

*INFORMATION NOTE***INNOVATIVE APPROACH IN ATTRACTING PRIVATE
SECTOR INVESTMENT IN INFRASTRUCTURE:
EXPERIENCE OF BANGLADESH¹****INTRODUCTION**

Lack of adequate infrastructure is currently hindering the expected economic growth in Bangladesh. Infrastructure development is essential for reducing poverty and improving the living standards of its citizens. In addition to low accessibility, the quality and reliability of infrastructure and its associated services are also very poor. The country needs huge investment in order to improve the infrastructure necessary for higher economic growth.

The Bangladesh economy is currently growing at around 5 per cent annually. Inflation is modest and comparable to that in Western Europe. Domestic savings are sizeable. The Government however, recognizes that the large amount of funds needed for the development of infrastructure are unaffordable from their budget. The international development partners are unwilling to fund many of the large infrastructure projects, but prepared to consider helping Bangladesh in private sector led investments.

Bangladesh also recognizes that it has to address the question of subsidies. Encouragement of the private sector has been identified as the solution to better efficiency and reduction of losses within the public sector companies.

¹ This information note has been put together based on materials prepared for Infrastructure Investment Facilitation Centre (IIFC), Bangladesh, by three advisors of Atos KPMG Consulting, namely Mr. Eirc Daffarn, Mr. Skylark Chadha and M. Rahmatullah.

Bangladesh's Industrial Policy 1999 included infrastructure as a thrust sector to be supported by special incentives and to that end it acknowledged the lead role of the private sector. It was however recognized that strategies, creation of conducive environment and supportive policies would be needed if private sector investment in infrastructure were to be promoted on a priority basis.

In many countries, the provision of infrastructure facilities has traditionally been the responsibility of the Government because of their "public goods" characteristics. This notion is, however, changing. The current trend is to allow the private sector to take a lead role in providing infrastructure projects and release scarce public resources for investment in social and human development sectors.

However, the Government will still continue to have an important role in creating an enabling environment conducive to private sector participation (PSP). The direct role of the public sector in the provision of infrastructure services should, however, be limited to areas where commercial viability is incompatible with public policy.

There is a fundamental difference between the processes through which a non-infrastructure project and an infrastructure project are taken up. The private investors are "free" to undertake a non-infrastructure project, at any time, in accordance with market demand, provided normal government permits and licences are obtained. But the private sector investors cannot undertake an infrastructure project whenever they desire. The decision as to whether an infrastructure project will be carried out through public financing or private financing lies with the Government.

In order to ensure the supply of accessible, affordable and reliable infrastructure, it is necessary to encourage the private sector to be engaged in the financing, construction and operation of infrastructure projects. To this end, the Government will be required to create an environment that encourages competition, efficiency and better services at affordable costs resulting in creation of best value for the country. The Government needs to move away from being the provider of infrastructure services and undertake the role of planner, policy maker and promoter of legislation.

It was in the light of the above background and in pursuance of the budget speech 2002 of the Minister for Finance and Planning, Government of Bangladesh, the Planning Commission requested the Infrastructure Investment Facilitation Centre (IIFC)² to come up with a draft private sector infrastructure development policy (PSIDP) designed to encourage private sector investment in infrastructure sectors. IIFC has completed the task in consultation with the stakeholders and the draft policy is currently under active consideration of the Government.³ A series of presentations on PSIDP had been made to officials of all ministries related to infrastructure development. Their comments, if any, are now awaited. A similar strategy has been planned to expose the private investors and the Chambers of Commerce and Industries, to the main elements of the PSIDP. Meanwhile, a presentation on PSIDP has been made to the members of the Foreign Investors Chamber of Commerce and Industries (FICCI), Dhaka.

One of the major thrusts of PSIDP is the recognition that the private sector would be the major infrastructure player in the country. Under the policy all new and viable infrastructure projects are required to be offered first to the private sector. That is how priority would be given first to the private investor in infrastructure development in the country.

