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RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING OF  
INVESTMENT PROMOTION AND FINANCING FACILITY PROJECT CREDIT

TO THE  
PEOPLE'S REPUBLIC OF BANGLADESH

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## ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
BB	Bangladesh Bank
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
GOB	Government of Bangladesh
MOF	Ministry of Finance
PFI	Participating Financial Institution
PPP	Public Private Partnership

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**BANGLADESH**  
**INVESTMENT PROMOTION AND FINANCING FACILITY**

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# INVESTMENT PROMOTION AND FINANCING FACILITY (IPFF)

## RESTRUCTURING PAPER

### A. SUMMARY

The proposed level-two restructuring reflects the Government of Bangladesh's (GOB's) request for changes in Bangladesh Investment Promotion and financing Facility (IPFF) Project, keeping the project development objective (PDO), disbursement, financial management, procurement arrangements and safeguards provisions unchanged. The changes proposed are as follows:

- Revision of project's outcome indicator/results matrix, in the context of the changed country/market conditions;
- Extension of sector eligibility to include Public Private Partnerships (PPPs) in social sectors infrastructure (health and education) and Information Technology infrastructure (Wimax and e-Learning), to reflect GOB's priorities and market demand;
- Capping of single sector exposure to 50 percent of the on-lending component in order to expand beyond power sector investments to other eligible infrastructure sectors;
- Reallocation of US\$3 million from the on-lending to the TA component to increase support for early stage PPP Project development;
- Extension of the project closing date by one year<sup>1</sup>.

### B. PROJECT STATUS

#### *i) Project Description*

The Project Development Objective (PDO) is to accelerate private sector-led growth by providing term finance for infrastructure development and promoting domestic infrastructure finance capacity. The Project aims to:

- a) Provide term finance, in Taka and in foreign currency, for infrastructure and other investment projects beyond the capacity of local financial institutions;
- b) Promote the role of private sector entrepreneurs in the development of capital projects, especially infrastructure.

Total project cost is estimated at \$307 million equivalent, and is financed partly by an IDA Credit of US\$50 million and an additional financing (AF) of US\$257 million. The project comprises two components: (1) on-lending component of US\$297.5 million and (2) Technical Assistance (TA) component of US\$9.5 million. The on-lending component supports Bangladesh Bank (BB), the implementing agency, to expand the scope of funding for the financing of PPPs and private sector financed ventures to a wide range of infrastructure sectors. The TA component is supporting the establishment and strengthening of the Government of Bangladesh's PPP Office and providing technical support for infrastructure project preparation activities. In addition, it has supported activities such as capacity building of government and participating financial institutions (PFIs), including PPP capacity at different ministries.

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<sup>1</sup> This paper seeks an exception for a twelve-month closing date extension beyond the three year limit of additional financing projects, due to external factors described in section B (i).

## *ii) Project Performance*

The Project has been under implementation since August 2006. Between 2006 and 2010, US\$57.5m (US\$47.5m IDA, US\$10.0m Government counterpart fund) was disbursed under the on-lending component to PFIs, to finance 7 small power plants. The power plants generate and add 178 MW of electricity to the national grid, which was approximately 5% of the country's total generation at that time. In light of good Project performance (the credit line was exhausted by the third year of operation), and the large infrastructure gap in the country, the IPFF was scaled up in 2010 via an AF to expand the set of eligible PPP sectors beyond small and captive power plants to other infrastructure sectors such as transport, water treatment, waste management, services for economic zones and others.

Despite the need for long term partial debt financing of infrastructure projects and continued private sponsor demand, only one sub-loan has been approved to date since approval of the AF (for a water treatment plant facility in Chittagong). On the institutional side, significant progress has been made, although with considerable delay: PPP guidelines have been issued and are in effect, a PPP office has been established, a PPP Act that meets international standards has been approved by Cabinet, and a pipeline of path-finder PPP projects has been pre-identified by the PPP Office. Nevertheless, given the significant delays in the on-lending component, Project Implementation is currently rated as 'Moderately Unsatisfactory' and the Development Objectives as 'Moderately Satisfactory'.

