sector-sponsored large infrastructure projects (component A), (ii) finance SMIPs in rural and semi-rural areas (component B), and (iii) promote renewable energy systems (RESs) by financing the set-up of RES such as solar home system (SHS) and other renewable energy applications such as biomass and gas installations (component C).

One of the main aspects of Component C is to help provide access to environment-friendly electricity for rural population in off-grid areas by financing the set-up of RESs such as SHSs through a microfinance-based, direct sales program, and biomass and gas installations under the lead of IDCOL. The proposed change concerns providing additional grant funding for component C of the Project for financing RESs. ADB originally intended to apply for grant financing from the Asian Clean Energy Fund under the Clean Energy Financing Partnership Facility and from the Climate Change Fund in parallel with the processing of the Project. However, the application process for both funds was only partially finalized by the time the Project was approved by ADB's Board on 2 October 2008. As a consequence, the grant financing will be processed as supplementary financing to be allocated to the Project. The proposed allocation of \$3.3 million to the Project will be funded from the following sources, namely: (i) Grant cofinancing equivalent to \$2,000,000 will be provided by the Asian Clean Energy Fund under the Clean Energy Financing Partnership Facility, and administered by ADB; and (ii) Grant of \$1,300,000 will be provided by the Climate Change Fund.

The proposed supplementary grant will complement the ADF funding of \$33 million equivalent under component C of the Project. The \$2 million allocation under the CEFPF will be used to provide a \$25 buy-down grant per individual SHS. This will enable 80,000 low- and middle-income households and micro and small enterprises in IDCOL's solar energy program to benefit from a reduced SHS price. While loan financing under component C of the Project is exhausted to a large extent, the proposed supplementary financing will support loan financing for SHSs provided by other donors. Furthermore, the \$1.3 million grant under CCF will provide IDCOL with a total available subsidy amount of \$580,000 for the financing of up to 50% of total cost of other renewable energy applications such as biomass and biogas installations in rural areas with no access to grid electricity.

The remaining grant amount under the CCF will be provided to IDCOL to pay for expenses related to the administration and monitoring of the renewable energy program such as:

- (i) \$357,000 as program support administration cost of IDCOL for the management and monitoring on the use of the refinancing loans and grant component);
 - (ii) \$233,000 as an institutional development fund for the training of PO staff and their customers to widen their outreach capacities in rural areas. Thanks to the expanding network of supply and maintenance outlets maintenance, services and spare parts are available in reasonable vicinity of the SHSs customers. Currently, the typical radius for each outlet is around 10 kilometers;
 - (iii) \$30,000 earmarked to carry out technical inspections;
 - (iv) \$60,000 for annual technical audits carried out by an audit firm for 2 consecutive years; and
 - (v) \$40,000 for appointing independent engineers to conduct feasibility studies, appraise and monitor renewable energy projects.
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Project Rationale and
Linkage to Country/Regional
Strategy

Lack of access to reliable electricity has been one of the most severe constraints to economic growth and improved livelihood in Bangladesh. Although 75% of population lives in rural areas, only about 30% of the rural households have access to grid electricity. The current electrification rate is about 400,000 households a year and, at such rate, it would take more than 40 years to reach all households. Against this backdrop, the power sector has been prioritized by the Government as expressed in its vision statement to provide universal electricity access by 2020.

Given the slow pace of grid extension, the Government strategy emphasizes the promotion of off-grid renewable energy technologies in rural areas as a priority. In view of this, off-grid electrification based on renewable energy applications such as SHS, biomass in general, and micro-wind power systems in coastal areas, and mini-hydro projects in the mountainous regions are the only readily available and cost-effective electricity applications for millions of people in areas without access to conventional energy supply.

Promotion of renewable energy is also preferred from the viewpoint of providing clean energy technologies since most of the power generation in Bangladesh for lighting and pumping for irrigation is done by using kerosene and diesel. About 75% of the population also relies on biomass such as rice straw, dried leaves, jute sticks, cow dung, or wood for cooking and heating. These energy modalities cause high CO2 emissions and are an inefficient use of resources. Introduction of efficient renewable energy can thus have a positive impact on the environment by reducing CO2 emission and preventing deforestation. To accelerate the roll-out of those energy applications, the Government decided to mandate IDCOL with the financing of SHSs installations and other renewable energy application in off-grid areas.

The main rationale for the proposed supplementary financing is to scale up ADB support to IDCOL by providing additional grant money to the grant financing already provided by other donors, intended to subsidize SHSs and other renewable energy applications in order to increase their affordability to end-users, thereby guaranteeing the increased installation rates of SHS and successful implementation of alternative energy generation in off-grid areas that assist the Government in implementing its vision of universal electricity access by 2020.

The activities under component C of the Project are eligible for the proposed incremental supplementary financing given that the proposed incremental activities under the renewable energy component of the Project are consistent with (i) ADB's Country Strategy and Program Update 2006-2010 for Bangladesh, which highlights rural electrification as one of the key development challenges; (ii) the original development objectives; and (iii) the increase in the Project's impact, outcomes and development effectiveness as highlighted in the Design and Monitoring Framework. Furthermore, the renewable energy program component demonstrates satisfactory implementation and is likely to achieve the stated development objectives.