I. PAST EXPERIENCE OF PRIVATE SECTOR PARTICIPATION IN INFRASTRUCTURE DEVELOPMENT

In Bangladesh, infrastructure facilitates and services are dominated by the public sector and most infrastructure services are heavily dependent on public subsidies. Private sector investment in Bangladesh's infrastructure development so far has essentially been limited to power generation and cellular telephony. In some areas, such as highways, the Government is, in essence, a competitor with the private

² Infrastructure Investment Facilitation Centre (IIFC), is a company fully owned by the Government of Bangladesh, and was established to facilitate private sector investment in infrastructure development. For more details about IIFC, readers are referred to the article by Nazrul Islam in volume 72 of the *Bulletin*.

³ The draft policy is available at <http://www.iifc.net/psf_policy_revised_date_20jan03.pdf> (2 June 2003).

sector as a potential provider of infrastructure. The Government also gets involved in price setting, as most of the sectors do not have any independent regulator and the Government yet have the legal framework to appoint independent regulators for each sector.

While the Government has plans to go for reforms to address the above-mentioned deficiencies, it has identified the following infrastructure sectors for attracting private funds:

- Telecommunications
- Energy and mineral resources
- Transport (roads, bridges and railways)
- Ports, shipping, and inland waterways
- Water resources
- Civil aviation and tourism
- Major urban development and solid waste management
- Science, information and communications technologies (ICT)

The first private sector investment in Bangladesh relating to infrastructure took place in 1974 through unsolicited proposals submitted by some oil companies, leading to exploration for oil and gas. These were contracted out on a production-sharing basis.

In the telecommunications sector, private sector investments started in 1989 through contract negotiations based on unsolicited proposals for cellular phony. Later, a number of contracts were signed and private sector investments took place in cellular as well as fixed telephone lines, paging facilities and riverine communications through a formal procedure of solicited proposals.

Compelled by the power shortage in the country, the Government of Bangladesh established a Power Cell in 1995 under the Power Division of the Ministry of Energy and Mineral Resources. The Cell was mandated to assist in establishing independent power plants (IPPs), and to develop policy and regulatory frameworks for the power

sector. The Power Cell together with the Bangladesh Power Development Board (BPDB) coordinated private sector involvement in the establishment of several major power stations, as well as several smaller power stations to facilitate rural electrification in the country.

In the light of the above developments, one of the major thrusts of PSIDP is to develop a realistic and meaningful portfolio of private sector infrastructure projects and bring out an independent publication, containing a one-page “project brief” on each of the listed projects. The procedure to be adopted for identification of projects is spelled out in PSIDP. It has been proposed that the Planning Commission would oversee the strict compliance of the policy.

PSIDP is applicable to both new infrastructure projects (greenfield projects) as well as existing infrastructure assets in the public domain. Its principal objective is to promote efficient management and operation through a capitalization process, which would allow the Government to realize up front the future earning potential of the assets. For effective implementation of the policy, the Government will create a favourable business and regulatory environment, including appointment of independent regulators who will have the responsibility of increasing fair competition in the infrastructure sectors.

PSIDP emphasizes that the private investors be selected through a transparent and competitive bidding process. Once a project has been identified as a private sector project, it will not be taken up as a public sector project unless investors’ interest had been fully tested through at least two rounds of bidding and the private sector could not be made interested in that project.

