



Report and Recommendation of the President to the Board of Directors

Project Number: 51311-001
July 2020

Proposed Loan and Administration of Technical Assistance Grant People's Republic of Bangladesh: Strengthening Bangladesh Infrastructure Finance Fund Limited Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 July 2020)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.01179
\$1.00	=	Tk84.845

ABBREVIATIONS

ADB	–	Asian Development Bank
BIFFL	–	Bangladesh Infrastructure Finance Fund Limited
COVID-19	–	coronavirus disease
ESMS	–	environmental and social management system
GDP	–	gross domestic product
IDCOL	–	Infrastructure Development Company Limited
JICA	–	Japan International Cooperation Agency
MOF	–	Ministry of Finance
OPPP	–	Office of Public–Private Partnership
PAM	–	project administration manual
PPP	–	public–private partnership
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2020 ends on 30 June 2020.
- (ii) In this report, “\$” refers to United States dollars.

Vice-President	Shixin Chen, Operations 1
Director General	Kenichi Yokoyama, South Asia Department (SARD)
Director	Takeo Konishi, Public Management, Financial Sector and Trade Division (SAPF), SARD
Team leader	Dongdong Zhang, Principal Financial Sector Specialist, SAPF, SARD ^a
Team members	<p>Kazi Akhmila, Associate Safeguards Officer (Resettlement), Bangladesh Resident Mission (BRM), SARD</p> <p>Mohammad Rashed Al Hasan, Senior Project Officer (Financial Sector), BRM, SARD</p> <p>Ricardo Carlos Barba; Principal Safeguards Specialist; Portfolio, Results, and Quality Control Unit; Office of the Director General (SAOD-PR), SARD</p> <p>Monica Mei Carino-Young, Project Analyst, SAPF, SARD</p> <p>Farhat Chowdhury, Senior Project Officer (Environment), BRM, SARD</p> <p>Barun Kumar Dey, Economics Officer, BRM, SARD</p> <p>Pratish Halady, Principal Public–Private Partnership Specialist, Advisory Division 1 (OPA1), Office of Public–Private Partnership (OPPP)</p> <p>Ma. Kristina Hidalgo, Senior Financial Sector Officer, SAPF, SARD</p> <p>Anqian Huang, Senior Financial Sector Specialist, Public Management, Financial Sector and Trade Division (EAPF), East Asia Department (EARD)</p> <p>Srinivasan Janardanam; Principal Financial Management Specialist; Financial Management Division; Procurement, Portfolio and Financial Management Department</p> <p>Sajid Raza Zaffar Khan, Financial Management Specialist, SAOD-PR, SARD</p> <p>M. M. Zimran Khan, Associate Project Analyst, BRM, SARD</p> <p>Mukta Malhotra, Public–Private Partnership Specialist, OPA1, OPPI</p> <p>Jackie Moreno, Senior Project Assistant, SAPF, SARD</p> <p>Douglas Perkins, Principal Counsel, Office of the General Counsel</p> <p>Nasheeba Selim, Senior Social Development Officer (Gender), BRM, SARD</p> <p>Yasushi Tanaka, Principal Transport Specialist, Transport and Communications Division, SARD</p> <p>Francesco Tornieri, Principal Social Development Specialist (Gender and Development), SAOD-PR, SARD</p>
Peer reviewers	<p>Mohammad Nazrul Islam, Transport Specialist, Transport and Communications Division Southeast Asia Department</p> <p>Seung Min Lee, Senior Financial Sector Specialist, EAPF, EARD</p>

^a Outposted to the Bangladesh Resident Mission.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51311-001	
Project Name	Strengthening Bangladesh Infrastructure Finance Fund Limited Project	Department/Division	SARD/SAPF
Country	Bangladesh	Executing Agency	Finance Division, Ministry of Finance
Borrower	People's Republic of Bangladesh		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=51311-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=51311-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Public sector management	Public administration	ADB Financing (\$ million)	12.00
	Social protection initiatives		13.00
Finance	Infrastructure finance and investment funds		25.00
		Total	50.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Strengthening governance and institutional capacity		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 8.5		Some gender elements (SGE)	✓
SDG 9.1			
SDG 17.17		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: FI Involuntary Resettlement: FI Indigenous Peoples: FI		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		50.00	
Sovereign Development financing institution (DFI) (Regular Loan): Ordinary capital resources		50.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		50.00	
Note: An attached technical assistance will be financed on a grant basis by the Financial Sector Development Partnership Special Fund in the amount of \$650,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the People's Republic of Bangladesh for the Strengthening Bangladesh Infrastructure Finance Fund Limited Project.¹ The report also describes the proposed administration of technical assistance (TA) to be provided by the Financial Sector Development Partnership Special Fund² for Capacity Development of the Bangladesh Infrastructure Finance Fund, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the administration of the TA.

2. The objective of the project is to support public–private partnership (PPP) initiatives to address infrastructure development deficits. As the country starts to recover from the severe impacts of the coronavirus disease (COVID-19) pandemic, PPP will emerge as an important tool to leverage private sector resources to develop infrastructure and create jobs. The project comprises a financial intermediation loan to support the Bangladesh Infrastructure Finance Fund Limited (BIFFL) in financing selected PPP subprojects,³ and TA to strengthen BIFFL's institutional capacity and to support PPP project implementation.

II. THE PROJECT

A. Rationale

1. Infrastructure Gap Impedes Economic Development

3. Bangladesh's recent economic development has been strong. Gross domestic product (GDP) grew at an average rate of 7.0% per annum during 2012–2019.⁴ Bangladesh is on track to graduate from the United Nations' least-developed countries in 2024.⁵ Rapid economic growth has increased the demand for energy, transportation, and urban development. However, infrastructure development has yet to catch up, creating a bottleneck that prevents the economy from reaching its full potential. The World Economic Forum highlighted weaknesses in the enabling environment in the country, particularly with infrastructure. The country was ranked 114th out of 141 countries in terms of infrastructure in the 2019 Global Competitiveness Report.⁶ Significant weaknesses were noted in road infrastructure, train services, seaport services, and water utilities. Easing infrastructure constraints is critical to improving the competitiveness of domestic industries and the overall efficiency of the economy.

