



Issues in South Asian Economic Growth
– Linking Research to Policy



Problems and Prospects of Public Private Partnership in Bangladesh

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What is PPP?

- PPP is a form of medium/long term contractual arrangement between the public and the private sector to deliver specific type of public services.
- PPP is a process, complementary to public procurement
 - Not a substitute, because not all goods and services that are currently publicly procured could be secured through PPP
- PPP should be distinguished from Joint Venture between public authorities with the private sector
 - No private ownership in PPP projects, ownership remains with the public authority

Roles of Public Authority and the Private Sector

The role of:

- Public Authority

- Screening PPP proposals
- Project development (Risk sharing)
- Tender processing
- Award of concession (Risk sharing)
- Monitoring project implementation

- Private Partners:

- **Design** and **Build** the project
- **Finance** the project from Private Equity and Debt Financing sources
- Undertake **Operations** and **Maintenance** work
- **Deliver Services** to the consumers

Public Procurement versus PPP

	Public Procurement	PPP
Risk	<ul style="list-style-type: none">• Public sector bears all risk of undertaking project	<ul style="list-style-type: none">• Risks distributed between public sector and private sector
Project Management	<ul style="list-style-type: none">• Public sector is responsible for all project management roles and interfaces	<ul style="list-style-type: none">• Private sector manages overall project and interfaces
Performance Management	<ul style="list-style-type: none">• Public sector accountable for performance and long term maintenance	<ul style="list-style-type: none">• Private sector takes responsibility for design, construction, maintenance and possibly even operations
Payments	<ul style="list-style-type: none">• All project related costs (capital and operational) paid by public sector	<ul style="list-style-type: none">• Users pay for services or public sector pays for service subject to predefined performance criteria
Financing	<ul style="list-style-type: none">• Public sector responsible for securing finance	<ul style="list-style-type: none">• Private sector responsible for funding through arranging debt and issuing equity
Specification of Inputs and Outputs	<ul style="list-style-type: none">• Contract is based on the specification of inputs	<ul style="list-style-type: none">• Contracting Authority defines the service and performance level required and the successful private sector bidder determines the work required to meet the requirements

