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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF EURO 94.4 MILLION AND SDR 189.7 MILLION
(US$ 356.7 MILLION EQUIVALENT)

TO THE

PEOPLE'S REPUBLIC OF BANGLADESH

FOR A

BANGLADESH INVESTMENT PROMOTION AND FINANCING FACILITY PROJECT II (IPFF II)

MARCH 13, 2017

Finance and Markets Global Practice
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate as on February 28, 2017)

Currency Unit = Bangladeshi Taka (BDT), US Dollars (USD), and Euro

1 SDR = 1.3538 USD

1 Euro = 1.0603 USD

1 USD = 79.700 BDT

FISCAL YEAR

July 1 - June 30

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
BB	Bangladesh Bank
BIDA	Bangladesh Investment Development Authority
BIFFL	Bangladesh Infrastructure Finance Fund Limited
BOT	Build-Operate-Transfer
CCEA	Cabinet Committee on Economic Affairs
CPF	Country Partnership Framework
CPTU	Central Procurement Technical Unit
DA	Designated Account
DFI	Development Finance Institution
DFID	Department for International Development
DoE	Department of Environment
DOSA	Dollar Special Account
DPs	Development Partners
E&S	Environmental and Social
ERM	Environmental Risk Management
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management System
ESRM	Environmental and Social Risk Management
FAA	Financing Access Agreement
FD	Finance Division
FI	Financial Intermediary
FM	Financial Management
FRTMD	Foreign Exchange Reserve and Treasury Management Division
GDP	Gross Domestic Product
GNI	Gross National Income
GOB	Government of Bangladesh
ICT	Information and Communication Technology
IDA	International Development Association
IDCOL	Infrastructure Development Company Limited

IIFCL	India Infrastructure Finance Company Limited
IFC	International Finance Corporation
IPFF	Investment Promotion and Financing Facility Project
IUFR	Interim Unaudited Financial Report
LIC	Low Income Country
LMIC	Lower Middle-Income Country
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
MOF	Ministry of Finance
MOU	Memorandum of Understanding
MW	Megawatt
NBFI	Non-Banking Financial Institution
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OM	Operations Manual
PDO	Project Development Objective
PFI	Participating Financial Institution
PFP	Procurement Focal Point
PIU	Project Implementation Unit
PPI	Private Participation in Infrastructure
PPP	Public-Private Partnership
PPPA	Public-Private Partnership Authority
PPSD	Project Procurement Strategy for Development
PS	Performance Standards
SBN	Sustainable Banking Network
SFD	Sustainable Finance Division
SOB	State-Owned Bank
STEP	Systematic Tracking of Procurement Exchanges
SUF	Scale-Up Facility
TA	Technical Assistance
UMIC	Upper Middle Income Country

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BASIC INFORMATION

Is this a regionally tagged project?	Country(ies)	Lending Instrument
No		Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[✓] Financial Intermediaries

[ ] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
30-Mar-2017	30-Jun-2022	F - Financial Intermediary Assessment

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The PDO is to increase long-term financing for infrastructure and to build capacity of the local financial institutions for promoting private sector-led infrastructure financing in Bangladesh.

Components

Component Name	Cost (US$, millions)
Long-Term Infrastructure Financing Component	403.70
Technical Assistance Component	13.00

Organizations

Borrower : Ministry of Finance

Implementing Agency : Bangladesh Bank

[✓] Counterpart Funding	[ ] IBRD	[✓] IDA Credit [ ] Crisis Response Window [ ] Regional Projects Window	[ ] IDA Grant [ ] Crisis Response Window [ ] Regional Projects Window	[ ] Trust Funds	[ ] Parallel Financing

Total Project Cost:	Total Financing:	Financing Gap:
416.70	416.70	0.00
	Of Which Bank Financing (IBRD/IDA):	
	356.70	

Financing (in US$, millions)

Financing Source	Amount
Borrower	60.00
IDA-60050	356.70
Total	**416.70**

Expected Disbursements (in US$, millions)

Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	8.32	92.66	93.64	75.73	52.25	34.10
Cumulative	8.32	100.98	194.62	270.35	322.60	356.70

INSTITUTIONAL DATA

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Energy & Extractives
Environment & Natural Resources
Transport & ICT

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

No

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	Low
10. Overall	Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Financing Source	Sections and Description
	1. Name: Project Steering Committee (PSC) and Project Implementation Unit (PIU). Description of Covenant: Recipient to maintain a Project Steering Committee (PSC) for the strategic oversight of the Project, and a PIU (IPFF Cell) within the Bangladesh Bank for the overseeing of the Project including the coordination with other participating agencies.

Financing Source	Sections and Description

	2. Name: Retroactive Financing Description of Covenant: Up to an aggregate amount not to exceed the equivalent of: (i) Euro 15,000,000 may be made from the financing of Portion A of the Credit, and SDR 29,320,000 may be made from the financing of Portion B of the Credit, in each case for Eligible Expenditures under Category 1; and (ii) SDR 220,000 from the financing of Portion B of the Credit for Eligible Expenditures under Category 2; may be made for payments made prior to this signature of the Financing Agreement but on or after January 1, 2017.
Financing Source	Sections and Description 3. Name: Technical Service Agreement Description of Covenant: Bangladesh Bank to enter into a technical service agreement (Technical Service Agreement) with expert qualified advisors, with experience, and under terms and conditions acceptable to the Association to assist on specific aspect of Project implementation.
Financing Source	Sections and Description 4. Name: Environmental and Social (E&S) Risk Management Description of Covenants: (i) PFIs and Subprojects selected will be only those meeting the criteria detailed in the Operations Manual, (ii) implementation of the Project shall be done in accordance with the Applicable Environmental and Social Requirements (comprised of the Recipient's relevant environmental and social national and local laws and regulations; List of Excluded Activities (Appendix 1); List of Environmentally and Socially Sensitive Activities (Appendix 2), and The World Bank Performance Standards); ESMS, ESIAs, ESMPs, ESAPs, as applicable; (iii) Bangladesh Bank to establish a Grievance Redress Mechanism no later than 30 days after effectiveness; (iv) Exclusion List of Activities (Appendix 1) and Environmentally and Socially Sensitive Activities (Appendix 2) are included.

Financing Source	Sections and Description
	5. Name: Infrastructure Financing Agreement Description of Covenant: Infrastructure Financing Agreement between PFIs and Investment Sponsors to specify terms and conditions corresponding to each type of debt instrument or guarantees, or equity and/or any other financing instrument appropriately developed, assessed and approved; all in accordance with criteria, requirements, and procedures set out in this Agreement and in the Operations Manual.

Conditions

Financing Source	Type	Description
	Effectiveness	1. Name: Administration Agreement Description of Covenant: Administration Agreement satisfactory to the Association to be executed between Recipient and Bangladesh Bank and confirmed to be valid and legally binding upon the parties, as a condition of effectiveness of the Project.

Financing Source	Type	Description
	Disbursement	2. Name: Operations Manual Description of Condition: No withdrawal shall be made until Bangladesh Bank prepares and adopts an Operations Manual satisfactory to the Association. The Recipient shall carry out the implementation of the Project in accordance with the Operations Manual, as approved by the Association.

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
A.K.M. Abdullah	Team Leader(ADM Responsible)	Financial Sector and infrastructure financing	GFM06
Marius Vismantas	Team Leader	Financial sector	GFM06
Ishtiak Siddique	Procurement Specialist(ADM Responsible)	Procurement	GGO06
Suraiya Zannath	Financial Management Specialist	Financial management	GGO24
Arnaud D. Dornel	Team Member	Infrastructure finance	GFM3A
Aza A. Rashid	Team Member	Team support	GFM06
Bridget Rosalind Rosario	Team Member	Team support	SACBD
Dr. M. Khaliquzzaman	Safeguards Specialist	E&S	GSU06
Ekaterina Grigoryeva	Safeguards Specialist	E&S	GEN03
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Mahmuda Nusrat Hussain	Team Member		SACBD
Mohammed Atikuzzaman	Team Member	Financial Management	GGO24
Nahid Sharmin	Team Member		GFM06
Rocio Mariela Malpica Valera	Counsel	Primary Legal	LEGES
Sabah Moyeen	Safeguards Specialist	E&S	GSU06
Satish Kumar Shivakumar	Team Member	Finance and Disbursement	WFALA
Sharlin Hossain	Team Member	Operations	GTC06

Extended Team

Name	Title	Organization	Location

BANGLADESH
BANGLADESH INVESTMENT PROMOTION AND FINANCING FACILITY PROJECT II (IPFF II)

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I. STRATEGIC CONTEXT

A. Country Context

1. The economy of Bangladesh has shown remarkable resilience in the wake of the global financial crisis and a slump in global growth, attaining an average gross domestic product (GDP) growth rate of over 6.2 percent since 2010, well above the average for developing countries.[1] The gross national income per capita continued to increase, and the number of people living below the poverty line has reduced significantly over the last two decades. Gross national income (GNI) per capita increased in FY15 to US$1,220, a nearly 13 percent year-on-year growth.[2] This growth has been accompanied by an overarching need for job creation, abundance of young labor force, and rapid urbanization that have led the country through a structural shift from traditional agriculture to industry and service sectors. The contribution of the industrial sector to GDP has increased from 23 percent to 28 percent since 2010. Growth in economic activities has led to a steady decline in extreme poverty; the proportion of the population living on US$1.90 or less a day (at 2011 purchasing power parity) dropped from 44.2 percent in 1991/92 to 18.5 percent in 2010 and 12.9 percent in 2016. As a recognition of Bangladesh's achievement on the economic front, from July 2014 the country officially migrated from a low-income country (LIC) to a lower-middle-income country (LMIC) status, based on the current LMIC definition of GNI per capita between US$1,026 and US$4,035. GDP growth is expected to further rise to 6.8 percent in FY17.

2. The growth rate, however, falls short of what is required for Bangladesh to attain its target of becoming an upper middle income country (UMIC) by 2021—a goal that the country has been pursuing and noting in strategic planning documents. Studies show that the annual GDP growth rate of Bangladesh has to be at least 8 percent to achieve the UMIC status over the next five to seven years. To move to the 7–8 percent GDP growth track, both public and private investment rates must be higher than their current levels. It is estimated that the overall investment rate needs to go up from the present 26 percent of GDP to 32 percent of GDP for a 7 percent growth by 2021 and to 34 percent of GDP for an 8 percent growth. Moreover, GDP growth is expected to ease to 6.2 percent in FY18, driven by somewhat slower growth in investment.[3]

B. Sectoral and Institutional Context

3. One of the key constraints to achieving the growth target is the infrastructure gap—both in the quality and quantity of infrastructure. Foreign investors, as well as local firms, face severe shortage of land, electricity supply, logistics facilities, and other infrastructure.[4] In the power sector alone, the Government of Bangladesh (GOB) plans to reach 20,000 megawatts (MW) of power generation by 2020[5] (from the current level of 12,500 MW) suggest the need for very large investments in the generation capacity. A high level of rural-urban migration is another trend that substantially adds to the demand side pressures and calls for urban infrastructure to grow at a much faster rate. Over a 30-year period, from

[1] World Development Indicators 2015.
[2] Constant 2011 U.S. dollars according to the World Bank Atlas Method.
[3] Bangladesh 7th Five Year Plan, Chapter 3.2, Page 55 and Bangladesh Development Update October 2016, Page 35.
[4] World Bank Bangladesh Enterprise Survey 2013.
[5] Power Sector Road Map of the GOB 2011.

1981 to 2011, urban population in Bangladesh more than tripled, from 13.54 million to 42.70 million (Table 1)[6]. Over the same period the population in Dhaka, the largest city, grew from 3.44 million to 18.90 million, marking a six-fold increase. Given the trend, 10 years from now, over 60 million people, compared to the current 45 million or so, will be living in urban areas. Considering all of these factors, the 7th Five Year Plan of the GOB estimates that about US$410 billion of investment—twice the size of the current GDP—is needed to bring the country's infrastructure to a desired level.

Table 1. Trends of Urbanization in Bangladesh (1981–2011)

Trends of Urbanization in Bangladesh (1981–2011) Year	Urban Population (million)	Rural Population (million)	Percent age Urban	Urban Annual Growth Rate (%)	Rural Annual Growth Rate (%)	Urban Rural Growth Differential
1981	13.54	73.58	15.54	10.99	1.73	9.26
1991	22.46	89.00	20.15	5.06	1.90	3.16
2001	28.61	95.25	23.10	2.42	0.68	1.74
2011	42.70	107.80	28.37	4.01	1.24	2.77

4. In addition to quantity, quality of infrastructure is a concern for Bangladesh. In 2014–15 the ranking of Bangladesh in infrastructure quality was 130 out of 144 countries[7]. The gap in infrastructure quality is substantial, compared to that in countries such as India, Sri Lanka, and Thailand. Table 2 presents a comparative status of infrastructure quality rankings of selected countries with comparable economic conditions. It is evident that with the existing state of infrastructure quality even the current level of growth may not be sustained**.** Transition to the next level of growth trajectory will be challenging unless meaningful progress in infrastructure quality development takes place in the near future. For example, roads which are generally in poor condition as compared to the quality of roads in peer countries, will require substantial investments in the coming decades. As such, the additional imperative of quality improvement in infrastructure development process makes the investment requirement even bigger.

Table 2. Infrastructure Quality of Selected Countries, 2014–15

Country	Overall Infrastructure Score	Country Ranking
Bangladesh	2.8	130
China	4.7	46
India	3.6	87
Cambodia	3.1	107
Sri Lanka	4.0	75
Thailand	4.6	48

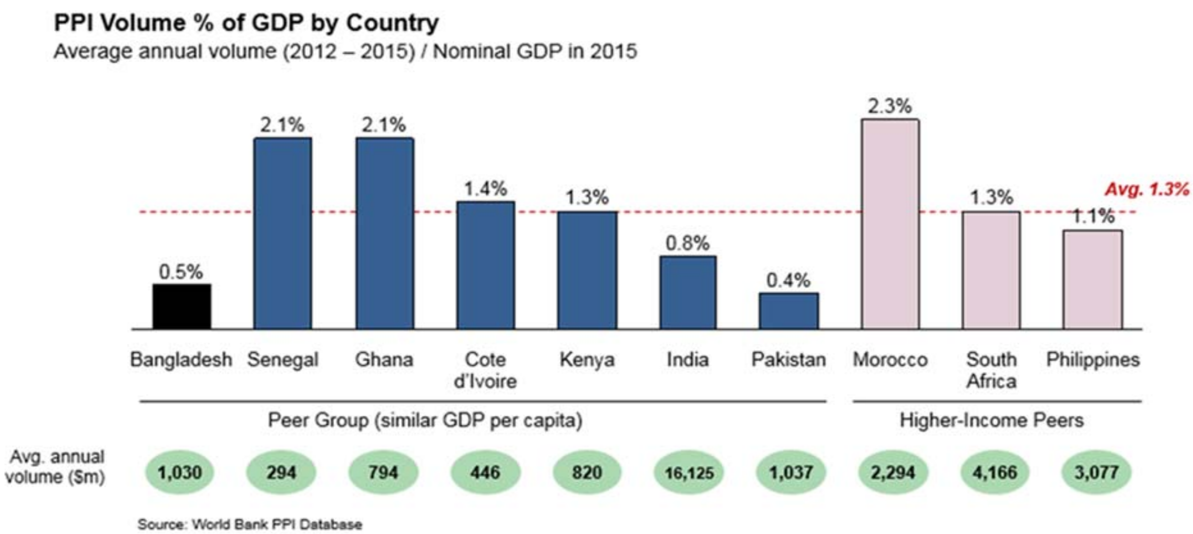
Source: World Economic Forum, the Global Competitiveness Report 2014–15; Ranking out of 144 countries.

5. The 6th Five Year Plan of the GOB had estimated that the investment requirements for infrastructure would go up from 3 percent of GDP in FY10 to 7 percent of GDP in FY15. However, the actual increase in FY15 fell short by 2 percent as the actual investment stood at 5 percent of GDP. The gap

[6] Various Bangladesh Census and Estimates by Bangladesh Bureau of Statistics.
[7] World Economic Forum, The Global Competitiveness Report 2014 - 15.

in the required infrastructure spending is largely explained by the inability to get the private sector-led infrastructure investment going at the right pace. This is a key concern that the Government plans to address with vigor during the 7th Five Year Plan period. The annual investment requirements for infrastructure in the 7th Five Year Plan are in the range of 7–8 percent of GDP. Experience from the execution of the 6th Five Year Plan suggests that, going forward, annual infrastructure investments worth at least 2 percent of GDP and the corresponding long-term financing will need to come from private sector-led initiatives and from the public-private partnership (PPP) model to make this possible. To date, infrastructure in Bangladesh has been predominantly financed from the national budget revenues in tandem with international concessional financing that multilateral and bilateral development agencies extend to the Government.[8] Together, these two public sources are estimated to account for 80 percent of total infrastructure financing, equivalent to roughly 2.2 percent of GDP. According to some estimates, the volume of infrastructure financing from commercial sources needs to increase fourfold in the coming years to bridge the investment and financing gap. About 50 PPP projects, which are in the pipeline prepared by the Public-Private Partnership Authority (PPPA)[9] of the GOB, once ready to be brought to the market for financing, will go a long way in increasing the percentage of private sector-led infrastructure financing. Figure 1 illustrates private participation in infrastructure (PPI) investment levels relative to GDP versus peers and more advanced countries.

Figure 1. Private Participation in Infrastructure



6. International comparisons with peer countries at similar levels of income suggest the volume of infrastructure project finance (where financing is made based on expected cash flow from the infrastructure project itself as opposed to the strength of the sponsor company's overall balance sheet) in Bangladesh has the potential to grow several fold beyond the current level of 0.1–0.2 percent of GDP.

[8] The main multilateral agencies supporting infrastructure in Bangladesh include the World Bank, Asian Development Bank, and Islamic Development Bank. The Asian Infrastructure Investment Bank has approved a power sector loan in June 2016. Key bi-laterals include Japan International Cooperation Agency and U.K. Department for International Development (DFID; also known as U.K. aid).
[9] Erstwhile PPP office, as created under PPP Guideline 2010.

Recent transactions mostly relate to combined-cycle power plants (for example, Meghnaghat 335 MW, Bibiyana 341 MW), each amounting to around US$300 million. Due to the complexity and size of project finance facilities and their reliance on foreign exchange, such transactions are typically led by international development agencies, including International Finance Corporation (IFC) among others. Domestic financial institutions occasionally participate in these transactions when they have access to long-term foreign exchange resources (for example, IDCOL, BIFFL,[10] commercial banks financed by IPFF).

7. Development of infrastructure financing, which is by nature long term, is constrained by the country's underdeveloped financial sector, as well as the limited number of 'bankable' infrastructure projects prepared/developed. The financial sector is dominated by commercial banks that engage predominantly in trade finance and some project finance usually limited to five to six years of maturity. Despite progressive improvement of the sector and a demonstrated resilience in the face of the global financial turmoil, the financial system remains weak in its capacity to allocate resources to the most productive uses, as well as to perform its term transformation function—supplying a fast-growing economy with long-term credit. Ability for longer-term lending is further plagued by impaired assets on the balance sheets of state-owned banks (SOBs) and a rising share of non-performing loans (NPLs) in the banking system. A lack of adequate levels of credit underwriting capacity coupled with deficient regulatory and institutional capability continues to exacerbate the NPL problem. As a result, sectors in need of long-term credit underinvest, constraining growth. Although Bangladesh has an existing regulatory framework allowing asset-backed securities (including project, infrastructure bonds), such transactions in the infrastructure finance segment have not yet materialized.