4. The Government of Bangladesh has increased infrastructure investments since fiscal year (FY)2016. According to the government's 7th Five Year Plan (FY2016–FY2020), infrastructure finance needs to reach 4.2% of GDP per annum, or about \$14 billion (FY2019), to maintain the growth momentum. Since FY2016, gross fixed capital investment consistently accounted for more than 30% of the government budget. Nevertheless, the country's mostly public-sector-driven infrastructure development is constrained by the resource availability as well as implementation

¹ The Bangladesh Infrastructure Finance Fund Limited (BIFFL) is an eligible financial intermediary per Asian Development Bank (ADB). 2003. Bank Policy Financial Intermediation Loans. *Operations Manual*. OM D6. Manila.

² Financing partner: The Government of Luxembourg. Administered by ADB.

³ In this document, "project" refers to the proposed ADB project, and "subproject" refers to the PPP projects funded by the BIFFL.

⁴ ADB. 2019. [Asian Development Outlook Update: Fostering Growth and Inclusion in Asian Cities](#). Manila.

⁵ Government of Bangladesh, Planning Commission. 2015. *The 7th Five Year Plan, FY2016–FY2020: Accelerating Growth, Empowering Citizen*. Dhaka.

⁶ World Economic Forum. 2019. *Global Competitiveness Report 2019*. Geneva. Among key indicators under infrastructure, road connectivity ranked 117, electricity access 108, and exposure to unsafe drinking water 136.

capacities. The budget deficit was 5.5% of GDP in 2019, limiting further increases in infrastructure investments. Because of capacity constraints, many projects experienced implementation delays and cost overruns, resulting in reduced benefits from the projects.

5. The infrastructure sector comprises energy, power, transport, urban, education, and health sectors. More prominently, the Strategic Transport Plan 2015–2035 proposes five mass rapid transit systems, two bus rapid transit systems, three ring roads, eight radial roads, and six expressways, among others.⁷ According to the Revisiting The Power System Master Plan 2016, to meet up future demand and maintain reserve margin, the country's generation capacity needs to increase by 74.5 gigawatts from 2020 to 2041. From 2017 to 2025, an average investment of \$9–10 billion per annum is needed, for aggregated generation, transmission, and related costs.⁸ The government plans also call for increased investments in economic zones and the urban, health, and tertiary education sectors.

2. Public–Private Partnership Plays a Critical Role in Infrastructure Development

6. International experience has shown that PPP is an effective tool to leverage private sector resources to address the public investment gap in infrastructure. Aside from mitigating the government's fiscal constraints, with proper designs PPP can also serve to provide incentives for private sector participants to optimize long-term value for money of projects, bring greater efficiency in public service delivery, and introduce advanced technologies and business practices.

7. Recognizing the great potential of PPP, the government has mainstreamed PPP in the economic planning process. Under this process, public infrastructure projects are (i) developed by line ministries and/or local governments; (ii) screened by the Bangladesh PPP Authority⁹ and approved by the Cabinet Committee for Economic Affairs, chaired by the minister of finance; (iii) funded by the PPP Unit of the Ministry of Finance (MOF) (e.g., viability gap fund or other availability payment support); and (iv) supported by external transaction advisers, such as the Office of Public–Private Partnership (OPPP) of the Asian Development Bank (ADB). In addition, a PPP policy, PPP law, viability gap fund guidelines, and procurement guidelines have been developed and promulgated. PPP tool kits and templates of legal agreements are being developed. The government's commitment to PPP is also demonstrated through the establishment of a separate PPP budget for loans and equity, viability gap funding, and TA.

8. The government has envisioned that PPP will eventually support a substantial portion of infrastructure investments, especially in the transport and energy sectors. According to the seventh five year plan, PPP investments in the transport sector alone shall reach 1% of GDP. Total investment needs in the energy sector are more than 2.5% of GDP per year, and one-third of that will also be from the private sector, primarily through PPPs. For the transport and energy sectors alone, the total demand for PPPs is up to \$5 billion per year. The development of the eighth five year plan (FY2021–FY2025) is yet to be completed, but the government has reaffirmed that the PPP initiative will be a crucial long-term strategy in developing the transport, energy, urban, water, and information and communication technology sectors.¹⁰ As of February 2020, the PPP Authority had a pipeline of 72 projects with an estimated investment value of \$22.7 billion at

⁷ Government of Bangladesh. 2015. *Strategic Transport Plan 2015–2035*. Dhaka.

⁸ Government of Bangladesh. 2018. *Revisiting Power System Master Plan 2016*. Dhaka.

⁹ Situated under the Prime Minister's Office, the PPP Authority is an autonomous government agency responsible for the management and support of PPP projects in Bangladesh.

¹⁰ Government of Bangladesh. 2020. *Perspective Plan of Bangladesh 2021–2041*. Dhaka.

different stages of development. Most of the PPP projects are in the transport, energy, and social infrastructure sectors, which includes health care, economic zones, and tourism.