Impact	Improved per capita infrastructure availability
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Project Outcome

Description of Outcome	Enhanced private sector participation in infrastructure development
Progress Toward Outcome	Project implementation completed. Liquidation application for Grant 0253 under processing.

Implementation Progress

Description of Project Outputs	<ol style="list-style-type: none"> 1. Improved lending terms of IDCOL for infrastructure subprojects 2. Improved ability of IDCOL to mobilize long-term capital 3. Enhanced governance at IDCOL 4. Enhanced capacity for application of environmental and social safeguards standards 5. Enhanced efficiency of IDCOL in developing and financing infrastructure subprojects
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Status of Implementation Progress (Outputs, Activities, and Issues)	<p>Bangladesh has been assigned B3 rating on April 2011 by Moody's Investors Service and BB- by Standard & Poor's (S&P). As per the ratings, the macroeconomic fundamentals of the country are better and it has less chance to face severe stress on creditworthiness. Given the current creditworthiness of the country continues to improve, the borrowing costs of IDCOL is expected to reduce in future.</p> <p>As per lending policy of IDCOL, maximum tenor is 15 years</p> <p>IDCOL will consider issuance of debt instruments in future;</p> <p>IDCOL has raised financing for few medium and large infrastructure projects.</p> <p>ADB approved 3 subProjects as follows:</p> <p>(i) 108 MW power project of \$93 million (ADB share \$30 million) to ECPV Chittagong Limited.</p> <p>(ii) 108 MW power project costing \$84.2 million with ADB share of \$30 million to Regent Energy and Power Limited.</p> <p>(iii) 335 MW HFO based power plant of Summit Meghnaghat Power Company Limited, Narayanganj. Estimated project cost is \$287 million of which ADB share is \$22 million.</p> <p>IDCOL has obtained AA1 rating in 2012. The rating was valid till December 2014.</p> <p>IDCOL will consider obtaining credit rating from an internationally accepted agency once it intends to raise additional fund from international market. At present, there is no or little appetite for foreign currency loan on commercial terms.</p> <p>ESSF has been updated and posted on IDCOL's website since 2012.</p> <p>IDCOL in assistance with ADB undertook a capacity development initiative for its officials and ESSF team under which a team of 3 environmental and 1 social consultants financed under TA 7143-BAN provided training to IDCOL officials.</p> <p>IDCOL has already adopted ESSF in conducting its environmental and social assessment of infrastructure and renewable energy projects.</p> <p>So far, IDCOL has obtained environmental and social clearances from ADB for five projects i.e. NTTN, WiMAX, and 108 MW power plant of ECPVCL, 108 MW power plant of Regent Energy and Power Ltd., and 335 MW power plant to Summit Meghnaghat Power Plant Ltd.</p> <p>IDCOL is committed to achieve ADB standard regarding environmental and social due diligence.</p> <p>The processing time, among other things, depends on the type of projects, scopes of social and environmental appraisal. Average processing time of IDCOL seems to have improved. However, the response time of IDCOL has improved. IDCOL expects to improve its response time further.</p>
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Geographical Location	Dhaka
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Safeguard Categories	
Environment	FI
Involuntary Resettlement	C
Indigenous Peoples	C

Summary of Environmental and Social Aspects	
Environmental Aspects	No significant environmental impact is experienced.
Involuntary Resettlement	Subprojects and bio-gas plants has no involuntary resettlement.
Indigenous Peoples	There was no impact on indigenous peoples.

Stakeholder Communication, Participation, and Consultation	
During Project Design	All stakeholders, including Bangladesh Bank, IDCOL, Ministry of Finance was discussed.
During Project Implementation	Implementation arrangements for the Project under the proposed supplementary grant, including project management; ADB's Anticorruption Policy (1998, as amended to date); disbursement arrangements; accounting, auditing and reporting; and project review remain the same as those for the original loan. In addition, 2 imprest accounts were opened to administer the disbursements of the ACEF and CCF grants.

Business Opportunities	
Consulting Services	tbd
Procurement	tbd

Responsible ADB Officer	Bidyut Kumar Saha
Responsible ADB Department	South Asia Department
Responsible ADB Division	Bangladesh Resident Mission

Timetable

Concept Clearance	02 Nov 2010
Fact Finding	02 Oct 2008 to 02 Oct 2008
MRM	02 Nov 2010
Approval	17 May 2011
Last Review Mission	-
Last PDS Update	17 Mar 2015

Grant 0253-BAN

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
17 May 2011	29 Jun 2011	07 Dec 2011	30 Jun 2014	31 Dec 2014	-

Financing Plan		Grant Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	1.30	Cumulative Contract Awards			
ADB	1.30	17 May 2011	1.30	0.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	0.00	17 May 2011	1.30	0.00	100%

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	-	-	-	-	Satisfactory

Grant 0254-BAN

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
17 May 2011	29 Jun 2011	07 Dec 2011	30 Jun 2014	-	21 Jul 2014

Financing Plan		Grant Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	2.00	Cumulative Contract Awards			
ADB	0.00	17 May 2011	0.00	2.00	100%
Counterpart	0.00	Cumulative Disbursements			
Cofinancing	2.00	17 May 2011	0.00	2.00	100%

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	-	-	-	-	Satisfactory

Request for Information	http://www.adb.org/forms/request-information-form?subject=40517-042
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Date Generated	22 August 2015
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