

FRAMEWORK FINANCING AGREEMENT

Parties This Framework Financing Agreement (“FFA”) dated 8 November 2016 is between the People’s Republic of Bangladesh (“Borrower”) and the Asian Development Bank (“ADB”).

Multitranche Financing Facility Investment Program Borrower is committed to and will implement the Third Public–Private Infrastructure Development Facility (PPIDF 3) or the Investment Program described in Schedule 1 hereto (the Road map and Investment Program).

The total cost of the ADB investment program over the period of 1 July 2017 to 31 December 2023 is expected to be \$1.315 billion equivalent, inclusive of the \$526 million ADB program funding, \$263 million subproject equity, and \$526 million leveraged commercial financing.

Multitranche Financing Facility The Multitranche Financing Facility (the Facility) is intended to finance subprojects, under the Investment Program, provided that such subprojects comply with the criteria set out in the Selection Criteria and Approval Process for Subprojects detailed in Schedule 4 and that understandings set out in this FFA are complied with.

The Facility comprises loans from ADB’s regular ordinary capital resources (OCR) and concessional OCR. The subprojects to be financed under the Facility may include:

Regular OCR loan. All types of infrastructure subprojects (including renewable energy [RE] and energy efficiency (EE) subprojects) with a total subproject cost in excess of \$10 million.

Concessional OCR. Subprojects with a total project cost of not more than \$10 million in the following RE and EE sectors will be financed: (i) grid-connected solar projects, solar mini grids, solar irrigation pumps, wind and other RE installations; (ii) energy efficient projects including energy-efficient brick kilns, waste and effluent treatment plants; (iii) recycling plants; (iv) waste to energy solutions; and (v) biogas and biomass-based power plants.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. ADB has the right to deny any financing request made by Borrower, cancel the uncommitted portion of the Facility, and withdraw Borrower’s right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Borrower to request any financing. Borrower has the right not to request any financing under the Facility. Borrower also has the right at any time to cancel any uncommitted portion of the Facility.

Borrower and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect. ADB may cancel the Facility or reject a financing request when there is a material noncompliance with ADB policies or FFA undertakings, or there are undue delays in the submission of the financing requests or the implementation of the investment program.

Financing plan. The Government's investment program under the 7th FYP amounts to Tk31.9 trillion (approximately \$410 billion). ADB's investment program will contribute \$1.315 billion (Table 1) comprised of \$500 million loans from OCR, \$26 million loans from concessional OCR, equity of \$263 million from project sponsors, and commercial debt financing of \$526 million to help finance infrastructure and RE and EE subprojects.

Table 1: Financing Plan for ADB's Investment Program

Source	Amount (\$ million)	Share of Loans (%)
ADB's Ordinary Capital Resources (regular)	500.0	38.0
ADB's Ordinary Capital Resources (concessional)	26.0	2.0
Equity	263.0	20.0
Commercial Banks/financiers (debt) ^a	526.0	40.0
Total	1,315.0	100.0

ADB = Asian Development Bank, PFR = periodic financing request.

^a This assumes that the sponsor and/or subborrower will provide equity financing of 20% of total project cost—private sector banks and financiers will provide debt funding of 40% of the total project cost while Infrastructure Development Company Limited will finance 40% of each project (using funds under the Third Public-Private Infrastructure Development Facility).

Sources: Asian Development Bank.

Financing Terms

ADB will provide loans and administer cofinancing (if any) to finance projects under the Investment Program, as and when the latter are ready for financing, provided, Borrower is in compliance with the understandings hereunder, and the subprojects are in line with those same understandings. Each loan will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies—all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges or guarantee fees are not payable on the Facility.

They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount. The ADB financing amount available under the ADB investment program is \$526 million. It is expected to be provided in 2 individual tranches from ADB's OCR and from ADB's concessional OCR in the following manner:

Source (\$ million)	Tranche 1	Tranche 2
Asian Development Bank		
Ordinary Capital Resources (regular)	250.0	250.0
Ordinary Capital Resources (concessional)	10.0	16.0
Total	260.0	266.0

Sources: Asian Development Bank.

Availability period. The last date on which the Facility may be utilized is 31 December 2023. The last financing tranche is expected to be executed no later than 31 December 2020. In the event the availability period needs to be extended, the Borrower will discuss with ADB in advance and reach an agreement on the proposed extension. Pursuant to ADB's extension of the availability period, the loan closing date(s) of the applicable tranche(s) will be updated accordingly.

Terms and conditions. The Borrower will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

The Ministry of Finance, acting through its Economic Relations Division, will be the executing agency while the Finance Division will be the financial management agency. The Infrastructure Development Company Limited ("IDCOL") will be the implementing agency of the project. The Investment Program will be implemented in accordance with the principles set forth in the Selection Criteria and Approval Process for Subprojects detailed in the Schedule 4, and as supplemented in the legal agreements for each tranche.

Periodic Financing Request

The Borrower may request, and ADB may agree, to provide loans under the Facility to finance the Investment Program and its related subprojects upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by the Borrower. The Borrower will make available to IDCOL the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

Each individual tranche will be for an amount of no less than \$100 million, or its equivalent. ADB will review the PFRs and, if found satisfactory, prepare the related legal agreements.

The subprojects for which financing is requested under the PFR will be

subject to the Selection Criteria and Approval Process for Subprojects detailed in the Schedule 4, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual agreed between IDCOL and ADB.

Until notice is otherwise given by Borrower, the Ministry of Finance, acting through its Economic Relations Division, will be Borrower's authorized representative for purposes of executing PFRs.

**General
Implementation
Framework
Procedures**

The Facility will be implemented in accordance with the implementation framework detailed in Schedule 3.

Tranches to be provided under the Facility will be subject to the following procedures and undertakings:

- (i) Borrower will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (ii) Borrower will have submitted a PFR in the format agreed with ADB.
- (iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) Loan, grant, guarantee, or cofinancing amount;
- (ii) Description of subprojects to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to the subprojects;
- (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;
- (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) and Project Agreement(s), as appropriate; and
- (vii) Other information as may be required under the FAM, or reasonably requested by ADB.

Safeguards¹

The safeguard frameworks detailed in Schedule 5 will be complied with during the implementation of the Facility.

ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the subprojects financed under such financing tranche.

Procurement

All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time).

¹ ADB. 2009. *Safeguard Policy Statement*. Manila.

