

## **Executive Summary**

In April 2026, the Government of Bangladesh formally requested AIIB support through the repurposing of undisbursed loan proceeds under the Project to help finance urgent imports and essential expenditures, to respond to the impacts arising from the situation in the Middle East. AIIB has closely coordinated with relevant development partners, including the World Bank and ADB, which are also considering similar loan repurposing operations, to ensure complementarity and coherence in addressing Bangladesh's near-term financing requirements.

The proposed changes include: (i) revision of the Project objective to reflect the proposed emergency support; (ii) the creation of a new Rapid Emergency Response Component (RERC) to finance urgent expenditure needs, including eligible critical imports; (iii) the reallocation of USD350 million from the undisbursed loan proceeds to finance the RERC; (iv) an update of the results monitoring framework; to include indicators for the RERC and (v) the addition of a new project implementing entity for the implementation of the RERC.

The introduction of the RERC would demonstrate AIIB's responsiveness to member needs in this time of crisis while remaining consistent with its development mandate. The proposed Project Change is aligned with the AIIB's Approach to Emergency Response (June 2023) and the Energy, Food Security, and Economic Recovery Facility. It will allow AIIB to support Bangladesh's urgent crisis recovery needs in a timely and effective manner; while helping it preserve fiscal space and maintain debt sustainability. This short-term, time-bound emergency financing support will help Bangladesh address immediate energy security issues arising from the external shock.

<b>Project No. and Name</b>	P000153 Sylhet to Tamabil Road Upgrade Project		
<b>AiIB Member</b>	Bangladesh		
<b>Borrower</b>	People's Republic of Bangladesh		
<b>Guarantor</b>			
<b>Project Implementation Entity</b>	<ol style="list-style-type: none"> <li>Roads and Highways Department, Road Transport and Highways Division of the Ministry of Road Transport and Bridges</li> <li>Bangladesh Oil, Gas &amp; Mineral Corporation (Petrobangla), Energy and Mineral Resources Division (EMRD) of the Ministry of Power, Energy and Mineral Resources and Finance Division of the Ministry of Finance</li> </ol>		
<b>Proposed AiIB financing (USDm)</b>	USD404.00	<b>Instrument type/subtype</b>	Loan/Direct Sovereign
		<b>Currency of financing requested</b>	US Dollar
<b>Sector (Subsector)</b>	Transport (Roads)	<b>E&amp;S Category and Comments (if any)</b>	A
<b>Project Objective</b>	To improve intercity connectivity in Bangladesh and cross-border connectivity between Bangladesh and India by upgrading Bangladesh National Highway N2 between Sylhet and Tamabil, and to respond to emergency financing needs for critical expenditures and imports.		
<b>Project Description</b>	<p>The project will support (i) upgrading National Highway N2 between Sylhet City to Tamabil border point from a two lane single carriageway to a four lane dual carriageway highway with slow moving vehicular traffic (SMVT) lanes, and (ii) responding to emergency financing needs for critical expenditures and imports. The project will finance the following:</p> <ul style="list-style-type: none"> <li>Component 1: Construction Works, Equipment Installation, and Operation and Maintenance Works</li> <li>Component 2: Consulting Services</li> <li>Component 3: Project Management Support and Capacity Building)</li> <li>Component 4: Rapid Emergency Response Component (RERC)</li> </ul>		
<b>Implementation Period</b>	Start Date: May 15, 2020 End Date: November 15, 2026	<b>Expected Loan Closing Date</b>	November 15, 2026
<b>Co-financing type</b>	Standalone	<b>Following other Financier's E&amp;S Policy?</b>	No

<b>Lead financier</b>		<b>Following other Financier's Procurement Policy?</b>	No
<b>Financing Plan</b>	Total Project Cost: USD569 million AIIB Loan: USD404 million Government: USD165 million		
<b>Policy Assurance</b>	The Project has passed a policy compliance review. No derogation or exception to the Bank's operational policies is required.		

<b>Risk</b>	
<b>Key Risks</b>	<b>Mitigation Measures</b>
Timely Disbursement to respond to emergency needs	To facilitate timely disbursement within June 2026, the following measures will be adopted: (i) retroactive financing will be available for eligible expenditures incurred on or after February 28, 2026; (ii) procurement of eligible imports will follow ex-post review arrangement; (iii) financial management will rely on established government systems supplemented by strengthened ex-post controls, reporting, and audit requirements; and (iv) the Finance Division of the Ministry of Finance will be responsible for overall coordination, fiduciary oversight, and monitoring of eligible expenditures. The Bank will also continue its regular implementation monitoring, including review of supporting documentation and verification of eligible expenditures.
Funding Source of Awarded contracts from original project	The GoB has indicated its intention to provide counterpart funding or seek Additional Financing to cover the required financing gap created by the reallocation of funds from the original project to the RERC.
<b>ECap</b>	60.76USDm 15.00%

<b>Strategic Alignment</b>	
<b>Alignment with AIIB's thematic priorities</b>	Green infrastructure; Connectivity and Regional Cooperation
<b>Alignment with AIIB's strategies</b>	Transport Sector Strategy

<b>Key Outcomes</b>			
<b>Indicator</b>	<b>Unit of measure</b>	<b>Baseline (Year)</b>	<b>Target (Year)</b>
Reduced Travel Time: Average Travel time for (a) trucks, (b) passenger vehicles, and (c) buses	Hours	(a) 3, (b) 2, (c) 2.5 (2020)	(a) 2.5, (b) 1, (c) 1 (2026)

Safety Rating: Number of hazardous locations	No.	3 (2020)	0 (2026)
Monetary value of LNG needed for emergency operation period	mUSD	0 (2026)	350 (2026)
LNG cargos supported	Nos	0 (2026)	9 (2026)
Energy supported by the LNG shipments	MMBTU	0 (2026)	25 (2026)

<b>Climate Action</b>		
<b>Climate Finance</b>	Adaptation Finance (USDm)	USD25.16
	Mitigation Finance (USDm)	USD0.00
	Dual Benefit (USDm)	USD0.00
	Total (USDm)	USD25.16

<b>Other Key Financing Requirements</b>	
<b>Conditions of Effectiveness</b>	Establishment of a fully functional Project Implementation Unit (PIU) with proper Project Manual to guide the PIU operations.
<b>Key Conditions for 1st Disbursement</b>	NA
<b>Key Covenants</b>	At the time of midterm review (MTR), the accounted works by contract terms shall have reached at least 25% of total loan amount.

