Invigorating Investment Initiative Through Public Private Partnership

A Position Paper

Finance Division, Ministry of Finance

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Preface

The unprecedented support of the people in the national parliamentary elections held in December 2008 gave the current government the opportunity to serve the nation. Significant innovative initiatives marked every aspect of new government which included articulation of economic and social development targets in the election manifesto and the roadmap of development enterprise. As such the first Budget of the new government is expected to be distinctive as well. The government plans to initiate a new budgetary modality by introducing the Public Private Partnership (PPP) budget in addition to the traditional Revenue Budget and the Annual Development Programme.

Budget is a financial statement which recapitulates the annual activities that the government plans to undertake to fulfill the aspirations of the people. To reflect the aspirations of the people the election manifesto of the present government promised to raise the GDP growth rate to 8 percent by 2013. To achieve this GDP growth rate, the share of investment in GDP needs to be raised to 35-40 percent. At present average investment GDP ratio is 24-25 percent and sad as it is, it is lower than the national savings ratio. One estimate suggests that to sustain GDP growth rate of 8 percent in 2013 and beyond requires additional USD 28 billion or BDT 1.96 trillion from 2009-2014. Government is not in a position to mobilise these additional resources internally. Moreover the current global economic downturn may diminish the possibility of receiving additional foreign financial assistance. In such a state of affairs, participation of the private sector through PPP may reduce the investment deficit.

Under the PPP initiative, infrastructure development especially power and energy, telecommunication and port development are assigned the highest priority by the government. The lack of development in these sectors in the last 7 years has stagnated economic development. Development in infrastructure sector through private sector participation will provide a boost to every section of the economy. In addition to the sectors mentioned, government welcomes infrastructure development through PPP initiative in health, education, tourism, industry, information technology, supply of purified drinking water, sanitation, housing sector etc. Private initiative and innovations play an important role in the provision of public goods and services. Government can play a supportive role by providing incentives, inducing ideas and setting the initiatives in motion and encouraging mass motivational activities. We are undertaking such an endeavor by formulating the PPP Budget.

I believe that the participation and assistance of the government, foreign and local private investors, the indigenous and foreign NGO's and the development partners in the PPP initiative will be a notable way of putting our Charter for Change to action. To implement this initiative I expect active and sincere assistance of all relevant parties. I sincerely thank all officials of the Finance Division for their persistent efforts in preparing this PPP initiative position paper.

1.0 Background

1.1 In 1971 the United Nations identified underdeveloped countries of the world as Least Developed Countries (LDC) and focused on socio-economic development of those countries. Bangladesh was identified as one of such countries in 1975. These countries have a large number of poor living on less than a dollar a day. In these countries the quality of education and health condition is poor, and the industrial sector is very thin. As one would expect, their annual per capita income is at most 750 US dollars. Currently there are 50 least developed countries. World Bank has also classified countries based on economic progress. According to that classification, countries with per capita income of USD 10,725 are High Income Countries (HIC) and countries with per capita income of less than USD 785 are Low Income Countries (LIC).

1.2 At present per capita income in Bangladesh is only USD 695 (BDT 47,955) and almost 40 percent (58 million) of population live below the poverty line. Literacy rate in Bangladesh has increased to 56.1 percent. Income from industry is 29.7 percent of total national income, and external trade is 40 percent of total national income. In many aspects we are no longer in the same socio-economic position as we were in 1975-1990. However, we are still considered as one of the least developed countries. Such a label according to the yardstick of economic progress does not glorify us in the world stage in any way. Present government has vowed to eradicate poverty, attain highest possible growth by 2021, and build the country such that a thriving economy will fulfill basic human needs. Increased investment is a must for attaining higher growth.

1.3 Bangladesh economy failed to gather momentum until 1990. Average growth rate during this time was stagnant at less than 4 percent per year. In the 1990s, economic growth began to gather momentum after restoration of democracy. Since 1996-97 the growth rate did not fall below a decent 5 percent. In the new millennium Bangladesh achieved growth rate of 6 percent. Growth rate, however, has become sluggish again. The growth rate is also on the decline due to impact of the global economic downturn. Lack of investment in infrastructure, especially energy and power, port and communication has been identified as root cause behind sluggish growth. In order to achieve 8-10 percent growth, rate of investment needs to increase from 24-25 percent of GDP to 35-40 percent of GDP. A lot of resources are required to raise rate of investment to 35-40 percent of GDP. It is challenging for the government to arrange such huge resources. Moreover, due to current global economic downturn, the prospect of receiving foreign assistance has diminished. Resource mobilisation is not the only challenge for the government. It is also imperative to ascertain whether the government has skilled manpower and required institutional framework to implement mega infrastructure projects.

2.0 Government's Plan and Budget

2.1 The government formed by the Grand Alliance has mentioned in its Election Manifesto that they believe in long term perspective planning and medium term strategic planning. Government would like to set future goal and to achieve that, it has mentioned about Vision for 2021. Now the government has started to concretise that Vision. The time span for perspective planning should have been more spread out. But considering golden jubilee of Bangladesh's independence, Government has decided to limit its *Charter for Change* to 2021. But it can be hoped that at the last year of this government's term, it will leave a draft perspective planning for 2035/40. The government has already started drafting the five year plan (2011-15). The government has built on the initiative taken by the caretaker government. The five year plan will provide strategic direction to the grand alliance government for the next 4 years.

