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ASIAN INFRASTRUCTURE INVESTMENT BANK

P000344
March 8, 2022

Sovereign-backed Financings

Project Document

P000344 People’s Republic of Bangladesh:
IDCOL Multi-Sector On-Lending Facility

Currency Equivalents
(As at June 11, 2021)

Currency Unit – BDT
BDT1.00 = USD0.012
USD1.00 = BDT84.85

Borrower's Fiscal year
January 1 – December 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank	GPOBA	Global Partnership on Output Based Aid
ADB	Asian Development Bank	GRC	Grievance Redress Committee
AFD	Agence Française de Développement, French Development Agency	IDA	International Development Association
BDT	Bangladesh Taka	IDB	Islamic Development Bank
CAR	Capital Adequacy Ratio	IDCOL	Infrastructure Development Company Limited
COVID	Coronavirus Disease	IFRS	International Financial Reporting Standards
CRM	Credit Risk Management	JICA	Japan International Cooperation Agency
DFI	Development Finance Institution	KfW	German Development Bank
DFID	Department for International Development	KYC	Know Your Customer
ECA	Export Credit Agency	LNG	Liquefied Natural Gas
ECM	External Communications Mechanism	MDB	Multilateral Development Bank
EIRR	Economic Internal Rate of Return	MOF	Ministry of Finance
ERD	Economic Relations Division	NBFI	Non-Banking Financial Institution
ES	Environmental and Social	NPL	Non-performing Loan
ESDD	ES Due Diligence	OPIR	Operational Policy on International Relations
ESEL	Environmental and Social Exclusion List	PEP	Politically Exposed Person
ESMF	Environment and Social Management Framework	PMU	Project Management Unit
ESMS	Environmental and Social Management System	POM	Project Operational Manual
ESP	Environmental and Social Policy	PPM	Project-affected People's Mechanism
ESS	Environmental and Social Standards	RERED	Rural Electrification and Renewable Energy Development
ETC	Et cetera	ROA	Return on Asset

FD	Finance Division	ROE	Return on Equity
FM	Financial Management	SHS	Solar Home System
FYP	Five-Year Plan	SNV	Netherlands Development Organization
GDP	Gross Domestic Product	USAID	United States Agency for International Development
GIZ	German Development Cooperation	YoY	Year on Year
GoB	Government of Bangladesh		

CONTENTS

1. Summary Sheet

Project No.	P000344.
Project Name	IDCOL Multi-Sector On-Lending Facility.
AIIB Member	People's Republic of Bangladesh.
Borrower	People's Republic of Bangladesh.
Project Implementation Entity	Infrastructure Development Co. Ltd. (IDCOL).
Sector Subsector	Finance Intermediary Financing
Project Objective	To promote infrastructure investment by providing long-term financing to private sector in Bangladesh.
Project Description	The project is an on-lending facility to Bangladesh, to be implemented through IDCOL to finance infrastructure projects in Bangladesh.
Implementation Period	Start Date: March 2022 End Date: March 2027
Expected Loan Closing Date	9-30-2027
Cost and Financing Plan	AIIB's investment program is estimated to contribute USD570 million to help finance infrastructure subprojects, comprised of: 1) AIIB loan: USD200 million; 2) Sponsor's equity: USD114 million; 3) Commercial debt: USD256 million.
Size and Terms of AIIB Loan	• Size: USD200 million. • Term: Final Maturity of 18 years with a grace period of 5 years. Average maturity of 12 years, or less.
Environmental and Social Category	FI.
Risk (Low/Medium/High)	Medium.
Conditions for Effectiveness	• Adoption of the Project Operational Manual in the form and substance in a manner satisfactory to the Bank. • IDCOL's Board approval on its revised Environmental and Social Safeguard Framework. • Establishment and Staffing of the Project Management Unit. • Execution of the Subsidiary Loan Agreement between the Borrower and IDCOL under the terms and conditions acceptable to the Bank.
Key Covenants	Comply with the ratios and prudential norms as made applicable to IDCOL by Bangladesh Bank and other relevant authorities at all the time.
Retroactive Financing (Loan percentage and dates)	Not more than 20 percent of the AIIB loan; up to twelve (12) months prior to the signing date of the loan agreement.
Policy Waivers Requested	No.

Policy Assurance	The Vice President, Policy and Strategy, confirms an overall assurance that the proposed financing complies with the applicable operational policies of AIIB.
Project Approval (Indicative) (Board/President)	Board of Directors

President	Jin Liqun
Vice President	Urjit Patel
Director General	Dongik Lee
Manager (Acting)	Asim Rana
Project Team Leader	Neeraj Jain, Senior Investment Officer
Co-Project Team Leader	Crystal Qiang Fu, Investment Associate
Team Members	Abhijit Sen Gupta, Senior Economist Bernadette Ndeda, Procurement Specialist Chee Wee Tan, Senior Environmental and Social Specialist Liu Yang, Counsel Mengmeng He, Finance Associate Shonell Robinson, Financial Management Specialist

2. Project Description

A. Project Overview

1. **Project Objective.** The project objective is to promote infrastructure investment by providing long-term financing to the private sector in Bangladesh. It is aligned with Bangladesh's goal to bridge its infrastructure deficit and achieve sustainable growth, as highlighted in Bangladesh's Perspective Plan 2021-2041.

2. **Project Description**. The project will be financed by a loan to the People's Republic of Bangladesh (Bangladesh), which will be onlent to Infrastructure Development Co. Ltd (IDCOL). IDCOL will further onlend to private-owned companies (subborrowers) in Bangladesh, to support eligible infrastructure projects (subprojects). The project will provide IDCOL with additional resources for long-term financing, given the huge market requirement and the need to scale up the availability of long-term financing for infrastructure projects in Bangladesh.

3. IDCOL will be responsible for the identification, selection, appraisal, approval (Category A eligible subprojects will require prior review and approval from AIIB), and monitoring of the subloans and subborrowers, and will take the associated subborrower's credit risk. IDCOL will be responsible for the implementing the project in accordance with the policies and procedures of the Government of Bangladesh (GoB) and AIIB. The eligibility criteria for subloans and subborrowers, environmental and social (ES) requirements, other AIIB's policy requirements, reporting and monitoring requirements, among others, will be guided by the Project Operational Manual (POM).

4. IDCOL is a government-owned non-banking finance institution (NBFI). Since its inception, IDCOL has been playing a major role in bridging the financing gap for developing large infrastructure projects in Bangladesh and now stands as a market leader. The primary objective of the company is to promote private sector participation in infrastructure investment and operations**.**

5. **Expected Results.** The project has a multi-sector focus, and its specific contribution to the AIIB's Results Monitoring Framework will only be determined once the subprojects have been approved and funded**.** The expected results may be measured by the following indicators: number of subprojects financed, number of renewable energy projects financed, private capital catalyzed, reduction in greenhouse gas emissions from the energy subprojects funded, and the number of jobs created (disaggregated by gender). Please see Annex 1, Results Monitoring Framework, for details.

6. **Expected Beneficiaries.** The construction of power plants can alleviate the power shortage in Bangladesh and provide affordable and renewable and low-carbon electricity to population and enterprises. The construction of toll roads can enhance cross-regional transportation. The development of Information and Communications Technology infrastructure can promote the application of technology and thus improve the living standard of local people. The support to private sector participation in health and education infrastructure will help bridge the large infrastructure deficit and provide basic services in both rural and urban areas.

B. Rationale

7. **Strategic Fit for AIIB**. Based on the sector coverage (Annex 2) and the pipeline projects (Annex 7), the project is aligned with several of AIIB's Sector Strategies:

1) Energy Strategy by reducing carbon intensity of energy supply and mobilizing private capital by investing in e.g. renewable energy and gas power plants,

2) Transport Strategy by improving trunk linkages and upgrading existing road infrastructure by investing in e.g. toll roads and bridges,

3) Water Strategy by improving water supply and distribution, and

4) Digital Infrastructure Strategy by enhancing telecommunication network and investing in e.g. data centers.

The project is also aligned with two of AIIB's Corporate Strategy Thematic Priorities:

1) Green Infrastructure: as IDCOL will be targeting several small and large-scale renewable energy projects as well as gas power plants which deliver greenhouse gas emission benefits against current grid emission factor, and

2) Private Capital Mobilization: the project will indirectly mobilizing private sector sponsor equity contribution to the subprojects (20 percent of total project costs of subprojects or USD114 million). IDCOL was set up to provide long-term loan for project finance in private sector. Long-term loan is one of the critical challenges faced by equity sponsor in Bangladesh. Due to asset-liability mismatch, local banks and financial institutions are unable to play a significant role in providing long-term financing. IDCOL, by providing the critically needed long term loan, contributes to the financing package, makes a project become a feasible one, and therefore mobilizes private capital into infrastructure sector. In addition, IDCOL works closely with government entities and regulators in Bangladesh to advise and assist in formulating policy and regulatory framework that support private investment and public-private partnerships in infrastructure development.

8. **Enhancing Private Sector Participation in Infrastructure Financing.** The large infrastructure deficit in Bangladesh is arguably one of the most critical development challenges facing the country. Investing in infrastructure is the most effective means to support economic growth, promote economic development, and reduce poverty.

9. Bangladesh's Perspective Plan 2041 envisages the country reaching Upper Middle-Income Country status by 2031, and High-Income Country status by 2041 with poverty being eliminated. For this to happen, significant increase in investment infrastructure needs to take place given the large infrastructure deficit prevailing in the country. Both the 8th Five Year Plan (FY2021 to FY2025) and the Perspective Plan 2041 have outlined the need to accelerate private sector investment in infrastructure to bridge this infrastructure deficit, given the fiscal constraints to increase public investment.

10. Based on the indicative pipeline provided by IDCOL to AIIB, majority are in renewable energy followed by health infrastructure, transport and IT infrastructure. These sectors have

been identified by GoB for funding through the PPP modality in the 8^{th} Five Year Plan and Perspective Plan 2041. This is essential for Bangladesh to achieve rapid, inclusive and sustainable growth in a fiscally prudent manner. Refer to Annex 7 for a detailed indicative pipeline of eligible subprojects.

11. **Value Addition by AIIB**. Private sector infrastructure projects require long-term debt financing to be bankable, due to large upfront capital investment and relatively longer payback periods. Due to asset-liability mismatch, local banks and financial institutions are unable to play a significant role in providing long-term financing. In the context of Bangladesh, the supply of long-term debt financing, both in Bangladesh Taka (BDT) and USD, is still very limited. In many cases, the demand for long-term USD loans is higher than local currency as most private-sector infrastructure projects are in the power sector, requiring imports of large capital goods (such as turbines) and having their tariffs indexed to USD.

12. IDCOL is one of the few institutions in Bangladesh that can mobilize long-term USD funding from external sources. Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) remain as the major source of long-term funding for IDCOL. Although the capital market in Bangladesh has developed significantly over the last few years, long-term debt financing remains too shallow to make an appreciable impact on infrastructure financing.

13. AIIB loan for IDCOL will help diversify its funding sources and enhance its funding capability. This will further alleviate the funding constraints private sector sponsors face in Bangladesh, catalyze privately-owned infrastructure investment in Bangladesh and yield numerous benefits including (a) enhancing economic activity and generating employment opportunities, (b) improving the environment for expanding project finance activities and (c) enhancing the investment climate.

14. **Value Addition to AIIB**. IDCOL is a large infrastructure financier in Bangladesh, with a deep understanding of infrastructure financing in the local market and sound project structuring skills. IDCOL plays a major role in bridging the infrastructure financing gap and is an important partner for AIIB.

15. The proposed transaction will allow AIIB to support a wide range of infrastructure projects in an efficient way. IDCOL is the largest lender to infrastructure projects in Bangladesh. Through partnering with IDCOL, AIIB will gain access to a number of project pipelines.

16. The proposed transaction will enable AIIB to further grow its financial institutions (FI) lending business and build up its internal capacity for sovereign FI lending. This will be AIIB's first NBFI loan in Bangladesh.

17. **Lessons Learned**. IDCOL is a new client to AIIB, while it has been working with Asian Development Bank (ADB) and other DFIs for a long time. Project team has reviewed ADB's project reports and had a discussion with ADB project team. IDCOL's historical loan repayment and interest payment have been healthy.

18. According to ADB's report on lessons learned from financial intermediation loan (which includes lessons learned from IDCOL), the demand for externally sourced long-term funds for infrastructure development will continue until such time as the domestic market is able to

provide sufficient long-term debt instruments. However, the project readiness is critical for successful implementation. The development of an environmental and social management system (ESMS) and strong pipeline is expected to help the timely implementation of the project.

19. Further, institutional capacity development is an important part for project design to ensure long-term sustainability, particularly for new clients. ADB is providing technical assistance to IDCOL, to help improve its institutional capacity and long-term operational strategy. This will help equip IDCOL to cope with more complex infrastructure subprojects.

C. Cost and Financing Plan

20. Total size of infrastructure subprojects is estimated to reach USD570 million, comprised of USD200 million AIIB loan, USD114 million sponsor equity, and USD256 million commercial debt.

Figure 1 **Project Cost and Financing Plan**[1]

Source	Financing Plan (USD million)	Percentage (%)
AIIB Loan	200	35%
Sponsor equity	114	20%
Commercial debt	256	45%
Total	570	100%

D. Implementation Arrangements

21. **Implementation Overview.** The Economic Relations Division of the Ministry of Finance (MOF-ERD) will be the executing agency. The Finance Division of the Ministry of Finance (MOF-FD) will be the financial management agency.

22. With IDCOL being the project implementation entity, its board of directors will provide policy direction and strategic oversight in this project. A project management unit (PMU) will be established at IDCOL, to be responsible for (i) monitoring the implementation of the project and the subloans; and (ii) monitoring compliance with national policies, AIIB's polices and IDCOL's Environmental and Social Safeguard Framework (ESSF).

23. MOF-FD will disburse the loan funds to IDCOL either in USD or local currency, depending upon the currency of the subloans. In case the funds are disbursed in local currency, MOF-FD will take the foreign currency risk. MOF-FD, through the central bank (Bangladesh Bank), will be able to hedge its foreign exchange exposure. Onlending by IDCOL to eligible subprojects will be at interest rates that reflect IDCOL's cost of funds plus a spread to cover transaction costs and risks. Subloans will be on full commercial and competitive terms at IDCOL's discretion.

24. The implementation arrangements are summarized in Figure 2 as below:

[1] This assumes that the sponsor will provide equity financing of 20% of total project cost—private sector banks and financiers will provide debt funding of 45% of the total project cost while IDCOL will finance 35% of each subproject (using funds under the AIIB loan).

Figure 2 Implementation Arrangements

Aspects	**Arrangements**
Implementation period	March 2022 – March 2027
Estimated completion date	September 2027
Management	
1) Executing agency	Ministry of Finance (Economic Relations Division)
2) Financial management agency	Ministry of Finance (Finance Division)
3) Project Implementation Entity	Infrastructure Development Company Limited
4) Implementation unit	IDCOL's project management unit
Retroactive financing and/or advance	Retroactive financing is permitted up to 20 percent.
Disbursement	The loan proceeds will be disbursed in accordance with AIIB's policies and detailed arrangements agreed among the Borrower, IDCOL and AIIB.

25. Subloan Eligibility Criteria. The eligibility criteria for subloans and subborrowers are set out in Annex 2. IDCOL will be responsible for identification, selection, appraisal, approval, and monitoring of the subprojects financed through the loan provided by AIIB. Subprojects must be economically and financially viable and must meet the IDCOL's criteria in terms of creditworthiness, foreign exchange position, environment & social (ES), procurement and know your customer (KYC) requirements. The eligibility criteria for subborrowers, subprojects, subloans, ES compliance, and reporting & monitoring requirements, among others, will be guided by the POM.

26. At individual subloan level, IDCOL shall require that each subloan not exceed 40 percent of the subproject's costs, with the following exceptions: (i) The subloan may exceed the limit and be up to 60 percent of the subproject cost, with prior approval from AIIB. (ii) Particularly, for energy efficiency and renewable energy subprojects, the maximum amount of the subloan can be 70 percent and 75 percent, respectively, of the subproject cost (including working capital requirements).