<b>President</b>	Zou Jiayi
<b>Chief Investment Officer</b>	Kim-See Lim
<b>Director General</b>	Rajat Misra
<b>Manager</b>	Andres Pizarro
<b>Project Team Leader</b>	Jawad Bentabet
<b>Co-PTL</b>	Md Towshikur Rahman
<b>Project Team Members</b>	Angel Frances Salcedo, Environment Specialist Chang Tian, Senior Project Assistant Guoping Yu, Procurement Specialist Liu Yang, Project Lawyer Partha Protim Nath, Sector Specialist Roberto Tordecilla, Social Development Specialist Sangmoo Kim, Sector Specialist Shinan Qin, Admin Assistant Shonell Robinson, Financial Management Specialist



**ASIAN INFRASTRUCTURE  
INVESTMENT BANK**

June 17, 2026

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**Project Change Document  
of the Asian Infrastructure Investment Bank**

**People's Republic of Bangladesh**

**Sylhet to Tamabil Road Upgrade Project**

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## 1. Introduction

1. This Project Change Document seeks approval of the proposed change to the Sylhet to Tamabil Road Upgrade Project (the “Project”)<sup>1</sup> in Bangladesh and associated amendments to the Project’s legal documents. The following key changes are proposed: (i) revision of the project objective to reflect the proposed emergency support; (ii) the creation of a new Rapid Emergency Response Component (RERC) to finance urgent expenditure needs, including eligible critical imports; (iii) the reallocation of USD350 million from the original components to the RERC; (iv) an update of the results monitoring framework; to include indicators for the RERC and (v) the addition of a new project implementing agency for the RERC.

## 2. Background

2. The Middle East situation is resulting in significant macroeconomic and social impacts on Bangladesh, particularly due to its heavy reliance on imported energy and food, strong integration into global trade and supply chains, and substantial dependence on remittance inflows from Gulf Cooperation Council (GCC) economies. As a result, the external shock is being transmitted through multiple channels. High prices for Liquefied Natural Gas (LNG) and food commodities have increased import bills, contributed to inflationary pressures, and reduced fiscal space for development expenditures. As a result, macroeconomic stabilization measures aimed at containing inflation and managing external imbalances have become a near-term priority for the Government of Bangladesh (GoB).

3. These pressures are compounded by Bangladesh’s heightened energy security challenges. Declining domestic gas reserves and limited renewable energy capacity have increased reliance on imported fuels across power generation, industrial activities, fertilizer production, and other uses. Constrained and unreliable domestic gas supply has also created a fiscal burden, as necessitating the use of higher-cost alternatives. In this context, LNG imports remain critical for energy security over the medium term, consistent with the GoB’s Energy and Power Sector Master Plan (January 2026), given their comparatively lower cost and less emissions intensity compared to liquid alternatives.

4. Rising global fuel and food prices, driven by geopolitical instability, have sharply increased Bangladesh’s import bill, intensifying inflationary pressures and placing additional strain on both fiscal and external balances. Approximately 55-65% of its oil and LNG imports originate from the Middle East, heightening its exposure to regional disruptions. Bangladesh has been forced to procure LNG from the spot market at more than double the usual prices, with individual shipments costing around USD120 million compared with roughly USD45 million previously. Under a sustained high-price scenario, LNG imports alone could add up to USD2-4 billion to the annual import bill, significantly widening the trade deficit.<sup>2</sup> Although foreign exchange reserves were on a rebuilding path, the external shock has emerged as an additional source of pressure on Bangladesh’s foreign exchange position.

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<sup>1</sup> Asian Infrastructure Investment Bank (AIIB), Project Document: People’s Republic of Bangladesh—Sylhet to Tamabil Road Upgrade Project (Project No. 000153, March 13, 2020), [20200402-P000153-Sylhet-Tamabil-Road-Upgrade-Published-Document.pdf](#)

<sup>2</sup> Sharma, Dhruv; Khan, Nazmus Sadat; Jahan, Sharmin Akter. *Bangladesh Development Update: Special Focus - A Business Environment that Delivers Jobs (English)*. Bangladesh Development Update Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099713004072629267>

5. The energy supply constraints also have real economic effects. The LNG supply disruption is reducing gas availability for gas-fired power plants, forcing underutilization of installed capacity and directly contributing to higher load-shedding across Bangladesh. Energy shortages are affecting industrial output, including the ready-made garments sector which accounts for approximately 85% of export earnings,<sup>3</sup> through higher production and transportation costs, eroding competitiveness amid weakening external demand.

6. To cushion the domestic impact, the GoB initially kept domestic energy prices broadly stable and raised them up to 17% in the third week of April 2026. However, incomplete pass-through of global energy prices is increasing fiscal pressures and compressing already limited fiscal space. At the same time, elevated fuel costs have led to domestic energy rationing measures, including limits on vehicle refueling, reduced industrial operating hours, and temporary shutdowns of fertilizer plants. These energy constraints are having economy-wide effects, particularly on energy-intensive sectors such as manufacturing, transport and logistics, and agriculture.

7. Tensions in the Middle East are posing material risks to remittance inflows, as economic disruptions in GCC countries may reduce employment opportunities for Bangladeshi migrant workers. While remittances have historically been countercyclical, the current situation could differ because it is concentrated in the Middle East: a key destination for migrant workers and a major source of remittances (which account for roughly half of total remittances). In FY2024-25, remittance flows financed a substantial share of Bangladesh's import payments and accounted for approximately 6-7% of GDP.<sup>4</sup> A decline in remittances would directly affect household incomes and reduce foreign exchange reserves, further harming macroeconomic stability.

8. Taken together, these developments are disrupting trade, investment, and supply chains, while reinforcing Bangladesh's exposure to external shocks. The combined pressures from higher import costs, weaker remittances, and rising fiscal burdens are likely to widen the current account deficit, depleting foreign exchange reserves, intensify inflation, and constrain policy space posing downside risks to growth, employment, and poverty reduction. The conflict is projected to raise the poverty rate<sup>5</sup> to 8.7% in FY2026, higher than the 8% in the pre-conflict projection, with nearly 600,000 jobs expected to be lost.<sup>6</sup>

9. The ongoing economic uncertainty and pass-through of higher energy prices into domestic input costs will further strain ongoing infrastructure projects in Bangladesh. Projects which already have limited disbursement and have yet to complete civil works contracts are especially at risk from: further implementation delays, cost overruns, and supply chain disruptions. In addition, constraints in the availability of electricity, fuel, construction materials, and logistics services have adversely affected project execution and Operation and Maintenance activities.

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<sup>3</sup> International Monetary Fund, *Bangladesh: 2025 Article IV Consultation*, published January 2026

<sup>4</sup> *Ibid.*

<sup>5</sup> at the USD3 per capita per day threshold in FY2026 (Bangladesh Development Update: Special Focus - A Business Environment that Delivers Jobs, the World Bank)

<sup>6</sup> Sharma, Dhruv; Khan, Nazmus Sadat; Jahan, Sharmin Akter. *Bangladesh Development Update: Special Focus - A Business Environment that Delivers Jobs (English)*. Bangladesh Development Update Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/099713004072629267>

10. The fallout from the situation also threatens future infrastructure investment. A prolonged period of high inflation and limited fiscal buffers would harm confidence in Bangladesh. The continued exposure to shocks risks disrupting supply chains and trade, narrowing the fiscal space for infrastructure financing. Shifting government priorities may act as a bottleneck to continued policy reforms attracting capital. The broader impact on fiscal sustainability could ultimately result in a general downturn in the provision of essential services and prevent the successful completion of essential infrastructure projects conducive to sustainable growth.

