

INTERVIEW

Supporting Power Development for Economic Growth of Bangladesh

JBIC's First Project Financing for Combined Cycle Power Plant Project Involving Japanese Companies

Interview with Deputy Director NISHIU Tomohiko
Division 3, New Energy and Power Finance Department I,
Infrastructure and Environment Finance Group

The Japan Bank for International Cooperation (JBIC) signed in July 2020 a loan agreement with Reliance Bangladesh LNG & Power Limited (RBPL) in the People's Republic of Bangladesh (Bangladesh), whose equity investors include JERA Co., Inc. (JERA). JBIC will provide project financing amounting up to USD265 million (JBIC portion) for the Meghnaghat Natural Gas-fired Combined Cycle Power Plant in Bangladesh.

The loan is provided under JBIC's Growth Investment Facility and is co-financed with the Asian Development Bank (ADB) and private financial institutions, namely Mizuho Bank, Ltd, Sumitomo Mitsui Banking Corporation, MUFG Bank, Ltd. and Société Générale S.A. The total co-financing amount is USD642 million. Nippon Export and Investment Insurance (NEXI) provides insurance for a part of the loan provided by the private financial institutions.

JBIC's First Project Financing in Bangladesh

The economy of Bangladesh is on a steady growth path, but the electricity supply has consistently lagged behind demand. Electricity demand is expected to continue to increase by about 6.6% annually, and the Bangladesh government has developed a strategy to promote power development by independent power producers (IPP), viewing highly-efficient, environment-friendly gas-fired power generation as the key.

Nishiu outlined the project as saying: "In this project, RBPL builds, owns and operates a 718MW natural gas-fired combined cycle power plant at Meghnaghat, southeast of the capital Dhaka. The electricity produced by the plant will be sold to Bangladesh Power Development Board (BPDB), a state-owned power utility, for 22 years. RBPL is invested in by the power generating company JERA (49%), equally owned by TEPCO Fuel & Power, Inc. and Chubu Electric Power Company, Inc., and the Indian company Reliance Power Limited (RPL) (51%). JERA, based on its experience in IPP projects in the Philippines and Indonesia, will play the lead role in the business management and operation of the project, dispatching executives and project managers.

Previously, JBIC had extended buyer's credit (loans for importing goods such as equipment from Japanese companies) to the government and public institutions of Bangladesh, but this is JBIC's first project financing in the country. Also, it is the first IPP project where Japanese companies are involved in Bangladesh, and the first financing for South Asia under the Growth Investment Facility."

Negotiating and Reaching Agreement during Lockdown

Negotiation with RBPL for the project financing agreement started in September 2019.

Nishiu looks back on the loan negotiation process: "For project financing, diligent review of the project plan is essential because the source of repayment is the cashflow from the project. For this project, RBPL had already signed a gas supply agreement with TITAS, a state-owned fuel company, and a power purchase agreement with BPDB, so we

started our due diligence process from examining these agreements. I flew to Dhaka in November and met with officials and staff members of the relevant organizations including the Bangladesh Ministry of Power, Energy and Mineral Resources, which is the governing authority, BPDB, and TITAS to clarify uncertain points of the existing agreements of the project and suggested revising part of them. However, for the organizations, there was no room for significant revision of the agreements that they had already signed, so at the end of 2019, JERA, JBIC, ADB, and co-lenders started to discuss appropriate risk allocation mechanisms in Singapore and Tokyo.

In March, when we were still in the midst of such discussion, the Bangladesh government imposed a lockdown due to the COVID-19 pandemic, and our negotiation about the agreements temporarily halted. When the lockdown was lifted, we resumed the discussion, through online conference tools, to reach agreement with the parties involved. We knew the construction would not commence even with a signed loan agreement if the cities were locked down again and people were requested to stay inside. So we also checked the up-to-date situation of Bangladesh as well as the countermeasures against COVID-19 by RBPL and the EPC contractor and discussed who would bear the risks that arose due to the pandemic in case the situation worsens in Bangladesh. Eventually, we managed to sign the agreement at the end of July after the lockdown was lifted."

Expanding IPP Projects across South Asia and Southeast Asia

Nishiu expressed his aspirations and remarked that: "Another significance of this project is imported gas usage. In Bangladesh, domestic natural gas has been the main source to generate power, but the Bangladesh government has a strategy to promote LNG imports from, for example, the Middle East to increase power supply. This project is one of the first examples of this strategy.

Bangladesh, which is pro-Japanese and whose state of affairs is stable, is highly welcoming to Japanese companies, and Japanese manufacturers are also increasingly interested in Bangladesh as one of the potential countries to expand their business to. To respond to their interest, JBIC will enhance its support toward Japanese companies that are involved in power development in Bangladesh to realize industrial development, a better society, and a better quality of life.

Going forward, I would like to be involved in supporting IPP projects in other frontier markets, in Africa as well as South Asia. Japanese companies have the potential to be key players in developing the gas value chain, which includes LNG procurement from abroad, construction and operation of LNG storage and regasification facilities at ports, as well as power projects.

JBIC will further deepen its relationship with one of the co-lenders, ADB, and as Japan's policy-based financial institution, JBIC will also continue to cultivate the project financing market in South Asia and Southeast Asia to support the overseas infrastructure businesses of Japanese companies."

Deputy Director, NISHIU Tomohiko