Consulting Services	All consulting services to be financed under the Facility will be procured in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2013, as amended from time to time).
Eligibility Criteria	ADB funds shall be used to finance all types of infrastructure subprojects that are financially sound and comply with the subproject eligibility criteria and approval procedures detailed in Schedule 4.
Retroactive Financing	Retroactive financing would be allowed for eligible expenditures described in the FAM, not exceeding 20% under each tranche, incurred before loan effectiveness, but not earlier than 12 months before the signing of the loan agreement. Any retroactive financing would comply with the same ADB requirements as for any other subprojects funded under PPIDF 3.
Take-out Financing	Up to 20% of the ADB funds may be used to refinance individual loans or loan portfolio consisting of infrastructure projects from other financial institutions/banks under each tranche. Take-out finance may include subprojects that are financially closed, under construction, or fully commissioned. Each respective tranche will specify a maximum percentage. Any take-out financing should also follow IDCOL's internal guidelines and Bangladesh Bank norms, and comply with the same ADB requirements as any other subprojects funded under PPIDF 3 (including the subproject eligibility criteria specified in Schedule 4 and environmental and social safeguards requirements specified in Schedule 5).
Maximum ADB Financing	ADB funds can be used to finance up to 40% of the total subproject cost, ² except that with prior approval from ADB the subloan may exceed the limit and be up to 60% of the project cost for subprojects. There is no maximum subproject size which is in line with IDCOL's internal exposure limits.
Prior Approval from ADB	Under tranche 1, ADB will review the first 3 subprojects funded by the OCR and subloans above \$5 million equivalent funded by the concessional OCR to ascertain IDCOL's ability to manage the subproject review and disbursement process. ADB reserves the right to request any supporting subproject documents and not to reimburse or liquidate any subprojects that do not comply with the PPIDF 3 implementation requirements detailed in the FAM.
Disbursements	Disbursements will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time).
Monitoring, Evaluation, and	A set of indicators for monitoring and evaluating the performance of the Investment Program in relation to the goals, purposes, and outputs of

² Subprojects in the EE and the RE subsectors have a high developmental impact and long-term funds are not easily available. Therefore, for EE and RE subprojects to be funded out of the concessional OCR loan, IDCOL's maximum exposure will be set at 70% or 80%, respectively.

Reporting Arrangements

each tranche, will be agreed upon with ADB within no more than 3 months from the signing of this FFA (in the case of the Investment Program) and each loan agreement (in the case of an individual tranche). Results of the analyses, comments, and conclusions on the performance of the Investment Program, and its subprojects will be incorporated in every semi-annual report to ADB.

The design and monitoring framework for the Facility detailed in Appendix 1 of the Report and Recommendation of the President (RRP) against which the implementation effectiveness will be evaluated.

Undertakings

Attached as Schedule 6 are the undertakings provided by the Borrower.

BORROWER

ASIAN DEVELOPMENT BANK

By _____
Name:
Designation:
Date:

By _____
Name: (Country Director)
Designation:
Date:

ROAD MAP AND INVESTMENT PROGRAM

A. Background

1. **Importance of infrastructure development.** The importance of infrastructure for sustained economic development and improving the living standards of the population is well recognized. While Bangladesh's economy has accelerated since the end of the 1980s and has also become less volatile over time, millions of people across the country still lack access to roads, transport, electricity, safe drinking water, proper sanitation, portable water, and easy communication network. One of the main reasons for infrastructure-related shortcomings is insufficient investments in the sector—both by the public and the private sector. It is an established fact that economies with a healthy growth rate are a result of substantial capital investment in infrastructure.

2. **Deficient infrastructure.** Bangladesh faces major infrastructure deficits. Short electricity supply is a binding constraint on manufacturing expansion. Generation capacity will need to be boosted, as will transmission and distribution systems. Attention needs to be given to improving the supply of primary fuels such as natural gas through larger investment in gas exploration. The transport infrastructure development needed to reduce the cost of doing business and enhance competitiveness is substantial, requiring higher investment in road, railway, and port projects, as well as accelerated project completion. The limited availability of land and its cumbersome acquisition for project development are emerging as major constraints. A domestic bond market needs to be developed to improve access to finance for infrastructure projects, especially for the private sector. Institutional capacity for processing public–private partnership (PPP) projects, notably for bidding and contracting, will need to be developed with a focus on energy and transport projects.¹

3. **The role of the public and private sector.** The public sector is the main provider of basic infrastructure in Bangladesh, as is the case in most of South Asia. However, public financing alone cannot generate the investment needed to provide the required level of infrastructure facilities. The financial performance of most public service providers is weak, with inadequate investment. The national poverty reduction strategy paper recognized the existence of infrastructure deficiencies and expressed its commitment to increased private participation in order to alleviate infrastructure bottlenecks.² In its outline perspective plan, the Government of Bangladesh (the Government) introduced the goal of mainstreaming PPP to scale up development of infrastructure.³ The Government has recognized the need to create an enabling environment to attract sustained private investment, and introduced in 2010 for the first time a PPP budget as part of the annual budget. Furthermore, the Government prepared its Policy and Strategy for PPP⁴ in 2010 to bridge the deficit in infrastructure financing, especially for long-term funds. These efforts facilitated the development of an institutional and regulatory framework in the country which eventually culminated in the enactment of the PPP law⁵ in September 2015.

4. **Sound PPP framework in place.** A robust PPP framework can assist in improved risk allocation between the private and public sectors. Ideally, the private partner should bear the

¹ ADB. Bangladesh Economic Quarterly Update. March–June 2015. Manila.

² Government of the People's Republic of Bangladesh. 2005. *Unlocking the Potential–National Strategy for Accelerated Poverty Reduction*. Dhaka.

³ Government of the People's Republic of Bangladesh. 2012. *Perspective Plan of Bangladesh 2010–2021–Making Vision 2021 a Reality*. Dhaka.

⁴ http://www.pppo.gov.bd/download/ppp_office/Policy-Strategy-for-PPP-Aug2010.pdf

⁵ http://www.pppo.gov.bd/download/ppp_office/PPP-Law-2015.pdf

commercial risk of the project, whereas the Government should address political risks, including those related to appropriately addressing social and environmental concerns. The Government should also address the viability gap often resulting from the fact that private investors cannot fully appropriate the benefits from infrastructure investments. The recently approved PPP law paves the way for greater private participation in infrastructure development. It would now be important to move quickly to draft regulations and guidelines which can accelerate the use of PPPs in practice.

5. **Lack of long-term debt financing.** The lack of long-term debt financing in Bangladesh—in particular for infrastructure projects—is well recognized by the Government and the market. Most commercial banks focus on short-dated lending activities, in particular to the emerging consumer finance sector. They are typically unwilling to fund long-dated infrastructure loans out of (short-term) retail deposits. Also, they mostly lack the technical ability to analyze and structure project finance transactions. A domestic bond market⁶ needs to be developed to improve access to finance for infrastructure projects, especially for the private sector. Institutional capacity for processing PPP projects, notably for bidding and contracting, will need to be developed with a focus on energy and transport projects. As such, the financing gap for privately-sponsored infrastructure projects is likely to persist in the future.

