



Launching of

# Industrial & Infrastructure Development Finance Company Ltd. (IIDFC)

A New Investment Company in Bangladesh

The Daily Star

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Board of Directors of Industrial & Infrastructure Development Finance Company Ltd (IIDFC)

## Finance Minister inaugurates a new investment company today

Mr. M Saifur Rahman, Minister for Finance & Planning, will formally launch the operation of Industrial & Infrastructure Development Finance Company Ltd. (IIDFC) today at 6.00 pm at a ceremony at BRAC Center Inn Auditorium.

Promoted by 10 banks, the ICB and 3 insurance companies, this unique joint venture between the public and the private sector financial institutions will fill in a void in long term financing created by the slow down of the activities of BSRS and BSB under the heavy burden of classified loans. The Board of Directors of IIDFC consists of senior bankers, successful entrepreneurs and seasoned administrators with a veteran banker as its CEO. The objective of IIDFC is to provide high quality

financial services to include medium to long term loan and equity support to financially viable industrial undertaking and infrastructure projects, short term finance to successful industrial enterprises, lease financing of industrial equipment's, financial packaging or take over of public sector enterprises, financial or otherwise. The company will also, subject to SEC regulation, undertake underwriting, bridge financing, issue mutual funds and act as a lead managers of IPOs.

With an Authorized Capital of Tk. 1000 million, the company has a Paid-up Capital of Tk. 141 million. The equity resource would be supplemented as and when necessary by its promoter shareholders all of whom are financial institutions.

### PROMOTERS & DIRECTORS

Chairman of the Board of Directors  
**Mr. Md. Matiu Islam**

Vice Chairman  
**Mr M Syeduzzaman**

Managing Director  
**Mr A K M Nozmul Haque**

#### Promoters

1. Bank Asia Ltd.
2. BRAC Bank Ltd.
3. Mutual Trust Bank Ltd.
4. Southeast Bank Ltd.
5. National Bank Limited
6. Arab Bangladesh Bank Ltd.
7. Sonali Bank
8. Janata Bank
9. One Bank Ltd.
10. The City Bank Ltd.
11. Investment Corporation of Bangladesh
12. National Life Insurance Co Ltd.
13. Pragati Insurance Ltd.
14. Eastland Insurance Co Ltd.
15. Md Matiu Islam

#### Nominee Directors

- Mr M Syeduzzaman  
Chairman, Bank Asia Ltd.
- Mr Fazle Hasan Abed  
Chairman, BRAC Bank Ltd.
- Mr Syed Manzur Elahi  
Chairman, Mutual Trust Bank Ltd.
- Mr Yussuf Abdullah Harun  
Chairman, Southeast Bank Ltd.
- Mr Habibullah  
Chairman, National Bank Ltd.
- Mr C.M. Koyes Sami  
Managing Director, Arab Bangladesh Bank Ltd.
- Mr Rabiul Hussain  
Managing Director, Sonali Bank
- Mr Murshid Kuli Khan  
Managing Director, Janata Bank
- Mr Mirza Ejaz Ahmed  
Managing Director, One Bank Ltd.
- Mr Deen Mohammad  
Director, The City Bank Ltd.
- Mr Md Ziaul Haque Khondaker  
Managing Director, Investment Corporation of Bangladesh
- Mr M Haider Chowdhury  
Chairman, National Life Insurance Co Ltd.
- Mr Abdul Monem  
Director, Pragati Insurance Ltd.
- Mr Ghulam Rahman  
Executive Director, Eastland Insurance Co Ltd.
- Mr Md Matiu Islam

## Evolution of non-banking financial institutions in Bangladesh: From public to private

Chapter V of Bangladesh Bank Order 1972 defined non-banking financial institutions and incorporated the regulatory powers of the Central Bank in relation to these institutions. The concept of non-banking, however, owed its origin to the Reserve Bank of India Act of 1934, which was the mother act of all central banking institutions in the sub-continent. The State Bank of Pakistan Act was based on this mother act, so also was the Bangladesh Bank Order 1972.

A non-banking financial institution was defined in the Bangladesh Bank Order as any non-banking institution which carries on as its business the financing, whether by way of making loans or otherwise, of trade, industry, commerce or agriculture. Hire purchase business, acquisition of shares, stocks etc. were also included in the normal

functions of such institutions. The non-banking financial institutions (NBFIs) in fact were envisaged to be DFIs in the private sector. The BSB and BSRS, successors to IDBP, PICIC, however, were not considered as DFIs and Bangladesh Bank had little supervisory functions over them. In the later years, however, these two institutions were given license under the Banking Companies Act to help mobilization of resources, which brought them directly under the supervisory control of the central bank.

