

## Signing of Japanese ODA Loan with the People's Republic of Bangladesh

—JICA provides largest ever loan assistance to accelerate social development and economic growth in Bangladesh—

1. On May 18, the Japan International Cooperation Agency (JICA) signed agreements with the Government of Bangladesh to provide three Japanese ODA Loan Projects, total of which amounted to 54.929 billion Japanese Yen. The volume of assistance shows JICA's strong commitment to support the Bangladesh Government's development plan which focuses on accelerating growth and poverty reduction.

2. Bangladesh, with the population of about 150 million living in the area less than 40% of Japan, has been demonstrating a high growth rate at around 6% per annum. This solid progress has been grounded on the robust growth of the textile and garments sector, which foreign investments including those from Japan are nowadays rapidly stepping in. Among least developed countries (LDCs), the country is the only one included in the list of prospective economies named "Next Eleven"<sup>[1]</sup>, thanks to its lure as a promising production base and sizable market. Despite these recent developments, Bangladesh has been recognized as one of the most challenging countries with the highest poverty ratio in Asia; one out of three is still living below the poverty line. This challenge is not only attributable to its geographical constraints, namely its terrain divided by three great rivers (Padma, Jamna, Meghna River) and the frequent flooding which inundates as large as one third of the land during rainy seasons, but also to the lack of essential infrastructures, such as power, roads, water supply and sewerage.

3. Against this backdrop, the three projects, all of which aim to further enhance the country's efforts for poverty reduction and economic growth, are composed of the following:

### 1) To integrate the national land divided by the great river (Construction of one of the world's longest bridges)

Due to the presence of the Padma River, one of the three great rivers of Bangladesh, the southwestern region has been isolated from the eastern part of the country embracing the capital city, Dhaka, and the industrial center, Chittagong. Such a lack of connectivity has long hindered the region's development, thus causing its high poverty ratio compared to other areas of Bangladesh. "Padma Multipurpose Bridge Project" is to develop 6.15km long bridge (one of the longest among the Truss-type bridges in the world) crossing over the Padma River. The Padma Bridge, once constructed, will drastically shorten the traveling time between Dhaka and Khulna, the main city of the southwestern region, from over 12 hours to about 3 hours. As a consequence, the mobilization of people and goods is expected to be substantially improved, and accordingly the national GDP is estimated to be increased by 0.56% per year. Furthermore, the Padma Bridge constitutes a part of the "Asian Highway 1"<sup>[2]</sup>, which aims to form an international transport corridor from Japan through Southeast and South Asia to Europe. The Padma Bridge is the national project which has long been desired in Bangladesh. Her Excellency Sheikh Hasina, the Bangladesh' Prime Minister, highlighted the importance of the project at the meeting with Ms. Ogata, the President of JICA, in November 2010 in Tokyo stating that "the development of South part of Bangladesh depends on the realization of the Padma Bridge."

### 2) To provide stable/reliable water for people living in the big city (Water supply system development in the third biggest city of Bangladesh)

Drinking water in Khulna city, the third biggest city of Bangladesh, relies solely on groundwater for water source and only 22% of approximately 1 million residents can access the piped water supply service. Many unconnected households have to fetch water from shared public taps every day, which imposes a heavy burden on the people. "Khulna Water Supply Project" is to develop a total water supply system utilizing water from the river. The percentage of the population who can access the piped water supply service will increase to 73%, including poor households, and they will be enabled to have stable access to safe drinking water by the project.