6. **Infrastructure Development Company Limited.** The Infrastructure Development Company Limited (IDCOL) is one of only two domestic financial institutions in Bangladesh⁷ which is mandated and specializes in providing long-term debt financing for infrastructure and renewable energy (RE) projects. IDCOL was incorporated on 14 May 1997 as a 100% government-owned public limited company under the Companies Act. The company remains fully owned by the Government. IDCOL's initial function was to administer the donor funds and to onlend funds to eligible privately-sponsored infrastructure projects. Projects were designed to be funded off-balance sheet, and IDCOL was eligible for some upfront and monitoring fees only—the principal and interest repayments were directly deposited to repayment accounts of the Government. However, since 2005, IDCOL has widened its operation and started financing on its balance sheet after the Government injected further equity capital into the company. At present, no other financial institution in Bangladesh is in same position as IDCOL to catalyze international funds and know-how for infrastructure financing.

B. Road Map

7. **Road map.** Bangladesh has achieved a remarkable economic growth in recent years, with an average annual growth of 6.3% in gross domestic product (GDP) during the period FY2010–2015. To reach the country's goal of achieving middle-income status by 2021, real GDP will need to grow at an average annual rate of 7.4% during the Seventh Five Year-Plan (7th FYP) FY2016–FY2020.⁸ This will require total financing of about \$410 billion over the next 5

⁶ Since 1997, ADB has been supporting the development of the domestic bond market in Bangladesh, in particular focusing on market stabilization and sustainable market development, under the first and second capital market development programs (CMDP I and II). A third capital market development program (CMDP III) was approved by ADB's Board on 20 November 2015 to continue the work under CMDP I and II in supporting the role of the market regulator to develop and monitor the market, strengthen regulatory measures, and develop a clearing and settlement company (ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-based Loans and Administration of Technical Assistance Grant to the People's Republic of Bangladesh for the Third Capital Market Development Program*. Manila).

⁷ The other one is the recently established Bangladesh Infrastructure Financing Fund Limited (BIFFL).

⁸ Government of Bangladesh. 2015. *The Seventh Five-Year Plan FY2016–FY2020: Accelerating Growth and Empowering Every Citizen*. Planning Commission, Ministry of Planning: Dhaka.

years which is about twice the size of Bangladesh's GDP.⁹ As such, the Medium-Term Macroeconomic Framework of the 7th FYP represents the overall road map for the Investment Program, the facility and the associated technical assistance (TA).

8. **Higher financing requirements.** Indicative infrastructure requirements¹⁰ estimated in the 7th FYP foresee an increased demand for transport investment from 1.6% of GDP in the baseline year of FY2015 to a yearly average of 3% during the following years of the plan. The list of infrastructure areas that need attention is vast and includes roads, highways and bridges, railways, urban and rural transport quality and safety, ports, civil aviation airports, inland water transportation, and port infrastructure. Achieving visible progress in all these areas is challenging and will have to come from private sector investment including through public-private partnerships (PPP) arrangements. Similarly, demand for energy is critical. Although the 6th FYP achieved substantial progress in energy generation along with expansion of transmission and distribution networks, the gap remains large and the investment needs are challenging. Total investment requirements in the energy sector add up to 2.5% of GDP per year, of which it is estimated that the public sector will only cover 1.7% per year on average. The remainder will have to come from the private sector which will mainly be pursued through PPPs. The 7th FYP aims to substantially increase the amount of PPP investments from an average of about 0.2% of GDP in FY2015 to between 1% and 2% of GDP per year during the 7th FYP.¹¹

Table 1: Financing Requirements 2011–2020
(% of GDP per year)

Bangladesh		
Item	Low	High
Transport	3.60	4.50
Electricity	1.10	1.65
WSS	1.20	1.80
Solid waste	0.21	0.42
Telecom	0.50	0.50
Irrigation	0.77	1.15
Total	7.38	10.02

WSS = Water Supply and Sanitation.

Source: Government of Bangladesh, Planning Commission, General Economics Division, Seventh Five-Year Plan 2015.

9. **Required increase in public and private investments.** A substantial increase in public and private investments will be required. Investment will need to rise from around 29.0% of GDP in 2015 to 34.4% by 2020 to achieve the growth target. Much of this investment needs to enhance infrastructure, improve labor skills, and boost manufacturing production.¹² Private

⁹ Bangladesh Development Update. Moving Forward with Fading Tailwinds. The World Bank. April 2016

¹⁰ The concrete targets set in accordance with the vision and goals of the Seventh Five-Year Plan include: (i) increase of the installed generation capacity of electricity to 23,000 megawatt (MW) by 2020; (ii) increase of per capita energy consumption from 371 kilowatt/hour (kWh) to 514 kWh; (iii) electricity coverage to be increased to 96%; (iv) reduction of the system loss in the energy sector from 13% to 9%; (v) construction of the 6.15 kilometer (km) long Padma Multipurpose Bridge at Mawa-Janjira; (vi) construction of about 26 km long Dhaka Elevated Expressway; (vii) improvement of the multimodal transport network with a significant increase in the share of rail and waterways traffic; (viii) reduction of urban traffic congestion, in particular in the Dhaka and Chittagong Metropolitan areas; and (ix) reduction of road accidents.

¹¹ Local Consultative Group Bangladesh. 2016. Strengthening Finance for the 7th Five Year Plan and SDGs in Bangladesh [http://www.lcgbangladesh.org/reports/Development%20Finance%20Assessment%20\(DFA\)%20Report_Bangladesh-2016.pdf](http://www.lcgbangladesh.org/reports/Development%20Finance%20Assessment%20(DFA)%20Report_Bangladesh-2016.pdf)

¹² ADB. 2015. *Bangladesh Country Operations Business Plan 2016–2018*. Manila.

sector participation can help address part of the infrastructure gap. A sound PPP framework can assist in improved risk allocation between the private and public sectors. However, private participation alone will be insufficient to address Bangladesh's wide infrastructure gap.

10. **Infrastructure deficiencies.** Sustainable macroeconomic management—measured by the fiscal deficit, inflation, and foreign exchange reserves—has underpinned the improvement in Bangladesh's economic growth. Yet public investment in infrastructure has not been able to keep up with demand. The 7th FYP recognizes scarcity in infrastructure financing as a major challenge for infrastructure development and estimates the gap at 5%–6% of GDP which translates into additional requirement of \$9–\$10 billion per year. Such underinvestment in infrastructure means that inadequate infrastructure now poses a key constraint to achieve the country's targets. While the Government has made a concerted effort to improve project implementation, implementation capacity remains inadequate.¹³ Shortages in electricity supply place a binding constraint on manufacturing expansion. Generation capacity will need to be boosted, as will transmission and distribution systems. Attention needs to be given to improving the supply of primary fuels such as natural gas through larger investment in gas exploration. Substantial development of the transport sector is needed to lower the economy's cost structure and enhance its competitiveness, requiring much higher investment in road, railway, and port projects, as well as accelerated project completion. A limited availability of land and cumbersome acquisition processes are major hurdles. Improvement in basic infrastructure is the most compelling contributor to attract private investment and business development in the economy.

