

## **Public Private Partnerships: A New Dimension in Bangladesh Budget 2009-10**

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### **Abstract**

*The concept of Public Private Partnerships (PPPs) which is now a buzz word in the realm of Public Sector Management throughout the world, has been incorporated for the first time in the National Budget of Bangladesh formulated for the fiscal year 2009-10. Regarding the role of public sector this concept dominates the thinking of national policy makers, economist, academicians and private investors alike. This paper seeks to explain what PPPs are, PPPs features in Bangladesh Budget, why government has incorporated in National Budget, some possible consequences of their use. This paper looks at precisely PPPs in relation to developing countries and to what extent can the PPPs genuinely be called an appropriate attempt in Bangladesh.*

### **Introduction**

Public Private Partnerships (PPPs) is a magnetic part of national Budget of Fiscal year 2009-10. It has become widely accepted and popular in public sector management. This is of utmost importance in developing country where public sector resembles with distrust, corruption, nepotism, lack of successful project implementation, providing quality service. There has a long debate about the merits and demerits of PPPs, its appropriateness in developing country, sustainability of positive outcomes but we are far from this because Government, this is the first time, initiate it to institutionalize through national budget whereas private sector's role (and contribution) is assumed more significant and felt them as national development partner. It is a positive intent of Bangladesh government to incorporate PPPs which has become an icon in developed and developing countries' public management .

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## **Public Private Partnerships**

When we speak of the term public we ordinarily think of mass people. But, from administrative point of view, Public denotes an organized group of people who are authorized to serve the mass people. The terms public, public sector and state, unless otherwise noted, are used interchangeably, referring to that set of institutions which exercise legitimate authority over populations, for the most part within a given geographical area (Osborne, 2000).

The term private or private sector refers to all institutions other than those of the state. Wikipedia notes that the private sector is that part of the economy which is both run for private profit and is not controlled by the state. The "private sector" seems to be a broader concept, but it is also not clearly defined. The "private economy" is a concept based on economic components. In accordance with the classification of economic components issued by the National Statistical Bureau, it is defined as the portion of the economy that belongs to individuals. In addition to individual and private enterprises, many foreign funded enterprises and shareholding enterprises also contain private economic components. However, most official statistics are not based on this economic component classification, but rather on the classification of the registered status (Osborne, 2000).

The term partnership is used in the fashion defined by McQuaid. Partnership is cooperative ventures that rely upon agreement between actors in return for some positive outcome for each participant, which could be some economic or social goal or potential for synergy. Hence PPP are agreed, cooperative ventures that involve at least one public and one private sector institutions as partners.

There are a number of assumptions underlying definition of partnerships:

First; the potential for synergy of some form, so "the sum is greater than the parts." Second, the partnerships involve both development and delivery of a strategy or a set of projects or operations, although each actor may not be equally involved in all stages. Third, in public private partnerships the public sector are not pursuing purely commercial goals. So a criteria of partnerships in the presence of social partnership.

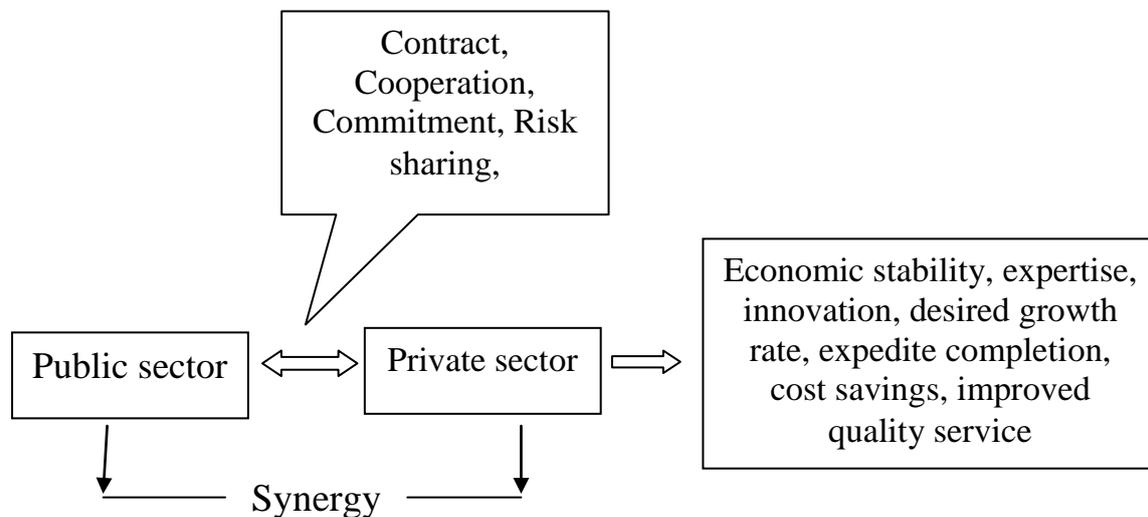
**General definition** of Partnership involves cooperation –i.e “ to work or act together “-and in a public policy can be defined as cooperation between people or organizations in the public or private sector for mutual benefit. (Holland, 1994)

