# SPECIFIC CONSIDERATIONS ON THE DESIGN AND RATIONALE OF THE THIRD PUBLIC-PRIVATE INFRASTRUCTURE DEVELOPMENT FACILITY

## A. Rationale for the Multitranche Financing Facility under the Third Public-Private Infrastructure Development Facility

1. **Rationale.** The large infrastructure deficit in Bangladesh is arguably the critical development challenge facing the country. Investing in infrastructure is among the most effective means to support economic growth, promote economic development, and poverty reduction. In Bangladesh, the government's Seventh Five Year Plan, FY2016–FY2020 (7th FYP) estimates the need for about $410 billion of financing, twice the size of gross domestic product (GDP) to develop the country's infrastructure.[1]

2. Public investment in infrastructure has not kept up with the growing demand in Bangladesh. Although the 7th FYP has placed private sector participation (PSP) and enabling public-private partnerships (PPPs) at the core of its infrastructure development strategy, the supply of long-term financing for infrastructure remains a key binding constraint to closing the infrastructure gap—estimated at 5%–6% of GDP or a shortfall of $9 billion to $10 billion a year.

3. **Multitranche financing facility.** The government has requested ADB for a multitranche financing facility (MFF) for relending to IDCOL to promote investments across several infrastructure subsectors through comprehensive policy, regulatory, market, and financing support. The rationale for an MFF follows on three key points, namely: (i) government strategy and/or road map, (ii) identification of a large and quantified effective demand, and (iii) ADB's tested and proven experience.

4. **Strategy.** The government has a well-established development strategy under its 7th FYP. The focus is on developing infrastructure prioritizing key sectors. Banks in Bangladesh have limited absorption capacity on their balance sheets to finance infrastructure assets. Similarly, the government faces fiscal headroom constraints to expand capital spending. This leaves dedicated infrastructure finance institutions such as IDCOL that can catalyze resources and operate under a PPP framework as possibly the only viable sustainable delivery mechanism or solution to develop large infrastructure projects.

5. **Roadmap.** The PPP strategy and policy is the MFF financial intermediary loan (FIL) roadmap equivalent that provides an enabling framework and a clear direction to deliver the infrastructure development objectives under the 7th FYP. The government issued in 2010 the Policy and Strategy for PPP that prioritizes the building and upgrading of core infrastructure in the country through increased investments by domestic and international investors.[2] This has culminated in the enactment of the PPP law in September 2015.[3] Although no specific targets are specified for PPPs, the 7th FYP aims to substantially increase the amount of PPP investments from an average of 0.2% of GDP in FY2015 to around 1%–2% of GDP annually by FY2020.

6. **Effective demand.** PPIDF3 follows a multi-sector approach of extending multiple loans to finance a range of subprojects. Given that ADB is the only source of long-term US dollar financing

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[1] Government of Bangladesh, Planning Commission. 2015. *Seventh Five Year Plan FY2016–FY2020: Accelerating Growth, Empowering Citizens*. Dhaka.

[2] Policy Strategy and Strategy for PPP in Bangladesh. http://www.unescap.org/sites/default/files/3-Bangladesh.pdf

[3] The Bangladesh Public–Private Partnership Act, 2015. http://www.pppo.gov.bd/download/ppp_office/PPP_Law_2015_(Approved_Translation).pdf

to IDCOL, funding through an MFF allows flexibility for IDCOL to match its medium- to long-term business plan with available long-term funds to commit to funding of a broader set of infrastructure projects based on the government's development goals and priorities under the 7th FYP.

7. The government's first periodic financing request (PFR1) under the MFF for PPIDF3 highlights an indicative pipeline of 21 subprojects in various subsectors including power, road, port, economic zones, information and communications technology, renewable energy, and energy efficiency brick kilns with total project costs over $4.6 billion. The MFF will provide $526 million over seven years (FY2017–FY2023) to IDCOL, for financing eligible subprojects in accordance with ADB-agreed subproject investment criteria and approval process, including the environmental and social safeguards framework (ESSF). The MFF will be provided in two tranches—first tranche of $260 million and second tranche of $266 million. Moreover, and in response to the lessons learned from the previous two facilities, a refined list of subprojects amounting to $330–$360 million for financing under PFR1 has been agreed to and cleared by IDCOL's Board as a commitment to readiness filter exigencies.

