ROLE OF THE INFRASTRUCTURE INVESTMENT FACILITATION CENTRE IN THE DEVELOPMENT OF PRIVATE SECTOR INFRASTRUCTURE IN BANGLADESH

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ABSTRACT

The Government of Bangladesh has established a special entity called the Infrastructure Investment Facilitation Centre to promote private sector participation in the infrastructure sector. IIFC provides professional services to ministries and government agencies concerning the development of infrastructure projects by the private sector. It also provides assistance to the Government in policy development and establishing regulatory frameworks for creating an enabling environment for private participation in the infrastructure sector. The paper highlights the need for an inside sponsor, draws attention to the significance of activities at the project development stage and focuses on the overall project development process conceptualized by IIFC. It discusses the different steps followed in the process and the role of IIFC at these stages. It also discusses the functions and characteristics of IIFC as an inside sponsor of private sector infrastructure projects and draws conclusions based on the experience of IIFC.

INTRODUCTION

The Government of Bangladesh has adopted the policy of implementing infrastructure projects through involvement of the private sector. However, with the exception of some success in the power, gas and telecom sectors, private infrastructure development has been quite slow in the country. The insufficient provision of infrastructure facilities

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has seriously affected the growth and competitiveness of the economy. This has prompted the Government to take new initiatives to promote private sector participation in infrastructure development. As a part of this new initiative, the Government has undertaken a project called the Private Sector Infrastructure Development Project (PSIDP).

The PSIDP project has two components: project financing and transaction development. The financing component is being implemented through a $ 225 million fund lent to the Infrastructure Development Company Ltd., which arranges financing of private infrastructure projects. Under the second component of transaction development, a special unit called the Infrastructure Investment Facilitation Centre (IIFC) was created with the long-term objective of establishing an efficient public-private interface as well as for the purpose of developing the front-end stages of private sector infrastructure investment projects.

In addition to project development, IIFC assists the Government in establishing the private sector policy and regulatory frameworks. IIFC does not encroach on the technical and contracting functions of the public sector infrastructure agencies but supports their efforts by providing high-quality professional expertise where required. It has also a plan to develop a knowledge bank to sustain the private infrastructure efforts of the Government.

The paper focuses on the project development process followed by IIFC. It discusses the different steps followed in the overall process of project development and the role of IIFC at these stages. It also discusses the functions and characteristics of IIFC as an inside sponsor of private sector infrastructure projects and provides a list of activities undertaken so far. Finally, it draws conclusions based on the experience of IIFC since its inception in 2000.

I. STRUCTURE AND FUNCTIONS OF IIFC

A. Formation of IIFC and its objectives

IIFC was incorporated as a company limited by guarantee under the Companies Act 1994 and became operational in January 2000. The company was established with support of the donors under the terms of the following agreements:

(a) A development credit agreement between the Government of Bangladesh and International Development Association (IDA);

(b) An agreement between the Government of Bangladesh and the Department for International Development (DFID) of the Government of the United Kingdom of Great Britain and Northern Ireland;

(c) A memorandum of understanding between the Government of Bangladesh and the Canadian International Development Agency (CIDA).

The above agreements were to provide financial support for a period of three years, after which IIFC was expected to operate on a commercial basis. However, a no-cost extension of one year is currently under review.

IIFC facilitates private sector participation in infrastructure development. Its mission is to be recognized globally as the country's centre of excellence in infrastructure investment and to foster the economic development of the country by promoting and facilitating private investments in infrastructure development.

The main objectives of IIFC are:

(a) To introduce, promote and assist all forms of private sector participation in Bangladesh for the development and improvement of infrastructure sectors, namely, power, energy, telecommunication, water, waste-water, transportation, water management and municipal services;

(b) To assist and advise ministries, government departments, agencies and other public sector bodies with the identification, prioritization, preparation, evaluation, award and implementation of infrastructure projects in which the private sector may participate;

(c) To create an interest in the private sector in investing in infrastructure projects in Bangladesh by disseminating information within Bangladesh and abroad about the opportunities.

The following sections provide some details on IIFC's structure and the support provided by donors in its formation.

B. Organizational structure

IIFC is managed by a seven-member Board of Directors, with three directors from the public sector, three directors from the private sector and the Chief Executive Officer of IIFC, who is an exofficio member. The Secretary of the Economic Relations Division of the Ministry of Finance is the chairman of the Board of Directors. It had a total planned strength of 17 staff members. However, because of a reduction in funding by IDA, due to a two-year delay in operationalization of IIFC, IIFC has always had to function under severe staffing constraints. Consequently, it has operated primarily through managing consultants provided by donors.

