Policy and Strategy for PPP in Bangladesh

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Government of Bangladesh
Historical Perspective

Previous Initiatives

TA project “Private Sector Infrastructure Development Project (PSIDP) to initiate the development of an enabling and conducive environment for PPP in 1997;

Establishment of Infrastructure Development Company Limited (IDCOL), a financing facility to provide long term debt financing for PPP project in 1998;

Establishment of Infrastructure Investment Facilitation Centre (IIFC), a Government own entity with the mandate to provide technical support for the development and implementation of PPP project in 1999;

Issuance of “Private Sector Infrastructure Guideline (PSIG)” with the intention to harmonize the proceedings for development of PPP in 2004;

Establishment of “Private Infrastructure Committee (PICOM)”, a high power Inter-Ministerial Committee with the objective to facilitate and promote PPP in 2004. The Board of Investment was assigned the Secretariat of PICOM with IIFC as technical adviser.
Weakness in Previous farkework

✓ PPP initiation was not clear;
✓ Procurement process was not well structured;
✓ Absence of consistent procedure to identify, formulate, appraise and approve the PPP project;
✓ Lack of clarity on roles and responsibilities of various parties involved in a PPP arrangement;
PPP Policy and Strategy in Bangladesh:

Background

• Share of investment to GDP needs to be raised from current 24-25% to 35-40%

• To sustain GDP growth rate of 8% in 2016 and beyond, requires additional US$ 58 Billion or BDT 4.8 Trillion from 2009-2016;

• Needs investment of private sector for infrastructure development/services.
Objectives:

Objectives of Policy and Strategy for PPP 2010:

• Spell out The principles of partnership with private sector

• Define an institutional framework

• Ensure balance between risk and reward for both the government and private partners
PPP

• A cooperative venture between Public and Private sectors through contract;
• Private Sectors supplies assets and/or services of a public nature;
• Traditionally which are usually provided for by the Government.

Cont`d
• The Government may be the main purchaser of services [BOT Annuity];

• Private operators may also sell services directly to private consumers [User fee].

• Both may be applied in a project.

Cont`d
• Under the agreement, the Private Partner is obliged to undertake the investment;

• The Govt. defines its requirements by way of output and result. but does not specify the detailed engineering;

• Private sector assumes the associated risk in exchange for the right to earn an adequate return.

• Risk allocation is the heart of how PPPs are structured.
Conditions for successful PPP:

A successful public private partnership should fulfill three conditions at a minimum:

a) Benefits for private sector: generate a profitable revenue stream or expand market access.

b) Benefits for the consumer: delivery of a services that people want and would not have access to at the same price, in a business as usual situation.

c) Benefits for the government: fulfillment of a political need, social obligation, development imperative.
Concept of PPP as in Policy and Strategy-2010

Ideation
IA/LM

Facilitator
PPPO

Transfer
Private Company-Government

Design/Preparation
Transaction Advisor

Financing
FD

Operation/Maintenance
Private Company

Construction
Private Company
Concept of PPP:

• PPP normally cover public good provisions.

• PPP is a win-win relationship between the government and private sector players sharing the risks and rewards under a contractual obligation;

• The private sector is the active party undertakes activities, depending on the model, starting from the stage of conception and up to the stage of operation and maintenance; and

• In most of the cases, PPP allows private sector into areas of business, where the government holds control over infrastructure or service before such partnership.

• The public sector retains a significant role in the partnership, either as the sole purchaser of the services provided or as the main enabler of the project.
Applicability of PPP:

Project in PPP where at least one of the following circumstances exists:

– Financial resources constraint or absence of expertise with the government alone;
– Private investment would increase the quality or level of service or reduce the time to implement;
– Opportunity for competition, among prospective private investors;
– Private investment in public service provides an opportunity for innovation; and
– No regulatory or legislative restrictions in taking private investment in the delivery of public service.
Non-applicability of PPP:

The following action/activities will not fall under the PPP purview:

– Outsourcing of a simple function of a public service;

– Creating a government owned enterprise (State Owned Company); and

– Borrowing by government from the private sector.
SECTORAL COVERAGE OF PPP:

The priority sectors for PPP are:

• exploration, production, transmission, and distribution of oil, gas, coal and other mineral resources;
• oil refinery, and production of LPG;
• production of fertilizer;
• power generation, transmission, distribution and services;
• airports, terminals and related aviation facilities);
• water supply and distribution, sewerage and drainage, effluent treatment plants;
• land reclamation, dredging of rivers, canals, wetlands, lakes and other related facilities;
• highways and expressways including mass-transit, bridges, tunnels, flyovers, interchanges, city roads, bus terminals, commercial car parking, etc.;
Priority sectors for PPP