8. Moreover, the use of the MFF financial intermediary (FI) lending modality allows the flexibility to fund PPP subprojects at various tranches. PPP projects are usually developed in a phased manner based on project implementation requirements. It will allow IDCOL to on-lend financing for subprojects with long-term implementation period (or contract packages) thereby reducing the commitment charges for the government and IDCOL. The use of MFF in PPIDF3 also strengthens the level of governance given that each tranche approval and release will be subject to the performance of the uptake of the loan under the preceding tranche, the government's submission of related PFRs, execution of the related loan agreements for each tranche, and fulfilment of terms and conditions and undertakings under the framework financing agreement (FFA).

9. **ADB's tested and proven experience.** ADB, through 10 years of continuous and strong partnership with IDCOL, has gained the trust and support of IDCOL's Board and Management. This partnership is now ready to move to a higher level of longer term support through an MFF modality which provides IDCOL with a larger amount of resources over an extended period of time. The use of an MFF under PPIDF 3 provides an investment and knowledge platform for the continuation of the long-term partnership with the government and IDCOL for policy dialogue and capacity development to develop a sustainable PPP program across multiple sectors. It will contribute further to the mainstreaming of the PPP agenda[4] in Bangladesh, thereby, demonstrating that infrastructure financing gaps can successfully be addressed by PSP. More critically, the MFF provides IDCOL with the assurance of the availability of financial resources over the longer term for developing a pipeline under the second periodic financing request (PFR2) under PPIDF3. This assurance, while not guaranteed, gives IDCOL greater certainty in entering into prospective agreements with other financiers in developing the second phase of the project pipeline.[5] Without this long-term commitment for financing underscored by the MFF modality, IDCOL's ability to foster pipeline development is seriously curtailed.

## B. Need for Sovereign Lending Support to PPP Projects in Bangladesh

[4] Overall, the PPIDF interventions contribute to ADB's Public-Private Partnership (PPP) Operational Framework primarily on project financing (Pillar 4) and advocacy and capacity development (Pillar 1) and enabling environment (Pillar 2).

[5] Applicability of the Multitranche Financing Facility (accessible from the list of linked documents in Appendix 2 of the Report and Recommendation of the President [RRP]).

10. The public sector has been the main provider of infrastructure in Bangladesh and much of the private sector is not willing or able to take the risks of financing projects that are not part of direct or indirect government-supported initiatives. Therefore, PPP projects represent a stepping stone or middle ground that provides the private sector with a level of comfort based on risk sharing with the government through counterparty support to the private party concessionaire. This is done either in the form of an upfront or ongoing financing support—such as viability gap funding, upfront capital relief to support construction cost, or ongoing annuity payments to make the operation of the PPP project commercially viable.

11. PPPs and other private sector infrastructure projects require long-term debt financing to be bankable due to large upfront capital investment and relatively longer payback periods. In the context of Bangladesh, the supply of long-term debt financing, both in local currency (Taka) and US dollar, is still very limited. In many cases, the demand for long-term US dollar loans are higher than local currency as most of the private sector infrastructure projects are in the power sector which require imports of large capital goods (such as turbines) and have their tariffs indexed to US dollar. IDCOL is one of the few institutions in Bangladesh that can mobilize long-term US dollar funding from external sources, such as ADB. Due to asset-liability mismatch, local banks and financial institutions are unable to play a significant role in providing long-term financing.

## C. Value Addition of ADB Support

12. ADB's wholesale FI lending through IDCOL has been successful in effectively channeling resources to deliver much needed infrastructure development and catalyzing PPP projects in Bangladesh. IDCOL plays a major role in bridging the financing gap for developing medium- and large-scale infrastructure subprojects in Bangladesh and is a pioneer for catalyzing project financing in Bangladesh. IDCOL is able to support mutiple subprojects across a range of infrastructure sectors by providing long-term debt financing; and channels grants and concessional loans to reduce the cost of renewable energy projects for the development of rural infrastructure, i.e., off-grid electrification. In this regard, ADB remains the sole source of long-term financing for IDCOL and, on its own, IDCOL would not be able to mobilize the required long-tenor financing due to its limited capacity and the shallow capital markets in Bangladesh. Although the capital markets in Bangladesh have been significantly developed over the last few years—to a large extent due to the substantial support from ADB[6]—bank lending and long-term bond financing in Bangladesh remains still too shallow to make an appreciable impact on infrastructure financing given the country's large infrastructure deficit.