C. Major functions

Development of projects for private sector participation

IIFC has been involved principally with the development of a large variety of infrastructure projects for participation by the private sector. However, its activities are not limited to developing investment projects. It also undertakes non-investment projects. The broad types of projects where they have provided advisory and other services include:

(a) Development of large investment projects for the private sector;

(b) Restructuring and commercialization of existing public sector projects;

(c) Capitalization of infrastructure projects;

(d) Policy development projects;

(e) Management contracts;

(f) Development of small investment projects for the private sector.

Non-investment projects

IIFC is also involved in developing non-investment projects that do not require any substantial private investment in the near future. Private sector participation in these projects is envisaged mainly by providing management expertise and technical know-how. The Government attaches priority to pursuing its policy of commercializing existing public assets and introducing private sector participation in the form of outsourcing, management contracts etc. in order to improve the efficiency of the public sector enterprises. Private investment in assets is planned at a later stage after these enterprises are restructured. Pursuant to government policy, advising on restructuring and commercialization of public sector enterprises is a major area of activity of IIFC.

Policy development work

IIFC assists the Government in private sector policy development. It is involved in assisting the Government in creating an enabling policy and regulatory environment conducive to private sector participation in the infrastructure sectors. The policy development services, provided by IIFC through technical services agreements (TSAs), are examples of such activities.

D. Donor support

Currently, donor support plays a vital role in carrying out the activities of IIFC. It is supported by two consortia of consultants for carrying out the development of investment and non-investment projects, business development work, promotional activities and capacity-building. DFID and CIDA have appointed two consulting firms to provide consultants to IIFC and give funding support for the consultants. IIFC has call-down arrangements with the consulting firms for rapid mobilization of consultants from the proposed date of engagement by a ministry or government agency. In addition to funding support from CIDA and DFID, IIFC also received financial resources from IDA to hire consultants and meet the establishment costs of IIFC. The Government has also committed itself to providing financial resources towards IIFC's establishment costs.

II. THE ROLE OF IIFC AS AN INSIDE SPONSOR FOR PRIVATE SECTOR INFRASTRUCTURE PROJECT DEVELOPMENT

A. Development of public and private infrastructure projects

An infrastructure project may be carried out through either conventional public financing (a "public infrastructure project") or private financing (a "private infrastructure project"). Public infrastructure projects are typically financed, owned and operated by government agencies. A government agency is responsible for executing and operating a project after its commissioning. Since the Government owns the project, the implementing agency of the concerned ministry acts as the sponsor or developer as well as the operator of the project. The implementation of a public infrastructure project can be represented by the following phases:

(a) The development phase. This involves project identification and its structuring, choice of technology, preparing concept papers, conducting feasibility studies, seeking government and donor financing, and facility construction.

(b) The operational phase. This concerns operating the facility, collection of revenues and timely maintenance of the assets.

It is now widely accepted that a government agency in most countries is unable to efficiently operate an infrastructure facility in the operational phase. There could be many reasons for this inefficiency, including lack of business motivation, low revenue collection arising from high system losses or inability to collect payments from sister government agencies and deterioration of assets due to lack of timely maintenance. However, what is generally not easily perceived is that a government agency may also not be efficient in the role of a project developer during the development phase. Some of the reasons for government being a poor developer are provided below:

(a) Inappropriate project identification;

(b) Lack of experience and low in-house skills in project development;

(c) Lack of commercial focus;

(d) Change in project personnel;

(e) Vested interests;

(f) Undue donor influence;

(g) Slow engagement of consultants.

The poor performance of an operator in the operational phase can be clearly evidenced by operating losses or an unsatisfactory level of service. However, much of the poor performance could be due to faults at the project development stage. Critical activities at the development stage such as estimation of demand, project structuring, choice of technology and financing arrangements could seriously affect the outcome of a project. Poor project development could manifest itself in time overruns (usually referred to as implementation delay) and cost overruns, higher operating cost and lower revenue earnings. The achievement of a project's objectives, therefore, depends greatly on the performance of project development activities.

