

## Public-Private Partnership (PPP) Initiatives

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### References

The materials of this Article have been collected from different sources like Internet, Budget Speech of the Honorable Finance Minister for the fiscal year 2009-2010, different news papers notably Daily Star and Television news from time to time.

### Introduction

The concept of PPP is not a new idea as adopted in Bangladesh. It has been followed by different countries of the world both developed and developing since early 1990s.

In Bangladesh the policy of PPP was first adopted in 1996. On that basis during the year 1998-1999 two mega power plants one at Horipur and the other one in Meghnaghat was implemented involving private sector for the first time and was successfully completed to help in mitigating the power crisis.

In the recent budget for fiscal year 2009-10 the Govt. has attached much importance to this concept and has accordingly made provision for allocation of fund for a total sum of Tk. 2,500 crores distributed over 3 segments such as Technical Assistance with 100 crore to cover expenditure relating to pre-feasibility studies and other preparatory works, another sum of Tk. 300 crores has been earmarked as viability gap funding as subsidy or seed money to attract private initiatives for the construction of power plants, hospitals, roads and highways which are not profitable but essential for public service and finally for implementation of infrastructure projects with fund allocation of 2,100 crores.

The Govt. has however, estimated the full requirement over the period from 2009-10 to 2013-14 to the extent of US\$ 28 billion which amounts to equivalent Tk. 196,000 crores (approximate) at the current rate of exchange of Tk. 70 to each US\$ dollar only for infrastructure projects contemplated to be undertaken during the period including both the long term and medium term projects.

The projects covered under the PPP in the "Physical

Infrastructure facility" means "river or seaport, container terminals, internal container depot, container freight station, Liquefied Natural Gas (LNG) terminal and transmission line, Compressed Natural Gas (CNG) terminal and transmission line, gas pipe line, flyover, elevated road, mono-rail, underground rail, telecommunication other than mobile phone, large water treatment plant and supply through pipe line, waste treatment plant, solar energy plant and any other category of industry as the government may by notification in the official gazette specify" and under the scope of this initiative offered by Govt, a new industry set up in between 1<sup>st</sup> July 2009 and 30<sup>th</sup> June 2012 is entitled to this privilege as per section 19A of the Income Tax Ordinance 1984 which is substituted for the old section 19A as inserted in Finance Act 2009. According to the newly inserted section 19A "new industry means agro processing industry" (fruits processing, baby corn packeting, fruit juice producing and rubber industry), textiles, spinning, textile machinery, garments, leather goods, toys, furniture, information technology enabled services (ITES), drugs and pharmaceuticals, light engineering, melamine, plastic products, ceramics, sanitary ware, steel, MS rod and CI sheet from iron ore, fertilizer, insecticide, pesticide, computer hardware, petro chemicals, agricultural machinery, boilers, basic raw materials of drugs, chemicals and pharmaceuticals, compressors, ship building diamond cutting industry, shrimp processing industry, milk processing industry, accumulator and battery industry, tour operators, energy saving bulb producing industry, industry producing jute goods, recycling industry, herbal medicine, basic chemicals and dyes, cosmetics and toiletries, tourism industry, foot wear, MS billet and any other category of industry as the government may by notification in the official gazette specify.

### What is PPP

The theme behind the initiatives of PPP is that the implementation of the projects which are gigantic in size

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require huge capital investment. The requirement of this huge investment is not possible to be met by a single authority whether it is government, or private local investors or foreign investors. So there is the idea of joint venture with the association of public and private investors both local and foreigners.

PPP is simply a partnership between the public and private sector for the purpose of developing a project or service traditionally. In other words it is basically just a different method of procuring public service and infrastructure by combing the best of the public and private sector. Mr. Tony Blair, the Ex-British Prime Minister used to believe the private companies are often more efficient and better run than the bureaucratic public bodies. Mr. Blair was keen to expand the range of private public partnership because he believed it to be the best way to secure the improvements in public services that labour party promised at the last election.

In this connection the BBC observation was that any collaboration between public bodies such as local authorities or central govt. and private sector companies tends to be referred to a public private partnership.