27. At overall project level, IDCOL shall limit the aggregate amount of all subloans so that they do not exceed 35 percent of the cumulative total subproject costs funded under the project. IDCOL shall require at least 20 percent of the cumulative total subproject costs to be financed with equity or quasi-equity contributions.

28. In addition to the above criteria, Category A subprojects that are supported by AIIB financings made directly to the beneficiary will be eligible for financing under this IDCOL project. A maximum of two Category A subprojects not supported by such AIIB financings can be funded under this project. Renewable energy subprojects that are categorized as Category A subprojects would not be subject to these limits. For all subprojects involving Higher Risk Activities[2], IDCOL shall use a suitably qualified and experienced third-party consultant to conduct the ES due diligence (ESDD) and action plan.

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[2] Higher Risk Activities include the following activities financed by the Bank through the FI: (a) all Category A activities; and (b) selected Category B activities, as determined by the Bank, that may potentially result in: (i) Land Acquisition or Involuntary Resettlement; (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and/or cultural resources; (iv) significant retrenchment of more than 20 percent of direct employees and recurrent contractors; and/or (v) significant occupational health and safety risks

29. **Key Agreements.** The Project will be implemented through the following agreements: 1) Loan Agreement between AIIB and Bangladesh, as the Borrower; 2) Subsidiary Loan Agreement between the Borrower and IDCOL; 3) Project Agreement between AIIB and IDCOL; and 4) Subloan Agreement between IDCOL and each Subborrower.

30. **Procurement.** AIIB's Procurement Policy and its associated Interim Operational Directive on Procurement for Recipients (PIR) – Section III Procurement by Private Entities apply to this project. IDCOL will require subborrowers to award procurement contracts, in accordance with the PIR at fair market price and using the procurement approaches that are fit-for purpose and achieve value-for-money, including in the financing of any contracts under PPP arrangements.

31. **Financial Management.** The overall Financial Management (FM) responsibility of the project resides with IDCOL, while the daily FM function will be led by PMU to be established by IDCOL. The PMU will be staffed with qualified and experienced finance personnel to execute the daily FM functions of the project. The PMU will prepare an annual project budget and submit to the MOF-ERD for approval and inclusion in the annual budget of GoB.

32. The internal control process and procedures of IDCOL will be applied to the project. The daily FM functions will be guided by the IDCOL's accounting manual, as well as the POM. The POM will include the detailed project financial management arrangements. The PMU will immediately report to AIIB if any material negative issue, in respect of the AIIB loan, is identified in the audit report of IDCOL Internal Audit Department as finalized by the Audit Committee.

33. The PMU will prepare and submit Interim Unaudited Financial Reports (IUFRs) to AIIB within 45 days from the end of each calendar quarter. The project financial statements will be audited annually by the Foreign Aided Projects Audit Directorate. The Foreign Aided Projects Audit Directorate is a specialized arm of the Comptroller and Auditor General of Bangladesh, that provides independent assurance regarding the proper use and accounting of resources for foreign funded projects. The annual project audit report and management letter will be submitted within six months of the end of each fiscal year.

34. **Monitoring and Reporting.** IDCOL will be responsible for monitoring the progress of subprojects at the subborrower level individually and collectively. It will be required to closely monitor the progress of the subloans through site visits and management interviews. It will ensure that the project is implemented in compliance with AIIB's Prohibited Practices Policy, Procurement Policy and Interim Operational Directive on Procurement Instructions for Recipients. AIIB will have no contractual relationship with subborrowers, while the latter will be informed about AIIB's financing involvement.

35. The monitoring criteria of the loan include (i) details of each subproject that receives AIIB's financing, including their eligibility, technical, credit, risk assessments, and share of AIIB's financing; (ii) loan performance evaluation by using the targets, indicators, assumptions, and risks in the design and monitoring framework, including how subborrowers are involved in the facility monitoring; (iii) compliance monitoring by verifying that the subloan's regulatory, environmental, social, financial, and other covenants are complied with; and (iv) compliance with procurement procedures undertaken by subborrowers.

36. IDCOL will submit progress reports quarterly until the completion of the project in a prescribed format to be agreed in the POM.

37. Detailed reporting requirements are listed below:

a) Quarterly project progress reports within forty-five days after end of each quarter;

b) Consolidated annual project progress reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, and (c) updated implementation plan for the next twelve months, within six months from the end of each fiscal year;

c) Project completion report within six months of physical completion of the project;

d) Interim Unaudited Financial Reports within forty-five days after the end of each quarter;

e) Consolidated project audited financial statements, audit opinion and management letter with management response within six months from the end of each fiscal year during the project implementation period, and within six months after the closing date for the last year of the project;

f) IDCOL's audited financial statements, computations of the financial ratios, a report on compliance with the ratios and prudential requirements of Bangladesh Bank, a no default certificate issued by IDCOL, and a management letter issued by IDCOL's auditors within six months after the end of each financial year;

g) Semi-annual report on the environmental and social performance of IDCOL and each subborrower or subproject within 75 days after the end of the second quarter and the end of the calendar year;

h) Prompt notice of any material environmental/social claim involving IDCOL or any subborrower or subproject.

i) Immediate notice of any incident or accident involving IDCOL's operations or any subborrower or subproject which has or is likely to have a significant adverse effect on the environment or on public or occupational health or safety.

j) Prompt notice of any significant protest or petition relating to the IDCOL's or any subborrower's operations or any subproject which might have a material adverse effect, or which becomes public knowledge.

k) Prompt notice of any information it obtains regarding a violation of the AIIB's Prohibited Practices Policy by IDCOL or any subborrower, or by any of its affiliates or any person acting on its behalf.

l) Information requested by AIIB in order to address any suspected violation of the AIIB's Prohibited Practices Policy or any subproject-related complaint under AIIB's complaints handling mechanism.

38. **AIIB's implementation support.** AIIB will evaluate progress on the proposed indicators through regular reporting by the PMU and through implementation support visits. AIIB has the discretion to conduct its own independent assessments to verify the results of the monitoring reports submitted by IDCOL.

39. Subject to travel disruptions caused by the COVID-19 pandemic, AIIB will carry out a bi-annual monitoring visit to oversee the implementation of the Project. The review will monitor the (i) project output quality, (ii) implementation arrangements, (iii) implementation progress, and (iv) disbursements. During the project's implementation period, AIIB will retain the right to review all subloans and conduct supervisory visits, including visits to the subborrowers and subprojects, at its discretion. AIIB will reserve the right to investigate any suspected violation of the Prohibited Practices Policy.

40. AIIB will review the financial management condition and performance of IDCOL and include this assessment in its supervision report.

41. A tripartite review meeting will be held among the GoB, AIIB, and IDCOL at least annually during the project implementation.

3. Project Assessment

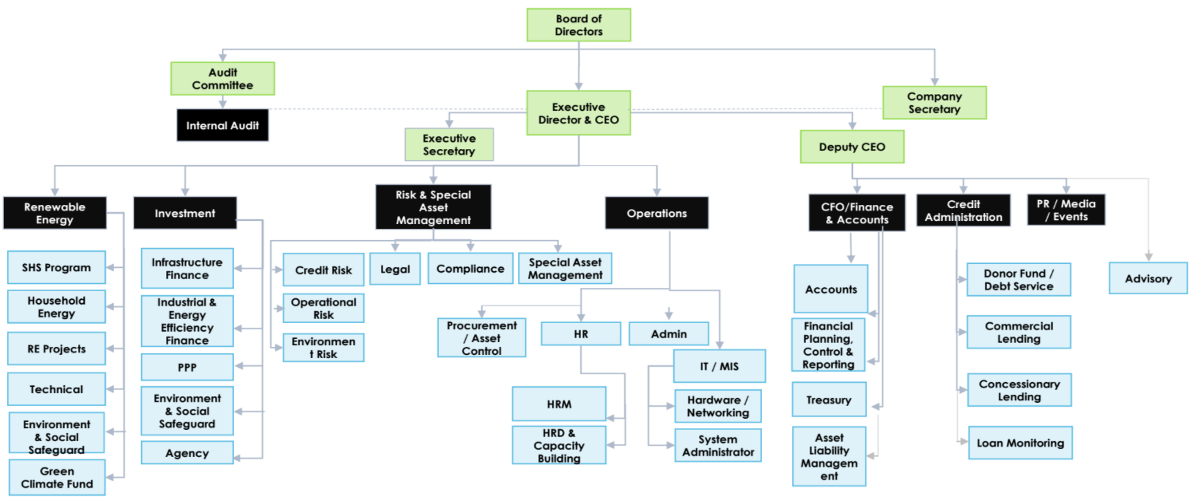
A. Technical Assessment

42. **Project Design.** The technical design of the project is considered viable and appropriate. Subloans and subprojects under this project will be appraised and implemented in line with the POM. Requirements in relation to financial management, procurement, monitoring and reporting, and ES risk management also need to follow AIIB's policy requirements set out in POM.

43. **Operational Capacity.** IDCOL will be responsible for assessing all aspects, including the technical aspects of the subprojects. An assessment of IDCOL's (i) experience in managing and implementing similar development projects; (ii) corporate governance and management structure; (iii) accounting and internal control procedures; (iv) credit review, approval, disbursement, and monitoring process; (v) risk management; (vi) liquidity, investments, and cash management; (vii) information technology system; (vii) disclosure and reporting; (viii) fund flows; and (ix) supervision plan, human resources policy and guidelines has been conducted during AIIB's due diligence and deemed satisfactory.

44. IDCOL was established in 1997 by GoB. It is registered as a public limited company with Registrar of Joint Stock Companies and Firms in Bangladesh under the Companies Act 1994 and 100 percent owned by GoB. The company was licensed by the Bangladesh Bank as an NBFI in 1998. Since its inception, it has played a significant role in bridging the financing gap for developing medium to large-scale infrastructure projects in Bangladesh. Its mission is to catalyze and optimize private sector participation in promoting, developing, and financing infrastructure projects in a sustainable manner through public-private-partnership initiatives. It provides long-term debt financing to viable privately-owned and operated infrastructure projects in GoB's priority sector. It is now the market-leading financier of private sector infrastructure projects in Bangladesh. It has got an "AA1" long-term rating and "ST-1" short-term rating from the Credit Rating Agency of Bangladesh. It has diversified portfolio to include power & renewable energy, ports, energy efficiency, telecommunication, and social infrastructure.

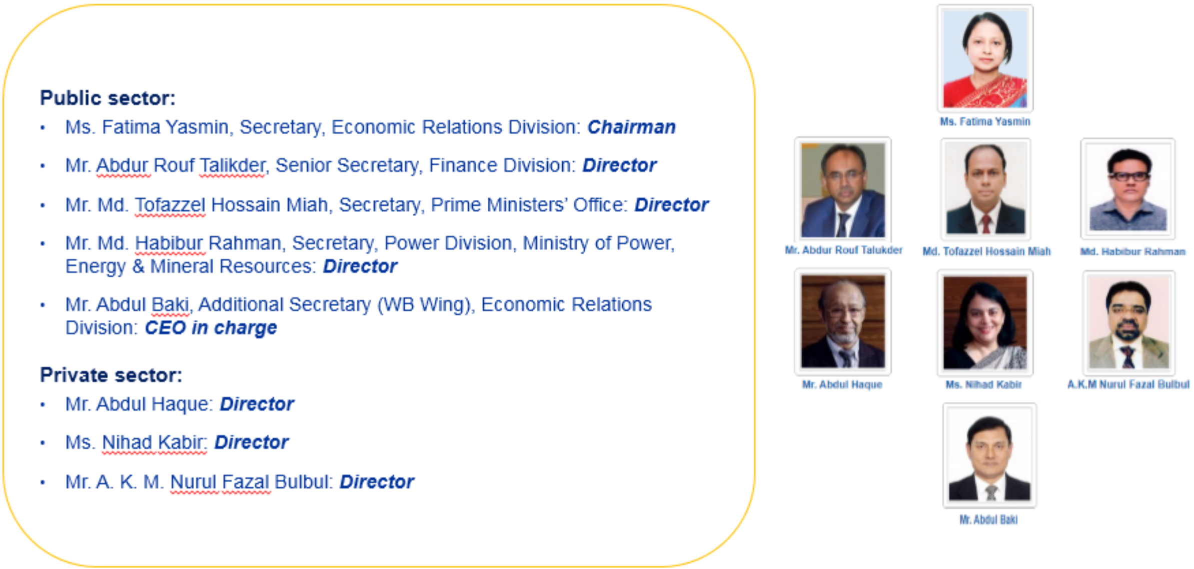
Figure 3 Organization Chart



Source: IDCOL Presentation

45. Corporate Governance. IDCOL has sound corporate governance structure. The board lays strong emphasis on transparency, accountability and integrity. Board of directors is comprising five senior government officials and three prominent entrepreneurs from the private sector nominated by the GoB, as well as one Executive Director and CEO. Below is a detailed description of the board.

Figure 4 IDCOL Board of Directors



Source: IDCOL Presentation

46. IDCOL has three Board level Committees, Audit Committee, Credit Committee and Organization Committee, for assisting the Board in carrying out its responsibilities. Credit Committee is responsible for reviewing all project appraisal reports before submission to the Board for approval. Organization committee is responsible to oversee the overall human resource strategies, policies and guidelines of the organization.

47. Credit Review and Approval Process. IDCOL has a comprehensive and stringent credit approval process, to ensure in-depth project due diligence are performed, with key risks and mitigants addressed. The credit approval process includes the following steps:

(i) After receipt of the credit application, the relevant business unit discusses proposals in the credit risk management committee meeting, and then presents to the board for initial consent;

(ii) Upon initial consent from the board, the business unit conducts project due diligence which includes financial feasibility study, technical analysis, risk analysis, environmental and social risks and impacts, legal impact, and submits the appraisal report to the credit risk management (CRM) unit for independent risk assessment;

(iii) The CRM unit conducts risk assessment, provides feedback in the appraisal report, and submits recommendations to the CRM committee for evaluation;

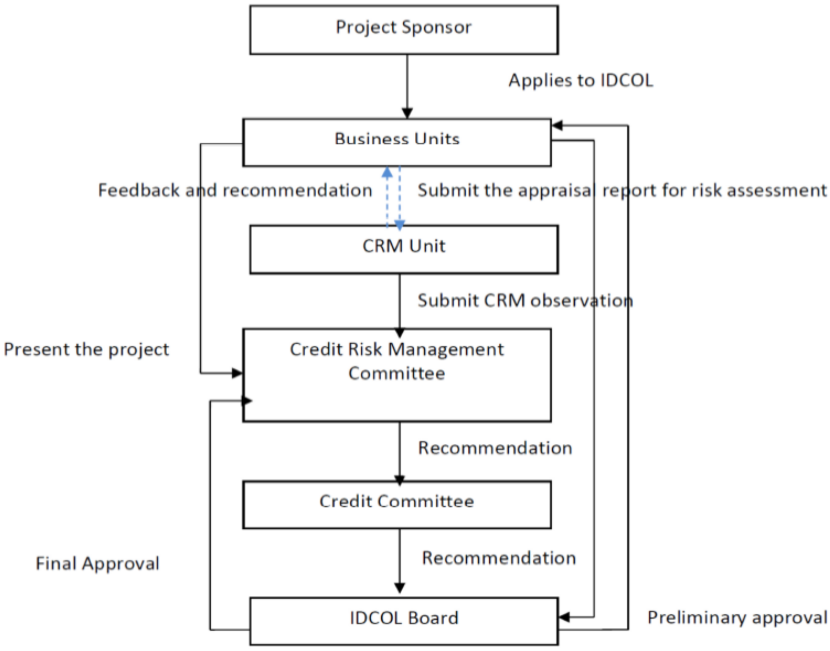
(iv) The CRM committee reviews the proposal and recommends to the credit committee, if satisfied;

(v) The credit committee, if satisfied, recommends the project to the board;

(vi) The business unit presents the project to the board, who takes final investment decision;

(vii) The board may delegate certain approval authorities to other committees and/or to the management from time to time.