A private infrastructure project is defined as one in which the development, engineering, financing, procurement, construction and commissioning are carried out through a private sector developer, investor or sponsor (herein called the "outside sponsor"). Such a project is usually project-financed, also called off-balance sheet financing. The project assets and cash flows from it are used for debt financing. This type of financing differs from corporate financing or sovereign financing, which is done on the basis of the borrowers' balance sheet. Project financing usually entails detailed contractual relationships and obligations. In this respect, the examination of the fundamentals of a project under project financing arrangements for a private infrastructure project is far superior when compared with a public sector project.

However, as government restrictions generally apply to entry into the infrastructure sectors, an outside sponsor cannot carry out all the required activities in the project development phase without the approval of the Government. For a public infrastructure project, the participation of an outside sponsor or the private sector requires the government agency to bid out the project. But in order to bid out a project, it has to be developed first. The activities in the development phase relate to project identification and structuring, feasibility study, development of a contractual framework, allocation of risks and negotiation with the outside sponsor, which require specialist skills within the government agency. However, the required skills and capacity to undertake these activities may not always be available to government agencies dealing with infrastructure projects. Many Governments have established a special unit in government that can play the role of the inside sponsor to address the capacity problem of the public sector.

A non-infrastructure project, however, can be taken up by a private sector investor at any time, provided normal government approvals are obtained. There is no contractual link between the government and the private investors. A private investor can undertake a non-infrastructure project in accordance with the market demand and its assessment. As there is no bidding requirement for non-infrastructure projects, an investor can take up a non-infrastructure project, for example a cement factory, at any time.

However, private investors are not "free" to undertake an infrastructure project whenever they want or even when demand for such a facility exists. For example, despite an acute shortage of power in the country, private investors cannot build power plants until the Government requests bids or the market is unbundled. The Government has to bid out infrastructure projects (neglecting unsolicited proposals which are non-transparent). Without the bidding process, private investors cannot come forward. This is the central bottleneck to all private sector investment in infrastructure. Removing this bottleneck could achieve a much greater level of private participation in the infrastructure sector.

There is also a general lack of understanding about the procedural matters in the promotion, selection and approval of private infrastructure projects. In the absence of a special facilitation unit, the procedures followed by agencies are often different, which creates confusion in the minds of investors. Furthermore, planning and implementation of private sector infrastructure projects need to be integrated with the national planning process in order to ensure complementarity between private sector and public sector projects and optimum allocation of resources across all sectors. The need for an inside sponsor or a private sector participation unit arises as a means to accomplish these objectives.

III. THE PROCESS OF PRIVATE INFRASTRUCTURE DEVELOPMENT

IIFC has conceptualized a seven-stage process for the implementation of private sector infrastructure projects. Project identification in the overall process would be linked to the annual development programme of the Government, which is prepared by the concerned ministries. This section provides details on the seven stages of implementation from project identification to construction and the role of IIFC as an inside sponsor and the private sector at these stages.

A. The seven stages of the project implementation process

IIFC facilitates the implementation of solicited infrastructure projects by the private sector. It has conceptualized a seven-stage process for this purpose as illustrated in figure 1. The figure also lists the key activities at each of these seven stages. In this process, it is envisaged that IIFC, as the inside sponsor, would match the technical, financial, commercial, legal and negotiation skills of the private investors. The speed and flexibility of employing reliable consultants by IIFC to undertake project development activities should also be similar to that of the private sector.

In *Stage 0*, IIFC selects a potential infrastructure project after discussion with the concerned ministry or public agency. Social objectives of the Government and public service obligations that may need to be included should be considered at this stage. Project identification skills are extremely important for this stage. Otherwise, time and effort are wasted in the end. Government commitment to project development is important for IIFC. This is obtained by making a development services agreement (DSA) with the government agency (figure 2). The signing of a DSA may take between two months and one year, and in some cases longer than that.

In *Stage I*, project ideas are further developed and the feasibility study is undertaken. Major technical and transaction parameters are also identified and agreed upon at this stage. IIFC engages its own staff and consultants, who may be expatriate or local, to carry out these tasks. It mobilizes experienced consultants very quickly. Rapid deployment of consultants (within a target period of one month) is achieved through arrangements with consulting firms appointed through donor support as mentioned earlier. Funds available from IDA may also be used for engaging consultants. However, use of such funds is limited as recruitment of IDA-funded consultants may require a much longer time to meet their procedural requirements.

