Boosting Economic Development in Bangladesh through Public- Private Partnership (PPP)

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Abstract

Public-private partnership is a service or a business venture funded, managed, and operated through a partnership between government and one or more private sector entities. It is argued that PPP is one of the best alternative modes of development because it draws upon the strengths of both the public and the private sectors and at once contributes to the elimination of weaknesses of both the sectors. It is essential to generate the concept of public private partnership for invigorating investment. This study reveals that different types of public private partnership model are used to increase the investment and growth rate. Development in infrastructure sector through private sector participation is believed to provide a boost to every sector of the economy. The existing PPP framework of Bangladesh is also compared with the PPP regulatory and institutional framework of India to identify the deficiencies in the prevailing PPP framework and formulate recommendation for making the framework time-befitting and effective.

Key words: Public Private Partnership(PPP) **,** Build-Own- Operate(BOO), Build-Operate-Transfer(BOT), PPP models.

Introduction

As a developing country Bangladesh is facing a number of socio-economic problems and also the country has been trying to find out new strategies to face the challenges of economic growth. During the current fiscal year (2011-12) per capita income in Bangladesh is only USD 750 (BDT 55725) and about 40 percent (58 million) of population live below the poverty line. Literacy rate in Bangladesh has increased to 56.1 percent (BBS,2010). Income from industry is 29.7 percent of total national income, and external trade is 40 percent of total national income (GOB,2010). All these statistical figures reveal that socio-economic parameters of development of the country is steadily progressing . But still there is a gap between expectation and achievement. 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. In the new millennium Bangladesh achieved growth rate of more than 6 percent. Lack of investment in infrastructure, especially energy and power, port and communication has been identified as major bottlenecks of

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achieving higher growth rate. The model with enhanced role of private sector in government initiative relaxes government's resource constraint, ensures greater efficiency and better resulting in improved service delivery while maintaining public accountability of service provision.

It is argued that public private partnership is one of the best alternative modes of development because it draws upon the strengths of both the public and the private sectors and at once contributes to the elimination of weaknesses of both the sectors. Viewed thus, in fairly recent years, PPP approach is being tried out in Bangladesh following the showcase examples particularly in East Asian countries. Under the PPP initiative, infrastructure development especially power and energy, Telecommunication and port development are assigned the highest priority by the government virtually neglecting the SOEs in the manufacturing sector. Development in infrastructure sector through private sector participation is believed to provide a boost to every sector 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.

Public-private partnership (PPP) has emerged as a means of utilizing existing investment, both human and other resources, alongside the untapped resources of people, and private and non-state initiatives pooled together to bring about substantial positive and lasting changes in socio-economic parameters catering to the needs of future generation**.** It is a service or a business venture funded, managed, and operated through a partnership between government and one or more private sector entities. The model with enhanced role of private sector in government initiative relaxes government's resource constraint, ensures greater efficiency and better management resulting in improved service delivery while maintaining public accountability of service provision. It is argued that PPP is one of the best alternative modes of development because it draws upon the strengths of both public and private sectors and at once contributes to the elimination of weaknesses of both the sectors. In recent years, PPP approach is being tried out in Bangladesh.

Objective of the study

To generate information about public private partnership in Bangladesh.

- To identify the determinant of economic development through public private partnership and relative impact of public private partnership.
- To analyze the present status of public private partnership in Bangladesh
- To make a comparison of institution and legal framework of Bangladesh with that of India.
- To suggest alternative policy measures to improve the situation of public private partnership.

Literature review

According to Akram (2005) privatization in Bangladesh is important for two reasons: First, privatization is recognized by many as a legitimate and effective tool for economic transformation and development**.** Second, Bangladesh is a country with huge socioeconomic development problems, and it has divested more SOEs than any other less developed country.

Bhuiyan (1992) expressed the continued SOEs privatization policy in Bangladesh on the basis of ongoing market policies according to the instruction and guideline of the Donor agencies for the economic development of our country. Continuous fiscal burden of the loss making SOEs is a reality. Naturally, in pursuance of predetermined dogma of benefits of privatization, 74 industrial enterprises have been disinvested during 1993-2007 and a list of 26 industrial units has been prepared for further disinvestment. Development partners' pressure, aid conditionality and governmental fiscal burden out of loss making SOEs cannot provide the results of privatization in a positive direction.

