



Lack of projects, country rating stymie private infrastructure investment

Inam Ahmed, *The Daily Star*

Absence of projects and lack of a sovereign country rating that blocks the private sector's access to international debt are two main factors deterring private sector investment in infrastructure projects, according to bankers and entrepreneurs.

According to the World Bank standard, at least developed country should invest seven per cent of its GDP in infrastructure to sustain a higher growth rate. However, Bangladesh is still lagging far behind this benchmark. With a \$45 billion GDP recorded in FY01, it should have invested \$3.15 billion in infrastructure. But in reality it invested a piffling \$1.1 billion in water resources, transport, communication, physical planning, bridges, housing and water supply, leaving a gap of \$2 billion.

"One of the main reasons for lack of investment in infrastructure is that the government does not have resource to invest," said Dr. M Fouzul Kabir Khan, Executive Director and CEO, IDCOL, a financial institution dedicated only to infrastructure. "But then, the private sector is also not coming up with any investment ideas and the reason may be that the government and the donors are crowding out the private sector."

"But for access to external lenders, the first and foremost necessity is to have a sovereign credit rating done by one of the recognised agencies such as 'Standard and Poors,'" he pointed out. "Such rating represents an assessment of each government's capacity and willingness not only to repay external debt incurred by itself but also to provide the foreign exchange needed by private sectors to repay their debts as well. When a foreign lender wants to lend in a country the first thing it will want to assess is the credit rating of that country."

An earlier approach to the finance ministry to have the country rated by an international rating agency in 1998 was not successful. It was then estimated that Bangladesh would be rated "B", not a bad result, considering that Pakistan was rated "CCC-" and Turkey had "B" at that time. But the government did not subscribe to the idea as it felt that such rating could become a double-edged sword politically.

But the reality is that absence of rating may contribute in the future to the reluctance of international lenders in extending credit to viable privately-owned and operated infrastructure projects.

When a private investor approached Bank of America for loans recently, it wrote that,

"With respect to your inquiry in Bangladesh, Bank of America can not participate in this project at this time due to various country-related risks. Moreover, to the best of our knowledge, the appetite for Bangladesh risk within the commercial bank market is essentially non-existent at this time." ABN-AMRO, the huge Dutch bank, made a similar observation on another project.

IDCOL, WB sign accord on renewable energy



Country Director of the World Bank Frederick T Temple and Chief Executive Officer (CEO) of IDCOL, Dr M Fouzul Kabir Khan signing project agreements for Rural Electrification and Renewable Energy Development Project on behalf of their respective organisations in the city Tuesday. Secretary of ERD and Chairman of the IDCOL Anisul Huq Chowdhury was also present in the occasion.

THE FINANCIAL EXPRESS REPORT

The Infrastructure Development Company Limited (IDCOL) signed project agreements for Rural Electrification and Renewable Energy Development Project (REREDP) with the World Bank (WB) in the city Tuesday, July 17, 2002.

Country Director of the World Bank Frederick T Temple and CEO of IDCOL Dr M Fouzul Kabir Khan signed the agreements on behalf of their respective sides, said a press release.

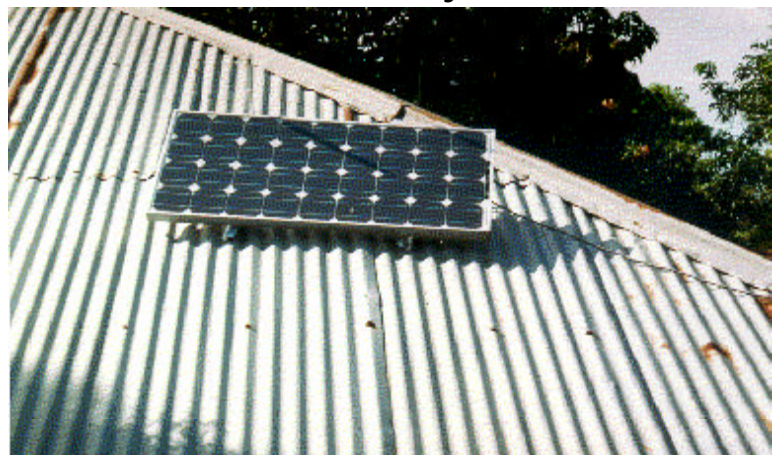
Under REREDP, IDCOL, on behalf of GOB, will administer 11.44 million US dollar IDA credit and 6.67 million US dollar GEF grant for financing renewable energy development in Bangladesh.

Under the programme, the IDCOL through the NGOs, micro finance institutions and dealers will finance 50,000 solar home systems in remote

rural areas. In addition, other renewable energy projects like mini hydro, wind, and biomass will also be financed under this project.

In a pilot programme under implementation, the IDCOL through five participating organisations (POs) namely, Grameen Shakti, BRAC Foundation, Srizonny, COAST and TMSS, is providing grants and refinancing loans extended to households by POs for purchase of 250 solar home systems. Systems financed by the IDCOL have already been installed in Burir Char, Cagga Bazar, New Shukhchar, Afagia, Hatia, Keramotgonj of Char Fashion, Shaiokupa of Jhenaidah, Thengamara of Bogra and Komolgonj of Moulavibazar and similar remote rural areas and islands.

IDCOL Financed Solar Home System



Lack of projects...contd.

On the other hand, to make room for private participation, Dr. Khan said it is easily possible to identify a number of projects from the annual development programme (ADP) to be reserved for private sector investment. But even then, a major problem accounting for investor reluctance is that the private sector neither has adequate resources nor access to cross-border lenders for debt.