Aspired Results and Potential Benefits of successful PPPs

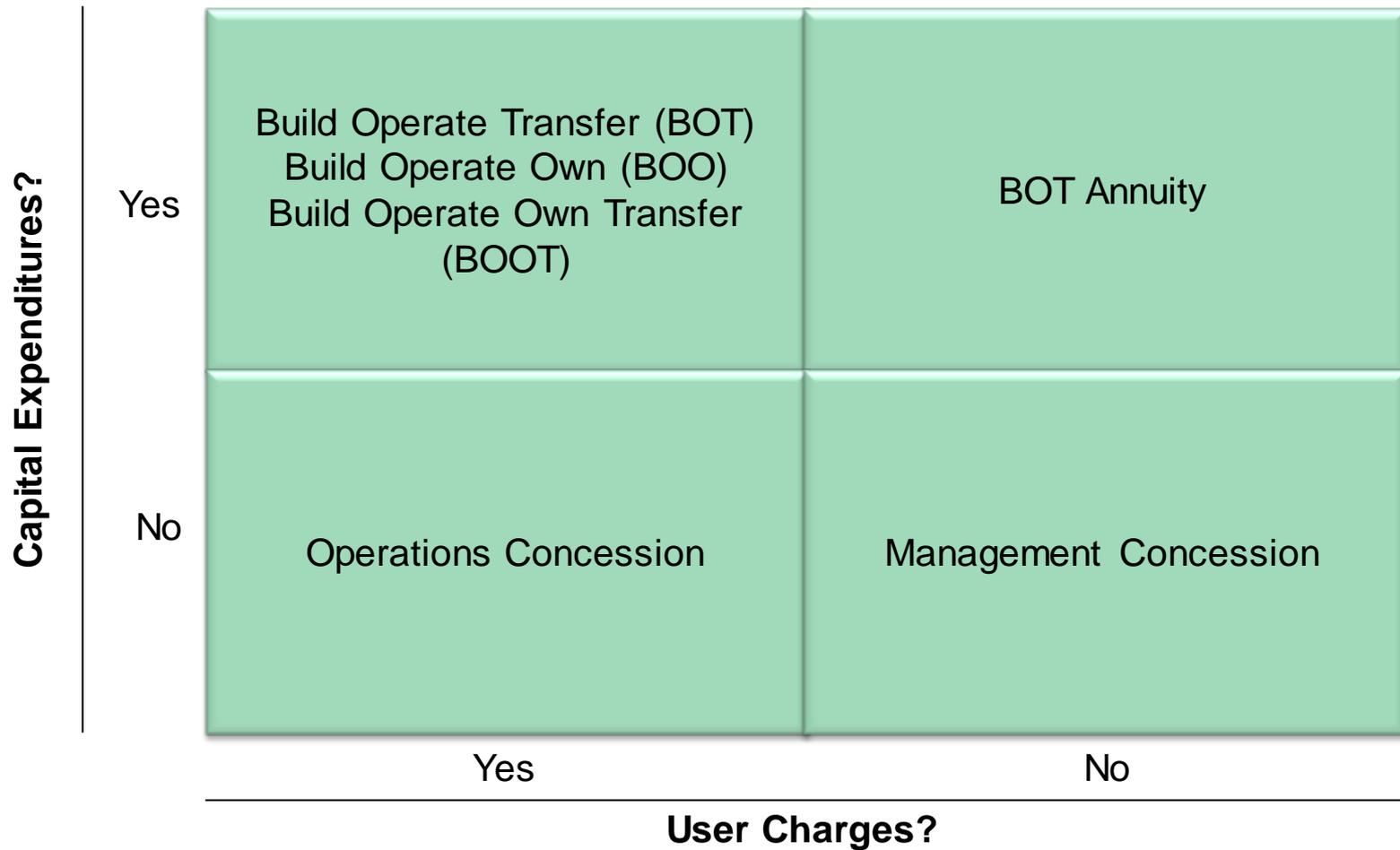
Aspired Results:

1. Accelerating investments
2. Improved quality
3. Timely delivery
4. Reduced costs
5. Innovative solutions

Potential benefits:

- a) Benefits for the private sector: generate a profitable revenue stream or expand market access.
- b) Benefits for the consumer: delivery of a services that people want and would not have access to at the same price, in a business as usual situation.
- c) Benefits for the government: fulfillment of a political need, social obligation, development imperative.