11. In addition, the GoB has been swift to respond to these challenges by reviewing its portfolio of development projects financed by international loans, including from the AIIB, the World Bank and the Asian Development Bank (ADB). In April 2026, the GoB requested AIIB to repurpose two existing loans<sup>7</sup> that had significant unwithdrawn amounts for urgent critical emergency expenditures. Since the projects had been adversely affected by the current economic situation, a temporary repurposing of a portion of undisbursed project funds would have the following advantages: (i) since the disbursement of remaining investment project funds would be likely to proceed slower than originally planned, the disbursements can be accelerated by their effective utilization for urgent expenditure needs of Bangladesh; (ii) the commitment fees on the unwithdrawn amount of the projects would be reduced; and (iii) because it repurposes existing funds, it will not add immediate new debt obligations for much needed emergency response. Notwithstanding this proposed temporary response to the economic shock, the GoB remains committed to pursue the Project objectives through the provision of adequate counterpart funds, additional financing, or a modification of the project scope.

### 3. Sylhet to Tamabil Road Upgrade Project<sup>8</sup>

12. **Project Overview.** On April 3, 2020, the AIIB Board approved a USD404 million loan for the Project, with a total cost of USD569 million, including a USD165 million GoB contribution. The Loan Agreement was signed on October 26, 2020, and became effective on May 26, 2021. The project objective is to improve intercity connectivity in Bangladesh and cross-border connectivity between Bangladesh and India by upgrading Bangladesh National Highway N2 between Sylhet and Tamabil. The original loan closing date was November 15, 2025, which was extended by one year, until November 15, 2026. The Project comprises three components:

- **Component 1 (Construction Works, Equipment Installation, and Operation and Maintenance Works)** includes road widening, bridges and structures, traffic management systems, roadside service facilities, tolling and communication systems, and installation of traffic surveillance equipment. It also provides support for processing cold mix bitumen materials in a selected test road and a maintenance camp of the Sylhet Division.

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<sup>7</sup> In addition to the Project, the GoB has also requested AIIB to repurpose and reallocate a portion of the undisbursed loan proceeds under the *Bangladesh Integrated Solid Waste Management Improvement Project*. The GoB expressed its preference to process the SWM project changes in parallel, with disbursement expected in the next fiscal year, due to remaining internal approval processes.

<sup>8</sup> The title used in the Loan Agreement is *'Improvement of Sylhet-Tamabil Road to a 4 Lane Highway with separate SMVT Lane Project'* to make it consistent with the Government approved DPP.

- **Component 2 (Consulting Services)** covers detailed design enhancements and construction supervision consultancy (CSC) for the project road; and feasibility studies, environmental and social safeguard studies, and preliminary designs for selected priority roads of the Roads and Highways Department (RHD) network.
- **Component 3 (Project Management Support and Capacity Building)** supports operational costs of a Project Implementation Unit (PIU) and institutional strengthening of RHD, including training on Output and Performance-Based Road Contracts for future Operation and Maintenance.

13. **Implementation Status.** The Project has faced significant implementation delays due to a variety of internal and external factors, including slow land acquisition process, the 2024 political transition, and the recent fuel crisis linked to the Middle East situation. Although three major civil works contracts have been awarded, implementation has been further impacted by poor contractor performance, due to, arguably, lack of land handover. As a result, disbursement remains low at USD27.65 million (6.84%).

14. **Land Acquisition Bottleneck.** Land acquisition remains the key constraint, managed by a separate PIU under RHD and heavily dependent on the Deputy Commissioner (DC) offices. While land acquisition processes in Bangladesh are inherently time-consuming, several additional factors have further slowed progress, including frequent turnover of officials in the DC office, the large scale of land acquisition requirements (approximately 330 acres), and significant workload pressures on the DC office due to multiple concurrent priority land acquisition activities in the region with limited staffing capacity. To date, approximately 9.1 km of land is free from acquisition constraints (1 km under Works Package (WP)-01, 5 km under WP-02, and 3.1 km under WP-03); however, these stretches are not fully encumbrance-free due to pending utility relocation, and the contractors therefore do not have effective access to the site. Recent progress includes the issuance of Section 7 notices for 11 out of 30 land acquisition cases, representing the penultimate stage prior to land handover for those 11 cases. As a result, approximately 30% of the required land is expected to progress to the compensation payment stage by June 2026. However, completion of compensation payments is likely to require additional time (estimated at 6-12 months), and utility relocation will remain challenging until full possession of the land is transferred to the relevant agencies. The PIU, RTHD, and AIIB team continue to maintain close engagement with the DC office and other relevant authorities to expedite the process. High-level monitoring has also been strengthened through the designation of a Deputy Secretary under RTHD to provide regular oversight of priority MDB-financed projects. AIIB management missions in March and April 2026 further escalated the issue to senior Government authorities to support accelerated implementation progress. Close engagement will continue to monitor developments, support efforts to advance the process, and help restore a credible implementation trajectory.

15. **Component 1:** The scope of this component includes four WPs that will cover the below civil works: (i) carrying out road widening activities including the construction of slow-moving vehicle lanes on both sides (to be covered by WP-01, WP-02, and WP-03); and (ii) establishment and installation of a Maintenance Workshop Including Supply of Modified Asphalt Plant and Emulsion plant (to be covered by WP-04). The current progress of these packages is provided below:

- a. **WP-01 and WP-03:** These two packages, awarded to the same contractor, became effective on December 12, 2025. Since effectiveness, only limited mobilization has taken place, including deployment of a small number of personnel and preliminary road cross-section surveys. The major constraint is limited site availability; however, pre-construction activities have also been delayed, largely due to the contractor's inability to secure suitable locations for base camps. In addition, differing interpretations between the contractor and the PIU/Employer regarding contractual provisions on working drawings remain unresolved. The contractor has also yet to undertake the required maintenance works within the existing right of way, contributing to growing dissatisfaction among local communities.
  - b. **WP-02:** The contract commenced more than two years ago; however, overall progress remains negligible, with physical completion currently estimated at 0.88%. Delays related to land acquisition, followed by the national parliamentary elections and the subsequent political transition, have adversely affected contractor mobilization and contributed to the slow pace of works. In addition, the contractor has faced cash-flow constraints, that have affected implementation.
  - c. **WP-04:** The preparation of the detailed design and bid document for this package is in the final stage.
16. **Component 2:** The CSC contract was signed in August 2023, with limited expert mobilization given slow civil works progress.
17. **Component 3:** Training and capacity-building activities were originally planned to include overseas programs; however, due to a GoB embargo on foreign training, such activities will no longer be pursued. The PIU may instead consider undertaking local training programs later during the project period, once the implementation advances.
18. **Project Management Status and Way Forward.** The Project is facing significant implementation challenges, primarily driven by prolonged delays in land acquisition and, in consequence, weak contractor performance. Although contracts for major civil works packages have been awarded, physical progress remains limited, and disbursement has been substantially below expectations. Land acquisition continues to be the binding constraint, with only partial sections available and not yet fully encumbrance-free due to pending utility relocation. As a result, meaningful construction activities have yet to commence at scale, and disbursement is expected to remain constrained in the near term.
- a) **Government's Ongoing Review of Project's Future Direction:** The GoB development project proposal (DPP)<sup>9</sup> has been extended until June 2026. While the PIU has requested a further three-year extension, noting the land acquisition status, the Road Transport and Highways Division (RTHD) and RHD are currently exploring several options to improve the Project's implementation. A formal decision on

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<sup>9</sup> The official government document for appraisal and approval of development projects.

measures to be taken is expected prior to extending the DPP and following ongoing consultations with relevant stakeholders.