8. Domestic commercial banks lend to infrastructure primarily by way of long-term corporate finance facilities, in which repayments from project cash flows are secured by sponsor guarantees and balance sheet of the corporate group as a whole. In the case of power plants (whose tariffs are indexed in U.S. dollars), loans are denominated in foreign currency, whereas loans to most other infrastructure projects (whose revenues are denominated in Bangladeshi takas) are in local currency. Long-term infrastructure lending from domestic banks continues to face significant limitations in Bangladesh. In particular, local commercial banks face three major market gaps: (a) domestic banks do not have easy access to foreign exchange resources and thus cannot lend in foreign currency, especially long term, unless refinanced by schemes such as IPFF; (b) they are short on long-term taka resources and thus cannot lend in takas beyond six to seven years of maturity, which is shorter than the economic life of most infrastructure projects; (c) they rely on variable-rate resources (deposits) and thus cannot provide fixed rate loans although this will be the best practice for infrastructure projects. The relatively short maturity lending and the resultant refinancing risk on the part of the financiers are transferred to the private sponsors in the form of additional risk premium, leading to higher financing cost. A theoretical underpinning of project finance in contrast to the regular commercial financing of infrastructure is presented in Annex 1.

9. In addition to borrowing from domestic commercial banks, larger and more established private companies, including infrastructure project sponsors, can seek funding from foreign banks through cross border loans. Each cross border loan and its terms must be approved by the Scrutiny Committee of Bangladesh Investment Development Authority (BIDA), headed by the Governor of BB. This filter serves

[10] IDCOL = Infrastructure Development Company Limited; BIFFL = Bangladesh Infrastructure Finance Fund Limited.

as a prudential foreign debt management tool, reducing the risk of large uncontrolled indebtedness in foreign currencies by the private sector. However, the market can aspire that over time and with positive demonstration effect of IPFF II through foreign currency denominated loans, private infrastructure project sponsors will be able to take foreign currency loans at rates and terms more freely determined by the market, based on their interactions with the PFIs.

10. Bangladesh’s institutional investor base (mainly insurance companies and mutual funds) is relatively small, and the country’s security markets remain among the most underdeveloped in the region. There are no pension funds yet. The 34 mutual funds invest in equity securities only. The insurance sector is very small (around 1 percent premium to GDP ratio), and the state-owned life insurance company and other insurers invest their reserves predominantly in bank deposits and government securities. Market capitalization of all securities is US$39 billion, which is roughly 20 percent of GDP. The corporate bond market is inactive (only two corporate bonds are currently listed in Bangladesh), and the government debt securities, though having around 200 issues listed, lack liquidity. About 80 percent of all listed securities in the capital market are equity securities. International flow of capital has been limited because of a low country rating and country competitiveness in attracting foreign capital, as well as macro-prudential policies of the Bangladesh Bank (BB) limiting external borrowings by banks and companies. There have been no global sovereign debt issues.

11. The infrastructure finance agenda touches on a wide range of policy and institutional issues. On the demand side, the country needs to continue expanding the number of credit-worthy infrastructure issuers, ranging from self-standing state-owned utilities (able to borrow without the need for a state guarantee) to a robust pipeline of bankable PPP projects. On the funding side, the country needs to develop long-term sources, such as insurance companies and pension funds, and deepen its primary and secondary bond markets. Mechanisms through which state authorities control markets, such as administrative capping of interest rates on cross-border loans, may need to be reassessed to allow domestic infrastructure projects to access important financial instruments such as fixed rate loans and subordinated debt.

12. The country has established two nonbank development finance institutions (DFIs) dedicated to infrastructure finance, namely, IDCOL and BIFFL. IDCOL has been in operation for over a decade and pioneered some of the current infrastructure financing approaches; it only provides loans, and two-thirds of its current lending portfolio is dedicated to a countrywide retail solar power generation program. BIFFL was established a few years ago but only started its operational activities in earnest about a year ago; its mandate allows BIFFL to offer a variety of financing instruments to the market. International experience shows that national DFIs can help kick-start market development but could also face typical pitfalls such as insufficient credit discipline, an unsustainable business model, and political capture.

13. While creation of IDCOL and BIFFL has been a step in the right direction, sustained operations and growth of these organizations calls for integrating best practice international standards in their operational processes. The vision of promoting long-term financing for infrastructure, catalyzing co-financing from domestic and international sources, and developing innovative capital market oriented investment vehicles will require these government owned NBFIs to have in place: (i) a business model complementing and not duplicating the efforts of other public and private sector organizations; (ii) a well-defined governance structure balancing the autonomy and accountability of their management; (iii) a

well-designed monitoring and evaluation (M&E) framework assessing the efficiency and multiplier effect of the public resources; and (iv) robust systems for managing environmental and social (E&S) safeguard risks associated with the investment projects. IPFF II – which is a response to the Government's request for continued support for infrastructure financing in the country – will aim to enhance long term financing and provide technical assistance (TA) including to help the two organizations integrating these best practice global standards by way of the project design. The investment as well as the TA resources (to BIFFL) of IPFF II will add sustainable capacity to both of these DFIs in the areas mentioned above.

C. Higher Level Objectives to which the Project Contributes

14. Bangladesh's Country Partnership Framework (CPF) for FY16–20, which is aligned to the priorities set in the GOB's 7th Five Year Plan, builds on three focus areas—growth, social inclusion, and climate and environmental management. The CPF notes that the fundamental challenge facing Bangladesh today as an aspiring MIC is to create more and better jobs for 21 million young people expected to enter the job market over the next decade. The CPF therefore focuses the World Bank Group's strategic direction on removing core impediments to job creation and growth. A major impediment to higher growth rates, private sector development, and job creation is the low level of investment in infrastructure. Under the Growth and Competitiveness pillar of the CPF, World Bank Group activities will aim at removing barriers to growth by increasing electricity supply, improving transport connectivity, expanding financial intermediation, and creating an environment conducive to doing business. Bangladesh devotes a smaller percentage of GDP to investments than other countries in South Asia. Public investment in hard infrastructure stands at 2.2 percent of GDP a year, resulting in inadequate infrastructure quality. China, Thailand, and Vietnam invest more than 7 percent of GDP. Unless Bangladesh's infrastructure bottlenecks are addressed, they risk becoming increasingly important constraints for growth. World Bank Group estimates indicate that reaching sustained growth rates of 7.5-8 percent would require an increase in infrastructure investments to around 10 percent of GDP per year.[11]

15. The CPF focus of expanding financial intermediation is an acknowledgement that investment in infrastructure, especially the private sector-led infrastructure, is severely constrained by a shallow market for intermediation of long-term financing. Operating inefficiencies, weak institutional and governance arrangements, and low maturity transformation limit the ability of financial institutions in Bangladesh to deliver long-term financing, vital for promoting investments in sectors such as energy, transport, and logistics. The lack of a vibrant long-term financing market has inhibited long-term investments by households and the ability of firms to upgrade capital and technology, expand, and grow businesses and jobs at a faster pace. Private investment in Bangladesh, at 19 percent of GDP, is relatively low compared to that in India (at 23 percent of GDP) or East Asia. Developing a long-term sustainable financing market will also require well-functioning insurance, pension, and bond markets.

[11] CPF for Bangladesh FY16–20, page 9.

16. IPFF II will help continue the momentum generated through IPFF I[12] in promoting private sector investments in infrastructure, by crowding in more private sector resources in the form of equity and long-term debts. In addition to leveraging IDA and GOB resources through direct financing, IPFF II will support crowding in more market resources through innovative financing instruments. As such, IPFF II is expected to have a broader impact by creating a wider market for long-term financing for private sector-led infrastructure, which will lead to further private sector development and job creation across a range of industrial sectors, including textile and apparel, the two key competitive sectors in Bangladesh. More importantly, the project will continue further strengthening the market capacity for infrastructure financing by dedicated TA resources for key government institutions, the participating financial institutions (PFIs), and the private sponsors.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

17. The PDO is to increase long-term financing for infrastructure and to build capacity of the local financial institutions for promoting private sector-led infrastructure financing in Bangladesh.

B. Project Beneficiaries

18. Like in IPFF I, a broad range of stakeholders at multiple levels will be the beneficiaries of IPFF II. The private sponsors, being the direct users of IPFF II funds, will be the first-order beneficiaries. The private sponsors will benefit from smaller annual debt service cost resulting from longer tenure and investment- supportive market based pricing offered by IPFF II. By extension, the people at large, as end users of infrastructure services, will benefit from the more reliable and efficient costing of the infrastructure services delivered.

19. The PFIs will also be the beneficiaries of longer tenure and market based efficient interest rate structure of IPFF II. In an environment of scarce long-term institutional funds (especially in foreign currency), IPFF II immunizes the PFIs against the refinancing risk of their long-term infrastructure lending exposures. IPFF II will extend funds to the PFIs for up to 20 years of repayment, which the PFIs can then onlend to multiple infrastructure ventures. The PFIs benefit also from good practice E&S standards that IPFF II will support, through due diligence review of compliance to the subprojects' Environmental and Social Management System (ESMS), prepared according to World Bank E&S guidelines.

C. PDO-Level Results Indicators

20. The PDO is proposed to be measured by the following PDO-level results indicators:

(a) Private capital mobilized

[12] IPFF I was started in May 2006 and closed in December 2016, with the same mandate of promoting long-term financing for private sector-led infrastructure development in Bangladesh.

(b) Total investments in infrastructure under IPFF II (measured by the total amount of equity and debt financing from IPFF II, the GOB, and the financial institutions in the market)

(c) Long term debt financing for infrastructure under IPFF II

(d) Equity investments from the private sector entrepreneurs under IPFF II.

III. PROJECT DESCRIPTION

A. Project Components

21. It is proposed that IPFF II will have two broad components:

Component 1: Long-Term Infrastructure Financing Component (US$ 403.7 million). This component will provide long-term funds to PFIs for further onlending and investment in support of long-term infrastructure investments by private sector investors/companies.

Component 2: Technical Assistance Component (US$13.0 million). This component will support infrastructure investment capacity building.

Component 1: Long-Term Infrastructure Financing Component (US$ 403.7 million, of which US$ 346.7 million is from IDA)

22. The main purpose of this component will be to continue the back-to-back onlending facility along the lines of IPFF I, though design features will enhance impact and leverage. BB PIU will onlend the borrowed funds to the PFIs to refinance/co-finance long-term loans extended by the PFIs to the infrastructure investors. Some of the guiding principles of this component are as follows:

(a) PFIs meeting the preset eligibility criteria will be able to avail of the loan financing/refinancing.

(b) Subject to meeting the eligibility criteria, private sector commercial banks (including foreign banks duly licensed in Bangladesh) and non-banking financial institutions (NBFIs) will be able to become PFIs under IPFF II, like in IPFF I. Furthermore, the two state-owned DFIs, BIFFL and IDCOL, which are licensed NBFIs, will also be eligible to participate as PFIs.

(c) The onlending will be done as partial debt financing to the infrastructure investment proposal. Private sponsors will typically bring 25 percent or more of the total sub-project cost as equity. To increase the leverage ratio of the IDA funds and to increase private capital mobilization from the market, IPFF II shall aim to finance a maximum of

50 percent of the total cost of the financing proposal.[13] Also, maximum financing to a sub-project shall not exceed 20 percent of the total allocation under Component 1. As a matter of principle, IPFF II will seek to be the fill-gap facility, minimizing its share per sub-project and thus encouraging maximization of more infrastructure finance market sources of funding for the remaining part. An analysis of the potential market for sub-projects is presented in Annex 2.

23. In addition to conventional debt, the long-term financing component will support leveraging to the market through innovative and diverse financial instruments. The instruments will include innovative debt instruments such as promoter/sponsor loans, mezzanine financing, takeout financing facilities, specialized project/infrastructure bond investments, etc. In addition, equity and credit guarantees/credit enhancement[14] may also be piloted. BIFFL will take the lead in development of innovative instruments and piloting the same based on market response and the design will be agreed with the Bank. Regardless of the type of instrument and nature of claim (debt/equity) associated with the transaction, the financing to PFIs will be in the form of onlending (debt).[15] As such, at the BB/Government to PFI level, treatment of financing parameters will be the same across regular debt financing and other financial instruments, including equity and guarantees. Tentatively US$30 million will be earmarked in Component 1 for the innovative financing instruments; in case less than a full indicative amount is used for this purpose, the funds will be utilized for traditional onlending and vice versa.

Component 2: Technical Assistance Component (US$13.0 million, of which US$ 10.0 million is from IDA)

24. The key objective of Component 2 is to continue the TA provided under IPFF I and to further build and strengthen the ecosystem of long-term infrastructure financing in Bangladesh. The stakeholder capacity-building needs in this area are just as important as the financing needs. Component 2 will focus on the following areas:

(a) Development of the infrastructure project pipeline, including PPPs (tentative allocation US$5 million). Assistance will be provided to the PPPA and other government line ministries/agencies to support them in developing economically, financially, environmentally, socially, and legally feasible infrastructure projects before the issuance of project bids to the investor community. This activity will support hiring professional assistance to provide infrastructure project design, engineering, financial, environmental, and legal services.

(b) Strengthening capacity of project stakeholders in the area of E&S risk management in infrastructure project financing (tentative allocation US$3 million). TA and capacity building will be provided to all key stakeholder groups (government agencies, PFIs, project sponsors,

[13] IPFF I had a statutory limit of 60 percent per subproject. The actual average outcome for the entire project was 50 percent.
[14] Utilizing the project funds for guarantee reserves to be created.
[15] Such instruments could expand financing options to the borrowing companies and also allow traditional lenders—banks and nonbank financial institutions, institutional investors—to expand their provision of finance to the infrastructure projects on improved terms (lower interest rates, longer maturities, better currency, and structuring choices) and with more options for risk management.

and specialized E&S assessment, audit, and monitoring firms and experts) involved in the process of identifying and managing E&S risks in infrastructure projects for which IPFF II financing is sought and in the overall pipeline of infrastructure projects developed and maintained by the PPPA and other government agencies. Specific emphasis will be laid on enhancing capacity of the PFIs for developing and implementing the ESMS—integrated in their credit risk management—that will allow them to play a more prominent role in ensuring adequate E&S standards are applied by project sponsors and monitoring projects' performance against agreed action plans. In this context, and considering overall weak E&S technical capacity in Bangladesh, a 'center of excellence' for E&S issues within the infrastructure finance ecosystem will be established, with a view of such a center serving as a one-stop shop for all E&S-related advisory and capacity-building matters, serving all infrastructure development stakeholders. The component will finance operational expenses of such an infrastructure E&S center of excellence during the project implementation period. The center of excellence could be housed in one of the GOB agencies (for example, the Ministry of Environment and Forests, the Department of Environment [DoE], the PPPA, or BIFFL), depending on the optimization of service delivery to be provided by such centers. The optimal location of the center of excellence will be determined during project implementation; in the meantime, the Project Implementation Unit (PIU) will coordinate all aspects of hiring and deploying of specialized E&S consultants.

(c) Development of new long-term infrastructure finance instruments (tentative allocation US$2 million). Assistance will primarily be provided to BIFFL, which will be responsible for creating, promoting, and deploying the new instruments, and to other PFIs and government agencies as needed, in the form of external advisory assistance, training, and twining arrangements for BIFFL with experienced foreign partners (for example, in the Organization for Economic Co-operation and Development (OECD) countries with strong financial systems and infrastructure finance traditions) for knowledge transfer in the area of infrastructure finance. One of the options for such learning and twining arrangement is with IDA supported India Infrastructure Finance Company Limited (IIFCL) and its National Investment and Infrastructure Fund.

(d) Support for project implementation (tentative allocation US$3 million). The component will include an allocation required to fund activities of BB IPFF Cell (the PIU) which will implement IPFF II.

B. Project Cost and Financing

25. The estimated project cost is US$ 416.70 million, with a blend of regular IDA and IDA Scale-Up Facility (SUF) financing, and GOB counterpart funding as outlined in Table 3 below.

Table 3. Project Cost and Financing (US$, millions)

Project Components	Total Project Cost	IDA Financing	GOB Contribution
1. Long-Term Infrastructure Financing Component	**403.7**	346.7	57.0
2. Technical Assistance Component	**13.0**	10.0	3.0
Total Project Costs	**416.7**	**356.7**	**60.0**

26. Out of the total allocation from IDA, US$ 256.7 million equivalent will be from the country's regular IDA envelope and US$100.0 million equivalent will come from the Scale Up Facility (SUF), which is an allocation in addition to the regular IDA. GOB will contribute US$60.0 million equivalent, of which US$57.0 million will be allocated to Component 1 and will be used for providing debt finance to PFIs. The IDA allocation to Component 1 will aim finance up to 50 percent of each subproject's total cost. The Government's allocation to Component 1 would finance subprojects' costs in addition to IDA financing on a case-by-case basis**.** GOB contribution of US$3.0 million to Component 2 will finance operating cost items of the PIU and expenses not covered under the Country Financing Parameters, among others.

27. The indicative interest rate structure for IPFF II at the PFI level is presented in Annex 3.

C. Lessons Learned and Reflected in the Project Design

28. IPFF II is being prepared as a follow-on project to the successful predecessor, IPFF I and lessons from the design and implementation experience of IPFF I have been factored in the design of IPFF II. The latter was approved by the Board in May 2006 and closed at the end of December 2016. The objective of IPFF I was to promote private sector-led infrastructure and to enhance the capacity of the local financial institutions to finance longer-term financing for that. Following a prolonged familiarization and ice-breaking stage, the initial allocation of US$50 million was disbursed in a span of 18 months, two years before the closing date. The initial allocation financed seven small power plants across the country, adding 178 MW of generation capacity to the national grid. Based on the success of the original credit and given a huge demand for infrastructure in the country, in 2010 the World Bank approved additional financing (AF) of US$257 million, increasing the original credit six-fold[16]. The lessons learned from IPFF I span a range of issues. First, the strongest takeaway from IPFF I is that it is important to remain flexible for accommodating changes in project parameters in response to changes in the market conditions and market demand. IPFF I did take changes in the market conditions into account and restructured the project

[16] The AF phase of IPFF I supported another five power plants, two nationwide fiber optic cable networks, one container terminal, three water treatment plants, and a jetty near Chittagong Port.

four times. Second, during the initial years, especially following the approval of the AF credit, IPFF I had difficulties in obtaining documentation to meet the procurement arrangements of the project. IPFF II addresses this by: (i) incorporating a greater emphasis on the subprojects' compliance with the established commercial practices followed across different sectors for procurement; and (ii) ensuring PFI oversight of this, using a risk based approach. Third, the original pipeline of IPFF I did not materialize as expected, since a number of pipeline subprojects did not complete the final bidding stage due to reasons exogenous to the project. Therefore, an upstream engagement is important for closure of the transactions and for the sub-projects' compliance with World Bank policies and standards down the line. Finally, in an environment of weak institutional capacity and a low level of compliance it is critically important to allocate resources for sector-wide capacity building. For example, there was not much E&S capacity in the country with regard to available consulting firms that could be hired by the private sector. The PFIs did not have dedicated staff and financial resources to assess and monitor their private sector clients' E&S compliance according to the World Bank standards.