Figure 5 Credit Review and Approval Process



Source: IDCOL Presentation

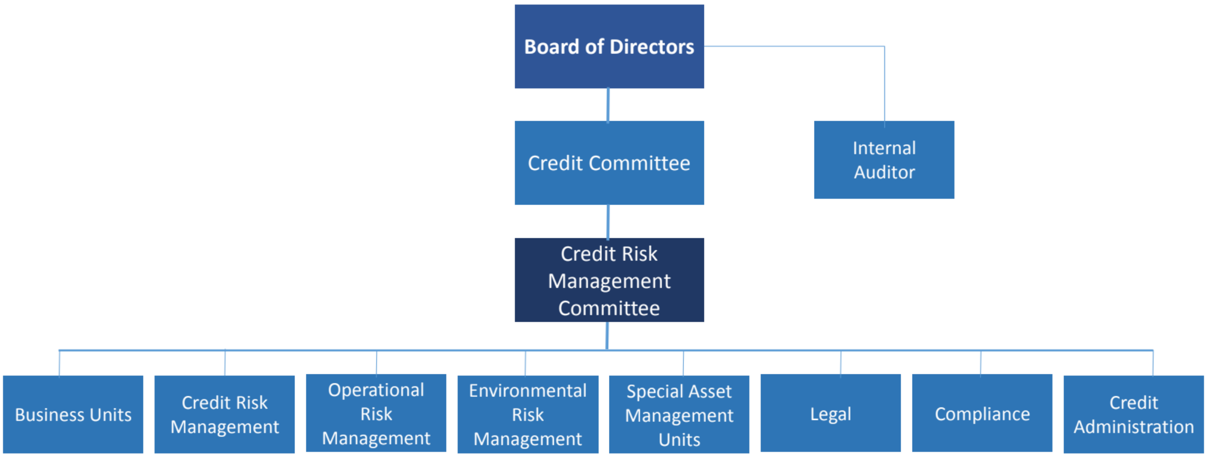
48. IDCOL's investment department, which will review most of the infrastructure subprojects to be funded under AIIB's loan currently has three business units, namely: (i) infrastructure finance unit, (ii) industrial & energy efficiency unit and (iii) public-private partnership (PPP) unit. These units are supported by the environmental and social safeguard unit (investment) for ES due diligence, which is also part of the investment department.

49. IDCOL monitors the financed projects throughout its tenor to anticipate upcoming risks and to take possible risk mitigation measures. Quarterly reporting is done by business units and assessed by CRM unit to monitor project status.

50. Risk Management. IDCOL has a risk management framework in place to manage the risks related to credit, market, liquidity, and operations. This framework is further strengthened by relevant standards, guidelines, processes, and procedures that governs the day-to-day activities of IDCOL. The eventual objective of all policies and strategies developed across the institution is to ensure all anticipated and unanticipated risks are measured, monitored, assessed and controlled in accordance with the risk appetite and culture of IDCOL. All the standards and guidelines are reviewed from time to time by the board and senior management committees.

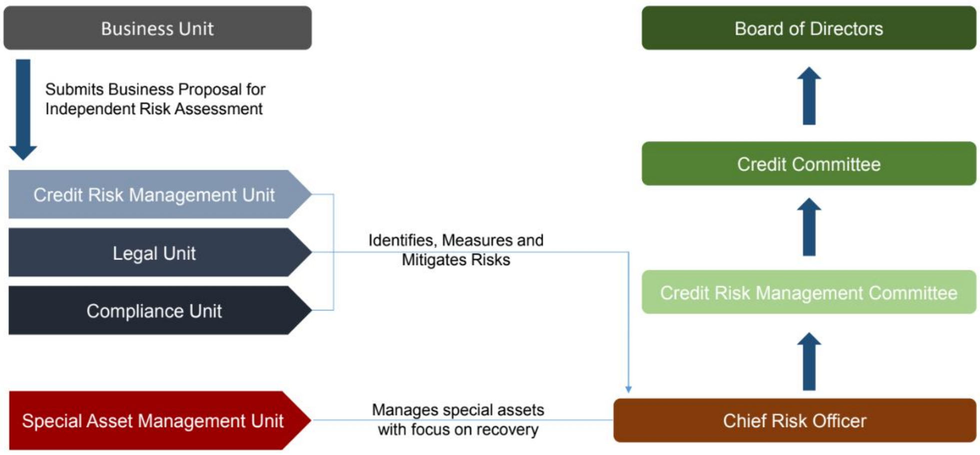
51. The risk management team structure and procedure are shown in the two charts below.

Figure 6 Risk Management Structure



Source: IDCOL Presentation

Figure 7 Risk Management Procedure



Source: IDCOL Presentation

52. Liquidity Management. IDCOL has established strategies, policies, and practices to manage liquidity risk in accordance with risk tolerance and liquidity requirement. The roles and responsibilities of Asset Liability Committee include: (i) assume overall responsibilities of money market activities; (ii) manage liquidity and interest rate risk of the financial institutions; (iii) understand the risk elements involved in the business; (iv) understand the market position and competition; (v) provide inputs to the treasurer regarding market views and update the balance sheet movement; (vi) deal with the dealer's authorized limit.

53. Asset Liability Committee is composed of the following members: Executive Director and Chief Executive Officer, Deputy Chief Executive Officer and Chief Financial Officer, Head of investment, Head of renewable energy, and Chief Risk Officer.

54. Internal Control. IDCOL has a well-established internal control system to ensure the efficiency and effectiveness of business operation. Below is an overview of the internal control and compliance structure.

Figure 8 Structure of Internal Control and Compliance

Source: IDCOL Presentation

55. The Audit Committee ensures the independence of IDCOL's internal control functions and audits activities in compliance with required agreements and the board's decisions. The Audit Committee also monitors the integrity of the company's financial statements and announcements, reviews internal financial control, monitors internal audit function, recommends appointment of replacement of external auditors, and develop and implement relevant policies.

56. Information Technology System. IDCOL has an information technology system in place. IDCOL's present capacity is commensurate to the current level of its operation. However, with the business expansion and growth in the large infrastructure loan portfolio, enhancements to IDCOL's information technology systems are critical to cope with additional financing activities and move towards integrated Management Information System for reporting to all stakeholders.

57. Experience in Development Assistance. IDCOL has successfully managed donor-funded projects and has undertaken (or is currently undertaking) similar credit facilities from numerous donor agencies. IDCOL started Solar Home System (SHS) Program in 2003 with an initial target to finance 50,000 SHSs with financial assistance from the World Bank and Global Environment Fund. Subsequently, several development partners (GIZ, KfW, ADB, IDB, GPOBA, JICA, USAID, and DFID) participated in the program by providing refinancing and grant support. IDCOL's SHS Program is one of the fastest-growing off-grid renewable energy programs in the world. IDCOL has been implementing the Biogas Program in Bangladesh since 2006. Initially, the program started with support from SNV, Netherlands Development Organization, and KfW, German Development Bank. In 2012, the World Bank also joined to support the program under its Household Energy Initiatives. With the support from KfW and the World Bank, IDCOL restructured the Program in 2013. Under this program, IDCOL has a revised target to install 100,000 domestic size biogas plants in Bangladesh by 2021. IDCOL also has access to resources provided by ADB, JICA, DFID, Islamic Development Bank,

German Development Cooperation, United States Agency for International Development, and the Government for the development of infrastructure and RE projects. IDCOL secured its third credit line from ADB in 2017, amounting to USD526 million for financing private sector projects.

58. IDCOL has been accredited as one of Bangladesh's National Implementing Entities, tasked to mobilize and manage Green Climate Fund finance in Bangladesh. It has already obtained approval for a USD250 million loan and USD6.5 million grant & and technical assistance for promoting energy saving technology for the RMG and Textile Sectors.

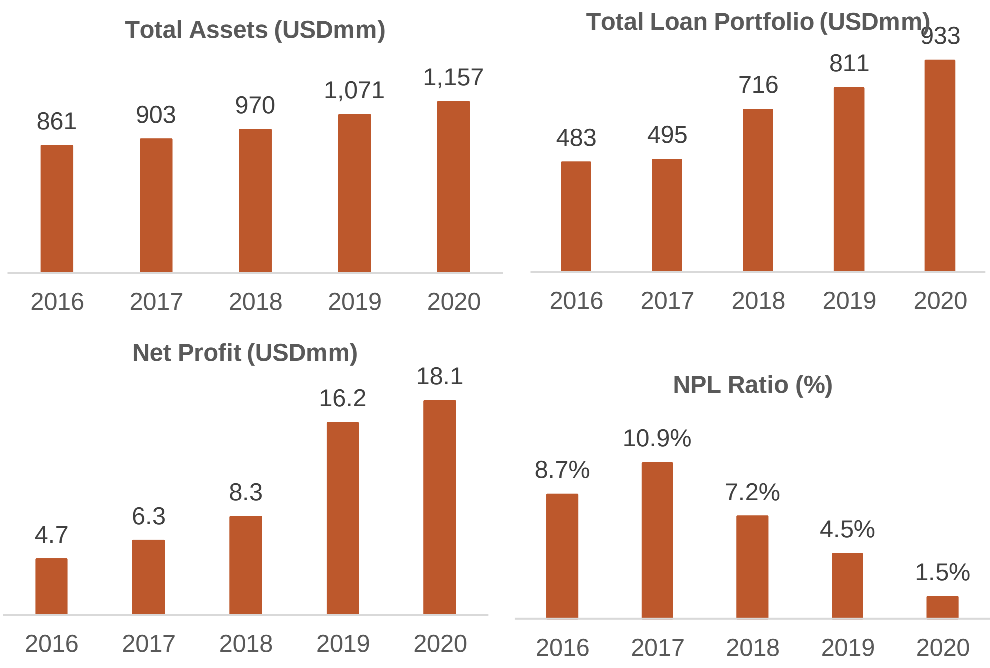
59. Sustainability. IDCOL refers to the Global Reporting Initiative Standards to guide its company principles and values that shapes its business practices.

60. IDCOL has over the years developed capacity, knowledge and processes in financial assessment and due diligence of infrastructure and renewable energy projects. ADB has been supporting IDCOL with capacity building initiatives starting from a technical assistance program since 2008. IDCOL's current level of operation is sufficient to successfully implement AIIB's loan, it however would require continued capacity building to scale up its operations and systems to accommodate more complex and large-scale projects financing requirements.

B. Financial Assessment

61. IDCOL, as the project implementation entity, will be responsible for doing identification, selection, financial evaluation of each subproject and subborrower to confirm the viability of the subloan. The project team has conducted financial due diligence on IDCOL, and the financial evaluation was deemed satisfactory. IDCOL has continuous business growth with stable capital adequacy, good profitability, modest asset quality, and high liquidity.

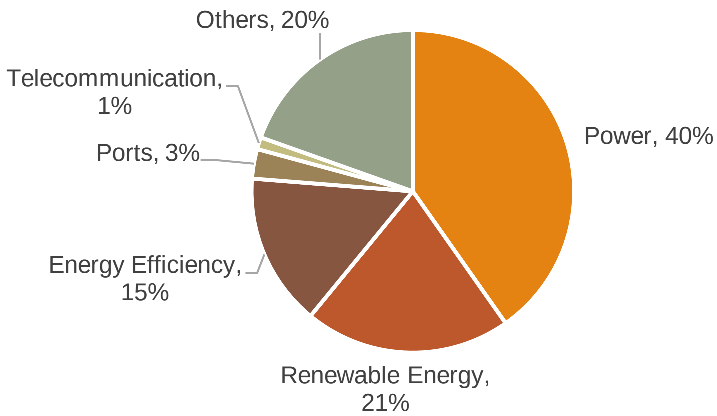
Figure 9 Key Financial Indicators



Source: Company Annual Report

62. Assets and Loans. As end of 2020, the company has BDT98.2 billion (~USD1.2 billion) total assets, achieving 7.7 percent compound annual growth rate (CAGR) from 2016-2020. Outstanding loans reached BDT79.1 billion (~USD932.6 million) in 2020, achieving 17.9 percent CAGR from 2016 to 2020. As end of 2020, the breakdown of outstanding loan by sector is shown as below:

Figure 10 Sector Wise Loan Portfolio (as end of 2020)



Source: Company Annual Report

63. IDCOL has high exposure in power and renewable sector, which potentially exposes the portfolio to concentration risk. IDCOL is diversifying its portfolio into new eligible sectors, such as energy efficiency, telecommunication and ports, which is expected to mitigate this risk.

64. Liabilities and Funding. In terms of liabilities, the company has BDT89.0 billion (~USD1.0 billion) total liabilities as end of 2020. Borrowings from other banks and financial institutions and agents are BDT82.4 billion (~USD970.8 million) which are long-term stable funding through multilateral and bilateral development banks. A detailed breakdown of borrowings is listed as below:

Figure 11 Borrowings from Other Banks, Financial Institutions and Agent

(As end of 2020)	Amount (BDTmm)	Percentage
IDA financing under PSIDP	8,173	9.9%
IDA financing under REREDP	24,553	29.8%
ADB financing under PPIDF	37,118	45.1%
IDB financing under REP	715	0.9%
KfW financing under NDBMP	260	0.3%
JICA financing	10,133	12.3%
AFD Financing under CBD 1026-1-W	519	0.6%
BB Financing under BKEI project	422	0.5%
BB Financing under IPFF-II Project	480	0.6%
Total borrowings	**82,374**	**100.0%**

Source: Company Annual Report

65. IDCOL's primary source of funding is provided by multilateral development banks and bilateral agencies like the World Bank, Japan International Cooperation Agency (JICA), ADB,

Islamic Development Bank (IDB), and German Development Bank (KfW). Globally, non-banking financial institutions and commercial banks usually have multiple sources of funding, including loans from commercial banks, term deposits, capital markets, bonds issue, private equity investments, etc. IDCOL's dependence on multilateral funding agencies can prove to be risky in case these funds start to dry up as Bangladesh economy matures into developed economy.

66. Liquidity. IDCOL has sufficient liquidity and enough buffer of liquid assets. Below is the liquidity profile as end of 2020.

Figure 12 IDCOL Liquidity Profile

(BDT billion)	Remaining Maturity				
	<1m	1-3m	3-12m	1-5yrs	> 5yrs
Assets	9,414	8,841	11,850	46,677	21,419
Liabilities	23	1,601	6,859	30,266	50,223
Maturity gap	9,391	7,240	4,991	16,411	(28,804)
Cumulative maturity gap	9,391	16,630	21,622	38,033	9,229
Maturity gap/Total capital	93.6%	72.2%	49.7%	163.6%	(287.1%)
Cumulative gap/Total capital	93.6%	165.7%	215.5%	379.0%	92.0%

Source: Company Annual Report

67. Profitability. IDCOL realized an operating income of BDT3.7 billion (~USD43.7 million) in 2020, lower than the previous year, but still achieving 5.7 percent CAGR from 2016 to 2020. The decrease in the operating income is on account of deferred payment of installments following directives of Bangladesh Bank amid COVID-19 pandemic. BDT620.3 million (~USD7.3 million) of the accrued interest on loans and advances with Standard classification remained receivable till 31 December 2020. Out of which, BDT320.3 million (~USD3.8 million) has been subsequently received till April 2021. The uncollected interest receivable of BDT299.9 million (~USD3.5 million) was parked in the interest suspense account instead of recognizing it as interest income. The interest accrued on some of the short-term fixed deposit with the non-bank financial institutions has also been transferred to interest suspense account due to their ongoing liquidity crisis. These amounts will be eventually recognized as interest income depending on the loan performances in the subsequent accounting years.

68. During the year 2020, net interest income contributes 92.4 percent of total operating income, while non-interest income contributes 7.6 percent. Fees, commission & brokerage is the major component of non-interest income.