- b) **Interim Repurposing of Financing:** Given the Project's limited implementation progress, slow land acquisition process, and the likelihood of minimal disbursements this year, the GoB has requested AIIB to repurpose USD350 million (out of the undisbursed USD376 million) to support the GoB's urgent expenditure needs. In response to GoB's request, this proposed project change represents a time-bound, interim response measure to support the national emergency response, while preserving the long-term investment objective of completing the Sylhet-Tamabil corridor. The proposed project change will enable the rapid deployment of emergency financing within the existing approved financing envelope, thereby avoiding delays associated with processing a new facility and mitigating additional borrowing pressures in the current fiscal year, while maintaining continuity of the ongoing operation.
- c) **Transitional Arrangement:** The GoB has indicated its intention to mobilize its own resources and/or seek Additional Financing at a later stage, to pursue the original project. A similar communication has been issued by the Economic Relations Division (ERD), the Ministry of Finance to the RTHD, the Ministry of Road Transport and Bridges, confirming that the reallocation is temporary and that financing support from AIIB will be requested when needed. As such, a follow-on project change—potentially including Additional Financing—is expected upon receipt of the GoB request. The timing of this follow-on change will depend on: (i) the GoB's decision; (ii) progress in land acquisition; and (iii) overall site-level implementation. This arrangement will enable AIIB to respond promptly to the member's urgent financing needs while maintaining engagement and oversight of the Project and preserving the Project's long-term development objectives. It is consistent with similar approaches being adopted by other development partners, including ongoing restructuring existing projects by the World Bank with the expectation that Additional Financing may be sought at a later stage.
- d) **Contractual Risk Management:** Under the original Project, three WPs with a total value of USD222.8 million were signed. Following the reallocation of USD350 million to the RERC, the GoB is expected to decide on the funding required to complete the remaining civil works under these three contracts based on implementation progress. The remaining loan balance, together with GoB counterpart resources, is expected to cover near-term contractual obligations, including interim payment certificates, safeguard-related activities, and essential project management costs. This approach would ensure continuity of contractual compliance while the GoB finalizes its decision on long-term financing arrangements and allows AIIB to remain engaged and continue close monitoring of implementation. Over the medium to longer term, the financing approach will be aligned with the GoB's strategic direction following completion of the ongoing review. Subject to this decision and further negotiation with the contractor (if required), the GoB will mobilize domestic resources and/or request Additional Financing from AIIB to address any residual funding gap and to manage the contractual exposure. All other institutional arrangements, including PIU and Construction Supervision Consultant, will remain in place and continue supporting project implementation and oversight.

#### 4. Proposed Changes

19. **The GoB's Request for Project Change.** In April 2026, the GoB requested AIIB support to address urgent fiscal and external financing pressures through the repurposing of undisbursed loan proceeds from ongoing projects. Following consultations, the GoB submitted a further request proposing the establishment of emergency financing windows in the form of a Rapid Emergency Response Component (RERC) within existing projects to enable the rapid mobilization of committed resources for immediate financing requirements.

20. AIIB closely coordinated with relevant development partners engaged in parallel emergency operations to ensure complementarity and coherence. The World Bank and ADB are also considering similar loan repurposing in their portfolios to provide immediate needs and essential items to Bangladesh. For example, the World Bank has recently approved additional financing of USD350 million<sup>10</sup> to finance LNG imports. It is also repurposing approximately USD785 million from ongoing projects in Bangladesh, under a fast-track crisis response framework using its Rapid Response Option, to support critical imports, including fuel, food, and fertilizers. AIIB is in close coordination with both the World Bank and ADB to ensure a complementary and well-aligned package of support.

21. **Rationale for Changes.** In response to the GoB's request, it is proposed to restructure the Project by reallocating the undisbursed portion of the Project funds to a RERC, which can be used for the purchase of critical expenditures and imports. The proposed project change is justified by the acute macroeconomic and fiscal pressures arising from elevated global commodity prices, foreign exchange constraints, and increased import dependency. These pressures have significantly reduced fiscal space and constrained the implementation of ongoing investment operations. At the same time, urgent financing needs have emerged for critical imports, necessitating fast-disbursing support mechanisms. The project change is expected to improve the efficiency of fund utilization by reallocating undisbursed balances from slower-moving project components to high-priority emergency expenditures, thereby supporting macroeconomic stabilization, enhance external sector resilience, and ensure continuity of essential public services.

22. The external shock has led to a sharp increase in import requirements for essential goods, including petroleum and energy products, food commodities, fertilizers for agricultural production, construction materials, and industrial inputs. Energy imports, particularly LNG, remain a critical component of Bangladesh's external payments, given their importance for power generation, transport and logistics, industrial and agriculture production. The resulting increase in import demand has placed additional pressure on foreign exchange reserves and widened external financing gaps, underscoring the need for timely and targeted financing support.

23. The introduction of the RERC would also demonstrate AIIB's responsiveness to member's needs in times of crisis, while remaining consistent with its development mandate. This proposed project change is aligned with the AIIB's Approach to Emergency Response

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<sup>10</sup> On May 15, 2026, additional financing for the Energy Sector Security Enhancement Project in Bangladesh was approved: [World Bank Support to Help Navigate Fuel Market Volatility in Bangladesh](#)

(June 2023) and the Energy, Food Security, and Economic Recovery Facility (the Facility). The proposed changes would not change the Project's Environmental and Social (E&S) category to a higher level. In line with AIIB's commitments, the RERC is designed as a transitional and crisis-response mechanism that does not support expansion of fossil fuel infrastructure or undermine Bangladesh's decarbonization pathway. The reallocation is designed as a short-term stabilization measure and will not affect the GoB's medium- to long-term energy transition plans or create incentives for sustained increases in LNG consumption beyond the crisis period.

#### 24. **Description of Proposed Changes.**

- 1) **Changes to the Project Objective.** For full transparency, an update to the project objective is proposed to reflect the introduction of the emergency component. The original project objective, focused on transport connectivity under Sylhet Tamabil, will be retained. This reflects the temporary nature of the proposed changes, and the GoB's commitment to continue with the full scope, to provide the necessary counterpart funding, and to seek Additional Financing in due course. A supplementary objective will be added to reflect the proposed financing of emergency expenditures and imports.