29. Drawing lessons from IPFF I, the proposed IPFF II incorporates the following in the project design:

(a) IPFF II has taken account of the market situation and market demand for pipeline development and for pricing of the IPFF II credit. Pricing of IPFF II will be done in a way that it remains compliant with the Investment Project Financing operational policy of the World Bank while being attractive to the private sponsors.

(b) As the objective of IPFF II includes promoting capacity of the private sector to do more infrastructure investments, commercial practices of the private sector will be used as a guiding benchmark in reviews of the investment proposals.

(c) Adequate TA resources will be allocated for E&S capacity building of the private sector sponsors and the PFIs. Importantly, through a train-the-trainers route, there will be training sessions arranged for developing a roster of individuals and firms capable of performing high-quality Environmental and Social Impact Assessment (ESIA)/Environmental and Social Management Plan (ESMP) according to the World Bank standards.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

30. The IPFF Cell of BB will continue as the PIU for IPFF II. The current implementation arrangement for IPFF I, with BB as the implementing agency, has worked well. BB's human resource quality and institutional capacity as the central bank of the country have been instrumental to the success of the ongoing IPFF I. In the course of implementing IPFF I over the years, the BB PIU has gained substantial knowledge and skills on procurement, E&S risk management, and project financing that can be spread across the financial sector through project-based interaction with the PFIs and through other transmission mechanisms such as training workshops, periodic review, and disseminations. As in the past, leveraging BB's regulatory role will continue to go a long way in controlling adverse selection and moral hazard on

the part of the PFIs. The residual credit risk of the infrastructure subprojects will remain with and be shared among the PFIs and the private sponsors. BB's role in mitigating credit risks along the line of credit chain — from the GOB to PFIs and from PFIs to project sponsors — will remain critically important to the success of IPFF II. The project steering committee (PSC), headed by the Senior Secretary/Secretary of Finance, at the MOF will continue its role on strategic oversight and policy direction.

31. Compared to IPFF I, the implementation arrangements for IPFF II will include revised and more pragmatic fiduciary and E&S risk management approaches**.** These will incorporate features from other infrastructure finance lending projects where new approaches have been successfully deployed**.** The World Bank performance standards (PSs), which may yield synergies with IFC safeguards approaches applicable to financial institutions, will play the central role in E&S risk management. Possibilities of coordination and parallel financing of infrastructure ventures between the World Bank and other multi-lateral and bi-lateral development partners (DPs) including the IFC, will be pursued. Simplification of the arrangements is expected to be achieved by applying a streamlined clearance model coupled with a robust capacity strengthening approach for assessment and management of the E&S risks and impacts — the most challenging area in infrastructure financing.

32. As in IPFF I, the PFIs will be selected based on pre-set eligibility criteria, mentioned in the Project's Operations Manual (OM)**.** The eligibility criteria will include financial ratios for profitability, liquidity, NPLs, quality of asset management, asset-liability mismatch, management of foreign exchange, and capacity to manage E&S risks. Integrity of the PFIs' credit administration process will act as a mitigating factor to the adverse selection risk. At the stage of financial closure, the PFIs may/will have to arrange financial/credit syndication with other PFIs and non-PFI partners in the market. Quality of the PFIs' risk management process will have an impact on their selection of non-PFI syndication partners. The PFIs will submit funding applications to the PIU at BB, which by virtue of its position as the central bank of the country, has proven capacity to monitor and manage credit risk of the listed banks and financial institutions (see also Annex 4 for implementation arrangements).

33. Selection of subprojects shall be based on the principles of value for money, economy, integrity, fir-for-purpose, efficiency, transparency, fairness, and innovativeness. Details of the subproject selection procedure is included in the OM. Selection of the subproject shall be subject to concurrence by the World Bank.

B. Results Monitoring and Evaluation

34. A strong M&E framework to systematically track inputs, outputs, and outcomes is integrated into the various components of the project and has been discussed and agreed with the Finance Division (FD) and BB. The PIU will establish standard formats with baseline information and data and guidelines for data collection and report updates of M&E to the MOF PSC and the World Bank. The PIU will be responsible for overseeing and coordinating this process. The PSC will provide strategic policy guidance and oversight of the project implementation.

35. The World Bank will evaluate progress on the proposed indicators through regular reporting by the PIU and through implementation support visits, including the midterm review. The midterm review is

expected to be around the 30th month of project implementation and will assess implementation progress. The PIU will submit quarterly/semi-annual reports, with results for output and outcome indicators, and semi-annual financial management (FM) reports. A project audit will be undertaken annually in line with the terms of reference included in the OM. In addition, a beneficiary feedback mechanism has been integrated into the project and will be monitored during implementation through an indicator on citizen engagement. In particular, surveys of citizens in the areas affected by the infrastructure projects (supported by IPFF II) will be conducted at intervals, reviewed by PFIs and BB, and citizens' grievances, if any, will be addressed in ways explained in the PAD and in line with the ESMS. The PIU will continue to be adequately staffed with sufficient resources allocated to ensure the provision of monitoring data. An M&E specialist will be retained by the PIU to help plan and manage this work.

36. As the overarching goal of IPFF II is to pave the way for a sustainable platform for long-term financing in infrastructure, the M&E framework will focus on monitoring the crowding-in effect and the impact of leveraging. It is imperative for building a sustainable, private sector-led, long-term infrastructure financing platform that IPFF II leverages its resources by attracting as much private sector funding as possible. The target for the TA component is to strengthen capacity of the relevant institutions, such as the PPPA, to ensure a constant flow of quality infrastructure proposals for bidding by private sponsors and, more importantly, to support financial closure for investment proposals once the bidding is completed. The proactivity of the PPPA and collaboration with the line ministries/agencies will continue to be the defining factors in this regard. The indicators for the TA component will measure utilization of resources by the PPPA, line ministries, and the PFIs for upstream activities, including E&S capacity development.

37. The project will have gender-disaggregated client satisfaction surveys as one of the project results indicators. In addition, a third-party firm will be hired as part of the M&E activities to conduct similar satisfaction surveys with the primary- and secondary-level beneficiaries specifically identified earlier. Special attention will be given to small and medium enterprises and firms in sectors that are crucial for growth; rural farmers and all others who live on agriculture or agro-based industries and benefit from expanded and more reliable infrastructure; and the population of the country, including women and pensioners, to assess improvements in infrastructure service delivery due to the implementation of the project. The surveys will be administered at the project start (baseline), mid-term, and project closure. The surveys will also capture suggestions for improvement from the particular beneficiary groups. Feedback from the surveys will be factored into project implementation.

C. Sustainability

38. In the context of sustainability, the proposed project will keep building on the achievements of IPFF I. IPFF II is expected to further strengthen skills and abilities of the private sector to fill the substantial infrastructure gap in Bangladesh. Provision of long-term resources to PFIs will strengthen their balance sheets and encourage other private sector lenders to follow suit and improve maturities and other terms of their offerings to private infrastructure project sponsors and other borrowers. As already demonstrated by IPFF I, some financially strong investors who took advantage of the IPFF I credit line can graduate from similar credit lines and tap direct foreign loans or capital market financing. Their competitiveness was strengthened by their exposure to the modalities of IDA-supported financing and experience of E&S risk

management, thus raising the bar for other players in the infrastructure field. IPFF II intends to further strengthen this trend. Capacity-building activities directed at financial institutions and private sector promoters in particular have a power to extend sustainability of the project by building up the knowledge base (including E&S risk management) in the infrastructure finance ecosystem. The commercial nature of the infrastructure projects and attractively priced funding from the PFIs, as well as the new financial instruments, which will be created under IPFF II, will further strengthen long-term sustainability of the project and its ability to attract private sources of finance during and after the implementation period.

D. Role of Partners

39. The large scale of the required infrastructure investments in Bangladesh necessitates collaboration of all involved stakeholders and DPs of the GOB. In this context IPFF II will continue to explore collaboration with IFC and other development partners in the area of infrastructure finance. To date, international financial institutions and the local commercial banks and financial institutions have played complementary roles in financing infrastructure projects in Bangladesh. One of the desired outcomes of IPFF II is to wield a higher multiplier effect of international donor financing, by giving local banks and financial institutions more avenues for active participation in project finance transactions. Information sharing on potential transactions, pipelines, the syndication arrangement, etc. will be sought to be shared with potential multi-lateral and bi-lateral DPs. Opportunities for parallel financing will be explored for better service delivery and for optimizing the risk profile of the infrastructure investment proposals. Where feasible and if consistent with the Project's institutional arrangements, the initial due diligence by other development partners of a specific infrastructure investment proposal could be accepted by IPFF II and vice versa. Similarly, the E&S due diligence review can be sought to be made uniform across all parallel financed subprojects. Duplication of reviews can be minimized, given the World Bank Performance Standards (PSs)—which for instance carry a high degree of similarity with the IFC PSs—applicable to IPFF II's E&S risk management and review framework.

40. Collaboration with other partners will include TA support from UK Department for International Development (DFID), allocated under the DFID program for promotion of the private sector development agenda in Bangladesh. Approximately US$400,000–500,000 will be available from DFID; this money will be used for capacity building and technical reviews by IPFF II. Coordination with the Asian Development Bank, which also has operations in the infrastructure finance area, will be maintained. IPFF II will remain open for collaboration with any other multilateral and bilateral development partners during implementation.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

41. The operation has a Moderate overall risk. The project largely continues the technical design of IPFF I, which has successfully concluded and the past project experience is a key reason for assessing the

overall risk as Moderate. The core component of the project will be a tried-and-tested credit line (component 1). The IPFF II design has innovative aspects and significant advisory support to further strengthen infrastructure investment ecosystem in Bangladesh and mitigate associated technical risks. The overall macroeconomic environment has been robust and stable. The Government's strategies and policies unequivocally support significant new investments into infrastructure, largely grounding the future growth of Bangladesh's economy on the success of such investments. This mitigates political and governance risk, which nevertheless remains Substantial. BB, which has been managing IPFF I for the past 10 years, will continue as the principal implementation agency, mitigating the implementation/institutional capacity risks. Application of the World Bank PS and a comprehensive ESMS will mitigate E&S risks, which remain Substantial due to the complex nature of infrastructure projects.

Table 4. Systematic Operations Risk-Rating Tool (SORT) Summary Table

Risk Category	Rating
1. Political and Governance	S
2. Macroeconomic	M
3. Sector Strategies and Policies	L
4. Technical Design of Project or Program	M
5. Institutional Capacity for Implementation and Sustainability	M
6. Fiduciary	M
7. Environmental and Social	S
8. Stakeholders	L
9. Others	L
10. Overall	**M**

Note: H – High; S – Substantial; M – Moderate; L - Low

42. The two SORT Risk Category with rating 'S', as presented in Table 4 above, are discussed below:

(a) Political and governance risks. In the backdrop of upcoming national elections midway through the Project's implementation period and given the importance of political commitment, policy continuity, supportive legal framework, and strengthening the key institutions the political and governance risks to achieving the PDO of IPFF II is rated 'S'. The risks are mitigated by several key factors: (i) Strong government commitment, as laid out in key planning documents, for promoting private sector-led infrastructure development; (ii) demonstration of government commitment by creating PPPA and BIFFL, which is adequately mandated for developing specialized expertise infrastructure financing; and (iii) Structured oversight mechanism by PSC and Finance Division of the MOF. Most importantly, IPFF II will broadly follow the design of IPFF I, which worked reasonably well in maintaining transparency and accountability structure within the project structure. Deployment of financing under the project will be managed by an experienced PIU, supported by a strong TA component and new infrastructure financing instruments. On the World Bank side, IPFF II will be managed by the Finance and Markets team, including experienced infrastructure finance and E&S experts.

(b) E&S risk management. The project framework approach, a broad sectoral scope of eligible infrastructure subprojects, and countrywide geography of the project's reach have a potential to create substantial E&S risks and impacts. A range of mitigation measures will be implemented, including: (i) application of a comprehensive Environmental and Social Management System (ESMS) at all levels of the project, including strong and detailed technical standards tailored to private sector operations; (ii) significant buildup of institutional capacity for E&S risk management within the infrastructure finance ecosystem, including a proposed E&S center of excellence to strengthen the project counterparts' ability to review, supervise, and support assessment and management of E&S risks in infrastructure subprojects' planning and implementation; and (iii) systematic outreach to PFIs, private project sponsors, other project stakeholders, and government agencies to encourage institutionalization of good E&S management practices and robust standards in infrastructure lending.

43. Other specific risks identified during appraisal, including their mitigation measures are discussed below:

(a) Investment projects do not materialize. A pipeline of potential infrastructure projects was identified during the preparation of the project, as part of the ongoing support to the Government through IPFF I. In addition, the size of the facility has been kept at a moderate level relative to the overall demand for infrastructure finance, to avoid underutilization.

(b) The project crowds out local financial markets. IPFF II will provide long-term resources, including in foreign currencies, which are largely absent in the market. IPFF II will in fact crowd in other financing sources available in the market and act as a catalyst for commercial long-term infrastructure funding. The maximum share of IPFF II financing in each infrastructure subproject is set at 50 percent, compared to 60 percent in IPFF I. Furthermore, the new financing instruments, are expected to be introduced and expand the financing options for the private sector. A single set of PFI eligibility criteria creates a level playing field among the PFIs of the credit line.

(c) Excessive exposure to the power sector. IPFF II is structured around a diversification strategy for PPP investments, allowing various infrastructure sectors to benefit from its funding, including waste management, water treatment, energy saving equipment, container terminals, land ports, and bridges.

(d) Credit risk. Funds will be allocated to infrastructure projects that are mostly expected to be endorsed by the GOB (in the rarer cases of unsolicited proposals, the GOB may consider compensation to the project sponsors for the project design expenses). All credit risks will be assumed by the PFIs. Projects are supported on market terms and will require at least 25 percent sponsor equity participation. PFIs are expected to apply best-practice long-term/project loan underwriting standards and risk management approaches, which have already been tested and honed under IPFF I and are expected to be further improved under IPFF II.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

44. The ultimate economic benefits of IPFF II will be derived from higher growth resulting from increased investment and business activities, which will be induced by more broadly available infrastructure and, consequently, new jobs created out of the incremental economic activities. IPFF II's contribution to the promotion of PPPs, development of a solid PPP framework in Bangladesh, and facilitation of the much needed private investments in infrastructure will further equip the country for long-term economic growth. Investments into infrastructure will support and encourage investments into other economic activities and will contribute to Bangladesh's aspiration to achieve the MIC status over the course of the next five years or so.

45. The project will further deepen financial markets. Access to long-term finance is one of the key factors in developing infrastructure. Long-term financing will allow project promoters to be more competitive in their bid preparations under this project and will also encourage successful participants to invest in more expensive and more reliable equipment, which will be more economically efficient in the longer term. Infrastructure promoters will be assisted in making competitive tenders by the availability of variable or fixed rate finance, in a currency chosen by the promoters that best matches the nature of projects' financial flows. In addition to the direct economic benefits of the project, additional gains are generated through the enhanced technical capacity developed among financial institutions, such as the promotion of long-term finance markets as well as the liberalization of regulations constraining financial intermediation, all leading to a buildup of the intangible capital in the country.

(a) Economic analysis. The economic analysis of potential subprojects to be financed under IPFF II can only be undertaken as part of BB's appraisal of such subprojects. Therefore, a framework approach has been developed for economic analysis at the subproject level and is discussed in Annex 5.

(b) Financial analysis. Just like with the economic analysis, a full financial analysis of subprojects will be performed at a time when the individual subprojects are considered for eligibility by BB. The overall project design prevents losses (sometimes arising from improper loan pricing, arbitrage,) in the lending chain to key infrastructure segments. The GOB will take a financially neutral position and will channel the IDA funds to the PFIs at cost; PFIs and individual project sponsors are expected to derive commercial benefits from the financial intermediation and investments into infrastructure, respectively. The net financial benefits will be loan and project specific.

46. More insights into economic and financial analysis are presented in Annex 5.

B. Technical

47. The technical merits of the proposed project have been thoroughly examined under the original IPFF I and validated throughout IPFF I implementation. The core design of the project as a credit line from the Government to PFIs and then onlending to the private project sponsors has proved to be viable and appropriate for financing long-term infrastructure projects. The appropriateness of the innovative aspects of IPFF II—development of the new infrastructure financing instruments and strengthening of the stakeholders' capacity in the infrastructure ecosystem—has been reconfirmed with the private sector infrastructure investors and other stakeholders and will build upon the implementation lessons and success of the original project.

48. Infrastructure sub-projects will be designed, appraised, and implemented on the basis of Bangladeshi standards, in line with the relevant technical guidelines issued by line ministries/agencies and in compliance with the project's implementation arrangements. Requirements in relation to financial management, procurement, and E&S risk management for the overall project and the execution of individual sub-projects are contained in the project's OM.

49. BB has proven capacity to implement the project's credit line component. Additional support to capacity building will be provided under the TA component. Furthermore, BIFFL has been assessed as being able to develop and deploy the new infrastructure finance instruments on the basis of its mandate and activities of the past few years. The project design incorporates key areas of guidance provided by World Bank policy on Investment Project Financing and includes a plan for implementation support for the BB IPFF Cell, FD, BIFFL, and other PFIs laid out in the OM.

50. Given the presence of a line of credit (Component 1) in the proposed project, an OP10.00 review was undertaken at the concept and appraisal stages. The line of credit structure has been assessed as strong and meeting all the policy requirements. It will nevertheless be important to ensure during the implementation of the project that BIFFL and IDCOL, the two state-owned development finance institutions which are expected to be PFIs in the project, would be duly supervised by BB and follow all prudential requirements applicable to them. Furthermore, diligence will need to be exercised in assessing the pricing and risks of the new innovative infrastructure finance instruments, given their novel nature and untested risk profiles.

C. Financial Management

51. BB's FM capacity is satisfactory. This is mainly due to BB being the central bank of the country and having an adequate number of skilled staff, including in the area of FM. The staff have adequate experience of working on projects financed by the World Bank. Both on procurement and FM aspects, BB has successfully implemented a similar World Bank-funded Central Bank Strengthening Project and is currently implementing the Financial Sector Support Project.

52. The overall planning and budgeting process at the implementing agency level is considered satisfactory, and the assessed associated risk is low. The proposed BB project team has experience in

planning and budgeting from other World Bank-financed projects, including IPFF I. However, the BB PIU may need further training to enhance their FM monitoring skills. A budget with a separately identifiable accounting code will be maintained for the entire term of the project. Detailed budgets for each fiscal year will also be produced to provide a framework for FM monitoring. The annual budget will be prepared on the basis of the Procurement Plan and any other relevant annual work plans. These budgets will be monitored periodically to ensure actual expenditures are in line with the budgets and to provide input for necessary revisions.

53. For filing and record keeping, BB and PFIs will preserve all procurement records and documents in accordance with provisions of the Public Procurement Act 2006 and the OM as applicable. These records must be made readily available on request for audit/investigation/review by the Government and the World Bank. With regard to controls**,** BB has a relatively strong Internal Audit Department, which is fully independent of executive control. The head of internal audit reports to the Board Audit Committee comprising four independent members and an adviser; the head joins the meeting on call, as and when required. The BB Internal Audit Department carries out audit of World Bank-funded projects at least once in a year.