Stage II is the most critical phase in the process. It relates to preparing the commercial framework of the project, obtaining agreement of government for pre-qualification documents, inviting expressions of interest from the private sector and making a shortlist of prospective developers, and developing a model contractual framework. In situations where precedence for private investments does not exist and the approval process is unclear, government decisions at various levels could be slow and sometimes unfavourable to private investment. Lack of knowledge and experience compounds the problem. The model concession agreement prepared at this stage also provides for risk allocation between the private and public sectors.

In *Stage III*, project promotion takes place. Bids are invited from the short-listed bidders. With assistance from IIFC, bids are evaluated and the Government approves the successful bidder. This stage ends with the selection of the private project developer.

In *Stage IV*, IIFC assists the concerned government agency in negotiating the project with the selected project developer. Assistance is provided in the negotiation process in matters related to technical, commercial, financial and legal aspects of the project. This stage ends with the signing of the concession agreement between the government agency and the private sector project developer or outside sponsor (figure 2). Stages III and IV represent the handover phases from IIFC to the project developer. It is evident from figures 1 and 2 that IIFC as the inside sponsor invests its time, money and skills in project development from Stages 0 to IV, while the private investor takes up the responsibility from Stage IV onwards.

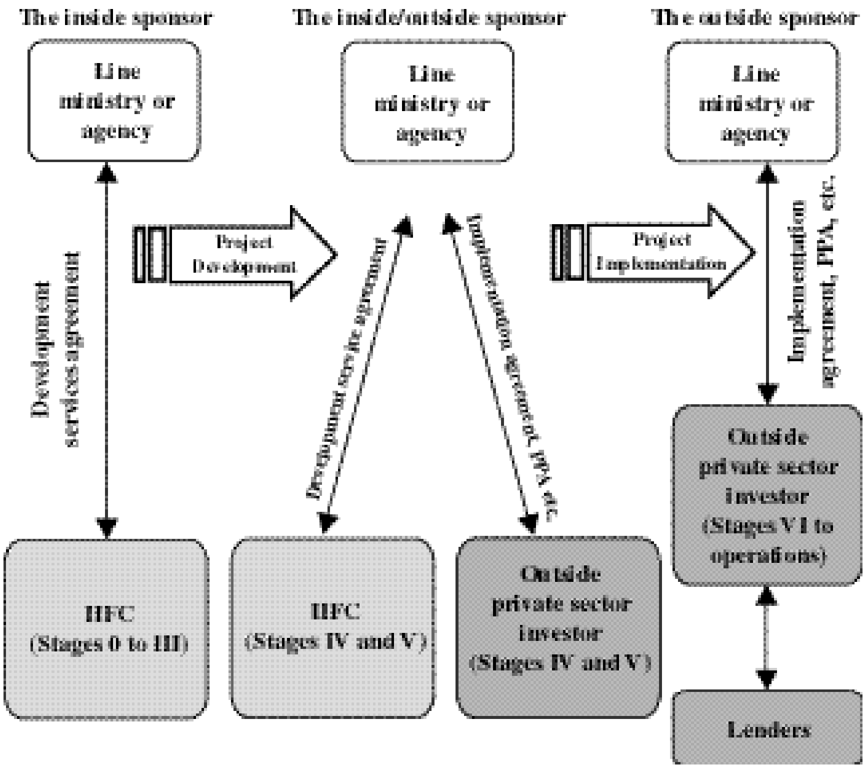
	Stage 0	Stage I	Stage II	Stage III	Stage IV	Stage V	Stage VI
	Business development	**Feasibility**	**Commercial framework**	**Evaluation**	**Negotiation**	**Financing**	**Construction**
Stage completion milestone	**DSA signed**	**Feasibility study completed**	**Issue request for proposal (RFP)**	**Issue letter of Intent (LOI)**	**Sign agreement**	**Financial closure**	**Start of commercial operation**
Processes and actions	• Select project meeting criteria: – Government commitment – bankability – project size – other competing projects • Prepare and submit DSA • Sign DSA between ministry/agency and IIFC	• IIFC engages consultants • Elicit project ideas • Define the need • Identify and agree major technical and transaction parameters • Complete feasibility study	• Develop action plan • Select project concepts • Prepare commercial framework • Obtain agreement of ministry on pre-qualification documents • Obtain expressions of interest and shortlist • Prepare model agreements • Prepare bidding documents • Issue RFP	• Hold bidders conference • Shortlist bidders and prepare bids • Government receives bids and prepares evaluation report • Government approval of successful bidder • Issue LOI to successful bidder	• Prepare for negotiations • Carry out negotiations between sponsor and Government entities • Signing of agreement between Government and successful bidder (outside sponsor)	• Outside Sponsor makes loan applications to commercial lenders • Commercial lenders perform due diligence • Government and outside sponsor renegotiations for lenders' requirements • Loan documents prepared • Financial closure	• Carry out contract administration functions • Oversee construction by lenders' engineer • Conduct satisfactory completion tests • Commercial operations date