13. ADB has played a critical role in building up IDCOL's capacity in conducting project appraisal, safeguards due diligence, and monitoring of subprojects. Since the beginning of ADB's relationship with IDCOL, ADB has reviewed and approved every single subproject—including conducting site visits. This has amounted to more than 30 subproject proposals that have gone through ADB's thorough review process. ADB has also been supporting IDCOL with capacity building initiatives starting from a technical assistance (TA) program under PPIDF1 since 2008. The ESSF was reviewed again during the processing of PPIDF3 to ensure that it remained consistent with ADB's Safeguard Policy Statement (2009). Through the combination of long term financing, policy dialogue and TA support, ADB has transformed IDCOL into a more commercially oriented financier that blends OCR based and commercial financing to enhance infrastructure development.

[6] Since 1993, ADB has approved three major programs as well as 18 TA projects in capital market development reforms.

14. In keeping with the uptake in demand, ADB requires IDCOL to hire four additional senior staff members (to improve IDCOL's capacity in the area of risk management, audit, subproject processing and loan recovery) as condition to the loan effectiveness of the first tranche under PPIDF3. The appointment of these experts will further strengthen IDCOL's managerial and technical capacity to continue its prominent role as the premier provider of private-sector infrastructure financing in Bangladesh.

## D. Subproject Investment Criteria under PPIDF3

15. Under an MFF FIL, the conditions for the use of ADB's loan proceeds are subject to a stringent and upfront subproject selection and approval process that meet ADB's eligibility criteria, including but not limited to the criteria that eligible subprojects (i) should be an integral part of the government's priority plan for the relevant sector and/or subsector; (ii) must be majority-owned by the private sector parties; (iii) must use technology with a successful track record; (iv) should be financially-viable on their own with robust and predictable cash flows and capable of generating sufficient foreign exchange revenues or revenues indexed to US dollar or demonstrate sufficient capacity to mitigate the currency risk to repay the US dollar loans to IDCOL; (v) should meet the environmental and social assessment and procurement guidelines of ADB, the government, and IDCOL; (vi) must have an economic rate of return of at least 12%; and (vii) be compliant with ADB's SPS (2009) as it applies to FI category B or C subprojects and the ESSF of IDCOL. No category A subprojects will be funded under PPIDF3.

16. Section III of the Facility Administration Manual (FAM) (linked document 7) clearly defines (i) project selection criteria; (ii) subproject selection and approval process; and (iii) sponsor-related criteria. The FAM also specifies criteria constituting (i) retroactive financing; (ii) take-out financing; (iii) maximum sub-loan size; and (iv) ADB approval process.[7] The criteria are strictly enforced throughout the project implementation phase.

## E. Assessment on IDCOL

17. IDCOL is managed by an eight-member independent Board of Directors represented by both public and private sectors (four from public sector, three from the private sector, and one ex-officio). IDCOL's Board is independent from management.

18. IDCOL's financial management is considered fully capable to manage its operation and undertake project financial management activities. As of FY2015, IDCOL has total assets of Tk62.4 billion ($800 million), a loan book of Tk35.9 billion ($460 million), and paid-up capital of Tk3.9 billion ($49.2 million). In general, the funding sources of IDCOL include its equity capital, reflows of outstanding loans from its project finance activities, and refinancing funds from donors. Whilst some deterioration of asset quality has been observed under its solar home system (SHS) program as a result of a temporary market saturation, IDCOL's nonperforming loans (NPL) remain low at 1.6%—one of the lowest NPL ratios in the industry. IDCOL has stable operating performance with good capital adequacy, sound cost structure, and growth in infrastructure loan portfolio. The Credit Rating Agency of Bangladesh has given IDCOL an "AAA" rating as of 31 December 2016, the highest rating given to any local financial institution in the country.