54. The Foreign Aided Projects Audit Directorate of the Comptroller and Auditor General will conduct an audit of the project's annual financial statements within six months after the end of a fiscal year. The Project Director will be responsible for audit follow-up and for taking remedial actions. Meetings to resolve audit objections must be held within three months of the receipt of the external audit report from the Foreign Aided Projects Audit Directorate. To ensure that the observations and recommendations from the internal and external audits are reviewed and adequately followed up on, a Project Audit Committee will be constituted. BB will also establish a system to manage procurement complaints, including a database for recording, monitoring, and following up on all procurement activities. The World Bank must be notified of any complaints to ensure transparency in the resolution process. In this context, it may be noted that there is no overdue audit report in other World Bank funded projects implemented by BB.

55. With regard to fund flows, for the utilization of IDA's share of eligible expenditure, BB will open a Dollar Special Account (DOSA) with its Foreign Exchange Reserve and Treasury Management Department (FRTMD). Funds will be disbursed to the Designated Account (DA) which will be maintained and operated by IPFF Cell of BB as the PIU. The Project Director of IPFF II and an alternative official will be the authorized persons for issuing checks, or payment advices and making payment requests to the MOF for counterpart funds and submitting replenishment requests to IDA. BB will be responsible for transferring IDA funds to eligible PFIs that will fund eligible private developers. For payments relating to hired consultants and other operating expenditures under the TA component for financing training, capacity building, and operating expenditures under the project, BB will pay directly according to the terms and conditions of the approved contracts to be signed with the consultants. Report-based disbursement procedures will be applicable for withdrawal of funds from the credit. The Designated Account ceiling will be mentioned in the Disbursement Letter based on the forecast for two quarters. Reporting of expenditure in IUFRs will be based on PFIs' disbursement of loans and other eligible financing instruments (e.g., equity or guarantees) to project sponsors. PFIs will report quarterly on the utilisation towards funding private developers to BB and accordingly it will be reported as expenditure in interim unaudited financial statements. All expenses of the project will be paid from BB IPFF Cell and no other entity will handle the IDA fund transfer.

56. The accounting policies and procedures of the project will be governed by the existing Project Accounting Manual of the MOF. All project-related transactions from all sources (IDA and the GOB) will be accounted for separately in BB following double-entry bookkeeping principles, on a cash basis. A new accounting software shall be developed for this purpose and necessary TA fund has been allocated for this in the procurement plan. IPFF Cell of BB will be responsible for consolidating financial information, maintaining supporting papers, and preparing financial statements on a monthly basis. The set of quarterly interim unaudited financial reports (IUFRs) used in IPFF I have been further customized to meet project-specific needs. The IUFRs will include these financial statements: (a) sources and uses of funds, (b) uses of funds by project activity, and (c) designated account reconciliation statement. An IUFR will be submitted to the Association no later than 45 days after the end of each calendar quarter. BB will ensure by complying with the Project Accounting Manual that all project financial information is provided periodically to the Chief Accounts Officer of the MOF. This is to ensure that project funds routed through the designated account is reflected in the GOB accounts as well as in the consolidated FM report.

57. As regards administration of equity, guarantees, and other eligible infrastructure finance instruments to be introduced in the project, the project funds will be disbursed to the PFIs as debt, on terms and conditions agreed for these instruments during project implementation and detailed in the OM.

58. Retroactive financing: withdrawal up to an aggregate amount not exceeding the equivalent of 15 million Euros from the financing of SUF and equivalent of US$ 39.7 million from the financing of regular IDA allocation may be made for payments made prior to the date of the IPFF II Financing Agreement but on or after January 1, 2017 for Eligible Expenditures under Component 1 of the Project, provided that the requirements set out in relevant paragraph of the Financing Agreement will have been met. Withdrawal up to an aggregate amount not exceeding the equivalent of US$ 300,000 from the financing of regular IDA allocation may be made for payments made prior to the date of the IPFF II Financing Agreement but on or after January 1, 2017 for Eligible Expenditure under Component 2 of the project, provided that such expenditure has been made by the PIU for essential goods or services required for continuation of day to day activities of the PIU at BB and that the requirements set out in relevant paragraph of the Financing Agreement will have been met.

D. Procurement

59. All goods, works, non-consulting services, and consulting services required under Component 2 of the project and to be financed out of the proceeds of the financing shall be procured in accordance with the requirements set forth or referred to in the World Bank's 'Procurement Regulations for Borrowers under Investment Project Financing', dated July 1, 2016 (Procurement Regulations). Procurement regulations will not be applicable to the private sector entities receiving loans through financial intermediaries (FIs) under Component 1 (onlending to the PFIs and innovative financing instruments) of the project. Procurement by the private sector entities will follow acceptable commercial practices in accordance with the provisions in the OM.

60. Out of the total project cost of US$416.7 million, IDA contribution is US$356.7 million. Out of this,

up to US$13.0[17] million under Component 2 will be expended through procurement. This will involve mainly consultancy contracts (estimated 15 contracts totaling about US$10.0 million) and a few goods and non-consultancy services contracts (worth about US$3.0 million). For procurement responsibility, the BB PIU will be responsible for all procurements under Component 2. For the consultancy packages necessary for PPPA and BIFFL, BB PIU will delegate procurement and contract management responsibility to PPPA and BIFFL. However, all such contracts shall be signed by BB PIU and payment will also be made by BB PIU. PPPA and BIFFL will provide all necessary technical supports to BB PIU through signing Memoranda of Understanding (MOU). In all applicable cases, PPPA and BIFFL will seek necessary concurrence from the World Bank through BB PIU. Upon confirmation of receipt of service/goods from PPPA and BIFFL, the Project Director will be responsible for payment from the project account. A Procurement Plan covering all major procurement has been prepared for the entire duration of the project. This plan has been made available on the World Bank's external website. The Procurement Plan will be updated by the PIU using the World Bank's procurement tracking system titled Systematic Tracking of Exchanges in Procurement (STEP), at least every six months, to reflect actual implementation needs in consultation with the World Bank.

61. BB has extensive experience in implementing World Bank Group-financed projects, including the ongoing IPFF I. The fiduciary assessment carried out for BB indicates a Moderate risk in procurement operations and contract management. The main drivers of the risks are associated with delay in procurement processing and capacity constraint with regard to monitoring complex consultancy contracts. Several measures to mitigate the risks are either in place or will be put in place:

(a) Project Procurement Strategy for Development (PPSD) and Procurement Plan - a PPSD has been developed by BB, in agreement with the World Bank, taking into account the volume of items to be procured, prevailing market conditions, activity level risks etc. The PPSD spells out the appropriate procurement strategy for this project. PPSD is a live document and it is to be updated at least annually. As an output of the PPSD exercise, the initial Procurement Plan for Component 2 of the project has been prepared. For each contract to be financed under the project, the different selection methods for procurement, market approach, the need for pre-qualification, contracting arrangement, estimated costs, prior review requirements and time frame were also agreed between BB and the World Bank in the Procurement Plan;

(b) Introducing STEP system - Systematic Tracking of Procurement Exchanges system (STEP) - to prepare and manage the Procurement Plan and procurement transactions under the project;

(c) Bid/Proposal Evaluation Committee – BB shall ensure that the bid/proposal evaluation committees are formed in a manner acceptable to the World Bank, and World Bank's no objection shall be required on the formation, as well as alteration in the composition or membership, of the bid/proposal evaluation committees. Procurement consultant(s) of

[17] The total amount of TA resources under Component 2 may be adjusted during project implementation based on the utilization rate of different beneficiaries including the FD, PPPA, the PFIs, and other stakeholders

the project will be mandatory member(s) of the bid/proposal evaluation committee;

(d) Electronic Government Procurement (e-GP) - Request for Bids (Open-National) contracts under Component 2 of this project will use the e-GP system of the country;

(e) Procurement Focal Person (PFP): BB shall nominate a procurement focal person. The appointed focal person will take necessary training in procurement, if required. The PFP will help BB in day-to-day procurement follow-up and preparation of periodic procurement reports;

(f) Local procurement consultant: BB will hire local procurement consultant for at least initial 30 months of the project implementation;

(g) Other due-diligence measures: the following measures will be adopted as part of procurement and implementation arrangements: (i) all bid evaluation reports will include verification of recommended bidders' post-qualification information; (ii) make bidders generally aware about fraud and corruption issues; (iii) preserve records and all documents regarding procurement (including correspondences with the potential bidders as well as complaints/clarification requests etc.), in accordance with the World Bank's Procurement Regulations and Public Procurement Rules, to facilitate smooth procurement audit or post-review; and (e) publish contract award information on Central Procurement Technical Unit (CPTU) and BB's website within two weeks of contract award (and in UNDB online for international contracts). Further details are provided in the project's OM.

62. Except as otherwise agreed in the Procurement Plan, goods, works, and non-consulting services may be procured on the basis of Request for Bids (Open-International) procurement method. As allowed under the World Bank's 'Procurement Regulations', July 1, 2016, other selection methods, market approach, and contract arrangement as agreed in the Procurement Plan on a case-by-case basis can also be used. For selection of consultants, the Procurement Plan will specify the selection method, market approach (International/National, Open/Limited/Direct), and contract modality for each consultant selection following the World Bank's 'Procurement Regulations', July 1, 2016. For all procurements under the project, the World Bank's standard procurement documents shall be used. In case of unavailability of a particular procurement document, the implementing agencies shall use model tender documents agreed with the World Bank. The Procurement Plan shall set forth those contracts that shall be subject to the World Bank's 'prior review'. All other contracts shall be subject to 'post review' by the World Bank.

E. Social (including Safeguards)

63. The integrated social and environmental safeguards appraisal summary is presented in section F below.

F. Environment (including Safeguards)

64. IPFF II is a complex project that involves a multilevel implementation structure. BB, PFIs, private sector project sponsors, other government agencies, specialized E&S agencies, and experts will play important and distinct roles. Additionally, it is recognized that IPFF II subprojects are likely to be exposed to a variety of E&S risks that must be adequately managed so that IPFF II can be implemented in a sustainable manner.

65. Core elements of the E&S risk management design for IPFF II are the following: (a) clearly defined technical E&S requirements/standards; (b) development and implementation of an ESMS at all levels of the project to support effective application of these technical standards to design, construction, and operation of IPFF II-supported subprojects; (c) a structured capacity-building plan that will support adequate implementation of the ESMS. Additional details on the design of E&S risk management arrangements for IPFF II are presented in Annex 6.

66. The approach to implementation of E&S risk management measures for IPFF II is that of putting in place and continually strengthening a formal ESMS.[18] The ESMS will enable addressing E&S issues within the multilevel project structure, as well as capacity for implementing this system at all key levels—BB, PFIs, and private sponsor companies—to allow them to adequately identify, assess, and manage E&S risks and impacts of subprojects according to the requirements of the GOB and the World Bank Group. The ESMS for IPFF II will consist of the following key components: (a) IPFF II E&S policies and procedures prepared and regularly updated by BB; (b) the ESMS at the PFIs' level to help them fulfil their role in E&S risk management for the project; and (c) systematic E&S risk management systems and processes at the project sponsor level.

67. The subprojects, as well as the IPFF II ESMS, will be designed and implemented in accordance with relevant requirements of the GOB and the World Bank. The World Bank E&S technical standards and management system requirements applied to this project will be governed by the provisions of OP/BP 4.03 (Performance Standards for Private Sector Activities, or World Bank PS). In particular, the approach will be consistent with the policy provisions for projects involving FIs.[19] In relation to this project, World Bank technical standards/requirements include: (a) World Bank PS[20]; (b) a list of excluded activities[21]; and (c) a list of E&S sensitive activities developed for the project based on the analysis of potential E&S risks

[18] More information about the concept and design of an ESMS in the context of the financial sector can be found here: https://firstforsustainability.org
[19] Commensurate with IPFF II multilevel project structure, BB is considered a wholesale FI, and PFIs are considered 'retail' FIs. Consequently, OP/BP 4.03 requirements will be applicable to all FIs within the project structure.
[20] 'World Bank PS are, in effect, IFC Performance Standards on Environmental and Social Sustainability adopted as the 'World Bank PS' in 2013 pursuant to World Bank OP 4.03. IFC PS were first introduced in 2006 and updated in 2012. IFC PS can be found here:
http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes.
[21] IFC Exclusion List can be found here:
http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+projects+database/projects/aips+added+value/ifc_project_exclusion_list.

and impacts.

68. E&S requirements will also be applicable to the TA component of the project, in accordance with OP4.03. TA activities themselves do not have direct adverse environmental or social impacts. Thus, E&S aspects with regards to the TA component of the project will focus on assessing and managing E&S risks associated with the outcomes of the TA. In addition to BB, it is expected that other institutions, such as BIFFL and PPP Authority, will receive TA assistance. The overall E&S design for the project envisions embedding E&S standards at both of these institutions (e.g. through development of an ESMS at the BIFFL and potentially incorporating Performance Standards into the preparation of PPP projects). Additionally, development of new financial products for infrastructure finance may result in the need to adjust the E&S model for the project. To that effect, at the start of project implementation, an analytical/strategic assessment will be developed that will address E&S risk management in relation to these new products.

69. The E&S design for IPFF II aims to increase ownership of the E&S risk management within key institutions and build long-term capacity across the financial sector in Bangladesh to incorporate sound E&S standards and processes within their credit/investment assessment, with a specific focus on infrastructure finance. This is also consistent with the overall goals of BB to promote the financial sector’s corporate accountability and transparency on the impacts of businesses on environment and society through the implementation of the Environmental Risk Management (ERM) Guidelines (2011) that are currently undergoing an update.[22] To that effect, IPFF II will include a structured E&S capacity-building plan consisting of the following three components: (a) strengthening direct oversight of E&S risk assessment and management process for IPFF II-financed subprojects; (b) increasing available capacity within Bangladesh of qualified technical expertise for E&S risk assessment and management against international standards; and (c) building awareness and capacity of financial institutions in Bangladesh with regard to developing and implementing an ESMS. The E&S capacity-building plan is presented in Annex 7.

G. Other Safeguard Policies

70. In accordance with World Bank OP 4.03, the requirements of OP/BP 7.50, Projects on International Waterways, and those of OP/BP 7.60, Projects in Disputed Areas, apply to any World Bank-supported private sector activity. These legal polices may be triggered/applicable to individual IPFF II-funded subprojects depending on their specific circumstances. Infrastructure subprojects for which these policies are triggered will not be eligible for financing under IPFF II and will be screened out in line with the ESMS.

[22] The new Environmental and Social Risk Management (ESRM) Guidelines of BB are expected to be finalized by the end of the first quarter of 2017.

H. World Bank Grievance Redress

71. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit *http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service*. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : Bangladesh
Bangladesh Investment Promotion and Financing Facility Project II (IPFF II)

Project Development Objectives

The PDO is to increase long-term financing for infrastructure and to build capacity of the local financial institutions for promoting private sector-led infrastructure financing in Bangladesh.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Private Capital Mobilized	✓	Amount(USD)	0.00	260000000.00	Semi-annual	BB IPFF Cell	BB IPFF Cell
Description: The core indicator track the amount of direct financing (in the form of equity and/or debt) mobilized by private entities, using private funding, to finance investments within an IBRD/IDA operation or investments (PE, GE, RE, SF, and GU) directly linked to that operation.							
Name: Total investments in infrastructure under IPFF II		Amount(USD)	0.00	610000000.00	Semi-annual	BB IPFF Cell	BB IPFF Cell
Description: The indicator will track the grand total of all investments into infrastructure by all subprojects supported by IPFF II							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Long term debt financing for infrastructure under IPFF II		Amount(USD)	0.00	406700000.00	Semi-annual	BB IPFF Cell, BIFFL, and PPPA	BB IPFF Cell and PPPA
Description: The indicator will track provision of total long term debt (over 5 years in maturity) for infrastructure financing in subprojects supported by IPFF II							
Name: Equity investments from private sector entrepreneurs under IPFF II		Amount(USD)	0.00	95000000.00	Semi-annual	BB IPFF Cell and PFIs	BB IPFF Cell and PFIs
Description: The indicator will track provision of equity by private project sponsors and other investors for the infrastructure subprojects supported by IPFF II							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: At least 20 domestic financial institutions use IPFF II credit line		Number	0.00	20.00	Semi-annual	PFIs and BB IPFF Cell	PFIs and BB IPFF Cell
Description: The indicator will track the number of PFIs participating in the onlending component, with the aim of including at least 20 PFIs and spreading IPFF II impact wide within the financial system							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: PFIs maintain eligibility criteria		Percentage	0.00	100.00	Semi-annual	BB IPFF Cell	BB IPFF Cell
Description: This indicator will track compliance of the PFIs with the eligibility criteria, with the aim to maximize compliance during the project implementation period							
Name: E&S capacity developed; staff trained		Number	0.00	200.00	Semi-annual	PFIs and BB IPFF Cell	BB IPFF Cell
Description: This indicator will track the number of staff in the project beneficiary/stakeholder institutions which will benefit from E&S capacity development supported by the project's Component 2							
Name: Environmental assessments are undertaken for all infrastructure projects financed under the facility in coordination with the DoE		Percentage	0.00	100.00	Semi-annual	PFIs and BB IPFF Cell	BB IPFF Cell
Description: This indicator will track percentage of environmental assessments undertaken for infrastructure subprojects, with the aim of having all subprojects undergo such assessments							
Name: Financing volumes through innovative financial instruments deployed for financing of infrastructure		Amount(USD)	0.00	30000000.00	Quarterly	BIFFL	BIFFL

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: This indicator will track provision of infrastructure finance by PFIs through instruments other than plain vanilla debt, aiming for at least US$30 million allocated to such instruments. The innovative instruments, which will be developed and assessed during the project implementation with support from Component 2 would include other types of debt (e.g., mezzanine/hybrid debt, equity financing, guarantees/risk sharing instruments).							
Name: The capacity of financial institutions participating in IPFF II to undertake financial analysis of infrastructure projects is strengthened - number of staff trained		Number	0.00	200.00	Semi-annual	BB IPFF Cell	BB IPFF Cell
Description: This indicator will track the number of staff from project PFIs receiving training on performing credit/financial analysis of long term lending and/or structured product provision for infrastructure projects							
Name: Female beneficiaries from IPFF II		Number	0.00	200.00	Semi-annual	Private sponsors and PFIs	BB IPFF Cell
Description: This indicator will track the number of women directly benefiting from the infrastructure subprojects supported by IPFF II							
Name: Affected citizens' satisfaction with infrastructure subprojects		Percentage	0.00	75.00	Annual/biennial as appropriate	Private sponsors and PFIs	BB IPFF Cell
Description: This indicator will address citizens' engagement and will track affected citizens' satisfaction with the infrastructure subprojects supported by IPFF 2, through regular surveys of citizens in the locales impacted by the infrastructure subproject. The indicator will aim to achieve at least 75 percent of satisfactory responses to the							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
surveys							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Private Capital Mobilized	0.00	20000000.00	50000000.00	75000000.00	75000000.00	40000000.00	260000000.00
Total investments in infrastructure under IPFF II	0.00	80000000.00	100000000.00	150000000.00	160000000.00	120000000.00	610000000.00
Long term debt financing for infrastructure under IPFF II	0.00	40000000.00	60000000.00	100000000.00	120000000.00	86700000.00	406700000.00
Equity investments from private sector entrepreneurs under IPFF II	0.00	10000000.00	15000000.00	35000000.00	20000000.00	15000000.00	95000000.00

