



# Report and Recommendation of the President to the Board of Directors

---

Project Number: 42180-016  
February 2017

## Proposed Multitranche Financing Facility and Technical Assistance Grant People's Republic of Bangladesh: Third Public– Private Infrastructure Development Facility

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 1 February 2017)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.01264
\$1.00	=	Tk79.12500

## ABBREVIATIONS

ADB	–	Asian Development Bank
ESSF	–	environmental and social safeguard framework
FAM	–	facility administration manual
FYP	–	five-year plan
GDP	–	gross domestic product
IDCOL	–	Infrastructure Development Company Limited
MFF	–	multitranches financing facility
OCR	–	ordinary capital resources
PPIDF 1	–	Public–Private Infrastructure Development Facility
PPIDF 2	–	Second Public–Private Infrastructure Development Facility
PPIDF 3	–	Third Public–Private Infrastructure Development Facility
PPP	–	public–private partnership
SDR	–	special drawing right
SHS	–	solar home system
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh ends on 30 June. “FY” before a calendar year denotes the year in which the government’s fiscal year ends, e.g. FY2015 ends on 30 June 2015. The fiscal year of the Infrastructure Development Company Limited ends on 31 December and is shown as the calendar year.
- (ii) In this report, “\$” refers to US dollars.

<b>Vice-President</b>	W. Zhang, Operations 1
<b>Director General</b>	H. Kim, South Asia Department (SARD)
<b>Director</b>	B. Carrasco, Public Management, Financial Sector, and Trade Division, SARD
<b>Team leaders</b>	P. Marro, Principal Financial Sector Specialist, SARD J. Romero-Torres, Senior Financial Sector Specialist (Capital Markets and Infrastructure), SARD
<b>Team members</b>	A. Gacutan, Senior Operations Assistant, SARD L. Gamolo, Operations Assistant, SARD P. Gutierrez, Project Analyst, SARD K. Hidalgo, Financial Sector Officer, SARD C. Png, Principal Counsel, Office of the General Counsel B. Saha, Senior Project Officer (Financial Sector), Bangladesh Resident Mission, SARD
<b>Peer reviewers</b>	C. Sugden, Principal Public–Private Partnership Specialist, East Asia Department M. Tachiiri, Senior Planning and Policy Specialist, Strategy and Policy Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.



## CONTENTS

	<b>Page</b>
INVESTMENT PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE INVESTMENT PROGRAM	1
A. Rationale	1
B. Impact and Outcome	5
C. Outputs	5
D. Investment and Financing Plans	6
E. Implementation Arrangements	7
III. TECHNICAL ASSISTANCE	9
IV. DUE DILIGENCE	9
A. Economic and Financial	9
B. Governance	9
C. Poverty and Social	10
D. Safeguards	10
E. Risks and Mitigating Measures	11
V. ASSURANCES AND CONDITIONS	11
VI. RECOMMENDATION	12
APPENDIXES	
1. Design and Monitoring Framework for the Investment Program	13
2. List of Linked Documents	16



INVESTMENT PROGRAM<sup>a</sup> AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 42180-016	
<b>Project Name</b>	Third Public-Private Infrastructure Development Facility	<b>Department /Division</b>	SARD/SAPF
<b>Country Borrower</b>	Bangladesh Government of Bangladesh	<b>Executing Agency</b>	Ministry of Finance
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Finance</b>	Infrastructure finance and investment funds		526.00
		<b>Total</b>	<b>526.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Mitigation (\$ million)	126.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns Natural resources conservation	CO <sub>2</sub> reduction (tons per annum)	111,308
		Climate Change impact on the Project	Medium
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Partnerships (PAR)	Bilateral institutions (not client government) Commercial cofinancing International finance institutions (IFI)	Some gender elements (SGE)	✓
Private sector development (PSD)	Promotion of private sector investment		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG7		
<b>6. Risk Categorization:</b>	Complex		
<b>7. Safeguards Categorization [Tranche 1]</b>	<b>Environment:</b> FI	<b>Involuntary Resettlement:</b> FI	<b>Indigenous Peoples:</b> FI
<b>8. Financing</b>			
<b>Modality and Sources</b>	<b>Indicative Tranches (\$million)</b>		<b>Amount (\$million)</b>
	I	II	
<b>ADB</b>			<b>526.75</b>
Sovereign MFF-Tranche (Concessional Loan): Ordinary capital resources	10.00	16.00	26.00
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources	250.00	250.00	500.00
Sovereign : Financial Sector Development Partnership Special Fund	0.75	0.00	0.75
<b>Cofinancing</b>			<b>0.00</b>
None	0.00	0.00	0.00
<b>Counterpart</b>			<b>789.00</b>
Beneficiaries	130.00	133.00	263.00
Others	260.00	266.00	526.00
<b>Total</b>	<b>650.75</b>	<b>665.00</b>	<b>1,315.75</b>
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems	Yes		
Use of country public financial management systems	Yes		
<b>10. Country Operations Business Plan</b>			
<b>CPS</b>	<a href="https://www.adb.org/sites/default/files/institutional-document/198831/cps-ban-2016-2020.pdf">https://www.adb.org/sites/default/files/institutional-document/198831/cps-ban-2016-2020.pdf</a>		
<b>COBP</b>	<a href="http://www.adb.org/sites/default/files/institutional-document/175184/">http://www.adb.org/sites/default/files/institutional-document/175184/</a>		

# INVESTMENT PROGRAM<sup>a</sup> AT A GLANCE

[cobp-ban-2016-2018.pdf](#)

## 11. Investment Program Summary

The proposed Third Public-Private Infrastructure Development Facility (PPIDF 3) is a continuation of the work carried out under the Public-Private Infrastructure Development Facility (PPIDF 1) and the Second Public-Private Infrastructure Development Facility (PPIDF 2) in addressing the infrastructure deficiencies in Bangladesh. Through the two earlier interventions, ADB has provided long-term debt financing and catalyzing private sector participation through the implementing agency, i.e. Infrastructure Development Company Limited (IDCOL) which substantially contributed to economic growth in the country. The design of the project serves to catalyze commercial financing for public-private partnership (PPP) projects, thereby reducing the pressure of direct financing on the public budget. An additional objective of the facility is to help provide the rural population and small to medium enterprises with clean and affordable electricity either through grid-connected or off-grid energy efficiency and renewable energy solutions. Solar home systems (SHSs) will not be financed under PPIDF 3 given the market saturation and availability of funding from partner donors.

