

# Your Guide to Public Private Partnership in Bangladesh



*“Bangladesh is growing,  
be a part of it”*



# INTRODUCTION TO THE PPP PROGRAM

## Why has the PPP Program been launched?

The recent socio economic success story of Bangladesh has been widely acknowledged locally and internationally. On the social front Bangladesh has made significant strides in meeting several of the UN Millennium Development Goals such as reducing income disparity ratio, attaining gender parity in education, reduction in infant mortality etc. In addition, Bangladesh has made remarkable progress in reducing the prevalence of underweight children, increasing enrolment at primary schools, lowering the maternal mortality ratio and improving immunization coverage.

On the economic front it is one of the few countries to have demonstrated consistently strong GDP growth rate averaging over 6% over the last five years despite the general global slowdown. Over the same period per capita income has increased from \$638 in 2009 to over \$1000 in 2013.

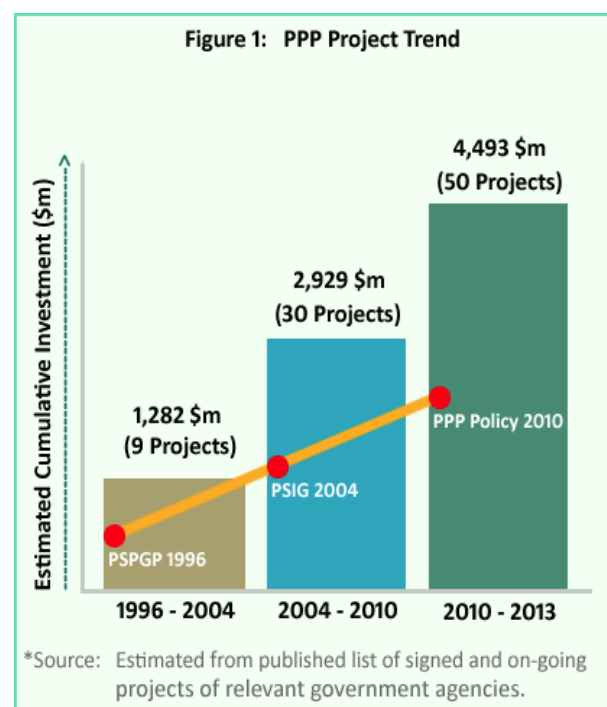
The foundation to this path of socio-economic growth, success and prosperity for Bangladesh has been set out in the Vision 2021; the Vision that sees Bangladesh progress to a middle income country by the year 2021. The strategy for implementing Vision 2021 identifies the need to increase investments in infrastructure from around 2% to 6% of GDP as one of the key requirements to achievement of the vision. Therefore, the government has identified and prioritised the Public Private Partnership (PPP) as one of the key initiatives to meet this investment priority and close the infrastructure gap.

Bangladesh's success has been built on the foundations of a very dynamic and vibrant private sector. The public sector has worked together with the private sector in different modalities in delivering infrastructure projects for nearly two decades. As such it is keen to build on this strength and forge a lasting partnership between the public and private sector for the accelerated development of our country. Through the PPP program the government intends to pursue opportunities that benefit the private sector through generating a profitable revenue stream one that delivers to its citizens much needed social and economic public infrastructure services and fulfil the commitment of government to meet its social obligations and development imperatives.

## History of PPP Projects in Bangladesh

A policy framework for PPPs was introduced in Bangladesh as early as the mid 1990's with the Private Sector Power Generation Policy (PSPGP) 1996. This marked the launch of PPP projects in the power sector, with the 450MW Meghnaghat and 360MW Haripur Power Projects; two early success stories.

The policy for encouraging partnerships with the private sector continued throughout the 2000's with the introduction of PSIG 2004 (Private Sector Infrastructure Guidelines 2004). The Policy and Strategy for Public-Private Partnership (PPP), 2010 (PPP Policy 2010) has now been introduced (replacing the PSIG 2004) to update the policy framework and incorporate best international practice to further boost the use of the PPPs across multiple sectors and to provide a clear and transparent regulatory and procedural framework.



