About The Asia Foundation

The Asia Foundation is a non-profit, non-governmental organization committed to the development of a peaceful, prosperous, just, and open Asia-Pacific region. The Foundation supports Asian initiatives to improve governance, law, and civil society; women’s empowerment; economic reform and development; sustainable development and the environment; and international relations. Drawing on nearly 60 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research.

With 18 offices throughout Asia, an office in Washington, DC, and its headquarters in San Francisco, the Foundation addresses these issues on both a country and regional level. In 2010, the Foundation provided more than $38 million in program support and distributed nearly one million books and journals valued at over $42 million.

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Promoting Public-Private Partnership in Bangladesh

A BRIEF GUIDE FOR PARTNERS

The Asia Foundation

DHAKA, BANGLADESH • DECEMBER 2010

Cover Photos: Finance Division, Ministry of Finance, Government of the People’s Republic of Bangladesh (www.mof.gov.bd)
The Government of the People’s Republic of Bangladesh have been putting renewed emphasis on Public Private Partnership (PPP) since 2009. The Asia Foundation undertook an initiative in July 2010 to assist the government to promote PPP in the country in line with its strategic focus areas on (a) establishing effective and accountable governance, and (b) accelerating broad-based economic growth. Overall guidance to the initiative was provided by Hasan Mazumdar, Syed Al-Muti and Farouk Chowdhury at the Foundation office in Bangladesh.

This publication is based on primary data collection in Bangladesh, review of relevant secondary literature on PPP from Bangladesh and other countries in Asia, and an exposure visit to the Philippines. M Shameem Siddiqi, the author of this publication, led the Foundation’s PPP initiative and was assisted by Faria Naz Hossain and Shahjahan Kabir in contacting and facilitating interviews with the respondents from the public and private sector agencies.

We are deeply grateful to the respondents in the Ministry of Finance and the Prime Minister’s Office in Bangladesh, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Foreign Investors’ Chamber of Commerce and Industry (FICCI), American Chamber of Commerce (AMCHAM), and other respondents from the private sector. The primary research would not have been possible without their cooperation, information, insights and suggestions.

The exposure visit to the PPP experience in the Philippines was a significant building block for this publication. The successful visit and the dialogues were made possible by the spontaneous participation of the representatives from the Ministry of Finance and the Prime Minister’s Office in Bangladesh, FBCCI, FICCI and AMCHAM; and open sharing of information and ideas by the host organisations in the Philippines i.e. The Asia Foundation, Research Education and Institutional Development Foundation Inc (REID), the Asian Development Bank, the National Economic and Development Authority (NEDA) of the Government of Philippines, Maynilad, GN Power, and the Philippine Wholesale Electricity Spot Market (WESM). The overall coordination and facilitation roles for the visit were played by Shameem Siddiqi and Faria Naz Hossain.

We are thankful to Katherine Loh and Nina Merchant from the The Asia Foundation headquarters in San Francisco for their review of the publication. We thank Chowdhury Rashaad Shabab at the Foundation office in Bangladesh and Nancy Kelly at the headquarters for their editorial assistance. We are also thankful to Faria Naz Hossain for the cover design and Sadia Priyanka at the Bangladesh office for her assistance with the interior layout of the publication.
## Abbreviations & Acronyms

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<tr>
<td>ADB</td>
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<td>ADP</td>
<td>Annual Development Plan</td>
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<td>AMCHAM</td>
<td>American Chamber of Commerce</td>
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<td>BDT</td>
<td>Bangladesh Taka</td>
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<td>BIFF</td>
<td>Bangladesh Infrastructure Finance Fund</td>
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<tr>
<td>BOO</td>
<td>Build-Own-Operate</td>
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<td>BOOT</td>
<td>Build-Own-Operate-Transfer</td>
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<td>BOT</td>
<td>Build-Operate-Transfer</td>
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<tr>
<td>BPSIG</td>
<td>Bangladesh Private Sector Infrastructure Guidelines</td>
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<tr>
<td>CCEA</td>
<td>Cabinet Committee on Economic Affairs</td>
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<td>DOE</td>
<td>Department of Energy</td>
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<td>ECA</td>
<td>Energy Conversion Agreement</td>
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<td>ERC</td>
<td>Energy Regulatory Commission</td>
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<td>EPIRA</td>
<td>Electricity Power Industry Reform Act</td>
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<td>FBCCI</td>
<td>Federation of Chamber of Commerce and Industry</td>
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<td>FICCI</td>
<td>Foreign Investors’ Chamber of Commerce and Industry</td>
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<td>FS</td>
<td>Feasibility Study</td>
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<tr>
<td>FY</td>
<td>Fiscal Year</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GoB</td>
<td>The Government of Bangladesh</td>
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<td>GPRA</td>
<td>Government Procurement Reform Act</td>
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<td>IDCOL</td>
<td>Infrastructure Company Development Limited</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IPP</td>
<td>Independent Power Producers</td>
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<td>IPPA</td>
<td>Independent Power Producers Administrator</td>
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<td>ISIC</td>
<td>International Standard Industrial Classification</td>
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<td>JV</td>
<td>Joint Venture</td>
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<td>MPIC</td>
<td>Metro Pacific Investments Corporation</td>
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<td>MWSS</td>
<td>Metropolitan Water Works and Sewerage System</td>
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<td>NEDA</td>
<td>National Economic and Development Authority</td>
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<td>NPC</td>
<td>National Power Corporation</td>
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<td>NRB</td>
<td>Non-Resident Bangladeshi</td>
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<td>PEMC</td>
<td>The Philippines Electricity Market Corporation</td>
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<td>PMO</td>
<td>The Prime Minister’s Office</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>Public-Private Partnership Advisory Council</td>
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<td>PSALM</td>
<td>Power Sector Asset and Liabilities Management</td>
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<td>Private Sector Infrastructure Guidelines</td>
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<td>REID</td>
<td>Research Education and Institutional Development Foundation Inc.</td>
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<td>RFP</td>
<td>Request for Proposal</td>
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<td>RFQ</td>
<td>Request for Qualification</td>
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<td>RO-RO</td>
<td>Roll-On Roll-Off</td>
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<td>TDP</td>
<td>Transmission Development Plan</td>
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<td>TRANSCO</td>
<td>National Transmission Corporation</td>
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<td>TSC</td>
<td>Transition Supply Contract</td>
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<td>US$</td>
<td>United States Dollar</td>
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<td>VGF</td>
<td>Viability Gap Financing</td>
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1. Introduction

1.1 About this Publication

Background

Bangladesh has been facing many development challenges since gaining independence in 1971. To overcome some of these challenges, the country requires significant investment in energy, transport, and water supply infrastructure and several other sectors. In mid-2009, a policy encouraging public-private collaboration was included by the Government of Bangladesh (GoB) in the national budget legislation, but it lacked clear guidelines on how to put the government’s intentions into practice. Due to the absence of clear guidelines, most of the budget allocated for partnerships by the government was not utilised and the intended public-private engagement did not take place. Informal conversations with business leaders and government officials revealed a need for dialogue between the government and business representatives to identify and resolve obstacles in the implementation of Public-Private Partnerships (PPPs).

The GoB has agreed to address the limitations of the initiative taken in 2009. The PPP policy is currently administered under the Prime Minister’s Office (PMO), indicating high level support for its effective implementation. The PPP policy and strategy was published in August 2010. The government has also allocated a significant amount of money in the FY 2011\(^1\) budget to take PPPs forward.

