

## ATTACHED TECHNICAL ASSISTANCE

### A. Introduction

1. **Infrastructure investment is key to economic development of Bangladesh.** The gross domestic product (GDP) of Bangladesh has increased by an average of 6.3% per annum during the period FY2011–FY2015 and is projected to grow at an average rate of 7.4% during FY2016–FY2020 as envisaged in the Government of Bangladesh' (the Government) Seventh Five-Year Plan FY2016–FY2020 (the Plan).<sup>1</sup> One of the key constraints in sustaining and enhancing the GDP growth in Bangladesh is the acute deficiency in infrastructure. The Plan recognizes scarcity in infrastructure financing as a major challenge for infrastructure development and estimated the gap at 5%–6% of GDP which translates into an additional requirement of \$9 billion–\$10 billion per year. The Government stresses on improving the investment climate and reinvigorating the public–private partnership (PPP) agenda to bridge this financing gap in developing infrastructure.

2. **Infrastructure Development Company Limited is the domestic market leader in private sector infrastructure financing.** Established in 1997, the Infrastructure Development Company Limited (IDCOL), a wholly state-owned financial institution, is the apex infrastructure investment institution in Bangladesh. The mandate of IDCOL is to catalyze and optimize private sector participation in the promotion, development, and financing of infrastructure projects in a sustainable manner, primarily through the PPP modality. Since its inception, IDCOL has been playing the central role of financing and catalyzing resources for PPP projects including renewable energy interventions and is the market leader with a loan portfolio of approximately \$460 million as of 30 June 2015.

3. **ADB plans on assisting the government to accelerate infrastructure financing in PPP projects.** The first \$165 million ADB loan facility (Public–Private Infrastructure Development Facility [PPIDF 1]) was successfully utilized by IDCOL in December 2014 while the follow-on \$110 million ADB loan facility (PPIDF 2) is expected to be fully committed by December 2016.<sup>2</sup> Considering the huge gap in private sector infrastructure financing and the strong deal pipeline of IDCOL, ADB is currently processing a \$526 million multitranche financing facility (Third Public–Private Infrastructure Development Facility [PPIDF 3]) for IDCOL consisting of a concessional ordinary capital resources (OCR) loan of \$26 million and a regular OCR loan of \$500 million. The objective of PPIDF 3 is to support the private sector-led infrastructure development plan of the government and contribute to reducing the country's infrastructure deficits for higher economic growth and employment.

4. **The proposed technical assistance is to scale-up the capacity of IDCOL.** The \$526 million PPIDF 3 will significantly increase the investment portfolio of IDCOL during the 6-year investment period of 2017–2023. While IDCOL's current capacity is commensurate to the current level of its operations, it is not equipped to cope with additional and more complex activities and demands, especially relating to large infrastructure subprojects in diversified

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<sup>1</sup> Government of the People's Republic of Bangladesh. 2015. *Draft Seventh Five Year Plan FY2016–FY2020: Accelerating Growth, Empowering Citizens*. Dhaka.

<sup>2</sup> ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the People's Republic of Bangladesh: Public–Private Infrastructure Development Facility*. Manila and ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the People's Republic of Bangladesh: Second Public–Private Infrastructure Development Facility*. Manila.

sectors. The proposed technical assistance (TA) will enhance the institutional capacity of IDCOL in risk management, subproject assessment, pricing, treasury operations, and environmental and social impact assessments and will assist the company in expanding its balance sheet in a prudent and risk-measured manner. The proposed TA will build on some of the achievements made in an earlier TA to IDCOL<sup>3</sup> provided by ADB and will help strengthen its managerial and technical capacity to play a nodal role in private-sector infrastructure financing in Bangladesh in a sustained manner. Furthermore, the findings from the TA—whenever deemed critical—will provide feedback to support the second tranche of PPIDF 3 and may be included as part of the loan covenants.

5. **Sustainability and replicability of the proposed technical assistance.** The policies, guidelines, templates, and training modules developed through the TA will be posted on ADB's and IDCOL's website and could potentially be replicated in other public and private sector financing institutions thus disseminating the benefits and catalyzing more investments in the infrastructure sector. Furthermore, it is planned to organize several capacity building workshops on international best practices in (i) infrastructure projects assessments and structuring; (ii) pricing tools; and (iii) risk management practices to be participated by 40 representatives from prominent domestic banks, financial firms, project developers, underwriters and other financial institutions, and relevant government agencies.