It was President Ziaur Rahman who first initiated the concept of an investment company in the private sector in Bangladesh and sought the assistance of His Highness The Aga Khan to set up such an institution. His Highness came forward and enlisted the support of IFC, DEG, CDC and his own organisation of

The Aga Khan Foundation and the present IPDC came into being in early eighties with 30% shares belonging to GOB and 17% % by each of the four foreign promoters. Since at that time there was no law in place to sanction such institutions, the Ministry of Industries and the Directorate of Industries acted as the sanctioning authority of IPDC. The Government had to bend backwards to meet the conditionalities of the four foreign promoter shareholders and Mr Saifur Rahman, the then Finance Minister, accepted that the \$4.00 million to be contributed towards the share capital of the IPDC by the four foreign promoters could be kept in deposit in foreign currency with Sonali Bank Branch in London.

Birth of IPDC was quickly followed by IDLC, SABINCO, UAE-Bangladesh Investment Company,


United Leasing etc. It was perhaps a coincidence that all these institutions had very substantial share of foreign investments. None of these institutions were accepting deposits of any kind and therefore did not come under the regulatory control of Bangladesh Bank. What prompted GOB and the Bangladesh Bank to promulgate the Financial Institutions Act of 1993 was the collapse of two short-lived financial institutions, namely BCI and NCC created in mid-eighties with the approval of the Ministry of Finance. The 1993 Act, which repealed Chapter V of Bangladesh Bank Order of 1972, was the first attempt of Bangladesh Bank to assume the powers to approve, license, supervise and regulate the functions of non-banking financial institutions with powers to accept term deposits but not savings and current account


deposits.


There are at present 26 sanctioned non-banking financial institutions including 16 with leasing as their core business, all of them in the private sector. Around 12 of these institutions are active players and some of the sanctioned units never took off. There had been a tremendous surge of lease financing of capital machinery and the average growth of leasing industry during the last three years had been of the order of 25% and this growth rate is likely to continue. Although a nascent industry, the NBFIs are destined to play an important role in the industrialisation process of Bangladesh. In FY 2001 alone, investments by non-banking financial institutions are likely to exceed Tk 650 crores.


**Congratulations to IIDFC for bringing us under one umbrella**


*Together we shall build the nation  
and  
Together we shall prosper*


 **Sonali Bank**


 **Investment Corporation of Bangladesh**


 **Janata Bank**


 **Arab Bangladesh Bank Ltd.**


 **The City Bank Ltd.**


 **One Bank Ltd.**


 **National Bank Ltd.**


 **Southeast Bank Ltd.**


 **Bank Asia Ltd.**

 **Mutual Trust Bank Ltd.**

 **BRAC Bank Ltd.**

 **National Life insurance Co. Ltd.**

 **Pragati Insurance Ltd.**

 **Eastland Insurance Co. Ltd.**



A meeting of Board of Directors in progress

## Banks have started reducing lending rates Can the non-banking financial institutions follow suit?

The cost of funds greatly influences the lending rates. The lower the cost of funds, the lower should be the lending rates. The commercial banks through a judicious mix of zero-cost current account deposits with savings and term deposits can to a large extent influence their cost of funds. The non-banking financial institutions, however, are not so privileged. For them, the cost of funds is determined by the cost of borrowing.

Apart from the small equity of Tk 5.00-10.00 crore, NBFIs are solely dependent on high-cost bank borrowings and credit lines for their lending operations. Deposit mobilization in the shape of term deposits, allowed by the Bangladesh Bank, is another source. However, with no branch network and unequal competition from the banking sector, deposit mobilisation for resource build up does not promise much success. On an average, between 10% and 15% of the NBFIs funds are mobilised through deposits.

The non-banking financial

institutions borrow funds at interest rates ranging from 12% to 14% and lend at flat rates of 15% to 16% or lease finance at rates varying from 16% to 18%. With a gross margin of 4%, from which after deduction of the administrative cost, reserves for outstanding loan/lease portfolio and 40% taxes, there is hardly any cushion left for rate reduction.

For the banking companies, income from non-funded operations constitute an important source of revenue not available to NBFIs some of whom, however, try to reduce their cost of funds through judicious mix of cheaper call money and costlier term loans. This operation however, entails certain amount to risk and is only possible in a situation where there is sufficient liquidity in the money market.

The Finance Minister's directive for reduction of lending rates followed by 1% reduction in the Bangladesh Bank's discounting rates have prompted some of the commercial banks to announce the reduction of rates by 2-3%. This

reduction, however, is yet to be reflected in the term loan or credit lines extended to the non-banking financial institutions who have no access to the discounting facilities offered by the Bangladesh Bank.

Therefore, interest rate reduction by the NBFIs would call for access to other cheaper funds. This would be possible if the Ministry of Finance and the Bangladesh Bank allow Industrial & Infrastructure Development Finance Company (IIDFC) to issue tax-free zero coupon bonds for raising resources for funding the non-banking financial institutions. The concept of zero coupon bonds prevalent in the developed economies has not yet been tried in Bangladesh. IIDFC with participation of 10 commercial banks as its shareholders is in a unique position to mobilise substantial resources on its own through issue of zero coupon bonds. Subject to the concurrence of the Ministry of Finance, the IIDFC Board recently approved issue of such zero coupon bonds.

**Industrial and Infrastructure Development Finance Company Ltd. (IIDFC)**

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