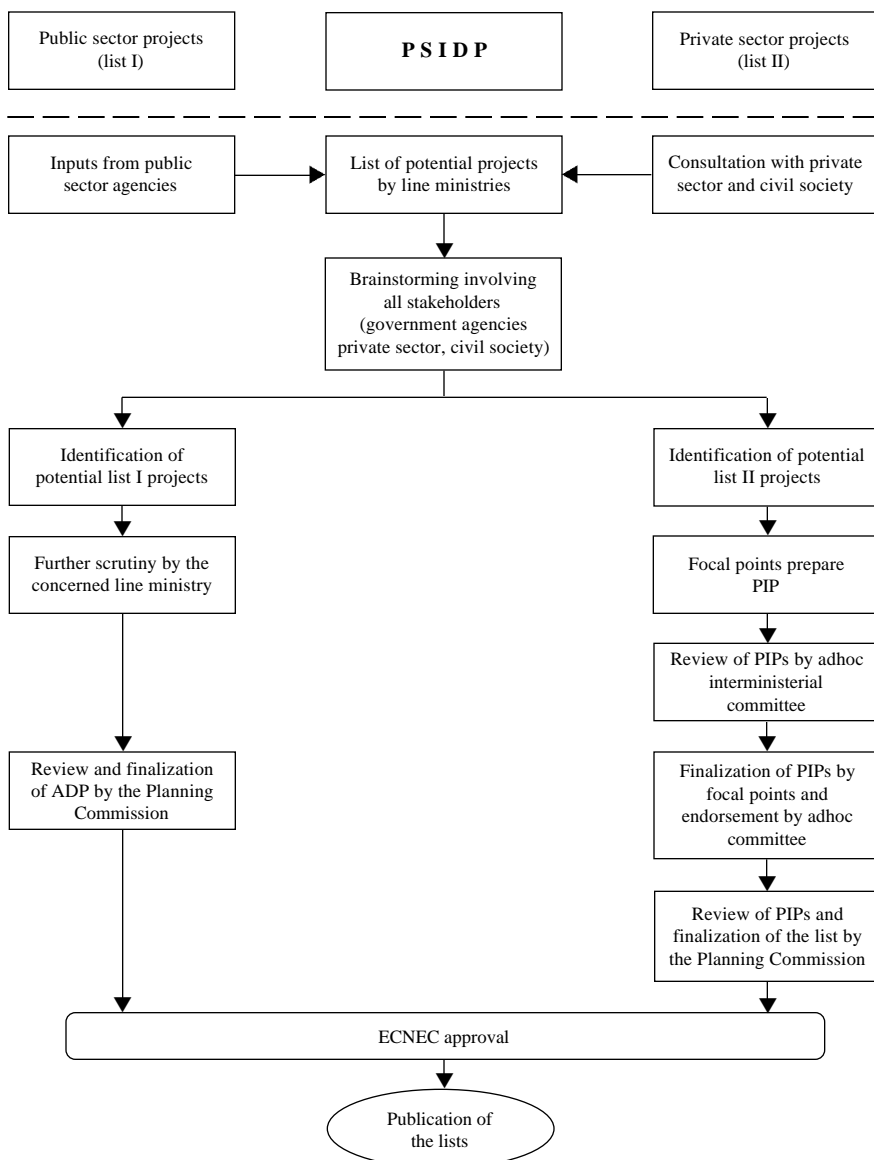
PSIDP, once adopted by the Government, will generate political commitment from the highest circles for private sector involvement in infrastructure projects. Effective implementation of the policy will reduce the fiscal burden on the part of the Government of Bangladesh by allowing the private sector to take an increasing role in the provision of infrastructure facilities and taking an appropriate share of the risk.

II. IDENTIFICATION OF PRIVATE SECTOR INFRASTRUCTURE PROJECTS

One of the major thrusts of PSIDP is to identify a number of private sector infrastructure projects, which could be included in the list of private sector projects. Currently the Government does not maintain any portfolio of projects which could be considered by private sector investors. As a result any project proposed by the private sector becomes unsolicited. In the absence of any approved and transparent procedure available for considering unsolicited projects, the Government has often landed into controversies in dealing with such projects.

The implementation of PSIDP is expected to address the above problem through the proposed project selection process for both the private and public sectors as depicted in the figure. Under the policy, each infrastructure line ministry will prepare a list of projects (to be implemented under both public and private sector financing) and develop a short write-up for each project in the form of project briefs that describes the rationale for the project, how it creates value for the country and how it could be implemented. Consultations will be held with the private sector (represented by the chambers of commerce and industries as well as individual investors) and civil society (including the media). This participatory process is a key element of the policy. Each infrastructure ministry will invite suggestions from the private sector and other key stakeholders in the public sector, as early as possible in the process, but not less than 12 weeks before the end of the financial year (i.e., end of June).