## B. Outputs and Key Activities

6. The following activities under the TA will enhance the managerial and technical capacities of IDCOL to expand its balance sheet in a sustained manner.

- (i) **Output 1: Strengthening in-house integrated risk management framework.** The TA will establish a comprehensive risk management framework with clear authorities, policies, and processes as per international standards and best practices to manage risks (identify, measure, mitigate, and monitor) for an infrastructure finance institution. The TA expert will first conduct a gap analysis by taking stock of IDCOL's existing credit risk management systems, structures, and practices in place and will then develop and/or update policies and guidelines for credit risk management and operational risk management along with appropriate training and sensitization. The TA will also enhance IDCOL's integrated project assessment skills by way of developing and/or updating project risk appraisal manuals for various subsectors, deal processing documentation, and various templates suitable for the Bangladesh context and international best practices with built-in flexibility to accommodate future market development (such as derivatives).
- (ii) **Output 2: Strengthening in-house treasury management framework.** The TA will support enhancing IDCOL's treasury operations by providing and/or updating a comprehensive asset-liability management guideline. The TA will assist IDCOL in managing and/or hedging market risks including interest rate risk and foreign exchange by preparing appropriate process, guidelines, and templates. A pricing tool is to be developed for optimal allocation of capital, risk-based pricing, and return calculations. The TA will also provide a report with a progressive action

<sup>3</sup> Under the first Public–Private Infrastructure Development Facility, a capacity development technical assistance of \$500,000 was provided to (i) help foster an enabling public–private partnership (PPP) operating environment in Bangladesh, (ii) assist the Infrastructure Development Company Limited (IDCOL) in catalyzing PPP transactions, and (iii) establish a comprehensive environment and social management system at IDCOL.

plan, considering prevailing market and legal regime, for effectively diversifying its lending windows and funding sources by introducing new products (such as take-out financing, subordinated debt, Islamic bonds, projects bonds, credit guarantee, and mezzanine securities) so that IDCOL also can act as an agent of change with the Bangladesh infrastructure finance sector in bringing new innovations for itself and catalyze investments from the market along with appropriate training and sensitization.

- (iii) **Output 3: Strengthening resource management functionality.** The TA will identify and procure an appropriate integrated software and hardware solutions for assessment, management, and monitoring of credit risk, operational risk, asset-liability risk, risk-based pricing, loan management, and processing schedule as required for an international standard infrastructure finance company to manage risks and exposures efficiently and effectively. The output also includes a functional management information system (MIS) to develop reports and analytics required for an infrastructure financing company to evaluate performance and manage risks.
- (iv) **Output 4: Developing in-house capacities for social and environmental risk mitigation and gender equality results.** The TA will provide expertise to strengthen the in-house capacities for improved due diligence in the following areas:
- (a) **Social and environmental risks assessment and mitigation.** The environmental and social safeguards framework (2011) of IDCOL, its environmental and social policy statement, the draft policy on corporate social responsibility, and the organizational set-up of IDCOL's environmental and social safeguards management unit (ESSMU) will be reviewed. This will help streamline procedures on the assessment and evaluation of subprojects considered for funding, incorporate the draft guidelines of Bangladesh Bank on environmental and social risk management for banks and financial institutions (June 2015), and establish the ESSMU as an independent advisory unit to the infrastructure and renewable energy departments of IDCOL on environmental and social aspects. A manual will be developed and training of relevant staff involved in project processing will be provided on conducting environmental and social impact analysis of proposed infrastructure subprojects. The possibility of developing an information system to track safeguards compliance of subprojects will be explored. A guidance note on the environmental and social requirements of IDCOL will be prepared and made available to clients/sponsors to help build their capacity on safeguards compliance.
- (b) **Gender mainstreaming and gender equality results.** IDCOL's draft gender policy, its organizational structure and internal system to promote gender equality at organizational and operational levels will be assessed, in light of the Government's commitments to gender equality and emerging best practices in other established financial intermediaries. More specifically, support will be provided on a range of activities which may include:
- **Pre-subproject approval.** Strengthening of staff capacities—through development of a training manual—for better social and gender analysis of proposed infrastructure subprojects and for maximizing opportunities for gender mainstreaming and gender equality results; and