2.2 The present government's five year plan will be different from the traditional one. It will not have conventional sectoral investment allocation. It will outline socio-economic goals and different collective and sectoral means to achieve the goals. It will provide details of the role of the public-private partnership in development. The five year plan will provide ideas about the creation and use of resources. This plan will also have analysis of required institutional reforms and reorganisation, and provide appropriate proposals and suggestions. Steps for good governance, initiative to decentralise state affairs, steps to bolster rule of law etc. will also be part of the planning. In light of this plan, the restructuring of existing three year Medium Term Budget Framework (MTBF) will be considered.

2.3 At the very beginning present government took the initiative to analyse and amend caretaker government's "*Moving Ahead*" (2009-11) document so that poverty eradication programs do not suffer any set back. Hopefully, the document will be finalised in next month or two and the implementation will commence in the next fiscal year. The priorities mentioned in the Election Manifesto were more or less incorporated in the "*Moving Ahead*" document, so the amendment is really a matter of coordination and presentation. The PRSP has provision for annual evaluation and amendment. Therefore, the implementation of amended PRSP should not be a problem. Government will decide at the appropriate time how it will move forward after expiry of PRSP in 2011.

2.4 The objective of FY 2009-10 budget is to fight off the adverse impact of the global economic crisis on Bangladesh economy and to move forward with the government's *Charter for Change*. There may be revenue shortfall and at the same time there will be tremendous pressure on the expenditure side. While the government has to arrange resources for creating employment, ensuring food and social security, development of agriculture and rural sector, alleviating energy and power shortage, and reviving the export sector; there will be demand for increased investment for creating digital Bangladesh. Under these circumstances, government wants momentum in revenue collection as well as success in delivering public goods and services by acquiring resources from sources other than government savings. Of the other sources, government would like to encourage and facilitate private investment and foreign resources. Government is taking steps to fight off the recession, looking for new sources to enhance revenue generation, taking initiatives to increase foreign assistance, and have formulated the PPP budget as a new alternative.

3.0 Resource Gap

3.1 The Election Manifesto of the government envisages that GDP growth rate will accelerate to 8 percent in 2013 and to 10 percent by 2017 which will then be maintained till 2021. In order to attain higher GDP growth, investment in infrastructure, especially in power and energy, port, transport and communication, drinking water supply, waste management, education, and health has been prioritised. Preliminary assessment of the required investment to boost growth rate has been prepared till 2014. The estimate assumes that desired investment will be achieved from 2009-2014 with participation of the private sector and target growth rate has been set in line with the government's Election Manifesto. According to the estimate, from FY10 till FY14, there will be USD 28 billion investment deficit (Table 1). The government is determined to raise GDP growth to 8 percent by augmenting investment by mobilising private sector's resources, expertise and experience through the PPP initiative.

Table 1: Required Investment for Attaining Target Growth Rate and Investment Deficit (Optimistic Scenario)

	2009-10	2010-11	2011-12	2012-13	2013-14
GDP Growth (percent)	6.0	6.8	7.5	8.0	8.0
Required Investment (Billion USD)	24.59	30.63	37.18	43.82	49.69
Investment (% of GDP)	24.0	27.02	29.25	30.40	30.40
Required Investment-MTMF* (Billion USD)	23.55	27.10	31.36	35.54	40.29
Investment Deficit (Billion USD)	1.04	3.53	5.82	8.27	9.40

Source: Preliminary Estimates of Finance Division

*Medium-Term Macroeconomic Framework

3.2 According to the preliminary estimate, there is USD 1.04 billion investment deficit in FY 2009-10. In order to attract the said amount of investment through the PPP initiative, the government has decided to give a big push to provide incentives to the private sector. As such the government has seriously considered allocating significant amount of money for the PPP initiative in the next budget.

4.0 PPP Related Concept and Different PPP Models

4.1 Usually any public construction work or supplies are purchased or obtained from contractors or suppliers following tender and competitive bidding process. These types of purchases are one-time and the contractors or suppliers are not responsible after the construction time or supplies are over.

4.2 Under the PPP initiative the government and public pay contracted prices or fees to the private sector for purchasing services of the infrastructure that is financed, built, managed, and maintained by the private sector with the approval and support from the government. Some of the characteristics of PPP are as follow:

- Private sector arranges resources to build infrastructure
- Private sector bears the cost of building the infrastructure
- Private sector bears both the fiduciary and safety related risks related to the construction
- Government and public avails the service by paying appropriate prices or fees
- Private sector cannot raise the prices, fees or charges unilaterally
- PPP initiatives are usually long term (15-30 years) in nature

Different PPP Implementation Models

4.3 Different countries are implementing different PPP implementation models. The type of the model depends on the relevant sector (education, health, transportation) and on the type of the project itself. Some of the widely used models are:

4.4 There are more models besides the ones mentioned above. For example, education

- **BOO -** The private sector manages the infrastructure belonging to this model on build-own-operate basis. Government usually does not manage the infrastructure developed under this model. At present Independent Power Producer (IPP) are operating under BOO model in Bangladesh.
- **BOT -** The private sector manages the infrastructure belonging to this model on build- operate-transfer basis, i.e. the private sector manages it until a specified time, after which the government is responsible for management.
- **BOOT -** This is an extended version of the BOT model. Under this model the ownership and management belongs to the private sector until a specified time. After expiry of the term, ownership and management is transferred to the government.

institutions can be co-financed and privately managed. Private sector can also take responsibility of providing health care in a certain area as well as responsibility of all public health care providers in that area. The main idea behind these models is to outsource the management to the private sector.