To accelerate the pace of industrialization, the GOB announced the Industrial Policy-1986. During this period the government in order to strengthen and centralize its power nurtured and facilitated a number of opportunities for those who borrowed huge amount of money from the different development financing institutions with a view to establishing industries. In most cases they have diverted this money to other sectors instead of investing in the exact project for which they got the approval. On the other hand, the losses of different public sector corporations continued to increase exponentially. Accountability and transparency were quite absent in the administration of public sector corporations. Since then all the existing nationalized industries claiming heavily on the national exchequer remain a burden on the government (Chowdhury - 2008). Privatization in Bangladesh has been a mixed bag. Failure on this count is obviously because of many structural rigidities, institutional incongruities and deformities, all pervasive malpractices and many other built-in distortions according to Mahmood (2000)

Methodology

This study is descriptive in nature. The basic information of the study has been collected from secondary source. Secondary source include different published materials like the publications of Bangladesh Bank, Bangladesh Bureau of Statistics, Ministry of Finance, World Bank. Conference papers of some scholars, books and journals have also been studied. The collected data have been processed manually and present form has been prepared in order to make the study more informative, analytical and useful for the users.

PPP Related Concepts and Different PPP Models

PPP Variants

In the simple form of PPP, Government provides capital for investment, while operations run jointly with private sector or under contract. It could be the other way round as well. Private party assumes financial, technical, and operational responsibilities and risk in venture. The government pays contracted price for infrastructure services that is financed, built, managed, and maintained by private sector enterprise. Social enterprises unite public sector's commitment to social goods with private sector's expertise in product development and marketing. Different approaches to PPP are based on activity and country characteristics. Alternative modes of operation include: (i) cost of using service borne by users (e.g. toll roads); (ii) capital investment by private partners, cost of providing service borne (wholly or partly) by government; (iii) public contribution in kind (transfer of existing assets); (iv) Government provides subsidy (one-time grant) for creating public good (infrastructure); and (v) Government provides revenue subsidies (tax breaks or guaranteed annual revenue for a fixed period). 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. Under the PPP initiative the public sector pays 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.
- Public sector 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

PPP implementation option is to form a consortium, called 'Special Purpose Vehicle' (SPV) to plan, construct, maintain, and operate. Government holds an equity share in SPV which signs contract with government and with subcontractors to build and maintain facility. For infrastructure, complex arrangements and contracts are needed to guarantee and secure cash flows. 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 as follows (GOB, 2009):
BOO(Build Own Operate) – 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 (Build Operate Transfer)– 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 are transferred to the government. There are more models in addition to the ones noted above. For example, education: 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.

Risks Associated with PPP Implementation

There is no apparent fiduciary risk if infrastructure is developed under PPP because government does not invest or invests very little in such schemes. However, there might be some other risks as: (a) loss of ownership of public properties through transferring entitlement, (b) approval of inflated costs at the time of project implementation through higher valuation, (c) overlooking public interest when pricing the goods and services and (d) dysfunctional infrastructure once ownership is handed over to the government. It is possible to reduce risk by formulating appropriate rules and regulations, strengthening institutional framework conducive to serve the interest of the public, 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.

Benefits of PPP

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 parties are as follows: For the public sector, likely benefits are (i) maintaining economic stability, (ii) gains from private sector innovation and expertise, (iii) logical estimate of expenditure during the lifecycle of the infrastructure, and (iv) achieving desired growth rate. For the private sector, likely benefits include (i) expansion of business, and (ii) innovation. For the public/users, likely benefits cover (i) accountability, (ii) more responsible Government, and (iii) guarantee of safety.