11. **A multi-sector approach is needed.** The Government has announced ambitious plans to increase investments¹⁴ and complete unfinished projects in the various infrastructure sectors: In the power sector, the Government intends to increase power generation by 12,584 megawatt (MW) of which 39% (4,902 MW) will be provided by the private sector—mainly pursued through PPPs accounting for at least 1% of the GDP per year in this period. Furthermore, the Government plans to generate 800 MW of power through RE resources by FY2017 with a target of 10% of the total electricity to be met from renewable resources by FY2020. In the transport sector, the Government's strategy for the 7th FYP is to focus on the timely completion of all ongoing roads and bridges projects especially related to inter-city highways, the fast tracking of a number transformational infrastructure interventions and the promotion of regional connectivity and support for the Trans-Asian Highway project. Finally, providing better urban services to an urban population which is expected to increase from 60 million to 80 million in 2020 will be the priority in the urban sector under the 7th FYP.

12. **Justification for the proposed multi-sector approach.** Given the large investment requirements in a variety of subsectors—as outlined above—the proposed multi-sector approach under PPIDF 3 is justified. It is still expected that subprojects in the power generation and transmission subsectors will receive priority in terms of financing under the facility given the power shortage in the country. However, other eligible subsectors which meet the Government's

¹³ ADB. 2015. *Bangladesh Quarterly Economic Update*. Manila.

¹⁴ The concrete targets set in accordance with the vision and goals of the Seventh Five-Year Plan include: (i) increase of the installed generation capacity of electricity to 23,000 megawatt (MW) by 2020; (ii) increase of per capita energy consumption from 371 kilowatt/hour (kWh) to 514 kWh; (iii) electricity coverage to be increased to 96%; (iv) reduction of the system loss in the energy sector from 13% to 9%; (v) construction of the 6.15 kilometer (km) long Padma Multipurpose Bridge at Mawa-Janjira; (vi) construction of about 26 km long Dhaka Elevated Expressway; (vii) improvement of the multimodal transport network with a significant increase in the share of rail and waterways traffic; (viii) reduction of urban traffic congestion, in particular in the Dhaka and Chittagong Metropolitan areas; and (ix) reduction of road accidents.

current priority plan and are developed under the PPP modality such as: (i) telecommunication, (ii) toll roads and bridges, (iii) ports, (iv) gas and gas-related infrastructure, (v) water supply, and (vi) information technology will also be considered under PPIDF 3.

C. Strategic Context

13. ADB's support through PPIDF 3 is fully consistent with ADB's and the Government's strategies. The focus of the project is in line with ADB's Financial Sector Operational Plan which emphasizes private sector participation in infrastructure finance and with ADB's PPP Operational Plan for 2012–2020.¹⁵ It is also in line with ADB's draft country partnership strategy 2016–2020¹⁶ for Bangladesh which stresses the need for support on private sector-led infrastructure development and PPPs.

D. Policy Framework

14. **Enabling PPP in Bangladesh.** The Government's initiative to promote investments in the various infrastructure subsectors through comprehensive policy, regulatory, market, and financing support will serve as the facility's overarching policy framework for enabling PPP. In 2010, the Government issued the Policy and Strategy for PPP to facilitate the development of core sector public infrastructure and services. The policy prioritizes increased investment in infrastructure and provides a framework to attract domestic and international investors to join in partnership with the Government in building and upgrading core infrastructure. These efforts culminated in the enactment of the PPP law¹⁷ in September 2015. Although no specific targets are specified for PPPs, the 7th FYP aims to substantially increase the amount of PPP investment from an average 0.2% of GDP in FY2015 to around 1%–2% of GDP annually.¹⁸ As such, the Government has given a broader mandate to IDCOL for promoting PPP projects and plays a larger role in mobilizing and providing finance to the private sector for infrastructure development.

15. A large number of policy actions and reforms (Table 3) are expected to be undertaken during the next 5 years across all sectors to reduce risks and to strengthen the enabling environment.

Table 3: Policies and Reforms in Infrastructure Sectors during 2016-2020

Sector	Policies and Reforms
Power	<p>The Government has developed a mid-term 5-year plan for 2016–2020 for power generation. Total generation is expected to increase by 12,584 megawatt (MW) of which 61% (7,682 MW) will be provided by the public sector and 39% (4,902 MW) by the private sector. Much of the private investment in power generation will be relatively large scale with no additional rental power contracts. This will ensure the efficiency of power generation.</p> <p>Furthermore, to support inclusive growth and development, the Government has set a target of electricity for all by 2021 (50 years from independence) and initiated work</p>

¹⁵ ADB. 2012. *Public–Private Partnership Operational Plan 2012–2020. Realizing the Vision for Strategy 2020: The Transformational Role of Public–Private Partnerships in Asian Development Bank Operations*. Available: <http://www.adb.org/documents/public-private-partnership-operational-plan-2012-2020>

¹⁶ ADB country partnership strategy for 2016–2020 is currently under preparation.

¹⁷ http://www.pppo.gov.bd/download/ppp_office/PPP-Law-2015.pdf¹⁸ Framework Financing Agreement (accessible from the list of linked documents in Appendix 2, Report and Recommendation of the President [RRP]).

¹⁸ Framework Financing Agreement (accessible from the list of linked documents in Appendix 2, Report and Recommendation of the President [RRP]).