*Original project objective: "to improve intercity connectivity in Bangladesh and cross-border connectivity between Bangladesh and India by upgrading Bangladesh National Highway N2 between Sylhet and Tamabil".*

*Revised project objective: "to improve intercity connectivity in Bangladesh and cross-border connectivity between Bangladesh and India by upgrading Bangladesh National Highway N2 between Sylhet and Tamabil, and to respond to emergency financing needs for critical expenditures and imports".*

- 2) **Introduction of a New Rapid Emergency Response Component.** The RERC will be introduced to finance eligible urgent expenditures, focusing on essential imports, in particular LNG (as specified on a positive list in Annex 2). Given the Project's reliance on fuel, transport logistics, and uninterrupted supply chains for construction activities, such support would help sustain implementation readiness and future resumption of civil works under the Project. It is intended to enable rapid disbursement under simplified implementation arrangements, while ensuring continued compliance with AIIB's applicable policies and fiduciary requirements. The RERC will operate on a reimbursement basis against verified import transactions, supported by appropriate documentation, including import records and proof of payment. It will not finance physical investments or infrastructure activities.
- 3) **Changes in Project Cost.** The proposed changes will reallocate a portion of undisbursed proceeds from civil works, consultancy, and project management components to the RERC, while maintaining the overall project financing envelope unchanged. The GoB is expected to provide counterpart funding or seek Additional

Financing later (indicatively Q3/Q4, 2026)<sup>11</sup> to cover the required financing gap created by reallocation of funds from the original project to the RERC. The RERC will be allocated USD350 million to finance eligible emergency expenditures and imports. Detailed changes are presented in Tables 1-2.

**Table 1: Proposed Changes to Project Cost**

<i>all amounts in USD million</i>	Original			Revised			Change in Project Cost	Measures
	Project Cost	AIB	GoB	Project Cost	AIB	GoB		
Component 1: Construction works	515.70	355.6 0	160.1 0	202.05	41.95	160.10	313.65	The GoB is expected to provide counterpart funding or to seek Additional Financing to address the financing gap created by reallocation of funds from the original project to the RERC
Component 2: Consulting services	14.80	11.00	3.80	9.45	5.65	3.80	5.35	An additional feasibility study for a future project had initially been planned; however, the Ministry has since indicated that it is no longer required
Component 3: Project Management Support	4.00	3.00	1.00	2.00	1.00	1.00	2.00	As per the decision of the GoB, foreign training activities are currently not permissible using loan proceeds. Accordingly, the Ministry will remove this activity from the project cost.
Front-end Fee	1.01	1.01	-	1.01	1.01	-	-	-

<sup>11</sup> As indicated above (paragraph 18c), the timing of this follow-on change/ request will depend on: (i) the GoB's decision on ongoing review; (ii) progress in land acquisition; and (iii) overall site-level implementation.

<i>all amounts in USD million</i>	Original			Revised			Change in Project Cost	Measures
	Project Cost	AIB	GoB	Project Cost	AIB	GoB		
Interest and Commitment Fee	33.39	33.39	-	4.39	4.39	-	29.00	Although GoB initially intended to capitalize the interest and commitment fees, it will reassess this arrangement and update the project budget accordingly, together with the decision of Component 1.
Component 4: Emergency Response Component	-	-	-	350.00	350.00	-	(350.00)	Emergency Response
<b>Total</b>	<b>568.90</b>	<b>404.00</b>	<b>164.90</b>	<b>568.90</b>	<b>404.00</b>	<b>164.90</b>		

**Table 2: Reallocation of Loan Proceeds**

Category	Original Allocation (USD)	Proposed Allocation (USD)	Percentage of Allocated Expenditures to be financed (exclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services and Incremental Operating Costs for the Project	369,600,000	48,600,693	100%
(2) Front-end Fee	1,010,000	1,010,000	
(3) Interest and other charges under the Loan	33,390,000	4,389,307	
(4) Emergency expenditures for critical imports	0	350,000,000	100% (inclusive of taxes)
<b>Total amount</b>	<b>404,000,000</b>	<b>404,000,000</b>	

- 4) **Results Monitoring Framework (RMF).** The existing RMF indicator targets for the core infrastructure component remain unchanged, in the expectation that the Project will be completed as originally intended through the provision of additional financing or Bangladesh's own resources. In this case, the indicators are expected to remain broadly the same, subject to any subsequent project change requirements. Should any changes in the project scope be decided in the future, the indicators and targets will be reviewed and revised accordingly through a subsequent project change. For the RERC, the following additional intermediate indicators will be added: (i) monetary value of LNG needed for emergency operation period (end target: USD350 million); (ii) LNG

cargos supported (end target: 9); and (iii) energy supported by the LNG shipments (end target: 25 million MMBTU<sup>12</sup>).

- 5) **Implementation Arrangement for the RERC.** The Finance Division of the Ministry of Finance will be responsible for overall coordination and fiduciary oversight of the implementation of the RERC, ensuring effective execution and compliance with the agreed framework. The Bangladesh Oil, Gas & Mineral Corporation (Petrobangla), under the Energy and Mineral Resources Division (EMRD) of the Ministry of Power, Energy and Mineral Resources, will be responsible for the overall implementation of the RERC in accordance with the RERC manual.

25. The proposed emergency financing support under the RERC is strictly short-term and time-bound, designed solely to address immediate energy security arising from the external shock. It will not support, directly or indirectly, any expansion of fossil fuel production, infrastructure, or long-term fossil fuel demand. The financing is limited to maintaining essential economic stability during this crisis period and is not intended to influence the long-term energy mix or delay Bangladesh's ongoing energy transition objectives.

## 26. Implementation of the RERC and Initial Bank Assessment

- 1) **Environmental and Social (E&S).** AIB's Environmental and Social Policy (ESP), including the Environmental and Social Exclusion List (ESEL), is applicable to the RERC. Further, the RERC excludes military or paramilitary uses, non-energy-related imports, civil works, infrastructure investments, and any form of physical asset creation. The RERC will alleviate the burden on the Government in managing Bangladesh's ongoing energy crisis, with a focus on facilitating LNG procurement. It will use existing infrastructure and will not require any expansion or modification; it does not include any civil works, infrastructure development, or land acquisition. The RERC is classified as Category B under the ESP.<sup>13</sup>

**Environmental and Social Management System (ESMS) and Related Requirements.** Petrobangla has an existing ESMS in place. Since 2025, it has worked with the World Bank on Energy Sector Security Enhancement Project<sup>14</sup> to facilitate LNG imports. Strengthening Petrobangla's ESMS for LNG transport and handling was a key aspect of Petrobangla's Environmental and Social Commitment Plan (ESCP) under the World Bank-supported project, specifically on its ESMS procedures and E&S aspects of procurement, including screening of LNG suppliers' E&S management practices, occupational health and safety records, life and fire safety measures, and emergency response procedures.