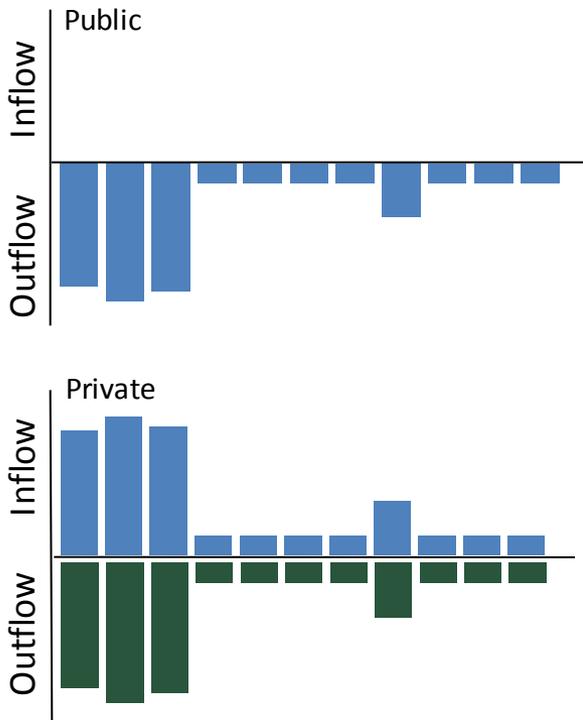
Modes of PPP



Reflecting different Cost Recovery Mechanisms

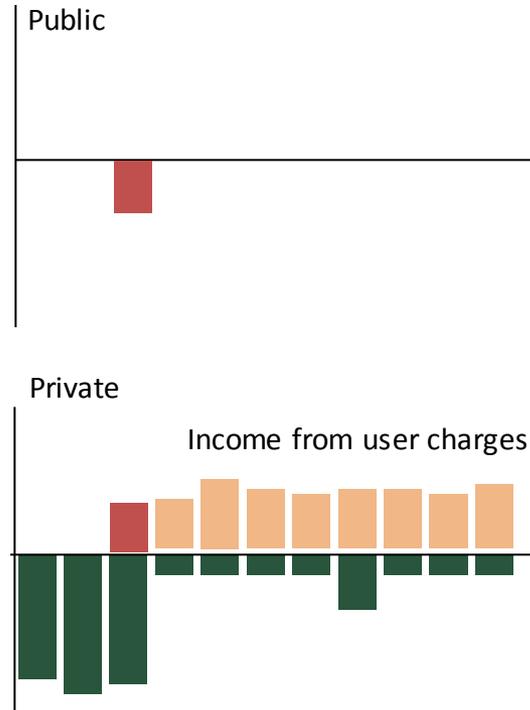
Public delivery

Cash Flows Public and Private Sector



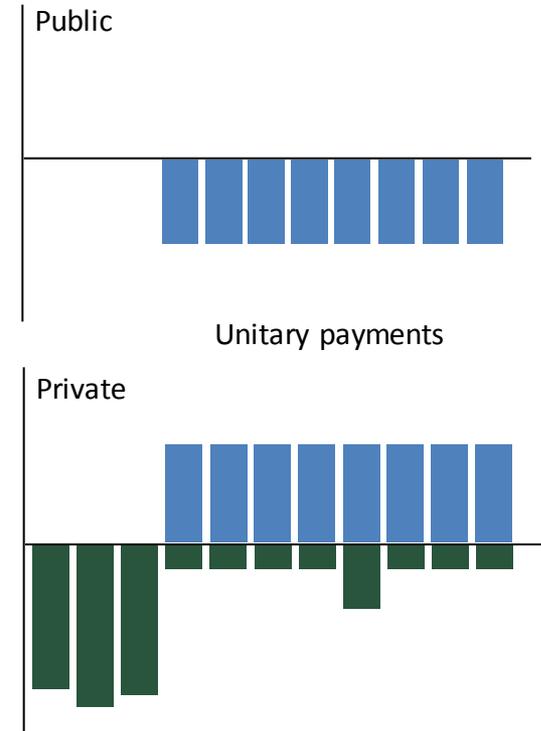
BOT (DBFO)

Cash Flows Private and Public Sector



BOT Annuity (DBFM)

Cash Flows Private and Public Sector



 VGF

...and different Risk Allocation Schemes

PPP Mode	Management Contract	Operations Concession	BOT Annuity DBFM	BOT DBFO	BOOT BOO
Risks					
Asset					
Construction					
Demand					
Performance					
 Public  Private					

PPP in Bangladesh

- Initial Success
 - AES Meghnaghat 450MW and AES Haripur 360 MW Power projects.
 - Contract based.
- Original PPP Guidelines (Bangladesh Private Sector Infrastructure Guidelines, 2004)
 - Failed to replicate the initial success in the Power Sector or replicate the same in other sectors
- Budget Announcements
 - Funds were set aside
 - No progress
- New PPP Guidelines (Policy and Strategy for PPP, August 2010)
 - Includes PPP policy and a set of Guidelines for formulating, appraising and approving Large, Medium and Small projects

Study on PPP Projects in Bangladesh: Case Studies

Four Projects :

- AES Meghnaghat 450MW Power Project (Successful)
- Sonamasjid Land Port (Unsuccessful)
- Jatrabari-Gulistan Flyover Project (Distressed)
- Patenga Sea Port Project (Cancelled)

Factors responsible for the failure or limited success:

- i. Poor specification by government due to corruption or lack of capacity,
- ii. Incompetence of concessionaires causing default in delivery of outputs,
- iii. Absence of penalty for renegeing, and
- iv. Alleged Corruption during bidding and contracting.