The Asia Foundation has been playing key facilitating roles in the development of Bangladesh for decades, with an office in-country since 1954. In its current Country Strategic Assessment, the organisation has - among its strategic focus areas - committed to work on: (a) establishing effective and accountable governance, and (b) accelerating broad-based economic growth in Bangladesh. The PPP initiative falls specifically under these two strategic priorities of the Foundation. The Foundation considers this initiative a priority for the long-term development of the country and an opportunity for public and private sectors to join hands together to achieve common development goals.

A key objective of The Asia Foundation is to concretely identify and provide recommendations on the most salient issues surrounding PPP. Since July 2010, the Foundation has conducted an analysis of PPP-related documents from Bangladesh and selected other countries in Asia, as well as consultative meetings and group discussions with selected representatives from the

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1 July 2010 to June 2011
GoB (e.g. the Prime Minister’s Office and the Ministry of Finance) and the private sector (e.g. Federation of Bangladesh Chambers of Commerce and Industry - FBCCI, Foreign Investors’ Chamber of Commerce and Industry - FICCI, American Chamber of Commerce - AMCHAM, etc.). These interactions focused on understanding key facets of PPPs including: key PPP concepts, respective parties’ expectations, progress and challenges, how to make PPPs successful, and the respective parties' roles in that process, among other things. A number of relevant secondary documents have also been reviewed and selected PPP cases have been analysed from Bangladesh and other countries in Asia. An exposure visit to the Philippines was also organised for representatives from several entities (including the Ministry of Finance, the Prime Minister’s Office of the Government of Bangladesh, FBCCI, FICCI, AMCHAM, and The Asia Foundation).

Out of this initiative, the Foundation generated three major deliverables: (a) A brief guiding publication on PPPs for use by the GoB, private sector, and civil society organisations; (b) An exposure visit for representatives from the GoB and the private sector to a country in Asia where PPPs have been successfully implemented for some time; and (c) A national seminar convened to facilitate dialogue between the GoB, private sector, and other relevant stakeholders to take PPPs forward.

**Goal & Objectives of this Publication**

With the goal to *assist the GoB in the successful implementation of PPP in Bangladesh*, the specific objectives of this publication are:

- To share the key concepts and principles of PPP;
- To share the key aspects of GoB thinking, policy, and strategies for PPP;
- To detail the progress made so far, as well as the challenges faced in taking PPP forward in Bangladesh;
- To share relevant highlights from selected PPP cases and models in other countries in Asia;
- To share the expectations from GoB and private sector from PPP; and
- To make a set of recommendations - based on the research conducted in Bangladesh - to promote successful PPP in the country.

While The Asia Foundation is not a technical expert on PPP, the Foundation has had a diversity of experiences as a facilitator in the promotion of such initiatives. This publication, then, culls from that experience, and is conceived as a quick reference guide for all parties involved in the PPP process in Bangladesh. The PPP position paper published in 2009 and the policy and strategy published in 2010 by the GoB were among the key reference documents for this publication.
1.2 What is Public Private Partnership (PPP)?

Conventional public construction work or supplies are purchased or obtained from contractors or suppliers following a tender and competitive bidding process. Such purchases are one-time and the contractors or suppliers are not responsible for operation or maintenance after the construction period or supply is over. On the other hand, PPP initiatives are long term; and the government pays contracted prices or fees to the private sector for purchasing the services of the infrastructure that is financed, built, managed, and maintained by the private sector with the approval and support from the government.

The GoB’s Policy and Strategy for Public-Private Partnership (PPP), 2010 provides a detailed definition along with some key characteristics of PPP:

Public-private partnership (PPP) projects normally cover public good provisions characterised by indivisibility and non-excludability, natural monopoly characterised by declining marginal cost (and associated average cost), and lumpy investment characterised by long gestation period. PPP is a win-win relationship between the government and various private sector players for the purpose of delivering a service by sharing the risks and rewards of the venture under a contractual obligation.

A project under PPP may include all stages of the project’s lifecycle, starting from ideation, design, construction of infrastructure, where necessary and up to delivery of services and maintenance. In such projects, the private sector is the active party which undertakes activities, depending on the model, starting from the stage of conception and up to the stage of operation and maintenance.

In most of the cases, PPP allows private sector into areas of business where the government traditionally exerted control (e.g., infrastructure and related services). In a PPP, the public sector retains a significant role, either as the sole purchaser of the services or as the main enabler of the project. The private party commonly provides the detailed design, construction, operation, and financing for the PPP project, and is paid according to the performance.

The Asian Development Bank (ADB) defines a PPP as a contractual arrangement between public (national, state/provincial, or local) and private entities through which the skills, assets, and/or financial resources of each of the public and private sectors are allocated in a complementary manner, thereby sharing the risks and rewards, to seek to provide optimal service delivery and good value to citizens.

PPPs can bring greater efficiency in the delivery of services, augment limited government budgets, and support from development financing institutions, and bring clarity and objectivity to price/costs and operations. On the other hand, PPPs cannot replace the public sector or regulator, nor operate without reasonable profit for private sector and sustainability for the public, nor exist in the absence of political will in a country.
Models of PPP

There are different models and approaches for PPPs. While different countries have adopted a wide range of models, the following are among the common models:

**Build-Own-Operate (BOO):** In this model, the private sector manages the infrastructure on a build-own-operate basis. The government usually does not manage the infrastructure developed under this model. The Independent Power Producer (IPP) is an example of the BOO model in Bangladesh.

**Build-Operate-Transfer (BOT):** Here the private sector manages the infrastructure on a build-operate-transfer basis. The private sector manages the infrastructure until a specified time, after which the government is responsible for its management.

**Build-Own-Operate-Transfer (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.


### 1.3 Background of PPP in Bangladesh

In its Vision 2021 governmental action plan, Bangladesh has set the goal of becoming a middle income country by 2021. In its election manifesto, the present government of the People’s Republic of Bangladesh promised to raise the GDP growth rate to 8 percent by 2013. To achieve such a growth rate, the share of investment-to-GDP needs to be raised to 35-40 percent, but the present average investment-to-GDP ratio is 24-25 percent.

According to one estimate, to sustain a GDP growth rate of 8 percent in 2013 and beyond will require an additional US $28 billion (BDT 1.96 trillion) for 2010-2015. Participation of the private sector through PPP is considered an important route to reduce the investment deficit.

The GoB has taken a number of measures to create an enabling environment for attracting private investments on a sustainable basis. In 2004, the Bangladesh Private Sector Infrastructure Guidelines (PSIG) was issued to facilitate projects in line with PPP concepts. Since then, there has been some success in attracting private investment in some sectors such as power, gas, and telecommunications. However, much more investment is required in these sectors and several other priority sectors in order to accommodate economic growth. These priority sectors include ports, roads, railway, water supply, waste management, tourism, e-service delivery, etc.

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The GoB first introduced the concept of PPP through its FY 2009-10 national budget and made a significant allocation of funds for PPP projects, demonstrating a strong commitment from the GoB to the implementation of PPPs in the country. The government also issued a position paper on PPPs entitled, "Invigorating Investment Initiative Through Public-Private Partnership", in June 2009. In spite of all these commitments, the PPP initiative did not achieve significant results in terms of project work on the ground. This was mainly due to the absence of clear policy and strategic guidelines. To fill this gap, the GoB issued the "Policy and Strategy for Public-Private Partnership (PPP), 2010" in August 2010. A synopsis of this guiding document is given in a later section of this publication.

1.4 National Commitments, Priorities, and Current Status

The GoB prepared a PPP budget in FY 2010 and allocated to promote Public-Private Partnership in the country. In the current fiscal year (i.e. FY 2011) another budget allocation has been approved.