**A working definition** of partnership in urban regeneration as ‘the mobilization of a coalition of interests drawn from more than regeneration sector in order to prepare an agreed strategy for regeneration of a defined area’ (Bailey: 1994: 293)

**Economic development perspective**, “Partnership as a scheme with involvement or funding from more than one agency.” (Sellgren,1990)

**Policy perspective**, “(A) partnership is collaboration among business, non profit organizations and government in which risks, resources and skills are shared in projects that benefit each partner as well as the community.”(Sratton,1989)

From the above mentioned perspective of PPPs, it can be assumed that it is the process of some mutual agreement between Govt. sector and private investors assuring some other considerations which estimates better circumstances rather than one initiative. This process can be shown by the following:



*Fig: The process of Public Private Partnerships*

For example, Bangladesh Budget 2009-10 has enlisted some sectors which will taken under PPPs projects .One of them health sector. If the private sector contributes design, construction, operation, maintenance, finance and risk management skills in any health project while the government is responsible for strategic planning and structure, obtaining permits, some customer interface issues, regulation, community service obligations and (sometimes) payment on behalf of the service users –it is referred as PPPs.

### **Background of PPPs in Bangladesh**

In 1996, the government adopted a private sector power generation policy to promote private sector participation. In 1997, under administrative

control of the Economic Relation Division, Infrastructure Development Company Ltd (IDCOL) was established in order to promote private sector investment in infrastructure development. Similarly, Infrastructure Investment Facilitation Center (IIFC) was established by the government to assist relevant ministries.

Previously a successful background of near about 50 telecommunication, land port and other physical infrastructure projects have been traced out what accelerates PPPs initiatives in Bangladesh. The journey of PPPs started in Bangladesh with year 1998-99, there was remarkable progress in two mega power plant projects at Haripur and Meghanaghat which opened door for the first time to private sector involvement. Bangladesh private Sector Infrastructure Guidelines (PSIG) formulated in year 2004 .The concept of PPPs has been drawn from this paper first.

In 2007, a 5 year term Investment Promotion and Financing Facility (IPFF) endowed with BDT 4.18 billion (equivalent to USD 60 million) was set up in Bangladesh Bank to finance government approved PPP based infrastructure development projects to be implemented by the private sector. Later in 2008, policy to promote private sector participation in power sector was formulated. Although these initiatives have been successful in financing and implementing a few small scale infrastructure development projects, they are not sufficient to cater to the requirements and potential of the country. Therefore, to reduce the plight of the public and to boost economic development, an initiative is being undertaken to revisit the current PPP framework and facilities.

### **Reasons for Public-Private Partnerships**

There may arise some questions that why Government is interested to initiate PPPs project. Does it mean that priority of Public sector is declining? Does Govt. is failure to deal alone? Is it opening a new scope for corruption? In fact a developing country like Bangladesh, all these issues is integrated to peoples' attitudes and culture. But PPPs is far beyond that because of having some reasonable issues what focus it as situation demand. Government has to face a lots of certain and uncertain challenges. To match with these, there requires some new policy and programme as an experimental basis which may functions as remedy or not.