19. Since supporting IDCOL in 2008 under PPIDF1, IDCOL has increased its capital base, multiplied profits and gained considerable experience in project finance for both the greenfield and brownfield infrastructure sector to ensure that all interventions meet eligibility lending criteria,

[7] Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

equity requirement, exposure, economic internal rate of return, and stringent environment and social safeguards standards. It has a separate credit policy and detailed strategy guidelines for appraising and conducting loan approval process. It is mandated by the government to extend financing to infrastructure and in the renewable energy sector implemented by the private sector or under a PPP arrangement and is regulated by the central bank of Bangladesh.

20. IDCOL has successfully managed donor-funded projects since its inception and has undertaken (or is currently undertaking) credit facilities from other development partners and donor agencies. IDCOL has established a strong performance record of implementing ADB facilities with PPIDF1 being fully utilized and PPIDF2 being close to full utilization. IDCOL has also the experience of implementing private sector infrastructure interventions and renewable energy development projects of KfW, GTZ, and World Bank. The ESSF of IDCOL was developed with ADB support under PPIDF1 in 2008 and was updated during the processing of PPIDF2 to be consistent with the ADB's SPS (2009). The ESSF (2011) was adopted by IDCOL for the subprojects considered for financing in PPIDF1 and PPIDF2.[8]

21. IDCOL has been at the forefront of infrastructure lending in Bangladesh. Since its incorporation in 1997, IDCOL has financed more than 100 subprojects (including IFIs and donor-supported subprojects) in a variety of infrastructure sub-sectors ranging from power generation, gas and gas-related interventions to transport, water supply, information technology and, recently, health care. It has a team of experienced and qualified investment professionals that can assess proposals independently and professionally. While IDCOL's current level of operation is sufficient to successfully implement ADB's loans, it however would require continued capacity building to scale up its operations and systems to accommodate more complex and large-scale projects financing requirements. As agreed with ADB, IDCOL has recently commissioned Deloitte Touche Tohmatsu, India LLP to conduct a review of its operations and formulate a strategy and business plan for the next five years. This review will be complemented with an ADB piggybacked TA to support IDCOL's institutional capacity.

## F. Proposed Technical Assistance to IDCOL

22. To accommodate IDCOL's growth expansion into financing of large-scale private sector-led and/or PPP infrastructure projects and renewable energy applications (other than SHS), a piggybacked capacity development TA is proposed under PPIDF3 to strengthen IDCOL's institutional capacity. The TA will build on IDCOL's technical expertise and will provide support to the company in a targeted manner to enhance the existing level of institutional capacity of IDCOL in a few areas such as subproject assessment and pricing, an integrated risk management framework and treasury operations, and an enhanced safeguards system to incorporate take-out financing. The TA will also support IDCOL in developing a strategic vision and operational strategy based on market or commercial principles to ensure its long-term growth and sustainability[9] as detailed in the Financial Management Assessment of Section V of the FAM[10] and in IDCOL's environmental and social safeguards assessment.[11]

23. Under PPIDF3, the subprojects will be evaluated according to ESSF (2011) until revisions

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[8] Infrastructure Development Company Limited. 2011. *Environmental and Social Safeguards Framework: Policy and Procedures*. http://idcol.org/download/1d8514287c3e7cda76423b33a781f79c.pdf

[9] Financial Management Assessment Report (accessible from the list of linked documents in Appendix 2 of the RRP).

[10] Facility Administration Manual (accessible from the list of linked documents in Appendix 2 of the RRP).

[11] Financial Intermediary: Environmental and Social Safeguards Framework Arrangement (accessible from the list of linked documents in Appendix 2 of the RRP).

are incorporated which will be done as part of the ADB TA.[12] While still aligned with ADB SPS (2009), the ESSF (2011) will be reviewed to streamline procedures on the assessment and evaluation of subprojects considered for funding, to incorporate the draft guidelines of the Bangladesh Bank on environmental and social risk management for banks and financial institutions (June 2015), and to accommodate the proposed market expansion on infrastructure finance through take-out financing to be introduced in PPIDF3. IDCOL will continue to ensure that ADB funds will not be applied to activities described in the ADB Prohibited Investment Activities List, Appendix 5 of SPS (2009).[13] Aside from the ESSF, IDCOL has an environmental and social policy statement approved by its Board of Directors and is compatible with the objectives of SPS (2009). The TA will also review the organizational set-up of IDCOL to establish the independence of environmental and social safeguards management unit (ESSMU) as advisory on safeguards to the infrastructure and renewable energy units. Through the TA, a safeguards capacity building plan for improving social and environmental risk mitigation and gender equality results will be implemented and monitored. In addition, a safeguards manual will be prepared and training will be conducted to IDCOL operations staff involved in processing subprojects. A brief primer on the environmental and social requirements of IDCOL will be prepared to guide their sponsors on how best to manage the impacts and risks of the subprojects and the compliance to ESSF (2011 and its revisions).