Sector	Policies and Reforms
	across the electricity generation, transmission and distribution value chain to improve the delivery of power and meet the expected demand of 19 gigawatt (GW) by 2021 and 34 GW by 2030 under its Power System Master Plan for 2030 prepared in 2011 by the Ministry of Power, Energy, and Mineral Resources.
Electricity transmission and distribution	Investments in the electricity transmission and distribution network have not kept pace with the increase in generation capacity. With increasing demand, this shortfall in network investments has increased the stress on existing assets which is expected to worsen over time, and will impact on power availability to consumers. The Government has identified the requirement for significant public sector investments to strengthen the grid, reduce system losses, and improve electricity access and quality of supply in the electricity transmission and distribution network to meet and prepare for the significant growth in electricity supply and demand. Under the Seventh Five-Year Plan (7th FYP) 2016–2020, over 8,400 circuit kilometer (km) of transmission lines and over 90,000 circuit km of distribution lines are targeted which will require up to \$7.5 billion investment for the electricity transmission and distribution sector for the next 5 years.
Renewable Energy	There is already some significant success in the area of solar energy that has delivered 150 MW equivalent of power primarily through IDCOL's highly successful solar home system (SHS) program. Some 4 million SHS units have been delivered with the target of increasing this number to 6 million SHS by 2020. Rooftop solar photovoltaic (PV) systems are also being introduced in the country with the current installed capacity estimated at 32 MW. There is also 180 MW of wind potential that has been identified through a United States Agency for International Development (USAID) project. Mini-grids and grid-connected MW-scale solar PV plants are also being explored. The Government's plan is to generate 800 MW of power through renewable energy by FY2017 with a target of 10% of the total electricity to be met from renewable resources by FY2020. A special fund has been established to finance renewable energy (RE)-based power plants. Some Tk4 billion was allocated to this fund in FY2015.
Transport	The 7th FYP recognizes the importance of modern transportation and communication for achieving the target growth of 8% at the end of plan period. The key elements of the transport sector strategy for the 7th Plan are as follows: (i) timely completion of all ongoing roads and bridges projects especially related to inter-city highways; (ii) a top priority is to focus on fast tracking a number transformational infrastructure projects; (iii) another priority will be to address the new strategic considerations regarding the Government's commitment to promote regional connectivity and support for the Trans-Asian Highway Project; (iv) address the anticipated Chittagong port capacity constraints owing to growing income and international trade; (v) significantly expand the capacity of the civil aviation to handle growing international and domestic air traffic through investments in new airports and other supportive infrastructure; (vi) address the major institutional constraints that have hampered the implementation of infrastructure projects in the Sixth Plan; (vii) reform the public-private partnership (PPP) strategy with a view to achieving stronger progress under this approach in the 7th Plan; (viii) address the urban transportation challenge of increasing traffic congestion; (ix) strengthen the use of river and rail transport to provide a low-cost and more environment-friendly alternative to road transport; (x) coordinate the roads, railway, and inland water cargo linkages to strengthen the performance of Chittagong Port and the competitiveness of the manufacturing sector; and (xi) address the broader governance and institutional challenges of the sector.

Sector	Policies and Reforms
Railways	The National Land Transport Policy articulates the plan for the development of the rail sector—the policy promotes the development of international rail networks and services. The Government has undertaken a long-term plan for investment worth \$15 billion by 2030—a large share of the required financial resources is to be underwritten by development partners. At present, 44 projects are planned for implementation, with support coming mainly from India, the Japan International Cooperation Agency and the ADB. The plan will be implemented in three phases, including constructing new tracks, improving the signaling system, procuring locomotives and coaches, and expanding domestic and international rail networks. The third phase includes linking Cox’s Bazar with the proposed deep water port at Sonadia.
Urban	<p>Various projections estimate that the urban population in 2020 to be anywhere from 60 million to 80 million. Providing better urban services to this increased population would be the key challenge. In order to achieve sustainable urbanization, policies and strategies are proposed keeping in view the multi-dimensional nature of urbanization challenges. Creating an urban vision for the country is important. Bangladesh will pursue towards compact, networked, resilient, competitive, inclusive and smart urban development. The nature of urban governance is of crucial importance and should encompass better transparency and accountability of institutions, institutional strengthening and capacity building, decentralization, community participation, more efficient resource mobilization, and involvement of the private sector in the development of the urban sector. As part of improving the availability of housing facilities, the strategy will be one where the Government’s main role will be a regulator and facilitator rather than a provider of low-cost housing.</p> <p>Provision of adequate and affordable basic infrastructure and services, essential for safeguarding health, safety, welfare, and improved living environment of the people will be an important strategic focus under the 7th Plan. Basic infrastructure and services at the community level, including delivery of safe water, sanitation, waste management, social welfare, transport and communications facilities, energy, health and emergency services, schools, and public safety will primarily be the responsibility of the central government agencies and the local government bodies with increasingly greater involvement of the private sector.</p>

ADB = Asian Development Bank.

Source: Government of Bangladesh. 2015. *The Seventh Five-Year Plan FY2016–FY2020: Accelerating Growth and Empowering Every Citizen*. Planning Commission, Ministry of Planning: Dhaka.

E. Investment Program

16. Given the Government’s investment requirement of Tk31.9 trillion (approximately \$410 billion) under the 7th FYP, of which 77.3% will have to come from the private sector, the mobilization and expansion of private investments will be crucial (Table 3).

**Table 4: Government Investment Program
under the Seventh Five-Year Plan (FY2016 Prices)**

(BDT billion)

Item	Total	Share (%)	Public	Share (%)	Private	Share (%)
Total investment	31,902.8	100.0	7,252.3	100.0	24,650.5	100.0
Domestic resources	28,851.0	90.4	6,384.6	88.0	22,466.4	91.1
External resources	3,051.8	9.6	867.6	12.0	2,184.1	8.9

Source: Government of Bangladesh: Planning Commission-General Economics Division (GED) Seventh Five-Year Plan, 2015.

17. The proposed ADB facility leverages public sector resources (through IDCOL) to catalyze private sector investments in infrastructure which will stimulate economic activities,

alleviate poverty, and support inclusive and environmentally-sustainable growth. The Facility also includes a comprehensive capacity development program to help IDCOL improve its institutional capacity by adopting a long-term operational strategy based on commercial principles through an effective and commercially-oriented organization.

F. Financing Plan

18. To achieve the 8% of GDP investment target, the Government has requested an MFF of \$526 million from ADB to be provided in two tranches. The Facility will consist of \$500 million from ADB Ordinary Capital Resources (OCR) and \$26 million from the concessional OCR. The implementation period for the first tranche comprising of a \$250 million OCR loan and a SDR 7,229,000 concessional OCR is during April 2017–April 2020 while the second tranche comprising the remaining \$250 million OCR loan and a \$16 million concessional OCR is during April 2020–April 2023, subject to the Government's submission of related periodic financing requests (PFRs), execution of the related loan agreement, and fulfillment of terms and conditions and undertakings set forth in the framework financing agreement.

19. The OCR loan will have a 20-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year and such other terms and conditions set forth in the draft loan and framework financing agreement. The loan proceeds will be relent to IDCOL in (i) dollars at LIBOR plus 100 basis points per annum and for a 20-year term with a grace period of 5 years, or (ii) in taka at the Bangladesh Bank rate with a 20-year term and a grace period of 5 years pursuant to a subsidiary loan agreement, with the Government bearing the foreign exchange risks. IDCOL will use the OCR loan proceeds to provide medium to long-term subloans in local currency or US\$ to medium-sized to large infrastructure subprojects (including RE and EE subprojects) with a total subproject cost in excess of \$10 million. The onlending by IDCOL to eligible private sector subprojects will be at interest rates that reflect IDCOL's cost of funds plus a spread to cover transactional costs and risks following commercial and competitive terms as determined by IDCOL.