# UNDERSTANDING PPPs

## What are Public Private Partnerships (PPPs)?

PPPs are co-operative ventures between the public and private sectors built on the expertise of each partner that best meets clearly defined public needs through appropriate allocation of resources, risks and rewards. The partnership is reinforced through legally binding arrangements, typically medium to long term, between the public and private sectors whereby services that traditionally have been provided by the public sector are delivered by the private sector, with clear agreement on shared objectives and allocation of risk for delivery of public infrastructure and/ or public services. PPPs do not include outsourcing of a simple function of a public service, turnkey construction contracts, which are categorized as public procurement projects; or the privatization of utilities where there is limited on-going role for public sector.

## How are PPPs regulated in Bangladesh?

The Policy and Strategy for Public Private Partnership (PPP) 2010 and the Guidelines for Formulation, Appraisal and Approval of Large Projects, Medium Projects and Small Projects, 2010; all gazetted on August 2010 establish the PPP Policy Framework for Bangladesh. These documents are updated and supplemented from time to time by specific PPP guidelines providing further details (for e.g. the Guidelines for Viability Gap Financing 2012).

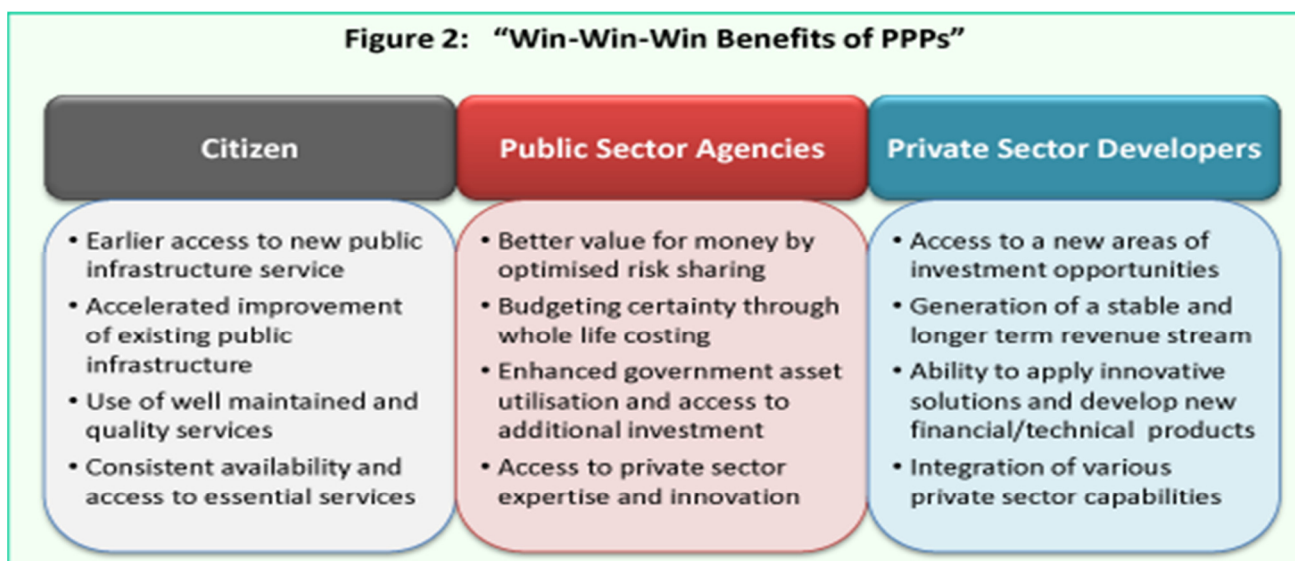
## Which sectors are covered by PPPs?

PPPs can be used for the delivery of public service projects in any social or economic infrastructure sector. Globally there are many successfully examples of PPPs in a wide range of sectors including Transport (e.g. Port, Airport, Highway, Railway, Bridge); Energy (e.g. Power Plants, Transmission Lines); Civil Accommodation (e.g. Economic Zones, Public Buildings, Convention Centres, Sports Facilities, Commercial Development, Residential Housing, Education Buildings); Health (e.g. Hospitals, Health Care, Dialysis and Diagnostics); Tourism and Hospitality; Water, Sewerage and Waste; IT infrastructure and Agriculture. In Bangladesh PPP projects have already been delivered or are being developed in many of the sectors listed above.