- **Subproject implementation and completion.** Strengthening in-house project performance monitoring and evaluation systems to include collection and analysis of sex-disaggregated information and data on participation and benefits. Options for developing an organizational gender strategy, including gender-responsive human resource management strategy, may be considered.
- (v) **Output 5: Development and implementation of IDCOL's business and strategy plan.** The TA will assist in the preparation and implementation of IDCOL's midterm business and strategy plan including the assessment of the present organogram of IDCOL and the training requirements of the company staff in various aspects of project financing including risk management, treasury operations, innovative financing instruments, financing vehicles, risk mitigation instruments, and deal structuring, to scale up their skills set to handle large and complex infrastructure projects. Trainings, workshops, and seminars will be arranged for officials of IDCOL, other public and private infrastructure finance companies, financial institutions and relevant government agencies, at home and abroad, on these areas with particular emphasis on appraisal and management of risks in infrastructure financing.

### C. Cost and Financing

7. The TA is estimated to cost \$800,000, of which \$750,000 will be financed on a grant basis by the Financial Sector Development Partnership Fund (FSDPF).<sup>4</sup> IDCOL will provide counterpart support in the form of counterpart staff, office, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions.

**Table 1: Cost Estimates and Financing Plan**  
(\$'000)

Item	Amount
<b>Financial Sector Development Partnership Fund<sup>a</sup></b>	
a. Consultants	
i. Remuneration and per diem	
1. International consultants	320.0
2. National consultants	72.0
ii. International and local travel	100.0
iii. Reports and communications	20.0
b. Hardware and software	50.0
c. Workshops, training, seminars, and conferences	100.0
d. Miscellaneous administration and support costs	50.0
e. Contingencies	38.0
<b>Total</b>	<b>750.0</b>

Note: The technical assistance (TA) is estimated to cost \$800,000, of which contributions from ADB are presented in the table above. The Infrastructure Development Company Limited (IDCOL) will provide counterpart support in the form of counterpart staff, office, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions. The value of IDCOL's contribution is estimated to account for 6.25% of the total TA cost.

<sup>a</sup> Established by ADB. Financing partner: the Government of Luxembourg.  
Source: Asian Development Bank estimates.

<sup>4</sup> Established by ADB. Financing partner: the Government of Luxembourg.

8. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing project.

#### D. Implementation Arrangements

9. The TA implementation arrangements will be aligned with the activities of the proposed PPIDF 3. The Economic Relations Division (ERD) of the Ministry of Finance (MOF) will be the executing agency and will oversee and coordinate the timely implementation of the TA activities through the program steering committee, comprised of representatives from the implementing agency. IDCOL will be the implementing agency for all outputs. The TA will be implemented over a period of 3 years, starting from March 2017.

10. ADB will recruit a consulting firm to provide 16 person-months (PMs) of international and 12 PMs of national consulting services. Consultants will be recruited, using the quality- and cost-based selection method with a standard quality-cost ratio of 90:10 due to highly specialized expertise needed. Output-based (lump-sum) contract will be considered for the recruitment of consulting services. All consultants will be recruited in line with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). All the disbursements under the TA will be made in accordance with ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time). Procurement will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).

11. An overview of the required consulting services is summarized in Table 2.

**Table 2: Summary of Consulting Services**

<b>Area of Expertise</b>	<b>Duration (person-months)</b>
<b>A. International</b>	
1. Management Expert	4
2. Risk Management Specialist	4
3. Treasury Management Specialist	2
4. Management Information System Specialist	3
5. Human Resource and Training Specialist	3
<b>B. National</b>	
1. Risk Management Expert	2
2. Treasury Management Specialist	2
3. Environmental and Social Safeguards Specialist	3
4. Social Development (Gender and Development) Specialist	3
5. Human Resource and Training Specialist	2
<b>Total (A+B)</b>	<b>28</b>

Source: Asian Development Bank.

#### E. Governance

12. ADB will administer the implementation of the TA and ensure compliance with ADB's and FSDPF's policies and guidelines. In addition, ADB has reviewed IDCOL's governance framework (its risk management, financial management system, procurement, financial reporting, and/or payment oversight) as part of the comprehensive MFF due diligence process.