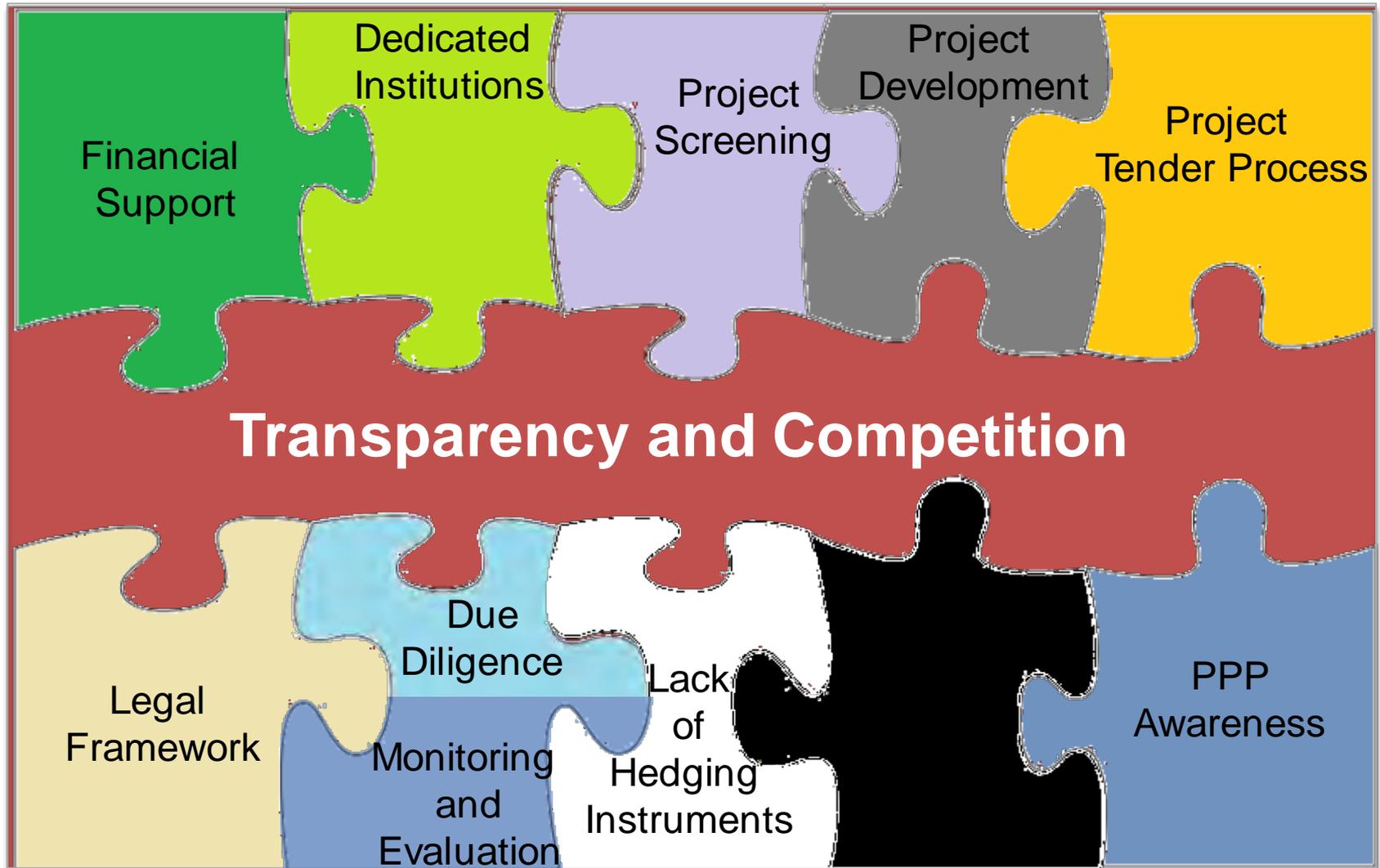
Study Findings: Modelling

- The study analyzes the impact of the factors behind unsuccessful PPPs under different PPP arrangements i.e. Revenue Sharing (RS) and Off-Take (OT)
- The analysis adopts and extends the ‘incomplete contracts’ approach to modeling PPP pioneered by Hart (2003).
- The findings include –
 - RS arrangements can generally offer higher quality provision than OT arrangements can, due to the concessionaire’s internalization of the social problem in RS.
 - Despite the quality advantage offered by RS arrangements, OT arrangements may be more effective at screening out low quality firms during bidding, which may be crucial for PPP success whenever transparency is compromised.
 - Although neither arrangement is sufficiently robust when corruption persists during bidding and operation, OT is preferable to RS as it tends to be more robust as long as transparency can be restored during bidding.
- These findings constitute key normative guidelines for designing robust PPP programs in developing countries such as Bangladesh.

What Was Missing?

	Public Procurement	PPP
Legal	<ul style="list-style-type: none">• Public Procurement Act 2006 (PPA)• Public Procurement Rules 2008 (PPR)	?
Approval Authority	<ul style="list-style-type: none">• Cabinet Committee on Purchase	?
Dedicated Institutions	<ul style="list-style-type: none">• Planning Commission	?
Feasibility Study	<ul style="list-style-type: none">• Financed from the Budget	?
Commercially Deficient Projects	<ul style="list-style-type: none">• Financed from the ADP Allocation	?
Financing	<ul style="list-style-type: none">• Financed from the ADP Allocation	?
Transparency	<ul style="list-style-type: none">• Directives and provisions regarding Professional Misconduct, Offences, and e-procurement process. (PPA)	?
Knowledge	<ul style="list-style-type: none">• Awareness established amongst the stakeholders	?

The PPP Puzzle



What is Being Provided?

	Public Procurement	PPP