## G. Contribution to ADB's Results Framework under PPIDF3

24. PPIDF3 has a multi-sector focus and its specific contribution to ADB's Results Framework will only be determined once subprojects have been approved and funded as per the subproject investment criteria agreed between ADB and IDCOL. We expect, however, that majority of the subprojects to be financed under PPIDF3 will be in the power and renewable energy subsectors, thereby indicative contribution to the ADB Results Framework, are as follows:[14]

**Table 1: Indicative Level 2 Results Framework Indicators**

| Level 2 Results Framework Indicators* (Outputs and Outcomes) | Target | Methods/Comments |
|---|---|---|
| Installed energy generation capacity (MW equivalent) | 1,457MW | Output capacity of the generation projects being financed under the facility |
| Greenhouse gas emission | 111,308 tons $CO_2$ equivalent per year | Offset based on estimated technical loss reduction |

$CO_2$ = carbon dioxide, MW = megawatt.
Note: Based on the indicative power and renewable subprojects with concept cleared and/or approved by the Board of IDCOL for funding, technical studies are under process. Since PPIDF3 is a credit line, the targets for generation capacity increase and the reduction of carbon dioxide emissions are only <u>indicative</u> and may only be verified upon awarding of subproject(s). Hence, the design and monitoring framework only indicates an outcome relating to private sector investments and output on the number of projects to be funded by IDCOL.
Source: Asian Development Bank.

## H. Private Investments to be catalyzed under PPIDF3

25. With respect to PPIDF3, the phased MFF and the associated TA will complement the government's resource mobilization by catalyzing commercial financing through IDCOL-

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[12] Proposed TA of $750,000 from the Financial Sector Development Partnership Special Fund of the Government of Luxembourg. Attached TA (accessible from the list of linked documents in Appendix 2 of the RRP).
[13] Facility Administration Manual (FAM), Appendix 1 (accessible from the list of linked documents in Appendix 2 of the Report and Recommendation of the President).
[14] ADB Results Framework (accessible from the list of linked documents in Appendix 2 of the RRP).

supported infrastructure subprojects and thereby supporting private sector development. PPIDF3 aims to catalyze more than $789 million in private sector investments in at least eight subprojects through the regular OCR loan, and at least two renewable energy subprojects through the concessional OCR loan. The differences in outcomes for private sector financed mobilization presented in the main text of the Report and Recommendation of the President (RRP, $789 million) and in the design and monitoring framework (DMF) ($650 million) stem from the fact that the figure in the main text of the RRP includes the equity contribution from the sponsors and the provision of debt by commercial banks and/or financers over the entire PPIDF3 program while the number in the DMF reflects the total financing mobilized under tranche 1 (including ADB's contribution of $250 million in regular OCR loan and $10 million in concessional OCR funding).

### I. Introduction of Take-out Financing in PPIDF3

26. The acute infrastructure financing needs in Bangladesh require additional financial products and modalities to develop the domestic bank debt market. Infrastructure projects have a long gestation period (typically 20 years) that involve large capital investments requiring long loan repayment periods. Risks are typically higher during the construction and ramp-up phases of project implementation and these risks taper off during the post construction operation phase when projects start generating revenues.