9. Despite the progress made, PPPs have yet to deliver on their full potential. During the seventh five-year plan period, 16 PPP contracts totaling \$4.9 billion were signed, which is below the government target. PPP has gained some ground in power sector, especially in the private sector-led independent power producer subsector. Large-scale infrastructure PPP projects in other sectors such as transport have yet to take off. The main constraints are the lack of experience by line ministries to develop and structure large-scale complex PPP transactions and lack of long-term financing for large-scale PPP projects, especially in local currencies.¹¹

10. **Government-established public sector financing companies.** To channel long-term financing to PPP projects, the government established two complementary public sector infrastructure financial institutions: the Infrastructure Development Company Limited (IDCOL) in 1997 and BIFFL in 2011. IDCOL lends primarily to independent power producers and other infrastructure subprojects developed by private sector sponsors. BIFFL is mandated to provide long-term local currency debt financing to subprojects developed by public sector sponsoring agencies, such as the Ministry of Road Transport and Bridges; the Ministry of Shipping; and the Ministry of Power, Energy and Mineral Resources.¹² As a nonbank financial institution fully owned by the MOF, BIFFL was established as an integral part of the PPP development institutions, together with the PPP Authority and the PPP Unit of the MOF.

3. COVID-19 Highlights Greater Importance of Public–Private Partnerships

11. **Impact on the economy and jobs.** The COVID-19 pandemic has had a significant impact on the economy of Bangladesh. The International Monetary Fund projects that the country's economic growth will weaken to 3.8% in FY2020, which would be the slowest growth rate since 2002. ADB estimated that 1.4 million–3.7 million workers may lose their jobs and 13.0 million people may fall back into poverty. The implementation of infrastructure projects is severely affected by the disruption to imports of machinery and materials, as well as by work stoppages.

12. **Infrastructure development will play an important role in the economic recovery.** The economy after the pandemic will continue to face many challenges, with most economists expecting a U-shaped recovery. The traditional economic growth drivers, such as domestic consumption and exports, are expected to remain weak for an extended period. Therefore, in addition to its long-term economic benefits, infrastructure development will become a key driver in boosting aggregate demand and accelerating the revival of economic activity. Infrastructure development is also important for job creation, as construction tends to have a large employment multiplier effect and provides jobs for the poor. Further, the pandemic highlighted significant deficiencies in the country's health care system which will lead to increased investment needs in medical infrastructure, such as hospitals and testing facilities.

¹¹ The lack of long-term taka funds is caused by a number of factors: (i) government securities and national saving certificates, which have high returns, crowd out potential corporate or project bond issues; (ii) institutional investors cannot invest in corporate and project bonds because of regulatory restrictions; and (iii) limited secondary market trading prevents the development of benchmark yield curves. For details, refer to the problem tree in the Sector Assessment (Summary): Finance (Infrastructure Finance and Investment Funds) (accessible from the list of linked documents in Appendix 2).

¹² However, because of the limited PPP pipeline in the past, BIFFL has also been lending to non-PPP infrastructure and industrial projects similar to those funded by IDCOL. The project intends to support to refocus BIFFL to its core mandate of lending to support major infrastructure PPP projects developed by line ministries.

13. **Increased importance of public–private partnerships in the context of COVID-19.** Because of the pandemic, the government has come under increasing fiscal pressures. In FY2020, the budget deficit is expected to remain elevated at 5.5% of GDP because of sharp revenue reduction and escalating expenditures for health care, social protection, and economic stimulus. The tight fiscal conditions are expected to continue into FY2021. Budgetary priorities will focus on public health, food security, and social protection. Per World Bank estimate, fixed capital investment by the government is expected to decline from \$8.4 billion in FY2019 to \$5.7 billion in FY2020 and \$4.5 billion in FY2021.¹³ In this context, PPP will take on added significance in complementing public financing to support infrastructure development. Further, considering the impact of the pandemic, investment on health care is expected to increase, and a major portion of this investment is expected to be funded by the private sector through PPPs.

4. The Project is Part of ADB’s Long-Term Engagement on Public–Private Partnership

14. **ADB’s past assistance.** ADB has provided extensive support to the government for PPP development. First, during 2010–2014, ADB TA helped Bangladesh establish PPP institutions, policies, and funding mechanisms, including the PPP Authority, the PPP Unit of the MOF, and BIFFL.¹⁴ Second, ADB’s OPPP has been working closely with the PPP Authority, with the assistance of ADB’s Asia–Pacific Project Preparation Facility,¹⁵ to provide support in relation to sector reforms; subproject due diligence (e.g., financial, economic, technical, legal, and safeguards); and roadshows, data rooms, and other bid preparation activities. With the expanding OPPP transaction advisory mandates to help the PPP Authority tender PPP subprojects, especially in roads and health care, a list of bankable PPP subprojects is being prepared.¹⁶ Third, ADB has implemented three capital market development programs to Bangladesh—in 1997, 2012, and 2015—to address the lack of a long-term commercial debt market in the country.¹⁷ Fourth, ADB has successfully supported IDCOL through three assistance programs—approved in 2008, 2013, and 2017—to extend long-term infrastructure project loans.¹⁸

15. **The need for support.** Given BIFFL’s clear mandate to finance PPP infrastructure projects, supporting BIFFL will be an important and integral component of ADB’s holistic assistance to the government’s PPP strategy. BIFFL is still a relatively new financial institution with limited operational history and experience working with development partners. On the technical side, there is a need to strengthen BIFFL’s institutional capacity to appraise PPP infrastructure projects and assume credit risk, while facilitating the participation of local financial institutions. On the funding side, constrained by the lack of access to long-term financing, BIFFL’s investments are mainly equity funded, and the very low leverage on its balance sheet limits its ability to support more long-term infrastructure projects. Access to long-term financing is critical for BIFFL to expand its operations. Going forward, BIFFL plans to mobilize \$500 million of long-term debt from development assistance, and attempt bond issuances to raise local currency funds. BIFFL has made modest progress on this front, recently securing funding from the Japan International Cooperation Agency (JICA) for energy efficiency projects. But BIFFL is still in need

¹³ World Bank. 2020. *The cursed blessing of public banks*. Washington, DC.

