

**United States Position**  
**Proposed AsDB Loan: Summit Bibiyana II Power Company Limited**  
**Bibiyana II Gas Power Project**  
**(Bangladesh)**  
December 5, 2014

Bangladesh is facing a severe power shortage due to its inability to build new capacity to meet growing demand and because of the poor maintenance and performance of existing power plants. While household access to electricity increased by nearly 80% over the past ten years, it still reached only 62% in 2013. Load shedding continues and there are high losses in the transmission and distribution system. The power deficit is one of the biggest constraints to doing business in Bangladesh.

Additional institutional reforms are needed to enable more commercially oriented generation and distribution. Major investments are also needed in generation, energy efficiency, and transmission and distribution.

Private investors have been reluctant to invest in Bangladesh's power generation because of poor project preparation, irregularities in tendering processes, and the unavailability of long-term fuel supply contracts. In 2010, the government developed a new independent power producer (IPP) program that includes more market-oriented guidelines and fiscal incentives. The proposed ADB project is one of the first under this new program.

The United States supports the proposed project, which includes construction of a 341 megawatt combined-cycle, gas-fired turbine. Successful implementation should bring additional investor participation, helping alleviate Bangladesh's severe power shortages.

The United States has only two sets of comments. First, while the proposed investment is a good first step, more basic reforms in the broader power sector are needed to address more fundamental impediments to power supply. The United States encourages ADB to work with the authorities to increase the capacity and independence of the Bangladesh Energy Regulatory Commission to reduce central government interference in setting tariffs. We also encourage ADB to support measures to place state-owned power generation and distribution companies on a more commercial footing.

The second comment is to commend staff and Management on the proactive disclosure of key risks in the project document. Paragraph 8 and footnote 7 note that the owner of the company that controls 80% of the consortium sponsoring the project is the brother of the current Minister of Civil Aviation and Tourism and the former Minister of Commerce. The United States takes comfort in staff's comment that the integrity and reputational risk to ADB relating to this relationship is low, but we nonetheless appreciate this helpful transparency, which also provides a healthy reminder that ADB must take consequential but calculated risks to achieve development results. Indeed, the United States has taken note of the very idiosyncratic risk—also very clearly explained—to ADB's security as lender resulting from Bangladesh's mandatory IPO rules, and the United States asks staff whether alternative means of mitigating this risk might have been available. Recognizing that ensuring gas supply for power generation has previously

been problematic in Bangladesh, the United States is pleased to see that the project includes a carefully crafted means of protecting against this risk. The United States hopes it will prove to be robust.

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