***Institutional Arrangements.*** Institutional and implementation arrangements (including social and environment safeguard, funds flow and disbursement methods) are working effectively and do not require changes. However, some clarification of operational procedures, including the sequencing of some screening processes, could enhance performance under the on-lending component (see challenges section below). The project operational directives would need to be updated accordingly and disseminated to the PFIs.

***Legal Covenants.*** The project is in compliance with all grant covenants in the Financing Agreement.

***Environmental and Social Safeguards.*** An Environmental and Social Management Framework (ESMF) for Financial Intermediary operations was revised in 2010 to include category A Projects. All Environmental and Social Impact Assessments (ESIAs) for investment projects are subject to prior review and approval by the World Bank. The Project includes provision to assist contracting ESIA preparation services on behalf of project promoters. The level of safeguards required under the Project is of higher standard than the local industry practice, as a result the drafting of environmental and social management documents by private sponsors require close support from the World Bank, at times delaying safeguards clearance. Stakeholders however view this as a contribution of the Project to infrastructure capacity development. Despite these capacity issues, safeguards arrangements have been working well.

***Financial Management.*** IPFF shifted from a Transaction-based Disbursement System to a Report-based Disbursement System in March 2009 as a result of the project's timely and accurate submission of interim un-audited financial reports, full reconciliation, and consistency in the financial reports over time. Since then, BB has been preparing Financial Monitoring Reports (FMRs) and submitting them regularly and on time. Audited Financial Statements for the project have also been submitted in a timely manner, and there are no unresolved audit issues under the Project. As a result the financial management rating for the Project has been satisfactory.

***Procurement.*** Procurement capacity of the PIU at Bangladesh Bank has improved significantly over the past years. Key Project staff has been trained in Bank Procurement Guidelines. Due to some pending consultancies now awarded, procurement has been rated moderately satisfactory. All major procurement activities, however, were completed as per the procurement plan as of July 2012.

**Disbursements:** Disbursements as of July 2012 amount to around US\$62.86 million. The original credit (BD 4169) had an unused balance in the TA component while the AF was being processed. TA expenses continued to be met from the original credit until its closing date on 31st December 2011, while TA expenses charged after 31st December 2011 were reposted to the AF Credit (BD 4693). The Designated Account under the AF was inactive in fiscal year 2012, until this reposting was processed. The closing date balance in the special account of BD-4169 of US\$965,447.47 was fully refunded to IDA. A withdrawal application was submitted for the quarter ending June 2012, with expenditures recorded during this period.

### *iii) Performance Challenges*

**External Factors.** The additional financing operation was prepared just as the new Government was taking office. The new team responsible for PPP wished to take a programmatic approach to PPP development and to ensure that a comprehensive institutional framework, including regulations, Act, and dedicated office would be in place to guide investments. Putting this framework in place delayed activities under both the on-lending and TA components. However, the PPP office, anchored in the Prime Minister's office, became fully operational in January 2012, and the pace of project development is now improving, thanks to strengthened coordination among line ministries, the PPP Office and BB (the PIU for IPFF).

**Eligibility of PFI Proposals.** Finding facility loan applications submitted by the PFIs that meet WB procurement and safeguard standards has proven difficult. IPFF operating procedures call for PFI requests for partial debt financing to be submitted for IPFF funding after the concerned sub-project has been awarded to a private sponsor. As a result, to date all projects funded under the IPFF FIL have had to be retrofitted (i.e., they have had to meet procurement and safeguard requirements after key decisions have already been made). Procurement methods eligible per IPFF's Financing Agreement include: (i) BOT and concession contracts on the basis of international competitive bidding (ICB) acceptable to the World Bank; and (ii) Loans to financial intermediaries (FIs) on the basis of commercial practices acceptable to the World Bank. While method (ii) may pose less difficulty for retrofitting privately funded infrastructure projects, stakeholders have not had full clarity on when such practices could be applied. Among the eight facility loans approved under the on-lending component, five loans were approved under procurement method (i) (with a procurement waiver granted to use national competitive bidding) and three were approved applying method (ii). In addition, a number of sponsors withdrew their proposals when the requirements proved too complicated or were communicated too late in the process to be taken on board.