5.0 The Benefits of PPP Initiative

5.1 The government, the private sector investors, and public can all benefit if private sector can be enticed into infrastructure development under PPP. The likely benefits to the relevant three parties are as follow:

a) Public Sector:

- **Maintaining Economic Stability** - Since the private sector invests in the infrastructure development, there is no need for the government to take loans and pay interests. This does not exert excess pressure on money market, thereby diminishing upward pressure on interest rate and inflation.
- **Gains from Private Sector Innovation and Expertise** - Since the private sector is responsible for developing infrastructure, they use the most cost-effective and innovative means and technologies. This enables the best source of value for money gain.
- **Logical Estimate of Expenditure during the Lifecycle of the Infrastructure -** The private sector promoters coordinate and implement different aspects of the project such as designing, financing, construction, maintenance, and management. Therefore, it is possible to make logical estimate of expenditure during the lifecycle of the infrastructure.
- **Achieving Desired Growth Rate -** Desired growth rate cannot be achieved if the government is unable to invest in infrastructure development at the appropriate time. Participation of private sector allows additional investment and increased production capacity that feeds into higher growth rate.

b) Private Sector:

- **Expansion of Business -** PPP facilitates expansion of business. The private sector can engage in sectors where conventionally public sector invests.
- **Innovation -** Under PPP the private sector not only supplies materials, they are also engaged in multitude of activities such as financing, construction, ownership, maintenance, and management. As a result they have to be very innovative.

c) Public/ Users

- **Accountability -** Since services are purchased from the private sector by paying fees or charges, the service providers remain accountable to the government and public.
- **More Responsible Government** - Since the government approves the PPP projects, it has to supervise whether the private service providers are abiding by the contracts.
- **Guarantee of Safety -** Since the private sector has to bear the costs resulting from accidents and damages, they use reliable and quality materials to ensure safety.

6.0 Risks Associated with PPP Implementation

6.1 There is no apparent fiduciary risk if infrastructure is developed under public-private partnership as government does not invest or invests very little in such schemes. However, there might be some other risks as follow:

- Loss of ownership of public properties
- Approval of inflated costs
- Overlooked public interest when pricing the services
- Dysfunctional Infrastructure once ownership is handed over to the government

6.2 It is possible to reduce risk by formulating appropriate rules and regulations, establishing required institutional framework, including relevant conditions in the contracts by experts, and monitoring and supervising on a regular basis. For this purpose it is imperative to employ professionals and give them market competitive compensation packages.

7.0 Prospective Sectors under PPP

The government is interested in involving private sector in all sectors barring a few for national security reasons. Modern and reliable infrastructure is a must to uplift country's economy from the current state to a higher growth trajectory. But due to lack of investment in infrastructure in the past seven years, it is now stagnant. Realising the demand for change, the present government's election manifesto accorded highest priority to infrastructure development, particularly to power generation and welcomes PPP investment in the following areas:

- Power and Energy
- Transport Infrastructure (roads, rail, ports, airport and water transport)
- Pure Drinking Water and Sewerage
- Information Technology
- Air Transport and Tourism
- Industry
- Education (particularly secondary and technical) and Research
- Health and Family Welfare
- Housing, etc

8.0 Existing Framework of Bangladesh PPP

In 1996, the government adopted a private sector power generation policy to promote private sector participation. In 1997, under administrative control of the Economic Relation Division, Infrastructure Development Company ltd (IDCOL) was established in order to promote private sector investment in infrastructure development. Similarly, Infrastructure Investment Facilitation Center (IIFC) was established by the government to assist relevant ministries, divisions or agencies with formulation of project proposal and screening as well as to provide technical assistance. Later in 2004, under Public Private Partnership initiative, Bangladesh Private Sector Infrastructure Guidelines (PSIG), which forms the basis of the current PPP, were issued in order to boost individual investment in the development and maintenance of infrastructure. In 2007, a 5 year term Investment Promotion and Financing Facility (IPFF) endowed with BDT 4.18 billion (equivalent to USD 60 million) was set up in Bangladesh Bank to finance government approved PPP based infrastructure development projects to be implemented by the private sector. Later in 2008, policy to promote private sector participation in power sector was formulated. Although these initiatives have been successful in financing and implementing a few small scale infrastructure development projects, they are not sufficient to cater to the requirements and potential of the country. Therefore, to reduce the plight of the public and to boost economic development, an initiative is being undertaken to revisit the current PPP framework and facilities.

9.0 Progress of PPP Implementation under the Present Framework

9.1 Three government organisations are involved in the project implementation by the private sector under the PPP initiative. So far the direct assistance of these organisations have enabled implementation of 27 projects of which 18 projects are in the power and energy sector, 6 projects in telecommunication sector, 2 projects in the port infrastructure sector and 1 project in the information technology sector (Annex 1). The contribution of the three organisations involved in PPP project implementation is summarised below:

a. **IDCOL -** Through this government sponsored company PPP project finance and financial intermediation are conducted. Till date, BDT 13 billion has been financed by IDCOL in 22 projects implemented under PPP.

b. **IPFF -** This project financed 5 power sector projects under the PPP initiative, generating 178 megawatt power. Three projects have started power generation on a commercial basis and have added 99 megawatt of power to the national grid. The remaining two projects are at the final implementation stage. The total expenditure in the 5 aforementioned projects was BDT 8.67 billion of which IPFF financed BDT 4.41billion (51% of total expenditure), private investors financed BDT 2.51 billion (32% of total expenditure) and participating banks financed BDT 1.46 billion (17% of total expenditure).

c. **IIFC -** This too is a government sponsored company which is responsible for providing expert assistance to relevant ministries, divisions or agencies regarding project development, project formulation, project design, technical, engineering, implementation and monitoring related issues for projects sanctioned by PPP initiative. Till now, IIFC has been under contract to design 30, provide technical support to 8 and consultancy support to 16 PPP projects. Almost all the projects implemented under PPP have taken IIFC support.