• port development (sea, river and land) including inland container terminals, inland container depot;
• deep sea port development;
• telecommunication systems, networks and services including information and communication technology;
• environmental, industrial and solid waste management projects; railway systems, rolling stock, equipment / facilities;
• tourism industry;
• economic zone, industrial estates and parks, city and property development, including services to support commercial and non-commercial activities;
• social infrastructure e.g. health, education, human resource development, research & development, cultural facilities;
• e-service delivery to citizens;
## Classification of PPP Project and approval authority

<table>
<thead>
<tr>
<th>Size</th>
<th>Investment size as per Pre-feasibility Study Report</th>
<th>In-principle Approval authority</th>
<th>Final approval authority</th>
<th>If VGF provided Final approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>LARGE</td>
<td>Above BDT 2.5 billion</td>
<td>CCEA</td>
<td>CCEA</td>
<td>CCEA</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>BDT 500m to 2.5 billion</td>
<td>CCEA</td>
<td>FM</td>
<td>CCEA</td>
</tr>
<tr>
<td>SMALL</td>
<td>Below BDT 500 million</td>
<td>LINE MINISTER</td>
<td>LM</td>
<td>CCEA</td>
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</tbody>
</table>

Project estimated cost excluding on-going capital for expansion
INSTITUTIONAL ARRANGEMENT

PM Office

PPP Office (Nodal office for PPP)

CCEA/FM/LM

Line Ministry/Implementing Agency

PPP Unit
Finance Division

Guideline issued

TA Scheme/Guideline issued

TA

PPP Office (Nodal office for PPP)

Planning Commission (Link Project)

Concessioner

Debt/Equity

VGF

BIFFL
Non-Bank Financial Institution

CEO/Secretary appointed
To be operationalised
## INSTITUTIONAL FRAMEWORK FOR PPP

<table>
<thead>
<tr>
<th>Institution</th>
<th>Responsibility</th>
<th>Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public-Private Partnership Advisory Council (PPPAC)</td>
<td>Provide Guidance/advice/review achievements                                                                                                                                                                 PM Chairperson, Finance Minister, Vice Chairman and 21 Members</td>
<td></td>
</tr>
<tr>
<td>Cabinet Committee on Economic Affairs (CCEA);</td>
<td>Approval of regulatory instruments/Guidelines/In-principle approval for large project, Final approval of Large/Medium project/Approval of all VGF received project, approval of incentives, Termination of concession contract.</td>
<td></td>
</tr>
<tr>
<td>PPP Office</td>
<td>Facilitating/Central point of promoting PPP concept                                                                                                                                                           Autonomous unit under PM Office</td>
<td></td>
</tr>
<tr>
<td>Line Ministry/implementing agency</td>
<td>Identification, Formulation, Appraisal, Procurement, Monitoring</td>
<td></td>
</tr>
<tr>
<td>PPPU, Finance Division</td>
<td>Financing (VGF,TA &amp; Debt/equity through SPV)                                                                                                                                                                 A regular Branch of Division</td>
<td></td>
</tr>
<tr>
<td>Planning Commission</td>
<td>Link components/ADP</td>
<td></td>
</tr>
</tbody>
</table>
ROLE OF PPP OFFICE

• To initiate, develop, formulate PPP projects;
• To actively promote PPP;
• To maintain a panel of experts for PPP projects;
• To conduct pre-feasibility, feasibility studies and prepare relevant bidding documents, when necessary;
• To secure annual technical assistance financing for conducting pre-feasibility, feasibility studies and preparation of relevant bidding documents;
• To seek appraisal for VGF for PPP projects.
• To propose for approval of various laws, rules, regulations, model documents, guidelines, procedures for general use and use for specific types of PPP projects;
• To support line Ministries/implementing agencies in tendering and selection of investors;
• To undertake awareness creation activities and build capacity in line Ministries and implementing agencies on PPP affairs;
• To monitor PPP projects including the linked components;
PROGRESS

- PPP Law- Draft finalized
- PPP Project screening manual
- PPP Project development manual
- PPP Tender process manual
- Environmental and social safeguard framework
- Documents for RFQ and RFP
- Model Concession Contract for different sectors.
# PROJECT PROGRESS