**Impact:** Investments in infrastructure increased (Bangladesh Seventh Five Year Plan, FY2016-FY2020)

**Outcome:** Private sector investments in infrastructure, including renewable energy leveraged

**Outputs:** (i) Available long-term debt financing for infrastructure projects increased, (ii) Take-out financing for infrastructure projects catalyzed, and (iii) IDCOLs institutional capacity strengthened

**Implementation Arrangements:** Ministry of Finance will be the executing agency.

**Project Readiness:** Infrastructure Development Company Limited (IDCOL) has a solid pipeline of 10 subprojects with a total project cost of \$2,961.9 million which require possible funding by IDCOL under tranche 1 of PPIDF 3 of about \$532.3 million. All of these subprojects have already received initial clearance from IDCOL Board and are at advanced stages of due diligence. IDCOL has also an indicative list of 11 subprojects in the renewable energy and energy efficiency sectors, mostly involving solar energy. They will require an investment of up to \$102.0 million, of which IDCOL is expected to provide \$51.5 million. Total IDCOL investment demand for these pipeline deals overall is therefore approximately \$583.8 million, i.e. well in excess of the \$260.0 million first PPIDF 3 tranche.

## 12. Milestones

Modality	Estimated Approval	Estimated Completion <sup>b</sup>
Multitranche financing facility	20 June 2017	31 December 2023
Tranche I	14 March 2017	31 December 2020
Tranche II	24 January 2020	31 December 2023

## 13. Project Data Sheet (PDS)

PDS<sup>c</sup> <http://www.adb.org/projects/42180-016/main>

<sup>a</sup> Multitranche Financing Facility (MFF).

<sup>b</sup> For MFF, this refers to the end of the availability period; for tranches, this refers to the tranche closing date.

<sup>c</sup> Safeguard documents can be viewed by clicking the Document's hyperlink in the Project Data Sheet (PDS) page.



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed multitranche financing facility (MFF) to the People's Republic of Bangladesh for the Third Public–Private Infrastructure Development Facility. The report also describes the proposed technical assistance (TA) to be provided by the Financial Sector Development Partnership Special Fund for Capacity Development of Infrastructure Development Company Limited (IDCOL), and if the Board approves the proposed MFF, I, acting under the authority delegated to me by the Board, approve the administration of the TA.<sup>1</sup>

## II. THE INVESTMENT PROGRAM

### A. Rationale

2. **Infrastructure investment needed for accelerating growth.** Bangladesh recorded strong, steady average annual gross domestic product (GDP) growth of 6.3% in FY2011–FY2015. Based on its gross national income per capita of \$1,080, it attained lower-middle income country status in July 2015. For Bangladesh to move toward upper middle-income status, real GDP will need to grow at an average annual rate of 7.4% during the Seventh Five Year Plan, FY2016–FY2020 (7<sup>th</sup> FYP).<sup>2</sup> This will require a substantial increase in gross public and private investments from about 29.0% of GDP in FY2015 to 34.4% by FY2020 in order to achieve the growth target. Overall investment needed over the 7<sup>th</sup> FYP is estimated at Tk31.9 trillion, of which 77.3% will have to come from the private sector (Table 1). Much of this investment will need to go toward enhancing infrastructure, improving labor skills, and boosting manufacturing production.

**Table 1: Government's Investment Program  
under the Seventh Five Year Plan FY2016–FY2020**  
(Tk billion)

Item	Public	Share (%)	Private	Share (%)	Total	Share (%)
Domestic resources	6,384.6	88.0	22,466.4	91.1	28,851.0	90.4
External resources	867.6	12.0	2,184.1	8.9	3,051.8	9.6
<b>Total investment</b>	<b>7,252.2</b>	<b>22.7</b>	<b>24,650.5</b>	<b>77.3</b>	<b>31,902.7</b>	<b>100.0</b>

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

3. The government put considerable emphasis on the development of infrastructure during the Sixth Five Year Plan, FY2011–FY2015 and assigned it the highest priority in its budgets, but public investment in infrastructure has not kept up with growing demand.<sup>3</sup> The gap in infrastructure financing remains as a major challenge in the 7<sup>th</sup> FYP and is estimated at 5%–6% of GDP, or a shortfall of \$9 billion–\$10 billion a year. This underinvestment and the wide infrastructure deficit are key obstacles to achieving the country's growth targets.

4. **Challenges for financing infrastructure in Bangladesh.** Although other factors make it difficult to attract and retain new investment—a challenging business climate, slow dispute settlement mechanism, and inadequate institutional capacities—the inadequate supply of long-

<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> Government of Bangladesh, Planning Commission. 2015. *Seventh Five Year Plan FY2016–FY2020: Accelerating Growth, Empowering Citizens*. Dhaka.

<sup>3</sup> Government of Bangladesh, Planning Commission. 2011. *Sixth Five Year Plan, FY2011–FY2020: Accelerating Growth and Reducing Poverty*. Dhaka.

term debt financing remains a key binding constraint to closing the infrastructure gap.<sup>4</sup> Most commercial banks in Bangladesh focus on short-dated lending that goes mainly to the emerging consumer finance sector. Banks have short-term retail deposits that are not suitable for funding long-dated infrastructure loans, and they lack the technical ability to analyze and structure project finance transactions.

#### 5. Policy framework, road map, and investment plan for infrastructure in Bangladesh.

The 7<sup>th</sup> FYP aims to accelerate economic growth and reduce poverty through steps to boost infrastructure development and private sector investment. The 7<sup>th</sup> FYP which aims to promote investments across several infrastructure subsectors through comprehensive policy, regulatory, market, and financing support will serve as the policy framework for enabling public–private partnerships (PPPs) to be supported by the proposed Third Public–Private Infrastructure Development Facility (PPIDF 3) of the Asian Development Bank (ADB).<sup>5</sup>

6. With extensive support from ADB, the government issued in 2010 a PPP policy and strategy to facilitate the development of core sector public infrastructure and services. The policy prioritizes increased investment in infrastructure and provides a framework for attracting domestic and international investors to partner with the government in building and upgrading core infrastructure. Under this new national policy, a PPP office (now called the PPP Authority) was established under the Prime Minister’s Office to support sector line ministries to facilitate identification, development, tendering, and finance of PPP projects. These policy and institutional reform efforts culminated in the enactment of the PPP law<sup>6</sup> in September 2015.<sup>7</sup>