Handover phase (Stage III – Stage IV)

Inside sponsor role (Stage 0 – Stage IV)

Outside sponsor role (Stage III – Stage VI)

Figure 1. Key stages in project development



Note: PPA = power purchase agreement.

Figure 2. Changeover from inside sponsor to outside sponsor

In *Stage V*, the selected project developer seeks financing from different lenders and this stage ends with financial closure of the project.

In the final *Stage VI*, with equity and loan funds in place, the developer engages the construction contractor and physical construction starts. At the end of this stage, the facility goes into commercial operation.

B. Change in project development from inside sponsor to outside sponsor

As already explained in the previous section and shown in figure 2, IIFC plays the role of the inside sponsor primarily between

Stages 0 and IV and carries out project development activities in these stages. These activities are carried out through an agreement with the concerned ministry or government agency. Stages III and IV are the handover phases. From Stage V onwards, the outside sponsor or project developer takes over with the execution of a contract agreement between the developer and the Government.

C. The risk profile for IIFC as the inside sponsor

IIFC invests its time, effort and venture capital at the front end of project development, primarily from Stages 0 to IV. This period of development is the most risky phase for a private sector infrastructure project. IIFC seeks to work on a success fee basis and recovers its development costs from the winning bidder after the completion of Stage IV, i.e., signing of an agreement between the bidder and the Government. The cost of project development is met out of venture capital provided to IIFC. However, for various reasons activities on many projects may have to be terminated at any phase before successful completion of Stage IV. In such cases, IIFC would lose its investment in project development. If the proportion of these unsuccessful projects becomes high, IIFC is exposed to large development risks.[1]

The risk faced by IIFC arises owing to various reasons, which include:

(a) Project concepts very fluid;

(b) Lack of commitment by the Government;

(c) Lack of knowledge;

(d) Deficiencies or lack of policies;

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[1] Risk is a perception of difficulties that IIFC may face during various stages of project development, which may cause termination of activities by IIFC at any point before successful completion of Stage IV of a project. Risks may arise owing to technical, financial, commercial, political and regulatory factors. As risk may be considered as the chance that a project successfully completes its Stage IV, the perceived risk of project development decreases as a project progresses over its development stages. However, when the risk of project termination is assessed separately for each individual stage of project development, the risk is highest in Stage II.

(e) Vested interests;

(f) Union pressure;

(g) Uncertainty in project design;

(h) Uncertainty in costs;

(i) Uncertainty in viability;

(j) Uncertainty in regulatory regime.

Figure 3 illustrates the risk levels faced by IIFC while it spends funds to develop a project. It also shows the progress in increase of project value and the typical cost profile of IIFC at each of the stage of project implementation. Risk (and cost) begins with Stage 0, when IIFC carries out its business development activities and eventually signs an agreement (DSA) with the concerned ministry or its agency. This is the most risky stage for IIFC as project structure and its viability, government commitment, investors' interest, etc., are all unknown. A DSA establishes government commitment to go forward with the project with private sector financing instead of public sector financing. The DSA reduces IIFC's risk arising from lack of government commitment.

After making a DSA with the Government, IIFC mobilizes consultants to carry out the feasibility study of the project. The consultants for activities in Stage I are easily found, but care is taken to ensure that at least half of them have experience in designated activities in Stages I to V; otherwise, further progress becomes difficult. A feasible project at the end of Stage I validates IIFC's selection of the project and thereby further reduces the risk faced by IIFC. By this time, many of the project details are known and this creates project value, which is typically in excess of the costs to IIFC.[2]

[2] Project value at any point during project development is defined as the price that a developer would be willing to pay for making an entry into the project at that point. For example, a power purchase agreement (PPA) in India may sell for $ 2-3 million. The project value may not be positive in the initial stages but should become positive over the successive stages of development.