### 3) To enhance the development of Small and Medium-sized Enterprises (SMEs), key driver for the growth in the manufacturing sector (Strengthen the financial service for SMEs)

Bangladesh has been demonstrating solid economic growth based on the recent increase in the ready-made garments and knitwear exports and the robust remittance inflows from overseas workers. Going forward, in order to maintain the pace of the growth, it is critical to diversify its industrial production and foster domestic supporting industries. In particular, the SMEs sector, which consists of 5.9 million enterprises with the total employee of about 31 million and accounts for about 60% of gross outputs of the manufacturing sector, is expected to play a pivotal role in the country's pro-poor economic growth and industrialization. "Financial Sector Project for the Development of Small and Medium-sized Enterprises" aims to provide medium- and long-term funds to SMEs which currently have little or no access to financial services. The project is anticipated to enable about 10,000 SMEs to access banks and financial institutions so that they can expand their production and investments.

4. After the independence of Bangladesh in 1971, Bangladesh and Japan have been strengthening mutual ties. The economic relations also have recently been getting closer, as an increasing number of Japanese companies have interests in Bangladesh economy and those who actually entered in the economy add up to nearly 100 today. Furthermore, the Prime Minister Sheikh Hasina, on her recent visit to Japan in November-December 2010, expressed her expectation and intention to enhance investments from a larger number of Japanese companies. With these in view, JICA will continue to assist the economic and social development of Bangladesh, by using three modalities, namely, technical assistance, concessional loans (Japanese ODA loans) and grant aid to maximize the synergetic effects.



Signing Ceremony

#### Related Link

➤ [Project Map \(PDF/138KB\)](#)

## Reference

### 1. Terms and Amounts of Loan

Project title	Amount (million yen)	Annual interest rate (%)		Repayment period / deferment period (years)	Procurement
		Project	Consulting services		
Padma Multipurpose Bridge Project	34,200	0.01	— *	40 / 10	Untied
Khulna Water Supply Project	15,729	0.01	0.01	40 / 10	Untied
Financial Sector Project for the Development of Small and Medium-sized Enterprises	5,000	0.01	0.01	40 / 10	Untied
Total	54,929				

(\*) Dash in the table indicates that terms and conditions have not been established for that item.

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## 2. Project Summaries

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### (1) Padma Multipurpose Bridge Project

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#### Background and Necessity

Bangladesh is geographically divided by three great rivers, namely the Padma River, the Jamuna River, and the Meghna River, as well as a number of small and medium-sized rivers. It has been urgent and critical to establish the nationwide transport network which connects all the regions through the development of bridges and roads. Particularly, the mid-stream area of the Padma River<sup>[3]</sup>, which currently holds no bridge, has forced passers-by to stay in a queue and on ferry for at least five hours, or sometimes for a few days.

Although it accounts for 27% of the national land and 25% of the national population, the southwestern region is substantially isolated from the eastern part of the country which is relatively developed and benefited from the economic growth. Such isolation has inhibited people and goods of the region from moving smoothly from and to other regions, thus hampering the economic development of the region and causing the poverty ratio which is 5-10% higher than the national average.



#### Objective and Summary

The project is to construct 6.15km long Padma Multipurpose Bridge<sup>[4]</sup> crossing the mid-stream of the Padma River, with the aim of improving the regional connectivity between the southwestern region and other regions including Dhaka Metropolitan area. The Padma Bridge, once constructed, will drastically shorten the traveling time between Dhaka and Khulna, the main city of the southwestern region, from over 12 hours to about 3 hours. As a consequence, the mobilization of people and goods is expected to be substantially improved, thereby boosting the economic growth not only for the region but also for the whole country. The project will be co-financed by the World Bank, the Asian Development Bank and the Islamic Development Bank. The Japanese ODA Loan will be allocated to the construction of the main bridge. Japan has long been assisting Bangladesh to construct large bridges nationwide, such as the Jamuna Multipurpose Bridge, the Paksey Bridge, the Rupsha Bridge (by ODA Loan), the Meghna Bridge and the Meghna Gumti Bridge (both by Grant Aid). Upon the completion of the Padma Bridge, the geographical division of the country due to the three great rivers will entirely be eliminated by the regional linkage through these large-scale bridges constructed under Japanese ODA.