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
At least 20 domestic financial institutions use IPFF II credit line	0.00	3.00	5.00	5.00	5.00	2.00	20.00
PFIs maintain eligibility criteria	0.00	100.00	100.00	100.00	100.00	100.00	100.00
E&S capacity developed; staff trained	0.00	30.00	100.00	50.00	10.00	10.00	200.00
Environmental assessments are undertaken for all infrastructure projects	0.00	100.00	100.00	100.00	100.00	100.00	100.00

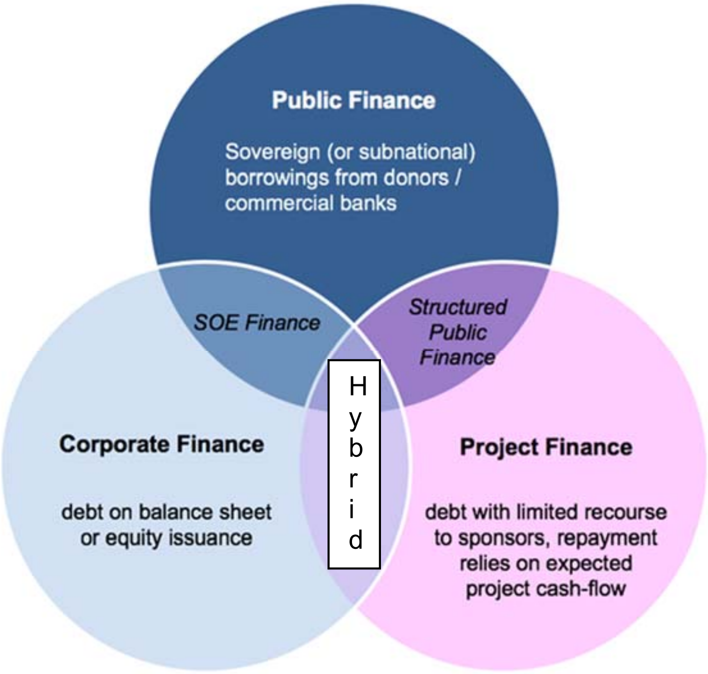
Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
financed under the facility in coordination with the DoE							
Financing volumes through innovative financial instruments deployed for financing of infrastructure	0.00	5000000.00	10000000.00	10000000.00	3000000.00	2000000.00	30000000.00
The capacity of financial institutions participating in IPFF II to undertake financial analysis of infrastructure projects is strengthened - number of staff trained	0.00	50.00	80.00	50.00	10.00	10.00	200.00
Female beneficiaries from IPFF II	0.00	20.00	30.00	50.00	80.00	20.00	200.00
Affected citizens' satisfaction with infrastructure subprojects	0.00	75.00	75.00	75.00	75.00	75.00	75.00

Annex 1. Background on Infrastructure Finance and Instruments

1. Traditionally, delivery of infrastructure services has been monopoly of the public sector, with provision for financing in the broader Public Finance domain. As such, governments around the world make fiscal provisions for construction and maintenance of infrastructures across different sectors. Sovereign and subnational borrowings from multilateral and bilateral donors are used to supplement government allocation. Facing constraints on public resources and fiscal space, while recognizing the importance of investment in infrastructure to help their economies grow, governments are increasingly turning to the private sector as an alternative additional source of funding to meet the financing gap

2. The main financing modes for PPI projects are in three forms: (a) corporate finance, (b) project finance, and (c) a hybrid of the two. IPFF II can support infrastructure financing in all three forms. Infrastructure projects that are economically desirable but turn out to be 'not bankable' on a PPI/PPP basis can, alternatively, be undertaken on a public finance basis. These various financing modes are depicted in stylized form in figure 1.1.

Figure 1.1. Main Commercial Financing Modes for Infrastructure Projects



3. Corporate finance refers to debt issued or guaranteed by corporate borrowers, and is more conveniently used for moderate size projects (those with project cost of US$50 million or less). Smaller financing requirements can be met by bilateral bank facilities, whereas larger ones are financed by syndicated loans extended by a 'syndicate' or 'club' of commercial banks, or by issuance of securities when

the market exists. Syndicated loan markets are typically deepest for maturities of up to 5 years, but can support longer maturities for specific projects with reliable cash flows. Maximum loan size is capped by the creditworthiness and borrowing capacity of the obligors, and the credit limits assigned by lenders. Smaller projects undertaken by cash-rich sponsors can be financed entirely by shareholder equity and intra-group loans.

4. Project finance refers to financing without recourse (or with limited recourse) to the sponsors, whereby loans are expected to be repaid from future project cash flows rather than the balance sheet of project sponsors. Project finance may require relatively complex, time-consuming structuring but it is crucial for large PPI projects (those with project cost of US$100 million and above) requiring long maturities (typically 10–15 years), exceeding the amounts and maturities available from the corporate finance market.

5. Hybrid forms include transactions that generate cash flow expected to be sufficient to service debt, but where loan repayment is nonetheless guaranteed by the sponsors, either due to the perceived risks associated with the project or to avoid the need for structuring and to accelerate the financing of transactions.

Infrastructure Finance in Bangladesh[23]

6. Infrastructure finance is a developing field of finance in Bangladesh. With the shallow and undeveloped capital market, the local banking sector and bilateral lenders are expected to continue to provide the bulk of financing for upcoming projects. Banks tend to finance smaller-scale projects implemented by the private sector, such as those financed under the IPFF I project, sized up to a few hundred million dollars. Bilateral loans from countries such as China, Russia, India, and Japan are slated to finance the so called mega projects which run into billions of dollars (for example, the third seaport project with an estimated value at U$16 billion and the nuclear power station at U$12 billion).

7. As the infrastructure projects in Bangladesh grow in variety and complexity, financing sources, instruments, and arrangements will have to follow and provide the resources necessary to fund them at various stages of implementation—design/planning, construction, and operation. It is unlikely that the banking sector will be able to provide all the required finance and assume all the associated risks. Capital markets in particular, will have to increase their share. This should lead to more diversified financing sources and arrangements and better risk-sharing profiles available for infrastructure project sponsors and their financiers.

8. BIFFL, a state-owned DFI, is on a growth track and is well placed to increase public sector inputs in the infrastructure finance ecosystem. With a strong capital base provided by the GOB, BIFFL should venture into developing new infrastructure financing instruments and pioneer them in the Bangladesh financial market. This will open the path for domestic and foreign private sector lenders and investors to channel financing into Bangladeshi infrastructure projects. IPFF II will provide advisory support to BIFFL (and the market at large) for developing such new infrastructure financing instruments.

[23] This section draws substantially on the OECD paper, Infrastructure Financing Instruments and Incentives (2015).

Table 1.1. OECD Taxonomy of Infrastructure Finance Instruments

Modes		Infrastructure Finance Instruments		Market Vehicles
Asset category	**Instrument**	**Infrastructure Project**	**Corporate Balance Sheet/Other Entities**	**Capital Pool**
Fixed income	Bonds	Project bonds	Corporate bonds, green bonds	Bond indices, bond funds, ETFs
		Municipal, sub-sovereign bonds		
		Green bonds, Sukuk	Subordinated bonds	
	Loans	Direct/Co-investment lending to infrastructure project, syndicated project loans	Direct/Co-investment lending to corporates	Debt funds
			Syndicated loans, securitized loans (ABS), CLOs	Loan indices, loan funds
Mixed	Hybrid	Subordinated loans/bonds, mezzanine finance	Subordinated bonds, convertible bonds, preferred stock	Mezzanine/hybrid debt funds
Equity	Listed	YieldCos[24]	Listed infrastructure and utilities stocks, closed end funds, REITs, IITs, MPLs	Listed infrastructure equity funds, indices, trusts, ETFs
	Unlisted	Direct/Co-investment in infrastructure project equity, PPPs	Direct/Co-investment in infrastructure project equity	Unlisted infrastructure funds

Source: OECD 2015.
Note: ABS = Asset Backed Securities; CLO = Collateralized Loan Obligations; ETF = Exchange Traded Funds; IIT = International Investment Trust; MPL = Maximum Possible Loss (Insurance); REIT = Real Estate Investment Trust.

Debt Instruments

9. Globally, infrastructure debt typically comprises 60 percent to 80 percent of a project's financing and is classified as a fixed-income instrument. There are two predominant types of debt financing: (a) project loans and (b) project bonds. Debt carries lowest financing risks and costs in infrastructure projects although the costs vary depending on the project phase and associated risks. Project loans are provided by banks directly to project entities or special purpose vehicles (SPVs), usually for the construction phase, and are collateralized with project assets (or with assets of the project's corporate sponsor). Project bonds finance stand-alone infrastructure projects and are issued by SPVs through private or public placements. The bonds are sold to banks or other market investors, with or without credit enhancements, and are most often used in the operational phase of the project when the project starts generating positive cash flows.

Mezzanine/Hybrid Financing

10. Mezzanine financing typically does not exceed 20 percent of total project costs. Subordinated debt, mezzanine debt tranches, convertible bonds, and preferred shares provide credit support to senior

[24] Special power projects with multiyear power purchase agreements which are placed in separate SPVs whose shares are then listed on exchanges through IPOs. Yieldcos are used by utility companies to spin off power plants or other energy projects and provide attractive and stable long-term returns to investors.

debtors. Such issues absorb credit losses before senior debt issues and thus have an effect of raising the credit quality of senior tranches. Mezzanine financing carries a higher cost than senior debt, and can also include equity participation rights. In addition or in lieu of regular debt interest payments, mezzanine debt repayments can be done in kind by equity shares.

Equity Finance

11. This is the highest-cost financing source whose investment return is determined by the success of the underlying asset. Project sponsors initiate projects by contributing to an SPV, or in the case of PPP structures, act as bidders for projects tendered by the public sector. Equity finance typically makes 10 percent to 30 percent of project costs but can be higher in volatile market circumstances or for innovative, high risk-return projects.

Infrastructure Project Risks and Mitigation Instruments

12. Risks of investing in infrastructure projects can be classified into: (a) political, governance, and regulatory risks, (b) macroeconomic and business risks, and (c) project-specific technical risks. The risks associated with a specific infrastructure project depend on the nature of the underlying asset—for example, its exposure to the public sector, technical complexity, contracts and suppliers, and so on Risks also vary across the life of the project: pre-bid, construction, operational, and termination phases all present different risk mixes and call for targeted risk mitigation techniques and instruments. The OECD classification of risks linked to infrastructure assets is provided in table 1.2.

Table 1.2. Classification of Risks Linked to Infrastructure Assets

<table>
<tr><th rowspan="2">Risk Categories</th><th colspan="4">Project Phases</th></tr>
<tr><th>Development</th><th>Construction</th><th>Operation</th><th>Termination</th></tr>
<tr><td rowspan="3">Political and Regulatory</td><td>Environmental review</td><td>Cancellation of permits</td><td>Change in tariff regulation</td><td>Contract duration, decommission, asset transfer delays</td></tr>
<tr><td>Rise in preconstruction costs due to long permitting process</td><td>Contract renegotiation</td><td colspan="2">Currency convertibility</td></tr>
<tr><td colspan="4">Change in taxation, social acceptance, change in legal/ regulatory environment, enforceability of contracts, collateral, and security</td></tr>
<tr><td rowspan="3">Macroeconomic and business</td><td>Prefunding</td><td colspan="3">Default of counterparty</td></tr>
<tr><td colspan="2">Financing availability</td><td colspan="2">Refinancing risk, liquidity, volatility of demand/market risk</td></tr>
<tr><td colspan="4">Inflation, interest rates, exchange rate fluctuation</td></tr>
<tr><td rowspan="6">Technical</td><td colspan="3">Governance and management of the project</td><td rowspan="5">Termination value different from expected</td></tr>
<tr><td colspan="3">Environmental</td></tr>
<tr><td>Project feasibility</td><td rowspan="2">Construction delays and cost overruns</td><td rowspan="2">Qualitative deficit of the physical structure/service</td></tr>
<tr><td>Archeological</td></tr>
<tr><td colspan="3">Technology and obsolescence</td></tr>
<tr><td colspan="4">Force majeure</td></tr>
</table>

13. Project risks can be retained by sponsors or mitigated through various risk-sharing instruments. Risk retention is possible where a strong corporate parent stands behind a project and can diversify the risks across its existing balance sheet. This is not possible for an SPV that is dedicated to a specific project. Risk allocation carries a cost: the more risk is retained by a sponsor, the lower will be the cost of funding of its infrastructure project. SPVs mitigate risks through financial (guarantees, insurance, grants, and so on) and nonfinancial (supply, purchase, operations and maintenance agreements) contracts.

14. Financial risk mitigation instruments include: (a) full or partial credit and other guarantees from a government agency or a publicly owned DFI; (b) provision of capital, in the form of debt, equity or mezzanine financing, by a government agency or a publicly owned DFI; (c) project insurance - full wrap, technology, warranties, commercial and political risks; (d) hedging through swaps, options, forwards, and other derivatives; (e) contract design costs, for example, availability payments and offtake contracts paid by the government; and (f) public grants, for example, for capital, revenue, and debt payments, and tax incentives.

15. Globally, there is strong potential for new financing instruments for infrastructure, which would address long-term illiquidity and risk pricing concerns of investors. Infrastructure bonds and funds make infrastructure investments tradable and, therefore, help to increase their liquidity. Greater securitization for infrastructure loans can help banks to diversify their risks and alleviate large bulk risks of a single project, which are difficult to quantify. Tradable infrastructure financing instruments can make infrastructure as an asset class more accessible to a broader group of investors and would allow easier access to global capital markets that have hardly been tapped by infrastructure projects. The public sector, including DFIs, with support from multilateral institutions such as the World Bank Group, has a strong role to play in facilitating new infrastructure finance instruments, both through provision of finance and mitigation of risks.

16. Based on experience from implementation of IPFF I and the imperative of diversifying the country's long-term financing market instruments, the available global knowledge and skill sets associated with innovative financial instruments and management of long-term financing risks will be piloted through IPFF II.

Annex 2. PPP Project Transactions in Bangladesh

1. PPP transactions signed so far in Bangladesh mostly consist of smaller projects suitable for corporate finance, a few which were supported by IFC as financial advisor. Larger projects previously launched on a PPP basis have been facing challenges. The Dhaka Elevated Expressway, a 23 km, 4-lane toll road with a project cost of approximately US$1.2 billion, was initially awarded in 2010. Project agreements were re-signed in 2013; however, the project sponsor has since pulled out and the project will, most likely, need to be restructured. The Hanif Flyover, a 12 km road PPP project was financed in 2010 and completed in 2014. The local currency financing extended by a syndicate mostly consisting of SOBs, for an amount of approximately US$250 million equivalent, got rescheduled twice.

2. Larger transactions planned to be brought to market by the PPPA and seek financing within the next two years include three road projects:

(a) **Dhaka Bypass.** A build-operate-transfer (BOT) concession for the extension of a 2-lane highway into a 48 km, 4-lane motorway connecting the northern and western parts of Bangladesh to the Chittagong port. Project cost is estimated at around US$350 million, of which up to 30 percent could be funded by a viability gap fund (amount being subject to tender). The concession period would be 25 years, subject to extension if the toll revenue fails to reach pre-agreed levels.

(b) **Dhaka-Chittagong Access-Controlled Highway.** The first phase of this 217 km project could have a project cost of around US$900 million. The feasibility study has been completed, and the viability gap fund is being processed. The short-listing of bidders is planned to be launched in the first half of 2017.

(c) **Shantinagar to Dhaka-Maowa Flyover.** This 11 km flyover would involve the construction of a 4th (new) bridge over the Buriganga River, at a total cost of approximately US$350 million. The project is expected to be structured as a 'PFI' whereby the Government assumes traffic and revenue risk and pays a pre-agreed amount to the BOT concessionaire, subject to pre-agreed technical and operation parameters being met.

3. Other PPP projects expected to reach the market and seek financing notably include ports with project costs up to US$100 million per transaction, starting with of the construction and operation of jetties at Mongla Port, in the southwestern part of the country. The feasibility study for this project has been completed, and financial advisors have been appointed.

4. So far, the 'sweet spot' for infrastructure project finance in Bangladesh has been for transactions up to around US$300–350 million, comprising up to US$100 million in equity and US$200–250 million in senior debt. To date, successful project financings have been limited to power and telecom projects. The successful financing of toll roads on a BOT basis would be a significant breakthrough for the country. Given the pioneering nature for Bangladesh of some of the PPP transactions being planned, the appointment of highly experienced financial advisors before the tenders are launched would be an important step toward the successful financing of these projects.

5. The financing itself is expected to combine an international tranche led by experienced international arrangers (such as IFC) together with a local tranche extended by local banks supported by the IPFF. Challenges to be addressed through the structuring of project contracts, government support mechanisms, and financial structuring will include the mitigation of construction risk, traffic and revenue risk, and currency mismatch between local currency revenue and foreign currency debt.

6. Bangladesh's PPPA currently has an official pipeline of 44 projects at various stage of maturity, ranging from concept approval by the Cabinet Committee on Economic Affairs (CCEA), to tender, award, and signature of project agreements. The contemplated PPP projects span sectors including road transport, port terminals, energy (liquefied petroleum gas), industrial zones, water and waste management, logistics (in-land container depot), hospitality, social infrastructure (medical college and hospital), and housing. Individual project sizes range from the equivalent of just a few millions dollars up to over US$1 billion.

Annex 3. Proposed Interest Rate Structure for IPFF II

1. IDA will provide funding to the GOB in two ways:

(a) US$100.0 million equivalent will be provided from the SUF. These funds will be provided in Euros (as requested by GOB) opting for maturity of 30 years with a fixed interest rate of 2.68 percent per year[25].

(b) US$ 256.7 million equivalent will be provided from the regular IDA resources at regular IDA maturity (38 years) and rate.

(c) It is expected that the average interest rate applicable to the combined IDA financing will be around 1.29 percent per year considering U.S. dollar equivalent of the Credit. Effective weighted average rate will likely be less than that over the lifetime of the credits as regular IDA resources have a longer maturity and will thus be in use for longer than the SUF funds.

2. The GOB intends BB PIU to provide the long-term IPFF II funds to the PFIs in U.S. Dollars (USD) or in Bangladeshi Taka (BDT), or in a combination of both USD and BDT (depending on request by the PFIs and business need of the subproject), at fixed and variable rates, for maturities of 8 – 20 years and at interest rates which will position the IPFF II funds at a lower end of the market rate ranges. The applicable rates at the start of the project will be as shown in table 3.1:

Table 3.1. Applicable Rates at Project Commencement

	Fixed	Variable
US$	U.S. dollar 10-year swap rate + 50 bp	U.S. dollar 12-month Libor (Potentially also U.S. dollar 6-month Libor + 30 bp and U.S. dollar 3-month Libor + 60 bp)
BDT	GOB T-Bill 364-day yield + 100 bp	GOB T-Bill 364-day yield

Reference rates:

- U.S. dollars 10-year swap rate - 1.71 percent[26] (October 28, 2016)
- Cost of funds to the GOB, including IDA interest rate and applicable front-end, commitment, and any other fees
- US$ Libor
    - o 12 month - 1.58 percent[27] (October 28, 2016)
    - o 6 month - 1.26 percent[28] (October 28, 2016)
    - o 3 month - 0.89 percent[29] (October 28, 2016)

[25] The SUF terms may vary depending on the market situation at the time of project approval by World Bank Board
[26] https://fred.stlouisfed.org/series/DSWP10.
[27] https://fred.stlouisfed.org/series/USD12MD156N.
[28] https://fred.stlouisfed.org/series/USD6MTD156N.
[29] https://fred.stlouisfed.org/series/USD3MTD156N.