69. Profit before provision and tax stood at BDT3.2 billion (~USD37.5 million) in 2020, decreasing by 20.7 percent compared to the previous year, due to the decrease in top line. Despite the drop in pre-provision operating profit, net profit for the year of 2020 stood at BDT1.5 billion (~USD18.1 million), increasing by 11.4 percent compared to the previous year, because of lower requirement for provisioning of loans and taxes during the year.

70. IDCOL's net interest margin was 3.78 percent in 2020, decreasing compared to previous year due to the excess liquidity and low domestic demand in Bangladesh caused by

the pandemic. Return on assets (ROA) and return on equity (ROE) kept rising over the past years, reaching 1.56 percent and 16.63 percent respectively in 2020, higher than the industry average. One of the reasons for the higher-than-average ROA and ROE is the cheaper borrowing through line of credits from development institutions guaranteed by GoB.

71. Capital Adequacy. IDCOL has maintained moderate capital adequacy over the past years and the latest CAR[3] stood at 15.58 percent and Tier 1 CAR at 14.33 percent as on December 2020[4]. Although exempted from the minimum capital requirement of Bangladesh Bank, IDCOL has maintained its capital above the regulatory requirement of 10 percent. However, increased concentration in particular sectors and unsecured/part-secured loan to support GoB's development initiatives have laid regulatory and sustainability challenges in terms of capital adequacy and stress testing in the past.

72. Asset Quality. NPL ratio shows a decreasing trend in the past years, while coverage ratio keeps rising. In year-end 2020, the NPL ratio of IDCOL was 1.5 percent and coverage ratio was 299.1 percent, both of which are better than the industry average. The large decrease in NPL in 2020 was due to the write off of HFSKS loan under IDCOL Solar Home System program.

73. IDCOL has rescheduled[5] six loans with an outstanding of BDT324 million and restructured 19 loans with on an outstanding of BDT13,096 million in 2020. The total rescheduled and restructured loan amount was BDT13,420 million, which was a bit higher comparing to BDT10,908 million in 2019 due to the impact of COVID-19[6]. IDCOL's largest exposure, in the power sector, was not impacted by COVID-19, as the projects has already achieved their commercial operation.

74. As shown in the table below, most of the NPLs are in renewable energy sector.

Figure 13 NPL by Segments (2020)

Segment	Portfolio (USD million)	NPL (USD million)	NPL (%)
Infrastructure and Energy Efficiency	740	6.5	0.9%
Renewable Energy	193	7.7	3.9%
Total	**933**	**14.2**	**1.5%**

Source: IDCOL Presentation

75. The following table summarizes the key financial ratios of IDCOL compared to the bank and NBFI industry in Bangladesh.

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[3] Under the section 6 of FI Act 1993 Bangladesh Bank shall prescribe the minimum capital of every financial institution. And as per the Prudential Guidelines on Capital Adequacy and Market Discipline for Financial Institutions (DFIM Circular No. 14/2011) that has come into force from January 01, 2012; FIs are required to maintain a CAR of minimum 10%. IDCOL is exempted from several sections of FI Act 1993; i.e. minimum capital requirement for FIs (section 6). Nevertheless, IDCOL has maintained sufficient capital adequacy ratio above the minimum capital prescribed under section 6 subsection (1) and DFIM Circular No. 14/2011.

[4] Capital adequacy ratio as end of 2020 became higher, because IDCOL refined its RWA calculation per suggestion from Bangladesh Bank.

[5] Loans that are in default are rescheduled and loans which are not in default are restructured.

[6] Bangladesh Bank introduced a moratorium on debt repayment and asset foreclosures from March to December 2020. Although the moratorium has been lifted, Bangladesh Bank subsequently allowed lenders to restructure loans for previously non-defaulted borrowers.

Figure 14 IDCOL and Industry Financial Metrics Comparison

	2016	2017	2018	2019	2020	Industry[7] Bank	Industry[7] NBFI
Capital Adequacy:							
CAR (%)	11.89%	11.72%	11.53%	10.83%	15.58%	11.6%	>10.0%
Tier-1 CAR (%)	11.09%	10.77%	10.28%	10.00%	14.33%	-	>5.0%
Debt equity ratio (Times)	10.35x	10.09x	9.93x	9.09x	8.93x	-	-
Asset Quality:							
NPL Ratio (%)	8.70%	10.91%	7.15%	4.54%	1.53%	9.2%	10.5%
Provision Coverage Ratio (%)	53.90%	72.90%	100.10%	134.40%	299.06%	93.1%	-
Profitability:							
ROA (%)	0.54%	0.69%	0.85%	1.52%	1.56%	0.4%	0.2%
ROE (%)	6.67%	8.43%	10.34%	16.50%	16.63%	6.7%	2.2%
Net Interest Margin (%)	3.96%	3.82%	3.58%	4.92%	3.78%	2.7%	-
Cost-to-Income Ratio (%)	7.04%	7.63%	9.76%	11.82%	14.12%	-	-
Liquidity:							
Current Ratio (%)	13.97%	13.36%	8.59%	15.19%	12.84%	-	-

Source: Company Annual Report, S&P Market Intelligence, Central Bank of Bangladesh

76. Overall, IDCOL maintains a comfortable level of profitability, a higher loss reserve, and sufficient capital, which will mitigate risk arising from correlated losses of an economic slowdown, though concerns are there on the increase in special mention assets and restructured/rescheduled loans. Further comfort can be drawn from the fact that IDCOL is a wholly-government-owned financial institution, which can rely on government budget allocations if further capital injection is required.

C. Economic Analysis.

77. The overall economic viability of the project is dependent on the merits of each of the subprojects to be financed by IDCOL. Therefore, the actual economic and financial impact will be known only after the various eligible subloans are identified and approved after proper due diligence. However, comfort is drawn from IDCOL's robust track record of funding economically viable projects. Many of these have been funded in partnership with MDBs like ADB and World Bank. For example, ADB's First Public–Private Infrastructure Development Facility (PPIDF I), indicated an aggregate economic internal rate of return (EIRR) of 17.4 percent. The EIRRs of individual projects ranged from 8.1 percent to 36.2 percent. A brief economic analysis of selected projects, including those previously funded by IDCOL is provided in Annex 3.

78. IDCOL would require each subproject to have a projected annual debt service coverage ratio of not less than 1.15 times for the life of the subloan and EIRR of at least nine percent.

[7] Data as of June 30, 2021.

D. Fiduciary and Governance

79. **Procurement.** Based on the information provided by IDCOL, AIIB has determined that IDCOL has experience and capacity in procurement management, having successfully implemented projects financed by multilateral development institutions including World Bank and ADB. Given its nature, structure, competent staff and well-established policies and processes, IDCOL is well equipped to require appropriate procurement methods that provide for a sound selection of goods and services at fair market prices be used in the procurement of contracts by subborrowers, and its capital investments are made in a cost-effective manner, in compliance with AIIB's requirements. Information on investments and related procurement will be provided to AIIB through a regular reporting mechanism and this will be specified in the POM.

80. **Financial Management.** The FM assessment conducted, concluded that IDCOL has the capacity to execute the required financial management responsibilities of the project. IDCOL has successfully implemented similar credit lines received from MDBs and has prior experience in managing the financial management aspects of several MDB financed projects. Based on the FM assessment, FM risk is rated as medium. The key risk factors for a project of this nature, are that the funds may be disbursed to ineligible subborrowers, or that the funds may not be used by eligible subborrowers for the purposes intended. These risks will be mitigated through the already existing review and approval process, through which subloan applications are screened and monitored against the eligibility criteria. The eligibility criteria for subborrowers, subprojects, subloans, financial reporting and monitoring requirements, and roles and responsibilities of project staff will be specified in the POM. In addition, subloans will be monitored by AIIB through periodic reviews and submission of progress and financial reports.

81. Staffing. IDCOL will be responsible for the overall project financial management and reporting to the MOF-ERD and AIIB. It has hired finance staff that have experience in implementing projects funded by MDBs. Staffs at the Head Office are permanent employees while junior accountants at regional offices are contracted for two years and renewed based on satisfactory performance. It has recently recruited additional experienced staff in its Finance & Accounts Department. It will allocate finance staff with required skills to the PMU to carry out the project financial management. The proposed staff composition of the PMU will be shared with AIIB for its concurrence. The specific training related to AIIB's FM, reporting and disbursements will be provided to the project staff on need basis.

82. Planning and Budgeting. The project will follow the IDCOL's planning and budgeting procedure. The PMU will prepare annual project budget and submit to the Finance & Accounts Department for consolidation with the IDCOL budget for finalization. The project budget will be submitted to the MOF-ERD for inclusion in the annual budget of GoB with a separate budget line. Budgets will be shared with AIIB. The MOF-ERD will provide budget allocations to IDCOL as a loan in accordance with the terms of the subsidiary loan agreement. Any variations from the approved budget are required to be justified with detailed explanation and approved as per financial procedures of GoB and IDCOL which will be shared with AIIB.

83. Accounting, Financial Reporting and Internal Controls. IDCOL will account for and report on project transactions using the cash-basis of accounting. Using IDCOL's existing

accounting software, the PMU will create a segment allowing for accounting of transactions by funding source and subloans. It has an accounting manual including standards/guidelines set by the International Accounting Standards Board and Bangladesh Bank for financial management procedures and financial reporting. It will prepare financial statements of the project yearly basis in accordance with their current practice and procedures. The IUFRs will be provided to Bank, in a format agreed on with AIIB, which will be included in the POM.

84. Internal control process and procedures of IDCOL will be applied to the project. The internal control process/procedures and the roles and responsibilities of the project staff and key stakeholders of the project for carrying out project financial management will be prescribed in the POM. The PMU will immediately report to AIIB if any material negative issue in respect of the AIIB loan is identified in the audit report of the Internal Audit Department of IDCOL and finalized by the Audit Committee of IDCOL.

85. External Audit. The independent Chartered Accountant firm appointed by the annual general meeting conducts an audit of the IDCOL in accordance with International Standards on Auditing. The auditor issued an unqualified audit opinion on the FY 2020 financial statement but emphasized of matters relating to disclosure of: (1) the status exemption granted by Bangladesh Bank with respect DFIM circular on fees, commission and brokerage income charged, (2) actuarial valuation not conducted for recognizing the cost of a ‘defined benefit plan’ in accordance with IAS 19.3, (3) A number of loan accounts under IDCOL investment portfolio were allowed for deferred payment of installments following directives of Bangladesh Bank amid COVID-19 pandemic. Considering the potential adverse impact of COVID-19 pandemic, uncollected interest receivable of BDT299.93 million has been voluntarily left aside from the interest income for the FY2020 and kept under interest suspense account. This amount will be eventually recognized as interest income depending on the loan performances in the subsequent accounting year(s). (4) Contingent liability valuing BDT24.03 million has been presented in accordance with IAS-37 to reflect the probable liability that may arise due to claim of Value Added Taxes by the National Board of Revenue. In addition to the unqualified audit opinion issued by the auditors, AIIB also concluded that the above observations are not material to either IDCOL’s or the project’s operations.

86. The Foreign Aided Projects Audit Directorate will conduct audits of the consolidated project financial statements and SOEs. The consolidated project audited financial statements, audit opinion and management letter with management’s response will be submitted to AIIB within six months from the end of each fiscal year during the project implementation period, and within six months after the closing date for the last year of the project. In addition, as part of IDCOL’s entity audit, the project financial statements will also be audited by IDCOL’s external auditors. This will cover IDCOL’s financial year January to December each year. IDCOL’s entity and project audit report will be submitted to AIIB within six months of IDCOL’s financial year end.

87. Funds Flow. AIIB will disburse the loan into a USD designated bank account maintained by IDCOL at the Bangladesh Bank. The funds will then be disbursed to IDCOL’s established USD or BDT project bank accounts maintained at a commercial bank deemed acceptable to AIIB. IDCOL will further disburse subloan proceeds to accounts of the subborrowers in instalments on compliance with the terms specified in the subloan agreement.

88. Disbursement. The advance, direct and reimbursement method of disbursement will be followed as agreed and specified in the Disbursement Letter. The PMU will prepare withdrawal applications; Summary of Expenditures documenting subloan amounts disbursed to the subborrowers; a six-month cash forecast of instalment amounts to be paid to the subborrowers; and statements of account (bank statements) and related account reconciliation statements for each project related bank account. These documents will be submitted to AIIB for processing. Upon receipt of the withdrawal applications and the required supporting documentation, AIIB will review and disburse accordingly. Advances will be made to the USD designated account, direct payment to the bank account of the requested subborrower and reimbursement to an operating account in the name of IDCOL. The Disbursement Letter outlines the process of submitting claims and other terms and conditions for of disbursements applied to the project.

89. Recycling of repayment flows from subborrowers. To the extent of 50% of the loan amount, the initial principal portion of repayment from subloans will be credited in a separate account both in USD and BDT, to be opened in with the commercial banks depending upon the currency of repayment. And same will be utilized for subsequent lending to new eligible subborrowers in compliance with the POM.

90. Retroactive financing. The retroactive financing for eligible expenditures may be provided, but not exceeding 20 percent of total loan amount, incurred within 12 months before the signing of the loan agreement. AIIB's procurement and ES requirements applicable to the project will apply to all retroactively financed expenditures.

91. **Financial Crime and Integrity (FCI) and Counterparty Due Diligence/Know Your Counterparty (CDD/KYC).** IDCOL has a separate Central Compliance Unit, which is responsible for managing money laundering risk following guidelines on Prevention of Money Laundering and Terrorist Financing issued by Bangladesh Bank. It has a board approved Anti-Money Laundering/Countering Financing of Terrorism Act policy which establishes clear responsibilities and accountability within the organization to ensure that policies, procedures, controls are introduced and maintained to prevent IDCOL facilities being utilized for money laundering and the financing of terrorist activities.

92. KYC review has been performed by Acuity team on IDCOL. No adverse news has been identified.

93. **Governance and Anti-corruption.** IDCOL is committed to preventing fraud and corruption in its financed projects. It follows a zero-tolerance policy on corruption and unethical practice. It will require AIIB financed sub projects to be implemented in compliance with AIIB's Policy on Prohibited Practices. Implementation will be monitored regularly by IDCOL and reported to AIIB. IDCOL and its subborrowers shall be required to report to AIIB any suspected Prohibited Practices in relation to AIIB's loan and the project. AIIB reserves the right to investigate, directly or through its agents, any alleged violation of AIIB's Policy on Prohibited Practices. The subloan agreements shall include provisions specifying the right of AIIB to inspect the records and accounts of the subproject.

E. Environmental and Social

94. **Applicable Policy, Categorization and Environmental and Social Instrument.** AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL) and Environmental and Social Standards (ESSs) apply to this project. The project has been placed in Category FI as the financing structure involves the provision of funds through Bangladesh, as the borrower to IDCOL, and will be implemented by IDCOL. IDCOL's ESSF, updated as required to comply with the ESP, will be used as the project's ES instrument. The first three subprojects regardless of their categorization, and all Category A subprojects will require prior AIIB review and approval before they can be included in the project for financing out of AIIB's loan, and in any event, AIIB will retain the right to decline to finance any subproject (see also para 97 below for further limits on Category A subprojects). Subject to these prior review requirements, AIIB will delegate to IDCOL the decision-making on the use of AIIB's funds in so far as the subprojects meet the conditions of the POM which is to be agreed with IDCOL. The POM includes the selection, appraisal, approval, and monitoring of subprojects, in accordance with AIIB's ESP requirements.