Discussions with BB, PFIs, and the PPP office have identified several actions that could increase the identification of eligible on-lending proposals: 1) clarify that procurement method (ii) may be used when the risk of a sub-project is fully borne by a private sector sponsor/PFI and the sub-project is purely commercial (not a PPP); 2) increase TA support for pre-feasibility studies and structuring of PPP proposals identified by the PPP office so that they embed global good practices and comply with IPFF procurement and safeguard requirements; 3) lift the current TPP restriction on the maximum amount payable for international transaction advisers under the TA component (currently the ceiling is set at US\$600,000, which may be inadequate for complex transactions); and 4) extend the implementation period so that a robust pipeline can be developed and there is sufficient time to complete partial debt financing transactions.

**Delays in receiving World Bank no-objection.** The due diligence process carried out by World Bank specialists (to review technical, procurement, and safeguards aspects of PFI debt financing proposals) has sometimes been quite lengthy. Analysis of the causal factors revealed that the specialist reviews were being conducted sequentially rather than in parallel. In order to accelerate the elapsed time

between receipt of a sub-project for review and communication of the World Bank findings, a revised screening process has been adopted based on: i) concurrent reviews by the procurement and technical specialists; and ii) safeguards review for those proposals that are passed by the initial procurement/technical screening. It is expected that increased timeliness of the application process will improve sponsor interest in IPFF debt financing.

**Sector concentration.** Among the on-lending projects approved to date, the power sector has predominated (7 out of 8 approved projects), such that the IPFF is not having a multi-sector demonstration effect of crowding in private investment. To address this imbalance a number of actions have been identified for moving forward: 1) Capping single sector exposure to 50 percent of the on-lending component; 2) expanding the list of eligible sectors to include social sector infrastructure (health and education) and Information Technology infrastructure (Wimax and e-Learning); and 3) selecting path-finding projects<sup>2</sup>, for which project development will be started, with a view to pilot good practices at all stages of the PPP development cycle (from feasibility to tendering stage) and create a demonstration effect within GoB. For the previous recommendation to be implemented, the TA allocations in both the IDA FA and GOB TPP would need to be revised.

**Results/indicators.** Under the existing results monitoring framework, some of the indicators selected to measure the project objective do not fully capture the key elements of the PDO. In addition, the proposed increase in emphasis on pre-feasibility and design support for selected PPPs is not currently reflected in the results framework. Therefore, to improve the relevance of the results framework, revised outcome indicators are proposed. The proposed changes would not impact the economic and financial analysis originally presented in the Project Appraisal Document.

## C. PROPOSED CHANGES

The PDO continues to be relevant for the country's poverty alleviation efforts through private sector led infrastructure development and no changes are proposed. The institutional arrangements are likewise working well. To enhance project performance, the following changes are proposed:

- **Results/indicators**

It is proposed to modify the outcome indicator/results matrix to better capture the PDO, considering the importance of the crowding-in of private sector resources as the main indicator of achievement of the development objective. The revised outcome indicator would capture the total investments in infrastructure (debt and equity), as a result of investments by IPFF, in lieu of the number of PPPs under IPFF. In addition, some of the targets of the intermediate results indicators need revision, to adapt to the changing circumstances of project implementation. The detailed changes in the framework are presented in Annex 1. These include:

- a. Revising the Project's outcome indicator, by replacing the number of PPP transactions indicator with the amount of investment financing crowded-in;
- b. Revising the main output indicator under Component 1, now measuring the cumulative disbursements of the credit line;
- c. Revising the output indicator measuring the results of the technical assistance to the PPP Office/GOB under Component 2, by replacing the indicator on number of projects following PPP guidelines with the number of PPP projects supported under IPFF, to account for the new focus on project development;

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<sup>2</sup> The selected projects will have undergone a basic pre-feasibility assessment as a screening mechanism to select projects with a comparatively short project cycle

- d. Revising the targets for training staff of the participating financial institutions, now measuring the cumulative number of staff trained.

- **Sector Eligibility**

*Cap of single sector exposure to 50 percent of the on-lending component.* 97 percent of project investment funds allocated to date have been directed to the power sector. To support a diversified portfolio beyond the power sector, a 50 percent exposure limit of Facility Loans in the power sector is being proposed under the Infrastructure Development Lending component (i.e. up to US\$148.75 million). This maximum exposure proposed is in line with exposures expected in the Project's initial pipeline when an additional financing was approved in 2010.