## What are the benefits of PPPs?

PPP projects can deliver a solution that provides services to citizens, enables the government to meet its responsibility of provision of services while providing the requisite financial returns to the private sector. Hence well-structured PPP projects are widely acknowledged to deliver a 'win-win-win solution' that benefits all stakeholders.

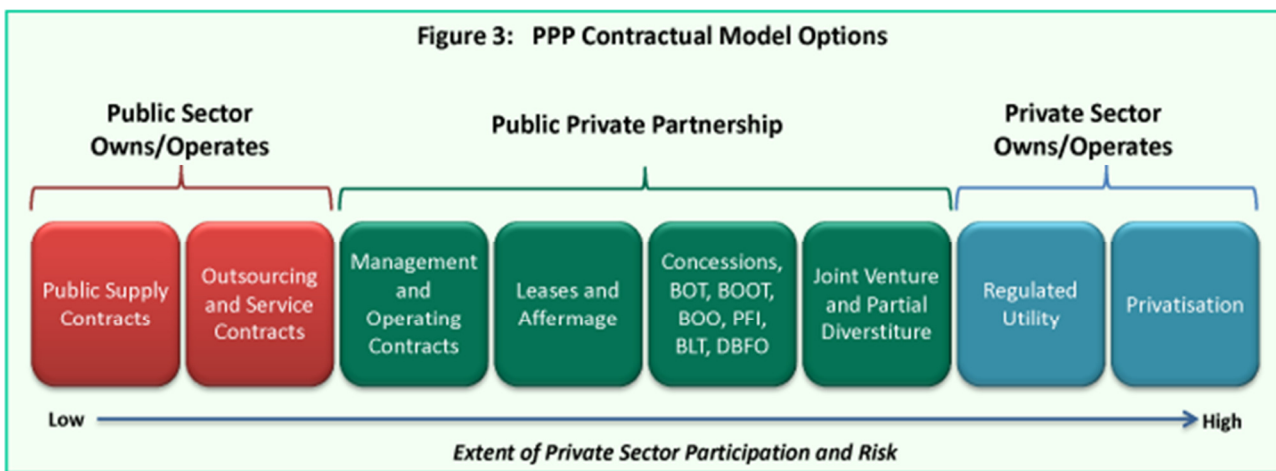
Figure 2: "Win-Win-Win Benefits of PPPs"



### What are the different contractual models for PPPs applied in Bangladesh?

A number of different contractual models of PPPs have been developed globally and are widely applied in projects. Each PPP model represents a different allocation of risk and responsibility between the public and private sector. These can differ in relation to size of investment by the private sector, the basis of the revenue stream, the responsibilities undertaken in relation to construction, operation, maintenance and service performance, ownership of asset and the length of the contract period. Where the public sector retains too much risk or it transfers most of it to the private sector than it falls outside the framework of a PPP.

The range of contractual models that typically fall under the PPP framework is set out in the figure below. The PPP contractual model is determined on a case by case basis following the conclusion of the feasibility and market engagement study that will determine the optimum option to deliver the public sector objectives through a viable, bankable and sustainable project for the private sector.



### What is the difference between Traditional Public Procurement and PPPs?

In traditional public procurement the focus is on the delivery of an asset, however, PPPs focus on the delivery of service outputs which require the construction, operation and on-going maintenance of assets. This conceptual difference means that the roles and responsibilities carried out by the public and private sector in traditional procurement and PPPs differ depending upon the specific contractual model that is being applied to the PPP.

For example, in a BOT public sector retains responsibility for specifying the project scope, service requirements and standards. Public sector takes responsibility for providing land that is free from encumbrances and carrying out any linked projects (for e.g. relocation of utilities). Private sector takes responsibility for detailed design construction, financing, operation and maintenance of the asset. The revenue payment risk can be taken by the private sector, by the public sector or be shared between the parties.