95. **Environmental and Social Safeguards Framework (ESSF).** IDCOL has an established ESSF. The first ESSF was prepared in 2008 to meet ADB's requirements for ADB's Public-private Infrastructure Development Facility. This was updated in 2011 following the Bangladesh Bank's new guidelines on environmental risk and the updating of ADB's safeguards policy. The ESSF comprises procedures and tools to support the screening of IDCOL's subprojects, application of an exclusion list and categorization, appraisal, committing, and monitoring of these subprojects aligned with ADB's policy. The ESSF has procedures for greenfield projects to be financed and for existing projects to be refinanced. It also requires the preparation of ES instruments for its subprojects supported by IDCOL. Public consultations are required for high-risk subprojects. IDCOL has an existing Environmental and Social Safeguards Management Unit, which provides technical support in assessing subprojects. In 2011, IDCOL developed the Environment and Social Management Framework (ESMF), which guided the implementation of activities under the World Bank's Rural Electrification and Renewable Energy Development (RERED) Project. The ESMF provides for screening of involuntary resettlement to exclude any activities involving physical or economic displacement under the RERED Project. As of December 2020, IDCOL embarked on a revision of its ESSF 2011 to harmonize (i) Bangladesh Bank's 2017 ESRM, (ii) national ES regulations and guidelines and (iii) 2011 ESMF. The approval of ESSF 2020 by IDCOL's Board, aligned with AIIB's ESP, ESEL and ESSs will be a condition for effectiveness of the AIIB Loan Agreement.

96. **ES Risks and Potential Impacts**. The Loan is expected to support subprojects in power generation, economic development zones, and others. Land acquisition, impacts on Indigenous Peoples and vulnerable households, impacts on sensitive habitats, ecosystems and their services are potential ES risks associated with such subprojects, which will be assessed and managed. Potential labor and working conditions in supply chains will be subject to enhanced ES due diligence.

97. Category A subprojects that are supported by AIIB financings made directly to the beneficiary will be eligible for financing under this IDCOL project. A maximum of two Category A subprojects not supported by such AIIB financings can be funded under this project. Renewable energy subprojects that are categorized as Category A subprojects would not be

subject to these limits. For all subprojects involving Higher Risk Activities[8], IDCOL shall use a suitably qualified and experienced third-party consultant to conduct the ES due diligence (ESDD) and action plan.

98. **Climate Change Risks and Opportunities.** Bangladesh is susceptible to climate change and climate induced disasters due to its unique geographical setting. On climate adaptation, an ES risk assessment would be conducted for every subproject to include its vulnerability to climate change related impacts. Greenhouse gas emissions of all energy subprojects will be measured using International Financial Institutions Guidelines for a Harmonized Approach to Greenhouse Gas Accounting (June 2021). Based on the current indicative pipeline, over 30 percent of the AIIB's total financing is estimated as climate mitigation finance.

99. **Gender Aspects.** Gender risks, such as the occurrence of Gender-based Violence during construction, and opportunities, such as employment creation during both construction and operation of the subprojects, will be considered in the ESDD conducted on subprojects. Risk and impact mitigation measures and gender-related opportunities will be reflected in Environmental and Social Action Plans. IDCOL will also obtain information on the number of jobs created and disaggregated by gender.

100. **Occupational Health and Safety.** Labor and Employment Conditions. Eligible subprojects will conform with the labor laws and standards of Bangladesh and ESSF. AIIB will also review performance of the first three and all Category A subprojects in terms of how they conform with the Bangladesh labor laws and regulations, as well as the ESSF, during the construction and operations phase and how these are monitored and reported to IDCOL. IDCOL will require subborrowers to align all AIIB-financed subprojects with AIIB's ES requirements.

101. **Project External Communications Mechanism (ECM).** IDCOL's ESSF requires subproject proponents to constitute a three-member Grievance Redress Committee (GRC) comprising of an officer representing the subproject proponent, an elected member (local body) of the subproject area/location, and one member from the public who is known to be a person of integrity, good judgment and commands respect among the community. The existence of the GRC will be disseminated by the subborrowers to the affected persons. The subproject proponent will document all complaints received, the action taken on each of them and send a report of the same every quarter to the Environmental and Social Safeguards Management Unit which shall also be communicated to IDCOL and AIIB, in IDCOL's semi-annual ES monitoring reports. IDCOLS's ECM[9] will be made available to Project-Affected People (PAPs) and will provide information on AIIB's Project-Affected People's Mechanism (PPM) as described below.

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[8] Higher Risk Activities include the following activities financed by the Bank through the FI: (a) all Category A activities; and (b) selected Category B activities, as determined by the Bank, that may potentially result in: (i) Land Acquisition or Involuntary Resettlement; (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and/or cultural resources; (iv) significant retrenchment of more than 20 percent of direct employees and recurrent contractors; and/or (v) significant occupational health and safety risks

[9] Source: Infrastructure Development Company Limited (IDCOL)

102. **AIIB's Independent Accountability Mechanism.** AIIB's Policy on the PPM applies to the Project. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from Project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement its ESP in situations where their concerns cannot be addressed satisfactorily through the subproject-level GRC, IDCOL's ECM or the processes of Bank Management. Information on the PPM is available at https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html

103. **Disclosure.** A summary of the ESSF will be disclosed by IDCOL on its website once it is updated. For all subprojects involving Higher Risk Activities, the relevant ES documents including ESIA, ESMP and others, will be posted on the website of IDCOL as well as that of the subborrower, if the suborrower has a website. The subborrower will disclose the relevant ES documents in a timely manner, in an accessible place and in a form and language(s) understandable to affected persons and other stakeholders, including women and vulnerable groups.

104. **Monitoring and Supervision Arrangements.** IDCOL will rely on information provided directly by the subborrowers to conduct ESDD and ongoing monitoring of the subloans. IDCOL will be required to maintain a comprehensive database comprising all relevant ES information and report to AIIB a summary of the ES aspects and overview of the ES performance of the project's portfolio on an agreed schedule and template. AIIB will conduct ongoing monitoring of Category A subprojects, as well as post-reviews of the selection and implementation of other subprojects as part of its regular supervision, comprising engagement with IDCOL, potential site visits and detailed review of the ES documentation of selected subborrowers. AIIB will also engage external ES consultants to assist it in its due diligence and monitoring of subprojects[10].

F. Operational Policy on International Relations (OPIR)

105. Because the pipeline of subprojects for this operation is not fully identified, and subprojects may be located in geographically diverse regions, the possibility that the OPIR might be applicable in a given case cannot be ruled out. Consequently, IDCOL will screen subprojects against the OPIR and exclude from AIIB support any subproject that would involve any of the matters covered in the OPIR. This will be spelled out in the POM. The Project team will work with IDCOL to facilitate its application of this carve-out.

G. Risks and Mitigation Measures

106. The project has a 'Medium' risk rating, based on project team's assessment. The possible risks and mitigation measures are listed as follows:

Figure 15 Summary of Risks and Mitigating Measures

Risk Description	Assessment Ratings (High, Medium, Low)	Mitigation Measures

[10] Whenever necessary

1. Governance		
Economic slowdown in Bangladesh. Bangladesh's economy slows down which results in a reduction of GDP spending on infrastructure development.	Medium	The economy of Bangladesh has experienced rapid expansion over the past 5 years. After slowing down in 2020 due to the pandemic, the economy is expected to recover strongly and grow over 7 percent in the medium term. GoB recognizes the importance of infrastructure development and has assigned it the highest priority in its recent budgets. This trend is expected to continue.
Lack of bankable projects. Not enough bankable infrastructure projects are available to encourage private sector participation.	Medium	Bangladesh's Perspective Plan 2041 highlights the need of annual investment of USD 10 billion in infrastructure over the next two decades. The 8th Five Year Plan covering FY2020 to FY2025 has put a strong emphasis on utilizing the PPP framework to finance infrastructure projects. GoB is recently placing much more emphasis on infrastructure development and facilitating the mobilization of long-term capital. This is evidenced by the fact that IDCOL has a robust pipeline of prospective transactions to be funded under the project. Total IDCOL investment demand for these pipeline deals overall is about USD640 million.
Public sector governance. Governance issue of public sector is a major concern in the country, and it could adversely affect the financing for subprojects.	Medium	IDCOL is committed to maintain highest ethical and legal standards in the organization practices, it has a policy of Zero Tolerance against Fraud and Corruption.

		Further, AIIB's anti-corruption policy will be explained to and discussed in detail with IDCOL. AIIB will reserve the right to investigate any violations of the anti-corruption policy relating to the project. To support these efforts, relevant provisions of AIIB's anticorruption policy will be included in the legal documents pertaining to this loan and subloan agreements.
Environmental and social risk. Bangladesh has limited regulatory ES enforcement capacity, a population comprising both vulnerable and Indigenous Peoples, sensitive ecosystems and is susceptible to climate change.	Medium - High	IDCOL has a track record of working with MDBs and has built adequate in-house capacity to assess ES aspects of infrastructure projects. It has developed an ESSF which will be updated as needed so as to be materially consistent with AIIB's ESP, ESEL and ESS requirements. Category A subprojects that are supported by AIIB financings made directly to the beneficiary will be eligible for financing under this IDCOL project. A maximum of two Category A subprojects not supported by such AIIB financings can be funded under this project. Renewable energy subprojects that are categorized as Category A subprojects would not be subject to these limits. For all subprojects involving Higher Risk Activities, IDCOL shall use a suitably qualified and experienced third-party consultant to conduct the ESDD and action plan. The Project Team will conduct prior review and approve the first three eligible subprojects regardless of categorization and all Category A subprojects and retain the right to decline finance for a particular subproject.
Financial Management Ineligible subborrowers may be selected, or the subloan may not	Medium	The PMU will be staffed with experienced finance personnel, who will be guided by the POM. The POM will outline the detail control

be used for eligible expenditures.		procedures for screening and monitoring subloans. There will be close monitoring by AIIB through interim progress and financial reports, summary of expenditures and audited financial statements.
2. IDCOL-related risks		
Capacity for structuring large infrastructure projects. IDCOL may lack the ability to effectively carry out large infrastructure subprojects to be financed under the loan in several different sectors. State-owned financial institutions in Bangladesh tend to be dysfunctional. Although IDCOL is one of the few that have so far successfully met their objectives and is able to adequately conduct its current operations, it is not equipped to cope with additional and more complex activities and demands.	Medium	IDCOL has acquired significant experience from its previous partnership with ADB and other development financial institution's. It has been receiving technical assistance from ADB and other development institutions, which has helped it to improve its institutional capacity and long-term operational strategy. This capacity building will equip IDCOL to cope with more complex infrastructure subprojects. Its current level of operation is sufficient to successfully implement AIIB's loan.
Pressure on the balance sheet of IDCOL. Weakness in IDCOL's flagship SHS business could adversely affect its financial viability. The SHS program has received positive global attention, but the market for SHSs has started to show signs of saturation. In addition, collection efficiency for IDCOL's SHS portfolio has decreased significantly, which would pose a threat to its financial viability.	Medium	IDCOL has been quick to identify the SHS portfolio collection problems and is taking corrective measures. In January 2016, it established a Collection Efficiency Improvement Program to help the organizations participating in its SHS program improve the efficiency of their collections in areas where the rates are poor. The program aims to ensure that the organizations make regular customer visits to provide after-sales service and increase collections from overdue customers.
Concentration Risk. Due to limited investment opportunities in different private sector projects that meet IDCOL's eligibility criteria in the past years, IDCOL has significantly higher exposure in the power	Medium	IDCOL has enhanced its eligible sector for financing, added new business units & lending window, and reinforced corporate governance environment with dedicated risk manager and segregation of various task with dedicated units. This risk would hopefully mitigate in the

sector which exposes the portfolio to concentration risk.		coming years as it is diversifying its portfolio into new eligible sectors. Since IDCOL has an advantage of low cost of source of funds, it is looking to expand its presence in the infrastructure sector. Such an expansion would also help IDCOL reduce its concentration in the Renewable Energy program. The shift in the portfolio is expected to continue as Bangladesh economy continues to grow and unravel several infrastructure investment opportunities.

Annex 1: Results Monitoring Framework

Project Objective: To promote infrastructure investment by providing long-term financing to private sector in Bangladesh.										
Indicator Name	**Unit of measure**	**Base-line Data**	**Cumulative Target Values**					**End Target**	**Frequency**	**Responsibility**
		Year	**YR1**	**YR2**	**YR3**	**YR4**	**YR5**			
Project Objective Indicators:										
Number of infrastructure projects financed	#	0	1	3	5	5	5	5	Annual	IDCOL
Number of renewable energy projects financed	#	0	0	1	2	2	2	2	Annual	IDCOL
Private capital mobilized	USDmm	0	23	69	114	114	114	114	Annual	IDCOL
Number of jobs created (disaggregated by gender)	#	0	TBD*	TBD*	TBD*	TBD*	TBD*	TBD*	Annual	IDCOL
Greenhouse gas emissions reduction for energy subprojects	tons of CO2 equivalent per year	0	TBD*	TBD*	TBD*	TBD*	TBD*	TBD*	Annual	IDCOL

Note: * The indicator value will be reported each year, but target value cannot be decided at the moment, given the subprojects financed under the loan have not been fully decided.

Annex 2: Selection Criteria and Approval Process

A. **Eligible Subloans**. In order to be eligible for financing with proceeds of the loan, a subloan must meet the following requirements:

1. The subloan must be made only to an eligible borrower for an eligible purpose.

2. The subloan must be on arm's length market terms and the interest rate for the subloan must be the rate prevailing in the local loan market taking into account the evaluated risk of the subborrower and the subproject or other activity being financed.

3. The subloan must have an appropriate tenor and grace period (if relevant, based on the projected cash flow of the subproject being financed), consistent with the IDCOL's normal policies and procedures.

4. The subloan must not exceed USD 50 million (or its equivalent).

5. The subloan must be denominated in the local currency or in USD.

6. If the subloan is denominated in a currency other than the local currency, IDCOL has, during the application process:

   (i) satisfied itself that the subborrower has a sufficient income stream in the currency of the subloan or otherwise has a satisfactory natural hedge for that currency;

   (ii) performed stress tests assuming various devaluation scenarios to test the debt service capacity of the subborrower in the currency of the subloan; and

7. If the subloan is being used to finance a specific project or investment programme:

   (i) the subloan must not exceed 40%[11] of the costs (including working capital requirements) of that project or investment programme;

   (ii) at least 20% of the costs must be financed with equity or quasi-equity contributions; and

   (iii) in the case of a specific project, the projected annual debt service coverage ratio is not less than 1.15 for the life of the subloan.

[11] Single subloan may exceed the limit and be up to 60% of the project cost for infrastructure sector with prior approval from AIIB. Energy efficiency and renewable energy subprojects IDCOL's maximum exposure can be 70% and 75%, respectively of the costs (including working capital requirements) of those projects.

B. Eligible Subborrower. In order to be eligible to receive a subloan, the intended subborrower of the subloan must meet the following requirements:

1. The subborrower must be a company, enterprise, firm, business, or other legal entity which is formed under the laws of Bangladesh and operating primarily in Bangladesh.

2. The subborrower must be a private entity:

   (i) which is carrying out or established for a business purpose and is operating on a commercial basis;

   (ii) which has less than 50% of its shares owned by the government, either directly or indirectly;

   (iii) which is financially autonomous from the government; and

   (iv) whose day-to-day management is not controlled by the government.

3. The subborrower must have the technical, managerial, staffing and financial capability and resources needed to carry out the subproject or other activity being financed and to repay the subloan.

4. The sponsors or subproject contractors should have a proven track record of successfully developing, financing, and operating infrastructure projects or have made formal or contractual arrangements with third parties with such proven track record.

5. Neither the subborrower nor any person acting on behalf of the subborrower has engaged in any Prohibited Practice under AIIB’s Prohibited Practices Policy in relation to the subloan or the subproject or other activity being financed.

6. The subborrower must not, when the subloan is made or the proceeds of the subloan are advanced to it, be included on AIIB’s debarment list.

C. Eligible Purposes.

1. The proceeds of a subloan may be used only for the following purposes:

   (i) financing of specific projects or investment programmes for the development of infrastructure.

   (ii) incremental or start-up working capital requirements for specific projects or investment programmes for the development of infrastructure.