27. Take-out financing under PPIDF3 will introduce a new financial instrument to the infrastructure finance sector in the country. This represents an expansion of financing modalities consistent with an improvement in capacity development in IDCOL and increases its ability to respond to its client needs. It also will serve to reduce the roll-over risk for those projects primarily funded by the commercial banks whose main funding source are short-term retail deposits that are not suitable for such infrastructure projects. In a take-out financing scheme, IDCOL will enter into an agreement which makes a provision that the commercial bank (or any project lender) will transfer (i.e., sell-down) part or whole of its outstanding infrastructure loans to IDCOL for refinancing providing the additionality and benefits of: (i) extending the project loan tenor which will not only address the asset-liability mismatch issue faced by banks and other financial institutions (as existing lenders) in lending to infrastructure projects but also improves the overall project returns for the investors; (ii) addressing sectoral, group and entity exposure issue, thereby freeing up capital for the financing new or greenfield infrastructure projects; and (iii) expanding the sources of finance for infrastructure projects by facilitating participation of new market entrants, including other non-bank financial institutions.

28. Under PPIDF3, take-out financing will follow the same subproject selection and approval process as regular financing and will be subject to ADB's vetting and approval process.

### J. Tranche Milestones

29. As part of ADB readiness filters, IDCOL has provided a firm pipeline of 21 subprojects in power and gas, port, energy efficiency brick kilns, and solar parks for funding under the first tranche of PPIDF3. All subprojects have received initial clearance from IDCOL's Board including $330–$360 million of investments with a 100% likelihood to proceed. IDCOL also has an indicative pipeline of 11 renewable energy and energy efficiency subprojects requiring an investment of up to $102 million, of which IDCOL is expected to provide $51.5 million. Total IDCOL investment demand for these pipeline deals overall is about $583.8 million—i.e., well in excess of the $260 million for the first PFR1 of PPIDF3.

30. The agreement for financing subprojects is subject to ADB's approval for funding under

the MFF. The request for PFR2 will include a detailed report that will be submitted by IDCOL to ADB addressing, among other things, the overall development impact of tranche 1 of the MFF, the actual level of utilization, the nature and characteristics of the subprojects financed, fiduciary oversight, procurement arrangements, and the adherence to ADB's safeguard and standard thematic requirements. PFR2 will not be executed unless all key warranties and representations made by the government under the FFA and PFR1 funding have been fully committed. Specifically, there is a need to ensure that IDCOL has the capacity necessary to successfully review, structure, price and close complex infrastructure projects and has made tangible and substantial progress in improving its balance sheet.

## K. Key Risk Assessment and Mitigation

31. The Risk Assessment and Risk Management Plan[15] covers a broader set of macro, governance, and pipeline flow risk assessment along with entity-specific risks. Summary of the key risks are as follows:

**Table 2: Risks and Mitigating Measures**

| Risks | Mitigating Measures |
|---|---|
| Slowdown in Bangladesh economic growth | IDCOL maintains a comfortable level of profitability, has high loan loss reserves, and has sufficient capital. These mitigants should protect IDCOL from insolvency resulting from the correlated losses of an economic slowdown. With a domestic credit rating of "AAA," IDCOL has strong capacity to meet its financial commitments and has strong support from the government. |
| Lack of bankable projects | Under the 7th FYP, the government has put emphasis on strengthening the PPP framework (through the enactment of the PPP Law 2015), developing PPP projects and facilitating the mobilization of long-term capital for infrastructure development. IDCOL has a solid pipeline of subprojects that are in advanced stages and have initial Board clearance to qualify for PPIDF 3 funding. |
| Divergence from ADB's safeguard policies | With ADB's TA and support, IDCOL has an ESSF that is aligned with ADB's SPS (2009) and it has an established ESMU that has performed adequately on safeguards implementation. ADB has excluded Category A projects given the complexity that would be required to assess and monitor safeguard measures under a consortium lending. |
| Asset quality deterioration due to SHS rescheduled loans | IDCOL's gross NPL is at 1.6% and remains low compared to banks and industry peers. Nevertheless, IDCOL has initiated proactive measures to address risks in its asset quality and/or balance sheet. |

ADB = Asian Development Bank, ESMU = environmental and social management unit, ESSF = environmental and social safeguards framework, FYP = Five Year Plan, IDCOL = Infrastructure Development Company Limited, PPIDF3 = Third Public–Private Infrastructure Development Facility, NPL = non-performing loans, PPP = public–private partnership, SHS = solar home system, SPS = Safeguard Policy Statement, TA = technical assistance.
Source: Asian Development Bank.