Figure 3. Risk level and cost of IIFC and project value at different stages of development

In terms of risk involvement, Stage II is the most crucial one for IIFC. This stage also requires highly experienced IIFC staff and consultants to develop the commercial framework for the project. Successful marketing of an infrastructure project depends very heavily on this framework as it considers risk allocation between the Government and the private developer, fiscal and other incentives, form of private participation and its terms, regulatory mechanism, bidding parameters, etc. After developing the model contract agreement and obtaining the Government's approval of it, the next important activity of this stage is the issuance of a request for a proposal (RFP), which indicates the final commitment of the Government to proceed with the project as a private infrastructure project. The chances of a project stalling are highest at this stage. With the successful completion of this stage it is known that credible bidders are willing to invest in the project. As such, considerable reduction in IIFC's risk and increase in project value take place with the end of this stage.

Stage IV involves negotiations with the preferred bidder and ends with the signing of the concession agreement. The signing of the negotiated agreement reflects commitment by the investor and reduces IIFC's risk further. The signed agreement has a good value for the project developer since it gives the developer the right to implement a financially viable infrastructure project and also provides a basis for borrowing money from lenders. With the successful completion of this stage, IIFC's risks as well as role are reduced sharply, as the sponsorship of the project changes hands.

It is evident from the discussions above that IIFC as the inside sponsor enters into the project implementation process much earlier (Stage 0) than the outside sponsor (Stage IV) and the lenders (Stage VI). In terms of project development, IIFC is involved at times when risks are extremely high. Only successful management of the various sources of risks can allow a project to move through the various stages towards its financial closure and from there to construction and commercial operations.

IV. CHARACTERISTICS OF IIFC AS AN INSIDE SPONSOR

A. Business strategies

IIFC is expected to operate on a commercial basis after the initial phase of three years. In order to perform its functions on a commercial basis, IIFC has developed a set of key business strategies, which include:

(a) Advise, guide, promote and support private sector participation in the light of government policies, actions by ministries and their agencies and market demand. However, IIFC would not be a party to any agreement or transaction between the Government and the private sector developer;

(b) Be selective in choosing projects to secure the maximum impact from limited resources;

(c) Stress transparency in all activities of public interest;

(d) Operate in a commercial manner, securing cost recovery for services provided where possible;

(e) Operate through a small number of highly qualified professional staff and supported by swift deployment of consultants, usually within one month;

(f) Segregate and earmark the private sector projects through the annual development programme at the national level.[3]

B. Policy versus transaction focus

IIFC has adopted a strategy of focusing mainly on specific transactions or projects and resolving the pertinent policy issues contractually on a case-by-case basis, rather than pursuing wider policy

[3] IIFC is advocating the adoption of the "Private Sector First Policy" by the Government. Under the policy, a separate annual development programme (ADP) would be prepared for the private sector. The idea is that the private sector will have the first right to implement infrastructure projects included in this ADP in preference over the public sector. The policy is being discussed and is under active consideration by the Government.

and sectoral reforms at the beginning. It does not devote limited resources to prepare studies that are not directly linked to specific transactions. It is, however, recognized that in the long run, transactions or project-related activities could be constrained by lack of appropriate policies and deficiencies in the legal and regulatory environment. As such, IIFC also pursues policy and sector reforms in support of private sector participation in the infrastructure sector.

An example in this regard is the preparation of the “Private Sector First Policy”, a policy document for the Government that defines government policies and strategies in support of private sector participation.[4] It outlines the roles of the Government and IIFC in supporting the private sector. It also describes the mechanism through which prospective private sector projects could be identified and included in the Government’s annual development programme and their consistency with the existing plans and other projects ensured.

C. Operating policy and procedure

Based on its experience of about three years of operation, IIFC has developed a set of operational policies and procedures. These are as follows:

(a) IIFC would respond to requests from government ministries and agencies for assistance. Where assistance can be given, IIFC would enter into an agreement with the concerned ministry or its agency. This would be in the form of a DSA for investment projects and TSA for non-investment projects;

(b) IIFC would work on a success fee basis and seek to recover costs at different stages of project development, primarily from transaction projects;

(c) As IIFC’s work would form the basis for negotiations with a private party, IIFC, its consultants and funding agencies would maintain full commercial confidentiality of the concerned project;

[4] The draft “Private Sector First Policy” is available at <http://www.iifc.net/psf_policy_revised_date_20jan03.pdf> (2 June 2003).

