

**FOCUS ON FINANCING POWER PROJECTS**

# HSBC: Powering Bangladesh

STAR BUSINESS REPORT

**T**HE government of Bangladesh has set a target to bring the whole country under electricity coverage by 2021. To achieve this target, the country requires multibillion dollar investments in the power sector. As a result, the government is increasingly diversifying the sources of investment.

"We are attracting innovative funds. One of the big innovative ways is Export Credit Agency (ECA) financing," Nasrul Hamid, state minister for power, energy and mineral resources, told reporters at the Dhaka Reporters Unity on January 21.

Under the ECA arrangement, the agencies involved in the project implementation will mobilise finances, said the minister.

Small power projects are attracting private sector investment while the government is seeking innovative financing through joint venture and the ECA backed financing for large power projects.

The Hongkong and Shanghai Banking Corporation (HSBC) had pioneered the ECA financing in the country's power sector in 2012 arranging \$420 million credit facility for Ashuganj Power Station Company Ltd. Since then, HSBC has arranged about \$1.14 billion of financing to implement five major power projects in the country. Other international banks followed the suit.

About \$4.5 billion has been invested in the power

sector of the country under the ECA arrangement in the last five years, establishing ECA as an alternative financing mode. Under the arrangement, power plants get a grace period in the first two to three years while the unit is under construction. The loans are repaid in instalments in the next 10 years.

ECAs are government departments or government-sponsored institutions with sovereign status in developed countries, established to support the export of capital goods and services from its country to the developing nations. Some ECAs have direct lending programmes which can increase the competitiveness of the funding to the project. It follows a common set of guidelines and characteristics known as the "OECD Consensus".

ECA funding is not only a matter of credit risk mitigation, it also enables projects to access a much larger pool of liquidity.

What is popularly known as suppliers' credit in Bangladesh is basically a form of export credit in the international financial market.

A total of \$6.9 billion (\$3.1 billion in the public sector and \$3.8 billion in the private sector) of investment has been made for setting up power plants in the country for generating 7,200 megawatts (MW), according to Bangladesh Power Development Board (BPDB).

To implement the proposed ongoing power projects which will generate about 10,700MW electricity, the country will

## PLANNED INVESTMENT BY 2030 (TOTAL \$42B)



**GOVERNMENT PRIVATE**  
SOURCE: POWER DIVISION

require a total investment of \$15.5 billion, out of which the public sector is investing \$8.2 billion and the private sector investment will be \$7.3 billion.

The government also has a plan to generate 60,000MW of electricity by 2041 - a move that will require further investment worth \$20 billion.

The investment opportunities are not restricted to genera-

tion of power: the country will require another \$20 billion of investment in transmission and distribution, said Tawfiq-e-Elahi Chowdhury, the prime minister's adviser on power, energy and mineral resources, last year.

The government, which has trebled the installed power generation capacity as well as the actual generation in the last

six years, has also enabled and created the environment for international financiers and arrangements to become part of the effort.

In 2013, Bangladesh Institute of Development Studies carried out a study to find out the average cost of unserved energy, which was calculated using the share of energy consumed by different sectors. It showed a weighted average of Tk 26.73 per kWh.

The average bulk tariff on electricity in the country at present is less than Tk 5 per kWh which indicates that the cost of unserved energy was more than five times the country's average electricity tariff.

According to the World Economic Forum's Global Competitiveness Report 2014-2015, inadequate and unreliable energy and power supply appears to be the most binding constraint on the country's competitiveness. The cost of power outages has been estimated to equal 0.5 percent of

gross domestic product.

Bangladesh has one of the lowest per capita power consumptions in the region which stands at roughly 350kWh compared to 1,075 kWh in India, 527 kWh in Sri Lanka, and 495 kWh in Pakistan. Bangladesh needs more credible power supply to bring the remaining one-third population under its electricity coverage.

Electricity demand in Bangladesh is growing due to underlying economic growth which averaged more than 6 percent over the last decade and climbed above 7 percent in the last fiscal year.

Being the leading trade finance bank in the globe, HSBC has been facilitating international trade in Bangladesh. To note, HSBC has worked as the trade bank for the first cross-border electricity trade of the country.

In 2013, the prime minister of Bangladesh inaugurated the first electricity import of

250MW from India. HSBC has also arranged low cost foreign financing for the state-owned electricity transmission authority to implement a 61-kilometer inter-district electricity transmission line and substation project.

The bank sees infrastructure as the backbone of development for a country.