¹⁴ ADB. [People’s Republic of Bangladesh: Public–Private Partnership Program Operationalization](#).

¹⁵ ADB. [Regional: Strengthening Project Preparation Capacity in Asia and the Pacific](#).

¹⁶ PPP Authority. 2019. *PPP Project (Pipeline)*. Dhaka. <http://www.pppo.gov.bd/projects.php>.

¹⁷ ADB. [People’s Republic of Bangladesh: Capital Market Development Program](#); ADB. [People’s Republic of Bangladesh: Second Capital Market Development Program](#); and ADB. [People’s Republic of Bangladesh: Third Capital Market Development Program](#).

¹⁸ ADB. [People’s Republic of Bangladesh: Public–Private Infrastructure Development Facility](#); ADB. [People’s Republic of Bangladesh: Second Public–Private Infrastructure Development Facility](#); and ADB. [People’s Republic of Bangladesh: Third Public–Private Infrastructure Development Facility](#).

of long-tenor funds earmarked for PPP infrastructure projects, and capacity building support. In this context, the government has requested a sovereign loan from ADB.

16. **Market demand.** The government envisioned that PPP would support up to \$5 billion of infrastructure investment annually. The size of BIFFL's loan portfolio was only \$201 million at the end of 2018. Together with IDCOL's loan portfolio of \$498 million and leveraged commercial financing, the total financing amounted to only \$2.8 billion. BIFFL is building a promising PPP subproject pipeline, supported by the PPP Authority, ADB's project team, and ADB's OPPP (see detailed subproject assessment in para. 23 and the PPP subproject pipeline under the PPP Authority referenced in footnote 16). With this backdrop, the demand for funds from emerging PPP subprojects may potentially increase, exceeding the \$50 million loan to BIFFL. Should such funding requirements materialize, and if the current project is on track for successful implementation, ADB will consider providing additional financing to support these subprojects.

17. **ADB's strategic context and policy framework.** The project will help ease Bangladesh's infrastructure financing constraint, a priority area in ADB's country partnership strategy, 2016–2020 for Bangladesh,¹⁹ and it is included in the country operations business plan, 2020–2022.²⁰ The project is well aligned with the operational priorities of ADB's Strategy 2030.²¹ The project will help to alleviate poverty by creating jobs during both the construction and operation phases of the infrastructure projects, especially for many low-skilled workers (Operational Priority 1). The project will help strengthen governance and the institutional capacity of BIFFL (Operational Priority 6), tackle climate change by supporting the development of more efficient and environmentally sustainable infrastructure projects (Operational Priority 3), and support gender equality by incorporating gender elements in project implementation and capacity building activities (Operational Priority 2). Moreover, in line with ADB's Strategy 2030, the project will help mobilize private sector financing and promote private sector development. Finally, to deliver integrated solutions, the project will promote cross-sector, cross-theme, and cross-department collaboration. The project was processed with support and consultation from OPPP during the design stage; the subproject pipeline was developed based on existing and future OPPP transactions. By connecting the regional department's financing to OPPP's transaction advisory mandates, the project aims to deliver seamless support to the government's PPP strategy under the One ADB approach.

B. Project Description

18. The project will support the government's efforts in strengthening BIFFL's institutional capacity to develop PPP infrastructure projects. The support will help to restart infrastructure development, spur economic growth, and generate jobs during the recovery from the COVID-19.

19. The project is aligned with the following impact: investment in infrastructure development increased (footnote 5). The project will have the following outcomes: PPP infrastructure projects increased, and new employment opportunities created.²² The outputs are (i) long-term debt to infrastructure subprojects provided and (ii) BIFFL's institutional capacity to finance PPP infrastructure projects improved.

¹⁹ ADB. 2016. [Bangladesh: Country Partnership Strategy, 2016–2020](#). Manila.

²⁰ ADB. 2019. [Bangladesh: Country Operations Business Plan, 2020–2022](#). Manila.

²¹ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

²² The design and monitoring framework is in Appendix 1.

20. **Output 1: Long-term debt to public–private partnership infrastructure subprojects provided.** Through this output, BIFFL will provide long-term local currency financing for qualified PPP infrastructure subprojects. ADB financing will also leverage additional private sector investments in infrastructure project development.

21. To be eligible for financing, subprojects must be developed by the PPP Authority and meet subproject eligibility criteria including private sector ownership of the infrastructure being developed, commercial viability, economic return, technical efficiency and compliance with ADB environmental and social safeguard requirements. Use of ADB financing for any subproject will be subject to pre-approval by ADB to confirm satisfaction of the eligibility criteria. To manage risks and establish best practices, unless otherwise agreed, the first subprojects will be selected from PPP subprojects developed with the support of OPSP through its advisory services.

22. **Output 2: Bangladesh Infrastructure Finance Fund Limited’s institutional capacity to finance public–private partnership infrastructure projects improved.** The TA will (i) review and update BIFFL’s business strategy, (ii) develop a comprehensive capacity building plan for BIFFL, (iii) strengthen the BIFFL safeguard unit and mainstream safeguard principles, and (iv) support the implementation of ADB-funded subprojects while providing hands-on training for the staff. Overall, the TA will increase the capacity of BIFFL to screen, process, fund, and implement PPP infrastructure projects. It is expected that at least two PPP projects will be reviewed and approved by 2024, putting BIFFL on a sustainable path to achieve its mandate to support infrastructure development.