- GOB T-bill 364-day yield - 3.92 percent[30] (October 31, 2016)

3. The rationale for the proposed interest rate structure is provided below.

(a) The Government's overall intention is to pass on the IDA funds at a lowest possible cost to the PFIs. The GOB views this as developmental lending and does not intend to profit from the onlending arrangement. Any risks in onlending—interest rate and currency—will be assumed by the general government budget. An alternative of establishing a dedicated risk guarantee fund using the credit or the GOB's own resources was considered and rejected by the GOB, on the basis of the unnecessary complexity this would introduce to the project design.

(b) The PFIs will typically be able to draw from IPFF II up to 50 percent of the total cost of each individual infrastructure subproject. This threshold has been reduced in IPFF II from IPFF I (it was 60 percent in the latter) to increase the leverage of the IDA funds, by attracting more private sector financing for the private infrastructure projects than before. This feature to some degree reduces the attractiveness of the financing component to the PFIs.

(c) At the same time, it is important to ensure that interest rates at which the PFIs will borrow from the GOB under the project are reflective of the market levels, market needs, and do not result in clearly subsidized lending by the GOB. In this case a subsidy would mean an outright loss, accounting or realized, to the GOB from the onlending (for example, if the GOB were to lend at rates which would clearly be below its cost of funds), thus necessitating rates which would at least cover the GOB's cost of funds.

(d) All in all, the intention of the GOB is to onlend the IDA funds to the PFIs by, at the very least, recovering its cost of funds. The GOB will also position the onlending at the lower end of the market in terms of interest rates. The latter point is also supported by the limitation, expressed in the maximum share of IPFF II funds going to individual infrastructure projects, which would be to some extent compensated by developmentally oriented interest rates.

(e) It is important to note that the proposed interest rate structure will need to be reviewed from time to time in order to optimize it on the basis of changing market conditions, demand and supply of U.S. dollar and Bangladesh taka funds in the fixed and variable categories, and GOB's preferences. The structure will be reviewed at least annually during project implementation. BB will provide an assessment of market conditions to the GOB and World Bank and suggest changes, if any, in the rate structure. If needed, changing interest rates annually will be done on the basis of no objections from IDA and will not require project restructuring.

4. Specific comments on the four quadrants of lending:

[30] https://www.bb.org.bd/monetaryactivity/treasury.php.

(a) **Fixed USD.** The GOB will use the U.S. dollar 10-year swap rate as the pricing benchmark; this will ensure market-based pricing in this quadrant. The current US$ 10-year swap rate is 1.71 percent,[31] slightly higher than the GOB's expected cost of funds. A 50 bp margin will be added, bringing the cost to the PFIs of around 2.21 percent at the current rates. Banks tend to add a margin of 2–2.5 percent which would result in a final cost to the private sector lenders of around 5.0 percent in this particular quadrant. This quadrant carries no currency risk to the GOB. There would remain a small interest rate risk if the swap rate fell below the GOB's cost of funds.

(b) **Fixed BDT.** The GOB will charge the yield of its 364-day treasury bill prevailing at the time of disbursement plus 100 bp. This rate will be fixed at the time of disbursement for the full maturity of a loan to a PFI. Based on the T -Bill rate prevailing on February 28, 2017 this structure would result in a final cost to the private sector lenders of around 7–7.5 percent in this particular quadrant. This structure will also lead to establishing a rudimentary taka swap rate for the maturity of the loans to PFIs (which can later be used by BB and the market to refine the swap rates for different taka maturities). The yield of a 10-year GOB bond was also considered as a benchmark for this quadrant, and rejected due to infrequent issues and low market liquidity which diminishes price discovery of this benchmark. While nominally the GOB would more than compensate its cost of funds at the current U.S. dollar/Bangladesh taka exchange rate, this quadrant carries currency risk to the GOB.

(c) **Variable USD.** The GOB will charge U.S. dollar 12-month Libor. The 12-month Libor (as opposed to a 3- or 6-month rate) is suggested because of the long-term maturities of IPFF II loans to PFIs and to maintain infrequent interest rate resets and reduce fluctuation of the PFI borrowings' interest cost. The current cost (as on February 28, 2017) would be around 1.8 percent to PFIs and up to 4.5 percent to final borrowers, for the next 12 months, potentially higher in the future periods given the Libor trend and expected policy rate increases by the Federal Reserve. The cost to the PFIs would fully cover the GOB's cost of funds in the near term; the structure would have to be reviewed with a view of reduction of the rate to the PFIs if the Libor trend increases the difference between the rate charged by the GOB to the PFIs in this quadrant and the GOB's actual cost of funds (3- and 6-month Libor could also be used as pricing benchmarks, to give a bigger choice to the PFIs for their liability management). This quadrant carries interest rate risk to the GOB.

(d) **Variable BDT.** The GOB will charge the yield of its 364-day treasury bill prevailing at the time of disbursement. This will basically pass on the cost of GOB market borrowing in local currency to the PFIs. Similar to the variable U.S. dollar lending, the rate will reset once a year. This quadrant carries both interest rate and currency risk to the GOB. Whereas currently the global U.S. dollar rates are expected to go up in the wake of the expected policy rate increases by the Federal Reserve, the Bangladesh taka rates have a potential to decrease further due to favorable market liquidity situation, strong macro fundamentals, and

[31] *https://fred.stlouisfed.org/series/DSWP10*. The Federal Reserve has discontinued publication of this rate as of October 31, 2016. In case needed, references to the rate, established by ISDA, will be drawn from available market sources (e.g., *https://ycharts.com/indicators/10_year_swap_rate*).

expansion of the borrowing sources by the GOB. Therefore, this quadrant will need to be monitored particularly closely during implementation of the project.

5. The GOB may consider introducing its cost of funds as the interest rate floor, irrespective of the quadrant under which lending would be provided to PFIs, so that each interest rate payment by a PFI would be set as the higher of the applicable quadrant rate of the GOB's cost of funds. This would eliminate the interest rate and currency risks to the GOB but would pass them on to the PFIs. The residual currency risk in the case of Bangladesh taka onlending would possibly affect (increase) the PFIs' forex exposures. The PFIs will be free to set interest rates and fees to their borrowers or investees based on their underwriting policies and decisions.

Annex 4. IPFF II Implementation Arrangements and Eligibility Criteria

Implementation Arrangements

1. The design of the project seeks to facilitate significant, new private sector investments into infrastructure; strengthening of the overall technical, E&S, and financial capacity in the infrastructure finance ecosystem and long-term infrastructure funding sustainability beyond the project timeline through catalytic/innovative approaches to infrastructure finance. To this end, the participation of a broad set of local financial institutions and infrastructure project sponsors is expected to continue from IPFF I. The project foresees multiple PFIs, project sponsors, and agencies perusing the project resources to ascertain competition for funds (on a first-come-first-served basis) and a further build-up of capacity in the system for expanding the number of successful and sustainable infrastructure projects. Effective regulatory oversight of the PFIs by BB and the application of strict eligibility criteria for the PFIs are essential to the project design.

2. BB will be the IPFF II implementing agency for the entire project. The seasoned PIU (IPFF Cell), which was established for implementation of IPFF I will continue with implementation of IPFF II. The PIU is led by the Project Director and has an established and capable team to oversee all aspects of implementation. Full details of implementation arrangements are provided in the OM for IPFF II.

3. BIFFL and the PPPA will be among the project beneficiaries, receiving substantial TA support under the TA component. While the BB PIU will oversee the overall project implementation and coordination including funds transfer, both BIFFL and the PPPA are expected to maintain organizational arrangements overseen by the heads of the organizations which would allow them to successfully absorb the provided TA. The arrangements will include internal performance and results monitoring and evaluation which will feed into the overall project M&E structure. BIFFL and the PPPA are expected to provide monitoring reports to the BB PIU and the World Bank in an agreed format and periodicity and also maintain their financial accounts so as to ensure smooth financial reviews/audits of their TA allocations as part of the overall FM of the project. BIFFL and PPPA will also embed appropriate E&S considerations into their project related activities, in line with the overall project E&S design.

4. BB will initially apply and then regularly reassess the eligibility criteria for the PFIs and the compliance of the latter. BB will, on behalf of the GOB, release funds to eligible PFIs to finance viable private sector-led infrastructure projects. The projects will conform to the technical, financial, and E&S risk management criteria for investment project eligibility, as laid out in the OM developed by BB.

5. The PFIs will undertake credit/investment risks of the infrastructure projects and be responsible for the detailed assessments of the projects' soundness, financial and economic feasibility, and E&S risks and management of the same. The PFIs will also monitor implementation of the financed infrastructure projects and will maintain accounts and records which will allow smooth review/monitoring and assessment of the individual projects and the entire infrastructure project portfolio of IPFF II. Figure 4.1 presents a summary picture of the different stakeholders and implementation arrangements for IPFF II. A full set of terms and conditions for lending and flow of funds by IDA to the Government, the Government

to PFIs, and PFIs to private sponsors, as well as PFI and subproject eligibility criteria, among other issues, are detailed in the OM.

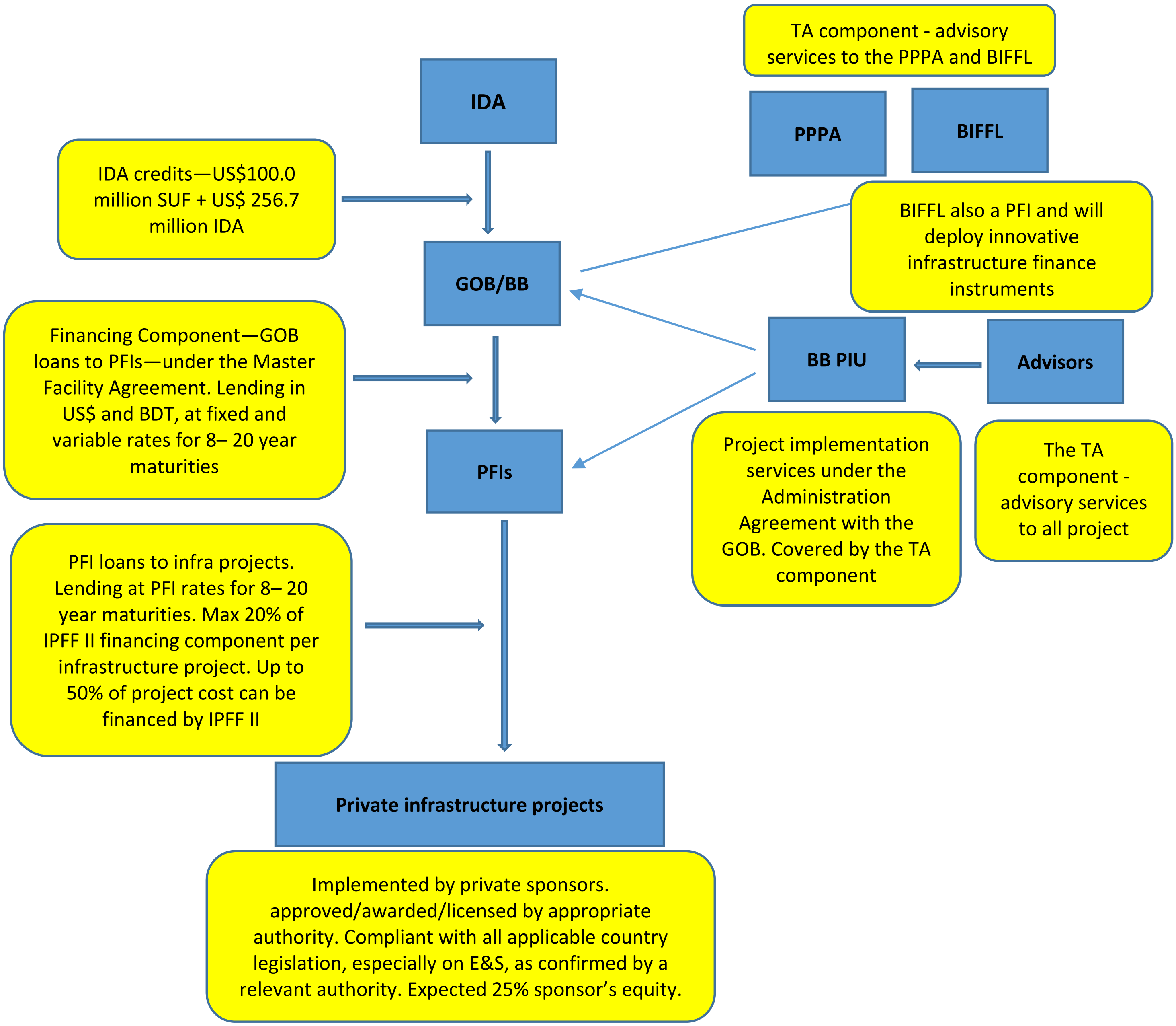
Key aspects of IPFF II Onlending

6. Under IPFF II, the GOB will extend an estimated US$ 368 million to the PFIs using Master Facility Agreements (MFAs, for overall participation) and Facility Access Agreements (FAAs, for individual Facility Loans) to be signed between BB and the PFIs. The PFIs will be selected based on their expression of interest in participating in the project and on acceptance by the BB PIU of their credit risk. BB has the responsibility for selecting the PFIs.

7. Financing to PFIs can be provided in USD or in BDT, or in a combination of both USD and BDT, at fixed or variable rates, depending on request by the PFIs and business need of the subproject. The cost of funds to PFIs will include, at a minimum, the cost of IDA funds to the GOB plus onlending margins agreed between IDA and the GOB for each of the lending streams (quadrants - U.S. dollar fixed rate loans, U.S. dollar variable rate loans, Bangladesh taka fixed rate loans, and Bangladesh taka variable rate loans; see Annex 3 for details). The cost of financing by PFIs to private sector sponsors will include, at a minimum, the cost of the project funds to PFIs plus an onlending margin reflecting: (i) the PFI's administrative costs, and (ii) a credit risk margin.

8. Loans to the PFIs will have at least 8 years (96 months) of maturity and can be provided up to 20 years (240 months), and will be extended against infrastructure financing (e.g., loans, equity, guarantees) provided by the PFIs to the private sponsors before the closing date. Maturity of loans to the PFIs will aim to mirror maturity of financing from the PFIs to project sponsors. Financing for the private sector sponsors may be made for working capital and investment purposes. The private sector promoter will typically invest an equity contribution of 25 percent or more of the total subproject cost. IDA allocation to IPFF II will aim to finance no more than 50 percent of the total financing required for a sub-project. Also, maximum financing to a single infrastructure sub-project shall not exceed 20 percent of the total allocation under Component 1.

Figure 4.1. IPFF II Implementation Arrangements - Flow



Key agreements governing IPFF II

- Between the GOB and IDA: Financing Agreement
- Between the GOB and BB: Administration Agreement
- Between BB and advisors: Technical Service Agreement
- Between BB and the PFIs: Master Facility Agreement (MFA, umbrella agreement for the PFIs' participation in the project) and Facility Access Agreements (FAA, for individual loans to PFIs)

Approval of Financing Proposals

9. Once a PFI has taken the decision to finance an infrastructure project, the PFI forwards the loan file to the BB PIU for approval of the requested IPFF II financing. E&S qualified technical assistance/ implementation support partners engaged under the TA component will provide support and quality assurance on the E&S matters to the BB PIU, PFIs, and project sponsors during this review process, as needed. The BB PIU will not take commercial/credit decisions when reviewing the proposals. Rather the BB PIU, with support from E&S and other qualified consultants as needed, reviews whether the investment projects to be financed meet predefined criteria: acceptable procurement, sufficient equity participation, sub-projects conform with E&S applicable requirements including adequate E&S impact assessment and management plans prepared or under preparation etc. Once the BB PIU has ensured that the investment project complies with the eligibility criteria, it will provide its ‘no objection’ to the PFI, subject to prior acceptance/clearance by the World Bank. Details on the process to be followed are provided in the project’s OM. After the BB PIU has cleared the loan application, BB disburses the required amount (in installments, maximum number of which will vary by sector and by subproject) from the project account on behalf of the GOB. Eligible investment projects are considered for financing by the BB PIU on a first-come-first-served basis.

Capacity Building to the Infrastructure Finance Ecosystem

10. Following the positive experience of Financial Institutions Development Project and IPFF I, capacity building will also be provided under IPFF II. The project’s TA component will have allocations for retaining qualified technical, financial, and E&S risk assessment and management expertise to support the buildup of capacity and skills across the ecosystem, including the Government authorities responsible for preparation and approval of infrastructure projects, including PPPs; financial institutions involved in financing the projects; and private sector sponsors investing in the projects. The BB PIU, jointly with other public sector agencies, will organize workshops (with inputs/participation of local and international consultants) on pertinent issues related to infrastructure project finance and implementation. The BB PIU will also provide opportunities for training abroad or in-country to the PFIs .

Monitoring

11. The primary responsibility for monitoring of each investment subproject shall lie with the PFI. The BB PIU will have a system of periodical monitoring of the subproject’s compliance to the FAA clauses and to the E&S safeguard risk mitigation measures, as agreed by the PFI and the sponsor, and in accordance with the guidance provided in the IPFF II E&S Policies and Procedures document, as well as internal E&S management systems of the PFIs. Over the life of the project, the BB PIU will keep the GOB and IDA apprised as to the continuing compliance by PFIs of the eligibility criteria, the progress of investment subprojects, indicators on impact of the project on private sector participation in infrastructure development (through the Results Framework), and emerging issues relating to these areas.

Annex 5. Economic and Financial Analysis

1. The economic and financial analysis of IPFF II is dependent on the merits of each of the subprojects it will finance. Therefore, the actual economic and financial impact/data relevant to IPFF II will not be known until all eligible subprojects are reviewed and financed. There can, however, be an indirect way of making economic and financial analysis of IPFF II, based on the actual results of IPFF I. The economic and financial results achieved by IPFF I can be used as a proxy for indicative economic and financial impacts to be made by IPFF II.

Economic Analysis of IPFF I

Increased Infrastructure Capacity

2. The GOB has implemented the IDA-supported IPFF I since August 2006-December 2016. With the objective of accelerating private sector-led growth through providing term finance for infrastructure development and promoting domestic infrastructure finance capacity, IPFF has disbursed close to the entire project allocation for 21 infrastructure subprojects. The initial US$50 million of project allocation was fully utilized two years before the closing date, financing seven small power plants across the country, adding approximately 5 percent of electricity generation capacity to the national grid. Given the large infrastructure gap in the country, IPFF I was scaled up in 2010 with AF of US$257 million (total US$307 million of which, US$294.5 million in the onlending component and US$12.5 million in the TA component).