20. The concessional OCR loan will have a 25-year term including a 5-year grace period, and an interest charge of 2.0% per annum throughout the loan tenor, and such other terms and conditions set forth in the draft loan and FFA. The Government will make the loan available to IDCOL in taka at 3% with a term of 20 years and a grace period of 5 years pursuant to a subsidiary loan agreement. The Government will bear the foreign exchange risk. IDCOL will use the proceeds from the concessional OCR loan to provide medium to long-term subloans in local currency to RE and EE subprojects with a total cost of not more than \$10 million and at interest rates that allow IDCOL to earn a risk-adjusted return. Subprojects in the following RE and EE sectors will be financed: (i) grid-connected solar projects, solar mini grids, solar irrigation pumps, wind and other RE installations; (ii) energy efficient projects including brick kilns, waste and effluent treatment plants; (iii) recycling plants; (iv) waste to energy solutions; and (v) biogas and biomass-based power plants.

21. The Government's investment program under the 7th FYP amounts to Tk31.9 trillion (approximately \$410 billion). ADB's investment program will contribute \$1.315 billion (Table 2) comprised of \$500 million loans from OCR, \$26 million loans from the concessional OCR loan, equity of \$263 million from project sponsors, and commercial debt financing of \$526 million to help finance infrastructure and RE and EE subprojects.

Table 2: Financing Plan for ADB's Investment Program

Source	Amount (\$ million)	Share of Total (%)	Tranche 1 (\$ million)	Tranche 2 (\$ million)
ADB's Ordinary Capital Resources (regular)	500.0	38.0	250.0	250.0
ADB's Ordinary Capital Resources (concessional)	26.0	2.0	10.0	16.0
Equity (assuming 20% of subproject cost)	263.0	20.0	130.0	133.0
Commercial banks/financiers (debt) ^a	526.0	40.0	260.0	266.0
Total	1,315.0	100.0	650.0	665.0

ADB = Asian Development Bank

^a This assumes that the sponsor will provide equity financing of 20% of total subproject cost—commercial banks and financiers will provide debt funding of 40% of total project cost while Infrastructure Development Company Limited will finance 40% of each project (using funds under the Third Public-Private Infrastructure Development Facility).

Sources: Asian Development Bank.

DESIGN AND MONITORING FRAMEWORK

Impact of the Project is Aligned with Investments in infrastructure increased (Bangladesh Seventh Five-Year Plan FY2016–FY2020 ^a)			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Private sector investments in infrastructure, including RE leveraged	By 2023 a. \$650 million of private sector investments on eligible infrastructure subprojects catalyzed under PPIDF 3 (OCR component) (2015 baseline: \$332 million and \$293 million of private sector investments catalyzed under PPIDF 1 and PPIDF 2 ^b) b. \$15 million of private sector investments for RE and EE subprojects catalyzed under PPIDF 3 (concessional OCR component) (2015 baseline: Nil on medium-size to large-scale RE subprojects; \$7 million of SHSs funded under PPIDF 2)	Annual audited statement of utilization of funds	Economic slowdown in Bangladesh resulting to reduction on GDP spending on infrastructure development Lack of enabling conditions, including policy and regulatory reforms to incentivize private sector investments
Outputs 1. Available long-term debt financing for infrastructure projects increased	By 2023 1a. At least eight infrastructure subprojects (including RE and EE subprojects with each total subproject cost in excess of \$10 million) financed under PPIDF 3 utilizing \$500 million ADB OCR resource envelope. (2016 baseline: a combined total of five approved subprojects funded under PPIDF 1 and PPIDF 2) 1b. At least two RE subprojects (with each total subproject cost below \$10 million) financed under PPIDF 3 utilizing the \$26 million concessional OCR resource envelope (2016 baseline: nil)	Audited annual statement of utilization of funds	Lack of bankable infrastructure projects to encourage private sector participation Lack of available RE projects ready for financing
2. Take-out	2a. At least one eligible	Audited annual	Lack of good

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
financing for infrastructure projects catalyzed	subproject refinanced by IDCOL (2016 baseline: not applicable. Take-out financing were only introduced under PPIDF 3)	statement of utilization of funds	performing infrastructure loans (assets) eligible for takeout financing
3. IDCOL's institutional capacity strengthened	<p>All indicators to be approved by IDCOL's Board and implementation certified by independent consultant</p> <p>3a. Integrated risk management framework (2016 baseline: not applicable)</p> <p>3b. Treasury management framework (2016 baseline: not applicable)</p> <p>3c. Integrated resource management system (2016 baseline: not applicable)</p> <p>3d. Safeguards capacity building plan for improving social and environmental risk mitigation and gender equality results (2016 baseline: not applicable)</p> <p>3e. IDCOL's mid-term business and strategy plan (2016 baseline: not applicable)</p>	<p>3a-3d: Consultants' reports</p> <p>3e. IDCOL management and audited annual report</p>	<p>Key staff in IDCOL leaves</p> <p>Lack of commitment from IDCOL's Board and management to execute and sustain the activities under the institutional building plan</p>
<p>Key Activities with Milestones</p> <p>1. Available long-term debt financing for infrastructure projects increased (by 2023)</p> <p>1.1. Identify and finalize indicative list of subprojects to be financed by ADB under the first PFR of PPIDF 3</p> <p>1.2. Commence fact-finding by IDCOL and project site visit of at least one sample project for funding under PPIDF 3</p> <p>1.3. IDCOL staff performs due diligence and safeguards review of potential subprojects eligible for ADB funding</p> <p>1.4. Fund approved subprojects and fully utilize facility amount</p> <p>2. Take-out financing for infrastructure projects catalyzed (by 2023)</p> <p>2.1. Identify list of potential take-out subprojects</p> <p>2.2. Due diligence and project site visit of at least one sample subproject for take-out financing</p> <p>2.3. At least one eligible and approved subproject refinanced</p> <p>3. IDCOL's institutional capacity strengthened (by 2020)</p> <p>3.1. Develop in-house integrated risk management framework</p>			

Key Activities with Milestones	
<ul style="list-style-type: none"> 3.1.1. Conduct a gap analysis and stocktaking of IDCOL's existing credit risk management systems, structures, and practices (April 2017–August 2017) 3.1.2. Develop project risk appraisal manuals and loan pricing tools (by December 2017) 3.1.3. Update policies and guidelines for credit risk management and operational risk management (by April 2018) 3.2. Develop in-house treasury management framework <ul style="list-style-type: none"> 3.2.1. Review and assess IDCOL's existing finance and treasury operations (by December 2018) 3.2.2. Develop implementation plans to improve current structures, processes, and controls (by December 2019) 3.2.3. Pilot implementation (by April 2020) 3.3. Develop resource management functionality <ul style="list-style-type: none"> 3.3.1. Identify and procure appropriate integrated software and hardware solutions for assessment, management, and monitoring of credit risk, operational risk, asset-liability risk, risk-based pricing, and loan management (by April 2019) 3.3.2. Pilot integration of management information system (by April 2020) 3.4. Strengthen in-house capacity for social and environmental risk assessment of subprojects, implementation of revised ESSF and monitoring of gender equality results <ul style="list-style-type: none"> 3.4.1. Review IDCOL's current ESSF to identify areas for improvement, streamline procedures for compliance and accommodate new financing modalities (by June 2018) 3.4.2. Develop manuals and training programs to improve subprojects' social and environmental risk assessment of subprojects, gender mainstreaming, and gender equity results, and strengthen PPMS system (by December 2018) 3.5. Assess existing safeguards capacity and recommend internal resource requirements (by December 2018) 	
Inputs	
Loan	
ADB:	\$500 million (OCR loan) \$26 million (concessional loan)
Subproject equity:	\$263 million (estimate)
Private sector banks/financiers	\$526 million (loan estimate)
Financial Sector Development Partnership Special Fund	\$0.75 million (grant)
Assumptions for Partner Financing	
Not applicable	

ADB = Asian Development Bank, EE = energy efficiency, ESSF = environmental and social safeguards framework, GDP = gross domestic product, IDCOL = Infrastructure Development Company Limited, OCR = ordinary capital resources, PPIDF = Public–Private Infrastructure Development Facility, PFR = periodic financing request, PPMS = project performance monitoring system, RE = renewable energy, SHS = solar home system.