The concept of PPP was floated through the publication of a position paper in FY 2010. However, the planned PPP Unit could not be set up during the fiscal year. The planned PPP guideline (Policy and Strategy for PPP, 2010) was also published in early FY 2011.

In its position paper published in 2009, the Government of Bangladesh expressed its interest in involving the private sector “in all sectors barring a few for national security reasons.” It attached the highest priority on infrastructure development and welcomed PPP investment in several areas such as power and energy, transport infrastructure, drinking water and sewerage, information technology, etc.
2. Some Highlights from the GoB Policy and Strategy for PPP

The GoB has taken a two-pronged strategy for building public-private partnership: the first is to attract investment for projects, where building new infrastructure and expanding existing infrastructure is the major component; the second is to attract innovation and sustainability of public service delivery to the citizens. The choice of the PPP arrangement for a particular project will depend on its social and economic importance and potential value for money to be generated under such an arrangement. PPP is expected to foster economic growth by developing new commercial opportunities and increasing competition in the provision of public services, thus encouraging private investment.

2.1 Applicability of PPP

According to the Policy and Strategy for PPP, 2010, of the GoB, public-private partnership models can be considered for any project that generates public goods and services if at least one of the following circumstances exists for the project:

- The implementation of the project is difficult with the financial resources or expertise of the government alone;
- Private investment would increase the quality or level of service or reduce the time to implement compared to what the government could accomplish on its own;
- There is an opportunity for competition, where possible, among prospective private investors, which may reduce the cost of providing a public service;
- Private investment in public service provides an opportunity for innovation; and
- There are no regulatory or legislative restrictions on private investment in the delivery of the public service.

PPP will not be applicable to the following actions/activities: (a) Outsourcing of a simple function of a public service; (b) Creating a government owned enterprise (State Owned Company); and (c) Borrowing by the government from the private sector.

2.2 Sector Coverage of PPP

According to the Policy and Strategy for PPP, 2010, any project fulfilling one or more of the PPP applicability criteria in any economic sector, according to the International Standard Industrial Classification (ISIC) of all Economic Activities, Revision 4, specified by the United Nations, is eligible for PPP. With this coverage in perspective, the GoB has identified a number of priority sectors for e.g.
- Exploration, production, transmission, and distribution of oil, gas, coal and other mineral resources (ISIC 05-09);
- Oil refinery, and production of LPG (ISIC 19);
- Production of fertilizer (ISIC 20);
- Power generation, transmission, distribution, and services (ISIC 35);
- Airports, terminals, and related aviation facilities (ISIC 42 and 51);
- Water supply and distribution, sewerage and drainage, effluent treatment plans (ISIC 36-39);
- Land reclamation, dredging of rivers, canals, wetlands, lakes, and other related facilities (ISIC 42);
- Highways and expressways including mass-transit, bridges, tunnels, flyovers, interchanges, city roads, bus terminals, commercial car parking, etc. (ISIC 42 and 49);
- Port development (sea, river, and land) including inland container terminals, inland container depot, and other services (ISIC 52);
- Deep sea port development (ISIC 52); etc.

A full list of the priority sectors identified by the GoB is given in Annex - 1.

2.3 Eligibility of Private Sector

According to the PPP Policy and Strategy of the GoB, any for-profit or not-for-profit entity legally registered in Bangladesh or abroad at the time of submission of proposals in response to Request for Qualification or unsolicited proposals is eligible for participation in PPP projects. However, at the time of contract awarding, the foreign entity is required to be registered as a legal entity in Bangladesh. The government plans to specify detailed and specific eligibility criteria in relevant Request for Qualification (RFQ) and Request for Proposal (RFP) documents for any partnership.

2.4 Classification of Projects in PPP by Investment Size

The GoB plans to carry out different sizes of projects under PPP. In order to ensure quick approval and implementation of all projects, PPP projects will be classified into three groups: Large, Medium, and Small. The threshold investment values may be reviewed, as and when required, and modified by the Cabinet Committee on Economic Affairs (CCEA).

**Large Project**

A project, which is estimated to have a total investment above BDT 2.5 billion (as identified in the pre-feasibility report), excluding on-going capital for expansion, shall be classified as a Large Project.

**Medium Project**

A project, which is estimated to have total investment between BDT 500 million and 2.5 billion
(as identified in the pre-feasibility report), excluding on-going capital for expansion, shall be classified as a Medium Project.

**Small Project**

A project, which is estimated to have total investment below BDT 500 million (as identified in the feasibility report), excluding on-going capital for expansion, shall be classified as a Small Project.

### 2.5 Types of Financial Participation of the Government

The financial participation of the government in the PPP projects may be in at least three forms, depending on the nature of the projects and models of PPP adopted for a particular type of project.

**Technical Assistance Financing:** The Technical Assistance Financing is designed for the following purposes:

- Pre-feasibility and Feasibility study for projects;
- Preparation of RFQ and REP documents for projects;
- Preparation of concession contracts for projects;
- PPP related capacity building in the line Ministries/implementing agencies and other relevant agencies;
- PPP related awareness building such as road show, exhibition, etc.

**Viability Gap Financing:** Viability Gap Financing (VGF) is meant for projects where financial viability is not ensured but their economic and social viability is high. VGF could be in the form of capital grant or annuity payment or both. VGF in the form of capital grant shall be disbursed only after the private sector company has subscribed and expended the equity contribution required for the project. The VGF is to be managed by the Finance Division and is for disbursement to the PPP Project Company, upon request by the line Ministry/implementing agency, as per the terms of the concession contract.

**Infrastructure Financing:** The infrastructure financing is an arrangement for extending financing facilities for the PPP projects in the form of debt or equity through specialized financial institutions such as Bangladesh Infrastructure Finance Fund (BIFF) and Infrastructure Development Company Limited (IDCOL). The government may participate in such financing arrangements through necessary budget provision.

The detailed procedure and guidelines for all forms of financial participation by the government will be issued and specified by Finance Division with the approval of the Cabinet Committee on Economic Affairs (CCEA).
2.6 Linked Components of PPP Projects

Depending on the nature of the PPP project, the line Ministry/implementing agency may consider financing and implementation of linked activities, such as acquisition of land, rehabilitation and re-settlement, provision of utility services, construction of approach roads to the main highways and activities of a similar nature, in the following two forms:

i. The financing will be a part of the PPP project. The implementation may be done by the private investor or by the relevant line Ministry/implementing agency, as appropriate.

ii. The financing as well as implementation will be done by the government. Necessary budgetary provision will be kept in the Annual Development Plan (ADP). Implementation will be expedited by the government.

2.7 Incentives to Private Investor

The government is keen to provide various fiscal and non-fiscal incentives to the private investors for launching PPP projects in priority sectors. All incentives in PPP, including fiscal and monetary incentives are to be considered and granted by the government, through the appropriate agencies of the government. The incentives may be in the areas of reduction of cost and protection of return to the private sector.

Fiscal Incentives

All PPP projects will receive the applicable incentives, provided by the government from time to time which may, inter alia, include:

- Reduced import tax on capital items under PPP projects; and
- Tax exemption or reduced tax on profit from operating/managing for a specific time period.

Special Incentives

Any specific project may get special unique incentives with the approval of the CCEA which shall be declared in the RFP documents. Special incentives may be extended to PPP projects targeted for rural or/and underprivileged population. Special incentives may be given to non-resident Bangladeshis (NRBs) to invest in PPP projects.