<table>
<thead>
<tr>
<th>Sector</th>
<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridge</td>
<td>1. Tunnel under karnaphuli River</td>
</tr>
<tr>
<td></td>
<td>2. Dhaka-Ashulia Elevated Expressway</td>
</tr>
<tr>
<td></td>
<td>3. Dhaka-Elevated Expressway</td>
</tr>
<tr>
<td></td>
<td>4. 2nd Padma Multipurpose Bridge at Paturia.</td>
</tr>
<tr>
<td>Energy and Mineral Resources</td>
<td>1. LPG Bottling Plant at Kumira (Jetty, Pipelines &amp; Storage Tank)</td>
</tr>
<tr>
<td>Housing and Works</td>
<td>1. New Satellite City at Kamrangibchar, Dhaka</td>
</tr>
<tr>
<td></td>
<td>2. Flyover from shantinagar to Mawa Road via 4th (New) Bridge over Buriganga River.</td>
</tr>
<tr>
<td></td>
<td>3. High-rise Appartment construction project at Purbachal New Town (1st Phase)</td>
</tr>
<tr>
<td></td>
<td>4. NHA Housing Satellite project at Mirpur.*</td>
</tr>
<tr>
<td>Health</td>
<td>1. 40 beds Hemodialysis Centre at Chittagong Medical College Hospital*</td>
</tr>
<tr>
<td></td>
<td>2. Hemodialysis Centre at National institute of Kidney diseases and urology(NIKDU)*</td>
</tr>
<tr>
<td></td>
<td>3. Bangladesh tele-Radiology Network(BTRN)</td>
</tr>
<tr>
<td>ICT</td>
<td>Hi-techpark at kaliakoir*</td>
</tr>
<tr>
<td>LGED(DSCC)</td>
<td>A Grade Separator on Mirpur Road under PPP*</td>
</tr>
<tr>
<td>Social Welfare</td>
<td>Abasar: Senior Citizen Health care and Hospitality Complex.</td>
</tr>
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## PROJECT PROGRESS

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<th>Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>1. Jatrabari- Sultana kamal Bridge- Tarabo PPP Road*</td>
</tr>
<tr>
<td></td>
<td>2. Hemayetpur-singair-Manikgang PPP Road*</td>
</tr>
<tr>
<td></td>
<td>3. Upgrading of Dhaka Bypass to 4 lane (Madanpur- Bhulta-joydebpur)</td>
</tr>
<tr>
<td>Shipping</td>
<td>1. Third Sea port</td>
</tr>
<tr>
<td></td>
<td>2. Deep sea port at Sonadia</td>
</tr>
<tr>
<td></td>
<td>3. New mooring container terminal</td>
</tr>
<tr>
<td></td>
<td>4. 2 incomplete jetties of MPA at Mongla.</td>
</tr>
<tr>
<td>Railway</td>
<td>1. Fulchhari Bahadurabad MG Railway bridge (ADB process on going)</td>
</tr>
<tr>
<td></td>
<td>2. Dual gauge Double line Bangabandhu Bridge (ADB process on going)</td>
</tr>
<tr>
<td></td>
<td>3. Medical college &amp; Nursing institute and modernization Railway Hospital of kamlapur.</td>
</tr>
<tr>
<td></td>
<td>4. Medical college and Modernization of Railway Hospital at CRB in Chittagong.</td>
</tr>
<tr>
<td>Civil Aviation</td>
<td>1. Multi mode Surveillance System (Radar, etc.) at Hazrat Shahjalal International Airport</td>
</tr>
</tbody>
</table>

27 Projects ( * Pilot project)
Financing PPP Project:

Finance Division

PPPTA
Guideline & Scheme issued

PPPVGF
Guideline issued

BIFFL
BIFFL created
Technical Assistance Financing:

TAF designed for:

• Pre-feasibility and Feasibility study;
• Preparation of RFQ and RFP documents;
• Preparation of concession contracts;
• PPP capacity building;
• PPP awareness building;

- Scheme & Guideline issued;
- Initial fund of BDT 100 Crore created;
- Fund nature is revolving;
- Administered by PPPO;
- Approval of TAF Inter-Ministrial Committee;
- Mainly utilized for appointment Transaction Advisor( Consultant);
PPPTAF Flow chart

1. IA/LM Initiative PFS
2. PPPO
3. Eligibility
4. VFM
5. Recovery
6. Approval Committee
7. CCEA
   In-principle approval
8. If no budget
9. Appointment Consultant Case to case/Panel PPR-2008
10. Consultant/Transaction Advisor
11. Request for TA
Role of Transaction Advisor

- DFS
  - Financial Close
  - Concession contract Preparation

- Documents Preparation
  - Evaluation

- Negotiation
Full Feasibility Study

Purpose

To investigate whether the project is:

✓ Desirable
✓ Viable
✓ Achievable investment

Thorough assessment of project:

✓ Cost
✓ Benefit
✓ Risk

Further refine its development as PPP
Full Feasibility Study

DFS Describes:

- Technological
- Social
- Environmental
- Legal
- Financial
- Economic and
- Risk characteristics and
- Due diligence

- Produce implementation schedule
- Specify the particular mode
- Provide crucial information for drafting the project document-RFP
- Assessment of requirement of VGF
Due Dilligence

✓ Taking the full level of care to be sure that the project has been developed and planned well.