^a Government of Bangladesh. 2015. *The Seventh Five-Year Plan FY2016–FY2020: Accelerating Growth and Empowering Every Citizen*. Planning Commission, Ministry of Planning: Dhaka.

^b The Second Public–Private Infrastructure Development Facility is under implementation.

Source: Asian Development Bank.

IMPLEMENTATION FRAMEWORK

1. The Ministry of Finance, acting through its Economic Relations Division, will be the executing agency while the Finance Division will be the financial management agency, and IDCOL will be the implementing agency of the proposed PPIDF 3. Policy direction and strategic oversight will be provided by IDCOL's Board of Directors. IDCOL's project management unit, established under PPIDF 1, will (i) monitor the implementation of the facility and corresponding subloans; (ii) build capacity within IDCOL in areas of monitoring exposure limits, process improvements, risk assessment, and analysis; and (iii) ensure compliance with state and national policies and IDCOL's environmental and social safeguard framework, which ensures compliance with ADB safeguard policies and national norms.

2. **Retroactive financing.** Retroactive financing will be allowed for eligible expenditures¹ not exceeding 20.0% under each tranche, incurred before loan effectiveness, but not earlier than 12 months before signing of the loan agreements. Any retroactive financing would comply with the same ADB requirements as for any other subprojects funded under PPIDF 3.

3. **Take-out financing.** Takeout financing will be one of the new financial products that IDCOL will offer to its clients. As such, IDCOL may use up to 20.0% of the ADB funds under the OCR loan to buy out individual loans or loan portfolio consisting of qualified infrastructure projects from other financial institutions under each tranche. Takeout finance may include subprojects that are financially closed, under construction, or fully commissioned. Each respective tranche will specify a maximum percentage. Any takeout financing should also follow IDCOL's internal guidelines and Bangladesh Bank norms, and comply with the same ADB requirements as any other subprojects funded under PPIDF 3.

4. **Maximum subloan size and ADB prior approval.** IDCOL shall ensure that the maximum amount of each subloan to a subproject does not exceed 40% of the total project costs, except that with prior approval of ADB the Subloan may exceed the limit and be up to 60% of the project cost.² Under tranche 1, ADB will review the first 3 subprojects funded by the OCR and subloans above \$5 million equivalent funded by the concessional OCR loan to ascertain IDCOL's ability to manage the subproject review and disbursement process. ADB reserves the right to request any supporting subproject documents and not to reimburse or liquidate any subprojects that do not comply with the PPIDF 3 implementation requirements detailed in the FAM.

5. **Subproject and subborrower selection criteria and approval procedures.** Detailed information about the definitions, eligibility criteria, appraisal, and monitoring and lending terms for subprojects can be found in the facility administration manual. As it was done under PPIDF 1 and 2, IDCOL will follow its well-established subproject appraisal process to determine the technical, economic, and commercial viability of each subproject.³ In addition, subborrowers will be required to meet ADB requirements and follow the subproject approval procedure details stipulated in the loan agreement, FFA, and the FAM.

¹ Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

² Subprojects in the EE and the RE subsectors have a high developmental impact and long-term funds are not easily available. Therefore, for EE and RE subprojects to be funded out of the concessional OCR loan, IDCOL's maximum exposure will be set at 70% or 80%, respectively.

³ As per IDCOL's lending policy, the company can only finance commercially viable projects and provide financing on commercial terms and price loans accordingly. Thus, all aspects of project economics and creditworthiness with regard to subprojects are subject to extensive due diligence prior to loan approval by IDCOL.

6. The implementation arrangements are summarized in Table 5 and described in detail in the FAM.⁴

Implementation Arrangements

Aspects	Arrangements
Implementation period	1 July 2017–31 December 2023
Estimated completion date	31 December 2023
Management	
(i) Oversight body	None ^a
(ii) Executing agency	Ministry of Finance, Economic Relations Division
(iii) Financial Management Agency	Finance Division
(iv) Key implementing agency	IDCOL
(v) Implementation unit	IDCOL PMU
Procurement	In accordance with ADB's Procurement Guidelines (2015, as amended from time to time) as applicable to financial intermediation loans.
Consulting services	In accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time)
Retroactive financing and/or advance contracting	Permitted up to 20% of each tranche and total PPIDF 3 amount.
Disbursement	The loan proceeds would be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between IDCOL and ADB.

ADB = Asian Development Bank, IDCOL = Infrastructure Development Company Limited, OCR = ordinary capital resources, PMU = project management unit.

^a An oversight body is considered unnecessary because IDCOL operates on autonomous basis and is governed by its board of directors. The secretary of the Economic Relations Division serves as the IDCOL Board Chairman.

Sources: Asian Development Bank and Infrastructure Development Company Limited.

⁴ Facility Administration Manual (accessible from the list of linked documents in the Report and Recommendation of the President).

SELECTION CRITERIA AND APPROVAL PROCESS FOR SUBPROJECTS

Selection Criteria

1. **Subproject eligibility criteria.** The ADB loan proceeds under PPIDF 3 will be used to finance private sector-sponsored infrastructure projects in Bangladesh that meet the following eligibility criteria:¹

- (i) The subproject should be an integral part of the Government's priority plan for the relevant sector and/or subsector.
- (ii) The subproject must be majority-owned by the private sector parties. Private sector parties must hold at least 51% of the project's equity.
- (iii) The technology proposed for a subproject should have a successful track record.
- (iv) The subprojects should be financially-viable on their own with robust and predictable cash flows and capable of generating sufficient foreign exchange revenues or revenues indexed to US\$ or demonstrate sufficient capacity to mitigate the currency risk to repay the US\$ loans to IDCOL.
- (v) The subprojects should meet the environmental and social assessment and procurement guidelines of the Government, ADB, and IDCOL.
- (vi) The economic rate of return of the subproject should be at least 12%.
- (vii) The subproject is compliant with ADB Safeguard Policy Statement (2009) as it applies to financial intermediary category B or C subprojects and the environmental and social safeguard framework (ESSF) of IDCOL.
- (viii) have total project cost in excess of US\$10,000,000 (OCR loan) or up to US\$10,000,000 equivalent (concessional OCR loan)

2. **Sponsor-related criteria.** The ADB loan proceeds under PPIDF 3 will be used to finance private sector-sponsored infrastructure projects in Bangladesh promoted by sponsors that meet the following eligibility criteria:

- (i) The sponsors or subproject contractors should have a proven track record of successfully developing, financing, and operating infrastructure projects; and
- (ii) The equity portion of the subproject should not be less than 20%² of the total subproject cost to ensure the sponsor's commitment to the subproject.

