Early Warning System

ADB-55328-001

Strengthening the Capacity of Infrastructure Development Company Limited

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Quick Facts

Countries	Bangladesh
Financial Institutions	Asian Development Bank (ADB)
Status	Approved
Bank Risk Rating	U
Voting Date	2021-12-13
Borrower	People's Republic of Bangladesh
Sectors	Climate and Environment, Finance, Technical Cooperation
Investment Amount (USD)	$ 0.75 million
Grant Amount (USD)	$ 0.75 million

Project Description

According to ADB documents, the knowledge and support technical assistance (TA) will support knowledge development and capacity building of the Infrastructure Development Company Limited (IDCOL), a public sector financing company mandated by the Government of Bangladesh to provide long-term financing of public-private partnership (PPP) projects. The TA will help lay the groundwork for the transformation of IDCOL into a more market-oriented entity, particularly by transforming its funding sources and capital structure and strengthening its risk management, business process automation, and portfolio diversification. The TA will also enable IDCOL to take a leadership role in facilitating climate finance in Bangladesh. The TA is included in the Bangladesh Indicative Country Pipeline and Monitoring Report (2022-2024).

PROJECT RATIONALE AND LINKAGE TO COUNTRY/REGIONAL STRATEGY

Rapid economic growth has increased the demand for energy, transportation, and urban development. However, the infrastructure deficit remains a bottleneck and prevents the economy from reaching its full potential. Public-sector-driven infrastructure development is constrained by resource availability with the budget deficit, rising to 5.6% in 2020. Moreover, the coronavirus disease (COVID-19) pandemic has resulted in increasing fiscal pressure. The government has highlighted PPP as an important tool to mobilize private sector resources into infrastructure investments to supplement public investment and to achieve better value-for-money.

As part of its efforts to mainstream PPP, the government set up IDCOL in 1997 to address long-term funding challenges of infrastructure projects, especially PPP projects. Since then, it has become the leading domestic financial institution in catalyzing long-term funding and promoting private sector in investment in infrastructure projects. By December 2020, its outstanding loan and advances was at Taka (Tk) 79.1 billion, rising from Tk41.0 billion in 2016. Its shareholder equity grew to Tk9.2 billion from Tk6.0 billion in 2016. It is one of the few financial institutions that have the technical and managerial capacity to appraise, structure and execute infrastructure project financing in Bangladesh.

ADB has had a long-term engagement with IDCOL. Through Public Private Infrastructure Development Facility (PPIDF), PPDIF2 and Tranche 1 of PPIDF3, ADB provided $535 million project financing. With the support of two ADB TAs, IDCOL has developed a PPP policy framework, set up a dedicated risk management unit led by senior officers, established a corporate recovery unit, formulated a corporate strategy with a focus on infrastructure investment and advisory services, strengthened ICT capacity and compliances, and developed a capable social and environmental safeguard team. Currently, IDCOL is led by a strong 8-person Board including independent directors and staffed with experienced executives and professionals. With its rapid growth in operations and enhanced capacities, IDCOL is ready to take major steps to become more effective in achieving its missions, with ADB's support.

First, IDCOL remains a state-owned institution, relying on multilateral loans, guaranteed by the government. As of December 2019, the outstanding amount of multilateral loans stood at Tk75.5 billion (ADB's share is 39%). With its growing operations and stronger capacity, IDCOL is considering diversifying its funding sources gradually. Funds can be raised in the capital market, either through a combination of domestic and international bond issuances, potentially a green bond issuance, partially guaranteed by ADB or through an offshore-taka linked bond. Tapping the capital markets will help IDCOL improve its long-term financial sustainability and adopt good practices in project appraisal, risk management, and corporate governance. Furthermore, IDCOL will be encouraged to adopt global Green Bond framework in its investment.

Second, IDCOL needs to strengthen its capital base to ensure long-term sustainability and to support its expanding operations. One of the options is to bring on board a strategic partner, possibly an international infrastructure financing company or a development financial institution. This will not only strengthen IDCOL's capital base, but also provide IDCOL access to international project appraisal systems and processes, management know-how, improved risk management and corporate governance practices. This will also establish a good precedence in the reform of the State-Owned Enterprises in Bangladesh.

Investment Description

- Asian Development Bank (ADB)

The TA amounts to $750,000 which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7). IDCOL will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, and other in-kind contributions. The TA's support for climate mitigation totals $120,000—and $60,000 for climate adaptation—in the form of capacity enhancement, feasibility studies, and pipeline development.

Financial Intermediary

Financial Intermediary: A commercial bank or financial institution that receives funds from a development bank. A financial intermediary then lends these funds to their clients (private actors) in the form of loans, bonds, guarantees and equity shares. Financial intermediaries include insurance, pension and equity funds. The direct financial relationship is between the development bank and the financial intermediary.

- Infrastructure Development Company Limited (IDCOL) (Financial Intermediary)

Contact Information

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ACCESS TO INFORMATION

You can submit an information request for project information at: https://www.adb.org/forms/request-information-form

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ACCOUNTABILITY MECHANISM OF ADB

The Accountability Mechanism is an independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an Asian Development Bank-financed project. If you submit a complaint to the Accountability Mechanism, they may investigate to assess whether the Asian Development Bank is following its own policies and procedures for preventing harm to people or the environment. You can learn more about the Accountability Mechanism and how to file a complaint at: http://www.adb.org/site/accountability-mechanism/main.

Bank Documents

- Project Disclosure PDF [Original Source]
- Technical Assistance Report [Original Source]