

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Focus and Key Activities

1. **Strategic focus.** The generation of public–private partnerships (PPPs) to develop infrastructure in Bangladesh is considered a key strategic agenda by the government. Public resources cannot fully meet the huge financing requirements needed to reduce a large infrastructure deficit. On the other hand, the domestic financial market generally lacks the depth, liquidity, and institutional capacity to provide the adequate long-term funding and investments needed by the infrastructure sector. To address these structural deficiencies, development partners have provided interventions through projects to strengthen regulatory and institutional capacity and thereby facilitate the mobilization of long-term funds for infrastructure, industrial, and SME investments., Led by the Asian Development Bank (ADB), long-term intermediary credit facilities have been provided to the government through Infrastructure Development Company Limited (IDCOL), a government-owned nonbank financial institution, to finance private sector-led subprojects in the infrastructure sector.

2. **Focus areas of the major development partners.** In addition to the ADB, the World Bank and the Japan International Cooperation Agency (JICA) have provided intermediary credit facilities for the development of infrastructure sector, as well as refinancing facilities for industry, including SMEs. The World Bank has been the dominant development partner in intermediary credit facilities for solar home systems (SHSs), and ADB has been the major provider of long-term funds to IDCOL for financing medium-sized and large infrastructure subprojects. KfW is a major player in renewable energy applications other than SHSs. ADB and JICA have established significant refinancing facilities for SMEs, the ready-made garments industry, and export processing zones.

3. **Major interventions.** Following the success of its \$165.0 million Public–Private Infrastructure Development Facility (PPIDF 1), ADB provided \$110.0 million for the Second Public–Private Infrastructure Development Facility (PPIDF 2).¹ It is expected to be fully committed to infrastructure subprojects by December 2016. The World Bank has provided a \$295 million infrastructure fund for the long-term financing of private sector-led infrastructure subprojects. The World Bank, JICA, the Department for International Development of the United Kingdom (DFID), the United States Agency for International Development (USAID), KfW, and Global Partnership for Output-Based Aid (GPOBA) are providing \$233.0 million in loans and grants for renewable energy projects, particularly operations to develop SHSs.²

4. In May 2015, the World Bank approved a \$300.0 million credit facility aimed primarily at delivering long-term financing to export-oriented enterprises, strengthening the central bank's capacity to regulate the financial market, and investing in financial market infrastructure through such initiatives as the modernization of the credit information bureau and the settlement system.³ In partnership with the Department for International Development of the United

¹ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the Public–Private Infrastructure Development Facility*. Manila; ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the People's Republic of Bangladesh for the Second Public–Private Infrastructure Development Facility*. Manila.

² World Bank. Rural Electrification and Renewable Energy Development II (RERED II) Project. <http://www.worldbank.org/projects/P131263/rural-electrification-renewable-energy-development-ii-rered-ii-project?lang=en> (accessed 16 November 2016)

³ World Bank. 2015. *International Development Association Project Appraisal Document on a Proposed Credit in the Amount of SDR 213.4 Million (US\$300 million equivalent) to the People's Republic of Bangladesh for a Financial*

Kingdom, the World Bank provided \$60.0 million for the development of economic zones, such as information technology parks.⁴ JICA recently approved a \$100.0 million loan for IDCOL and the Bangladesh Infrastructure Finance Fund for energy efficient industrial subprojects and consumer applications. The table below summarizes some of the recent projects undertaken by key development partners in Bangladesh since 2008, including assistance for infrastructure and renewable energy projects, industrial refinancing, and financial strengthening.

Major Development Partners			
Development Partner	Project Name	Duration	Amount (\$million)
ADB	Second Public–Private Infrastructure Development Facility	2014–2017	110.0
ADB	Second Small and Medium-Sized Enterprise Development Project	2016–2019	200.0
ADB	Third Capital Market Development Program	2015–2017	250.0
AFD	Ready-Made-Garments Sector Safety Improvement (proposed)	2016–2021	70.0
DFID	Providing Clean Energy for Rural Poor of Bangladesh	2013–2016	31.2
JICA	Financial Sector Project for the Development of Small and Medium-Sized Enterprise	2011–2016	40.0
JICA	Foreign Direct Investment Promotion Project	2015–2025	126.0
JICA	Urban Building Safety Project	2015–2022	112.0
JICA	Renewable Energy Development Project	2013–2019	113.4
JICA	Energy Efficiency and Conservation Promotion Financing Project	2016–2021	100.0
KfW	National Domestic Biogas and Manure Program	2008–2016	8.7
KfW	Productive Use of Renewable Energy Program	2014–2018	11.0
World Bank	Investment Promotion and Finance Facility	2006–2015	294.5
World Bank	Financial Sector Support Project	2015–2020	300.0
World Bank/DFID	Private Sector Development Support Project	2011–2016	60.2
World Bank	Modernization of State-Owned Financial Institutions Project	2016–2021	150.0
World Bank/USAID/KfW/GPOBA	Rural Electrification and Renewable Energy Development II Project	2012–2018	233.4