3. **Subproject approval process.** Under tranche 1, ADB will review the first 3 subprojects funded by the regular OCR loan and subloans above \$5 million equivalent funded by the concessional OCR loan to ascertain IDCOL's ability to manage the subproject review and disbursement process. ADB reserves the rights to request any supporting subproject documents and not to reimburse or liquidate any subprojects that do not comply with the PPIDF3 implementation requirements. IDCOL shall:

- (i) review the preliminary designs (i) and cost estimates for the subproject as approved by the lending consortium; and

¹ The eligibility criteria are consistent with the current investment guidelines of Infrastructure Development Company Limited (IDCOL).

² 15% in the case of renewable energy (RE) subprojects.

- (ii) submit to ADB a concept paper on the proposed subproject which shall include preliminary data and information on the subproject, its sponsors and the proposed financial terms;
- (iii) following ADB's approval of the concept paper, IDCOL shall carry out a detailed due diligence and shall submit the following documents to ADB for approval (i) a detailed information memorandum or business plan, (ii) a copy of the minutes from the meeting of IDCOL's board and credit committee through which the Subloan was approved, (iii) a certificate of compliance with respect to ADB's Procurement Guidelines and Consulting Guidelines, (iv) a certified copy of the Subloan Agreement and any other relevant information; and
- (iv) submit to ADB the safeguards documentation prepared for the Subproject, together with a safeguards compliance certificate for the Subproject.

4. ADB has the discretion not to fund any subprojects that IDCOL has financed or proposes to finance.

5. **Subloans.** IDCOL will use the OCR loan proceeds to provide medium to long-term subloans in local currency or US\$ to medium-sized to large infrastructure subprojects (including RE and EE subprojects) with a total subproject cost in excess of \$10 million. The onlending by IDCOL to eligible private sector subprojects will be at interest rates that reflect IDCOL's cost of funds plus a spread to cover transactional costs and risks following commercial and competitive terms as determined by IDCOL.

6. IDCOL will use the proceeds from the concessional OCR loan to provide medium to long-term subloans in local currency to RE and EE subprojects with a total cost of not more than \$10 million and at interest rates that allow IDCOL to earn a risk-adjusted return. Subprojects in the following RE and EE sectors will be financed: (i) grid-connected solar projects, solar mini grids, solar irrigation pumps, wind and other RE installations; (ii) energy efficient projects including brick kilns, waste and effluent treatment plants; (iii) recycling plants; (iv) waste to energy solutions; and (v) biogas and biomass-based power plants.

7. Each Subloan shall carry interest at an appropriate rate and shall be made on terms under which IDCOL obtains rights adequate to protect the interests of ADB and the Government.

8. IDCOL shall ensure that the maximum amount of each subloan to a subproject does not exceed 40% of the total project costs, except that with prior approval of ADB the Subloan may exceed the limit and be up to 60% of the project cost.³

³ Subprojects in the EE and the RE subsectors have a high developmental impact and long-term funds are not easily available. Therefore, for EE and RE subprojects to be funded out of the concessional OCR loan, IDCOL's maximum exposure will be set at 70% or 80%, respectively.

POVERTY AND SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. IDCOL will ensure that no subproject to be considered for financing will be located within or adjacent to national parks, protected areas and wildlife sanctuaries, or will affect monuments of cultural and historical value unless prior clearance is obtained from relevant government agencies, and will have an environmental management plan with appropriate resources for implementation.
2. IDCOL will comply with all the safeguards requirements provided for in the environmental and social safeguards framework (ESSF) 2011 (or its revisions)
3. Each subproject will be screened for its potential environmental and social impacts to determine its safeguards classification and to ensure that no subproject likely to be category A on environment, involuntary resettlement, and indigenous peoples is considered for funding. IDCOL will ensure that no proceeds from any tranche under PPIDF 3 are used to finance any activity included in the list of prohibited investment activities provided in the Appendix 5 of ADB's SPS 2009.
4. If a subproject is existing or fully commissioned, under construction, or financially closed, this will be screened following ESSF (2011 or its revisions) and IDCOL will ensure that an environmental and social compliance audit will submitted together with the time-bound corrective action plan with budget.
5. IDCOL will ensure that subprojects under PPIDF 3 will comply with relevant core labor standards, and that procurement of goods and services, engagement of contractors, subcontractors, and consultants will comply to national labor rules and regulations on minimum wages, child and forced labor, gender-sensitive and safe working conditions, minimum age requirement, social security, and provide mechanisms to allow for equal opportunity and fair treatment of workers.

UNDERTAKINGS

1. The Borrower shall, and shall ensure that IDCOL will do the following:
 - (i) IDCOL complies, at all times, with the prudential norms as made applicable to it by the Government, including capital adequacy, income recognition, classification, and provisioning of nonperforming assets;
 - (ii) IDCOL maintains a debt service coverage ratio of at least 1:0, and ensures that it has no arrears in repayment of its current debt obligations;
 - (iii) The subprojects meet the eligibility criteria agreed with ADB (as set out in Schedule 4 of the FFA), including technical, commercial, and financial/economic viability;
 - (iv) The onlending rates for the subloans are market-based and adequate to cover all costs and risks associated with the onlending;
 - (v) The subprojects adopt and implement appropriate procurement procedures that are based on competitive bidding and foster economy, efficiency, and transparency; and
 - (vi) the subloans are for only such subprojects that involve procurement of goods, works, and consulting services from ADB's member countries.
2. IDCOL will undertake extensive due diligence for all aspects of subproject economics and creditworthiness prior to loan approval by IDCOL.
3. IDCOL shall ensure that (a) accountability and transparency in IDCOL are maintained in its operations through stakeholder meetings and publication of progress reports through the duration of the Facility; and (b) internal procedures and controls are instituted, maintained, and complied with to prevent any corrupt, fraudulent, collusive, or coercive practices under ADB's Anticorruption Policy (1998, as amended to date).
4. IDCOL shall ensure that its annual report to its board of directors, and ADB, includes a report and discussion of the implementation of its corporate governance practice. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to review and examine any alleged corrupt, fraudulent, coercive practices relating to subprojects.