23. **Subproject pipeline.** For the initial subproject pipeline, ADB and BIFFL have identified the Dhaka Bypass Project and Rampura–Amulia–Demra Road Project, and OPSP has acted as a transaction advisor for both. The concession agreement for the Dhaka Bypass Project was signed in December 2018 and the financial closure is expected by August 2020. The Dhaka Bypass Expressway Development Company is requesting a \$122 million-equivalent taka loan from BIFFL, for which the preliminary term sheet has been signed. For the Rampura–Amulia–Demra Road Project, bids for the concession were submitted in July 2019 and the preferred bidder has been selected with preliminary terms of contract signed. BIFFL is in discussion with the project company over a local currency financing of \$88 million. ADB’s OPSP continues to develop other PPP projects, especially in the health sector, that may lead to additional pipeline subprojects. In December 2019, ADB, the PPP Authority, and the Directorate General of Health Services executed a triparty memorandum of understanding, in which future PPP projects in medical diagnostics and dialysis centers have been outlined for implementation in 2020–2022. Furthermore, increased demand in the health care industry is expected as a result of the pandemic.

C. Value Added by ADB

24. The project will (i) provide critically needed capacity development and long-term funding to help BIFFL sustain and expand its lending operations to PPP infrastructure projects, (ii) catalyze greater private sector commercial infrastructure financing and investment, and (iii) facilitate the financial closure of the first few large PPP infrastructure subprojects to help the rollout of the government’s PPP strategy. Despite the relatively small loan amount, the project will help strengthen BIFFL’s institutional capacity and sustain its future PPP infrastructure project lending capacity, including the introduction of international best practices in environmental and social safeguards. On the funding side, taka-denominated long-term loans from BIFFL will help minimize the foreign exchange risk of PPP infrastructure projects, which will enhance the economic viability of the projects. As the country is trying to recover from the impact of COVID-19, ADB’s support

will provide a much-needed boost to the country's PPP initiative to promote infrastructure development. Based on the experiences gained from the long-term partnership with IDCOL and the Indian Infrastructure Finance Company Limited,²³ the project design prioritized and advanced the institutional capacity development and subproject review to improve overall readiness.

D. Summary Cost Estimates and Financing Plan

25. The government has requested a regular loan of \$50 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-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 to be capitalized in the loan; and such other terms and conditions set forth in the draft loan agreement.

26. ADB loan proceeds are intended to fund up to 30% of the total cost of subprojects to maximize the leveraging of commercial finance. The project will leverage at least 20% of the total subproject costs from private sector equity and the remainder from other commercial borrowing. No more than 20% of the total loan amount will be used for retroactive financing, which could be used for refinancing costlier loans or loans with shorter maturities on eligible subprojects.²⁴

Table 1: Summary Financing Plan

Source ^a	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	50.0	100.0
Total	50.0	100.0

^a Additional sources of financing will include private sector equity and commercial borrowing, the respective amounts of which will be determined individually for each subproject.

Source: Asian Development Bank estimates.

27. **Relending.** The loan proceeds will be relented by the government to BIFFL through a subsidiary loan agreement in compliance with the loan agreement between ADB and the government. The subsidiary loan will be denominated in taka and mirror ADB loan in tenor and grace period. The relending rate will be guided by MOF relending rates for public investments.²⁵

28. **Onlending.** BIFFL will onlend the loan proceeds through subloans to qualified enterprises carrying out eligible subprojects. The subloans will be commercially priced and reflect BIFFL's cost of funds and subproject-specific risks. The funding support will leverage additional private sector investments including foreign direct investments to infrastructure projects.

E. Implementation Arrangements

29. The Finance Division of the MOF will be the executing agency and BIFFL will be the implementing agency. The implementation period will be 4 years from 2020 to 2024. BIFFL will establish a project management unit with staffing and other resources satisfactory to ADB and ensure compliance with the project implementation requirements stipulated in the project administration manual (PAM)²⁶ and legal agreements. The implementation will also be guided by the environmental and social management system (ESMS) arrangement.

²³ Lessons from Other ADB Financial Intermediation Loans to Support Infrastructure Development (accessible from the list of linked documents in Appendix 2).

²⁴ Incurred before loan effectiveness but not more than 12 months before the signing of the loan agreement.

²⁵ Recent MOF relending rates for funds from development partners to BIFFL have been fixed rates in the range of 1–2%.

²⁶ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

30. The implementation arrangements are summarized in Table 2 and described in detail in the PAM.

Table 2: Implementation Arrangements

Aspects	Arrangements
Implementation period	August 2020–August 2024
Estimated completion date	31 August 2024
Estimated loan closing date	28 February 2025
Management	
(i) Executing agency	Ministry of Finance (Finance Division)
(ii) Implementing agency	BIFFL
(iii) Implementation unit	The project management unit within BIFFL will have five full-time staff who will carry out the implementation of the project. The unit will also be supported by technical experts funded by the technical assistance and BIFFL funds.
Procurement	The subborrowers will follow the established private sector or commercial practices in procuring goods and services using the proceeds of the loan, in line with the core principles of the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and in a manner acceptable to ADB.
Retroactive Financing	Retroactive financing will be provided to subprojects that were approved by ADB for expenses incurred by the subborrowers not more than 12 months prior to the date of the loan agreement. The subprojects must meet the same subproject eligibility criteria set out in this report and recommendation of the President and the PAM (footnote 26). The total amount of retroactive financing will not exceed 20% of the loan amount.
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the Finance Division of the Ministry of Finance, and BIFFL and ADB.

ADB = Asian Development Bank, BIFFL = Bangladesh Infrastructure Finance Fund Limited, PAM = Project Administration Manual.

Sources: ADB, BIFFL, and Ministry of Finance.