7. The medium-term macroeconomic framework of the 7<sup>th</sup> FYP represents the overall road map for the investment program Indicative infrastructure requirements<sup>8</sup> estimated in the 7<sup>th</sup> FYP foresee an increased demand for transport investment from 1.6% of GDP in the baseline year of FY2015 to a yearly average of 3% during FY2016–FY2020. The infrastructure areas needing attention include roads, highways and bridges, railways, urban and rural transport, ports, civil airports, inland water transport, and port infrastructure. Total investments to meet critical requirements in the energy sector are projected at an average 2.5% of GDP per year, of which the public sector can cover only 1.7%. Achieving visible progress in all these areas will need private sector investments, including PPP arrangements. The 7<sup>th</sup> FYP aims to raise PPP

---

<sup>4</sup> The Asian Development Bank has supported the development of the domestic bond market in Bangladesh since 1997. Assistance focused on market stabilization and sustainable market development under ADB’s first and second capital market development programs. A third capital market development program approved in 2015 continued work under these first two programs to support the role of the market regulator in developing and monitoring the market, strengthening regulatory measures, and establishing a clearing and settlement company.

<sup>5</sup> Framework Financing Agreement (accessible from the list of linked documents in Appendix 2). The policy framework is in Schedule 1.

<sup>6</sup> Government of the People’s Republic of Bangladesh, Public Private Partnership Authority. Enactment of the Bangladesh Public–Private Partnership (PPP) Act, 2015. [http://www.pppo.gov.bd/events2015\\_enactment-of-the-bangladesh-public-private-partnership-ppp-act-2015.php](http://www.pppo.gov.bd/events2015_enactment-of-the-bangladesh-public-private-partnership-ppp-act-2015.php)

<sup>7</sup> ADB. 2010. *Technical Assistance to the People’s Republic of Bangladesh for Public–Private Partnership Program Operationalization*. Manila.

<sup>8</sup> Concrete targets in the FY2016–FY2020 five-year plan include the following: (i) an increase in installed electricity generation capacity to 23,000 megawatts from 13,000 megawatts; (ii) an increase of the energy consumption per capita energy from 371 kilowatt-hours to 514 kilowatt-hours; (iii) an expansion of electricity coverage to be increased to 96% from 62%; (iv) the reduction of the system loss in the energy sector from 13% to 9%; (v) construction of the 6.15-kilometer-long Padma multipurpose bridge; (vi) construction of a 26-kilometer elevated expressway in Dhaka; (vii) improvement of the country’s multimodal transport network, with a significant increase in the shares of rail and waterways traffic; (viii) a reduction of urban traffic congestion, particularly in the Dhaka and Chittagong metropolitan areas; and (ix) a reduction in road accidents.

investments from an average of about 0.2% of GDP in FY2015 to an annual average of 1.0%–2.0% of GDP over FY2016–FY2020 and beyond.<sup>9</sup>

**8. Mandate of Infrastructure Development Company Limited.** The government has given IDCOL, a state-owned nonbank financial institution, the mandate to promote and finance PPP projects and to thereby play a large role in mobilizing long-term debt funding for private sector infrastructure investments. IDCOL is the only domestic financial institution that can catalyze international long-term foreign currency funding and has the technical capability to structure and execute infrastructure and project financing.

**9. The Third Public–Private Infrastructure Development Facility.** PPIDF 3 is a \$526.0 million MFF to the government for relending to IDCOL comprising: (i) a \$500.0 million regular ordinary capital resources (OCR) loan component, and (ii) a \$26.0 million concessional OCR loan component.<sup>10</sup> The regular OCR loan component will be used to finance medium-sized and large PPP projects while the concessional OCR loan component will finance small and medium-sized renewable energy and energy efficiency facilities.<sup>11</sup> PPIDF 3 will support the government's infrastructure development agenda by catalyzing private sector investments in subprojects that comply with the criteria set in the framework financing agreement. PPIDF 3 is in line with ADB's financial sector operational plan, which emphasizes private sector participation in infrastructure finance, and with ADB's PPP operational plan for 2012–2020.<sup>12</sup> ADB's country partnership strategy for Bangladesh for 2016–2020 stresses the need for ADB to support private sector-led infrastructure development and PPPs.<sup>13</sup>

**10. Value added by the multitranche financing facility modality.** PPP infrastructure projects are typically developed in a phased manner that is based on project implementation requirements, and the MFF modality will allow IDCOL to onlend to eligible subprojects based on readiness criteria. These criteria will include the finalization of risk-sharing arrangements, readiness to procure equipment and other assets, and the release of equity by project sponsors in accordance with construction progress. As the financial intermediary under the MFF modality, IDCOL can be assured that funding will be available when the subprojects require financing. This gives IDCOL the flexibility to manage its finances and plan disbursements properly and cost-effectively.<sup>14</sup> The proposed MFF allows ADB to further strengthen its long-term strategic partnership with IDCOL to better assist its operations over time. ADB's success in applying the MFF financial intermediary modality in several interventions in India further justifies its use in PPIDF 3.<sup>15</sup>

<sup>9</sup> L. Bjornestad et al. 2016. *Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh—Findings from an Independent Development Finance Assessment*. [http://www.lcgbangladesh.org/reports/Development%20Finance%20Assessment%20\(DFA\)%20Report\\_Bangladesh-2016.pdf](http://www.lcgbangladesh.org/reports/Development%20Finance%20Assessment%20(DFA)%20Report_Bangladesh-2016.pdf).

<sup>10</sup> This lending proposal is included in ADB. 2015. *Country Operations Business Plan: Bangladesh, 2016–2018*. Manila. A project preparatory TA is not envisaged.

<sup>11</sup> Solar home systems (SHSs) will not be financed under PPIDF 3 due to saturation in the SHS market and IDCOL's ability to obtain such funding from other development partners.

<sup>12</sup> ADB. 2012. *Public–Private Partnership Operational Plan, 2012–2020: Realizing the Vision for Strategy 2020—The Transformational Role of Public–Private Partnerships in Asian Development Bank Operations*. <http://www.adb.org/documents/public-private-partnership-operational-plan-2012-2020>.

<sup>13</sup> ADB. 2016. *Country Partnership Strategy: Bangladesh, 2016–2020*. Manila.

<sup>14</sup> Indicative Subprojects under Tranche 1 and Applicability of the Multitranche Financing Facility (accessible from the list of linked documents in Appendix 2).