“For infrastructure investment, one must have projects with robust cash flow,” Dr. Khan explained the basics of infrastructure investment. “We don’t look to the assets of an investment proposal for the recovery of our loans, but rather how much cash may be generated by those assets. A second important aspect in infrastructure development is transparency in project tendering, without which projects become politically risky and lenders remain shy.”

“The government can easily identify 20 projects from the ADP and reserve them for private sector investment,” he said. “To avoid the external debt trap, at least some of the projects should generate foreign currency so that repayment of loans does not pose a problem.”

Country rating also plays a major role in the pricing of loans. The lower a country’s sovereign credit rating, the higher the margin it, or its residents, have to pay for their loans over London Interbank Offer Rate (LIBOR). LIBOR is an interest rate index which fluctuates daily and measures the rate that prime US, European and Asian banks are willing to offer to their customers for their deposits. As such, the rate is a proxy for the “riskless rate.” The margin over LIBOR that a given borrower pays for its loans represents the perceived creditworthiness of that borrower, along with that of the host country in which the borrower resides.

But what could be the political risk of having country rate? It will require that once the rating is done, the country has to follow strict economic discipline and any slip will deteriorate rating. But the benefits are plenty, say financial experts. The country can benefit considerably over the long-terms access to credit with better terms. However, such an approach to rating agencies may be made only after stabilisation of the macro-economic situation.

Private participation in Bangladesh infrastructure offers significant potential to hasten the pace of development in the country, CEO, IDCOL said.

“Modernizing and upgrading Bangladesh’s infrastructure could lower the cost of doing business, and improve the competition, many firms such as manufacturers and exporters,” he observed. “For this reason, it is often held that increased investment in infrastructure stimulates investment in other sectors of the economy, creates jobs and expands the tax base. Moreover, increased private investment in infrastructure displaces public investment, freeing up public resources for alternative utilisation in social sectors such as education, health care and poverty alleviation.”

“The government has recently constituted five committees, headed by secretaries, to bring about improvement in designated sectors. Accepted recommendations will be implemented within the new government’s first 100 days in office. A similar approach may be taken with infrastructure development,” he opined.

AES Meghnaghat Financial Closing and Road Show



AES Meghnaghat Financial Closing Dinner



Visit to IDCOL Financed AES Meghnaghat Power Plant Site



IDCOL Signs Participation Agreement with NGOs/MFIs for Promotion of Solar Home System (SHS)

IDCOL signed participation agreements with Bangladesh Rural Advancement Committee (BRAC) Foundation, Coastal Association for Social Transformation Trust (COAST), Grameen Shakti (GS), Srizony Bangladesh (SRIZONY), and Thengamara Mohila Sabuj Sangha (TMSS) during April-May, 2002 in connection with the implementation of the first phase of solar energy expansion programme under the Global Environment Facility (GEF) PDF-B Grant. Dr. M. Fouzul Kabir Khan, CEO, Mr. M. R. Laskar, Company Secretary, and Mr. Rahat Jaman, Investment Officer signed the agreements on behalf of IDCOL.

The programme is meant to promote the use of SHSs in remote areas, islands or isolated pocket areas where grid is absent or is unlikely to reach in near future.

Under the IDCOL's participatory approach, households are required to make small down-payments and the participating organisations (POs) are to provide short-term loans to the households to purchase SHSs. IDCOL will refinance eighty percent of PO's loans to households on soft terms and channel GEF grants.

Other IDCOL Projects under Process

- SSAB Container Terminal Port Project
- WorldTel 300,000 Fixed-Line Telecommunications Network Project
- Imperial Hospital, Chittagong
- 50,000 SHSs under RERED Project
- Mini-hydro, wind, pilot power projects

Certificate Giving Ceremony of Training Course of Financial Modeling



Billboard Publicizes Solar Home System



IDCOL Staff



Fourth Training Course on Project Finance



IDCOL in Brief

Genesis

- Created in May 14, 1997.
- Owned by the Government of Bangladesh and funded by the World Bank.

IDCOL Mission

- Promote economic development in Bangladesh by encouraging private sector investment in infrastructure projects.

Objectives

- Participate in the financing of privately-owned infrastructure projects by providing structured finance in the form of senior and subordinated loans;
- Mobilise third-party limited recourse lending to privately-sponsored infrastructure projects, either at financial closing, or post-commissioning stages, of project development;
- Provide investment advisory services to infrastructure projects that are led by private Bangladeshi developers;
- Provide refinancing for small infrastructure projects implemented by non-governmental organizations ("NGOs")/microfinance institutions ("MFIs") and other private entities;
- Arrange technical assistance for private sponsors and executing agencies promoting small infrastructure and renewable energy projects;
- Impart training on project finance and financial modeling.

IDCOL Products

- Senior loans;
- Subordinated loans;
- Syndication of loans post-commissioning of projects;
- Refinancing facility for promotion of renewable energy.

IDCOL Targeted Sectors

- Power; Port; Water supply; Telecommunications; Toll roads and bridges; Gas and gas-related infrastructure; Information & Technology; Urban environmental services; etc.

IDCOL Current Lending Terms

Product	Rate	Tenor
<i>Senior Loan</i>	US\$ 6-month LIBOR plus 350 basis points.	A maximum of fifteen (15) years including four (4) years grace.
<i>Subordinated Loan</i>	US\$ 6-month LIBOR plus 400 basis points.	A maximum of twenty-three (23) years, including eight (8) years grace.
<i>Refinancing Facility</i>	BDT 6% p.a., calculated on outstanding balance.	A maximum of ten (10) years, including two (2) years grace.

IDCOL Project Sites



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