9.2 Under the current framework, through different type of PPP initiatives a small number of projects have been implemented under the Annual Development Program (ADP) that is mainly private sector initiatives. These initiatives were generally confined to education, research and health sectors. Although, BIRDEM Hospital was established under the ADP in the 1970’s and 1980’s, it was under responsibility of the Diabetic Associations. During the same period, education institutes were established under joint initiative and if specific level of individual contribution (e.g., 80%) were met then the institution was named after the donor. In a similar manner, establishments like entertainment centers, libraries, sports facility etc were set up for public benefit in various locations. Currently many projects are implemented in a similar manner such as Bishwa Shahitya Kendra’s building complex, health care infrastructure etc. Public partnership in many cases may be in the form of land acquisition, land lease, construction cost sharing or providing seed money for projects. By reinvigorating such initiatives, the current PPP Budget may begin a new phase.

10.0 Legal basis for the PPP under the Present Framework

10.1 Whether the present regulatory framework is sufficient to make the PPP initiative effective in terms of project processing and financing aspects requires to be revisited.

10.2 The Bangladesh Private Sector Infrastructure Guidelines (PSIG) issued by the Cabinet Division in 2004 is currently the guideline for implementation of projects under the PPP. This has not been issued under any law passed by the national parliament. As a result, there were doubts and lack of clarity regarding the consistency between Public Procurement Regulation (PPR)-2003 and the private sector project development, approval and financing that are to be implemented under the jurisdiction of PSIG-2004. Later the Public Procurement Act (PPA) 2006 was enacted by the national parliament. Public Procurement Act 2006 through section 66, which incorporated concessions agreement related provision, extended the government’s legal jurisdiction to formulate independent PPP guidelines.

10.3 In the Public Procurement Rules (PPR) promulgated by the government in 2008, rule 129 incorporates various PPP related models. In this regard as of now: PPA-2006’s section 66 and PPR-2008’s rule 129 may form the legal basis for project implementation and contract execution under the PPP initiative. Therefore under the present framework infrastructure development activities by the private sector under PPP initiative can be continued. However, the entire procedure should be brought under the purview of a comprehensive framework in order to ensure competent administration, regular monitoring, sound accountability and professionalism, for which independent act and required legal framework must be developed in the future.

10.4 At present, projects under the PPP initiative are being financed through IDCOL and IPFF by the government. IDCOL is a company established under the Companies Act. On the other hand IPFF is a 5 year term project. Since IDCOL was established under the Companies Act, through it necessary resources can be arranged for financing large scale projects. However, due to failure to formulate appropriate project proposals by ministries, divisions or agencies no initiatives were undertaken to arrange large funds through IDCOL. In addition, there is lack of clarity and hesitation regarding how the government will finance infrastructure development through the PPP initiative. There is a need for a legal framework for pooling of finances from various sectors' (banks, insurance, pension funds). But, at present, government through IDCOL can provide money (equity or loans) to any infrastructure investment related funds.

11.0 Review of Present Guidelines and Dedicated Office for PPP

11.1 Project identification, screening, approval, tender floatation, implementation and the required institutional framework and the working procedure surrounding that tasks as covered in the PSIG - 2004 are reviewed and examined. Under the PSIG - 2004, the Private Infrastructure Committee's (PICOM) size, work periphery, institutional framework and organisational structure is found to have some weakness and limitations when compared to the guidelines, rules and institutional framework of the PPP policy adopted in other countries especially that of India and Philippines (Annex 2).

11.2 PICOM is very large in scope and is not appropriate for formulating and implementing PPP projects. PICOM is responsible for project processing, expediting, monitoring, supervision and expansion activities. The present framework is inadequate for providing incentives and encouragement for project development. For projects being implemented under present PSIG - 2004, a number of committees have been set up at the relevant ministries, divisions or agencies, for project identification, preparation of pre-feasibility study, recommendation, process of receiving approval from relevant authorities, floatation of tender and work allocation etc. Other than these there is no institutional framework to communicate and coordinate activities between different committees. These tasks are not executed from a specific location but from different sections, branches or wings of ministries. As a result, coordination and continuity cannot be maintained. Project approval process is neither organised nor logical. A model template or model contract would help expedite the project approval process. Above all, a dedicated office is required to reinforce PPP initiatives and to execute PPP budget.

11.3 To attract additional private investment in the infrastructure sector it is imperative to take initiative to remove the limitations and weaknesses of PSIG - 2004; in order to make the guidelines effective and investment friendly it must be made concise, precise and simple - similar to the policy guidelines in place in other countries. The undertaking of the PPP initiative by the government in the introductory year of its term in office is indicative of the government's strong commitment in this regard. This will provide positive signal to foreign and national investors and will create conducive investment climate which is a pre-condition to achieving the desired goal.