With a view to making the planning process transparent and participatory, a brainstorming session will be organized by the line ministry with the support of IIFC, if necessary, not later than nine weeks before the end of the financial year. The concerned officials of the ministries, sector agencies, Planning Commission, Privatization Commission, representatives of the private sector, development partners and civil society will participate in the session. The relevant Member of the Planning Commission will chair the session. The session will prioritize the list of projects prepared by the line ministry based on certain guidelines to be issued by the Planning Commission and then include each project either in list I (public sector), or list II



Note: ADP = Annual Development Programme
 ECNEC = Executive Committee of the National Economic Council
 PIP = Potential investment paper
 PSIDP = Private Sector Infrastructure Development Policy

Process for the identification of infrastructure project by the private sector

(private sector). While the projects in list I (public sector projects) will be further looked into by the line ministry and submitted to the Planning Commission for inclusion in the Annual Development Programme as part of the established procedure, the projects in list II (private sector projects) will be sent to the focal points created in the infrastructure line ministries for coordination of all matters connected with the private sector. The focal point group will be manned by staff members from the ministries and agencies having interest in developing projects for the private sector.

The Focal Points will compile additional information collected from the proponents of various projects included in list II, and also take into account seriously the comments made at the brainstorming session. One of the major responsibilities of the focal point would be to prepare the potential investment paper (PIP) to assess if the projects satisfy the basic criteria i.e., as to whether the project will create economic value for the country; whether it is commercially viable and bankable; and whether the projects enjoy Government's commitment and private sector's interest. The focal points will also examine the calculation on project viability, test them and refine them. It will also verify sources of information and their reliability, prepare a report to accompany PIP and offer its views concerning the projects for consideration by the adhoc interministerial committee.

An adhoc interministerial committee will be established in each line ministry with representation from line ministries, agencies, private sector, Planning Commission, Economic Relations Division (including IIFC) that will review PIP prepared by the focal point in the ministry. The adhoc committee will have a key role in reviewing all private sector projects intended for final inclusion in list II. It will also review new projects arising during the year including unsolicited proposals.

The overall objective of the adhoc interministerial committee is to ensure that projects are in line with the principles of PSIDP. They will judge whether PIP is of sufficient quality and reliability (in terms of assumptions, thoroughness of the project concept); whether the approach and the broad structure of the project is likely to provide the best value for the country, and finally decide whether the project as proposed should be included in the final list II.

The review by the adhoc interministerial committee should be completed within a week of receiving PIPs. The focal point will incorporate within two weeks any revisions/modifications proposed by the adhoc committee. Based on the endorsement of the final PIPs by the adhoc committee, the Secretary of the concerned line ministry will forward the list of the projects together with PIPs to the Planning Commission, recommending their inclusion in the list of private sector infrastructure projects.

The relevant Member of the Planning Commission will examine PIPs for his sector for completeness and will forward the list to Member (Programming). The Member (Programming) will review the lists of public and private sector projects to check whether the principles of PSIDP have been properly addressed or not. After such reviews are completed a list of private sector infrastructure projects, supported by a one-page write up on each in the form of a project brief, would be finalized.

In connection with the preparation of a list of private sector infrastructure projects (list II) for the year 2003-2004, this being the first year, and the procedure being new, the stakeholders do not have prior experience as to how to go about it. In view of this, at the request of the Planning Commission, IFC has already taken the initiative to assist the line ministries and the private sector in familiarizing them with PSIDP and the procedures for identifying projects for inclusion in list II. In all, about 60 projects in the domain of 8 infrastructure related ministries have already been identified using certain criteria developed earlier for the purpose. The ministries include: Shipping, Communications, Energy and Mineral Resources, Water Resources, Civil Aviation and Tourism, Housing and Public Works, Science and Information and Communications Technology, Telecommunications and the Bangladesh Telecommunications Regulatory Commission.