*Expansion to social sectors and Information Technology infrastructure.* While continuing to focus on infrastructure finance, it is proposed to expand to social sectors and Information Technology infrastructure. This would bring the scope of eligible sectors in line with the scope of path finding projects identified by the new PPP Office. Annex 3 lists the sectors eligible for IPFF financing. Social sectors infrastructure may include the development of specialized hospitals in the health sector (such as kidney dialysis Units), construction of secondary schools in urban areas in the education sector, and IT infrastructure sub-projects in the areas of Wimax, IT backbones for data transfer at national and sub-national level, and e-learning facilities. In addition, this paper proposed to amend sector 7 under Annex 3 "industrial estates and parks development" by referring to "economic development including industrial estates and parks development", to clarify that sectors such as tourism are within the Project's scope.

- **Component reallocation**

To operationalize the emphasis on Project development as discussed under Section B, a reallocation of US\$3million is proposed from the on-lending component. These funds would support feasibility studies and transaction advisory services of selected GoB Path-finding PPP projects. The revised allocation between the two components would be as follows:

- (1) Component 1: Credit line component from US\$297.5 to US\$294.5 million; and
- (2) Component 2: Technical Assistance (TA) component from US\$9.5 to US\$12.5 million.

- **Closing date**

A twelve-month closing date extension is proposed, from December 31, 2014 to December 31, 2015. Since the current closing date of IPFF AF (December 31, 2014) is exactly three years later than the closing date of the initial IPFF Project (December 31, 2011), this would require an exception to OP/BP 13.20<sup>3</sup>. The project objective continues to be achievable. However, the extension would help account for the external factors that delayed project implementation (as discussed under section B) and would accommodate a renewed emphasis on upstream support of PPP projects from pre-feasibility to investment stage. The Recipient has revised the Project Implementation Plan with actions and target dates up to the new closing date, and it has been reviewed by the Bank and found to be a realistic basis for achieving project objectives.

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<sup>3</sup> Under OP 13.20, additional financing loans are expected to be completed within three years after the current closing date for the project. However, in exceptional cases the Bank may consider extending the closing date of an additional loan. "Processing Additional Financing: Guidance to Staff" (11/18/2009, Revised 4/16/2012), paragraph 15 (n)



## D. KEY RISK FACTORS

IPFF provides credits to GOB for on-lending to PFIs for partial debt financing of sub-projects implemented by private sponsors selected through competitive bidding as well as through open licensing by the government. The entire credit risks associated with the financing are borne by the PFIs. The table below summarizes risks and associated risk ratings. The overall implementation risk has been rated as substantial. While project design and implementation include mitigating actions, the Project carries inherent governance risks linked to infrastructure sectors. The following paragraphs elaborate on risks associated with the project particularly, those following the restructuring:

<b>Project Stakeholder Risk</b>	
- Stakeholder Risk Aversion	<b>Moderate</b>
<b>Implementing Agency Risk</b>	
- Capacity	<b>Moderate</b>
- Delay of TPP amendment	<b>Moderate</b>
- Governance	<b>Substantial</b>
<b>Project Risk</b>	
- Credit Risk	<b>Low</b>
<b>Overall Implementation Risk</b>	<b>Substantial</b>

### Project Stakeholder Risk

*Stakeholder risk aversion.* Private sector entrepreneurs and participating financial institutions are key stakeholders in the Project. Given challenges in eligibility of project proposals, they could display risk aversion in submitting facility loan proposals for financing. To mitigate this risk, Bangladesh Bank has developed a communications strategy aimed at reaching out to stakeholders with a clearer and strong message on project modalities and competitive advantages as a source of partial debt financing for infrastructure. Interventions include making the IPFF website more prominent, targeted communication to the chief executing officers and top management of large-scale investors via financial daily newspapers. In addition, the corporate banking and structured finance teams of the PFIs can be trained to advocate IPFF to their large scale clients. Bangladesh Bank also plans to continue holding workshops and information sessions for PFIs and the private sector sponsors, to disseminate the modus operandi of the review process to access Facility Loans under IPFF.