In the simple form of PPP, Government provides capital for investment, while operations run jointly with private sector or under contract. It could be the other way round as well. The government pays contracted price for infrastructure services that is financed, built, managed, and maintained by private sector enterprise. Social enterprises unite public sector's commitment to social goods with private sector's expertise in product development and marketing. Different approaches to PPP are based on activity and

Resource Gap

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 prioritized. Preliminary assessment of the required investment to boost growth rate has been prepared till 2014 by Finance division. It has been assumed that economy will grow at the rate of 8% and the assumption is made by trend projection. The estimate assumes that desired investment will be achieved during 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 US$ 28 billion investment deficit (Table-1). The government is determined to raise GDP growth to 8 percent by augmenting investment by mobilizing private sector's resources, expertise and experience through the PPP initiative.

Table-1:Required Investment for Attaining Targeted 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)	24.00	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 (2010)

Plan of the present Government in Bangladesh

Present government plans to initiate a new budgetary modality by introducing the PPP budget. The election manifesto of the present government promised to raise the growth rate of Gross Domestic Product (GDP) to 8 percent by 2013 and to 10 percent by 2017 which will then be maintained till 2021. The share of investment in GDP needs to be raised to 35-40 percent from the present average investment-GDP ratio of 24-25 percent. One estimate suggests that to sustain GDP growth rate of 8 percent in 2013 and beyond requires additional US$ 28 billion or BDT 1.96 trillion from 2009 to 2014. It is challenging for the government to arrange such huge resources to raise rate of investment to 35-40 percent of GDP. It is also imperative to ascertain whether the government has skilled human power and required institutional framework to implement mega infrastructure projects. The current global economic downturn may diminish the possibility of receiving additional foreign financial assistance. Participation of the private sector through PPP may reduce investment deficit.

To gain the confidence of private investors regarding government's eagerness and strong position in the new PPP initiative, significant allocation is proposed in FY 2009-10 budgets. However, the allocation neither could nor be utilized in the absence of clear cut policy. 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 for loan or equity is divided into three categories: (i) allocation for loan or equity, (ii) allocation for PPP Viability Gap Funding (VGF) as subsidy, and (iii) allocation for PPP Technical Assistance (PPPTA). An amount of BDT 21 billion was allocated in the budget for FY 2009-10 under the loan or equity head to increase financing opportunity for projects under PPP initiative. In the future a new fund named Bangladesh Infrastructure Investment Fund (BIIF) may be created and may be used for private sector infrastructure development under PPP initiative. Government through securitization may transform loan to tradable debt securities which can be traded to mobilize funds.

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. The strategies are as follows: (i) 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. (ii) 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. Although the PPP initiative is not completely new it has not been extensively applied in Bangladesh, particularly for the privatization of SOEs. As a result, many government organizations and private promoters have failed to identify the potential of this national initiative in various sectors. At the same time no effective institutional arrangement has been developed to publicize the PPP initiative in Bangladesh. In this regard, initiatives may be undertaken urgently in: (a) the identification of potential projects that can be implemented under PPP, e.g. privatization of SOEs; and (b) wide and extensive publicity measures for the new PPP initiative.

According to the preliminary estimate, there is US$ 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.

Existing Framework of PPP in Bangladesh

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 PPP 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 US$ 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.

Progress of PPP Implementation under the Present Framework

Three government organizations are involved in the project implementation by the private sector under the PPP initiative. So far the direct assistance of these organizations 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 . The contribution of the three organizations involved in PPP project implementation is summarized below:
(a) IDCOL – Through this government sponsored company PPP project finance and financial intermediation are conducted. To 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%), private investors financed BDT 2.51 billion (32%) and participating banks financed BDT 1.46 billion (17%).
© 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. Under the current framework, through different types of PPP initiatives a small number of projects have been implemented under the Annual Development Programme (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 Association. During the same period, educational institutes were established under joint initiative and if specific level of individual contribution (i.e. 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 the projects. By reinvigorating such initiatives, the current PPP Budget may begin a new phase.

Legal Basis for the PPP under the Present Framework

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.
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 Private Sector Infrastructure Guidelines (PSIG)-2004. Later, the Public Procurement Act (PPA)-2006 was enacted by the national parliament. PPA-2006 through section 66, which incorporated concessions agreement related provision, extended the government's legal jurisdiction to formulate independent PPP guidelines.