3. The achievements of IPFF I go beyond the full achievement of the Development Objectives and the intermediate outcomes. The project's convening power and leveraging impact have created dynamism in the long-term financing market. It has played an important catalytic role by crowding in over 100 percent of the allocated funds in the form of long-term private sector debt and equity in infrastructure. Importantly, the project's role is well recognized by public as well as private sector stakeholders in the country. IPFF I accomplished this by empowering Bangladeshi corporations that had demonstrated their implementation capacity.

4. The impact of IPFF I on different infrastructure sectors is described in the following paragraphs:

(a) **Power generation.** IPFF I supported 12 power plants of different sizes that added 589 MW electricity generation capacity to the national grid, which represents 4.4 percent of the current installed capacity of Bangladesh Power Development Board Power Plants.[32] Apart from supporting reliable power solutions to the thriving business sectors, the project instilled good E&S standards in those power plants. For example, only three out of thirty fuel-run power plants in Bangladesh have desulfurization plants[33]—all in IPFF I-funded plants. In addition, all IPFF I supported plants were subject to external

[32] Based on data from Bangladesh Power Development Board *http://www.bpdb.gov.bd/bpdb/index.php?option=com_content&view=article&id=150&Itemid=16*. Last consulted September 23, 2016.

[33] The desulphurization process is used to bring down the harmful emissions such as sulphur dioxide (SOx) and nitrogen oxides (NOx), the two ozone depleting substances, to an acceptable level, as described in World Bank standards.

environmental monitoring by a consulting firm (BETS Consulting Limited), the environmental compliance monitoring firm hired by the PIU. BETS´ monitoring translated into action plans for improved environmental management of the power plants. This was particularly important to solving environmental issues that arose in some cases, within a context in which external monitoring is not strictly enforced by government agencies. The 12 power plants across 6 districts in Bangladesh added to more economic activities in their coverage areas. People, at large, in those areas are having better life quality; additional investment and business activities had positive contribution to job creation leading to a rise in incomes.

(b) **Information technology.** The two nationwide fiber optic cable networks (corresponding to the company Fiber@Home Limited and Summit Communications Limited) that got nationwide telecommunication and transmission network (NTTN) licenses came to IPFF for financing of the 6,832 km optical fiber, long-haul backbone. The two ICT sector subprojects are contributing toward improved Internet outreach and advanced information technology-based capability in the government offices across the country which helped enhance efficiency and productivity.

(c) **Industrial water treatment.** IPFF I supported water treatment plants at three of the eight Export Processing Zones in Bangladesh. The three water treatment plants serve 15 export companies in Adamjee, 4 companies in Comilla, and 68 export-oriented companies in Chittagong. As a result of having common treatment plants (as opposed to individual sourcing and treatment), export companies became more efficient (their machinery works are better, while water-related costs are reduced), and more environmentally friendly (now water is sourced from streams deeper than those used for human consumption).

(d) **Inland container terminals.** The expansion of the inland container terminals of KDS Logistics in Chittagong was another diversification of the IPFF investment portfolio. The two-storied container freight station of about 108,000 square feet added 44 percent more cover-shed capacity through IPFF I financing. The expansion of KDS was also translated into a 10 percent additional capacity in other 16 companies operating in the Chittagong area, supporting the country’s important export logistics. The expansion resulted in export container stuffing going up from about 40,000 TEUs to 68,000 TEUs per year, representing a 70 percent increase.

Achievement of Component 2 Objectives

5. IPFF I had a TA component for engaging technical advisors and E&S consultants for providing advice and consultancy support to the IPFF Cell, as well as capacity building of the key stakeholders of PPPs in Bangladesh.

6. The implementation of PPP required a new set of skills and capacities. The PPPA tracked and coordinated a list of priority projects for implementation as PPP. Additionally, the PPPA managed a master list of both completed as well as proposed PPP projects in Bangladesh and had to do an assessment of the

training needs and a plan for PPP capacity building. This included the identification of specific infrastructure sectors and infrastructure line ministries and executing agencies in Bangladesh that required the training and capacity building on PPP management first (under the PPP Capacity Building Plan). All PPP stakeholder organizations needed basic-level training on PPP—what they are, their goals and rationale, examples, and what is generally required to manage and implement PPP. Very few PPP cells had both experience and some proven capacity to manage and implement PPP.

7. Specific capacity gaps were identified and were the basis for the design of the PPP Awareness Creation and Capacity Building Plan. The plan provided detail on the specific training curricula and the learning outcome statements for each of the recommended PPP training and capacity-building events and programs. This is because not all officials in Bangladesh required the same level of detail in their PPP training programs. The PPP Training Needs Assessment identified a number of target stakeholder groups, who needed training for their PPP-related staff, including those in the PPP cells that were responsible for overseeing and managing key PPP project preparation and review procedures.

8. The overall objective of the Capacity-building and Awareness Creation plan was to achieve a successful and sustainable PPP program and successful PPP transactions in Bangladesh. The plan aimed at reinforcing staff capacity of each of the key PPP stakeholder organizations to manage all phases of the PPP project cycle to complete the implementation of priority PPP transactions in Bangladesh. There were three results components. For Component 1, awareness and understanding of how to manage the basic requirements of the overall PPP project cycle were developed. For Component 2**,** practical skills to be able to manage specific tasks within each key phase of the PPP project cycle were developed. For Component 3, advanced level skills were developed to both direct and complete specific PPP transactions tasks: (a) skills for managing the financing for PPP, including financial and economic analysis and financial modeling; (b) skills in designing, drafting, and negotiating PPP contracts; and (c) first-hand understanding of policy and practical techniques for effective management of PPP.

9. The identified target groups were the following: administrative units (PPPA, PPP Unit); infrastructure line ministries and executing agencies; IPFF project cell in BB; private investors and chambers of commerce; and local commercial banks and nonbank financial institutions.

10. Based on the face-to-face mode of delivery, training can be classified as follows: short duration events (3 to 7 days); long courses (7–15 days or a month); CD or website-based training (these were designed for busy officials to avoid difficulty of gathering them in one place. Besides, there was the establishment of a PPP Resource and Knowledge Center, a workshop of PPP training of trainers, and a panel of PPP experts and trainers.

11. The spillover effects of IPFF I included the following:

(a) Spreading the know-how of long-term financing among the local financial institutions—not only through the onlending operations under IPFF I, but also from the workshops and training programs supported by the IPFF TA component.

(b) Structuring infrastructure investment proposals across different sectors: the PPPA has developed a pipeline of private sector-led infrastructure proposals in the country.

(c) Instilling E&S risk management global best practice during construction as well as in the implementation phase of infrastructure projects.

12. To sum up on economic analysis, the combined effect of the IDA financing terms of IPFF II will translate into lower annual cash outflows for debt service, reducing the overall service cost to the end users. This will also improve financials of the private sponsors, helping them accumulate reserves from which more infrastructure projects could be financed. The additional infrastructure to be developed because of IPFF II will facilitate promotion of more business and trade and more job creation.

Financial Analysis

13. Like the economic analysis, the financial outcomes of IPFF II will be dependent on the same for the subprojects to be financed by the project. The best possible way to have a rough estimate of the financial analysis for IPFF II can be gathered by proxy using the key financial ratios of subprojects financed under IPFF I. Table 5.1 presents the key results of a sample of subprojects financed under IPFF I. Subprojects to be financed under IPFF II will also be analyzed using similar financial results expected from the underlying business activities.

Table 5.1. Key Ratios of Subprojects Financed under IPFF I

	IRR	ROA	ROE	DSCR
Doreen Power Generation Limited 66 MW	18.0%	7.4%	15.37%	1.57
Doreen Power House and Technologies Limited (DPHTL)	17.5%	6.26%	20.0%	4.1
Regent Power Limited	15.0%	5.51%	10.28%	1.6
Baraka Patenga Power Limited	29.15%	13.73%	21.03%	4.88
KDS Logistics	16.02%	5.63%	6.76%	2.77
Midland Power	7.30%	4.76%	6.52%	1.8

Note: IRR = Internal Rate of Return; ROA = Return on Assets; ROE = Return on Equity; DSCR = Debt Service Coverage Ratio.

Annex 6. Environmental and Social Risk Management

Environmental and Social Risks and Impacts Associated with the Project

1. IPFF II financing is dedicated to infrastructure projects across sectors, as defined by the overall project design. This may include, among others, the following sectors or subsectors: (a) power generation, transmission, distribution, renewable energy, and services; (b) port development (sea, river, and land) including inland container terminals, inland container depots, and other services; (c) environmental, industrial, and solid waste management projects; (d) highways and expressways including mass-transit, bridges, tunnels, flyovers, interchanges, city roads, bus terminals, commercial car parking, and so on; (e) airports, terminals, and related aviation facilities; (f) water supply and distribution, sewerage, and drainage; (g) industrial estates and parks development; (h) ICT; and (i) the social sector including health and education.

2. E&S risks and impacts of potential subprojects may range from inadequate labor and working conditions; pollution; occupational and community health and safety; physical and/or economic displacement, including those without formal titles to land; adverse impacts on livelihoods; adverse impacts on local communities, including tribal peoples and/or small ethnic communities and/or their unique livelihood modalities, cultural, and societal norms and way of life; and impacts on biodiversity and ecosystem services and cultural heritage.

3. IPFF II subprojects may be funded and implemented nationwide. Exact locations and/or expected E&S risks and impacts of the subprojects will not be known until specific proposals are received from the private sector project sponsors and/or brought forward for consideration for IPFF II financing with participation of relevant government agencies (for example, PPPA).[34] Therefore, the design of the E&S risk management approach for the project must be robust enough to address a wide range of risks and effects over the course of project implementation, as well as account for the complex, multilevel structure of IPFF II.

Approach to the Design of the Environmental and Social Risk Management Structure for IPFF II

4. The nature and magnitude of E&S risks and impacts will be assessed separately for each subproject, as and when it is considered for IPFF II financing. Accordingly, the system-based design for E&S risk management will be adopted for the project to enable effective and consistent identification, assessment, and management of subprojects' risks and impacts. This design will build on the lessons learned from IPFF I, as well as on the latest global developments and innovations in E&S risk management in project finance (such as the experiences of IFC, the private sector arm of the World Bank Group,[35] and

[34] The project will seek opportunities to introduce environmental and social requirements earlier in the project cycle, before sub-projects are presented for IPFF II financing. This can be done through general awareness raising activities, targeted interventions with the core target audiences (for example, relevant government agencies, PPPA, commercial banks, industry bodies, and potential project sponsors that are engaged in the infrastructure sector development in Bangladesh). The IPFF I experience presents a robust platform for such targeted interventions, as it has developed relationships with a number of infrastructure developers in the country, especially in the power generation sector.

[35] Adopting experiences of IFC is especially beneficial for the project, as IFC is envisioned to be a co-investor for some of the IPFF II subprojects.

the Equator Principles Financial Institutions).

5. The design for project implementation is based on putting in place and strengthening appropriate management systems to address E&S risks, as well as enhancing capacity for implementing these systems at all key levels of the project structure—BB, the PFIs, and private sponsor companies—to allow all institutions involved in implementation to perform their respective functions within the system effectively to adequately identify, assess, manage, and monitor E&S risks and impacts of subprojects according to the requirements of the GOB and the World Bank. Gradual in-country capacity enhancement is at the heart of the system design, as it is expected to enable long-term E&S sustainability in large- to medium-scale infrastructure financing in Bangladesh, thus enhancing overall development impact of IPFF II.

6. Core elements of the E&S risk management structure design for the IPFF II project are as follows:

(a) Clearly defined and adequately applied technical environmental and social requirements/standards for identifying and managing specific risks and impacts in subprojects during design and construction as well as at the implementation stage.

(b) Development and implementation of an ESMS at all levels of the project to support effective implementation of the technical standards mentioned above. The ESMS will include clearly articulated functions, roles, and responsibilities of all key project stakeholders. This ESMS will be supported by written policies and procedures at all key levels of the project structure, and more specifically at the BB and the PFIs' levels. It will be embedded in the overall project structure, taking into account the types of institutions and stakeholders involved (for example, BB is a Government institution playing the role of a wholesale FI for the project with commercial banks playing the role of 'retail' FIs directly providing finance to subprojects).

(c) A structured E&S capacity-building plan that will support adequate implementation of the ESMS at all levels of the project. The capacity-building plan will incorporate checks and balances that acknowledge the fact that the overall capacity in Bangladesh for E&S risk management is relatively weak and will require time to build. For example, an E&S risk management approach will incorporate exclusion of subprojects associated with particularly high-risk activities from financing by specific PFIs based on these PFIs' and/or private sponsors' capacity to adequately address them (until such capacity is built over a period of time). These exclusions will also take into consideration availability—or lack thereof—of technical expertise needed to assess and mitigate certain high-risk situations, such as potential projects in critical habitats.

Applicable Environmental and Social Requirements/Standards

7. The subprojects, as well as the ESMS, will be designed and implemented in accordance with relevant requirements of the GOB and the World Bank.

8. The World Bank environmental and social technical standards and management system requirements applied to this project will be generally governed by the provisions of OP/BP 4.03

(Performance Standards for Private Sector Activities). In particular, the approach will be consistent with the policy provisions for projects involving FIs. These provisions require development of an ESMS.

9. In relation to subprojects, the World Bank applicable requirements include: (i) relevant environmental and social national and local laws and regulations; (ii) List of Excluded Activities, based on the IFC Exclusion List to the extent it may be applicable to infrastructure development activities and List of E&S Sensitive Activities, and (iii) the World Bank Performance Standards, as commensurate with the risks and impacts of activities/ sub-projects financed by PFIs through IPFF II. Details on each applicable requirement are provided below.

World Bank Performance Standards

10. Eight World Bank PS[36] will be applicable, as mandated in OP/BP 4.03, for the management of E&S risks and impacts in the prospective activities/subprojects financed by the PFIs through IPFF II. The World Bank PS, as applied to subprojects, will also include World Bank Group Environment, Health, and Safety Guidelines. Any of the eight PS may apply to subprojects based on the outcomes of the process of identification of risks and impacts in each case.

11. One of the advantages of applying the Performance Standards is closer alignment and harmonization with IFC and MIGA that may provide co-financing at sub-project level, as essentially the same technical standards would be used. In some cases, IPFF II may also be able to benefit from E&S due diligence done by IFC and / or MIGA.

List of Excluded Activities and List of E&S Sensitive Activities

12. Additionally, a List of Excluded Activities and a List of E&S Sensitive Activities will complement effective application of the PS by providing clear policy guidance on what can and cannot be financed and the associated conditions and circumstances.

13. Application of the List of Excluded Activities means that the project will not finance subprojects associated with certain types of potential E&S impacts. The List of Excluded Activities for IPFF II is based on the IFC Exclusion List,[37] to the extent it can be applied to an infrastructure finance project where the use of funds is already limited to certain type of subprojects/activities. A 'reasonableness test' will be applied in each case, as prescribed by the IFC Exclusion List. Potential parallel financing with IFC is an

[36] "World Bank Performance Standards" are in effect, IFC Performance Standards on Environmental and Social Sustainability adopted as the "World Bank Performance Standards" in 2013 pursuant World Bank Operational Policy 4.03. IFC Performance Standards were first introduced in 2006 and updated in 2012. IFC Performance Standards can be found here: *http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/performance+standards/environmental+and+social+performance+standards+and+guidance+notes*

[37] While World Bank OP/BP 4.03 does not formally prescribe the use of an exclusion list, there are many examples of World Bank projects successfully using exclusion-based tools in projects involving FIs. Specifics of applying IFC Exclusion List to this project is described in the IPFF II E&S Policy and Procedures document. The IFC Exclusion List can be found here: *http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/ifcexclusionlist*

additional reason for application of the IFC Exclusion List to this project.

14. Application of the List of E&S Sensitive Activities means that the PFIs will not be permitted to finance subprojects associated with activities listed in (a)–(d) in Box 6.1, where they, following a PFI assessment process conducted by BB, have been found to lack adequate capacity—within their scope of responsibilities under the ESMS—to assess, manage, and monitor associated E&S risks.

Box 6.1. List of E&S Sensitive Activities for IPFF II

(a) Activities involving large-scale physical and/or economic displacement resulting from land-related transactions defined in World Bank PS 5 (paragraph 5)

(b) Activities in or near critical habitats and/or legally protected areas

(c) Activities involving adverse impacts on tribal peoples and/or small ethnic communities

(d) Activities involving significant adverse impacts on critical cultural heritage areas

BB Environmental Risk Management Guidelines

15. BB introduced mandatory ERM Guidelines in January 2011, in collaboration with banks and other stakeholders. The guidelines enable banks and FIs to consider environmental issues in a structured way in their overall credit appraisal processes, through the development of an ESMS. Development and implementation of these guidelines fall under the responsibility of the Sustainable Finance Department (SFD) of BB.[38]

World Bank Legal Policies

16. In accordance with World Bank OP 4.03, the requirements of OP/BP 7.50, Projects on International Waterways, and those of OP/BP 7.60, Projects in Disputed Areas, apply to any World Bank-supported private sector activity. These legal polices may be triggered/applicable to IPFF II funded subprojects depending on their specific circumstances. Infrastructure subprojects for which these policies are triggered will not be eligible for financing under IPFF II.

Institutional Arrangements

17. IPFF II is expected to be mainly implemented by the original project implementing agency for the predecessor project (IPFF I), BB. BB, in particular the IPFF Cell within the institution, will have primary oversight/monitoring responsibility for E&S risk management under IPFF II. Under the projects' E&S system design, the PFIs will have the responsibility for E&S risk management associated with financing of World Bank-supported subprojects under IPFF II, as they are the primary point of contact with project sponsors (for example, legal agreements). Key areas and division of responsibilities among key project

[38] The SFD is currently (as of the date of this document) in the process of updating the guidelines. The updated ESRM Guidelines will strengthen coverage of social issues, include more compressive reporting requirements, quantitative approaches to environmental and social risk assessment, more systematic numerical E&S risk rating, as well as a comprehensive capacity-building strategy for the Bangladesh financial sector.

stakeholders is presented in table 6.1.

Table 6.1. Key IPFF II Stakeholders and Their Roles and Responsibilities

Core Functions	Project Sponsors	PFIs	BB	World Bank
E&S assessment of subprojects	Conduct ESIA and/or audit, as needed; comply with ESAP	Appoint responsible staff; ensure ESAP in legal covenants	Review and provide clearance for E & S instruments (ESIA, ESMP, ESAP)	Provide no objection on E & S instruments in defined high risk situations
E&S categorization of subprojects	Develop E&S instruments in accordance with subproject E&S category	Assign subproject E&S category	Clearance of E&S category proposed by the PFIs	Observe the process as part of supervision activities
Subproject performance monitoring	Implement actions at subproject level	Monitor sponsor's compliance with agreed measures	Oversee monitoring process; engage external expertise	Conduct supervision activities

Note: ESAP = Environmental and Social Action Plan.

Environmental and Social Management System

18. Managing E&S risks and impacts for this complex, multilevel project means that BB, the PFIs, and project sponsors must develop and maintain adequate systems, procedures, and capacity for identifying, managing, and monitoring risks and impacts of subprojects commensurate with the types, scope, and nature of investment project financing provided (the project's overall ESMS).