✓ Risk analysis and Risk allocation-contribution to the detailed specification

✓ Financial Viability-whether VGF required on not.

✓ Value for Money analysis-using quantitative evidence if available.
Viability Gap Financing (VGF):

- Financial viability is not ensured but economic and social viability is high.
- Form is capital grant or annuity payment or in both forms.
- Capital grant disbursed after the private sector company has subscribed and expended the equity contribution;
- Managed by the PPPU, Finance Division;
- Disbursement through Lead Financial Institution, as per the terms of the concession contract.

- Only for BOT projects;
- Shall not exceed 30% of PC
- Equivalent to lowest offer Subject to the fulfillment of all other parameters in competition;
- Project shall meet ERR threshold;
- Predetermined tariff/user fee
Viability Gap Financing (VGF):

- Identified in DFS conducted by Transaction Advisor;
- Provision in RFQ and RFP document in Tendering;
- Lowest VGF claimed and all other requirement full-filled become winner;
- Examined by PPPO in three stages;
- Concurrence of FD(PPPU) on total VGF;
- Final approval of the recommendation of QTEC including VGF;
- VGF tripartite agreement of FD-LM/IA-LFI/PC
- VGF agreement is a part of Concession contract.
Viability Gap Financing (VGF):

VGF proposal should certify:

- Capital cost (reasonable/based on standard and applicable specification) can not be restricted for reducing VGF;
- User fee can not be increased to reduce VGF;
- Project term can not be increased for reducing the VGF.
VGF Flow Chart

**Action**
- VGF Identification
  - In DES

**Activity**
- Reviewed by PPPO
- RFQ
  - RFP by LA

**Activity**
- Examined by PPPU
- Total VGF/Examined by PPO

**Activity**
- Requirement Approved by FM
- Total VGF/Examined by FD
- Concession contract with VGF
  - Final approval of CCEA
- VGF Monitoring
  - LM/LA/LFI/PPO/PPP U

- Appraised by VGF Committee
- Concurrence of FD on total VGF
- Concession Contract with VGF Agreement
Infrastructure Financing

- Arrangement for extending financing facilities for the PPP projects in the form of debt or equity through specialized financial institutions;

- Bangladesh Infrastructure Finance Fund Limited (BIFFL) in function;

- Paid-up Capital 1600 crore BDT;

- Fund Manager will be appointed to operationalize.
LINKED COMPONENTS OF PPP PROJECTS:

- Acquisition of land,
- Rehabilitation and re-settlement,
- Provision of utility services,
- Construction of approach roads to the main highways and
- Activities of similar nature in the following two forms:

Involvement of ADP
INCENTIVES TO PRIVATE INVESTOR

– *Fiscal Incentives*

• For all PPP projects
• Reduced import tax on capital items
• 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.
Flowchart for solicited Proposals

Phase 1
- Preparation
  - Identification
    - Acceptance of the Idea
    - In-principle approval

Phase 2
- Development
  - App TA/Cons
    - DFS (If resources)
      - If no resources
        - Needs analysis
        - Option analysis
        - Project due diligence
        - Value assessment
        - Economic/Financial/Legal/Environmental analysis
        - Assessment need of VGF

Responsibility
- LA/LM
- PPPO
- CCEA/LM
- IA
- PPPO
- LA
Flowchart for solicited Proposals

Phase 3 PPP Pipeline

- Signing contract
  - Issuing NOA
    - VGF Contract
    - Financial close
    - Concession contract
      - LA

Phase 4 Operation

- Implementation Monitoring
- Progress Monitoring
  - VGF Monitoring

Responsibilities:
- LA
- PPPU
- LA/LM/PPPO/TA
- LM/PPPO
- LM/LM/PPPO/PPP U/LFI
Unsolicited Proposals

Option and competitiveness of Unsolicited proposal could be put to open test by inviting competitive proposals;

Bonus System
Proponent is given bonus points in relation to evaluation;

Switch Challenge System
Unsolicited proposal from a private proponent (ABC) for a facility to be provided to public. The government authority can, based on the proposal from ABC, ask for bids and allow ABC to re-bid in order to compete against other Tenderers.

Detailed procedure be issued by PPPO
Area of Risk

Mainly
- Project Identification;
- Assessment of Cost, benefit and Risk of the Project;
- Allocation of Risk;
- Project Development;
- VGF requirement;
- Procurement process;
- Negotiation;
- Financial Close
- Monitoring Implementation;
- Ensure project quality
- Transfer
- Processing Unsolicited Proposal
Challenge

- Capacity
- Political Stability
- Political commitment
- Economic and Financial stability
- Market Demand
- Managing unsolicited proposal
- Procurement Process

Prime challenge is the Capacity
Public - Private Partnerships

Thanks