<sup>15</sup> Since 2007, ADB has provided \$1.9 billion in three successive MFFs to India Infrastructure Finance Company Limited for funding PPP projects. To date, 67 PPP projects were funded under these facilities in India (ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India*

11. **The investment program's catalytic development role.** The phased MFF and the associated TA will complement the government's resource mobilization by catalyzing commercial financing through IDCOL-supported infrastructure subprojects and thereby supporting private sector development. PPIDF 3 aims to catalyze more than \$789.0 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 (Appendix 1). The comprehensive institutional capacity development program supported by the associated TA will build on important achievements made under the Public–Private Infrastructure Development Facility (PPIDF 1).<sup>16</sup> PPIDF 3 will help IDCOL improve practices and build capabilities in such areas as subproject assessment, pricing and financial modeling, and risk management.

12. The investment program will contribute significantly to ADB's objective of doubling its annual climate financing commitment from the current level of \$3 billion to \$6 billion by 2020. The entire \$26.0 million concessional OCR loan component and \$100.0 million of the regular OCR loan component are expected to fund small and medium-sized renewable energy and energy efficiency subprojects using environmentally friendly technologies. This support will qualify as climate change mitigation finance.

13. **ADB's long-term partnership with Infrastructure Development Company Limited.** ADB has been supporting the government's infrastructure development agenda through IDCOL and provided two previous stand-alone facilities totaling \$275.0 million under PPIDF 1 and the Second Public–Public Infrastructure Development Facility (PPIDF 2).<sup>17</sup> Without ADB's support through these two interventions, IDCOL would not have been able to provide sufficient amounts of long-dated financing due to its limited capacity to raise funds on its own from the market. The ADB facilities allowed IDCOL to share its due diligence knowledge with commercial domestic banks since IDCOL could not finance more than 40% of a particular subproject cost from its own balance sheet. PPIDF 1 was fully disbursed in 2014, well ahead of its target closing date. The \$82.0 million regular OCR lending was used to fund three large power plant subprojects, and proceeds from the \$83.0 million concessional OCR lending financed two subprojects in the information technology sector and 330,362 solar home systems (SHSs). PPIDF catalyzed \$491.0 million and supported the addition of 551 megawatts of electricity, or about 5% of the national generation capacity as of 2014.

14. As of 1 February 2017, IDCOL had disbursed \$70.0 million from the \$100.0 million PPIDF 2 OCR loan to three power plants and one inland river container terminal. Of the \$10.0 million Asian Development Fund loan, \$7.1 million had been disbursed to finance SHSs as part of one of the largest and most successful off-grid renewable energy programs in the world. IDCOL has committed the remaining OCR loan funds to one more subproject. It expects disbursements to

---

*for the India Infrastructure Project Financing Facility. Manila; ADB. 2009. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the Second India Infrastructure Project Financing Facility. Manila; and ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for the Accelerating Infrastructure Investment Facility in India. Manila.)*

<sup>16</sup> Under PPIDF, a capacity development TA of \$500,000 was provided to (i) help foster an enabling PPP operating environment in Bangladesh, (ii) assist IDCOL in catalyzing PPP transactions, and (iii) establish a comprehensive environment and social management system at IDCOL.

<sup>17</sup> ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to the People's Republic of Bangladesh for the 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 for the Second Public–Private Infrastructure Development Facility.* Manila.

start at the beginning of 2017, leaving it with no further ADB funding to use 2 years before the original closing date.

15. **Lessons learned and experience gained through early interventions.** PPIDF 3 incorporates lessons ADB has learned from implementing earlier financial intermediation loan programs for infrastructure, particularly PPIDF 1 and PPIDF 2. First, IDCOL has developed in-depth expertise in appraising subprojects in the power and renewable energy sector, allowing the company to leverage more resources and expand its infrastructure business portfolio, and to sustain a tested business model that has resulted in a robust pipeline of projects. Second, though IDCOL's SHS program is considered as one of the most successful and largest renewable energy programs in the world, it is now starting to show signs of market saturation, affecting IDCOL's asset quality.<sup>18</sup> IDCOL is taking proactive measures to improve its SHS' collection efficiency. PPIDF 3 provides corrective measures and substantive capacity building for IDCOL to improve its debt recovery and restructuring plan, and strengthen its risk management and internal control. Moreover, no SHS will be funded under PPIDF 3. The SHS experience under the two previous investment programs underscores the importance to IDCOL's successful loan operations of ensuring portfolio diversification and avoiding revenue concentration from a single program or technology. PPIDF 3 incorporates not only the provision of financing to promote PPPs but also the value added in providing institutional reforms and introducing an innovative product, i.e. take-out financing to support the development and deepening of the domestic debt market in Bangladesh.

16. **Introduction of risk-based pricing and take-out financing.** While IDCOL has provided funding as part of a lending consortium and has followed the credit terms agreed on by other consortium members in most of its interventions, its risk profile and appetite is different from that of commercial banks—given its unique status as a fully government-owned finance company with no branch network to mobilize low-cost retail customer deposits. IDCOL will use its resources to price its loans in a way that would reflect its ownership status and funding cost by developing its own internal pricing model with support from the associated TA.<sup>19</sup> IDCOL will explore the scope to access the domestic and—at a later phase—the offshore bond markets, either through an international bond issue—partially guaranteed by ADB—or through an offshore taka linker bond.

## B. Impact and Outcome

17. The impact will be increased investments in infrastructure, including renewable energy and energy efficiency facilities, aligned with Bangladesh's Seventh Five Year Plan, FY2016–FY2020 (footnote 2). The outcome will be leveraged private sector investments in infrastructure, including the financing of renewable energy and energy efficiency facilities.

## C. Outputs

18. The outputs will be (i) available long-term debt financing for infrastructure projects

---

<sup>18</sup> N. Bertsch and P. Marro. 2015. Making Renewable Energy a Success in Bangladesh: Getting the Business Model Right. *ADB South Asia Working Paper Series*. No. 41. Manila: Asian Development Bank. <https://www.adb.org/sites/default/files/publication/177814/ban-making-renewable-energy-success.pdf>

<sup>19</sup> Under take-out financing, institutions such as IDCOL that are engaged in long-term financing agree to take out—i.e., take over—loans from the books of banks financing infrastructure projects after a fixed time period (e.g., 3–5 years), when the bank loan reaches previously defined milestones. This ensures that projects get long-term funding from various participants. Take-out financing will enable banks to participate over the short term in financing infrastructure projects without creating adverse asset–liability mismatches in tenors even though their liabilities are mostly short-term deposits.

increased, (ii) take-out financing for infrastructure projects catalyzed, and (iii) IDCOL's institutional capacity strengthened.