**Figure 4: Difference in roles between Public Procurement and PPP**

Mode	Traditional Public Procurement	Public Private Partnership
<b>Delivery Role</b>		
Land Acquisition	Public	Public
Linked Projects	Public	Public
Service Scope and Quality Standards	Public	Public
Detailed Design	Public	Private
Construction	Private	Private
Financing	Public	Private
Operation and Maintenance	Public	Private
Project Management	Public	Private
Revenue Payments	Public	Public Private

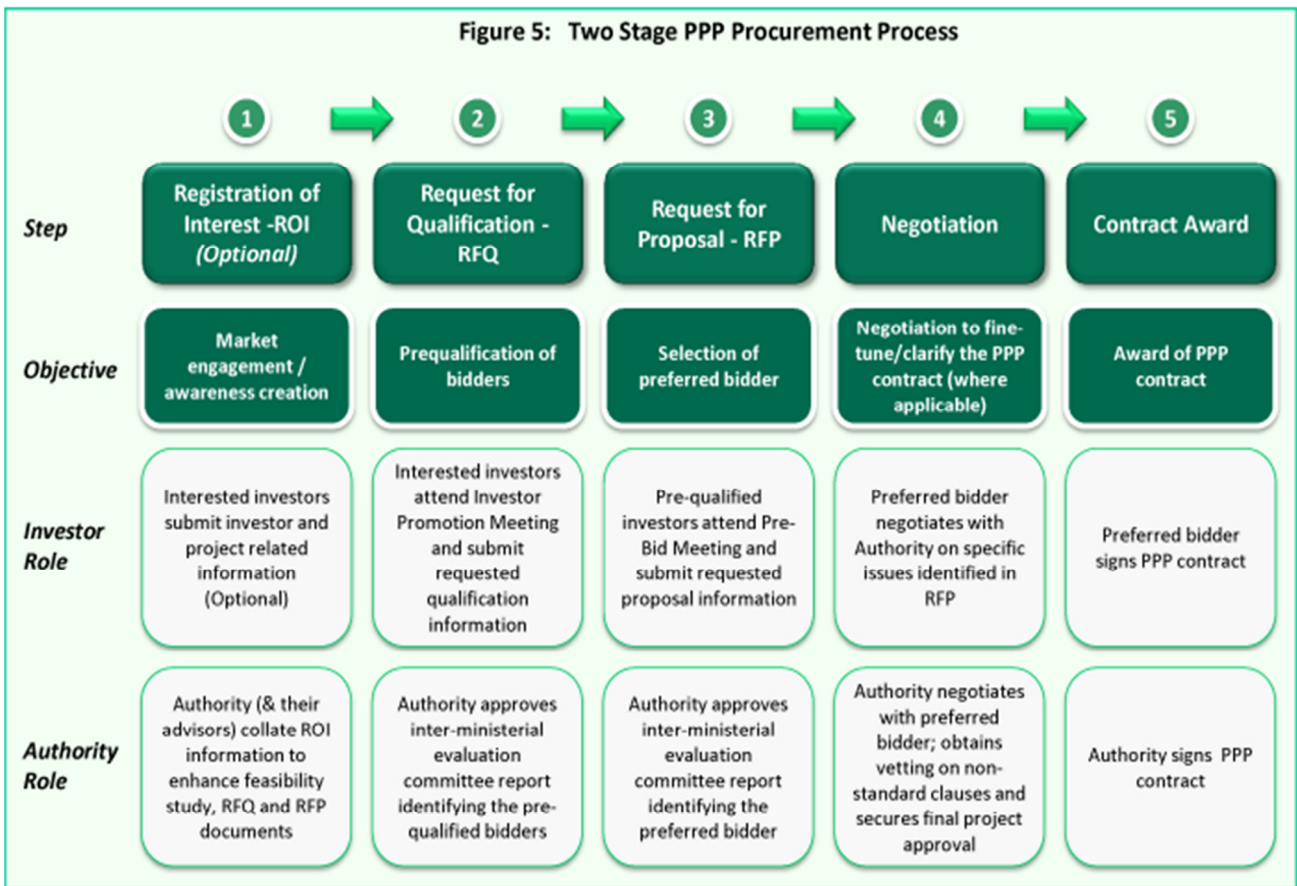
# PARTICIPATING IN PPPs

## How can interested private sector investors participate in PPP projects?

The public agency with the mandate for the PPP project has responsibility for the procurement and selection of a private sector investor. The procurement process to be used is detailed in the PPP policy framework, which mainly provides for the option of a single stage or a two stage open and competitive tender process.