The RERC, which focuses on facilitating LNG procurement, will build on relevant outcomes of the World Bank-support project. The RERC has indirect EHS risks

<sup>12</sup> Million British Thermal Units.

<sup>13</sup> The addition of the RERC does not change the overall risk classification of the Project. The overall Project E&S classification remains Category A, reflecting the original road component, despite the addition of a Category B RERC.

<sup>14</sup> Energy Sector Security Enhancement Project - P181811. <https://projects.worldbank.org/en/projects-operations/project-detail/P181811>

associated with the LNG transportation and handling by the LNG suppliers and the terminal operators that receive LNG from suppliers and store it. These have potential risks and impacts but are not limited to workers and community health and safety risks, including fire and explosion risks, spills or accidents, air emissions, and noise.

The LNG supply arrangements under the RERC involve LNG suppliers contracted by Petrobangla. LNG contracts will incorporate multiple layers of provisions related to compliance with international maritime regulations, technical standards, certifications, documentation, and requirements on health and safety, security, environmental protection, and operational integrity covering design, construction, operation, and maintenance. The existing terminal operators, Summit and Excelerate,<sup>15</sup> maintain relevant E&S management and monitoring systems. Petrobangla's E&S management arrangements for LNG suppliers and terminal operators will be further clarified during implementation, and any identified gaps will be addressed through an Environmental and Social Action Plan (ESAP) to be agreed with Petrobangla and finalized prior to the first disbursement. During implementation, AIIB will continue working with Petrobangla to identify, manage, and monitor any EHS risks that may arise.

**Social Aspect.** The RERC supports continuity of energy supply to households, industry, and essential services in Bangladesh, with indirect benefits for economic resilience and social well-being. It involves no construction or physical facilities enhancement; therefore, no land acquisition or physical or economic displacement is expected. There are also no foreseeable impacts on indigenous peoples or cultural heritage. AIIB will continue working with Petrobangla to identify, manage, and monitor any social risks that may arise during implementation.

**Stakeholder Engagement and Grievance Redress Mechanism (GRM).** Petrobangla has an existing GRM, which is being strengthened under the World Bank-supported project to cover all relevant stakeholders. The same GRM will apply to matters arising from LNG procurement under the RERC. Effectiveness and functionality of the GRM will be further monitored during implementation. Summary information on grievances and their resolution will be included in Petrobangla's periodic E&S reports to AIIB.

**Monitoring and Reporting.** Regular E&S monitoring and reporting arrangements have been discussed with Petrobangla, and detailed arrangements will be set out in the RERC Operations Manual, including reporting templates, frequency, and requirements. These arrangements will cover ESMS implementation status, the E&S performance of LNG suppliers and terminal operators, stakeholder engagement activities, and summaries of grievances.

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<sup>15</sup> Excelerate's terminal was co-developed through a special purpose vehicle established by Excelerate and IFC InfraVentures since 2015, with IFC providing both loan and equity financing. The project's Environmental and Social Action Plan was completed in 2018 and covers management systems and programs, emergency response, stakeholder engagement and grievance mechanisms, workers' grievance mechanism, and biodiversity management. Based on internal documents shared by Petrobangla, Summit also appears to have established EHS and social policies, environmental permits, health and safety plans, workers' grievance mechanisms, and treated water disposal arrangements.

**Disclosure.** Petrobangla will disclose an overview of its ESMS on its website. In addition, information on the availability of the AIB Project-affected People's Mechanism will be made accessible to project-affected people in a clear, understandable, and locally appropriate language(s), including through Petrobangla's website, to ensure effective awareness and accessibility.

- 2) **Procurement.** Procurement under the RERC will follow the AIB Procurement Policy, which provides sufficient flexibility through its Core Procurement Principles to support a rapid response under the Facility. Eligible procurement methods will include direct contracting, request for quotations, and limited competitive bidding, where justified by urgency, market conditions, or efficiency considerations. LNG imports will be undertaken by Petrobangla using established international commodity market practices. Given the nature of globally traded energy commodities, reliance on established suppliers, and benchmark pricing indices, procurement risks are considered moderate and manageable under the proposed ex-post review arrangements.

All procurement activities under the RERC will be subject to ex-post review by the Bank, including verification of import documentation, benchmarking of prices against market references, and confirmation of compliance with agreed procurement procedures. Procurement under the RERC is strictly limited to emergency short-term energy supply and will not support long-term fossil fuel capacity expansion or investment in new fossil fuel infrastructure.

- 3) **Financial Management (FM).** FM responsibilities for the RERC will be vested in Petrobangla, which will ensure overall implementation and fiduciary functions. A fast-track FM assessment will be undertaken to confirm the adequacy of staffing arrangements, internal controls, and funds flow mechanisms to support timely implementation. The FM framework will include dedicated tracking of RERC-related expenditures, monthly financial reporting and reconciliation, and annual audit conducted by the national audit authority<sup>16</sup> in accordance with established procedures to be detailed in the RERC manual. The overall FM risk is assessed as medium, reflecting the use of country systems combined with strengthened ex-post controls and audit requirements.
- 4) **Disbursement.** The loan proceeds will cover the eligible expenditures incurred under RERC since February 28, 2026. Reimbursements will be processed against verified import-related expenditures supported by appropriate documentation, including Bills of Lading (or equivalent import records) and proof of payment (such as Letter of Credit retirement documents), and statements of expenditure. A disbursement letter will detail the authorized signatories, advance ceiling, the process of submitting claims, and other terms and conditions of disbursements related to the project. While end-use traceability of imported energy commodities is inherently limited once integrated into the national supply chain, the proposed documentation-based reimbursement approach combined with ex-post verification provides an acceptable level of fiduciary assurance.

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<sup>16</sup> Foreign Aided Projects Audit Directorate (FAPAD)

## **5. Approval Sought**

27. As the proposed changes are material with respect to section 3.5.3 of the Bank's Operational Policy on Financing, the Board of Directors is hereby requested to approve the changes to the Project as outlined above.