In the Public Procurement Rules (PPRs) 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 PPRs-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. 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 initiative was taken 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, and pension funds). But, at present, government through IDCOL can provide money (equity or loans) to any infrastructure investment related funds.

Budgetary Allocation for the PPP

To gain the confidence of private investors regarding government's eagerness and strong position in the new PPP initiative, significant budgetary allocation was proposed in FY 2009-10 budget for the first time. Government does not treat 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 for loan or equity is divided into three categories: (i) allocation for loan or equity, (ii) allocation for PPP Viability Gap Funding (VGF) as subsidy, and (iii) allocation for PPP Technical Assistance (PPPTA). 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 organization of the government. It was 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. 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. Government through securitization may transform loan to tradable debt securities which can be traded to mobilize funds. In this regard fund mobilization through Jamuna Bridge and Padma Bridge securitization is being discussed. Allocation for PPP Viability Gap Funding as Subsidy 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 PPPVGF. PPP projects can spend money allocated to this component under specific contract.

Allocation for PPP Technical Assistance Necessary budgetary allocation for PPPTA 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 organization. IIFC will also be involved in this task. In FY 2009-10, it was proposed to allocate BDT one billion as assistance and grants for providing technical assistance to PPP projects. For 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. However, the utilization process could not be started as policy guideline on PPP was not finalized.

Proposed policy strategy:

(i) 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.

(ii) 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. Project Identification and Extensive and Continuous Publicity of the new PPP initiative. Although the PPP initiative is not completely new it has not been extensively applied in Bangladesh, particularly for the privatization of SOEs. As a result, many government organizations and private promoters have failed to identify the potential of this national initiative in various sectors. At the same time no effective institutional arrangement has been developed to publicize the PPP initiative in Bangladesh. In this regard, initiatives may be undertaken urgently in: (a) the identification of potential projects that can be implemented under PPP, e.g. privatization of SOEs; and (b) wide and extensive publicity measures for the new PPP initiative. 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 sectors and projects will be identified which will be implemented on a priority basis.

(i) 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.
(ii) The study will incorporate a time-bound implementation schedule and costing of projects identified in the study.
(iii) IIFC may lead or manage the technical study.
(iv) The expenditure for the technical study will be borne under PPPTA allocation made by the Finance Division.
(v) The study will be submitted in 6-8 weeks time.

The government's unwavering stance and sincerity regarding the current invigorated PPP initiative needs to be publicized 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.

Tk.25 billion has been earmarked for PPP projects: government partnership in equity and loan assistance to different projects. The budget aims to: (a) identify projects that are sound, viable, and somewhat easy to implement; and (b) adopt some guidelines. For power and energy infrastructure, private partner may invest up to 70-75 percent of the entire investment. For health, education and social sectors, government may contribute major part of total investment.
PSIG 2004 guidelines are not backed by law. To begin with, PPR 2008 (Rule 129) and PPA 2006 (Section 66) may provide legal basis for PPP initiative. It is necessary to adopt project implementation within a flexible framework covering BOO, BOT and BOOT as necessary. Initially, PPPs may be negotiated as one-off deals with aim to install a systematically programmed in phases. It is crucially important to (i) finalize detailed action plan on how to proceed in a time bound manner; streamline processes, regulations, requirements, legal/policy hurdles; (ii) enact new legislation to develop comprehensive legal and institutional framework for administration, monitoring, professionalism and accountability; (iii) create legal framework for pooling of funds from various sources (banks, insurance companies, pension funds, etc) as

government can only provide equity or loans to infrastructure related funds at present through IDCOL; (iv) establish a PPP Cell to move forward; (v) prepare guidelines for TA and VGFs; (vi) remove weaknesses and limitations of PICOM under PSIG 2004 in terms of its size, scope, and other institutional and organizational framework and structure; (vii) set up a dedicated unit for PPP budget formulation and implementation; (viii) adopt measures to build trust and confidence of investors, simplify legal and regulatory frameworks, streamline decision making process, remove implementation constraints, and ensure procedures of accountability; (ix) create broader political consensus on needs and imperatives especially for large PPP projects with longer implementation periods (Mujeri, 2009).