11.4 The current Government will undertake 5 strategic actions in order to transform the present PPP framework to a fast and attractive PPP initiative which will ensure extensive participation of private sector in infrastructure development. They are:

11.5 The following steps are taken to amend the PSIG guidelines as well as the framework of

- Reforming the guidelines and institutional framework stated in the present PSIG - 2004
- Setting up a dedicated unit for PPP budget formulation and implementation
- Significant budgetary allocation for the PPP
- Provide tax incentive to investors
- Extensive and continuous publicity of the new PPP initiative

PICOM set up under it. Hopefully the tasks will be completed in two months time. A dedicated PPP unit will be set up in 3 months time and the PPP Budget will then be made effective.

- For conducting the necessary amendments to PSIG - 2004 a 7-9 member special committee will be formed comprising of experts from the private and public sector, investors, specialist, and well educated entrepreneurs.
- The proposed committee will be involved in reforming the current PSIG, review of legal aspects, and formulation of PPP unit's structure, project proposal processing related standard format template, and model contract document.

12.0 Significant budgetary allocation for the PPP

12.1 To gain the confidence of private investors regarding government's eagerness and strong position in the new PPP initiative, significant budgetary allocation is proposed in FY 2009-10 budget. Government does not view this allocation as small or large but wishes to portray it as a modest beginning to create conducive atmosphere. The current year's allocation may be increased or decreased based on different ministries', divisions' or agencies' list of projects to be implemented under the PPP initiative. Similarly subsequent financial year's allocation will continue to be based on actual requirement. PPP allocation is divided into three categories.

Allocation for loan or equity

- Allocation for loan or equity
- Allocation for PPP Viability Gap Funding (VGF) as subsidy
- Allocation for PPP Technical Assistance (PPPTA)

12.2 Increased allocation is necessary to create financing opportunity for infrastructural sector through IDCOL and IPFF. At the same time IDCOL's capacity needs to be urgently enhanced so that it can issue long term infrastructure bonds and various commercial papers; accumulate capital from various sources including the capital market; and supply it to a large fund as a responsible organisation of the government. It has been proposed to allocate BDT 21 billion in the budget for FY 2009-10 under the loan or equity head to increase financing opportunity for projects under PPP initiative.

12.3 In the future a new fund named Bangladesh Infrastructure Investment Fund (BIIF) may be created. The BIIF fund may be used for private sector infrastructure development under PPP initiative.

12.4 Government through securitisation may transform loan to tradable debt securities which can be traded to mobilise funds. In this regard fund mobilisation through Jumuna Bridge and Padma Bridge securitisation is being discussed.

Allocation for PPP Viability Gap Funding (VGF) as subsidy

12.5 Under the PPP initiative, private investors who cannot determine service price or consumer charge on full cost recovery basis, for those projects BDT 3 billion is allocated as subsidy in FY 2009-10 budget under PPP Viability Gap Funding. PPP projects can spend money allocated to this component under specific contract.

Allocation for PPP technical assistance (PPPTA)

12.6 Necessary budgetary allocation for PPP Technical Assistance is made to carry out project identification, feasibility study and project development by relevant ministries, divisions or agencies. Technical assistance expenditure in PPP projects will be financed from this budgetary allocation and government organisation IIFC will also be involved in this task. In FY 2009-10, it is proposed to allocate BDT 1 billion as assistance and grants for providing technical assistance to PPP projects.

13.0 Tax Incentives to Investors

To attract private investment mainly three types of tax incentives are being discussed. One of them is on investment that is at the financing stage and the other two are at infrastructure construction and management or operating stage.

Proposed policy strategy:

- Tax exemption will be given or minimum tax rate will be imposed on the amount invested by various individuals, financial institutions and joint ventures for PPP project implementation.
- Import tax benefit (lowest rate) will be granted to capital items under PPP initiative and profit from operating/managing will be taxed at the lowest rate for a specific time period.

14.0 Project Identification and Extensive and Continuous Publicity of the new PPP initiative

14.1 Although the PPP initiative is not completely new it has not been extensively applied in Bangladesh. As a result many government organisations and private promoters have failed to identify the potential of this national initiative in various sectors. At the same time no effective intuitional arrangement has been developed to publicise the PPP initiative in Bangladesh. In this regard the following initiatives must be undertaken urgently.

Identification of potential projects that can be implemented under PPP

- Identification of potential projects that can be implemented under PPP
- Wide, extensive and continuous publicity campaign for the new PPP initiative

14.2 Some projects that can be implemented under PPP have been identified by relevant ministries, divisions and agencies. In addition, by urgently adopting a Technical Study potential sector and projects will be identified which will be implemented on a priority basis.

Proposed policy strategy:

- The technical study will focus on identification of projects that can be implemented under PPP initiative and create framework for new fund, and legal processes, and formulate a road map for implementation in a short period of time
- The study will incorporate a time-bound implementation schedule and costing of projects identified in the study
- IIFC may lead or manage the technical study
- The expenditure for the technical study will be borne under PPPTA allocation made by Finance Division
- The study will be submitted in 6-8 weeks time

Wide and Extensive publicity measures for the new PPP initiative

14.3 The government's unwavering stance and sincerity regarding the current invigorated PPP initiative needs to be publicised among the foreign and local investors. The multifarious promotion measures may be undertaken by the PPP unit. The following initiatives are being discussed to make the promotion measure fruitful.

15.0 List of Projects to be Implemented under PPP

Proposed policy strategy:

- For extensive promotion a website –www.pppinbd.com will be put in place
- In the dedicated website arrangement will be made for sectoral advertisement (by setting up links)
- Arrangement for advertisement in well known foreign and local newspapers, magazines and journals
- Arrangement for road show, conference with foreign and local investors, infrastructure sector fund administrator and development partners.