There is the growing popularity of the concept of PPP across the world. Govts in the developed countries as well as developing countries are using the PPP arrangement for improved delivery of infrastructure services. Govts are building transport (roads, railways toll bridges), education, (Schools and Universities) health care (hospitals and clinic) waste management (collection, treatment and distribution) infrastructure through PPP. PPP is becoming the preferred method for public procurement of infrastructure and infrastructure services projects through out the world. In projects that are aimed at creating public goods like infrastructure sector, the govt. may provide a capital subsidy in the form of one for a one time grant so as to make it more attractive to the private investors. In some other cases the govt. may support the project by providing revenue subsidies including tax breaks or guarantee provided by annual revenue for a fixed period.

In this connection the steps taken by the Govt. of Bangladesh to encourage participation of private investors in the ventures to be undertaken are provision in the Finance Act 2009 through inserting some financial incentives for investments in the infrastructure projects and investment in housing scheme on payment of 10% tax on the undisclosed resources and

investment thereof in the new industry and in the physical infrastructure during 2009-2010 upto June 2012 and also in the share of listed companies to boost up the economy and the capital market.

In the budget speech the Finance Minister has drawn a dismal picture of the country's Power and Energy Sector. The sector has not developed as was expected due to poor supply of energy compared to demand for it. At the moment 45% of our entire population has access to the power. Currently our per capita power consumption is only 172 KWH as compared to 665 KWH in India, 408 KWH in Pakistan and 325 KWH In Srilanka.

The snag is not only in supply of gas and generation of power but in transmission of power as well. Our power sector demands a comprehensive plan for ordering of power plants, increasing supply of gas and other feed stock, strengthening of power (strengthening) transmission, distribution facilities and rationing of gas supply to competing demands, finalization of coal policy and long term sectoral master plan. The recently adopted PPP initiative is a measure to augment the project mentioned earlier in the long term basis. In the communication sector, the observation of the Finance Minister as depicted in his budget speech is that the country needs to mobilize resources and make all out efforts for completion of projects in the communication net work. It is therefore necessary and strategically needed for attracting the participation of private sector in the areas like transport, road construction, housing, port development under the PPP concept.

A feasibility study of project for construction of an elevated express way and a tunnel between Tejgaon and the Airport is under consideration. To reduce traffic jam in Dhaka it is required to consider the alternatives very carefully. To address the problems decisions have been taken to construct the Dhaka Eastern by Pass.

### **Early Problem faced by PPP Project**

As PPP is completely a new idea of procuring development services, in the early stage, the countries across the world who acted upon the concept of PPP faced certain problems. A number of studies in Australia show that an early initiative to promote private investment in infrastructure was not very successful and in most of the cases the schemes being proposed were inferior to standard model of public procurement based on competitively construction of publicly

owned assets. Besides, because of the focus on avoiding increase in public debt, many private infrastructure project in the early 1990s involved provision of services at substantially higher cost than could have been achieved under the standard model of public procurement. The central problem was that private investors demanded a rate of return that was higher than the bond rate even through most or all of the risks associated with the project was borne by the public sector. One response to these negative findings was the development of formal procedures for the assessment of PPPs in which the central focus was on the value for money rather than reduction in debt.

The underlying frame work was one in which value for money was achieved by an appropriate allocation of risks. These assessment procedures were incorporated in the private finance initiatives of Australia from the 1990s onwards.

### Problems faced by South Asian Countries

South Asian Countries suffer from the limitation of government resources and their lack of capacity to meet the infrastructure gap as the Govts globally are constrained in mobilizing the required financial and technical resources and the executive capacity to cope with the rising demand for water supply sewerage, drainage, electric supply and solid waste management. Rapid economic growth, growing urban population, increasing rural-urban migration and all round social and economic development have compounded the pressure on the existing infrastructure and increased the demand supply gap in most of the developing countries. Countries and Govts especially in the developing world are experiencing increasing pressure from their citizens, civil society organizations and the media to provide accessible and affordable infrastructure and basic services. While the infrastructure gap is rising, the Govt. budgetary resources are increasingly constrained in financing the deficit.

Countries in South Asia region face a dual challenge in infrastructure, many households and business lacks access to services and those that do have access suffer from unreliable and poor quality services. Power cuts and shortage impose huge cost on consumers with the biggest burden on industry and poor people. No city in the region has water available abundantly and choked and sewerage polluted water systems pose serious health hazards. Neglected maintenance of roads cause congestions, many accidents and excessive wear and tear on vehicles.