2.8 Institutional Framework for PPP

For accelerating identification, formulation, appraisal, approval, monitoring, and financing of PPP projects, a simplified and dedicated institutional framework is required. This institutional framework is designed to streamline the approval process, to ensure a smooth and linear process of approval.
Each of the following institutions is involved in the strategy development, identification, formulation, appraisal, approval, monitoring, and evaluation of PPP projects. Details on their roles are available in the *Policy and Strategy for PPP, 2010.*

i. Public-Private Partnership Advisory Council (PPPAC);
ii. Cabinet Committee on Economic Affairs (CCEA);
iii. Office for Public-Private Partnership;
iv. Line Ministry/implementing agency;
v. Finance Division;
vi. Planning Commission

The composition and role of the Public-Private Partnership Advisory Council, and the role of the other institutions (as mentioned above) for PPP are available in the GoB’s *Policy and Strategy for PPP, 2010.*

### 2.9 Formulation, Appraisal, and Approval of PPP Projects

#### Project Size

**Large Projects:** The final approval authority of Large Projects is the CCEA. The detailed procedure of formulation, appraisal, and approval of Large Projects shall be proposed by the Office for PPP and approved by the CCEA.

**Medium Projects:** The final approval authority of Medium Projects is the Finance Minister. The detailed procedure of formulation, appraisal, and approval of Medium Projects shall be proposed by the Office for PPP and approved by the CCEA.

**Small Projects:** The final approval authority of the Small Projects is the respective Minister of relevant line Ministry. The detailed procedure of formulation, appraisal, and approval of Small Projects shall be proposed by the Office for PPP and approved by the CCEA.

#### Unsolicited Proposals

For appraisal and approval of unsolicited proposals, competitive bidding using the ‘Bonus System,’ ‘Swiss Challenge System,’ or other appropriate methods shall be followed where the options and competitiveness of the unsolicited proposals could be put to open test by inviting competitive proposals.

In the Bonus System, the proponent of the unsolicited proposal is given bonus points in relation to the evaluation. The Swiss Challenge System enables the government to attract counter proposals to an unsolicited proposal during a designated period. The original proponent then has the right to counter-match the most attractive counter proposal.
2.10 Exit Policy

The contract for a PPP project will include an Exit Clause which specifies the terms and conditions of exit of a current private investor, possible transfer of ownership to a new investor, or partial or complete divestiture of ownership to capital markets. Such terms and conditions will identify the minimum duration after the start of commercial operations during which an exit is not allowed.

2.11 Disclosure of Information Related to PPP

The laws, rules, regulations, model documents, and short description and scope of negotiated PPP projects will be made publicly available through various channels including the internet. Each private investor participating in a PPP project (through bidding on RFQ, RFP, or through an unsolicited proposal) shall be able to track the status of processing through a secure internet site.

2.12 Investment Target through PPP in Five-Year Plan

Infrastructure investment deficit will be identified in the Five-Year Plan, and year-wise targets for financing under PPP for each relevant economic sector shall be determined. Though public investment in infrastructure will still be predominant, the share of private sector investment will gradually be increased.

2.13 Rescind and Savings

After adoption of the new Policy and Strategy for Public-Private Partnership (PPP), 2010, in Bangladesh, the Bangladesh Private Sector Infrastructure Guidelines (BPSIG), 2004 shall be rescinded. However, the action already taken under the BPSIG, 2004 shall be deemed to have been taken under this Policy.

2.14 Further Details and Guidelines

The GoB’s Policy and Strategy for PPP, 2010, provides more details and guidance on the way forward for PPP in the country. The document should be consulted for the following specific guidelines:

i. Guidelines for Formulation, Appraisal and Approval of Large Projects Under Public-Private Partnership (PPP), 2010;

ii. Guidelines for Formulation, Appraisal and Approval of Medium Projects Under Public-Private Partnership (PPP), 2010; and


These guidelines focus on their applicability; procedure of project identification, formulation, appraisal and approval; and time requirement.
3. Keys to Successful PPP

Planning and Implementation

It is important not to go for any shortcut in PPP projects. A proper process and perseverance are among the keys to success. ‘Emergency procurement’ or ‘fast track processes’ rarely result in equitable, transparent, or sustainable results. Focusing on fundamental details - technical, commercial, financial, legal, and social - are important alongside planning for payments. If affordability is an issue for constituents, it is necessary to explicitly plan and budget for VGF support and subsidies.

Balancing risks, managing expectations, and providing certainty are important in the planning and implementation process. Responsibility should be allocated only to those who have a reasonable chance of being able to handle it. Infrastructure projects take time; early announcements of tendering and completion without delivery will lead to mistrust of the entire system. Predictability and longevity are the surest ways to achieve good results.

Working Towards Certainty

It is critical to define the boundary conditions of a project in PPP. Risk variables should be identified and necessary steps should be taken to fix as many as possible. However, it is important to avoid over-specifying to the extent that competition and innovation is hindered. Where uncertainty exists, deliberate steps should be taken to address it. Considering the potential actors and their capacity to deal with such uncertainty is important. If the government faces difficulty in dealing with uncertainty in a project, the ability of the private sector to handle the same uncertainty must be carefully examined. At the end, the government, and ultimately, the people, will pay the price of uncertainty in the form of failed bids, selection of unqualified bidders, substandard and/or unsustainable projects, etc.

Funding and Budgeting

The funds of the government and those from development financing institutions are limited in most cases. Therefore, it is important to assess where such funds will be best spent. There might be places where private sector cannot or is not willing to go. Potential funding gaps should also be considered.

Affordability of each project needs to be analysed. In case of doubt, possible ways should be worked out to make critical projects affordable, for example through subsidies, government’s explicit provision of finance to bridge gaps, etc. Government needs to work with the PPP planners to assure tariffs and subsidies are reasonable and provided for. Untapped or under-
developed sources of funds also need to be identified, such as bond markets, equity markets, etc.

Funds from development financing institutions need to be utilised for maximum impact. In most cases, the developing economies are growing faster than the budget of development financing institutions; and thus, such funds are likely to have a shrinking role. A country like Bangladesh needs many critical infrastructure projects and donor funding cannot finance these. Donor funds might be used for project preparation (e.g. feasibility and environmental studies, preliminary engineering and project development, land identification and acquisition, etc), co-financing (e.g. to attract broader range of capital and participants), and planning (e.g. project identification, resource development and allocation, fiscal assessment, oversight and management, etc).

**Monitoring and Evaluation**

The monitoring and evaluation role of the government in PPP does not stop at the financial close; the post-completion operations and results must continue to be monitored. The main areas should include:

- **Construction monitoring:** Relevant government agencies need to assure that the project stays on time and on budget. The government also needs to be prepared for addressing unforeseen roadblocks to the project.
- **Operations monitoring:** It is highly important that PPP infrastructure and services are delivered as agreed. Sustainability of the infrastructure and services must be monitored with consideration for performance efficiency and affordability.
- **Impact assessment:** Results of PPP process at all stages should be used to continually inform the future. The fiscal impact of each PPP concession should be monitored. There needs to be a continuous assessment of natural, human, and financial resource requirements. The results from PPP monitoring and related feedback should inform planning and updating of existing plans.

For proper monitoring and evaluation, the private sector needs to structure itself to respond to the needs of the government, people, and the society. The relationship among these actors must be symbiotic, balanced, and sustainable.
As mentioned earlier in this document, a delegation - consisting of members from GoB, FBCCI, FICCI, AMCHAM, and The Asia Foundation - made an exposure visit to the Philippines to (a) share experience and learning from different steps in the formulation, implementation, and monitoring and evaluation of PPP initiatives in the Philippines; (b) explore mechanisms for ongoing sharing and learning around PPP in the Philippines and Bangladesh; and (c) explore frameworks for broader regional dialogue, experience sharing, and cooperation on PPP between Bangladesh and other countries in Asia.