### Implementing Agency Risks:

*Government capacity to tender PPPs.* financing from the on-lending component depends on the availability of privately sponsored projects, as well structured PPP deals brought by line ministries/agencies (and, in the future, by the newly created PPP Office). Not many ministries/agencies are as equipped and adept in understanding the intricacies of PPPs. Lack of PPP capacities in ministries/agencies beyond the Ministry of Energy limited the number of PPPs that could be developed during project implementation. To bridge this gap, PPP guidelines have been developed and a PPP Office has been created. The PPP Office is now working with the line ministries/agencies to coordinate and to enhance their capacity on technical issues.

*Risk of Delay of TPP Amendment.* In order to operationalize a stronger focus on technical assistance for PPP Project Development, the TPP for the project will have to be amended by the government, to allow

the recruitment of international transactions advisors. The process for TPP amendment associates inter-ministry coordination and multi-level approval within the government. As a result, it may take six months for the TPP to be amended. This would delay implementation even further and may lead to a loss in the current momentum generated by the PPP Office to pilot path finding PPP Projects. In order to mitigate this implementation risk the task team has proactively engaged with a DFID trust fund to leverage additional grant funding for project development for infrastructure and PPPs. In case use of TA resources from IPFF becomes difficult due to delay in TPP amendment, the transaction advisory and other preparatory works required by the PPP Office for advancing the pipeline will be continued using the DFID TF resources.

**Governance and anti-corruption (GAC) risks:** GAC risks associated with the Project are presented in Annex 2. A Governance and Accountability Action Plan (GAAP) has separately been discussed with the Government. GAC risks in the project can be divided into

- (i) **institutional risks linked to the implementation of the Project** by Bangladesh Bank (BB), acting on behalf of the Ministry of Finance (MOF) and, in the case of a PPP, the participation of other institutions such as the PPP Office and line ministries/agencies.
- (ii) **procurement risks:** BB conducts all procurement activities under the TA component, including those for the PPP Office. In the case of a PPP, the main procurement activities for the on-lending component are conducted at the line ministries/agencies for selection of the private sponsor to implement the PPP sub- project. In the case of a private project, procurement activities are conducted by the private sponsor according to commercial practices acceptable to the World Bank.

Actions are embedded within project design and implementation to mitigate these risks. These include the review of all audit reports by the BB Board as well as a steering committee at the MOF on fraud and corruption issues, rigorous selectivity criteria for participating financial institutions, support to the PPP Office to develop model concession documents and contract documents, introduction of Bank fraud and corruption clauses in contract documentation. The risk of collusion and corruption is mitigated by the fact that the private sponsor and the PFIs bear all risk and cost of procurement inefficiency. New mitigation measures added during project implementation have included forensic/ transaction audit at midpoint of project implementation, and measures to ensure availability in the public domain of procurement, contracting and implementation related information.

## **Project Risks**

*Credit Risks:* The credit risks associated with the partial debt financing for PPPs do not lie with the government or with IDA. There are mechanisms built in the project design to take care of the credit risks. The private sponsor and the PFIs bear all commercial and credit risks and they distribute these risks between themselves through an agreement. In case the PFI defaults in paying the credit installment BB, also the central bank of the country, can deduct the amount right away from the PFI's account maintained with BB. The PFI manages its own risks through covenants in the agreement it signs with the private sponsor.