15.1 The government has prioritised some large scale infrastructure projects to be implemented under PPP. The Election Manifesto also highlighted these projects considering public demand and their economic significance. It will take about 5 to 7 years to implement these large scale projects. Apart from these projects, initiative must be taken to implement relatively small scale projects that require less resource and can be implemented quickly- such as small bridges, flyovers, underpass, tunnels etc. Intra-city communication can be strengthened by implementing such projects in large cities like Dhaka and Chittagong. A preliminary list of projects to be implemented under PPP is provided below:

A. List of Important Mega Projects

Sector	Name of the Project	Estimated Cost (USD billion)	PPP Model

Transportation	1. Dhaka-Chittagong access control highway	3.02	BOOT
	2. Sky-train encompassing the Dhaka metropolis	2.80	BOOT
	3. Dhaka city subway	3.10	BOOT/BOT
	4. Dhaka city elevated expressway	1.23	BOOT/BOT
	5. Dhaka-Narayanganj-Gazipur-Dhaka elevated expressway	1.90	BOOT/BOT
Power and Energy	1. Four coal, diesel or gas fired power plants capable of producing 450 megawatts electricity in different parts of the country	1.80	BOO/BOT
Water-transport	1. Deep sea port in Chittagong		BOOT/BOT
	Total (excluding Chittagong deep sea port)	13.85	

B. List of Other Projects

Sector	Name of the Project	Estimated Cost (million BDT)	PPP Model
Transportation	1. Bus Rapid Transit (BRT)	150	BOO
	2. Articulated Bus Service	50	BOO
	3. Bus Route Franchise (BRF)	50	BOO

C. List of Projects in Education and Health Sectors

Sector	Name of the Project
Health	1. Health care provider for a specific area (a few districts)
	2. Setting up cancer and/or other hospitals
Education	1. Setting up quality secondary schools
	2. Setting up dormitories, health centers, auditoriums, gymnasiums in public universities
	3. Development, expansion or improvement of present Degree colleges
	4. Setting up research institutions or research foundations dedicated to the institution

16.0 Conclusion

Many countries, particularly ASEAN and SAARC countries have successfully implemented PPP projects. In so doing these countries have managed to increase production capacity without putting any pressure on government revenue and could achieve double digit growth rates. There is no other way for us than to invest heavily in infrastructure if we want to develop like our neighbouring countries. In the uncertain external environment, the plan to raise GDP growth to 8 percent by 2013 will become real if infrastructure is developed under the PPP initiative. The vision for a prosperous and developed Bangladesh will become reality in 2021- the year of golden jubilee of Bangladesh's independence, if we lay the foundation today to raise GDP growth to 8 percent by 2013, and to 10 percent by 2017 and beyond.

Annex 1

List of PPP Projects under the Existing Framework

List of PPP Projects Financed by IDCOL

Sector	Sl	Project Name	PPP Model	Investment (Million BDT)
Power and Energy	1	Meghnaghat 45 MW Power Plant	BOO	21000.0
	2	Summit Power 33 MW Power Plant	BOO	1250.0
	3	Summit Uttaranchal Power Company 44 MW Power Plant	BOO	1970.0
	4	Summit Purbanchal Power Company 66 MW Power Plant	BOO	3000.0
	5	VERL 34 MW Power Plant at Bhola	BOO	1200.0
	6	BEDL 51 MW Power Plant at Sylhet	BOO	1830.0
	7	34 MW Malancha Holdings Power Plant at Dhaka EPZ	BOO	1650.0
	8	Shah Cement 11.6 MW Power Plants	Captive Power Plant	590.0
	9	Thermax Trade Limited CNG Refueling Station	Under License from Petrobangla	55.0
Renewable Energy	10	IDCOL Solar Energy Program	Implemented by NGO and Private Sector	20060.0
	11	National Domestic Biogas and Manure Program		2150.0
	12	250 KW Bimas Gasification Based Power Plant	Under a License from BERC	25.0
	13	50 KW Biogas Based Power Plant	Under a License from Government	5.0
Port and Communica-tion	14	Panama Hilli Land Port	BOT	180.0
	15	Panama Sonamasjid Land Port	BOT	200.0
Tele-communication Technology	16	Grameen Phone Network Expansion Project	Under a License from BTRC	45340.0
	17	Pacific Telecom Network Expansion Project		21560.0
	18	Ranks Tel PSTN Project		2300.0
	19	DNS Satcomm Satellite Earth Station Project		160.0
	20	BanglaTrac International Communication Gateway Project		670.0
	21	M & H Telecom Interconnection Exchange Project		660.0
Information Technology	22	Shoanchalok ICT Program	Implemented by some Banks and Financial Institutions	500.0

List of Implemented and Under-implementation PPP Projects by IPFF

Sector	Sl	Project Name	PPP Model	Investment (Million BDT)
Power and Energy	1	Three 22 MW Doreen Power Generations & System Ltd (2 in Tangail and 1 in Feni)	BOO	3430.0
	2	11 MW Doreen Power House and Technologies Limited at Mahipal, Feni	BOO	564.3

	3	22 MW Regent Power Limited	BOO	1108.2
	4	Malancha Holdings Ltd.(44 MW Captive Power Plant at CEPZ)	BOO	1919.0
	5	Malancha Holdings Ltd.(35 MW Captive Power Plant at CEPZ	BOO	1649.0