2. The subproject or other activity being financed must:

   (i) be technically sound, financially and economically feasible viable (with robust and predictable cash flows and be capable of generating sufficient revenues for repaying the subloan), meet IDCOL's usual credit criteria and be assessed positively by IDCOL in accordance with its usual credit appraisal procedures. The technology proposed for subproject should have successful track record;

(ii) be in one of the following sectors or areas (unless approved by AIIB):

a) Energy Infrastructure (Renewable Energy Generation – Solar, Wind, Geothermal, Biomass, Waste-to-Energy; Battery Storage; Smart Grids, Smart Meters, Power Transmission & Distribution, Natural Gas including Liquefied Natural Gas to Power[12], Gas Processing, Storage, Transmission, and Distribution) excluding coal, nuclear and hydropower related infrastructure;

b) Transport (Road, Bridges, Tunnels, Railway, Highway, Waterway, Port including Inland Container Depot (ICD), Airport and Signaling & Systems);

c) Urban (Urban Transport - Metro, Light Rail, Tram, Bus Transport, Bus Rapid Transport; Economic Zones/IT Parks and other Low-carbon infrastructure (e.g., Infrastructure for electric cars, Multi Model Hubs));

d) Water (Water Supply and Sanitation, Water Treatment, Wastewater Management, Urban Strom Water management and drainage, Water Resource Management);

e) Information and Communications Technology (Telecom, Broadband, Submarine Cables, Data Centre, Tower, Digital Services and other connectivity-focused projects);

f) Energy Efficiency projects across all sectors including but not limited to buildings, transport, commercial and industrial sectors;

g) E-Transport (Electric vehicle and infrastructure);

h) Climate Change Adaption and Reduction of local and regional pollution or

i) Social Infrastructure - healthcare (medical facilities and ancillary infrastructure) and education (schools, universities and student accommodation)

(iii) have at least 9% economic rate of return.

(iv) be integral part of the GoB’s priority plan for the relevant infrastructure sector and/or subsector.

(v) be assessed, prepared and operated in accordance with all applicable national laws (including any environmental, social and health and safety legislation and any employment regulations and standards in effect in Bangladesh, as well as any relevant public consultation obligations in effect in Bangladesh), and compliant with IDCOL’s Environment and Social Safeguards Framework

[12] Projects with High-Speed Diesel as an alternative fuel will be excluded.

(ESSF) which is required to be consistent with AIIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL) and Environmental and Social Standards (ESS).

(vi) All goods, works and services to be financed out of the proceeds of a subloan must be procured in compliance with AIIB's Procurement Policy and Interim Operational Directive on Procurement Instructions for Recipients, as amended from time to time.

(vii) If a subloan is being used to finance a concession, public private partnership or similar arrangement, the process for selecting the subborrower must have been conducted with fairness and transparency and in a competitive manner, free of corruption and in compliance with all applicable laws and regulations and the terms of the concession (or similar) agreement must be fair and reasonable in relation to market practice.

(viii) The proceeds of a subloan may not be used for any of the following purposes:

a) Any activity that appears on AIIB's ESEL.

b) Coal mining, coal transportation or coal-fired power plants, as well as infrastructure exclusively dedicated to support any of these activities.

c) Financial institutions or financial services companies, or insurance businesses.

d) Speculative investment in property or currencies or any other speculative investment activities.

e) Involve any of the matters covered in the Operational Policy on International Relations.

3. Category A subprojects that are supported by AIIB financings made directly to the beneficiary may be eligible for financing under this project. A maximum of two Category A subprojects not supported by such AIIB financings can be funded under this project. Renewable energy subprojects that are categorized as Category A subprojects would not be subject to these limits.

D. Approval Process

1. Subloan selection and appraisal. The selection and assessment of subloans and subprojects will be undertaken by IDCOL. IDCOL's appraisal of each subloan must include a financial evaluation in the form of a cash flow analysis, balance sheet projections, an examination of financial ratios, an appraisal of management and, where relevant, a technical project report.

2. Environment and social appraisal. IDCOL must screen and categorize each subproject, review and conduct due diligence on the environmental and social risks of each subproject, review and approve an ES action plan and/or required ES instruments incorporating the suborrower's ES commitments in relation to the subproject, all in a

manner consistent with AIIB's ESP including the ESEL and ESSs. For each subloan, the Borrower's appraisal of environmental and social risks must include:

a) screening the subproject against AIIB's ESEL;

b) reviewing and categorizing the subproject according to its potential ES risks and impacts;

c) assessing compliance of the subproject with ES laws; and

d) providing for meaningful consultations, information disclosures and subproject level GRM.

e) For Higher Risk Activities[13] subprojects, IDCOL shall use a suitably qualified and experienced third-party consultant to conduct the ES due diligence and action plan.

3. Procurement appraisal. IDCOL must review the suborrower's plan for procurement of goods, works and services to be financed out of the proceeds of each subloan and satisfy itself that such plan is in compliance with the requirements set out in paragraph C2(vi) above. If the subloan is being used to finance a concession, public private partnership or similar arrangement, the Borrower must review the process for selecting the beneficiary and the concession or similar agreement to ensure that they are in compliance with the requirements set out in paragraph C2(vii) above.

4. AIIB consent. IDCOL must submit "Subloan Appraisal Form for Allocation Request" to AIIB before allocation of funds to any subproject. The prior review and consent of AIIB is required for the first three subloans and all Category A subloans, before allocation of funds to these subprojects. For other subprojects (other than first three subloans and all Category A subloans), AIIB within five business days of the submission of "Subloan Appraisal Form for Allocation Request" may choose to exercise the Right to Conduct Prior Review of the Environment and Social Due Diligence (ESDD) of the subproject. Once exercise of such Right is triggered, IDCOL shall provide the requested details of the subproject to AIIB in English. These details generally comprise, but are not limited to, the ES instruments prepared for the subproject, according to the AIIB's ESP, including ESSs, and the ESDD conducted on the subproject and any other relevant documentation.

5. Monitoring procedures. Not later than the date of signing of the loan agreement for a subloan, IDCOL must establish a complete credit file for the subloan including supporting documentation demonstrating the subborrower's eligibility for financing under the loan and all other relevant materials in accordance with its normal practices.

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[13] Higher Risk Activities include the following activities: (a) all Category A activities; and (b) selected Category B activities, as determined by the Bank, that may potentially result in: (i) Land Acquisition or Involuntary Resettlement; (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and/or cultural resources; (iv) significant retrenchment of more than 20 percent of direct employees and recurrent contractors; and/or (v) significant occupational health and safety risks

6. Environment and social monitoring. Subloan monitoring, including notification of material ES issues, must be conducted by IDCOL at least once every six months and in accordance with AIIB's ESP.

7. Maintenance of records. IDCOL must maintain all records and accounts relating to the subloan until five years after the final maturity date of the subloan.

E. Subloan Agreement

1. Documentation. If a subloan application is approved, IDCOL must enter into a loan agreement for the subloan which provides IDCOL with rights adequate to protect its interests and those of AIIB, including the provisions set out in sub-paragraphs (b) and (c) below.

2. Key provisions. Each subloan agreement must require the subborrower to:

   a) carry out the subproject or other activity being financed with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, fiduciary, integrity and environmental and social standards and practices;

   b) maintain insurance on and in relation to its business and assets with reputable underwriters or insurance companies against such risks and to such extent as is consistent with sound business practices;

   c) provide, promptly as needed, the resources required for the subproject or other activity being financed;

   d) not engage in any Prohibited Practice in relation to the subloan or the subproject or other activity being financed, or authorise or permit anyone to do so on its behalf;

   e) notify IDCOL of any violation of AIIB's Policy on Prohibited Practices or if any international financial institution imposes any sanction on the suborrower;

   f) procure all goods, works and services to be financed out of the proceeds of the subloan in compliance with the AIIB's Procurement Policy and Interim Operational Directive on Procurement Instructions for Recipients, as amended from time to time;

   g) manage its operations and carry out the subproject or other activity being financed in accordance with the IDCOL's ESSF, the agreed environmental and social action plan and/or required ES instruments;

   h) not engage in any activities on AIIB's Environmental and Social Exclusion List, any coal mining, coal transportation or coal-fired power plants, as well as infrastructure exclusively dedicated to support any of these activities;

i) maintain a financial management system in a manner adequate to reflect the operations, resources and expenditures related to the subproject or other activity being financed;

j) prepare financial statements in accordance with consistently applied accounting standards;

k) have such financial statements audited by independent auditors in accordance with consistently applied auditing standards;

l) promptly furnish those audited financial statements to IDCOL;

m) furnish to IDCOL periodic reports on the environmental and social performance of the subproject;

n) enable IDCOL and AIIB to inspect the subproject or other activity being financed, its operation and any relevant records and documents;

o) notify IDCOL of significant environmental and social events, including fatality, grievances filed and others, within 72 hours after its occurrence;

p) maintain an effective grievance redress mechanism and disclose on subborrowers website, with reference to the IDCOL's external communications mechanism, management of the AIIB and AIIB's Project Affected Peoples Mechanism;

q) For subprojects involving Higher Risk Activities, do publish relevant ES documents including ESIA, ESMP and others in a timely manner, in an accessible place and in a form and language(s) understandable to affected persons and other stakeholders, including women and vulnerable groups; and

r) prepare and furnish to IDCOL all such information as IDCOL may reasonably request relating to the foregoing.

3. Disclosure of information. The subborrower must consent to (a) the disclosure of information to AIIB and IDCOL regarding the subloan and the subproject or other activity being financed, (b) giving AIIB and IDCOL unrestricted access to the premises where the subproject being financed and its records in respect of that subproject is located and (c) giving AIIB and IDCOL rights to disclose any ES information in relation to the subloan and the subproject being financed, and other information relating to the subloan and/ or the subproject to the extent required by its then-current access to information policies

Annex 3: Economic Analysis

A. Introduction

IDCOL has a track record of funding economically viable project in partnership with MDBs. ADB has partnered with IDCOL across three standalone facilities. ADB's First Public–Private Infrastructure Development Facility (PPIDF I), was fully disbursed and indicated an aggregate ex-post EIRR of 17.4%. The EIRRs of individual projects varied from 8.1% (Energypac Confidence Power Venture Chittagong Ltd.) to 22.2% (Regent Energy and Power Ltd.) and 36.2% (Solar Home Systems). Earlier, in 2000, ADB partnered with IDCOL to provide funding to Meghnaghat Power Limited to build and operate a 450 MW combined-cycle gas-fired power plant in southeast Dhaka, While the initial estimates indicated an EIRR of over 27%, sharp increase in the price of diesel over the next few years resulted in the EIRR dropping to 14%, but well above the social discount rate.

The World Bank has also partnered with IDCOL for the Rural Electrification and Renewable Energy Development II (RERED II) Project, which included (a) solar home systems, (b) remote area power supply system comprising solar minigrid schemes, solar irrigation pumps and biogas based captive plants, (c) distribution of energy efficient CFLs, and (d) clean cooking options for households like improved cook stoves advanced combustion stoves, and biogas. All the components exhibited strong economic viability. The EIRRs, varied from 27.3% for biogas cooking to 36.3% for improved cook stoves to 43% for solar home systems and 211% for CFL lightening.[14]

IDCOL has also carried out preliminary estimation of economic viability of a few recently concluded infrastructure projects. For example, IDCOL funded Ispahani Summit Aliance Terminals Limited to construction a bonded warehouse, inland container depot and container freight station. This is expected to bolster trade through (a) improving transportation and storage of containers and (b) container freight station comprising various activities related to cargo handling. The EIRR of the project was estimated at 24.3%. In another project, IDCOL provided funding to Kushiara Power Company Limited (KPCL) to construct 163 MW Combined Cycle Power Plant. The power generated is expected to meet the needs of around 200,000 homes in the region. Initial estimates indicated that the project was economically viable with an EIRR of 25.9%.

B. Economic Analysis of Selected Private Sector Projects

I. Solar Home System:[15] The Solar Home Systems (SHS) Program in Bangladesh is the largest national program in the world for off-grid electrification. The Program was initiated in 2003 and ended in 2018, with the Program being implemented and led by IDCOL. The Program was supported by international credit with the participation of World Bank, ADB, JICA, IsDB, USAID, KfW, GIZ, DFID and others. The SHS Program provided numerous benefits to the consumers. The consumers gained access to electricity services far sooner than if they had to wait for a grid electricity connection. It also allowed children to study longer hours with

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[14] World Bank (2012) Bangladesh - Second Rural Electrification and Renewable Energy development Project (English). Washington, D.C.: World Bank Group.

[15] Cabraal, Anil, William A. Ward, V. Susan Bogach and Amit Jain. 2021. Living in the Light: The Bangladesh Solar Home Systems Story. A World Bank Study. Washington, DC: World Bank.

a survey estimating an additional 50–60 hours per year of potential study time. The SHS electric lighting also provided a heightened sense of security as well as easier and lower cost access to various electrical appliances. The SHS also benefited 200,000 enterprises and social service customers with better quality light and extended hours of operation. Finally, between 2003 and 2021 the SHS Program is estimated to have saved about 4 billion litres of kerosene from 2003 to 2021 and 9.6 million tCO_2 emissions.

A World Bank study has estimated the EIRR of the SHS Program at 20% using just the avoided cost of kerosene/grid electricity for lighting to estimate benefits. Adding the benefits due to reduced carbon emissions increases the EIRR to 25%. An alternative based on WTP (willingness to pay) of USD2.23 per kWh in 2018 prices yields an EIRR of 51%. ADB under PPIDF I provided USD 78 million to supply electricity through SHS to more than 430,000 households or 2.1 million people in remote off-grid areas.[16] The EIRR was estimated to be 36.2% due to savings of kerosene and carbon emissions and improved economic activity.

II. Solar Irrigation Pumps: IDCOL has partnered with various international development partners for installing solar irrigation pumps to provide irrigation facilities in rural off grid areas. By March 2021, more than 1500 solar pumps were operational with an installed capacity of 40 MWp. IDCOL plans to install 10,000 solar irrigation pumps by 2027. Solar irrigation systems impart numerous economic benefits by bringing down the dependency on fossil fuel intensive generators as well as electricity from national grid. Apart from improving the availability of power and savings on import bill, replacing fossil fuel based intensive pumps with solar irrigation pumps help to reduce carbon emissions. Finally, the solar irrigation pumps assist farmers by providing cheaper irrigation service compared to diesel-based pumps. The World Bank partnered with IDCOL to install 1500 solar irrigation pumps to displace diesel pumps.[17] A cost effectiveness analysis was undertaken to understand the economic viability. The analysis indicated that solar PV irrigation pumping provided water at a lower cost compared to diesel pumping.[18] It was observed that for diesel pumping cost to match solar irrigation pumping cost, economic cost of diesel would have to be 64% of its value. Similarly, financially solar pump irrigation is a lower cost alternative unless price of diesel falls to half of its current value. Moreover, it is estimated that the operationalizing of around 1250 pumps would help reduce 5000 tons of carbon emissions per year.

III. Bibiyana II Gas Power Project: In 2015, ADB, IFC and IsDB provided USD 210 million financing of 341 megawatt (MW) combined cycle gas-fired power plants in Sylhet. While ADB and IFC provided USD 75 million each, IsDB provided USD 60 million. The Project was implemented by Summit Bibiyana II Power Company, a special purpose vehicle incorporated in 2010 under the laws of Bangladesh. The Project was one of the large IPPs to be commissioned in Bangladesh. By using gas and combined cycle technology, the Project set a benchmark for generation of low-cost clean energy. The project helped alleviate power shortages and assist the government in meet its goals of expanding the country's installed generation capacity. While IFC estimated that the power produced from the Project will reach about 5.7 million consumers, ADB's estimate indicate that an additional 3 million consumers

[16] ADB (2018) Bangladesh: Public–Private Infrastructure Development Facility. Project Completion Report
[17] Rural Electrification and Renewable Energy Development II Project.
[18] The economic cost of water from solar irrigation pumps was BDT 2.11 per m3 compared to BDT 2.36 per m3 from diesel pumps.

will be provided electricity. Moreover, the Project will also help reduce losses suffered by industries due to unplanned power outages. ADB estimated that these losses were to the tune of USD 0.83 per kilowatt-hour. As a result of these benefits, the EIRR was estimated to be around 18%, well above the standard social discount rates.[19] In addition to the above benefits, the involvement of multilateral lenders like ADB, IFC and IsDB was expected to provide a signal about the bankability of these projects and help attract serious private sector investments in power sector of Bangladesh.