### Annex 1: Arrangements for Results Monitoring

<b>Project Development Objective (PDO):</b> To accelerate private sector-led growth through providing term finance for infrastructure development and promoting domestic infrastructure finance capacity.											
PDO Level Results Indicators*	Core	D=Dropped C=Continue N= New R=Revised	Unit of Measure	Cumulative FY 07 to FY 12	Target Values (Cumulative)				Frequency	Data Source/ Methodology	Responsibility for Data Collection
					FY 13	FY 14	FY 15	FY 16			
Private sector participation in infrastructure increases (as measured by the number of PPPs)	<input type="checkbox"/>	D	Number of PPPs	7	4	5	5		Yearly	Annual Reports from IIFC	IIFC
Total investments in infrastructure increase (as measured by the total amount of equity and debt financing from IPFF, GOB and the financial institutions)	√	N	USD Value of PPPs	\$125 Million	\$130 Million	\$210 Million	\$350 Million	\$490 Million	Semi-Annual	Bangladesh Bank and IIFC	IIFC
<b>INTERMEDIATE RESULTS</b>											
<b>Intermediate Result (Component One):</b> Increase of private investment for infrastructure in the form of commercial equity and debt financing											
1. US\$ 250 million worth of private sector infrastructure investments are realized using the IPFF; including contribution from PFIs, Government and project sponsors.	<input type="checkbox"/>	D	USD Values	\$63 Million	60	60	40		Biannual	IIFC Reports	IIFC
2. Long term debt financing for infrastructure increases (as measured by cumulative debt financing from IPFF)	<input type="checkbox"/>	N	USD Values	\$62 Million	\$80 Million	\$125 Million	\$210 Million	\$294.5 Million	Semi - Annual	Bangladesh Bank and IIFC	IIFC
3. At least 10 domestic financial institutions use the IPFF.		C	Number	6	10/8	9	10	10	Semi - Annual	Bangladesh Bank and IIFC	IIFC

4. PFIs maintain eligibility criteria		C	Percentage	100%	100%	100%	100%	100%	Semi Annual	Bangladesh Bank Reports	Bangladesh Bank
5. The project results in 240 MW of additional electricity added to the national capacity		R	MW	178	220 MW	230 MW	240 MW	240 MW	Annual	Bangladesh Bank Reports	Bangladesh Bank
<b>Intermediate Result (Component Two):</b>											
6. Effective support provided to the government in the promotion and implementation of PPPs, as measured by the number of PPPs that follow PICOM guidelines.	<input type="checkbox"/>	D	PPP Per year	1.4 PPP Per year	3	3	4		Yearly	IIFC Reports	IIFC
7. Feasibility/transaction support provided to GoB or PPP Office, as measured by cumulative number of projects supported by IPFF.	<input type="checkbox"/>	N	No. of PPPs	0	1	2	4	5	Yearly	IIFC Reports	IIFC
8. Environmental assessments are undertaken for all infrastructure projects financed under the facility in coordination with the DOE.		C	Percentage	100%	100%	100%	100%	100%	Quarterly	IIFC Quarterly reports	IIFC
9. Effective guidance provided to Bangladesh Bank regarding investment project eligibility, as measured by percentage of projects reviewed.		C	Percentage	100%	100%	100%	100%	100%	Yearly	IIFC Quarterly reports	IIFC
10. The capacity of financial institutions participating in IPFF to undertake financial analysis of infrastructure projects is strengthened, as measured by the cumulative number of staff trained.		R	Number	94	120	140	160	180	Yearly	Discussions with financial institutions	Bangladesh Bank

## **Annex 2: Assessment and Mitigation of GAC Risk**

A Governance and Accountability Action Plan (GAAP) has been prepared. To summarize, GAC risks in the project can be divided into the following two categories:

- (1) Institutional risks:** IPFF is implemented by Bangladesh Bank (BB), acting on behalf of the Ministry of Finance (MOF). BB has adequate institutional capacity in the areas of financial management, procurement, and internal check and balance mechanisms required for identifying fraud and corruption (F & C); hence the institutional risk associated with BB can be rated as 'low'. The PIU staff at BB are well trained to handle financial management (FM), procurement, and audit issues associated with the project. As there has not been any pending audit issues and given overall satisfactory FM performance the PIU has switched from reimbursement based reporting to Financial Monitoring Report (FMR) based reporting.

However, in the case of a PPP, other institutions such as the PPP Office and the line ministries/agencies, have an indirect relationship with IPFF. The PPP Office is mandated for doing the technical due diligence for the ministries/agencies and for coordinating pipeline development activities. If the restructuring is approved, line ministries/agencies would conceptualize and incubate PPP sub-projects and initiate the preparatory activities. The PPP Office is still evolving as an institution and there are institutional capacity limitations at this point. On the other hand, not all line ministries/agencies possess the technical capacity and skills required to prepare PPP documents and to conduct tendering of the deals. On the private sector front, capacity of the PFIs is not uniform across the industry.