#### D. Investment and Financing Plans

19. The government's investment program under the 7th FYP amounts to Tk31.9 trillion (Table 1). ADB's PPIDF 3 investment program will contribute \$1,315.0 million comprising \$500.0 million in regular OCR loans, \$26.0 million in concessional OCR loans, equity of \$263.0 million from project sponsors, and commercial debt financing of \$526.0 million to help finance infrastructure, and renewable energy and energy efficiency subprojects (Table 2).

**Table 2: Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>	<b>Tranche 1 (\$ million)</b>	<b>Tranche 2 (\$ million)</b>
Asian Development Bank				
Ordinary capital resources (regular loans)	500.0	38.0	250.0	250.0
Ordinary capital resources (concessional loans)	26.0	2.0	10.0	16.0
Equity (assuming 20% of subprojects' costs)	263.0	20.0	130.0	133.0
Commercial banks and/or financiers (debt) <sup>a</sup>	526.0	40.0	260.0	266.0
<b>Total</b>	<b>1,315.0</b>	<b>100.0</b>	<b>650.0</b>	<b>665.0</b>

ADB = Asian Development Bank.

<sup>a</sup> This assumes that the sponsor will provide equity financing of 20% of total subproject cost, that commercial banks and financiers will provide debt funding of 40% of total subproject cost, and that Infrastructure Development Company Limited will finance 40% of each subproject using ADB funds provided under the Third Public-Private Infrastructure Development Facility.

Source: Asian Development Bank.

20. The MFF is expected to be disbursed in two tranches—tranche 1, covering 2017–2020 and comprising a \$250.0 million regular OCR loan and a SDR7,229,000 concessional OCR loan; and tranche 2, covering 2020–2023, subject to the government's submission of related periodic financing requests, execution of the related loan and project agreements for each tranche, and the fulfilment of terms and conditions and undertakings set forth in the framework financing agreement. For tranche 1, the regular OCR loan will have a 20-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility, a commitment charge of 0.15% per annum, and such others terms and conditions set forth in the draft loan and project agreements. The concessional OCR loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements. The government will relend the proceeds from the regular OCR loan to IDCOL either (i) in US dollars at the London interbank offered rate plus 100 basis points per annum<sup>20</sup> for a 20-year term, with a grace period of 5 years; or (ii) in taka at the Bangladesh Bank rate<sup>21</sup> for a 20-year term, with a grace period of 5 years, pursuant to a subsidiary loan agreement. In the latter case, the government will bear the foreign exchange risks. IDCOL will use the regular OCR loan proceeds to provide medium and long-term subloans in local currency or US dollars for medium-sized and large infrastructure subprojects that have total costs that exceed \$10.0 million. These will include renewable energy and energy efficiency subprojects. The onlending by IDCOL to private sector subprojects will be at interest rates that reflect IDCOL's cost of funds plus a spread to cover transactional costs and risks to be determined by IDCOL based on commercial and competitive terms.

<sup>20</sup> These are the unchanged onlending terms for US dollar funds under PPIDF 2.

<sup>21</sup> These are the unchanged onlending terms for taka funds under PPIDF 2.

21. The government will make the concessional OCR loan proceeds available to IDCOL in taka at a rate of 3% per annum pursuant to a subsidiary loan agreement. The government will bear the foreign exchange risk. IDCOL will use the proceeds from the concessional OCR loan to provide medium- and long-term subloans in local currency to renewable energy and energy efficiency subprojects that have a total cost not exceeding \$10.0 million at interest rates that allow IDCOL to earn a risk-adjusted return. 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 brick kilns, waste, and effluent treatment plants; (iii) recycling plants; (iv) waste-to-energy solutions; and (v) biogas and biomass-based power plants.

22. **Demand analysis.** IDCOL has 10 indicative subprojects with a total project cost of \$2,961.9 million in its pipeline for possible funding under tranche 1 of PPIDF 3. These would require investments of about \$532.3 million by IDCOL and have all received initial clearance from IDCOL's Board. IDCOL has an indicative pipeline of 11 subprojects in the renewable energy and energy efficiency sectors, mostly involving solar energy. They will require an investment of up to \$102.0 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 \$260.0 million first PPIDF 3 tranche.

23. **Coordination with development partners.** In preparing the investment program, ADB has coordinated with development partners to avoid duplication of resources and explore possible cofinancing, including continued support to strengthen IDCOL's institutional capacity in areas such as safeguards and financial management. While other development partners have ongoing lines of credit with IDCOL or are in discussions for possible lending,<sup>22</sup> ADB remains as the leading development partner supporting IDCOL's infrastructure finance business.<sup>23</sup>

## E. Implementation Arrangements

24. The Ministry of Finance, acting through its Economic Relations Division, will be the executing agency. The ministry's Finance Division will be the financial management agency, and IDCOL will be the implementing agency. IDCOL's board of directors will provide policy direction and strategic oversight. The project management unit established at IDCOL under PPIDF 1, will (i) monitor the implementation of the investment program and ADB-financed subloans; (ii) build IDCOL's capabilities for monitoring exposure limits, improving its processes, and assessing and analyzing risk; and (iii) ensure compliance with state and national policies and IDCOL's environmental and social safeguard framework (ESSF). The ESSF in turn will ensure compliance with ADB safeguard policies and national norms.

25. **Retroactive financing.** Retroactive financing will be allowed for eligible expenditures not exceeding 20.0% of each tranche loan amount, incurred before loan effectiveness but not earlier than 12 months before signing of the tranche's loan agreements. Any retroactive financing must comply with the same ADB requirements as for any other subprojects funded under PPIDF 3.

26. **Take-out financing.** IDCOL may use up to 20% of the ADB loans to refinance eligible infrastructure loans from banks and other financial institutions. Take-out financing can include

<sup>22</sup> Development Coordination (accessible from the list of linked documents in Appendix 2).