The delegation had meetings with Research Education and Institutional Development Foundation Inc (REID) and The Asia Foundation Philippines on their initiative on enhancing supply chain infrastructure through developing improved road networks through PPP, the Asian Development Bank, and with the National Economic and Development Authority (NEDA) of the Government of Philippines on PPP issues. The team also held meetings and conducted field visits with private sector contractor Maynilad on water supply in Manila, and with GN Power and the Philippine Wholesale Electricity Spot Market (WESM) on generation and supply of electricity in Manila. Highlights from these interactions are given below.

4. The PPP Environment, Approaches, and Strategies

The development vision - Social Contract with the Filipino People - of the government is: "A country with an organized and widely shared rapid expansion of our economy through a government dedicated to honing and mobilizing our people’s skills and energies as well as the responsible harnessing of our natural resources". The current government’s agenda for change has prioritised “growing the economy through policy environment for greater investments, public infrastructure development and strategic PPPs”. The government has adopted PPP because: (a) the government targets high, sustained economic growth but it has limited fiscal space; (b) private sector has resources and expertise to carry out projects more efficiently, and (c) the government is committed to enable private sector to participate in socioeconomic development initiatives.

In processing PPP projects, the 'BOT Law' is used as the legal framework. The law allows unsolicited proposals, but the government actively promotes and supports solicited projects. Projects are categorised as National and Local in line with the investment size, and the categories determine who will get involved in the decision making process. The BOT Law and the procurement law were worked out jointly by the government and the private sector.

For solicited proposals, the public entity develops the project and contract, and may provide
guarantee, subsidy or equity as appropriate. Such projects must be on the priority list of the government. The private sector entity is identified through formal solicitation of proposals/public bidding. For both solicited and unsolicited proposals, the government specifies the outcomes while the feasibility assessment and the technical details are worked out by the private sector agencies with their skills, innovation, and creativity.

Both local and foreign individuals and corporations or firms may participate in the PPP projects subject to limits of relevant laws and qualification requirements. They can participate as individual entities, in partnership among them, and as consortia of local, foreign, or local and foreign firms.

To facilitate PPP in the country, the government has set up a PPP Centre through an Executive Order by renaming and reorganising the BOT Centre. The Centre has been attached to the NEDA. The main functions of the Centre are to: (a) Facilitate, assist, coordinate, and monitor the implementation of PPPs; (b) Provide advisory services, technical assistance and capacity building support; c) Recommend improvements to PPP processing; and (d) Manage and administer the revolving fund and PPP Central Database System.

### 4.2 Promoting PPP for Infrastructure Development

The government and the private sector agencies in the Philippines prioritised infrastructure development to support the country’s growth targets and enhance the economy’s competitiveness. Infrastructure catalyzes economic activities that generate employment and income, investments and taxes which lead to growth, development and poverty alleviation. In the past, the country was criticized for under-investing in infrastructure development (less than 3 percent of GDP). It was also a major challenge to the new Administration given its fiscal position. The overall infrastructure performance was low, the transport infrastructure - roads, railroads, ports and air transport - ranked poorly, and all these were worsened by shortfalls in infrastructure spending due to persistent fiscal gaps. Although there were considerable domestic financial resources, investments declined, resulting in low growth and fewer jobs. PPP was required for infrastructure development to boost business, economic growth, and creation of jobs in the country.

Although they started with an unsolicited approach to infrastructure development projects, soon the public and private sectors realised that this did not give them the expected speed and economy. They are now working towards more solicited projects and to build in competition in the unsolicited projects (e.g., through the Swiss Challenge).
As a country with many islands, the Philippines needs both land and water infrastructure for transportation and has recently adopted the Roll-On Roll-Off (RO-RO) approach facilitated via PPP.

**RO-RO is a mode of shipping designed to carry rolling cargo that does not require cranes for loading or off-loading (such as cars, buses, trucks, chassis-mounted containers, etc.) because they simply roll on and off the RO-RO ship. RO-RO eliminates cargo handling labor and equipment, and reduces the amount of time required to be in a port, which can lead to considerable reductions in sea transport costs and improvement in service quality.**⁴

A RO-RO policy was signed in 2003 and published through an Executive Order. RO-RO has connected many islands and resulted in: (a) Higher exports; (b) Enhanced agricultural productivity; (c) Local infrastructure development; and (d) Expanded tourism.

A PPP Coalition was formed by the Bankers Association, Constructors Association, and Investment Houses Association of the Philippines. The coalition works to promote solicited and competitive PPP projects, to make the whole process public, and to advocate for necessary policy reform in the country. The Coalition members have a memorandum of understanding signed among them.

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### The bottom line:

PPP provides the following advantages for infrastructure development:

- Presence of local and foreign resources and expertise
- Supports (good) governance agenda of the Government
- Protects and promotes public interest
- Private sector and Government commitment to open (local and foreign), transparent and competitive processes (solicited bids) for a few Ready-to-Go PPP infrastructure projects
- Undertake necessary policy reforms

### Ready-to-Go Projects:

- High economic impact
- Commercially interesting to the private sector (especially with the financial institutions)
- Projects with existing pre-feasibility study (FS) / FS (only re-validation required)
- Competitive tendering within 12 months
- Implemented and/or completed within 3-4 years (as “legacy” projects)

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The Philippines has two decades of experience with PPP. It has transitioned through BOT in the 1990s (for electricity, water, and ports) to unsolicited projects in the 2000s (for transport infrastructure) to solicited PPP projects and related policy reform in the 2010s. They went through the “birthing pains” of operationalizing PPP. In the early days, the private sector thought that PPP belonged to them only and many took PPP as a “construction game.” Through these processes, they have learned important lessons for PPP including:

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⁴ _ADB Bridges Across Oceans (2010) by E. Basilio, J. Acena, R. Hernandez and J. Faustino_
• It is important to expand focus beyond the government to include the private sector - the real driver of growth, investment and employment and poverty reduction.
• The correct policy environment with relatively small public investments yielded large benefits.
• Recognize the value of connected network: (a) High impact on local economies despite minimal economic activities prior to RO-RO, (b) New growth centres emerged unexpectedly, and (c) Network effects broadened scope of impact.
• In most cases, the constraints of PPP are political, not technical. Good policy must meet supportive politics. A politician might be more interested in winning election due to a project rather than its benefits to the country.

4.3 PPP Investment and Operation in Water

Until the early 1990s, the water supply and sanitation was poor in Manila. The Metropolitan Waterworks and Sewerage System (MWSS) suffered from inefficiencies in its operations. The MWSS service was generally characterized by low water pressure and intermittent water supply, averaging only 16 hours a day. Consequently, a large part of Manila’s population, and many of the commercial and industrial establishments had to rely on vendor water or their own wells. Further, up to 60 percent of water supplied did not generate revenue due to leaks in the pipes, illegal connections, or pilferage, the highest among major cities in Asia. There were nine staff for every 1,000 water connections, while Bangkok had 4.6 staff and Singapore had two staff for the same number of connections.

The failure of the MWSS to provide adequate and efficient water supply and sewerage services to Manila, which is the largest urban center in the Philippines, and the desire to end government subsidies to its operations motivated the Government of the Philippines to privatise MWSS. The passage of the Water Crisis Act in 1995 established the basis for the privatisation of MWSS. In 1997, MWSS’ water and sewerage operations were taken over by private groups. This was the largest privatisation of a water utility in the world. It was decided to divide Manila, the MWSS service area, into the east and west zones, and grant the concessions to two different private entities in order to guard against a monopoly, -promote competition, and generate yardstick information for more effective regulation. The East Zone was taken over by Manila Water, and the West Zone was taken over by Maynilad through concession agreement for 25 years. Recently, the concession has been extended by another 15 years. The concession agreement transferred to the private contractors the over all responsibility for the operations, maintenance, and investments in the water and sewerage system.