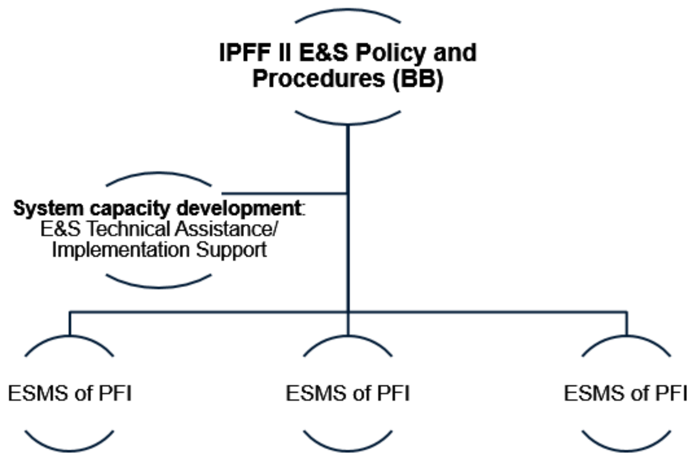
19. Accordingly, the IPFF II ESMS consists of the following key components (figure 6.1):

(a) **The IPFF II Environmental and Social Policy and Procedures** document that details key elements of the ESMS (applicable standards, project-level processes procedures for assessing risks and impacts, organizational capacity, roles and responsibilities of various stakeholders). This document will also serve as the basis for the PFIs to prepare their internal ESMSs, once they apply for financing during project implementation. This document will help ensure harmonized project implementation through adequate overarching guidance.

(b) **ESMS prepared and implemented at the PFI's level** to help fulfil their role in the E&S risk management for IPFF II subprojects. These ESMSs will be prepared taking into account the IPFF II Environmental and Social Policy and Procedures document, as well as in compliance with the mandatory BB ERM Guidelines.[39] The PFIs will internalize the IPFF II requirements and processes, as described in this IPFF II Policy and Procedures document, and will make them an integral part of their overall institutional ESMS.[40]

(c) **Environmental and Social Assessment and Management Systems implemented by project sponsors** in accordance with the relevant regulations of BB and applicable standards for IPFF II. This will include sub-project E&S categorization.

Figure 6.1. ESMS Structure for IPFF II



E&S Categorization of Subprojects

20. As part of their overall ESMS developed in accordance with the BB ERM Guidelines (or, whenever effective, the updated ESRM Guidelines), the PFIs will categorize the E&S risk of each proposed subproject. E&S categorization is a process that will assign the subproject in question to one of two risk categories (High or Medium). PFIs will not be permitted to categorize IPFF II subprojects as low risk, even though this risk category may be included in their overall institution-wide E&S categorization system. It should be noted that this categorization is done from the perspective of the risks of a PFI, as opposed to Bangladesh DoE categorization that is mainly based on the project's industry.[41]

[39] BB has also been a member of the Sustainable Banking Network (SBN) since 2012. The SBN is a community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. The SBN is facilitated by IFC with support from several donors. As part of this effort, the ERM Guidelines were introduced in January 2011 by BB, in collaboration with local banks and other stakeholders. The guidelines are being updated and the new Environmental and Social Risk Management (ESRM) Guidelines are expected to come into effect in early 2017.

[40] According to the BB ERM Guidelines, all FIs in Bangladesh must develop and implement an ESMS that covers all their business activities.

[41] Nevertheless, all subprojects are required to be categorized in accordance with DoE provisions. It is the responsibility of the project sponsor to ensure this is done on time and with sufficient basis such as the ESIA.

PFI E&S Performance Rating by BB

21. Decisions to exclude subprojects with potential activities on the List of E&S Sensitive Activities from financing by a PFI will be made based on an E&S performance rating conducted by BB. Recognizing that PFIs' ability to manage E&S risks and impacts in subprojects is critical, BB will undertake regular assessment of PFIs' systems and capacity to manage/monitor E&S risks associated with IPFF II subprojects. As a result of the PFIs' systems and capacity assessment, the following performance-based rating will be assigned to a PFI (with RR-1 representing low performance in systems and capacity assessment): RR-1 (Low); RR-2 (Moderate); RR-3 (Substantial); RR-4 (High). PFIs with performance-based ratings of RR-3 and higher will generally be permitted to finance projects involving activities on the List of E&S Sensitive Activities. For PFIs with risk rating RR-2 and lower, subprojects involving such activities will be excluded from financing. In addition, PFIs with performance rating RR-1 will not be permitted to finance subprojects categorized as High risk, regardless of whether such subprojects involve activities on the List of E&S Sensitive Activities.

Consultation and Disclosure

22. Consultations have been conducted by BB on the IPFF II E&S Policies and Procedures document on October 27, 2016, with financial institutions/banks and on November 30, 2016, with multiple stakeholder groups such as the Ministry of Industry, Ministry of Environment, other relevant government departments, prospective project sponsors, nongovernment organizations, worker's representatives, and civil society organizations (for example, academia, research centers, media, and so on). The outcomes of the consultations have been incorporated in the E&S risk management design for IPFF II.

23. It must be noted that consultation and communication is an iterative process which will be used at all stages of IPFF II to ensure that stakeholder feedback is incorporated in project design and implementation as far as feasible. To that end, disclosure and consultations at the subproject level will be conducted in accordance with World Bank PS 1 stakeholder engagement requirements. Additionally, in accordance with World Bank OP/BP 4.03 provisions, the World Bank requires BB and PFIs to disclose through their websites, and to permit, in writing, the World Bank to disclose at the World Bank's website and the Bank's local Public Information Center, the following elements of the ESMS:

(a) IPFF II E&S Policy and Procedures at the BB level

(b) Key elements of PFIs' ESMS (policy and procedures for screening and assessing risks and impacts of subprojects) at the PFIs' level

(c) After World Bank review, the summary of the ESIA that is required for any subproject considered high risk in accordance with the ESMS of the PFI (if one exists) financing that particular subproject. Such summaries will include findings of E&S due diligence, applicable requirements, and Environmental and Social Action Plans and will be disclosed by both BB and the PFI.

24. In connection with item (c) above, it should be noted that the timely disclosure of full ESIAs, ESMPs, and any other associated management plans and documents will be the responsibility of project

sponsors. In particular, the timing of such disclosure for IPFF II subprojects will be 120 days before approval of financing by BB in the case of subprojects categorized as High risk, and 60 days in the case of subprojects categorized as Medium risk (see Environmental and Social Management System subsection this Annex for more details on subproject E&S categorization). BB and the PFIs will carry out disclosures described in (c) above within the same time lines.

Collaboration Opportunities

25. Multiple points of collaboration with regard to implementation arrangements to strengthen E&S risk management under IPFF II have been identified. Several opportunities have been identified within BB itself, the PPPA and other entities. IPFF II will aim to leverage these opportunities, as feasible.

BB SFD

26. The BB SFD plans to strengthen the existing ERM Guidelines (2011) by the first quarter of 2017, aiming to fully integrate ESRM into credit risk assessment of all FIs in Bangladesh. It is recommended that IPFF II supports this effort to harmonize the requirements, potentially develop joint training programs for PFIs, and establish data-sharing arrangements around PFIs' capacity and performance with regard to E&S risk management. These opportunities will be further explored and leveraged during project implementation.

PPPA

27. One of the key lessons learned from IPFF I was the lengthy and often costly process of 'retrofitting' subprojects proposed for financing to meet World Bank safeguards. This process had been a recurring challenge in IPFF II due to the mismatch between the timing of subprojects preparation and their presentation for IPFF I financing through PFIs.

28. One such opportunity may exist through a formal collaboration arrangement with Bangladesh PPPA. The PPPA has been applying IFC PS to assessment and management of risks and impacts in the pipeline of PPP projects it is developing in anticipation of potential financing from the World Bank, IFC, Equator Banks (that apply IFC PS to their project financing), or other DFIs. As these projects may become eligible for IPFF II financing, it is recommended to establish a formal collaboration arrangement with the PPPA on this matter to potentially introduce World Bank E&S requirements into project design and incorporate them into the bidding process to the private sponsors.[42]

29. IPFF II will seek further opportunities to introduce World Bank E&S requirements early in the process of conceptualizing and developing infrastructure projects in Bangladesh.

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[42] The arrangement of including the E&S requirements, including estimated cost of their implementation, in PPPA bidding documents, conditional where feasible, on IPFF II financing.

Annex 7. Environment and Social Safeguards Capacity Building Plan

1. One of the key challenges identified for IPFF II implementation is a substantial gap that exists with E&S technical expertise in Bangladesh, affecting the quality and cost of E&S risk assessment and management. To help close this gap, IPFF II will support capacity-building efforts to increase availability of qualified expertise within Bangladesh for specialized E&S assessment, audit, and monitoring. This will also reduce dependence on international expertise, which is less sustainable and more costly.

2. Under IPFF I, BB (IPFF Cell) has developed limited internal capacity to supervise subprojects' E&S risk assessment and monitoring, conducted with extensive support, oversight, and clearance from the World Bank. The use of World Bank PS for IPFF II under OP/BP 4.03 will require strengthening of capacity-building measures at the BB level, especially in relation to its enhanced role of oversight, clearance, and performance monitoring of PFIs and project sponsors.

3. Based on the initial capacity assessment, the project will ensure that E&S risk management in IPFF II includes formal engagement of E&S implementation support advisors/consulting firms with specialized expertise in the following three areas: (a) E&S risk assessment and management in various infrastructure sectors; (b) performance monitoring against international standards; and (c) E&S risk management in the financial sector to inject more capacity into the system over time and reduce inefficiencies and bottlenecks without compromising quality of E&S risk assessment and management for subprojects.

4. Additionally, preliminary assessment of the financial sector's capacity to implement appropriate E&S risk management systems in infrastructure project financing indicates insufficient involvement/role of PFIs in this process. Therefore, capacity of the PFIs in this area must be considerably strengthened for them to effectively fulfil their responsibilities under IPFF II. A systematic process for enhancing PFIs' E&S capacity is built into IPFF II design.

5. Based on the assessment of current institutional capacity of various stakeholders to manage E&S risks in infrastructure project financing, the IPFF II E&S capacity-building plan will include the following three subcomponents:

(a) **Subcomponent 1:** Strengthening direct oversight of E&S risk assessment and management process for IPFF II-financed subprojects. This component will involve retaining qualified TA/implementation support partners to assist the main implementing agency with: (i) ensuring timely preparation and quality of E&S risk assessment and management instruments by project sponsors and other parties (for example, government agencies), as relevant; and (b) assisting with subproject performance monitoring during project implementation. It is envisioned that two independent advisers/consultant firms would be engaged, to ensure that advice obtained is as objective as possible. Additionally, these advisers/consultants will not have any conflict of interest as they will not be allowed to conduct E&S assessment or monitoring activities for subprojects on behalf of PFIs and/or project sponsors.

(b) **Subcomponent 2:** Increasing available capacity within Bangladesh of qualified technical expertise for E&S risk assessment and management against international standards. This component will involve establishing a robust, sustainable process to support enhancement of technical expertise within Bangladesh for preparing E&S risk assessments and management plans in accordance with World Bank/IFC PS, which have become a 'gold standard' in investment project finance since their launch in 2006, across industry sectors, with the initial focus on infrastructure sectors supported by IPFF II. This component will aim to develop sustainable, long-term capacity that can be relied upon by multiple stakeholders—the Government, private sector, and financial institutions.

(c) **Subcomponent 3:** Building awareness and capacity of financial institutions in Bangladesh with regard to developing and implementing an ESMS. This component may include training, development of technical guidance materials, and enhancing supervisory capacity of BB to enforce compliance with mandatory ESRM Guidelines for financial institutions.

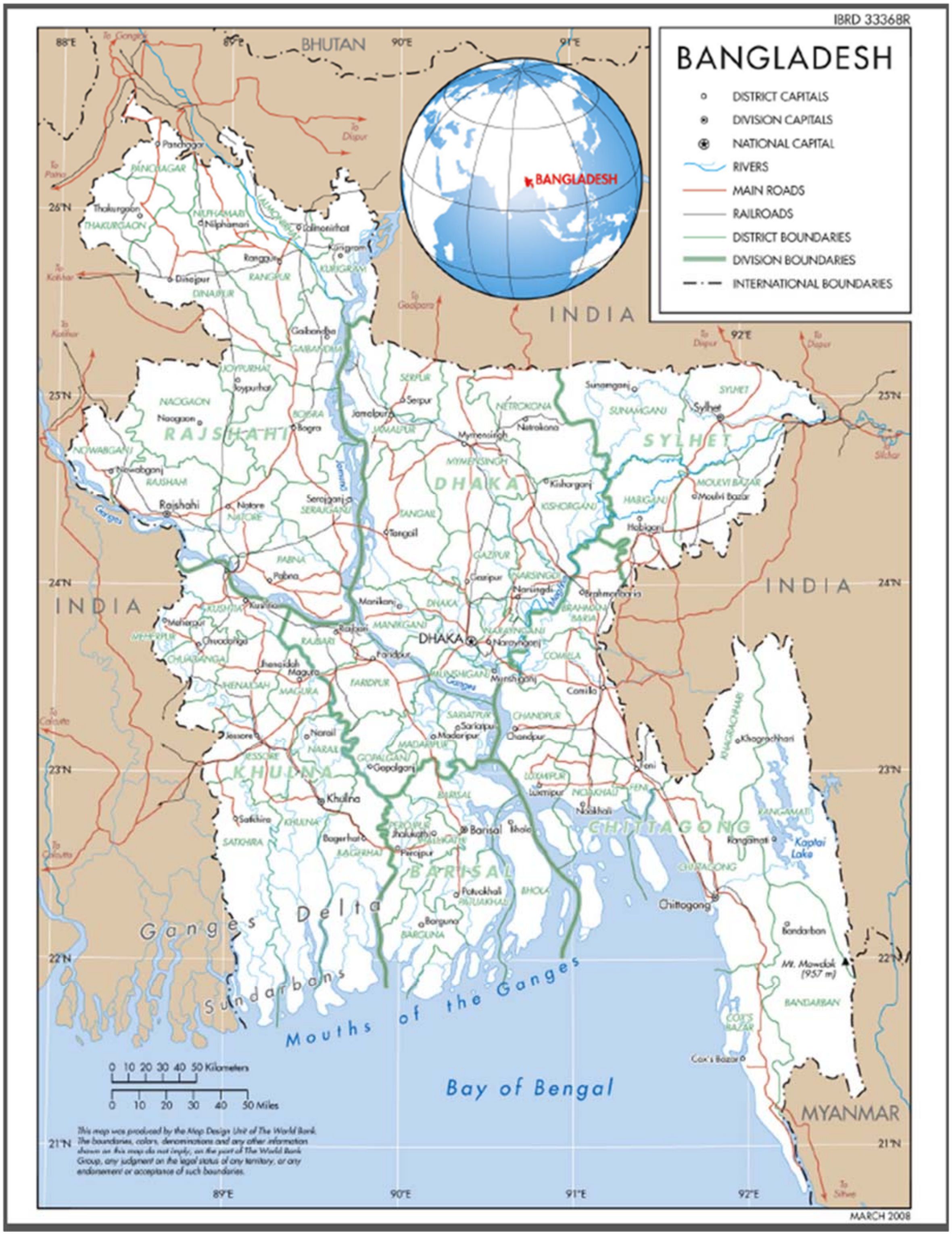
Table 7.1. Estimated Resource Needs for E&S Capacity Building under IPFF II

Subcomponents	Service/Training Packages	Agency/ Institution(s) Responsible	Description	Estimated Cost (US$, million)
1. Strengthening direct oversight of E&S risk assessment and management process for IPFF II-financed subprojects	1.1. Quality assurance for subproject E&S risk assessment and management instruments	BB	A qualified implementation support partner will be engaged by BB to assist with (a) validation of subproject categorization; (b) initial risk screening and reviews of ESIA terms of reference; and(c) evaluating quality of ESIAs, ESMPs, and other instruments (that is, two rounds of reviews) submitted by PFIs.	0.80
	1.2. Performance monitoring	BB	A qualified implementation support partner will be engaged by BB to assist with subproject E&S performance monitoring during project implementation.	1.00
2. Increasing available capacity within Bangladesh of qualified technical expertise for E&S risk assessment and management against international standards	2.1. E&S technical capacity assessment study	BB (with close support of the World Bank)	A rapid assessment of the current level of technical capacity for undertaking E&S assessment against international standards will be undertaken by an independent provider. The study will include a survey of E&S firms providing such services in Bangladesh and will determine (a) overall availability of expertise; (b) key capacity and knowledge gaps; and (c) a more detailed training needs plan.	0.05
	2.2. Training program for Bangladeshi	BB (in collaboration with other	This will include (a) developing a 2–3 year training plan (with an intensive phase in year 1 and	

	technical firms/experts	relevant GOB agencies)	ongoing training in years 2 and 3); (b) preparation of training materials; and (c) delivery of training. It should be assessed whether there is scope for a 'for-fee' training program that will require a percentage contribution from the firms/experts, to be more self-sustained. *Note*: PFIs and project sponsors will be encouraged to take part in training to strengthen their internal knowledge and technical capacity.	0.40
	2.3. Establishment of a technical support center in Bangladesh (long-term)	BB (in collaboration with other relevant GOB agencies)	The technical support center will provide ongoing, self-sustained, long-term assistance to maintain the level of E&S technical expertise developed during the initial intensive training program. This approach will be reassessed during the implementation of Subcomponent 2.2.	0.25
3. Building awareness and capacity of financial institutions in Bangladesh with regard to developing and implementing an ESMS	3.1. Direct TA to PFIs on the ESMS	BB, PFIs	*Note*: All parts of Component 3 will be implemented in close coordination with BB's ongoing ESRM capacity-building program for the financial institutions (with support from IFC). PFIs participating in IPFF II will receive direct assistance from a qualified implementation partner in strengthening their internal ESMS, with a specific focus on managing risks in infrastructure finance against international standards. It is expected that PFIs' E&S performance rating in relation to IPFF II will gradually increase as a result of this process. Before receiving this TA, PFIs will designate a staff member responsible for ESRM (in line with the requirements of the BB ESRM Guidelines). This subcomponent	0.25

			will also include on-the-job training of other relevant PFI staff who play a role in the overall credit/investment risk assessment of IPFF II subprojects within the PFI.	
	3.2. ESRM training program for PFIs	BB, PFIs	Subcomponent 3.1 will be supplemented by regular training activities for PFIs that take part in IPFF II. This training will aim to facilitate ongoing exchange of experience and knowledge among PFIs on ESRM in infrastructure finance.	0.25
TOTAL				**3.0**

MAP


IBRD 33368R
BANGLADESH
DISTRICT CAPITALS
DIVISION CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
DISTRICT BOUNDARIES
DIVISION BOUNDARIES
INTERNATIONAL BOUNDARIES
BANGLADESH
BHUTAN
INDIA
INDIA
INDIA
MYANMAR
RAJSHAHI
RANGPUR
DHAKA
SYLHET
KHULNA
BARISAL
CHITTAGONG
DHAKA
Rajshahi
Dinajpur
Bogra
Mymensingh
Sylhet
Tangail
Khulna
Barisal
Chittagong
Cox's Bazar
Kaptai Lake
Ganges Delta
Sundarbans
Mouths of the Ganges
Bay of Bengal
0 10 20 30 40 50 Kilometers
0 10 20 30 40 50 Miles
88°E
89°E
90°E
91°E
92°E
26°N
25°N
24°N
23°N
22°N
21°N
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