## Annex 1. Bangladesh Sovereign Credit Fact Sheet

- Background and Recent Developments.** Bangladesh is a lower-middle income economy with a population of 175 million and an income per capita of around USD2,900 (or 11,000 when adjusted for price differences). Bangladesh's growth over the past decade marked it as a development success, with real GDP expanding by about 7.1% on average during FY2016–FY2019, lifting incomes and improving living standards and human development indicators. However, this momentum began to slow from FY2023 as global commodity prices surged, supply chains were disrupted, and external demand weakened. These pressures were amplified in FY2024 by energy shortages, weaker exports, and weather-related shocks to agriculture. Domestic political unrest, floods, and sustained energy constraints further weighed on activity. As a result, growth moderated to about 3.5% in FY2025, with broad-based slowing across industry, services, and agriculture.
- Macroeconomic management during this period focused on containing pressures amid limited policy space. The fiscal deficit was kept below 5% of GDP, largely by compressing capital spending to offset weak tax collection, even as inflation and foreign exchange constraints curtailed development expenditure.
- External balances showed signs of stabilization despite the difficult environment. After widening to 4.1% of GDP in FY2022, the current account deficit narrowed steadily and returned to balance in FY2025, supported by import compression and resilient exports. Remittance inflows reached a record high of over USD30 billion in FY2025, aided by exchange rate adjustments, cash incentives, and easier digital transfers. This improvement helped rebuild foreign exchange reserves from USD20 billion in early 2025 to around USD30 billion by the end of the year, marking a notable reversal after earlier reserve losses.
- After averaging about 5.7% over the previous five years, inflation rose sharply to 9.0% in FY2023, driven by weaker agricultural output, partial passthrough of higher global commodity prices, and a significant depreciation of the taka. Inflation climbed further in FY2024 and reached about 10% in FY2025, reflecting supply disruptions from political unrest and continued currency weakness. In response, the central bank tightened monetary policy aggressively, raising the policy rate by 500 basis points since 2022 to 10%, where it has been maintained as of April 2026 to contain inflationary pressures and anchor expectations.

Selected Indicators	Economic	FY23	FY24	FY25	FY26*	FY27*	FY28*	FY29*	FY30*
GDP growth 1/		5.8	4.2	3.5	4.7	4.3	4.5	5.7	5.8
Inflation (end-of-period) 1/		9.7	9.7	8.5	9.4	4.9	5.2	5.4	5.5
Fiscal balance		-4.4	-3.7	-2.9	-4.3	-4.7	-5.5	-5.6	-5.7
Public debt		39.7	41.0	42.0	41.8	43.2	45.3	46.6	47.9
Current account balance		-2.6	-1.4	0.0	-0.6	-1.2	-1.4	-1.9	-2.1
External debt		42.7	38.1	34.5	35.6	36.2	35.2	34.4	33.9
FX reserves (USD billion) 2/		24.8	21.7	26.7	30.3	..	..	..	..
Exchange rate (BDT/USD) 2/		104.	117.	122.	122.	..	..	..	..
		5	0	0	9				

Sources: IMF (WEO Apr 2025, report 26/24); in percent of GDP, except where noted; "\*" = projections; FY runs from Jul to Jun

Notes: 1/ Percent change, year-on-year; 2/ end-of-period, most recent data from central bank, as of May 20, 2026

5. Confronted with significant macroeconomic stress—including slowing growth, elevated inflation, exchange rate pressures, and a sharp decline in foreign exchange reserves—Bangladesh secured a 42-month USD 5.5 billion IMF program in January 2023. The IMF program is anchored on tightening monetary policy to curb inflation, transitioning to a more market based and flexible exchange rate regime, strengthening domestic revenue mobilization, rationalizing energy subsidies, addressing non-performing loans, improving banking sector governance, and advancing climate resilient public investment frameworks. While initial gains have been made, particularly in monetary tightening and exchange rate reform, overall progress has been uneven, with notable delays in tax reforms, subsidy rationalization, banking sector cleanup, and the full operationalization of exchange rate flexibility. As of April 2026, the IMF program is delayed, pending further agreement and actions on reform measures.

6. **Outlook and Risks.** According to IMF estimates, economic activity is expected to recover gradually, with growth rising to about 4.7% in FY2026, assuming the Middle East conflict is short-lived, and global supply conditions normalize. Growth is projected to strengthen further, averaging above 5% through FY2030, supported by easing inflation, improved investor sentiment following the February 2026 elections, and a gradual relaxation of import and energy supply constraints. Domestic demand is expected to recover as inflation declines and remittances remain strong, while investment should pick up as restrictions on letters of credit are eased and power supply conditions improve.

7. On the fiscal side, the deficit is projected to widen to around 4.3% of GDP in FY2026, reflecting higher subsidy payments to energy related SOEs and modest revenue gains following value added tax and supplementary duty increases introduced in early 2025. While the authorities have signaled efforts to strengthen revenue mobilization and rationalize non-priority capital spending, fiscal pressures are expected to intensify over the medium term as capital expenditure accelerates and interest costs rise, leading to a gradual increase in the public debt ratio, albeit from still moderate levels.

8. Inflation, which averaged around 10% in FY2025, began to moderate, falling below 9% by April 2026. It is expected to remain elevated in FY2026 due to high global energy prices and supply disruptions, before declining to around 5% by FY2027 as tight monetary policy continues and global commodity prices normalize. The shift toward interest rate targeting and market-based lending rates is likely to keep financing conditions tight in the near term, while gradual financial sector reforms aim to address underlying vulnerabilities. Externally, the current account deficit is projected at about 0.6% of GDP in FY2026, with stronger exports and remittances largely offset by higher imports as compression measures ease, while greater exchange rate flexibility is expected to support adjustment and reserve accumulation.

9. The IMF debt sustainability assessment downgraded Bangladesh from low risk in 2024 to moderate risk of debt distress in 2025, primarily due to significant downward revisions to export data for FY2023–FY2024. Public and publicly guaranteed debt stood at about 42% of GDP in FY2025, with domestic debt forming the bulk, while external debt remained moderate at around 19% of GDP.

10. Following this reassessment, Fitch downgraded Bangladesh's sovereign rating to B+ in May 2024 but the outlook was downgraded from 'Stable' to 'Negative' in May 2026 due to external vulnerability, while S&P lowered the rating to B+ in July 2024 and reaffirmed it in 2025, citing sustained pressure on external buffers and foreign exchange reserves. Moody's downgraded Bangladesh's sovereign rating from Ba3 to B1 in May 2023 and further to B2 with an outlook of Negative in November 2024, alongside a downgrade of the banking system outlook to Negative in March 2025, reflecting rising asset quality risks and a weakening macroeconomic environment.

## Annex 2. Outline Rapid Emergency Response Component Manual<sup>17</sup>

1. This Rapid Emergency Response Component (RERC) Manual sets out the operational framework for implementing the RERC under the Sylhet to Tamabil Road Upgrade Project. The RERC enables the rapid mobilization of loan proceeds to address urgent financing needs arising from external shocks, particularly for critical imports.
2. The Manual is aligned with established good practices under multilateral development bank (MDB) emergency operations, ensuring a balance between speed of disbursement, flexibility in implementation, and fiduciary assurance.
3. **Objective of the RERC.** The objective of the RERC is to provide urgent financing support to help the Government of Bangladesh (GoB) meet immediate expenditure needs during emergency condition. This will help mitigate macroeconomic pressures arising from the Middle East conflict and ensure the continuity of essential services through the financing of critical imports. The component will achieve this by reallocating undisbursed project loan proceeds toward emergency expenditures and import financing, enabling rapid disbursement; more efficient use of committed resources; and no additional immediate debt obligations beyond the existing financing envelope.
4. **Eligible Expenditures (Positive List).** Financing under the RERC will support a positive list of eligible expenditures and critical imports, primarily Liquefied Natural Gas (LNG) and directly associated import costs. Eligible expenditures include LNG cargo purchases required for power generation and industrial use, as well as associated costs such as shipping and freight charges, insurance, and regasification or terminal handling charges, where applicable.
5. The positive list will be agreed between the GoB and the Bank and is aligned with the AIIB Energy, Food Security and Economic Recovery Facility (the Facility).<sup>18</sup> Ineligible expenditures include military or paramilitary uses, non-energy-related imports, civil works, infrastructure investments, and any form of physical asset creation.
6. **Institutional Arrangements.** The RERC will provide emergency financing support to the GoB for LNG imports undertaken by Petrobangla, under EMRD. Petrobangla will be responsible for the overall implementation of the RERC, including fiduciary management, disbursement, and reporting in accordance with the RERC manual. The Finance Division, Ministry of Finance, will be responsible for overall coordination and fiduciary oversight of the implementation of the RERC. AIIB financing shall be channeled through the Finance Division, Ministry of Finance, to Petrobangla. The funds from Finance Division shall follow the government's existing budgetary and treasury system.