31. **COVID-19 impact on implementation.** The government gradually lifted closures and movement restrictions since 31 May 2020. Logistical issues and work stoppages have delayed all infrastructure projects for 3–4 months. PPP subprojects under consideration for the project will proceed as planned. These are all long-term projects where the private sector has entered with a long-term view of risks and returns through multiple economic cycles. The pandemic does not alter the economics of the road projects or cost estimates. For the Dhaka bypass subproject, after 3 months of delays both the government and the project company are eager to move forward, with the financial closure in August 2020. For the country, PPP road subprojects such as the Dhaka Bypass Project bring in much-needed private sector investments and provide jobs for many non-skilled workers at a time of economic slowdown. Further, the pandemic has highlighted the importance and enhanced the feasibility of health sector projects in the government's PPP pipelines.

III. ATTACHED TECHNICAL ASSISTANCE

32. TA is attached to the project to help BIFFL improve its institutional capacity and to support project implementation. The TA is estimated to cost \$650,000, which will be financed on a grant basis by the Financial Sector Development Partnership Special Fund.²⁷ TA funds will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). All consultants shall be recruited in accordance with the ADB Procurement Policy (2017, as amended from time to time) and associated project administration

²⁷ Financing partner: the Government of Luxembourg. Administered by ADB.

instructions and TA staff instructions. The TA will support (i) corporate strategy review and development; (ii) capacity development assessment and development, including in funding, treasury operations, PPP, and credit and risk management; (iii) environmental and social safeguards; and (iv) ADB project implementation.

IV. DUE DILIGENCE

33. ADB's due diligence consists of detailed country, macroeconomic, infrastructure sector, and BIFFL operational assessments to ensure the success of this project. In particular, ADB has conducted a comprehensive assessment of BIFFL's operational capacities in terms of deal origination, credit risk assessment, treasury and funding, human resources, and other internal processes and procedures, and found them to be adequate to operate commercially. Since BIFFL has no prior experience in implementing ADB-funded projects, the TA will be crucial in enhancing its capacity in safeguards and compliance. Integrity due diligence has been conducted, and no significant or potential integrity risks were identified.

A. Economic and Financial Viability

34. ADB guidelines stipulate that the most important criteria for determining the standing of financial intermediaries are capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk, or the CAMELS rating model.²⁸ BIFFL has demonstrated satisfactory ratings on these indicators. However, ADB's evaluation confirmed that BIFFL's capital structure is underleveraged, which depressed both lending volume and earnings. BIFFL's operational performance can be improved with higher leverage, particularly with more long-term debt. Since most of the likely future PPP subprojects are in the road subsector, an analysis of the economic viability of recent completed road projects in Bangladesh financed by ADB was conducted. The analysis showed satisfactory economic internal rates of return ranging from 17.5% to 28.6%. Economic returns of each subproject will be evaluated during the subproject approval process when all required information becomes available. After the onset of the COVID-19 pandemic, some PPP projects have experienced delays in financial closure because of shutdowns, but most of the PPP infrastructure projects will continue to be implemented. Long-term infrastructure projects under consideration are expected to generate economic returns across economic cycles and are often used as a tool of countercyclical stimulus.

B. Sustainability

35. The project is expected to enhance the sustainability of BIFFL's operations, both financially and institutionally, as the ADB loan will provide long-term debt to sustain BIFFL's capital structure and funding, and the TA will provide institutional capacity building to help BIFFL expand its operations in a sustainable manner. ADB's long-term funds will help BIFFL mobilize greater private sector finance and facilitate infrastructure and PPP sector development. The supply of long-term ADB funds to the Bangladesh financial system will also give rise to additional appetite for similar long-term debt instruments and facilitate the development of the long-term bond market. The environmental and social safeguards and other international best practices established under the TA will help BIFFL gain better access to additional development assistance from other international lenders in PPP infrastructure projects.

²⁸ ADB. 2005. *Financial Management and Analysis of Projects*. Manila (Section 6.4. Assessing FI Performance). Following the CAMELS framework, a financial institution is assessed by its Capital adequacy, Assets quality, Management quality, Earnings and Liquidity.

C. Governance

36. As a fully government-owned public sector financial institution, BIFFL has a strong governance structure. The board of directors includes nine members, with the secretary of the Finance Division (MOF) as the chair. Among the board members are the secretary of the Prime Minister's Office; the secretary of the Ministry of Power, Energy, and Mineral Resources; and the secretary of the Ministry of Road Transport and Bridges. BIFFL plans to appoint an additional independent board member from the private sector. Critical committees—such as the audit committee, management committee, credit risk management committee, and asset–liability management committee—have been established and are functioning well.

37. **Financial management.** BIFFL has established well-defined financial management procedures and guidelines and is compliant with Bangladesh Financial Reporting Standards and Bangladesh Accounting Standards. BIFFL has qualified staff in accounting, finance, asset and liability management, internal controls and audits, and reporting functions. BIFFL has had prior experience implementing projects with international lenders such as JICA and the World Bank, through which its financial management capacity has been evaluated and enhanced. The overall financial management control risk is *moderate*.

38. **Procurement and disbursement.** BIFFL will monitor the subproject procurement by following the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). All PPP subprojects are required to undergo a bidding process, in accordance with the government's Procurement Guidelines for PPP Projects, 2018.²⁹ BIFFL will also require concessionaires to ensure that prices are reasonable and that relevant factors, e.g., time of delivery, efficiency, reliability, and suitability for the subproject, are considered. The recommended project procurement classification is *B*.

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

D. Poverty, Social, and Gender

40. The project will increase Bangladesh's infrastructure investments to improve access to public services, create jobs, enhance economic efficiency, and reduce poverty in subproject areas and in the country. The construction and future operation and maintenance work could potentially provide direct local employment benefits, including to the poor and vulnerable groups in the subproject construction areas. The project will ensure social safeguard compliance in terms of involuntary resettlement, indigenous people's policy, core labor standards, and Bangladesh's labor legislation. Women will benefit from the project through capacity development of BIFFL's staff under the TA or schemes to improve women's access to local labor market opportunities from the infrastructure subprojects funded by BIFFL.