Proposed policy strategy includes: (a) wide, extensive and continuous publicity campaign for the new PPP initiative; and (b) list of projects to be implemented under PPP. For extensive promotion a website- www.pppinbd.com will be put in place. In the dedicated website arrangement will be made for sect oral advertisement (by setting up links). Arrangement will be made for advertisement in well-known foreign and local newspapers, magazines and journals. Similarly, arrangement will be made for road show, conference with foreign and local investors, infrastructure sector fund administrator and development partners. The government has prioritized some large-scale infrastructure projects to be implemented under the PPP. 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.

Table-2: List of Important Mega Projects to be implemented under PPP

Sector	Name of the Project Estimated	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 seaport in Chittagong		BOOT/BOT
	Total (excluding Chittagong deep seaport)	13.85	
Transportation	1. Bus Rapid Transit (BRT	150	BOO
	2. Articulated Bus Service	50	BOO
	3. Bus Route Franchise (BRF)	50	BOO

Source : World Bank (2010), Issues on public private partnership

Table-3: List of Projects in Education and Health Sectors to be implemented under PPP

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

Source: World Bank (2010), Issues on public private partnership

Bangladesh and India: A comparative scenario of legal and institutional framework under Public Private Partnership

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. 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 with India 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 scenery of public private Partnership in Bangladesh and India .

Sl. No.	Issue	Bangladesh	India	Observation
1	Regulatory Framework	Guidelines of PSIG-2004 is being followed	Guidelines for formulation, appraisal and approval of PPP projects, 2006 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 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	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.
4	Project Approval	a. CCEA for project having cost more or equivalent to USD5 million. b. Concerned ministry for project having cost less then USD5 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	

Sl. No.	Issue	Bangladesh	India	Observation
5	Project Identification	a. Project cost more than USD 5million 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. 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 sect oral 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.	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.	Approval of CCEA for listing of all projects (large and small) is not conducive to fast track decision making.

Sl. No.	Issue	Bangladesh	India	Observation
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.	Additional stages requires additional time for PPP project processing that cause delay in PPP project approval
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.	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.	Presence of the sick project related clause in the guidelines is not favorable to private sector entrepreneur for investment in infrastructure development.

Policy Recommendation

Drawing on lessons from the past experience, public private partnership policy will need to be reformulated in synergy with other policies. Such a policy may contain the following features.

(i) Targeted Sector Policy:
Except for the development of selected industries in the backward and disadvantaged regions, targeted policies whereby the government selects "winning" industries and provides them with financial assistance, either directly or through tax incentives or concessional loans, should be avoided. A public private partnership strategy of "pick the winners" rests on the mistaken perceptions of the role the government should play in a market economy and on the ability of bureaucrats to perceive the future. There is no basis for believing that the government's ability to make a decision to invest is superior to that of the entrepreneur who places his own money at risk.

(ii) Foreign Direct Investment (FDI) and Technology Transfer:
The greatest attractiveness of FDI is that it brings in the latest technology, which is vital for attaining global competitiveness. The policy makers should not consider FDI merely as a means of complementing domestic resources for industrialization. They should also ensure that the foreign investors bring in new technology. A strict screening of FDI will be necessary for that purpose.

(iii) Competition Policy:
The size of industry and the market structure are issues that should receive important considerations in public private partnership policy. Conceptually, and on grounds of equity, competitive markets and the absence of monopolies and oligopolies are to be preferred. However, large size connotes efficiency and competitive strength that are deemed necessary to operate in the foreign markets. Bangladesh does not have any competition law or policy, but sooner or later it must have one, if efforts at introducing the competition policy in the World Trade Organization are any indication.

(iv) SOEs and Privatization:
The present privatization policy suffers from a contradiction in that the government wants a gradual transfer of SOEs to the private sector and at the same time calls for raising their efficiency. SOEs will ever behave like profit-seeking entities and improve their efficiency. An outright policy of privatization seems to be the only solution to the problem of the ailing SOEs. Policy making is a dynamic process, and the objectives and strategies of a privatization policy keep on changing with time. This is why privatization policies in Bangladesh were revised from time to time in the past to address problems faced by the country's industrial sector. These weaknesses need to be removed by introducing an appropriate privatization policy.