Legal	<ul style="list-style-type: none">• Public Procurement Act 2006 (PPA)• Public Procurement Rules 2008 (PPR)	<ul style="list-style-type: none">• Draft PPP Law
Approval Authority	<ul style="list-style-type: none">• Cabinet Committee on Purchase	<ul style="list-style-type: none">• Cabinet Committee on Economic Affairs
Dedicated Institutions	<ul style="list-style-type: none">• Planning Commission	<ul style="list-style-type: none">• PPP Office and PPP Unit (under MoF)
Feasibility Study	<ul style="list-style-type: none">• Financed from the Budget	<ul style="list-style-type: none">• Financed from the PPP Technical Assistance Fund (PPPTAF)
Commercially Deficient Projects	<ul style="list-style-type: none">• Financed from the ADP Allocation	<ul style="list-style-type: none">• Financed by the Viability Gap Financing (VGF) Scheme
Financing	<ul style="list-style-type: none">• Financed from the ADP Allocation	<ul style="list-style-type: none">• Financed by the Private Partner and the BIFF Scheme
Transparency	<ul style="list-style-type: none">• Directives and provisions regarding Professional Misconduct, Offences, and e-procurement process. (PPA)	<ul style="list-style-type: none">• Draft PPP Law with provisions for Anti-Corruption and Recusal
Knowledge	<ul style="list-style-type: none">• Awareness established amongst the stakeholders	<ul style="list-style-type: none">• Extensive PPP training and stakeholder consultations

Remaining Challenges for PPP in Bangladesh

- Enacting PPP Law, Regulations and other guidelines to better specify the outputs, disqualify incompetent tenderers, and ensure transparent procurement
- Conducting detailed technical, financial, legal, environmental and social due diligence covering both sponsor and project
- Long-term financing
 - Lack of long-term financing instruments
 - Access to international commercial finance
- Fixed rate availability and overall interest rate payable
- Foreign currency risk and lack of hedging instruments
- Monitoring and evaluation of PPP projects