<sup>23</sup> The World Bank is the primary funder of IDCOL's SHS program, and the Japan International Cooperation Agency signed a loan agreement in 2016 with IDCOL and Bangladesh Infrastructure Finance Fund Limited for a \$100 million energy efficiency program.

subprojects that are financially closed, under construction, or fully commissioned following IDCOL's internal guidelines and Bangladesh Bank norms, and comply with the same ADB requirements as any other subprojects funded under PPIDF 3.

27. **Maximum subloan size and ADB prior approval.** IDCOL shall ensure that the maximum amount of each subloan to a subproject does not exceed 40% of the total project costs, except that with prior approval of ADB, the subloan may exceed the limit and be up to 60% of the project cost.<sup>24</sup> Under tranche 1, ADB will review the first three subprojects funded by the regular OCR loan and subloans above \$5.0 million equivalent funded by the concessional OCR loan to ascertain IDCOL's ability to manage the subproject review and disbursement process. ADB reserves the right to request any supporting subproject documents and not to reimburse or liquidate any subprojects that do not comply with the PPIDF 3 implementation requirements detailed in the facility administration manual (FAM).

28. **Subproject and subborrower selection criteria and approval procedures.** Detailed information about the definitions, eligibility criteria, appraisal, and monitoring and lending terms for subprojects can be found in the FAM.<sup>25</sup> IDCOL will follow the same, well-established subproject appraisal process it did under PPIDF 1 and PPIDF 2 for determining the technical, economic, and commercial viability of each subproject.<sup>26</sup> In addition, subborrowers will be required to meet ADB requirements and follow the subproject approval procedure details stipulated in the loan agreement, the framework financing agreement, and the FAM.

29. The implementation arrangements are summarized in Table 3 and described in detail in the FAM.

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>
Implementation period	1 July 2017–31 December 2023
Estimated completion date	31 December 2023
<b>Management</b>	
(i) Oversight body	None <sup>a</sup>
(ii) Executing agency	Ministry of Finance (Economic Relations Division)
(iii) Financial management agency	Ministry of Finance (Finance Division)
(iv) Key implementing agency	Infrastructure Development Company Limited (IDCOL)
(v) Implementation unit	IDCOL project management unit
Procurement	In accordance with established private sector or commercial practices, following the core principles of the ADB's Procurement Guidelines (2015, as amended from time to time), and in a manner acceptable to ADB.
Consulting services	In accordance with established private sector or commercial practices, following the core principles of ADB's Guidelines on the Use of Consultants (2013, as amended from time to time), and in a manner acceptable to ADB.
Retroactive financing and/or advance	Retroactive financing is permitted up to 20% of each tranche

<sup>24</sup> Subprojects in the renewable energy and energy efficiency subsectors have a high developmental impact and long-term funds are not easily available. Therefore, for renewable energy and energy efficiency subprojects to be funded out of the concessional OCR loan, IDCOL's maximum exposure will be set at 70% (renewable energy) and 80% (energy efficiency).

<sup>25</sup> Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

<sup>26</sup> IDCOL's lending policy allows it to finance only commercially viable projects, to provide financing on commercial terms, and to price loans accordingly. This means that all aspects of a subproject's economics and a subborrowers' creditworthiness will be subject to extensive due diligence prior to an IDCOL loan approval.



Aspects	Arrangements
contracting	loan amount.
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between IDCOL and ADB.

ADB = Asian Development Bank.

<sup>a</sup> An oversight body is considered unnecessary because IDCOL operates on an autonomous basis and is governed by its board of directors. The secretary of the Economic Relations Division of the Ministry of Finance serves as the IDCOL board chairperson.

Sources: Asian Development Bank and Infrastructure Development Company Limited.

### III. TECHNICAL ASSISTANCE

30. The associated capacity development TA will help IDCOL improve its institutional capacity and adopt a long-term operational strategy based on commercial principles to become an effective, commercially oriented organization. IDCOL can execute its current level of operations adequately but is not equipped to cope with additional financing activities and a large number of complex infrastructure subprojects. The TA will enhance IDCOL's capacity for risk management, subproject assessment, pricing, treasury operations, and environmental and social impact assessments.

31. 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 Special Fund.<sup>27</sup> IDCOL will provide counterpart support in the form of counterpart staff, office space, training and workshop venues for the TA activities, and other in-kind contributions. IDCOL will also cover any further funding requirements that might arise during the implementation of the TA.

### IV. DUE DILIGENCE

#### A. Economic and Financial

32. Capital adequacy, asset and management quality, earnings, liquidity, and sensitivity to market risk are important criteria for determining the suitability of a financial intermediary's performance.<sup>28</sup> Based on ADB due diligence<sup>29</sup> and an analysis of IDCOL's performance, IDCOL meets the above financial indicators and its deal pipeline, and the capital resources of the company are adequate to support the facility.<sup>30</sup> While subprojects in various infrastructure subsectors are eligible for financing under PPIDF 3, most subprojects identified for the facility are in the energy and transport sectors under key government priorities. An analysis of the economic viability of a sample selection of energy and road projects in Bangladesh financed by ADB during 2000–2015 (some of them in partnership with IDCOL) indicated satisfactory economic internal rates of return of 13%–43%.<sup>31</sup>

#### B. Governance

33. **Financial management.** IDCOL has the capacity and knowledge to properly appraise

<sup>27</sup> Established by ADB. Financing partner: the Government of Luxembourg.

<sup>28</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila (Section 6.4. Assessing FI Performance). <https://www.adb.org/documents/financial-management-and-analysis-projects>.

<sup>29</sup> ADB carried out integrity due diligence. No issues were found.

<sup>30</sup> Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>31</sup> Economic Analysis (accessible from the list of linked documents in Appendix 2).

infrastructure and renewable energy subprojects and the financial management abilities to handle its current level of its operations satisfactorily. Based on the findings of ADB's financial management assessment, the associated TA will help the company build the additional capacity in risk management, subproject review, pricing methodology, treasury operations, and environmental and social impact assessments needed to successfully undertake the additional financing activities under PPIDF 3.

34. **Procurement and disbursement.** There will be no procurement directly financed under the facility since procurement will be undertaken by the subproject sponsors in accordance with the procedures established by private sector or commercial practices acceptable to ADB and must align with the core principles of ADB's Procurement Guidelines (2015, as amended from time to time).

35. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and IDCOL. The specific policy requirements and supplementary measures are described in the FAM.