ADB = Asian Development Bank, AFD = Agence Française de Développement, DFID = United Kingdom Department for International Development of the United Kingdom, GPOBA = Global Partnership for Output Based Aid, JICA = Japan International Cooperation Agency, USAID = United States Agency for International Development.

Source: Asian Development Bank.

B. Institutional Arrangements and Processes for Development Coordination

5. ADB consulted extensively with development partners during the processing of the proposed Third Public–Private Infrastructure Development Facility (PPIDF 3). The Economic Relations Division of the Ministry of Finance coordinates development partner assistance in Bangladesh and cooperates with the development partners on coordinated strategies.⁵ The division conducts periodic portfolio review meetings and advises on issues to ensure greater

Sector Support Project. <http://documents.worldbank.org/curated/en/509081468000596623/pdf/PAD1155-PAD-P150938-IDA-R2015-0129-1-Box391445B-OUO-9.pdf> (accessed 23 November 2016)

⁴ World Bank. BD Private Sector Development. <http://www.worldbank.org/projects/P120843/bd-private-sector-development?lang=en> (accessed 16 November 2016)

⁵ Government of Bangladesh, Ministry of Finance, Economic Relations Division. 2010. *Bangladesh Joint Cooperation Strategy 2010–2015*. Dhaka.

development impact. A subgroup of development partners active in the financial sector also meets periodically to better coordinate activities. The proposed ADB facility will complement the efforts of other development partners that have largely focused on the financing of renewable energy applications, such as SHSs. It will supplement the World Bank's infrastructure facility in partnership with the domestic banking sector.⁶

6. ADB coordinates closely with other development partners on infrastructure and renewable energy financing activities. With extensive support already provided by ADB and other development partners in financing SHSs in Bangladesh, ADB is now shifting its focus from funding retail SHSs to medium-sized and large infrastructure subprojects being developed under a public-private partnership (PPP) modality. The proposed PPIDF 3 will focus entirely on medium-sized and large infrastructure subprojects and will not finance SHSs. The new facility will complement the transaction advisory services being provided to Bangladesh by ADB's Office of Public-Private Partnership to generate bankable PPP interventions.

C. Achievements and Issues

7. **Achievements.** ADB's support for private sector-led infrastructure development in Bangladesh has been sustained since 2008, when the PPIDF 1 was mobilized (footnote 1). With financing of \$165.0 million, PPIDF 1 catalyzed \$491.0 million and supported the addition of 551 megawatts of electricity, equivalent to about 5% of the national generation capacity in 2015. The \$110.0 million PPIDF 2 is expected to be fully utilized by 2017, two years before its scheduled closing date. PPIDFs 1 and 2 have complemented parallel ADB initiatives in governance, capital market development, and the promotion of PPPs that have all contributed to creating an enabling environment for infrastructure development. One major achievement of this support was the enactment of the PPP Act in September 2015 which would enable the development of core sector public infrastructure and services in the country.⁷

8. **Issues.** Major development partners have provided funding to IDCOL, the state-owned infrastructure financing vehicle, for its flagship SHS program. While this program has received global attention, the market for SHSs is showing signs of saturation. Better coordination between the development partners is needed to ensure project sustainability and avoid duplication of interventions in the future.

D. Summary and Recommendations

9. The coordination in infrastructure financing requires more frequent interaction by development partners, which have tended to cluster around the financing of retail SHSs. They need to cooperate to properly select and focus on specific areas of the renewable energy sector—for example on financing such applications as retail SHS, grid-based solar power projects, biomass and/or biogas technology, wind energy, and waste energy initiatives. Parallel funding facilities from development partners can be established for PPP subprojects, since the amount of financing required for energy, transport, economic zones, health care, urban development, and other infrastructure development are considerable.

⁶ World Bank. Investment Promotion and Financing Facility. <http://www.worldbank.org/projects/P089382/investment-promotion-financing-facility?lang=en&tab=overview> (accessed 16 November 2016)

⁷ ADB. 2014. *Technical Assistance Completion Report: Public-Private Partnership Program Operationalization*. Manila.