[19] ADB (2017) Third Public-Private Infrastructure Development Facility: Report and Recommendation of the President, ADB, Manila

Annex 4: IDCOL Financials Summary

The financial statements of the Infrastructure Development Company Limited (IDCOL) are prepared in compliance with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) and other applicable laws, rules and regulations. The audit opinion has been unqualified for the last five years.

1. Balance Sheet Summary:

	2016	2017	2018	2019	2020	5-year CAGR
	Hoda Vasi Chowdhury	Hoda Vasi Chowdhury	ACNABIN	ACNABIN	ACNABIN	
(in BDTmm)						
Loan portfolio	41,017	42,037	60,742	68,799	79,127	17.9%
Power	12,320	13,767	18,477	22,759	31,842	
Ports	844	733	2,592	2,597	2,344	
Telecommunication	92	96	4,102	3,100	953	
Renewable Energy	24,490	22,275	20,135	18,348	16,381	
Energy Efficiency	-	-	3,506	7,886	12,122	
Others	3,270	5,166	11,931	14,109	15,486	
Total assets	73,025	76,636	82,293	90,876	98,201	7.7%
Total liabilities	67,057	70,338	75,491	82,523	88,972	7.3%
Total equity	5,968	6,298	6,802	8,353	9,229	11.5%
(in USDmm)						
Loan portfolio	483	495	716	811	933	17.9%
Power	145	162	218	268	375	
Ports	10	9	31	31	28	
Telecommunication	1	1	48	37	11	
Renewable Energy	289	263	237	216	193	
Energy Efficiency	-	-	41	93	143	
Others	39	61	141	166	183	
Total assets	861	903	970	1,071	1,157	7.7%
Total liabilities	790	829	890	973	1,049	7.3%
Total equity	70	74	80	98	109	11.5%

2. Income Statement Summary:

	2016	2017	2018	2019	2020	5-year CAGR
	Hoda Vasi Chowdhury	Hoda Vasi Chowdhury	ACNABIN	ACNABIN	ACNABIN	
(in BDTmm)						
Total revenue	4,509	4,730	4,921	5,378	4,482	
Operating income	2,970	3,066	3,154	4,551	3,705	5.7%
Operating expense	209	234	308	538	523	
Profit before provision & tax	2,761	2,832	2,846	4,013	3,182	3.6%
Net profit after tax	398	531	703	1,378	1,535	40.1%
(in USDmm)						
Total revenue	53	56	58	63	53	
Operating income	35	36	37	54	44	5.7%

Operating expense	2	3	4	6	6	
Profit before provision & tax	33	33	34	47	38	3.6%
Net profit after tax	5	6	8	16	18	40.1%

Annex 5: Member and Sector Context

A. Country context

1. Bangladesh has made rapid social and economic progress during the last two decades. Since 2000, Bangladesh has grown at an average rate of 6.0 percent with growth accelerating to over 7.0 percent between FY2016 and FY2019.[20] The strong economic performance resulted in Bangladesh crossing the threshold to become a lower-middle income country in FY2015 and is expected to graduate out of Least Developed Country status by 2024.[21] The growth has been propelled by strong macroeconomic fundamentals, rise in agricultural productivity, strong growth of exports and remittances and insulated financial markets.[22]

2. The textile and the ready-made garment (RMG) sectors have played a vital role in the improved economic performance with the sectors accounting for 12.4 percent of GDP and more than 80 percent of exports while providing direct employment to 4 million workers, including many women workers. Bangladesh has emerged as a crucial player in the textile and RMG global value chain. The success of the textile and RMG sector is on account of various factors. Bangladesh has been able to present itself as a cost-competitive location as labor costs have remained low. A supportive policy environment has also helped businesses enjoy economies of scale while being able to respond to market shocks. Bangladesh's labor is also more competent at garment manufacturing, as compared to its peers.

3. Remittances have also played an important role in fostering growth and sustaining macroeconomic stability. Remittance inflows are equivalent to six percent of GDP, nearly four times greater than FDI and ODA combined, and equivalent to a third of export revenue.

4. The strong growth was associated with healthy creation of wage employment and poverty reduction. Overall employment grew at an average annual rate of 2.4 percent between 2000 and 2016, with female employment growing at nearly twice the rate. Wage employment experienced an average annual growth of 5.7 percent during this period. The increase in women's labor force participation was associated with narrowing of gender wage differentials. The robust growth also aided in poverty reduction, which halved from 48.9 percent in 2000 to 24.3 percent in 2016. However, poverty reduction did not occur in a uniform pattern across the country. Between 2010 and 2016, the pace of poverty reduction slowed down despite the economy growing at a higher rate. The slowdown was largely a result of very little poverty reduction in urban areas, even as rural poverty fell. Bangladesh has also made significant human development gains during the last three decades, especially in the areas of child and maternal health, access to primary education and gender equity at primary and secondary education levels.

5. Like most other economies in the region, Bangladesh has been significantly impacted by COVID-19, although it remains one of the better performers in the region, growing by 3.8 percent in FY2020. A national lockdown was imposed between March and May 2020, resulting

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20 The fiscal year in Bangladesh starts from July 1 and ends on June 30 of the next year. FY2021 refers to the fiscal that started on July 1, 2020 and ended on June 30, 2021.

[21] FY refers to fiscal year. In Bangladesh, the fiscal year starts from 1 July and ends on 30 June of next year. FY2015 refers to the year from 1 July 2014 to 30 June 2015.

[22] Bangladesh - Country Partnership Framework for the period FY16-20. Washington, D.C.: World Bank Group.

in supply side disruptions and losses in employment. Remittance inflows and the government stimulus program provided some buffer. Since June 2020, restrictions were progressively lifted, and economic activity returned to pre-pandemic levels by October. However, a second wave in early April 2021 forced GoB to announce another lockdown till mid-May. Given the high informality in Bangladesh's labor force with four-fifth of the total employment being in informal sectors and about 35 percent of the workers being daily wage earners, COVID-19 led to job losses and temporary absences. Loss of employment were stark in relatively poor areas of Dhaka, Chittagong, and Cox's Bazaar.[23] The loss in income and unemployment was unequal across gender with women being mostly employed in directedly affected sectors, especially RMG manufacturing. These losses have seriously threatened to reverse Bangladesh's achievements of poverty alleviation as poverty is expected to increase in the short-term.

6. Despite the impressive development achievements, Bangladesh faces several development challenges that got exacerbated by COVID-19 pandemic. These include generating new sources of growth, making growth more inclusive by creating jobs, easing the infrastructure constraints, and reducing vulnerabilities to climate change. These challenges will have to be overcome to achieve the GoB's vision to eradicate poverty on way to becoming a developed nation by 2041.[24]

7. Developing sustainable infrastructure is major pillar of Bangladesh's development strategy, as highlighted by both short-term and long-term plans. This is vital for sustaining inclusive and high economic growth given Bangladesh was ranked only 114 out of 140 in infrastructure according to World Economic forum's Global Competitiveness Report 2019. The relatively low ranking was a result of weak performance in transport infrastructure (rank of 100) and utility infrastructure (rank of 113). According to Global Infrastructure Outlook, Bangladesh requires USD 608 billion of infrastructure investment between 2015 and 2040 of which over 40 percent is needed in the electricity sector and nearly 23 percent is required in the road sector. Of these, GoB estimates that public financing can support around USD 400 billion of the needed investment through 2040, leaving a gap of around US$8 billion a year.[25]

8. Bangladesh's Perspective Plan 2041 highlights the need of annual investment of USD 10 billion in infrastructure over the next two decades. The 8th Five Year Plan covering FY2020 to FY2025 has put a strong emphasis on utilizing the PPP framework to finance infrastructure projects, especially since the success of PPP in the 7th Five Year Plan was less than expected. The 8th FYP envisages mobilizing 1-1.5 percent of GDP worth of infrastructure financing through PPP funding. The power sector already has achieved some success of attracting private investments through the PPP route, but greater emphasis is required in utilizing PPP for transport network development.

9. GoB lacks the fiscal resources to finance the infrastructure needs on its own given the low tax base in the country. Public investment in infrastructure in Bangladesh has averaged only about 2 percent of GDP and resulted in a large part of the country's population with poor

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[23] South Asia Economic Focus, Fall 2020: Beaten or Broken? Informality and COVID-19. Washington, DC: World Bank Group

[24] Making Vision 2041 a Reality Perspective Plan of Bangladesh 2021-2041, General Economics Division, Bangladesh Planning Commission, Ministry of Planning, Government of the People's Republic of Bangladesh

[25] Creating Markets in Bangladesh: Country Private Sector Diagnostics, Unleashing the Private Sector to Sustain Development Success, 2021, International Finance Corporation, World Bank Group

access to basic infrastructure. Thus, there is a need for the private sector to step up investment in infrastructure and recognizing this, the government sought to attract public-private partnerships (PPP). The government established the PPP Authority, a PPP unit in the Ministry of Finance, and a PPP technical assistance fund. However, these initiatives are yet to gather momentum due to weak capacity in the PPP authority, lack of the necessary PPP skills and know-how in government line ministries, and the absence of proper operationalization of financing vehicles. The PPA Authority had launched a PPP Financing Partnership Program in 2016 with memoranda of understanding (MOUs) with 14 banking and non-banking financial institutions.[26] However, only two, Bangladesh Infrastructure Finance Fund Limited (BIFFL) and IDCOL, established by GoB, have stepped up to fund projects.

B. Sector and Institutional Context

10. The 8th Five-Year Plan (2020-2025) sets the government's goals for the energy and transport sectors until 2025. In the electricity sector, the government sets several broad goals such as i) delivering a rapid growth in electricity generation; ii) further development of transmission and distribution system; iii) mobilizing private and joint-venture investment in power sector; iv) increasing renewable energy generation and least cost power generation; and v) improving power sector efficiency and transmission and distribution loss reduction. In the transport sector, the government's goals comprise of i) expanding the transport network including strengthening inter-district and inter-regional connectivity for passengers, goods and services; ii) improving inter-modal connectivity through rail, road and riverine; iii) providing multiple transport modalities which are efficient and affordable; iv) establishing safety standards and promoting greater private sector participation.[27] These goals are reflected and further expanded in the long-term Vision 2041 - Perspective Plan of Bangladesh (2021-2041) to set the path for high-income economy. According to the Global Infrastructure Outlook, energy and transport sectors account for nearly two-third of the infrastructure investment needs in Bangladesh from 2015 to 2040.

[26] Learning and addressing PPP financing challenges in real time: A story from Bangladesh, World Bank, Getting Infrastructure Finance Right Blog.
[27] Bangladesh 8th Five-Year Plan (2020-2025).
http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf

Energy

11. Under Vision 2021, GoB aims to provide electricity for all by 2021.[28] The electricity access rate varies significantly depending on the sources and definitions of energy access. Official government sources indicate 97% of households had access to electricity in 2020. [29] Comparatively, the International Energy Agency (IEA) indicates the proportion of the population with access to electricity stood at 83% in 2019.[30]

12. Despite major progress in the last ten years, electricity reliability and quality are a major issue in the country, impacting on job creation, poverty reduction and overall competitiveness of the economy. In 2018, electricity consumption per capita stood at 513 kWh, one of the lowest worldwide, and comparatively, only half of India's electricity consumption of 968 kWh per capita, highlighting the potential for significant demand growth. However, there is still significant disparity in electricity access between rural and urban areas.[31,32]

13. Over last ten years, the total installed power capacity increased significantly from only 5.8 gigawatts (GW) in FY2010 to 20.4 GW in FY19-20, of which 47% is public sector owned, 43% is owned by the private sector and 4% is joint ventures between public and private sector. During FY2020, total electricity generation amounted to 71.4 terawatt-hours (TWh) of which 49% from public sector power plants, 41% from private sector, and 10% of electricity was imported. As of June 2020, natural gas represented 54% of total power capacity, followed by furnace oil with 27%, diesel with 6% and coal with 6%. By electricity generation, the share of natural gas increases to 72%, furnace oil and diesel to 13%, coal with 4%, hydropower with 1% and other renewables only 0.1%.

14. GoB, through its Private Sector Power Generation Policy (1996), is pushing for greater private sector participation in the power sector to reduce public financing. Under the 8th Five-Year Plan (2020-2025), the government expects to reduce the use of inefficient and expensive fuel oil rental power plants and move to least-cost power generation model through competitive bidding by independent power producers. During this period, a total of 15.6 GW installed capacity is to be added, including renewable energy and captive power, of which 6.9 GW from private sector across 28 projects.[33]

15. The Power System Master Plan, prepared in 2016, sets the country's electricity development plan until 2041. The government, under a base-case scenario, aims to increase

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[28] Perspective Plan of Bangladesh (2010-2021) – Making Vision 2021 A Reality. https://bangladesh.gov.bd/sites/default/files/files/bangladesh.gov.bd/page/6dca6a2a_9857_4656_bce6_139584b7f160/Perspective-Plan-of-Bangladesh.pdf

[29] Bangladesh 8th Five-Year Plan (2020-2025) – Chapter 5: Power and Energy Development Strategy. http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf

[30] IEA, 2021. Sustainable Development Goal 7 – Access to Electricity. https://www.iea.org/reports/sdg7-data-and-projections/access-to-electricity

[31] International Energy Agency, 2020. World Energy Balances and Statistics 2020.

[32] World Bank, 2018. Project Appraisal Document – Enhancement and Strengthening of Power Transmission Network in Eastern Region Project. http://documents1.worldbank.org/curated/en/550691522548022924/pdf/Bangladesh-Power-Transmission-PAD2523-03122018.pdf

[33] Bangladesh 8th Five-Year Plan (2020-2025) – Chapter 5: Power and Energy Development Strategy. http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf

electricity installed capacity from 21 GW in 2021 to 33 GW by 2031 and 57 GW by 2041. In all scenarios, natural gas power will continue to play a key role in power generation, rising from about 10 GW in 2021 to 19 GW in 2041. The role of gas in power generation is likely to be further expanded as the government cancelled 10 coal power plants in 2021 to align with global climate ambitions and increasing challenges to finance coal power projects with international financing. According to Bangladesh's Perspective Plan 2041, electricity demand is expected to grow by about 9% per year from 2021 to 2041.[34]

16. The renewable energy potential in Bangladesh is modest due to high population density, flood prone areas and competing land uses, low wind potential and limited suitable hydropower resources, among other challenges. In 2015, the overall technical and economic potential for renewable energy was estimated at only 3.7 GW of which 1.4 GW from solar parks, 0.6 GW from solar rooftops. 0.6 GW from wind, 0.5 GW from solar irrigation and 0.3 GW from biomass.[35] In line with this potential, the updated 2020 Interim National Determined Contribution sets a goal to install 1.7 GW of utility scale solar plants by 2030.[36]

17. The International Finance Corporation (IFC) estimates that there is an investment opportunity of USD 3.2 billion for renewable energy by 2030, of which USD 1.1 billion in utility-scale solar, USD 850 million in small-scale solar, USD 660 million in biomass and converting waste-to-energy, USD 450 million in wind and USD 130 million in small hydropower.[37]

18. The Ministry of Power, Energy and Mineral Resources (MPEMR) is responsible for all policies and matters relating to electricity generation, transmission and distribution, conventional and non-conventional energy resources. Bangladesh Energy Regulatory Commission (BERC) has authority over consumer protection, approval of tariffs and pricing, issuance of generation and distribution licenses, and promotion of competition. Bangladesh Power Development Board (BPDB) operates most publicly owned generators and some urban electricity distributors (e.g. West Zone Power Distribution Company Limited and the Northern Electricity Supply Company Limited); it acts as a single buyer, purchasing from public and private power generators and selling to electricity distributors. The power transmission segment is owned and managed by the Power Grid Company of Bangladesh (PGCB), a majority owned subsidiary of the BPDB. The Sustainable and Renewable Energy Development Agency (SREDA), under the MPEMR, acts as a focal point for sustainable energy development and promotion, including both renewable energy and energy efficiency.