#### Executing Agency

Bangladesh Bridge Authority (BBA)  
Address: Setu Bhaban, Banani, Dhaka-1212, Bangladesh  
Tel: +880-2-9888414, Fax: +880-2-9888414

#### Planned Implementation Schedule

- (i) Completion of project: February 2015 (when the facilities are put into service)
- (ii) Issuing of letters of invitation for Consulting Services: March 2010 (already sent)
- (iii) Tender announcement of initial procurement package for international competitive bidding on project construction:  
Procurement package title: Main Bridge  
Release date: Pre-Qualification was already closed in November 2010.

### (2) Khulna Water Supply Project

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#### Background and Necessity

In Bangladesh, safe water is not sufficiently supplied and only around 70% of the population have access to safe water in 2005. Besides, although around 90% of drinking water relies on groundwater as water source, the arsenic pollution is serious and groundwater level is reported to be lower every year. Thus, the Government of Bangladesh aims at increasing access to safe water through the development of water supply system using surface water to meet the growing demand and to realize 90% coverage in major cities by piped water supply by 2025. However, a large scale water treatment plant has not yet been operated in Khulna, the third biggest city in Bangladesh, and only approximately 22% of its residents have access to piped water supply service. Many unconnected households rely on shared public taps and spend on average 90 minutes to fetch water everyday, which imposes a particular burden on women who often fetch water for the whole family. Therefore, it is necessary to enhance water supply capacity of Khulna city to meet the existing and growing demand.



#### Objective and Summary

The project is to expand reliable access to portable and safe water by developing the total water supply system including intake facility, water treatment plant, transmission lines and distribution lines. The percentage of the population who can access to the piped water supply service will increase to 73% and they will be enabled to have stable access to potable water by the project. For low income communities where individual connection is not practical solution, water user groups will be formulated to manage the communal tap and poor households can also be benefited from the project.

The project will also contribute to strengthening the resilience to adapt to climate change. Khulna District is located in the coastal belt of Bangladesh, and rivers running near the city are affected by salinity intrusion from Bengal Bay especially during dry season, and thus it is uneasy to secure potable fresh water. Expected rise in sea level due to climate change will exacerbate the salinity intrusion along the rivers. To cope with the situation, the project is designed to control salinity in the water using the fresh water preserved in the reservoir during rainy season and thereby strengthen the capacity to adapt to the climate change.

The Project will be co-financed by the Asian Development Bank, and the Japanese ODA Loan will be allocated to the construction of the water intake facility, water treatment plant and reservoir as well as the consulting services.

#### Executing Agency

Khulna Water Supply and Sewerage Authority (KWASA)  
Address: 1062/1ka, Khan-A-Sabur Road, Khulna-9100, Bangladesh  
Tel: +880-41-810608, FAX: +880-41-720857

#### Planned Implementation Schedule

- (i) Completion of project: June 2016 (when the facilities are put into service)
- (ii) Issuing of letters of invitation for Consulting Services: June 2011
- (iii) Tender announcement of initial procurement package for international competitive bidding on project construction:  
Procurement package title: Intake and Raw Water Transmission Pipe Package, Surface Water Treatment Plant and Impounding Reservoir Package  
Release date: May 2012

### (3) Financial Sector Project for the Development of Small and Medium-sized Enterprises

#### Background and Necessity

Bangladesh has been demonstrating solid economic growth based on the recent increase in the ready-made garments and knitwear exports and the robust remittance inflows from overseas workers. Going forward, in order to maintain the pace of the growth, it is critical to diversify its industrial production and foster domestic supporting industries. In particular, the SMEs sector, which consists of 5.9 million enterprises with the total employee of about 31 million and accounts for about 25% of national GDP and 60% of gross outputs of the manufacturing sector, is expected to play a pivotal role in the country's pro-poor economic growth and industrialization.