### C. Poverty and Social

36. Infrastructure development supports inclusive growth and helps reduce poverty. The investment program is expected to help develop high-quality infrastructure facilities that will stimulate productivity increases and in turn increase employment and income opportunities and help reduce poverty. The poor in Bangladesh are acutely affected by a lack of access to basic infrastructure and services, which restricts their ability to diversify and improve their livelihoods. Such economic impacts of the infrastructure deficit as unreliable intermittent power supply particularly affect the many people who depend on small enterprises in the informal sector to earn a living.

37. **Gender and social dimensions.** IDCOL, through its environmental and social management unit, will ensure that all subborrowers are informed of the commitment of the government and its agencies to promote gender equality and women's empowerment through its policies, laws, and regulations. IDCOL will disseminate to its subborrowers (i) the government's National Women Development Policy (2011), which has been reflected in the 7th FYP; and (ii) a circular issued by the Bangladesh Bank's Department of Financial Institutions and Markets on mainstreaming corporate social responsibility, which requires financial institutions to report on a semi-annual basis on gender equality-related performance indicators.

### D. Safeguards

38. PPIDF 3 is classified *category FI* for environment, involuntary resettlement, and indigenous peoples. No subproject that is classified *category A* in any of these three safeguard areas will be considered for financing under the investment program. All subloan agreements will incorporate specific covenants to ensure compliance with ADB's Safeguard Policy Statement (2009).

39. IDCOL has an ESSF developed in 2011 with ADB technical support under PPIDF.<sup>32</sup> A review in August 2016 to ensure that the ESSF remained consistent with ADB's Safeguard Policy Statement identified areas for strengthening. The associated TA will therefore help IDCOL

<sup>32</sup> IDCOL. 2011. *Environmental and Social Safeguards Framework (ESSF) Policy and Procedures*. <http://idcol.org/download/1d8514287c3e7cda76423b33a781f79c.pdf>.

enhance the ESSF by (i) incorporating changes in the central bank's June 2015 draft guidelines on environmental and social risk management for banks and financial institutions, (ii) streamlining the procedures for assessing and reviewing subprojects, and (iii) making the changes necessary to accommodate the introduction of take-out financing by IDCOL under PPIDF 3 (para. 16).<sup>33</sup> IDCOL has an environmental and social policy approved by its board and an environmental and social safeguards management unit with two senior safeguards staff members. Depending on the complexity of subprojects, IDCOL may hire an additional senior staff member to deal with social and gender issues. IDCOL will submit annual reports to ADB on the status of ESSF implementation.<sup>34</sup>

## E. Risks and Mitigating Measures

40. **Capacity for structuring large infrastructure projects.** Potential key risks are mostly related to Bangladesh's limited experience in structuring large infrastructure subprojects, which could lead to inadequate design and pricing of subprojects. This risk will be mitigated by the fact that PPIDF 3 builds on the experience gained with IDCOL under PPIDF 1 and PPIDF 2 and on synergies with the ongoing PPP program of the government, which provides capacity building for enhanced development and structuring of infrastructure subprojects. Overall, the integrated benefits and impacts of PPIDF 3 are expected to outweigh the costs.

41. **Pressure on Infrastructure Development Company Limited's balance sheet.** The quality of IDCOL's asset portfolio has shown deterioration during 2013–2016 due to a growing volume of rescheduled loans from its weakly performing SHS program. Out of 56 loans to participating organizations under the SHS program, IDCOL has rescheduled loans to two of its participating organizations amounting to Tk3,824 million and 9.0% of all loans to its participating organizations are classified loans in the substandard category.<sup>35</sup> The classification of participating organizations' loans has dampened IDCOL's overall profitability, which was Tk2,656 million (\$33.9 million) in 2015. Details on IDCOL's financial performance are in the financial analysis.<sup>36</sup>

42. **Mitigating measures.** IDCOL has taken steps to mitigate these balance sheet risks. It is pursuing defaulting debtors through legal proceedings, increasing its debt recovery efforts, preparing detailed plans for restructuring defaulting loans, and implementing a collection efficiency improvement program for its SHS program. The associated TA will help intensify these efforts by helping IDCOL strengthen its internal control and risk management process and put sound financial management practices into place. Risks and mitigating measures are described in detail in the risk assessment and risk management plan.<sup>37</sup>

## V. ASSURANCES AND CONDITIONS

43. The government and IDCOL have assured ADB that implementation of the facility shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the FAM and loan documents.

<sup>33</sup> Bangladesh Bank. 2015. *Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions*. [https://www.bb.org.bd/aboutus/draftguinotification/guideline/esrm\\_bankfi\\_draftv.pdf](https://www.bb.org.bd/aboutus/draftguinotification/guideline/esrm_bankfi_draftv.pdf).

<sup>34</sup> *Environmental and Social Safeguards Framework Arrangement* (accessible from the list of linked documents in Appendix 2).

<sup>35</sup> The central bank requires that loans that are overdue for 3 months or more but less than 6 months to be classified as *substandard*.

<sup>36</sup> Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>37</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

44. The government and IDCOL have given ADB certain undertakings for the MFF, which are set forth in the framework financing agreement. Specific covenants agreed by the government and IDCOL with respect to individual tranches under the MFF are set forth in the loan agreement for the respective tranches. As a condition to the loan effectiveness of the first tranche, the government has assured ADB that IDCOL will appoint (i) a senior manager with a background in risk management as the head of risk management and a voting member on IDCOL's credit risk management committee; (ii) a unit head to manage IDCOL's newly established recovery unit and to report to the credit management head; (iii) an internal auditor at the senior level to head IDCOL's internal audit unit, reporting directly to the IDCOL board; and (iv) a senior officer for IDCOL's large infrastructure unit.

## VI. RECOMMENDATION

45. I am satisfied that the proposed multitranche financing facility would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the multitranche financing facility to the People's Republic of Bangladesh for the Third Public-Private Infrastructure Development Facility in an aggregate principal amount not exceeding the equivalent of \$526,000,000, which comprises

- (i) the provision of loans from ADB's ordinary capital resources, in regular terms, with interest and other terms to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; and
- (ii) the provision of loans from ADB's ordinary capital resources, in concessional terms, with interest and other terms to be determined in accordance with ADB's applicable policies relating to concessional loans

and is subject to such other terms and conditions as are substantially in accordance with those set forth in the framework financing agreement presented to the Board.

