



# Bangladesh: Strengthening Bangladesh Infrastructure Finance Fund Limited (BIFFL)

Project Name	Strengthening Bangladesh Infrastructure Finance Fund Limited (BIFFL)	
Project Number	51311-001	
Country	Bangladesh	
Project Status	Proposed	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	Loan: Bangladesh Infrastructure Finance Fund Limited (BIFFL)	
	Ordinary capital resources	US\$ 50.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth	
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development	
Sector / Subsector	Finance - Infrastructure finance and investment funds	
Gender Equity and Mainstreaming	Some gender elements	
Description	<p>The proposed project will be designed as a financial intermediation loan in an amount up to \$100 million from Asian Development Bank (ADB)'s ordinary capital resources. The Finance Division, Ministry of Finance will be the executing agency. Bangladesh Infrastructure Finance Fund Limited (BIFFL) will be the implementing agency. A subsidiary loan agreement will be signed between the Finance Division and BIFFL, and will be in form and substance satisfactory to ADB. The Finance Division will relend to BIFFL either USD or Taka funds, based on the nature of the financing needs. The subloans will be priced commercially. BIFFL will identify, evaluate and finance qualified PPP subprojects, by ensuring that they comply with the project implementation requirements in terms of technical efficiency, financial and economic soundness, environment and social safeguards, procurement guidelines, and other requirements stipulated in the project administration manual. The implementation period will be for 3 years from 2019-2022. BIFFL will establish a project management unit with staffing and other resources satisfactory to ADB. Subproject selection will be based on pre-determined eligibility criteria and follow approved environmental and social management system (ESMS). The subloans will be commercially priced, and reflect BIFFL's cost of funds and subproject specific risks.</p>	
Project Rationale and Linkage to Country/Regional Strategy	<p>Bangladesh's economic development over the past 7 years has been strong. Gross domestic product (GDP) grew at an average rate of 6.9% per annum from 2012-2019 (estimated for 2018-2019), reaching a high of 7.9% in 2018. Going forward, the Government of Bangladesh (GOB) targets a GDP growth rate of 7.4% during the 7th Five Year Plan (FY2016-FY2020) period, and projects to become a (lower) middle-income country by 2021. To achieve this, infrastructure finance needs to reach 4.2% of GDP per annum, or at about \$12 billion. Current infrastructure financing at about \$3 billion, or 1.0% of GDP, per annum falls far short of the required level, and generates a \$9 billion annual infrastructure financing gap.</p> <p>PPP represents an advantageous approach to develop public infrastructure by attracting private sector participation in revenue and risk sharing in financing, construction, operation, and maintenance. However, Bangladesh's PPP development faces a number of challenges. First, public sector project development support to (i) availability and/or capacity payments, (ii) viability gap fund (VGF), and (iv) land acquisition and resettlement is constrained. Second, PPP framework and project development capacity in Bangladesh are still underdeveloped. Third, many large infrastructure projects have a long gestation period (e.g., 15-20 years), but long-term local currency (Taka) funds are not available. Fourth, Bangladesh ranks 177 out of 190 countries in the World Bank Doing Business index, and is yet to become an attractive destination to foreign concessionaires. Fifth, local financial market lacks sophisticated products to hedge commercial and noncommercial risks, such as through partial credit guarantee or political risk guarantee.</p> <p>Among the above challenges, the lack of long-term debt in the local capital markets and the banking system is most noticeable. This is caused by: (i) government securities and (ii) national saving certificates, both of which have distorted high returns, crowding out potential corporate or project bond issues. (iii) Institution investors such as pension funds and insurance companies cannot invest in (riskier) non-government bonds, limiting market demand for corporate and project bonds. (iv) Due to the limited investment opportunities, institutional investors tend to hold the government securities till maturity, limiting secondary market trading and the development of benchmark yield curves. As a result, riskier corporate and project bonds cannot be easily priced. Finally, corporate/project borrowers do not actively demand long-term bank loans because of the predominantly relationship-based banking practices, where short-term funds are often easily extended with favorable terms.</p> <p>While IDCOL has been receiving continued long-term debt support from Asian Development Bank (ADB) and World Bank, BIFFL is still a relatively new financial institution with only 8 years of operation, and requires the same access to long-term development assistance (long-term debt) to expand its lending. Currently, BIFFL's capital structure is skewed: the balance sheet contains primarily GOB equity but little debt. In other words, BIFFL has been lending out of its equity and retained earnings. This represents a sub-optimal and unsustainable financial position. Going forward, BIFFL plans to mobilize at least \$500 million long-term debt from (i) development assistance and (ii) attempted bond issuances for a total of \$700 million (Tk56.0 billion) in 2021-2022. In this context, BIFFL has requested a sovereign loan of up to \$100 million from ADB to fill a part of this funding gap. Without immediate funding support from ADB or other international financial institutions, BIFFL will soon be unable to sustain such an equity-driven lending operation.</p>	
Impact	Investment in infrastructure development increased.	
Outcome	Private sector participation to PPP infrastructure projects increased.	
Outputs	Availability of long-term finance for PPP subprojects to BIFFL provided. BIFFL's institutional capacity to finance infrastructure projects improved.	
Geographical Location	Nation-wide	
<b>Safeguard Categories</b>		
Environment	FI	

Involuntary Resettlement	FI
Indigenous Peoples	FI

Summary of Environmental and Social Aspects	
Environmental Aspects	
Involuntary Resettlement	
Indigenous Peoples	
Stakeholder Communication, Participation, and Consultation	
During Project Design	
During Project Implementation	

Business Opportunities	
Consulting Services	Consulting services funded by the TA will follow ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).
Procurement	Procurement by the proposed project will follow ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). All PPP subprojects would undergo a rigorous bidding process, in accordance with the Government of Bangladesh (GOB)'s Procurement Guidelines for PPP Projects, 2018. For procurement of goods and services to be financed by subloans from the ADB loan, ADB encourages BIFFL to require its subborrowers to adopt internationally competitive bidding procedures to the extent possible when the amount of the investment is unusually large and economy and efficiency can be gained through such procedures. BIFFL would also ensure that prices are reasonable and that relevant factors, e.g., time of delivery, efficiency, reliability, suitability for the subproject, and (for consulting services) quality and competence are taken into account. The recommended project procurement classification is "B."

Responsible ADB Officer	Huang, Anqian
Responsible ADB Department	South Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, SARD
Executing Agencies	Finance Division, MOF (EA) Bangladesh Secretariat, Dhaka-1000 Bangladesh

Timetable	
Concept Clearance	15 Apr 2019
Fact Finding	05 Aug 2018 to 31 Jul 2019
MRM	30 Aug 2019
Approval	-
Last Review Mission	-
Last PDS Update	12 Apr 2019

Project Page	<a href="https://www.adb.org/projects/51311-001/main">https://www.adb.org/projects/51311-001/main</a>
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