32. For greater comfort, IDCOL is a 100% government-owned financial institution that can rely on government budget allocations if increased capital would eventually be required, has senior Ministry of Finance government officials on its Board, and is mandated to implement PPP projects that support the government's development plan and priorities. In addition, ADB, through its sovereign loan exposure, has a very strong standing with IDCOL's Chief Executive Officer, Management, and Board at large.

[15] Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2 of the RRP).

## L. Concerns on IDCOL Crowding-out the Private Sector

33. IDCOL's role as a fully government-owned, long-term debt financier acts as a catalyst in the market to crowd-in local and international banks and FIs rather than crowd-out the private sector. IDCOL's role as a development financier allows it to offer concessional loans to development projects (such as renewable energy) while allocating funds for the mobilization of commercial loans from banks and financial institutions. Moreover, IDCOL through ADB's support, is effectively attracting additional offshore financial resources under the PPP modality. The company is therefore not competing for the quantum of available onshore financing resources which could lead to upward pressure on interest rates, and not determining interest rates as a monopolist but rather is a price taker and following the rate as established by the consortium of financiers. While the case for ADB's Private Sector Operations Department, lending is strong in the longer term, for the time being, IDCOL will have to rely on a phased ADB-lending approach that evolves from sovereign lending, to blended lending to eventually non-sovereign lending as IDCOL further strengthens its balance sheet.

## M. Environmental and Climate Change Impacts and Scope for Renewable Energy Projects under PPIDF3

34. For PPIDF3, there is no ceiling imposed by ADB with respect to the financing of renewable energy subprojects under the regular and concessional OCR loans. However, for planning purposes, it is assumed that $126 million of the $526 million or nearly 25% of the total funding provided by ADB would target renewable energy investments. The regular OCR loan component of $500 million under PPIDF3 will be used to fund medium-sized and large infrastructure subprojects that have total project costs that exceed $10 million. It is anticipated that 20% of the regular OCR loan ($100 million) will be used to finance renewable energy and energy efficiency subprojects, thereby contributing directly to environmental and climate change mitigation.

35. While the market for SHS is currently saturated, opportunities to fund other renewable technologies such as wind, biomass, and biogas are available. Moreover, the entire concessional OCR loan of $26 million will be used to provide medium- and long-term subloans in local currency to renewable energy and energy efficiency subprojects that have a total cost not exceeding $10 million at interest rates that allow IDCOL to earn a risk-adjusted return.

36. Subprojects in the following renewable energy and energy efficiency sectors will be financed: (i) grid-connected solar projects, solar mini-grids, solar irrigation pumps, wind, and other renewable energy installations; (ii) energy-efficient projects, including energy-efficient brick kilns, waste, and effluent treatment plants; (iii) recycling plants; (iv) waste-to-energy solutions; and (v) biogas and biomass-based power plants.

## N. Gender Elements of PPIDF3

37. Maximizing the opportunities for gender mainstreaming is a driving principle proactively pursued across operations. In finance and public sector management, financial intermediation for greater credit outreach in support of micro- and small-sized enterprises has attracted the most attention from a gender perspective. In the area of financial intermediation of infrastructure projects, the emphasis is on providing long-term financing to large infrastructure. As such, there are inherent limits in achieving the requirements set out for Effective Gender Mainstreaming (EGM) categorization with Some Gender Elements (SGE) being the standard.

38. IDCOL, through its environmental and social management unit, will ensure that all sub-borrowers are informed of IDCOL's commitments to facilitate the mainstreaming of gender equality (GE) and women's empowerment (WE) approaches at different stages of infrastructure development, in line with the commitments to GE/WE set out by the government and its agencies. Those requirements—summarized in the Gender Action Framework—are in line with the good practice set up by ADB in PPIDF2.[16] In addition, IDCOL will proactively disseminate to its sub-borrowers the government's National Women Development Policy (2011), which has been reflected in the 7$^{th}$ FYP; and the circular issued by Bangladesh Bank's Department of Financial Institutions and Markets on corporate social responsibility,[17] which requires financial institutions to report on a semi-annual basis a range of gender equality-related performance indicators.

[16] 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.

[17] CSR Review. Corporate Social Responsibility in Bangladesh Financial Sector. http://www.mrdibd.org/publications/csr_review_13.pdf