(v) Deregulation Policies of Government:
Government's role should be that of a facilitator, not that of a regulator. Its sphere should be limited essentially to the provision, development and maintenance of essential infrastructure and

utilities in which the private sector is unlikely to show any interest. Unnecessary regulations should be eliminated. Regulations that are necessary, for pertaining to environmental and workers' health and safety policies, should be set realistic goals, be implemented more efficiently, and be subjected to periodic review.

(vi) Following PPP Model:

A great deal of emphasis has been placed in the national budget for the FY 2009-10 on the PPP model. The PPP is to be the cornerstone of government's policies to draw substantial investments from the private sector in alliance with the government to build all sorts of business-friendly infrastructures. The plan has great potential. Both local and foreign investors were earlier reported to be eager to participate in activities under the PPP framework.. The public private partnership policy should be responsive to the emerging needs and problems of the industrial sector. It should seek to free the industrial sector from problems that impeded its growth in the past. It should be goal-oriented and set some core objectives that will seek to create an enabling environment for industrialization, and enhance the capacity of the industrial sector to generate employment and income. The policy should be credible, so that the stakeholders take it seriously. Policy Formulation is weak because it is not always based on rigorous and sound analysis. The personnel engaged in formulating the policy often lack the technical skill to carry out the research required to assess the likely impact of alternative policy options. Policies also fail because the institutional arrangements for formulating the overall national economic policies are not always clear. There is a lack of coordination within and among various units of the administrative machinery responsible for formulation of policy.

Plan of action is one of a series of steps needed to spend the Tk.25 billion PPP fund set aside in the current budget (FY 2009-10) for large projects in power, road and energy sectors. It is very minor step towards a long list of requirements. There is still need for a lot of paper work and clear a number of legal and policy hurdles. So, it is very unlikely that large projects under the new and invigorated initiative could be implemented in the current fiscal year. The extent of constraints on financing issues standing in the way to implement the projects under the PPP is still not known. All these steps would eat up major parts of the year, making it impossible to execute in 2009-10 any of the top projects seen as likely candidates for PPP funding. It is difficult to get things ready within the next six-seven months. Already the MOF got lukewarm response from government ministries and divisions for the projects to be included under the PPP initiative.

A total fund of Tk.25 billion has been earmarked in the current budget against PPP projects. Of the total amount, Tk.21 billion has been earmarked for loan or equity, Tk.3 billion for VGF and the rest Tk.1 billion for technical assistance. The government in its budgetary documents for FY 2009-2010 estimates a fund requirement of $1.04 billion for the PPP investment initiative and $28.06 billion by 2013-2014. Already, the government has placed some mega projects under the PPP initiative. Among them, the Dhaka-Chittagong access control highway would cost $3.02 billion, Sky-train encompassing the Dhaka metropolis $2.80 billion and Dhaka City Subway $3.10 billion. According to Roads and Highways Division, it would also execute the Dhaka city elevated expressway valued at $1.23 billion and Dhaka-Narayanganj-Gazipur-Dhaka elevated expressway at $1.90 billion through the PPP investment initiative.

The present public private partnership policies can be improved if the terms and conditions of the sale are well-defined and upheld. Discipline in the financial sector is a necessary condition for the success of the privatization program.

Public and private goals could be synchronized better through interaction of public, private sectors, understanding through frequent meetings and developing mentality of mutual benefits through trade off interests of both the sides.

Conclusion

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 new millennium Bangladesh achieved growth rate of 6 percent. The growth rate of the country observed a declining trend 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. Under the PPP initiative, infrastructure development especially power and energy, telecommunication and port development are assigned the highest priority by the government. In addition, government welcomes infrastructure development through PPP initiative in health, education, tourism, industry, information technology, health and sanitation, housing sector etc. Government can play a supportive role by providing incentives, inducing ideas and setting the initiatives in motion and encouraging mass motivational activities.

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