The two stage procurement starts with the Request for Qualification (RFQ) being issued to interested investors. An inter-ministerial committee evaluates the qualification submissions to select the pre-qualified bidders. This is followed by issuing the Request for Proposal (RFP) to the pre-qualified bidders. The same inter-ministerial committee will complete the evaluation to recommend the preferred bidder. On selection of the preferred bidder the public agency (supported by the PPP Office) will negotiate on issues specified in the RFP (if any), following which the legal vetting is completed on any non-standard contractual provisions. The public agency will seek final approval from the approving authority, before awarding the contract to the preferred bidder. In the single stage procurement the RFQ and the RFP Stage is combined into a single RFP stage; however the remaining steps remain unchanged.

In both single and two stage procurement processes the public agency may issue a Request for Registration of Interest prior to the formal procurement launch. This is an optional stage designed to support the market engagement process, create awareness and help enhance the procurement documentation.



### How long does a PPP procurement process take?

The PPP procurement timescales differs from project to project depending upon the project size, complexity, market interest and other linked issues (for e.g. environmental and social). Generally PPP projects using the two stage procurement process are targeted to be completed within 16-20 months of the RFQ being issued. However, single stage procurements are targeted to be completed within a much shorter time frame of around 10-12 months.

### Does the government provide any incentives to encourage investment in PPP projects?

The government of Bangladesh has provided for a number of incentives and benefits for PPP investors in its PPP policy framework. These include:

- **Viability Gap Financing:** A budgetary fund to provide financial subsidy for PPP projects that have high socio-economic value but are not sufficiently commercially viable to be delivered on a PPP basis. Up to 30% of the total project cost can be subsidised either as part of a capital contribution during construction or in the form of annuity payments during operation. (Please refer to “Guidelines for Viability Gap Financing for PPP projects 2012” for more details.)
- **Fiscal Incentives:** There are provisions permitting PPP investors to benefit from various fiscal incentives (for e.g. reduced import tax on capital goods, various tax holidays) to reduce the cost of implementing the project and to enhance viability of project.
- **Special Incentives (Non-Fiscal):** Any specific project may get special incentives or other non-fiscal incentives to support the implementation of policy objectives or to enhance the ease and efficiency of delivering the project. These may include exemption from specific provisions related to insurance regulations, banking regulations, foreign exchange regulations etc.
- **Unsolicited Proposal:** To encourage private investor participation and innovation in PPP projects, government has permitted the submission of unsolicited proposals for the delivery of PPP projects. However, to ensure openness and transparency unsolicited proposals are also subject to an open and competitive procurement process. The unsolicited bidder is incentivised through the application of either the Swiss Challenge System (where the unsolicited bidder is given the right to resubmit and enhance his bid) or Bonus System (where the unsolicited bidder is given a pre-agreed bonus to be applied during the evaluation).

### Does the government offer any long term financing facilities for PPP projects?

The government recognises the importance of availability of long term finance to enable private investors to finance the implementation of PPP projects. To facilitate access to long term finance government has established two non-bank financial institutions, IDCOL and BIFFL with the remit to provide funds to private investors for the financing of infrastructure and PPP projects. IDCOL is capitalised mainly through the contribution of multilateral donors; while BIFFL is capitalised through the provision of ring fenced budgetary funds from Government of Bangladesh.

For further information please contact:

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# PPP OFFICE

## What is the role of the PPP Office?

The Policy and Strategy for Public Private Partnership (PPP) 2010, provided the basis for the establishment of the Public-Private Partnership Office (PPP Office) under the Prime Minister's Office. The PPP Office became fully operational in January 2012, following the appointment of an international PPP expert as Chief Executive Officer, following a fair and open international selection process.

The PPP Office supports line ministries to identify, develop, tender and finance PPP projects. For interested investors and lenders, the PPP Office provides a professional, transparent, centralized portal to high quality PPP Projects. Staffed with both private sector professional and civil service resources, the PPP Office helps augment government sector line ministry project development efforts with world-class external PPP resources, with the goal of increasing the quality, attractiveness, and sustainability of PPP projects while realizing them in an efficient, cost-effective manner.

Figure 6: Role of the PPP Office

*"The PPP Office is committed to supporting public agencies deliver the critical public infrastructure services that are required to enhance the development of Bangladesh and to support and engage with private investors who keen to participate and work in partnership with government in the successful delivery and implementation of PPP projects."*



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## Contact Us



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