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The five Key Priority Goals of Maynilad have the strategic objective of ensuring the reliability of the supply of potable water to the West Zone of Manila city while improving the company’s financial performance. The goals are:

- Improve network and operational efficiency;
- Improve organisational efficiency;
- Enhance financial viability and shareholder value;
- Upgrade customer services; and
- Improve corporate image.
Maynilad is now the Philippines' largest water concessionaire in terms of customer base. It is owned 94 percent by a joint venture between Metro Pacific Investments Corporation (MPIC) and DMCI Holdings, Inc. (DMCI). Aside from water, MPIC holds substantial interests in power, telecommunications, real estate, infrastructure development, and health care. DMCI, on the other hand, is one of the biggest players in the construction industry. Maynilad holds a 40-year exclusive concession to provide water and sewerage services in the West Zone of Manila city starting in 1997. The 24-hour water availability coverage increased to 58 percent in 2008 from 26 percent in 1997. Maynilad envisions 100 percent coverage soon. The company has special services for poor households. A total of 110,000 poor households were connected during 2007-2010. Currently, Maynilad uses 98 percent surface water and they plan to reach 100 percent in the near future.

The government kept the ownership of the assets and the operation and maintenance was given to the private sector. Maynilad’s takeover was the largest single water privatisation in the world. International Finance Corporation (IFC) and the World Bank were employed as consultants - they were originally hired by MWSS.

The concession agreement contains the transitional arrangements; service, financial and other obligations of the concessionaire; obligations of the MWSS and its residual functions; rate adjustments; dispute resolution; and other contract conditions.

In the process of privatisation, the main opposition came from the staff of MWSS. Later many staff moved from Maynilad. There has been constant commitment and support from each political party in power and the respective administration. The bureaucracy has also been supportive as the necessary laws and legal modalities had already been established to take such a partnership forward. The MWSS privatisation law was passed in 1995.

While Maynilad plans to expand its work in other provinces of the Philippines, it is also building the capacity of MWSS as it prepares to take back operations and maintenance roles from Maynilad after the concession period is over.

4.4 PPP and Power Generation

Up until 1987, the Philippines power sector was solely public-run and severely under-invested in the face of an acute capacity shortage and increasing demand. The sector was truly redefined and revitalized by the enactment of the Electricity Power Industry Reform Act (EPIRA) in 2001. The motivation behind EPIRA was three-fold: (i) transfer the ownership of power sector assets from public to private entities, (ii) increase competition in electricity generation and supply, and (iii) develop a much-needed regulatory framework for the electricity power sector.\footnote{The Philippines Power Industry Investment Memorandum 2007}
The law transformed the nature of interaction among multiple governmental authorities and industry participants across the three primary functional divisions: power generation, transmission, and distribution. It also redefined the competitive landscape within these divisions.

The main governmental authorities in the Philippines power sector and their key functions under the EPIRA are as follows:

- Department of Energy (DOE) was created in 1992 primarily to formulate and implement all governmental policies and programs for energy exploration, development, distribution, and conservation to ensure sustainable, secure, reliable, and accessible energy.

- Energy Regulatory Commission (ERC) is an independent commission comprised of five members, nominated by the President of the Philippines, to regulate all sectors of the electricity market and protect consumer interests.

- The National Power Corporation (NPC) was the largest electric power company in the Philippines. It owned 36 plants out of which 28 were operated by NPC itself, while the remaining six were operated by Independent Power Producers (IPP) under an agreement with NPC.

- The National Transmission Corporation (TRANSCO) was created in 2003 under the EPIRA to take over the transmission function and related assets of the NPC.

- Power Sector Asset and Liabilities Management (PSALM) was created under the EPIRA to privatize and liquidate the NPC’s assets, IPP contracts, and liabilities.

The EPIRA effectively restricted the government from building or guaranteeing the financing for electricity generating assets and opened it up to private entities, which could now get a Certificate of Compliance in line with the governmental rules, guidelines, and frameworks from the respective authorities. Consequently, by 2008 the Philippines power generation sector had the capacity to produce 60,821 GWh of electricity under three facility ownership categories:

- Power plants owned and operated by the NPC.
- Power plants owned by NPC but operated by IPPs; or owned and operated by IPPs with contracts to sell the output exclusively to NPC.
- Power plants owned and operated by IPPs with contracts to sell electricity to customers other than NPC.

**Power Transmission**

While power transmission had been solely in the public domain, the enactment of EPIRA separated the transmission and sub-transmission functions of the state-owned NPC from its
generation function and transferred all the NPC’s transmission assets to the newly created TRANSCO, which was wholly owned by the PSALM. These transmission assets would be privatised by PSALM under a 25-year concession agreement, where the lines would continue to be owned by TRANSCO but the business (and future investment) would be managed by the private sector.  

A major problem in the sector was constraints in the transmission system that prevented the efficient transfer of electricity from regions with a power surplus to those with a power deficit. A Transmission Development Plan (TDP), devised to address this problem, required the new concessionaires to expand the transmission system to address these constraints.

**Power Distribution**

Power distribution in the Philippines is regulated by the ERC and involves multiple duly authorized players including local government units, cooperatives and private entities. Each distributor is awarded a franchise for a specific distribution area, as defined by the distribution code of the ERC. Distribution rates are also subject to ERC approval. Originally, authorized distributors used to sign Transition Supply Contracts (TSCs) with NPC to ensure continued supply of electricity to their consumers, but in October 2005 the ERC issued Resolution 21 directing distributors to enter into future bilateral contracts with a power generator of their choice to promote private investment in the electricity generation sector.

**Power Supply**

The EPIRA introduced a fourth sector within the power market that allowed technically and financially sound private entities to broker, market, and sell electricity to end-users upon getting proper authorization from the ERC. The motivation behind this act was to increase competitiveness and efficiency in the realm of electricity supply. The EPIRA would eventually also require certain end-users with guaranteed demand beyond a certain threshold level to source electricity directly from the supplier or power generator of their choice.

**Wholesale Electricity Spot Market (WESM)**

An important step in the implementation of the EPIRA was taken in 2006 with the establishment of the first around-the-clock wholesale market for trading electricity as a commodity. The Philippines Electricity Market Corporation (PEMC) was created to govern the WESM and to ensure transparent and fair trading between buyers and suppliers of electricity; to encourage power generators to reduce their costs to remain competitive in the market; and to facilitate determination of electricity prices in real-time instead of being fixed rates based on historical costs and past usage. To further promote the use of this market, the ERC Resolution 21 also

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6 The HV transmission system is operated by an independent System Operator purely as a technical matter. Sub transmission assets are those below 230kV and are to be divested by TRANSCO mostly to distribution utilities.
directed power distributors to source at least 10 percent of their future supply from the WESM (as opposed to bilateral contracts) during the initial five years of its creation.

Privatisation of the Power Sector

The EPIRA was enacted to restructure and privatise the power sector with US $300m in funding under the Asian Development Bank’s Power Restructuring Program. The IMF and WB also guaranteed an additional US $300m contingent on the privatisation of NPC. Some of the rules and procedures designed to give the privatisation process structure are as follows:

Bidding
All prospective investors were invited to bid participated in a pre-bid conference where they were given access to complete information and allowed to inspect the assets before submitting their bids by a set deadline. A bidding round was declared valid if there were at least two bids submitted by separate parties and at least one of them met PSALM’s reservation price.