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<sup>17</sup> This manual is expected to be finalized and operational before disbursement.

<sup>18</sup> Financing Critical Imports and Expenditures under the Facility. *"In response to the fallout of the current situation, the AIIB may provide financing for specific critical expenditures and imports. Critical expenditures may include temporary financing of public expenditures required to maintain a functioning administration. Relevant critical imports may include necessary commodities to sustain energy and food security as well as domestic agricultural production. Financing for fossil fuels must be well-defined, limited, crisis-justified and time-bound, targeted to essential energy supply for maintaining basic energy services and economic stability and avoiding any structural expansion in their use, carbon lock-in effects, or compromise in the member's long-term green transition..."*

**Table A1: Revised Implementation Responsibilities**

Component	Implementing Agency
Component 1: Construction works	Roads and Highways Department
Component 2: Consulting services	
Component 3: Project Management Support	
Component 4: Emergency Response Component	Petrobangla, Finance Division

7. **Fund Flow Arrangements.** The Finance Division of the Ministry of Finance will submit the Withdrawal Applications to the Bank, accompanied by supporting documentation from Petrobangla, confirming eligible LNG import transactions under the RERC. Upon review and approval by the Bank, proceeds will be disbursed to a designated account/treasury account of the Ministry of Finance.<sup>19</sup> The funds from Finance Division shall follow the government's existing budgetary and treasury system.

8. The loan proceeds under the RERC will be disbursed using reimbursement and advance methods, including eligibility for retroactive financing from Feb. 28, 2026. Eligible expenditures will be financed from loan proceeds allocated under Category 4 (Emergency expenditures for critical imports). The cost of imports as per the positive list will therefore be reimbursed based on: (i) Proof of import, i.e. the Bills of Lading, or any other documents acceptable to the Bank; and (ii) Proof of payment such as retirement documents of Letter of Credit related to the imported items, or any other government orders.

**Table A2: Disbursement Categories**

Category	Proposed Allocation (USD)	Percentage of Allocated Expenditures to be financed (exclusive of Taxes)
(1) Goods, works, non-consulting services, consultants' services and Incremental Operating Costs for the Project	48,600,693	100%
(2) Front-end Fee	1,010,000	
(3) Interest and other charges under the Loan	4,389,307	
(4) Emergency expenditures for critical imports	350,000,000	100% (inclusive of taxes)
<b>Total amount</b>	<b>404,000,000</b>	

9. **Procurement Arrangements.** Procurement under the RERC will follow AIIB's Procurement Policy which has sufficient flexibility to apply appropriate procurement methods, including direct contracting, request for quotations, direct selection, limited competitive bidding, and the use of national procurement systems - where justified by the emergency situation.

<sup>19</sup> In line with established World Bank and ADB emergency import financing models, LNG imports will be tracked up to the point of entry into Bangladesh. Once LNG enters the national gas transmission and distribution system, end-use traceability is not required. Fiduciary assurance will instead rely on import documentation, banking records, and government certification.

Procurement will be guided by the principles of efficiency, economy, transparency, fit-for-purpose, and value for money, consistent with MDB emergency financing practices.

10. The Bank will conduct proposed ex-post reviews of LNG import transactions under the RERC.<sup>20</sup> These reviews will include verification of Bills of Lading, payment records, and import documentation, as well as benchmarking of LNG prices against international indices such as JKM. Procurement and financial transactions will be reviewed on a sample basis. This approach ensures strong fiduciary oversight while preserving the rapid disbursement objective of the RERC.

11. **Environmental and Social Information.** AIIB Environmental and Social Framework, including the Environmental and Social Policy and Environmental and Social Exclusion List, apply to the RERC. Petrobangla has an Environmental and Social Management System (ESMS) in place that has been strengthened since 2025, working with the World Bank (WB) on the Energy Sector Security Enhancement Project (181811)<sup>21</sup> in managing E&S risks and impacts of importing LNG. The RERC focuses on facilitating the procurement of LNG and will build on the outcomes of WB-supported project, where the existing ESMS including its E&S capacity and E&S aspects of the procurement practices have been strengthened to include procedures to screen and assess LNG supplier's E&S Management practices, health and safety records, life and fire safety, and emergency response procedures, among others. The RERC will be using existing infrastructure and will not require any expansion or modification; it does not include any physical activities such as civil works, infrastructure development, or land acquisition. It is not anticipated to have any material E&S impacts. The RERC component is classified as Category B.

12. **Monitoring and Reporting.** Monitoring will focus on key indicators such as the value of imports financed, LNG volumes supported, and associated power generation capacity. Petrobangla, through the Finance Division, will submit regular financial reports and progress reports to AIIB. Verification mechanisms will include ex-post reviews and cross-checks with customs and import data. Quarterly Interim Unaudited Financial Reports will be submitted to the Bank, and a final utilization report will be prepared upon completion of the component. Annual financial statements will be audited by the national audit authority in accordance with established procedures. Audit reports will be submitted within agreed timelines following the end of each fiscal year.

13. **Risk Management.** Key risks include LNG supply disruptions, price volatility, foreign exchange constraints, fiduciary risks associated with emergency financing, and limited end-use traceability once LNG enters the national grid. These risks will be mitigated through benchmark-based pricing, reliance on established LNG suppliers and trading mechanisms, and ex-post audit and review.

14. **Effective Date.** This RERC Manual shall become effective upon approval of the restructuring of the Project as outlined in the Project Change Document. It shall remain

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<sup>20</sup> Including the Sale and Purchase Agreements (SPAs), which are commercial contracts between Petrobangla and LNG suppliers specifying LNG supply volumes, pricing formulas, delivery schedules, payment terms, and associated operational and liability provisions.

<sup>21</sup> <https://documents1.worldbank.org/curated/en/099041026175025730/pdf/P181811-daa9a6cb-b2a5-4d7d-be93-cb2aaee2b3f6.pdf>

applicable throughout the implementation period of the RERC unless revised by mutual agreement between the GoB and the Bank.