E. Safeguards

41. In compliance with ADB's Safeguard Policy Statement (2009) (SPS), the project's safeguard categories are as follows:³⁰

²⁹ Government of Bangladesh. 2018. [Procurement Guidelines for PPP Projects, 2018](#). Dhaka.

³⁰ ADB. [Safeguard Categories](#).

42. **Environment, involuntary resettlement, and indigenous peoples (category FI).** The project is classified category *FI* for environment, involuntary resettlement, and indigenous peoples. Under the project, BIFFL will consider PPP infrastructure subprojects screened by the PPP Authority and as advised by ADB's OPPP. These subprojects may include roads and highways with potential significant environmental and social impacts. Screening and review of subprojects to be considered by BIFFL will follow the procedures indicated in the ESMS arrangement, which is based on ADB's SPS. The ESMS arrangement has been disclosed on the ADB website as required by ADB's SPS and Access to Information Policy 2018.

43. Given the nature of the subprojects, some could potentially be category *A* for environment and/or involuntary resettlement. Subprojects that may be category *A* for indigenous peoples will be avoided. In case this cannot be avoided, the ESMS arrangement provides guidance on how to conduct due diligence and mitigate potential risks. The safeguard categorization of the subprojects recommended by BIFFL will be reviewed and cleared by ADB before subproject approval to ensure compliance with ADB's SPS. The environmental impact assessment, the resettlement plan, and the indigenous peoples plan will also be reviewed by ADB to ensure that they are compliant with ADB's SPS.

44. ADB reviewed the institutional capacity of BIFFL in managing potential environmental and social impacts associated with the subprojects. Currently, BIFFL has designated staff who oversee the environmental and social safeguards of their projects and are supported by environmental consultants engaged for projects with the World Bank and JICA. Since this will be the first ADB project for BIFFL, its staff received SPS training conducted by ADB in August 2019.³¹ The institutional capacity building of BIFFL on environmental and social safeguards (including labor management) will be further supported by the TA. The TA will provide the necessary capacity development and technical support to improve the structure and implementation of the ESMS arrangement and eventually integrate them into the BIFFL's institutional environmental and social safeguard management framework. BIFFL has demonstrated commitment to working with ADB in meeting the requirements of its SPS and following other international best practices in managing environmental and social risk impacts of identified subprojects.

45. **Climate change risk assessment.** Subprojects that will be considered for ADB funding will be reviewed on their climate change risk which could be *low*, *medium*, or *high*. Subprojects to be considered will not be expected to have *medium* or *high* climate change risk. If these cannot be avoided, a climate change assessment report with climate adaptation/mitigation options will be included and will be cleared by ADB before subproject approval.

46. Following the process for financial intermediation loans, climate adaptation and mitigation benefits can be estimated only upon ADB's realization of each subproject financing. If all subprojects are in the roads and highways subsector, the climate adaptation and mitigation impact will be limited to about 10% of the total ADB project cost incurred in raising road levels, improving drainage systems, and/or additional slope protection.

F. Summary of Risk Assessment and Risk Management Plan

47. Significant risks and mitigating measures are summarized in Table 3 and described in detail in the risk assessment and risk management plan.³²

³¹ Trainings on safeguards at resident missions are supported by ADB. 2013. [Technical Assistance for Improving Safeguard Policy Applications in South Asia Developing Member Countries](#). Manila (TA 8569-REG).

³² Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 3: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
PPP pipeline subprojects may not be tendered successfully to reach financial closure, leading to commercial operation.	OPPP will continue to work closely with the PPP Authority and government line ministries to provide technical and other transaction advisory support.
Institutional capacity. BIFFL has limited experience in administering safeguard category A subprojects in accordance with ADB's Safeguard Policy Statement (2009).	ADB will require the strengthening of the safeguard unit in BIFFL before loan effectiveness. ADB will provide technical assistance to strengthen BIFFL's institutional capacity, including environmental, social, and labor practices safeguards.
The government has difficulties in reaching interagency coordination agreements and subsequent necessary internal approvals.	ADB will improve communications with government counterparts through regular dialogues and review missions.
External or internal economic shocks (including ones resulting from COVID-19) affect investor confidence, PPP subproject commercial viability, and project implementation.	At the implementing agency level, ADB will carry out capacity development to strengthen BIFFL's risk management and operations. ADB OPPP's transaction advisory service will help develop well-structured subprojects with appropriate risk-sharing mechanisms to mitigate external shocks. Subproject selection will incorporate specific risk identification and assessment pertaining to COVID-19 impact.

ADB = Asian Development Bank, BIFFL = Bangladesh Infrastructure Finance Fund Limited, COVID-19 = coronavirus disease, OPPP = Office of Public-Private Partnership, PPP = public-private partnership.

Source: ADB.

V. ASSURANCES AND CONDITIONS

48. The government and BIFFL have assured ADB that implementation of the project shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

49. The government and BIFFL have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement and project agreement.

50. Additional conditions to loan effectiveness include the signing and effectiveness of a subsidiary loan agreement between the MOF and BIFFL on terms and conditions satisfactory to ADB, and the establishment of a project implementation unit with designated safeguard review capacity. In addition, BIFFL may not withdraw loan proceeds for any subproject until BIFFL has established the ESMS in a manner satisfactory to ADB.