Transfer of electricity supply contracts
An important aspect for the sale of the NPC assets was a provision under the EPIRA that allowed the transfer of previously NPC negotiated valid contracts with electricity distributors along with the sale of the corresponding electricity generating asset. This guaranteed future revenue stream allowed potential buyers to negotiate better terms with their financiers and improved the perceived value of the asset.

Deferred payment structure
The privatisation process was also made more attractive for potential buyers because of flexible payment options for the privatised assets. Successful bidders were required to pay only 40 percent of the price of the asset upfront. The remaining amount was amortized into fixed semi-annual payments over seven years, with a 12 percent annual interest.

Ownership restriction for foreigners
The Philippines constitution restricts foreign holding of certain assets including land and natural resources. However, to facilitate the privatisation process and attract foreign capital into the sector, qualified foreign parties were allowed to lease land or enter operating and maintenance agreements to get the non-power component of a generating asset. Private investors were also encouraged to enter joint-ventures, co-production and production sharing agreements with the government. 

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7 100% foreign ownership of thermal power plants has been allowed since EO 215 in 1986
Privatisation of IPP contracts

Another very important aspect of power sector privatization was to transfer the contracted Energy Conversion Agreements (ECAs) and Power Purchase Agreements (PPAs) that NPC had earlier negotiated with multiple IPPs, to private entities. The PSALM that now owned those contracts, had been conducting IPP Administrator (IPPA) public bidding rounds to select third-party managers to administer the sale of electricity to selected IPPAs to enjoy the benefits of owning a power generation plant, i.e., controlling the fuel, trading and contracting electricity without worrying about the plant maintenance and upgrade costs. It also allowed IPPAs to trade electricity on the WESM beyond their own electricity generation capacity. 8

Currently all the power generation, transmission and distribution in Manila are done by private sector. The government is responsible for the relevant policies while the regulatory role is played by a quasi-judicial body. The PPP related laws and policies determined how the projects would work out. There are eight power generation companies and electricity is sold through both bilateral contracts as well as the whole sale spot market. 9 Despite optimistic plans, the progress on privatisation of the power sector in the Philippines was slow until 2006. The progress gained further momentum in the subsequent years. 10

Some observations …

- Where there is subsidy, there is distortion; and at some point, it needs to be paid for, such as in the form of inefficiency.
- To be successful, it is important to study the relevant laws, policies and systems for the power sector.
- Power projects cannot be sustained, if the price for the consumers is lower than the production price.

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8 The contents of the power generation case study till this point have been abridged from: Wharton (2010) GNPower: Financing a Power Project in the Philippines. University of Pennsylvania.

9 The government does not have a say in this as it is purely a commercial agreement between buyer and seller.

10 The Philippines will have a deficit of about 400MW in the dry season in March 2011. The country is currently far below the statutory reserve.
5. The PPP Qualitative Study Conducted by The Asia Foundation

As mentioned in the background to this publication, The Asia Foundation conducted in-depth qualitative interviews and group discussions with selected respondents from the GoB (e.g. the Ministry of Finance and the Prime Minister’s Office) and the private sector (e.g. members and present office bearers of FBCCI, FICCI, AMCHAM, and banks). Selected secondary documents from Bangladesh and other countries in the Asia Region were also reviewed. The current section of this publication presents the highlights of the findings from these two processes.

5.1 Characteristics of PPP and Knowledge of Work So Far

For most of the respondents, PPP is a partnership between the government and private sector for agreed joint ventures for the economic growth and services to the country. They emphasised the following characteristics of such partnership:

- Equal participation and voice at all levels (assessment, planning, decision making, implementation, M & E, follow up, etc.);
- Responsibility, transparency, accountability, responsibility and mutual trust, and confidence throughout the project period with both the parties valuing each other's work.
- Avoid unnecessary interference in each other's work.

“For economic growth and development of the country, there is no alternative to PPP. There are challenges for successful partnership as Bangladesh is still going through teething time of development.”

… A member of AMCHAM

As to work so far, the GoB respondents mentioned the position paper on PPP, the policy and strategy, and PPP budgets for FY 2010 and FY 2011, setting up the PPP Unit at the Office of the Prime Minister, and agreement with the Asian Development Bank for technical assistance. The majority of respondents from the private sector were aware of the government’s general plan and a position paper to promote PPP for infrastructure and other priority sectors. However, they were not aware of any work being done on the ground, for example what was achieved against the PPP budgets for the FY 2010 and FY 2011. The main reasons were absence of clear guidelines on relevant policies, operational mechanisms, and legal issues.

Some respondents highlighted the increasing collaboration between the government and private sector in certain areas including telecom, education, shipbuilding, food packaging, banks, insurance, stock, airlines, Sonargaon and Sheraton hotels, Chittagong port handling during the last caretaker government, etc.

One member of FBCCI attended two consultative meetings on PPP at the Prime Minister’s Office. Also, one member of AMCHAM reviewed a draft guideline for PPP.
5.2 PPP Examples and Perceived Benefits

Although the respondents did not mention any well-defined PPP projects in Bangladesh, many of them mentioned collaborative initiatives between the GoB and private sector with some characteristics of PPP. Examples included telecom, education, shipbuilding, food packaging, banks, insurance, the Liberation War Museum, etc. On the other hand, they mentioned many successful PPP initiatives in India, Sri Lanka, Thailand, Philippines, Singapore, Malaysia, and China. Transport infrastructure, electricity, water, tourism, and park management were among the mentioned sectors in those countries.

Regarding key ingredients for the success in those countries, the following were cited:

- Equal participation and voice of both public and private sectors;
- Good communication between public and private sectors;
- Professionalism and efficiency in operationalising PPP work;
- Strong mechanisms for accountability, transparency, and participation;
- PPP friendly legal frameworks and coordination among the relevant government ministries/agencies; and
- Facilitation and technical assistance from experts, such as the Asian Development Bank and the World Bank.

"Even communist China has gone for PPP and they are successful. Our potential is much greater as we have a free market economy in Bangladesh."

... A Director of FBCCI

All the respondents perceived successful PPP as a mutually beneficial approach for both public and private sectors. The government and the private sector can work in close partnership for the common goal of economic growth and prosperity of the country. The private sector can bring in their efficiency, expertise, experience, innovation, and quality of their work to the development and operations of key sectors for growth in the country. On the other hand, the government can provide support through systems and frameworks. Through such partnership, the government can become more efficient in service delivery; achieve faster economic growth; have access to private capital and schedule certainty; enjoy greater confidence from investors; have more efficient, fewer and better paid staff; and exchange manpower with private sector for capacity building. The private sector can expand their business; enhance productivity in a more enabling environment; and play greater roles in the economic growth and overall development in the country.

5.3 Priority Sectors and Mechanisms for Implementation, Management and Monitoring & Evaluation

In general, the infrastructure and service sectors were mentioned as priorities because economic
growth and public services are dependent on these sectors. The specific ones mentioned under these areas include:

- Electricity;
- Gas;
- Roads, transport and traffic;
- Telecommunications;
- Security and police;
- Cargo handling and scanning at airports; and
- Management and operations of the public hospitals.

“In the current situation, every public service sector has become a priority - the situation has deteriorated so much and there is high demand for good services!”