- (2) Procurement risks:** BB conducts all procurement activities under the TA component, including those for the PPP Office. BB's institutional mechanism for procurement is strong and reliable in the context of preventing fraudulent and corrupt practices. In addition, BB is accountable to the Project Steering Committee at the MOF. However, in the case of a PPP, the main procurement activities for the on-lending component are conducted at the line ministries/agencies for selection of the private sponsor to implement the PPP sub- project. As such, risk of collusion and corruption lies with the line ministries/agencies while they select the private sponsor and award contracts to procure goods and services necessary to implement the PPP sub-projects. In the case of a private project, procurement activities are conducted by the private sponsor according to commercial practices acceptable to the World Bank. The risk of collusion and corruption is mitigated by the fact that the private sponsor and the PFIs bear all risk and cost of procurement inefficiency.

### **Project Mechanism and Actions to Mitigate the Risks:**

The GAC risks, as mentioned above, are largely mitigated through a combination of measures built into the project design. Besides, an external monitoring system will be put in place to make more transparent the project implementation process. Below are additional arrangements:

- (1) Mitigation of institutional risks associated with the PIU is integrated in the project design; being the central bank of the country, BB has personnel specialized in identification of F&C issues. PIU staff are accountable to BB management and to the steering committee at the MOF on F&C issues. There is a structured procedure in place for addressing audit objections. In addition, all audit reports are reviewed by the BB Board as well as the steering committee at the MOF. IPFF TA resources are supporting the PPP Office to develop sustained capacity.

In order to develop documentation preparation and tendering capacity in key line ministries/agencies, the PPP Office is in the process of developing model concession documents and contract documents for different sectors. In order to mitigate the risk of lending to weak PFIs, IPFF has rigorous selectivity criteria. The experience so far is that while many banking and non banking FIs did apply to IPFF, only the strongest ones qualified and were enlisted.

- (2) Mitigation of the procurement risk for the on-lending component is done through a three stage screening procedure. IPFF requires pre-screening of the process used to select the private sponsor by the concerned government line agency. In order to manage the number of F & C issues that can potentially surface and may require to be addressed by the Project, the number of sectors that can apply has been limited. There is also a policy of screening sub-projects based on the F&C track record of the agency, in case of a PPP. Now that the PPP Office has been operationalized and IPFF is supporting the preparation of contract documents/tender documents by the PPP Office for line ministries, the quality of the procurement documents is expected to increase. Additionally, from now on Bank F&C clauses will be included in the contract documents for projects which would engage with IPFF for financing. The project will come under a forensic/ transaction audit at its midpoint of implementation. At the second stage, as the application for financing is submitted to IPFF by the PFI, the technical service advisor for the IPFF Project reviews the procurement process for compliance to Bank procurement guidelines and for potential signs of F & C. Finally, all funding proposals for on-lending are subject to prior review by a Bank procurement team that includes Regional Procurement Management. At the private sector level, F & C clauses are incorporated in the agreement between the PFI and the private sponsor. Additionally, the contract document at the PFI and private sponsor level includes clauses allowing both BB and the Bank to inspect books of account and related documents of the PFI and the private sponsor.

The project will take appropriate measures to ensure availability in the public domain of all procurement, contracting and implementation related information: (i) all line agencies involved with PPPs considered under IPFF will have duly appointed designated officers to fulfill obligations for proactive and reactive disclosure under Bangladesh's Right to Information Act 2009 and (ii) the implementing agency will introduce an external/ third party monitoring system, These measures will help reduce any potential risks of collusive procurement practices.

### **Annex 3: Sectors Eligible for Financing**

Infrastructure projects from the following sectors or sub sectors *may be selected as Private Infrastructure Projects for financing with the funding facility of IPFF*:

1. Power generation, transmission, distribution, and services
2. Port development( sea, river and land) including inland container terminals, inland container depot and other services;
3. Environmental, industrial and solid waste management projects
4. Highways and expressways including mass-transit, bridges, tunnels, flyovers, interchanges, city roads, bus terminals, commercial car parking, etc;
5. Airports, terminals and related aviation facilities;
6. Water supply and distribution, sewerage and drainage;
7. Economic development including industrial estates and parks development;
8. Social sectors including infrastructure in health (e.g. hospitals), education (e.g. secondary schools in urban areas)
9. IT (including Wimax, internet backbone and e-learning facilities)