(d) IIFC's impact could be greatest if it is involved in the commercialization stages of project development (i.e., from Stage II onwards), with some input into Stage I. IIFC's policy is thus to enter after the completion of feasibility studies. A number of government departments and agencies supported by bilateral and multilateral institutions carry out such studies at present, and IIFC's niche will be in the later stages of project development;

(e) IIFC would focus on stranded or underutilized assets of the Government. Value addition to such infrastructure assets is likely to produce considerable benefits to the economy;

(f) Restructuring and commercialization of State-owned enterprises is also an area to be pursued by IIFC. It would assist these enterprises in securing their long-term viability through private sector investment, management and operation.

Generally, the private sector infrastructure projects have low visibility in the national planning process. In order to make them prominent in the national plans, IIFC has proposed to segregate the public sector and private sector infrastructure projects in the next five year plan. It has also proposed through the "Private Sector First Policy" that the Government's annual development programme be formulated with two separate components, the public sector ADP and the private sector ADP.

D. Rapid consultant support

The consultants currently being used by IIFC are funded by donors. Two consortia of consultants provide support in the areas of project development activities for the investment and non-investment projects, business development work, promotional activities, institutional aspects and capacity-building of public sector officials. IIFC has arrangements with the consortia of consultants for rapid mobilization of consultants from the date of engagement by the Government through either a DSA or a TSA. Rapid deployment of consultants is one of the greatest strengths of IIFC, which has been much appreciated by the concerned ministries and agencies.

E. Trust and confidence of the Government

One of the most critical needs of IIFC is to gain the trust and confidence of the Government. The execution of DSAs or TSAs between the Government and IIFC will become easier once this trust and confidence is built. In order to gain the trust and confidence of the Government, IIFC has adopted the following policies:

(a) As the inside sponsor, IIFC needs to have a genuine intention of assisting the ministries and their concerned agencies in promoting private sector participation;

(b) Rapid mobilization (in one month) of high-quality consultants, experienced in Stages II to V, would be one of the key operational strategies;

(c) There should be a good balance of in-house capacity and skills with those of the outside consultants;

(d) Charging the ministry or its agency for the services provided by IIFC should be avoided. The cost should be recovered by charging the ultimate private sector beneficiary of the services, i.e,. the outside sponsor;

(e) IIFC should have in-house knowledge and experience of project development and fully understand the activities in Stages 0 to VI.

F. Provider versus procurer model

The core function of IIFC is to provide advisory services to client ministry or its agencies. IIFC intends to act as the provider of services to them, rather than act as the procurer of consultant services. This approach is consistent with its mandate under its Memorandum of Association approved by the Government. The provider of services model is more proactive and has a commercial focus, which makes it sustainable. Following this approach implies that IIFC needs to have a keen interest in developing its own business in a proactive manner. This model also implies that it should use consultants, where needed, to perform specialist functions. IIFC also seeks to develop its own in-house skills and capacity in order to deliver services to its clients and use resources more effectively.

G. Commercialization and development of in-house skills

At present, IIFC is providing services to clients, mainly through donor-funded consultancy support. IIFC's own staff provide approximately 20 per cent of the advisory services, while the remaining 80 per cent is provided through hiring consultants. As a long-term development strategy for sustainable operations and part of its commercialization process, IIFC plans to increase and develop its in-house capacity and expertise to provide a larger percentage of the services in the future. IIFC sends its staff to various domestic and foreign training programmes on subjects related to project planning and development. It has been estimated that a transition period of about two years would be necessary to achieve a stage where IIFC could provide 60 per cent advisory services, while consultants could be hired to provide the remaining 40 per cent. IIFC also has a policy to fully commercialize its services as soon as possible. The services of IIFC would then become revenue-earning on a project development basis.

H. Transfer of technology

Transfer of technology is one of the main strategies of IIFC for the development of its in-house expertise. Its policy is to build and develop its own human resources by taking the opportunities presented by the expatriate consultants through transfer of technology from them. In order to achieve long-term sustainability and commercialization, IIFC engages its own staff in each work package of all projects to work closely with the consultants. IIFC also encourages government ministries and their concerned agencies to deploy their own staff to work closely with the consultants.