19. The overall financial performance of the electricity sector has improved but remains a critical issue as the electricity tariffs are below the cost of electricity generation. This has been detrimental for the financial health of BPDB and the need for regular national budget support. Electricity budgetary support increased from USD 519 million in FY2016 to USD 873 million

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[34] Making Vision 2041 a Reality Perspective Plan of Bangladesh 2021-2041, General Economics Division, Bangladesh Planning Commission, Ministry of Planning, Government of the People's Republic of Bangladesh
[35] SREDA, 2015. Scaling Up Renewable Energy In Low Income Countries (SREP) – Investment Plan for Bangladesh. Sustainable and Renewable Energy Development Authority. October 2015. https://www.climateinvestmentfunds.org/sites/cif_enc/files/bangladesh_srep_ip_final.pdf
[36] Bangladesh 2020 Interim National Determined Contribution https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Bangladesh%20First/Updated_NDC_of_Bangladesh.pdf
[37] IFC, 2017. Climate Investment Opportunities in South Asia – An IFC Analysis. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/resources/final+climate+investment+opportunities+in+south+asia+-+an+ifc+analysis

in FY2020. BPDB's net loss decreased from USD 21 million in FY2019 to USD 1 million in FY2020 due to the fall in diesel and heavy fuel oil power generation and decrease in electricity purchase of costly rental power plants.[38]

20. The government has made it a priority under the 8th Five-Year Plan to ensure full cost recovery for all power and energy products to reduce financial burden on the national budget. The government aims to ensure power tariff adjustments are made by BERC as well as efforts to reduce transmission and distribution losses. In addition, the government's financial action plan aims to "maintain power sector receivables at no more than 2 months' billed amount equivalent and reduce receivables from autonomous, public entities and private customers to an acceptable limit." [39]

Transport

21. Bangladesh's transport system comprises of several transport modes covering railways, roads, inland waterways, ports, and airports. Road and inland waterways represent more than 90% of total freight and passenger traffic. Over the last ten years, the transport sector has registered annual growth rates of 8 percent for both freight and passenger transport. By 2020, the country had about 55,000 kilometers (km) of paved roads, 2,900 km of railways, 3,800 km of perennial waterways which rise to approximately 6,000 km during the monsoon season, two seaports, three international airports (i.e. Dhaka, Chittagong and Sylhet) and eight domestic airports. The inland waterways allow for interconnection between almost all 64 districts through major and minor rivers.[40]

22. According to the IFC, Bangladesh has a considerable transport infrastructure investment gap. The transport system is highly congested across all transport modes, has limited multi-modal integration and suffers from poor maintenance services. Rapid economic, population and urbanization growth are driving demand for transport and vehicles, but the absence of mass rapid transit is putting high pressure on roads, particularly in Greater Dhaka. Transport projects suffer from limited implementation capacity and considerable delays leading to cost over-runs. Overall, these challenges lead to higher costs of transportation and delays in delivery times.[41]

23. Under the Bangladesh 8th Five-Year Plan (2020-2025), the government expects the transport sector investment requirement to amount to about 5% of GDP per year until 2025. Public funding is not enough to meet this large investment demand. Therefore, the government wants to make greater efforts in establishing public-private partnerships to cover the large

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[38] BPDB, 2020. Bangladesh Power Development Board - Annual Report 2019-2020 https://www.bpdb.gov.bd/bpdb_new/resourcefile/annualreports/annualreport_1605772936_AnnualReport2019-20.pdf

[39] Bangladesh 8th Five-Year Plan (2020-2025) – Chapter 5: Power and Energy Development Strategy. http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf

[40] Bangladesh 8th Five-Year Plan (2020-2025) – Chapter 6: Transport and Communication Development Strategy http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf

[41] IFC, 2021. Creating Markets in Bangladesh – Unleashing the Private Sector to Sustain Development Success. Country Private Sector Diagnostics. https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/cpsd-bangladesh

funding needs. In addition, the government aims to decongest roads and increase use of railways and inland waterways, particularly for freight. In the road sector, the government has set plans to expand road lanes, building new road lanes, rehabilitating national and regional highways and bridges as well as constructing new bridges.[42] The IFC estimates that Bangladesh has an opportunity to invest USD 23.7 billion in climate-smart transport infrastructure by 2030 such as multi-modal public transport and use of inland waterways.[43]

24. Since 1990, there have only been six public-private partnerships in the transport sector. The port sector is mainly publicly owned with the Chattogram seaport handling about 90 percent of the country's international trade volume. About 95 percent of the freight movement between Greater Dhaka and Chattogram is done through road. Railways are also publicly owned while inland waterways are mainly held by private operators. Further cost and logistics improvements are needed to allow for greater use of railways and inland waterways for freight transport.[44]

25. The public sector is still the main driving force in the development and maintenance of the transport system in the country. The Ministry of Road Transport and Bridges is responsible for i) policies and regulations regarding road transport; ii) development, maintenance and management of highways comprising of about 21,596 km of roads of which 18% percent are national highways, 20% regional highways and 62% are zila highways; iii) implementation and maintenance of bridges and large tunnels (1.5 km or above) as well as flyovers, expressways, ring roads and others. The Ministry of Railways is responsible for all policies and regulation related to railways as well as development, operation and management of the 2,900 km of railways in the country. The Ministry of Shipping is responsible for all policies and regulation for inland and ocean shipping as well as operation and management of major sea, river and land ports. The Ministry of Civil Aviation and Tourism sets the national policies and regulations for civil aviation as well as administration of airports.

26. Bangladesh has a series of master plans and policies to guide the transport sector investments including the Road Sector Master Plan (2004-2024); Rural Road Master Plan (2005-2025); Inland Water Transport Master Plan (2009-2030); Railway Master Plan (2010-2030) and the National Integrated Multimodal Transport Policy (2013). The government is considering preparing a long-term Transport Sector Master Plan 2041 to bring all the plans together and develop a holistic approach.[45]

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[42] Bangladesh 8th Five-Year Plan (2020-2025) – Chapter 6: Transport and Communication Development Strategy
http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf
[43] IFC, 2017. Climate Investment Opportunities in South Asia – An IFC Analysis.
https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/resources/final+climate+investment+opportunities+in+south+asia+-+an+ifc+analysis
[44] IFC, 2021. Creating Markets in Bangladesh – Unleashing the Private Sector to Sustain Development Success. Country Private Sector Diagnostics.
https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/cpsd-bangladesh
[45] Bangladesh 8th Five-Year Plan (2020-2025) – Chapter 6: Transport and Communication Development Strategy
http://www.plancomm.gov.bd/sites/default/files/files/plancomm.portal.gov.bd/files/68e32f08_13b8_4192_ab9b_abd5a0a62a33/2021-02-03-17-04-ec95e78e452a813808a483b3b22e14a1.pdf

27. The updated 2020 Interim National Determined Contribution sets a target to reduce emissions from the transport sector by 9% by 2030 against business usual. The proposed measures include i) to shift about 20% of passenger traffics from road to rail through the development of mass rapid transit system; ii) modernizing and improving efficiency of travel through more efficient locomotives, elevated express highway and bridges, higher fuel emission standards and promotion of hybrid and electric vehicles and iii) improving climate resilience of transport infrastructure.[46]

[46] Bangladesh 2020 Interim National Determined Contribution https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Bangladesh%20First/Updated_NDC_of_Bangladesh.pdf

Annex 6: Sovereign Credit Fact Sheet

A. Recent Economic Development

1. Bangladesh is a lower-middle income country with GDP per capita at USD 1,969 and a population of 164.5 million in 2020.47 Bangladesh's economy has performed exceedingly well with growth steadily increasing from 7.2 percent in 2016 to 8.2 percent in FY2019.48. However, Bangladesh's growth declined to 3.8 percent in FY2020 due to disruptions related to COVID-19 pandemic, especially in the last quarter. COVID-19 pandemic impacted the economy through a reduction in domestic economic activity driven by lockdown and a drop in exports of ready-made garments. Economic activity picked up in the first half of FY2021 with the implementation of the stimulus package and recovery in global growth and trade. However, the rise in COVID-19 cases since April 2021 and the imposition of a lockdown dampened economic activity in the last quarter. In balance, economic activity is estimated to have grown by 5.0 percent in FY2021.

2. With the government increasing spending to counter the impact of COVID-19 pandemic, the fiscal deficit increased to 6.0 percent of GDP in FY2021. A downturn in economic activity adversely impacted tax collections, which declined by more than 8.0 percent. While both recurrent and development spending contracted to contain the fiscal deficit, the government focused on scaling up of social protection schemes and supporting payroll of manufacturing sector to counter the impact of the pandemic. Despite the widening of the deficit, the ratio of government to GDP remained low, equivalent to around 40.2 percent of GDP, indicating low risk of debt distress.

3. In FY2021, inflation averaged around 5.8 percent, slightly higher than the previous year. While food inflation inched up, driven by higher global food and fuel prices, non-food inflation moderated due to tepid demand. To offset the impact from the pandemic, the central bank reduced policy repo rates by 75 basis points in the fourth quarter of FY2020 and another 50 basis points in July 2020. However, rising risk aversion, a cap on lending rates and rising non-performance loans have limited the transmission.

4. The current account balance registered a surplus in FY2021, mainly on account of robust remittances. The merchandise trade balance worsened in the first three quarters of FY2021 as exports contracted and imports expanded. Remittance inflows have remained strong benefitting from a 2% government cash incentive and a relaxation of documentation requirements. Foreign exchange reserves remained healthy at nearly nine months of goods and services imports in May 2021.

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[47] The income group classification for fiscal year 2020 is based on World Bank criteria, details seen: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519; Population and GDP per capita data are sourced from World Bank.

[48] In Bangladesh, the fiscal year starts on 1 July ending on 30 June. FY2021 started on 1 July 2020 and ended on 30 June 2021.

B. Economic Indicators

Selected Macroeconomic Indicators - Bangladesh (FY2016-FY2021)

Economic Indicators	FY2018	FY2019	FY2020*	FY2021*	FY2022*
Real GDP growth	7.9	8.2	3.8	5.0	7.5
Consumer Price Index Inflation (average, % change)	5.8	5.5	5.6	5.8	5.6
Current account balance (% of GDP)	-3.5	-1.7	-1.5	0.4	-1.7
General government overall balance (% of GDP)	-4.6	-5.4	-5.5	-6.0	-5.5
General government gross debt (% of GDP)	34.6	35.7	38.9	40.2	40.2
Public gross financing needs (% of GDP) 1/	8.0	9.0	9.6	11.4	12.3
External debt (% of GDP)**	20.0	18.5	20.0	..	..
Gross external financing need (% of GDP) 1/	6.8	5.7	4.4	..	..
Gross international reserves (USD bil.)**	32.9	32.7	36.0	43.4	..
Exchange rate (BDT/USD, EOP)**	83.1	84.9	84.3	84.8	..

Note: FY2020 ran from July 2019 to June 2020.
* denotes projected figures.
** FY2021 external debt, reserves and exchange rate from Bangladesh Bank; FY2021 reserves, and FX rate are as of March 2021 while external debt data is as of December 2020
[1] For FY2020, FY2021 and FY2022, AIIB staff estimates based on IMF Data
Source: IMF WEO Database April 2021, IMF Country Report 20/187 and Bangladesh Bank

C. Economic Outlook and Risks

5. According to IMF's estimates, growth is expected to increase to 7.5 percent in FY2022. Strong remittance inflow is likely to underpin private consumption while private investment is expected to benefit from efforts to improve the business climate. Higher public investment, outlined in the budget, will also provide a boost to growth as will an uptick in exports due to improved economic conditions in partner countries. Revival of global demand for garments produced in Bangladesh and government policy support will provide an impetus to the sector. However, the rise in COVID-19 cases since April 2021 and resulting lockdown measures could dampen growth a bit.

6. Fiscal deficit in FY2022 is expected to moderate a bit. However, the actual deficit will depend on revenue mobilization and expenditure management. Development expenditure is expected to grow at a faster pace than recurrent expenditure with the Annual Development Program accounting for 37.3 percent of overall public expenditure. The deficit is envisaged to be financed by a significant increase in foreign borrowing with the extent of bank borrowing set to contract. Bangladesh's debt profile is expected to remain favorable with majority of the public debt being denominated in domestic currency and held by residents. External public debt is also expected to remain around current levels.

7. Inflation is expected to dip marginally in FY2022 as supply side disruptions due to the pandemic ease out. However, rising food and fuel prices as global economy strengthens may pose a risk for inflation. Such inflationary risks could dissuade the government from lowering interest rates further.

8. The current account balance is expected to move to a deficit in FY2022 as domestic recovery leads to an increase in demand. The emphasis on infrastructure projects in the

budget is also expected to raise the demand for imported capital goods. Rising food and fuel prices also pose a risk for the current account balance. Remittance flows are expected to remain healthy as economic activity picks up in countries where Bangladeshi workers are employed.

Annex 7: List of Pipeline Projects[49]

No.	Project Name	Capacity	Industry / Sector	Project Location	Total Project Cost (US$ million)	Indicative IDCOL Loan Amount (US$ million)	Project Type
1	Enargon Solar Limited	100 MW	Renewable Energy (Grid Tied Solar)	Mongla	130	50	Greenfield
2	Blue Mountain Ltd.	25 MW	Renewable Energy (Grid Tied Solar)	Sonargaon, Narayanganj	36.75	15	Greenfield
3	Sonagazi Solar Power Ltd. (Solicited)	50 MW	Renewable Energy (Grid Tied Solar)	Bariarhat, Chittagong	73.5	25	Greenfield
4	Paragon Poultry Ltd. (Solicited)	50 MW	Renewable Energy (Grid Tied Solar)	Netrokona	73.5	25	Greenfield
5	Hetat Ditrolic-IFDC Solar	50 MW	Renewable Energy (Grid Tied Solar)	Mymensingh	90	25	Greenfield
6	Bangladesh China Renewable Energy Co. Ltd.	60 MW	Renewable Energy (Grid Tied Solar)	Pabna	90	25	Greenfield
7	Bangladesh China Renewable Energy Co. Ltd.	68 MW	Renewable Energy (Grid Tied Solar)	Sirajganj	86	25	Greenfield
8	Rampura-Amulia Road Project	13.5Km with 4 lane capacity (15m approx.)	Toll Road	Dhaka	500	50	Greenfield
9	3rd Meghna Bridge	2.7km x 4 lane	Transport	Narayanganj	1000	50	Greenfield
10	Unique Power	600 MW (LNG)	Power	Narayangang	n/a	30	Greenfield
11	FeniPower	600MW (LNG and gas)	Power	Mirershorai, Chattagram	450	50	Greenfield
12	Swissotel Dhaka	350 key	Hotel & Tourism	Dhaka	100	40	Greenfield
13	AB Hightech Consortium Ltd	Telecommunication towers acquisition	ICT Infrastructure	-	n/a	30	Brownfield
14	Summit Towers Limited	Telecommunication towers acquisition	ICT Infrastructure	-	229	40	Brownfield
15	Bay Economic Zone Limited	37 Acre Private EZ Bay Economic Zone Limited is developing required infrastructure for	Economic Zone	Gazipur	120	12.5	Greenfield

[49] List of pipeline projects subject to change during the implementation of the project.

No.	Project Name	Capacity	Industry / Sector	Project Location	Total Project Cost (US$ million)	Indicative IDCOL Loan Amount (US$ million)	Project Type
		building factories. This includes land development, internal roads, utility services, civil construction, ETP etc. Our financing will be utilized for the said infrastructure development. After completion of the economic zone, industries including footwear, sportswear, toy factory, RMG will take lease from the facility.					
16	Anchorage Container Depot Ltd	5,200 TEUs per day	Inland Container Depot	South Khattali, Chattogram	40	15.6	Greenfield
17	Saif Logistics Alliance Ltd	449,680 TEUs per annum	Multi-Modal Container Terminal cum Off-Dock near	Chattogram	39.91	20	Greenfield
Total					**3,058.66**	**528.10**	

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