VI. RECOMMENDATION

51. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$50,000,000 to the People's Republic of Bangladesh for the Strengthening Bangladesh Infrastructure Finance Fund Limited Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Masatsugu Asakawa
President

27 July 2020

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with^a			
Investment in infrastructure development increased (Bangladesh 7th Five Year Plan, FY2016–FY2020)			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcomes PPP infrastructure projects increased, and new employment opportunities created	a. At least \$30 million private sector equity (in ADB-financed PPP subprojects) leveraged by BIFFL during 2020–2024 to expand PPP projects (2019 baseline: 0) (TI 1.3.1) b. At least \$70 million private sector commercial debt (in ADB-financed PPP subprojects) leveraged by BIFFL during 2020–2024 to expand PPP projects (2019 baseline: 0) (TI 1.3.1) c. About 3,000 jobs in PPP projects supported by BIFFL created during 2020–2024 (2019 baseline 0) (RFI 1.2)	a–c. Annual audited statement of utilization of funds, BIFFL project monitoring and review reports and BIFFL annual reports, Government of Bangladesh reports, ADB project review missions, and consultant reviews	External or internal economic slowdowns (e.g., from one-off events) may negatively affect investor confidence and PPP subproject commercial viability
Outputs 1. Long-term debt to infrastructure subprojects provided	1a. Up to \$50 million funding provided to qualified infrastructure subprojects by BIFFL during 2020–2024 (2019 baseline: 0) (TI 1.3.1) 1b. At least two PPP projects supported by BIFFL by 2024 (2019 baseline: None) (TI 1.3.1)	1a–b. ADB project review and related disbursement data, BIFFL project monitoring and review reports, and BIFFL annual reports	The progress of PPP pilot subproject development and tendering process slows down, delaying the implementation process
2. BIFFL's institutional capacity to finance PPP infrastructure projects improved	Under the TA: 2a. BIFFL business strategy is reviewed and updated by 2021 (2019 baseline: None) (TI 6.2.3) 2b. Comprehensive capacity development plan for BIFFL adopted by 2021 (2019 baseline: None) (TI 6.2.3) 2c. At least 80% of all BIFFL staff in operations and safeguards (including all female staff in operations and safeguards) have knowledge on safeguard compliance increased by 2023 (2019 baseline: None) (TI 6.2.3) 2d. A functioning safeguards unit to screen, appraise, and categorize subprojects established by August 2020	2a–f. ADB project review missions, BIFFL project monitoring and review reports, and/or ADB TA consultant reports	Inadequate BIFFL staffing prevents the benefits from the available ADB capacity development

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	(2019 baseline: None) 2e. At least 30% of all operational staff with increased awareness in gender-responsive infrastructure by 2023 (2019 baseline: None) 2f. At least one independent director elected to the board by 2024 (2019 baseline: 0)		
Key Activities with Milestones 1. Long-term debt to infrastructure subprojects provided 1.1 ADB provides BIFFL up to \$50 million for qualified subprojects (Year 1: \$5 million; Year 2: \$10 million, Year 3: \$15 million, and Year 4: \$20 million). 2. Bangladesh Infrastructure Finance Fund Limited's institutional capacity to finance infrastructure projects improved 2.1 ADB TA consultants help BIFFL review and refine its long-term business development and corporate strategy by December 2021. 2.2 ADB TA consultants conduct a comprehensive assessment of BIFFL's capacity development needs and develop and carry out a training program for BIFFL staff on a continuous basis during 2020–2024 (at least 12 training sessions including two international exchanges). Areas must include funding and treasury operations, project finance and PPP, and credit and risk management. Other areas will be determined following the assessment. 2.3 Help BIFFL establish a functioning safeguards unit with at least one social safeguards staff member and one environment staff member to screen, appraise, and categorize subprojects in accordance with the developed ESMS by September 2020. 2.4 Provide training to BIFFL staff to implement the developed ESMS and conduct subproject environmental and social safeguard reviews, including by involving assigned BIFFL environmental and social safeguard staff in the subproject assessment, clearance, and monitoring and review process until August 2023. 2.5 Provide training to BIFFL staff to improve ADB loan implementation and compliances, including subproject credit reviews, environmental and social safeguard clearances, funding and drawdowns, contract award and disbursement, projections, project monitoring and reviews, and project audit, and help BIFFL meet the international best practices in infrastructure finance until August 2023. 2.6 Work with BIFFL's operations staff, including social safeguard unit, to improve the institution's gender mainstreaming in subproject implementation until August 2023.			
Project Management Activities Conduct regular project review missions in coordination with ADB's Bangladesh Resident Mission. Monitor consultant support to subproject review, clearance, and approval process. Monitor consultant support to project compliance (e.g., safeguards, audit, and reporting).			
Inputs Loan ADB ordinary capital resources (up to): \$50 million (loan) Grant Financial Sector Development Partnership Special Fund: ^b \$650,000			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank, BIFFL = Bangladesh Infrastructure Finance Fund Limited, ESMS = environmental and social management system, PPP = public–private partnership, TA = technical assistance.

^a Government of Bangladesh, Planning Commission. 2015. *The 7th Five Year Plan, FY2016–FY2020: Accelerating Growth, Empowering Citizen*. Dhaka.

^b Financing partner: the Government of Luxembourg. Administered by ADB.

Contribution to the ADB Results Framework 2019–2024

RFI 1.2: Jobs generated (number). Target: 3,000.

TI 1.3.1: Infrastructure assets established or improved (number). Target: 2.

TI 2.1.1: Women enrolled in TVET and other job training (number). Target: 10.

TI 3.2.5: New and existing infrastructure assets made climate and disaster resilient (number). Target: 1.

RFI 6.1: Entities with improved management functions and financial stability (number). Target: 1.

TI 6.2.3: Measures to strengthen SOE governance supported in implementation (number). Target: 2

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51311-001-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Finance (Infrastructure Finance and Investment Funds)
4. Project Administration Manual
5. Economic and Financial Analysis
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. Attached Technical Assistance Report
9. Financial Intermediary: Environmental and Social Management System Arrangement

Supplementary Documents

10. Financial Management Assessment Report
11. Lessons from Other ADB Financial Intermediation Loans to Support Infrastructure Development