In the financial sector, the vast majority of bank lending has been concentrated on large enterprises, whereas microfinance institutions have substantially expanded their financial services to micro-enterprises. In contrast, SMEs, which are classified into neither of them and are at times referred to as the "missing middle", have limited access to financial services, in particular medium- and long-term funds from banks and financial institutions which are indispensable for their investments in machinery and other fixed assets. It is widely recognized that this limited access is caused from stringent collateral requirements, high interest rates, relatively short maturity and the cumbersome application procedures.

#### Objective and Summary

The project is to provide the medium- and long-term funds to be onlent from the Bangladesh Bank, the central bank of Bangladesh, to the participating financial institutions (PFIs) and then from PFIs to SMEs<sup>[5]</sup>. The project is anticipated to enable about 10,000 SMEs to access to banks and financial institutions so that they can expand their production and investments. Also, the consultants employed under the project will enhance capacity development of PFIs in order for improved financial intermediation, by conducting training courses on SMEs lending practices including "relationship banking"<sup>[6]</sup> prevalent in Japan and other countries. Through these assistances, the project is expected to contribute not only to the increase in the production and investments of the SMEs, but also to the sound development of Bangladesh industry and economy as well as employment generation.

The loan will be allocated to the Two Step Loan and consulting services for the development of SMEs.

#### Executing Agency

Bank and Financial Institutions Division of the Ministry of Finance\*

\* Bangladesh Bank will act as an Implementing Agency responsible for the administration of the project on behalf of the Executing Agency.

Bangladesh Bank

Address: Head Office, Motijheel C/A, Dhaka-1000, Bangladesh

Tel: +880-2-7165322, Fax: +880-2-9512991

#### Planned Implementation Schedule

(i) Completion of project: March 2016 (upon completion of the disbursement of Two Step Loan)

(ii) Issuing of letters of invitation for Consulting Services: July 2011

(iii) Tender announcement of initial procurement package for international competitive bidding on project construction:

There will be no tender for construction under this project, although investments and procurement of machinery and equipments are expected to entail as a result of subsidiary projects implemented by SMEs in use of subsidiary loan provided by participating financial institutions.

#### Notes

[1] The "Next Eleven" are eleven countries that have high potentials of impacting the world economy in the future identified by US-based investment banking firm. The other countries included are Iran, Indonesia, Egypt, South Korea, Turkey, Nigeria, Pakistan, the Philippines, Vietnam and Mexico.

[2] The Asian Highway is a network of 141,000 km-long highways crisscrossing 32 Asian countries with linkages to Europe. The Intergovernmental Agreement (IGA) of the Asian Highway was adopted by the 32 countries and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in 2003 to identify and select the routes to be improved or updated.

[3] 150km-long section of the Padma River between Goalundo, the confluence of the Padma River (Ganges River) and the Jamuna River, and Chandpur, the confluence of the Padma River and the Meghna River.

[4] The bridge will be used for multiple purposes in addition to road transportation. Under the project, the bridge will be equipped with gas transmission line and fiber-optic telecommunication cable. The railway is also planned to be installed on the bridge in the future.

[5] The financing modality, through which Japanese ODA Loan is lent to the government or public financial institutions of the developing countries and relented to eligible end-borrowers (via intermediary financial institutions in some cases), is called "Two Step Loan."

[6] "Relationship Banking" is the business approach of financial institutions in which financial institutions build and maintain close relationships with borrowers, obtain both qualitative and quantitative credit information inaccessible for outsiders and provide loans or other financial services to the borrowers on that basis.

# Project Map

Financial Sector  
Project for the  
Development of Small  
and Medium-sized  
Enterprises



Small and Medium-sized  
Enterprises sector plays a vital  
role for economic growth.

Padma Multipurpose  
Bridge Project



A lot of trucks are waiting  
in line to get on car ferry  
to cross Padma river.

Khulna

Dhaka

Chittagong

Bay of Bengal

Khulna Water  
Supply Project



Women in Khulna fetch  
water from public taps.



Image of Padma  
Multipurpose Bridge Project

0 60  
(km)