HSBC's expertise and international network give the bank the capability to help support the Bangladesh government's infrastructure development plans, Tawfiq-e-Elahi Chowdhury added.

HSBC has one of the largest global export and specialised finance teams and has arranged ECA supported facilities across diverse business sectors worldwide, with almost all the ECAs globally. Today, HSBC is in a leading position in arranging ECA financing around the world, raising \$5.23 trillion in ECA-backed financing with more than fifty deals in 2015.

HSBC Bangladesh believes that the investment gives a very positive message to international investors about Bangladesh, which is very important.

Experts, however, said, when projects such as public infrastructure are funded with external finance - concessional or non-concessional, such as export credits, suppliers' credits and buyer credits, it is absolutely essential to focus on cost recovery-related issues.

This article is reprinted to bring some changes in graphical representation. The second part appears Tuesday.

### KEY POINTS

- \$1.14b of ECA-backed financing arranged by HSBC for 5 power plants
- Country's first ECA-backed deal in power sector for \$420m arranged by HSBC
- Country's first power import of 250MW facilitated by HSBC
- Country's first commercial financing in power transmission sector arranged by HSBC

## Asian economies escape manipulator tag, but expect more pressure on trade



REUTERS/FILE  
South Korean won, Chinese yuan and Japanese yen notes are seen with US 100 dollar notes.

REUTERS

Asian countries escaped the currency manipulator label in the latest US Treasury report, but remain wary of possible trade friction as President Donald Trump maintains his administration will seek to address trade imbalances.

Trump has said some US trading partners, particularly China, manipulated their currency, but has since backed off that claim and acknowledged that China had not weakened the yuan to make its exports cheaper.

China, Japan, South Korea and Taiwan remained on a list for special monitoring of currency practices, China by virtue of a massive trade surplus with the United States.

"Fixing trade imbalances will be an issue for the US in its dialogues with China and Japan, while the manipulator threat has been put on the back-burner," a Japanese government official told Reuters.

The semi-annual US Treasury currency report released on Friday did not name any major trading partner as a currency manipulator, although it seemed to leave open the option for action in the future.

Trump has softened his rhetoric against China's trade practices as Beijing has intervened in foreign

exchange markets to prop up the value of its yuan, and as he looks to China for help dealing with rising tension on the Korean peninsula.

"I think the United States decided to forego (labeling China a currency manipulator) this time because it wants China's cooperation on North Korea," said Takeshi Minami, chief economist at Norinchukin Research Institute in Tokyo.

"Depending on how the North Korean situation develops, we don't know what will happen in half a year (when the next currency report is due to be published)."

New language in the Treasury report citing a history of currency intervention in China, South Korea and Taiwan is in line with what experts say could be eventual changes to the criteria aimed at deterring future manipulation.

With Washington pushing a trade agenda aimed at reducing deficits, experts say the most logical option is to lengthen the time period for reviewing currency market interventions from 12 months to several years.

"One thing we noticed was the report touched on the previous history of (currency manipulation). They're telling us not to do so in the future and we have no intention of doing so," a senior South Korean finance official said.

## Apple may bid for big stake in Toshiba chip business

REUTERS

Apple Inc is considering teaming up with its supplier Foxconn to bid for Toshiba Corp's semiconductor business, Japanese public broadcaster NHK reported on Friday - the latest twist in the sale of the world's second-biggest flash memory chipmaker.

The US technology giant is considering investing at least several billion dollars to take a stake of more than 20 percent as part of a plan that would have Toshiba keep a partial holding so the business remains under US and Japanese control, NHK reported, citing unidentified sources.

The idea would be to allay Japanese government concerns about any transfer of sensitive technology to investors it deems a potential risk to national security, the broadcaster said.

Apple was not immediately available to comment. Taiwan's Foxconn, formally known as Hon Hai Precision Industry, declined to comment. A Toshiba spokesman said he could not comment on specific transactions.

Foxconn, which participated in the first round of the chip sale auction, has been considered a national security risk due to its ties with China. The bulk of Apple's iPhones are made at Foxconn's extensive manufacturing base there. NHK said Apple wants Foxconn to own a stake of around 30 percent of Toshiba's chip business.

An investment by Apple would be its first direct stake in a major global memory chipmaker, as it seeks to secure a stable supply of key components. Samsung Electronics is the biggest maker of flash memory chips, followed by Toshiba, SK Hynix and US-based Micron Technology Inc.

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