List of PPP Projects with Technical Assistance of IIFC

Sector	Sl	Project Name	PPP Model	Investment (Million BDT)
Power and Energy	1	Meghnaghat 45 MW Power Plant	BOO	21000.0
	2	Summit Power 33 MW Power Plant	BOO	1250.0
	3	Summit Uttaranchal Power Company 44 MW Power Plant	BOO	1970.0
	4	Summit Purbanchal Power Company 66 MW Power Plant	BOO	3000.0
	5	VERL 34 MW Power Plant at Bhola	BOO	1200.0
	6	BEDL 51 MW Power Plant at Sylhet	BOO	1830.0
	7	34 MW Malancha Holdings Power Plant at Dhaka EPZ	BOO	1650.0
	8	Shah Cement 11.6 MW Power Plants	Captive Power Plant	590.0
	9	Thermax Trade Limited CNG Refuelling Station	Under License from Petrobangla	55.0
	10	Haripur 360 MW Power Plant	BOO	16280.0
	11	Khulna 110 MW Power Plant	BOO	5000.0
	12	Haripur 115 MW Barge Mounted Power Plant	BOO	5350.0
	13	Westmont Baghabari Barge Mounted Power Plant	BOO	5950.0
	14	Three 22 MW Doreen Power Generations & System Ltd(2 in Tangail and 1 in Feni)	BOO	3430.0
	15	11 MW Doreen Power House and Technologies Limited at Mahipal, Feni	BOO	564.3
	16	22 MW Regent Power Limited	BOO	1108.2
	17	Malancha Holdings Ltd.(44 MW Captive Power Plant at CEPZ)	BOO	1919.0
Power and Energy	18	Malancha Holdings Ltd.(35 MW Captive Power Plant at CEPZ	BOO	1649.0
	19	Ashulia 45 MW Power Plant	BOO	2090.0
	20	Narsingdi 35 MW Power Plant	BOO	1420.0
	21	Chandina 25 MW Power Plant, Comilla	BOO	1120.0
	22	Jangalia 33 MW Power Plant, Comilla	BOO	1400.0
	23	Rupganj 33 MW Power Plant, Narayanganj	BOO	1260.0
	24	Maona 33 MW Power Plant, Gazipur	BOO	1400.0
Renewable Energy	25	IDCOL Solar Energy Program	Implemented by NGO and Private Sector	20060.0
	26	National Domestic Biogas and Manure Program		2150.0
	27	250 KW Biomas Gasification Based Power Plant	Under a License from BERC	25.0

Annex 1

Sector	Sl	Project Name	PPP Model	Investment (Million BDT)
	28	50 KW Biogas Based Power Plant	Under a License from Government	5.0
Port and Communication	29	Panama Hilli Land Port	BOT	180.0
	30	Panama Shonamasjid Land Port	BOT	200.0
Tele-Communication	31	Grameen Phone Network Expansion Project	Under a License from BTRC	45340.0
	32	Pacific Telecom Network Expansion Project		21560.0
	33	Ranks Tel PSTN Project		2300.0
	34	DNS Satcomm Satellite Earth Station Project		160.0
	35	BanglaTrac International Communication Gateway Project	Under a License from BTRC	670.0
	36	M & H Telecom Interconnection Exchange Project		660.0
Information Technology	37	Shoanchalok ICT Program	Implemented by some banks and Finacial Intitutions	500.0

Annex: 2

PPP Framework – Cross Country Comparison

The Government has issued Private Sector Infrastructure Guidelines (PSIG) in 2004 to accelerate private investment in infrastructure development and operation through Public Private Partnership (PPP) initiative. Since, the issuance of PSIG-2004, in the mean time, more than 5-years have elapsed but investment did not occur at the expected level. Under these circumstances, it became imperative to revisit and give a fresh look to the institutional framework and terms of reference for project identification, scrutiny, approval, tender and project implementation procedures as envisaged in the PSIG 2004. At the same time, existing PPP framework of Bangladesh needs comparison with the PPP regulatory and institutional framework of other countries to identify the deficiencies in the prevailing PPP framework and formulate recommendation for making the framework time-befitting and effective.

A large number of countries have prepared guidelines and/or enacted laws in attracting private investment for implementing projects through PPP approach. The following table shows the comparative position of India and the Philippines vis-à-vis Bangladesh.

SL. NO.	Issue	Bangladesh	India	The Philippines	Observation
1.	Regulatory Framework	Guidelines of PSIG-2004 is being followed	Guidelines for formulation, appraisal and approval of PPP projects, 2006 is being followed	'The Philippines BOT law' enacted in 1993 is being followed	
2.	Institutional Framework	An 11-member Private Infrastructure Committee (PICOM) has been constituted. The Board of Investment (BOI) provides secretarial services to PICOM	a. A 5 member Public Private Partnership Appraisal Committee (PPPAC) has been constituted. The PPPAC is housed in Department of Economic Affairs (DEA) under M/O. Finance. Two more small committees are in place for appraisal of projects up to certain level of project cost ceiling. b. A dedicated PPP unit has been constituted in the DEA for providing technical services to PPPAC on PPP project pre-appraisal and recommendation c. A separate PPP Appraisal Unit has been set-up in the Planning Commission	There is no separate committee. PPP projects are processed under delegated authority approved by the National Economic Development Authority (NEDA).	a. 11-member PICOM is a big committee. It usually takes long time to arrange meetings of such a big committee and to maintain contacts with the members. b. Single point technical services are hindered in the absence of dedicated PPP Unit.