Takehiko Nakao  
President

17 February 2017



Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>2. Take-out financing for infrastructure projects catalyzed</p> <p>3. IDCOL's institutional capacity strengthened</p>	<p>\$26 million concessional OCR resource envelope (2016 baseline: none)</p> <p>2a. At least one eligible subproject refinanced through take-out financing by IDCOL (2016 baseline: No take-out financing under PPIDF 1 and PPIDF 2)</p> <p><b>All indicators to be approved by IDCOL's Board and implementation certified by independent consultant</b></p> <p>3a. Integrated risk management framework developed and implemented (2016 baseline: none)</p> <p>3b. Treasury management framework developed and implemented (2016 baseline: none)</p> <p>3c. Integrated resource management system developed and implemented (2016 baseline: none)</p> <p>3d. Safeguards capacity building plan for improving social and environmental risk mitigation and gender equality results developed and implemented (2016 baseline: none)</p> <p>3e. IDCOL's midterm business and strategy plan developed and implemented (2016 baseline: none)</p>	<p>2a. Audited annual statement of utilization of PPIDF 3's funds</p> <p>3a–3d. Certification in independent consultant reports</p> <p>3e. IDCOL management and audited annual report</p>	<p>Lack of good performing infrastructure loans (assets) eligible for takeout financing</p> <p>Key staff in IDCOL leaves</p> <p>Lack of commitment from IDCOL's Board and management to execute and sustain the activities under the institutional building plan</p>
<p><b>Key Activities with Milestones</b></p> <p><b>1. Available long-term debt financing for infrastructure projects increased (by 2023)</b></p> <p>1.1. IDCOL identifies and finalizes indicative list of subprojects to be financed by ADB under the first periodic financing request under PPIDF 3.</p> <p>1.2. IDCOL starts fact-finding and visits the site of at least one sample subproject proposed for funding under PPIDF 3.</p> <p>1.3. IDCOL staff performs due diligence and safeguards review of potential subprojects eligible for ADB funding.</p>			

<p>1.4. IDCOL approves and funds subprojects and uses full PPIDF 3 funding.</p> <p><b>2. Take-out financing for infrastructure projects catalyzed (by 2023)</b></p> <p>2.1. IDCOL identifies list of potential take-out subprojects.</p> <p>2.2. IDCOL conducts due diligence and visits the site of at least one sample subproject proposed for take-out financing.</p> <p>2.3. IDCOL refinances at least one eligible and approved subproject.</p> <p><b>3. IDCOL's institutional capacity strengthened (by 2023)</b></p> <p>3.1. IDCOL develops and implements an in-house integrated risk management framework.</p> <p>3.1.1. IDCOL conducts a gap analysis and stocktaking of IDCOL's existing credit risk management systems, structures, and practices (April 2017–August 2017).</p> <p>3.1.2. IDCOL develops project risk appraisal manuals and loan pricing tools (by December 2017).</p> <p>3.1.3. IDCOL updates policies and guidelines for credit risk management and operational risk management (April 2018).</p> <p>3.2. IDCOL develops and implements an in-house treasury management framework.</p> <p>3.2.1. IDCOL reviews and assesses IDCOL's existing finance and treasury operations (by December 2018).</p> <p>3.2.2. IDCOL develops implementation plans to improve current structures, processes, and controls (by December 2019).</p> <p>3.2.3. IDCOL pilots new treasury management framework (April 2020).</p> <p>3.3. IDCOL develops and implements resource management functionality.</p> <p>3.3.1. IDCOL identifies and procures appropriate integrated software and hardware solutions for assessment, management, and monitoring of credit risk, operational risk, asset–liability matching risk, risk-based pricing, and loan management (by April 2019).</p> <p>3.3.2. IDCOL pilots integration of management information system (April 2020).</p> <p>3.4. IDCOL strengthens in-house capacity for social and environmental risk assessment of subprojects, implementation of revised ESSF, and monitoring of gender equality results.</p> <p>3.4.1. IDCOL reviews its current ESSF to identify areas for improvement, streamline procedures for compliance, and accommodate new financing modalities (June 2018).</p> <p>3.4.2. IDCOL develops manuals and training programs to improve its social and environmental risk assessment of subprojects, gender mainstreaming, and gender equity results; and strengthen PPMS system (December 2018).</p> <p>3.5. IDCOL assesses existing safeguards capacity and recommends internal resource requirements (December 2018).</p>	
<b>Inputs</b>	
ADB:	\$500 million (regular OCR loan)
	\$26 million (concessional OCR loan)
Subproject equity:	\$263 million (estimate)
Private sector banks and/or financiers	\$526 million (loan estimate)
Financial Sector Development Partnership Special Fund	\$0.75 million (grant)
<b>Assumptions for Partner Financing</b>	
Not applicable	

ADB = Asian Development Bank, ESSF = environmental and social safeguards framework, GDP = gross domestic product, IDCOL = Infrastructure Development Company Limited, OCR = ordinary capital resources, PPIDF 1 = Public–Private Infrastructure Development Facility, PPIDF 2 = Second Public–Private Infrastructure Development Facility, PPIDF 3 = Third Public–Private Infrastructure Development Facility, PPMS = project performance monitoring system, SHS = solar home system.

<sup>a</sup> Government of Bangladesh, Planning Commission. 2015. *Seventh Five Year Plan, FY2016–FY2020: Accelerating Growth, Empowering Citizens*. Dhaka.

<sup>b</sup> PPIDF 2 is under implementation.

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=42180-016-3>

1. Loan Agreement (Regular Ordinary Capital Resources)
2. Loan Agreement (Concessional Ordinary Capital Resources)
3. Project Agreement
4. Framework Financing Agreement
5. Periodic Financing Request for Project 1
6. Sector Assessment (Summary): Finance (Infrastructure Finance and Investment Funds)
7. Facility Administration Manual
8. Contribution to the ADB Results Framework
9. Development Coordination
10. Attached Technical Assistance
11. Financial Analysis
12. Economic Analysis
13. Country Economic Indicators
14. Summary Poverty Reduction and Social Strategy
15. Financial Intermediary: Environmental and Social Safeguards Framework Arrangement
16. Risk Assessment and Risk Management Plan

### **Supplementary Documents**

17. Indicative Subprojects under Tranche 1
18. Applicability of the Multitranche Financing Facility
19. Financial Management Assessment Report
20. Project Climate Risk Screening Report
21. ADB Contributions and Achievements under the First and Second Public–Private Infrastructure Development Facility
22. Specific Considerations on the Design and Rationale of the Third Public–Private Infrastructure Development Facility