… A member of AMCHAM

Implementation, Management and Monitoring & Evaluation

Respondents made a number of suggestions for the implementation, management, and monitoring and evaluation of PPP. The following list captures the main ideas:

- The engagement modalities for the government and private sector need to be agreed between the two sectors based on the mutual interests, management roles, exit strategy, etc. Overall, there should be a win-win deal based on mutual faith and confidence.
- PPP plans and agreements must continue irrespective of changes in the government or irrespective of who is in political power in the country.
- The systemic and governance issues need to be sorted out (participation, transparency, accountability, etc.)
- The interests of the people of the country need to be ensured, and there must be a proper balance between the power and control of the government and the private sector in PPP.
- The priorities of the private sector must be considered in planning, decision making, management, and policy-making from the beginning.
- There must be a balance between the monitoring roles of the government and the private sector.
- The government should delegate more responsibility to the private sector for the implementation of PPP projects.
- The management of PPP projects should be through balanced participation by the government and the private sector. The composition of the PPP committee in the Policy and Strategy is too imbalanced, e.g. there are only two members from the private sector on the 23-member committee. The PPP committee should have a 50:50 representation from the government and private sector. This will create stronger mutual confidence. The current imbalance on the committee cannot create true partnership.
- Management decisions will need to be participatory and transparent in all the steps of PPP.
- In project implementation, the private sector should be given enough freedom to operate on their own. There should not be any hindrance or influence from the politicians or bureaucrats.
- Monitoring & Evaluation for PPP - among other things - will need to monitor and evaluate
the impact on revenue generation, quality of customer services, and long-term results.

- The entrepreneurial development, ownership, and operations of the related assets should be encouraged.

There was also recognition that the PPP Unit of the GoB should be the key entity to ensure proper implementation, management, and Monitoring & Evaluation of the projects. For this, it was suggested that the capacity of the Unit should be strengthened through more involvement of the private sector, dialogue between the two sectors, exposure visits to successful PPP initiatives, and accessing technical expertise from development partners.

### 5.4 Enabling Factors and Challenges

The enabling factors for PPP to succeed in Bangladesh include: (a) Political will of the current government to adopt PPP; (b) A free market economy in the country; (c) Existence of a capable and experienced private sector that is willing to partner with the government; (d) Existence of huge manpower that can be trained - these people are intelligent and want to do well in life; and (e) There is enormous need for service in the country in every sector (including gas, power, security, roads, health, etc.) and, if good service is available, both the government and the private sector can strike a win-win deal.

> "If the government paves the way, the private sector is ready to engage through PPP"
> ... A Director of FBCCI

The challenges and fears include: (a) Bureaucratic delays and lack of transparency and accountability; (b) Bangladesh needs fast growth of the economy but it puts pressure on other resources, such as gas, power, etc; (c) The likely adverse effect of rapid industrialisation on environment and climate; (d) Poor information-sharing from the government, for example, the published PPP guideline was not available from the GoB websites or hard copy, and there are no one-stop information centres for PPP in the government ministries and departments; (e) The current PPP committee is too GoB-heavy - it should have more members from the private sector and there should be more diversity through including representatives from the private sector agencies; (f) Pre-selected companies might be given projects through unsolicited bids in the name of PPP without enough transparency since there might not be any elaborate tender mechanism; (g) It might be challenging to ensure that PPP guidelines are properly followed by both the sectors; (h) Potential role confusion - e.g. who will lead on what - in the public sector and lack of coordination among different government ministries and departments; and (i) Lack of sufficient communications between the public and private sectors.

### 5.5 Role of Civil Society

Civil Society does not have any business interest in the PPP process and plays a neutral role in promoting the voices and interests of the common people especially the poor and marginalised
communities. They can bring different sectors together and facilitate dialogue among them. They can also advocate and lobby for good governance in the PPP process.

Conducting research and impact assessment on PPP and sharing the findings and recommendations are other important roles civil society can take on. It can also help foster cooperation between public and private sectors with their facilitation skills and experience. Sharing the PPP knowledge and experience from other countries and arranging exposure visits can also be important roles for the Civil Society.
The following recommendations are based on the consultation with different actors from the public and private sectors, review of secondary documents, and exposure to other country experiences on PPP.

i. Arrange required consultations between the GoB and private sector to start direct dialogue on PPP, and to work out the specific issues and recommendations, and operational implications for those. This might entail a series of meetings and dialogues between the two sides with balanced representation from both GoB and private sector.

ii. The operational mechanisms and procedural guidelines should be worked out immediately. The PPP Policy and Strategy document published this year is useful, but there is need for specific guidelines to operationalise the policy/strategy.

iii. Legal and regulatory issues in relation to PPP should be sorted out. PPP should be kept out of all political and bureaucratic influences so that the projects can run smoothly irrespective of changes in the government.

iv. There should be greater representation of the private sector in the PPP committees including the Advisory Committee.

v. Conduct policy research and analysis on PPP issues and make recommendations for reform, and craft a PPP roadmap to be adopted by the GoB and the private sector.

vi. Ensure policies and laws to enable PPP projects to continue irrespective of changes in the political regime in the country.

vii. Convene a forum on PPP with participants from the private sector, donors and civil society. The scope of work of the forum should include: (a) Promoting PPP in the identified priority areas; (b) Assisting the government in promoting good governance in PPP through open, transparent, and participatory processes; (c) Assisting the government in jumpstarting effective implementation of five to six priority PPP projects within the next six months in line with the PPP guidelines; (d) Assisting the government in taking forward necessary policy reform to promote effective PPP; and (e) Assisting the government’s PPP Unit in developing a pipeline of bankable projects.
Full list of Sectoral Coverage for PPP in Bangladesh

According to the Policy and Strategy for PPP, 2010, any project fulfilling one or more of the PPP applicability criteria in any economic sector, according to the International Standard Industrial Classification (ISIC) of all Economic Activities, Revision 4, specified by the United Nations, is eligible for PPP. With this coverage in perspective, the GoB has identified the following priority sectors:

a. Exploration, production, transmission, and distribution of oil, gas, coal, and other mineral resources (ISIC 05-09);

b. Oil refinery, and production of LPG (ISIC 19);

c. Production of fertilizer (ISIC 20);

d. Power generation, transmission, distribution, and services (ISIC 35);

e. Airports, terminals and related aviation facilities (ISIC 42 and 51);

f. Water supply and distribution, sewerage and drainage, effluent treatment plans (ISIC 36-39);

g. Land reclamation, dredging of rivers, canals, wetlands, lakes, and other related facilities (ISIC 42);

h. Highways and expressways including mass-transit, bridges, tunnels, flyovers, interchanges, city roads, bus terminals, commercial car parking etc. (ISIC 42 and 49);

i. Port development (sea, river and land) including inland container terminals, inland container depot, and other services (ISIC 52);

j. Deep sea port development (ISIC 52);

k. Telecommunication systems, networks and services including information and communication technology (ICT) (ISIC 60-63);

l. Environmental, industrial, and solid waste management projects; (ISIC 38-39) railway systems, rolling stock, equipment and facilities (ISIC 49);
m. Tourism industry (ISIC 79);

n. Economic zone, industrial estates and parks, city and property development, including services to support commercial and noncommercial activities (ISIC 81-82);

o. Social infrastructure e.g. health, education, human resource development, research and development, and cultural facilities, (ISIC 85-88);

p. E-service delivery to citizens (ISIC 85);

q. Poverty Alleviation Projects (ISIC 84);
   i. Pourashava and village water supply (ISIC 36);
   ii. Remote Area Power Supply Systems (RAPSS), Rural gas supply (ISIC 35);
   iii. Rural Internet projects (ISIC 61);
   iv. River passenger terminals/landing stations (ISIC 52);
   v. Rural health services and hospital (ISIC 86);
   vi. Irrigation and other agricultural services (ISIC 36);

r. Other urban, municipal, and rural projects that the Government views as priority areas for development so as to support economic development activities.