Most private investment in South Asia infrastructure have gone to telecommunication and power generation. In telecommunication Govt. owned companies brought investments commitment of US\$ 27 billion in 1990-2004. Annual investment grew to a peak of US\$ 4 billion in 1994 driven by mainly mobile services licenses granted by India. In the electricity sectors govts awarded 104 projects to the private sector during the period 1990-2004 bringing the investments of US\$ 24 billions mainly for Independent Power Produces or IPPs. Annual investment peaked at US\$ 4.6 billion in 1996 with the award of several IPPs in India and Pakistan, then declined sharply as some of these IPPs went into distress.

### Achievement and Success

Achievement and success of India in PPP seems to be restricted to certain particular sectors such as West Bengal has recorded significant success in housing and health care of which the housing projects coming up in the outskirts of Kolkata City are good example of what a PPP model can deliver in terms of quality housing and quality living conditions to the lower middle class and the middle class, Gujrat and Maharastra have had success especially in ports, roads and urban infrastructure. Karnatak also has done well in airport and road sector. Panjab has had PPPs in the road sector. The PPP projects engaged in water supply have so far been limited to a few cities like Visakapatnam and Tirupur.

India estimates its need to increase infrastructure spending gradually to US\$ 100 billion per annum (8% of G.D.P) by 2010 to realize sustained growth of 8%-9%. Some other agencies estimate the investment requirement over the next 5 years to be around US\$ 330 billion.

### Experiences of Countries adopting PPP

The experiences of other countries as regards the PPP are highlighted as below-

#### Mexico

The Govt. announced a major highway development programme in 1989 and to secure private participation it declared a short period of 8-15 years and imposed unaffordable high level of tolls. Immediately after commencement of services it resulted in congestion in toll-free highways and turning the toll-attached highways empty due to high charge of toll which compelled the Govt. to extend the period to 30 years and negotiated with the BOT (Build Operate and Transfer) contractors and ultimately the toll had to be lowered due to public outcry.



**Chile**

In early 1990 the Govt. of the country has decided to develop 2000 km of intercity express way networks in BOT model at an estimated cost of US\$ 3.3 billion. Most of the project companies experienced problems in securing long term loans. The Govt. responded quickly and introduced a number of credit enhancement means including (i) minimum revenue guarantee (ii) least present value of revenue scheme (iii) foreign exchange risks guarantee.

The contracts were awarded in Mid 1990's and construction was completed during 1998-2002. The average elapsed period between the tender and commencement of operation was 4.5 years. Exceeding expectations many foreign contractors participated because of the above measures taken by the Govt. The experiences attained by the Govts of different countries, should be considered and analysed by the Govt. of Bangladesh for their careful stepping in the projects under the PPP initiatives. The Govt. should consider the following factors for their decision.

**i. Clarifying the objectives**

Govt. need to be abundantly clear and determined about the basic motivation and objectives for opting for PPP while resource constraints and maximizing the Govt. revenue are legitimate motivators.

**ii. Detailed Policy for implementing PPP projects required**

A detailed policy is needed to bolster the confidence and attract the private participation and commercial lenders. This includes defining the sectors open to PPP and the preferred scheme for each sector and the Govt. agency responsible for PPP implementation.

**iii. Strategic Planning and Management by Govt. is essential**

PPP can succeed only if they are structured and planned in details and are managed by expert teams. Long range planning is needed for soliciting private sector participation on a competitive and sustainable basis and dealing with unsolicited offers.

**iv. Provide adequate protection for lenders**

PPP projects are found most often to raise debt funding on a limited recourse project finance basis. This means the lenders rely merely on projects asset and cash flows and do not have recourse to the project sponsors. Debt finance usually represents 60-80% of the financing structure and therefore the

PPP design and documentation should provide adequate protection to debt service against non-commercial risks related to force majeure, regulatory changes, contract termination etc.

**Lifting constraints to Public Private Partnership in South Asia**

How quickly Public Private Partnerships can be implemented will depend on whether Govts adopt in right policy, regulatory and institutional reforms. To ensure that such partnership can succeed will require tackling several key constraints such as -

**i. Building consensus for PPPs**

All the parties to the PPPs should have sense of consensus on the utility of the projects to be undertaken by them.

**ii. Moving towards cost recovery**

To ensure that PPP projects are viable Govts may need to provide some funding during the transition to full cost recovery through user charges. This subsidiary fund is termed as seed money. The Indian Govt's viability gap fund subsidies upto 40% of the capital cost to improve commercial viability and facilitate private participation.