Annex: 2

SL. NO.	Issue	Bangladesh	India	The Philippines	Observation
3.	Terms of Reference	PICOM's role is limited to coordination, communication and encouragement for PPP related activities and placement of proposal to the Cabinet Committee on Economic Affairs (CCEA) through Cabinet Division.	PPPAC examine the PPP projects and place them to the appropriate authority with its own recommendations for consideration and approval. a. Project cost beyond 2500 million rupees and project included in the National Highway Development Plan (NHDP) having cost beyond 5000 million rupees are placed to PPPAC for recommendation b. A Standing Finance Committee (SFC- a 4 member committee) examines project having cost above 1000 million rupees and less than 2500 million rupees and NHDP listed project having cost less than 5000 million rupees and above 2500 million rupees and places them to a Committee under M/O. Finance for recommendation to the appropriate authority for approval c. SFC or Expenditure Finance Committee (EFC- a 4 member committee) considers and recommends a project costing less than 1000 million rupees to the appropriate authority for approval	Each government department examines and analyses its project and places to NEDA for approval having cost above 300 million peso.	Since, PICOM's role is limited to co-ordination and communication hence, it is understandable that in most cases PICOM can not examine and evaluate PPP projects properly.
4.	Project Approval	a. CCEA for project having cost more or equivalent to USD 5 million. b. Concerned ministry for project having cost less then USD 5 million.	a. CCEA approves project having cost above 2500 million rupees and NHDP listed project having cost beyond 5000 million rupees with the recommendation of PPPAC b. Appropriate authority approves project having cost less than 2500 million rupees or above 1000 million rupees and NHDP listed project having less than 5000 million rupees and above 2500 million rupees c. An appropriate authority approves project costing less than 1000 million rupees	a. NEDA approves project that has estimated cost of 200 million peso or above b. Local government institutions approve project having cost less than 200 million peso	

Annex: 2

SL. NO.	Issue	Bangladesh	India	The Philippines	Observation
5.	Project Identification	a. Project cost more than USD 5 million identified by line ministries or PICOM is placed to CCEA for approval of inclusion into the PPP project list. b. Project cost less then USD 5 million identified by line ministries is sent to PICOM for inclusion into the PPP project list.	a. PPPAC empowered to give 'approval in principle' of project for listing having cost above 2500 million rupees and NHDP listed project having cost beyond 5000 million rupees with an inter-ministerial committee recommendation b. With SFC's recommendation a 2-member committee under finance ministry 'approval in principle' for listing of project having cost above 1000 million rupees or less than 2500 million rupees and NHDP listed project having less than 5000 million rupees and above 2500 million rupees c. SFC or EFC gives 'approval in principle' of projects costing less than 1000 million rupees on identification of projects by the relevant line ministry	a. Central government agencies identify projects with estimated cost of 200 million peso or above and place them to NEDA for approval b. Local government institutions (Municipality, provincial, city and regional) identify project having cost less than 200 million peso	a. After identification, all projects large and small is needed to be placed before CCEA for listing that require long processing and discourages private sector and concerned ministry b. Absence of involvement of Planning Commission poses the risk of sectoral imbalance and duplication of projects
6.	Use of standard formats for approval	According to guidelines standard formats for tender, contract , etc would be included	Different standard formats for different stages have been included in the guidelines	Different departments provide its standard formats	Concerned ministries and interested private investors face dilemma as no standard formats have been included in the guidelines.
7.	Classification of Project	a. A Project having capital cost of USD 25 million or above is defined as big projects b. A Project having capital cost of less than USD 25 million is defined as small projects	a. Project cost 2500 million rupees or more and NHDP listed project having cost 5000 million rupees or more b. Project cost 1000 million rupees or more and NHDP listed project having cost beyond 2500 million rupees or less than 5000 million rupees c. Project cost less than 1000 million rupees	a. Project cost 200 million peso or more b. Project cost less than 200 million peso	Approval of CCEA for listing of all projects (large and small) is not conducive to fast track decision making.
8.	Executive Responsibility	BOI provides secretarial services to PICOM	DEA provides all technical as well as secretarial services to PPPAC through its PPP Unit. Ministry of Finance acts as the nodal ministry in financial and other stimulus matters	Government departments perform necessary activities.	Additional stages requires additional time for PPP project processing that cause delay in PPP project approval

Annex: 2

SL. NO.	Issue	Bangladesh	India	The Philippines	Observation
9.	Determination of terms & conditions for project related different contracts	CCEA constitutes separate committee for each project as Major Terms and Condition Committee (MTCC) for determining terms and conditions for different contracts in a project	PPPAC and other relevant committees determine terms & conditions on the basis of reports on technical, engineering and legal matters at feasibility study and pre-appraisal test stage.	Project related government departments take expert services to assess technical and financial soundness and determine relevant conditions	Constituting a separate committee and determining Terms & Conditions by that committee require long time. MTCC is constituted on an ad-hoc basis and in most cases desired professional opinion remain unavailable.
10	Sick Project	According to guidelines, in addition to other causes, government shall not take responsibility of a project if turns sick due to change in government policy, increase in taxes and reduction in fiscal incentives.	Nothing has been mentioned in the guidelines regarding this issue	According to provision of the act government shall take full responsibility and make required compensation if any project get sick due to change in government policy and arrangement	Presence of the sick project related clause in the guidelines is not favourable to private sector entrepreneur for investment in infrastructure development.