V. PROJECT DEVELOPMENT ACTIVITIES BY IIFC

As has been discussed above, IIFC provides its services to its clients by making agreements with them. Since the start of its operations in 2000, IIFC has signed a number of DSAs and TSAs with different ministries and agencies. The table provides a list of such service agreements, many of which have already been completed.

The signing of 17 DSAs and 8 TSAs in its first three years of operation indicates that IIFC has made good progress in providing services to the client ministries and other agencies. Recently, the Planning Division of the Ministry of Planning has signed a TSA for the introduction of private sector infrastructure projects in the national plans. This important policy initiative of the Government is expected to have far-reaching effects on the manner in which infrastructure projects are planned and implemented in Bangladesh.

List of services provided by IIFC

DSAs	Client ministry/agency
1. Khanpur Inland Container Terminal Project	Bangladesh Inland Water Transport Authority
2. Restructuring and Commercialization Strategy for the Dredger Organization	Bangladesh Water Development Board
3. New River Terminal at Dhaka	Bangladesh Inland Water Transport Authority
4. New Mooring Container Terminal Project	Chittagong Port Authority
5. Public Switched Telephone Network in Selected Areas of Bangladesh.	Bangladesh Telecommunication Regulatory Commission
6. Spectrum Management System Contracting	Bangladesh Telecommunication Regulatory Commission
7. BOT Banglabandha Land Port	Bangladesh Land Port Authority
8. BOT Teknaf Port	Bangladesh Land Port Authority
9. Remote Area Power Supply Systems at Debhata – Assasuni Upazila	Ministry of Energy and Mineral Resources
10. Remote Area Power Supply Systems at Hatibandha – Patgram Upazila	Ministry of Energy and Mineral Resources
11. Remote Area Power Supply Systems at Kutubdia Upazila	Ministry of Energy and Mineral Resources
12. Remote Area Power Supply Systems at Sandwip Upazila	Ministry of Energy and Mineral Resources
13. Motijheel Bus Terminal	Bangladesh Road Transport Corporation

14. Expansion, Modernization and Beautification of the Sadarghat River Port Terminal	Bangladesh Inland Water Transport Authority
15. Restructuring and Commercialization of Biman Bangladesh Airlines	Biman Bangladesh Airlines
16. SSA Patenga-Pangaon Container Terminal	Ministry of Shipping
17. Restructuring and Commercialization of Bangladesh Shipping Corporation	Bangladesh Shipping Corporation
TSAs	**Ministry/agency**
1. PSP Policy Framework for Ports	Ministry of Shipping
2. Expert Service Assistance for Frequency Management	Ministry of Posts and Telecommunication
3. Evaluation and Revision of the Existing Telecommunications Policy	Ministry of Posts and Telecommunication
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7. Review of Alternatives for the Introduction of Voice over Internet Protocol in Bangladesh	Bangladesh Telecommunication Regulatory Commission
8. Introduction of Private Sector Infrastructure Projects into the National Plans	Ministry of Planning

Note: Current activities of IIFC can be viewed at <http://www.iifc.net/>

CONCLUSIONS

Successful project development and the design of a contract agreement fair to all parties are extremely important for the motivation of the private sector in infrastructure development. However, these tasks require special skills and expertise that may not always be available to public sector agencies. The procedural matters in the selection and approval of private infrastructure projects should also be clear to all parties. Furthermore, the planning and implementation of private sector infrastructure projects need to be integrated with the national planning process. There is a need for an inside sponsor or a special unit for the accomplishment of these objectives.

In its first three years of operation, IIFC has gained considerable experience as an inside sponsor for the promotion of private sector involvement in infrastructure development in Bangladesh. Based on its experience, the following observations may be made which could be of relevance to other countries:

(a) The concept of a special PSP/PPP unit as the inside sponsor of private sector infrastructure projects needs to be discussed and understood more thoroughly. The discussions should include the prospective private developers or outside sponsors;

(b) Project recognition skills are extremely important for an inside sponsor and this can be ensured through a commercial focus. Success would depend greatly on the ability to manage risks in Stages 0 to IV;

(c) The concept, with some revisions based on the lessons learned, may be of assistance to countries which are facing difficulties in increasing private sector participation in infrastructure development;

(d) Pro-poor infrastructure activities are possible in the power, transport and water sectors. Pro-poor private sector projects should be given special attention to gain wider social acceptability of private infrastructure projects;

(e) The inside sponsor should match the technical, financial, commercial, legal and negotiation skills of the outside sponsor.

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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.

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