Separate presentations on PSIDP and the identified projects were made to the senior officials of each ministry. In general, ministries were very supportive of the policy (PSIDP) and the type of projects identified. A one-page policy brief was developed for each project and concerned ministries are currently examining these briefs. A presentation on PSIDP was also made to the Foreign Investors Chamber of Commerce

and Industries (FICCI), Dhaka to keep foreign investors fully aware of investment opportunities.

Meanwhile, it has been decided in principle to bring out a separate publication on potential private sector infrastructure projects together with their briefs. An interministerial meeting of infrastructure related ministries is scheduled in June 2003 to finalize the list of private sector infrastructure projects. Following the finalization of the list, the above-mentioned publication will be brought out for wider circulation.

CONCLUDING REMARKS

The approach indicated above has been described by some of the private sector investors as a unique initiative. Until now most of the private sector investments in Bangladesh have been made based on unsolicited proposals. In the absence of any established and transparent procedure for processing unsolicited projects, the Government has often landed into serious controversies in dealing with such projects.

A publication on potential private sector infrastructure projects would go a long way in addressing many of the problems that were faced earlier. Private sector investors will have a clear idea as to what is there for them in Bangladesh. The Government of Bangladesh will now be expected to undertake further work on the projects identified, which may include undertaking feasibility studies, developing the project further, preparing bidding documents and going for open tendering so that private sector investors can freely compete.

Further work is continuing to make sure that PSIDP is adopted as soon as possible. This would be a major step considered essential in bringing sustainability in the process for identifying projects and bringing out a publication on potential private sector infrastructure projects on an annual basis.

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General guidelines for contributors

1. Manuscripts

One copy of the manuscript in English should be submitted together with a covering letter to the Editor indicating that the material has not been previously published or submitted for publication elsewhere. The author(s) should also submit a copy of the manuscript on computer diskette, labelled with the title of the article and the word-processing program used, or by e-mail as an attachment file. MS Word and WordPerfect are the preferred word-processing programs.

The length of the manuscript, including tables, figures and bibliographical references, should not exceed 7,500 words. Manuscripts should be typed on one side of A4 paper in double spacing and pages should be numbered. A list of references should be included. Manuscripts are subject to editorial revision.

The title page should contain (a) title; (b) name(s) of the author(s); (c) institutional affiliation(s); (d) complete mailing address, e-mail address and facsimile number of the author, or of the principal author in the case of joint authors; and (e) an abstract of approximately 150 words clearly stating the main conclusions of the article. Acknowledgements, if any, should appear at the end of the text.

Articles should include a final section containing the main conclusions, which should be broadly intelligible to a non-specialist reader.

2. Tables

All tables should be clearly headed and numbered consecutively in Arabic numerals. They should be self-explanatory. All tables should be referred to in the text. Full source notes should be given below each table, followed by general notes, if any. Authors are fully responsible for the accuracy of the data.

3. Figures

All figures should be provided as camera-ready copy and numbered consecutively in Arabic numerals. All figures should be referred to in the text. Full source notes should be given below each figure.

4. Footnotes

Footnotes, if any, should be brief and numbered consecutively in superscript Arabic numerals. Footnotes should not be used for citing references.

5. References

There should be a complete reference for every citation in the text. References in the text should follow the author-date format, for example (Sadorsky 1994), or (Skeldon 1997: 243). Only those references actually cited in the text should be listed and these should appear in alphabetical order at the end of the manuscript. References should be in the following style:

[Book]

Skeldon, R., 1997. *Migration and Development: A Global Perspective* (London, Longman).

[Chapter in book]

Krueger, Alan, B. and Lawrence H. Summers, 1987. Reflections on the inter-industry wage structure, in K. Lang and J.S. Leonard, eds., *Unemployment and the Structure of Labour Markets* (London, Blackwell), pp. 40-49.

[Article in journal]

Wachs, M., 1990. Regulating traffic by controlling land use: the southern California experience, *Transportation*, vol. 16, No. 3, pp. 241-256.