The Govt. of Bangladesh also has made provision for the fund in the budget recently declared.

**iii. Improving Transparency**

It is to be ensured that transactions are explicit and use well defined selection criteria and be designed in such a way to achieve cost effectiveness and timely outcomes.

**iv. Enhancing Govt. Capacity**

Wide ranging institutional structure and reforms are under way across the countries of South Asia.

**Modest Private Investment in South Asia**

South Asia has relatively low levels of participation in infrastructure. In 1990-2004 the regions 224 project of Infrastructure with private participation have attracted about US\$ 55.4 billion investment commitment far short of countries in Latin America and East Asia. India account for much of that activity with 152 project involving US\$ 42 billion in investment (76%) of the total) followed by Pakistan 16% and Bangladesh 4%.

**Response of Countries to the PPP initiatives in Bangladesh**

In the background of the experiences and achievements of the countries as highlighted above, the response of foreign

investors to the PPP initiatives of the Govt. of Bangladesh is encouraging. In the meantime, Srilankan bank, the NDB capital Ltd. an investment bank jointly venture by Srilanka and Bangladesh has offered project structuring and financing services to the PPP initiatives announced by Govt. of Bangladesh. The capital products of NDB range from services quality offering equity private placements, structuring and placement of corporate debt securities, securitization or covered bonds, arranging syndicated loans, underwriting portfolio management and corporate advisory services etc. It is hoped to accelerate the local capital market which is growing very fast with the increased turnover in recent time in share market.

### Projects undertaken by Bangladesh under the PPP

Under the Public-Private Partnership initiative the Govt. of Bangladesh, has decided to re-open two silk factories in Rajshahi and the other in Thakurgaon by January 2010.

The Rajshahi silk factory was shut down in 2002 forcing 359 employees out of job. At that time loss burden of the factory was around Tk. 27 cr. At the same time the Thakurgaon silk factory was also closed. Local businessmen showed interest in running the factories under the PPP.

If the two factories are re-opened under the PPP program that would help meet in domestic demand for silk in addition it will provide employment to a large number of jobless people of the country. On opening of the two silk factories it will save huge foreign currencies that we spend on imports every year.

### Padma Multipurpose Bridge Project

For sustainable economic Growth a study has already been made of the project and for an assessment of social and environmental impact of the project as well as for developing a financing scheme for the project a study has been made including probable Public-Private Partnership mechanism with the help of Japanese special fund of US\$ 800,000/= for consideration of the ADB.

In the health sector Govt. plays a minor role since the NGOs are very active in health and family planning and they are engaged in the major collaborative relationship with the public sector services or have run their own complementary

programmes.

Investment in infrastructure projects seems to be short of the requirement of the fund as envisaged in the MDG (Millennium Development Goals). So innovative scheme such as PPPs to provide basic infrastructure is essential for countries like Bangladesh to generate required investments to meet the goal set by MDG.

J.S body asked state run telecoms to set up laptop, cellophone, computer hardware industries under Public Private Partnership and asked them to enlist with share market to meet the liquidity crisis.

The parliamentary standing Committee on post and telecommunication ministry asked Teletalk, BTCL (Bangladesh Telecommunication Company Ltd.) to enlist with stock market immediately and inform the committee about the follow-up in the next meeting of the committee.

They have asked BTCL, Teletalk and Bangladesh Sub-marine Cable Company Ltd. (BSCCL) to set up Laptop, Mobile hand set and Computer Hardware Industries under the Public-Private Partnership as soon as possible.

The initiative will reduce debt pressure on the Govt. In this connection they have asked the Telecommunication Ministry to recover its land from the land grabbers and use those as well as its abandoned land for establishment of Industries under the PPP.

As an incentives to school and college it is suggested that Internet facility be provided at a fixed and cheap rate instead of existing mutinertering system.

To accomplish the objectives set by MDG the Govt. of Bangladesh is very keen in this respect to raise necessary funds for implementation of the projects contemplated to be undertaken during the period 2009-2010 and 2013-2014 in the first phase with the approximate investment of 196,000 crores takas. This requirement may vary depending on the progress achieved in the sectors. The success of the PPP project depends purely on the sincerity of the Govt. and its project implementation wings and necessary co-operation of the participating private sector organizations. If everything goes well it will be possible to achieve the target of Digital Bangladesh by 2021. ■