‘A booming economy will bring in a surfeit of taxes; a sluggish economy will bring in less revenue than before. This is why budget makers so often paint a rosy scenario-an all too optimistic estimate of economic growth .....whether scenarios are rosy ,neutral, or harsh, the task of matching revenues and expenditures so that Government can function in the coming year.’ (Shafritz and Russell: 2000)

### **Financial reason**

Finance Minister at the preface of Budget 2009-10 states that “Present government has vowed to eradicate poverty, attain highest possible growth by 2021, and build the country such that a thriving economy will fulfill basic human needs. Increased investment is a must for attaining higher growth.” This statement makes it clear that the major issues concerned with PPPs are as financial what can be noted as first, difficulties to maintain macroeconomic stability if the Government has to finance a huge investment by borrowing from domestic sources. Second, uncertainties to obtain such funds as concessionary loans from the development partners

### **Other reasons**

- 1 Accelerating the implementation of high priority projects by packaging and procuring services in new ways
- 2 Turning to the private sector to provide specialized management capacity for large and complex programs;
- 3 Enabling the delivery of new technology developed by private entities;
- 4 Drawing on private sector expertise in accessing and organizing the widest range of private sector financial resources;
- 5 Encouraging private entrepreneurial development, ownership, and operation of related assets;
- 6 Allowing for the reduction in the size of the public agency and the substitution of private sector resources and personnel.

### **The Benefits of PPP Initiative**

“Public Private Partnership is a generic model, which can yield both positive and negative outcomes based on its usage. If the public sector's corruption and the private sector's greed create an evil twin (witnessed during some episodes of privatisation), then development will be imperiled. But if the respective expertises of public and private sectors create a synergy, it will hasten development.”(Syed Ahmed, The Daily Star) PPP provides benefits by disseminating the responsibilities to the party – either public or private –that will produce the desired result. The primary benefits of using PPP to deliver services include:

1. Expedited completion compared to conventional delivery methods
2. Cost savings
3. Improved quality and system performance from the use of innovative materials and management techniques
4. Substitution of private resources and personnel for constrained public resources and access to new sources of private capital.

Bangladesh Budget states that the following benefits are expected to take place after incorporation of PPPs in Budget 2009-10. The government, the private sector investors, and public can all benefit if private sector can be attracted into infrastructure development under PPP. The likely benefits to the relevant three parties are as follow:

**Maintaining Economic Stability:** Since the private sector invests in the infrastructure development, there is no need for the government to take loans and pay interests. This does not exert excess pressure on money market, thereby diminishing upward pressure on interest rate and inflation.

**Gains from Private Sector Innovation and Expertise:** Since the private sector is responsible for developing infrastructure, they use the most cost effective and innovative means and technologies. This enables the best source of value for money gain.

**Logical Estimate of Expenditure during the Lifecycle of the Infrastructure:** The private sector promoters coordinate and implement different aspects of the project such as designing, financing, construction, maintenance, and management. Therefore, it is possible to make logical estimate of expenditure during the lifecycle of the infrastructure.

**Achieving Desired Growth Rate:** Desired growth rate cannot be achieved if the government is unable to invest in infrastructure development at the appropriate time. Participation of private sector allows additional investment and increased production capacity that feeds into higher growth rate.

### **Risk Factors Associated with PPP Implementation**

Budget contains that there is no apparent fiduciary risk if infrastructure is developed under public private. Partnership as government does not invest or invests very little in such schemes. Risks are focused in Budget mainly three perspectives as

1. Public Sector perspective
2. Private Sector perspective
3. User perspective

Following sector wise risks are stressed in budget:

#### **a. Public sector**

1. Loss of ownership of public properties
2. Approval of inflated costs
3. Overlooked public interest when pricing the services
4. Dysfunctional Infrastructure once ownership is handed over to the government

**b. Private Sector:**

- 1. Expansion of Business :** PPP facilitates expansion of business. The private sector can engage in sectors where conventionally public sector invests.
- 2. Innovation :** Under PPP the private sector not only supplies materials, they are also engaged in multitude of activities such as financing, construction, ownership, maintenance, and management. As a result they have to be very innovative.
- 3. Accountability:** Since services are purchased from the private sector by paying fees or charges, the service providers remain accountable to the government and public.
- 4. More Responsible Government:** Since the government approves the PPP Projects, it has to supervise whether the private service providers are abiding by the contracts.
- 5. Guarantee of Safety:** Since the private sector has to bear the costs resulting from accidents and damages, they use reliable and quality materials to ensure safety.

**c. Public/ Users**

It is possible to reduce risk by formulating appropriate rules and regulations, establishing required institutional framework, including relevant conditions in the contracts by experts, and monitoring and supervising on a regular basis. For this purpose it is imperative to employ professionals and give them market competitive compensation packages.

In general the following risks are associated with PPPs:

Fig:1 Risk factors Associated with Public Private Partnerships Project

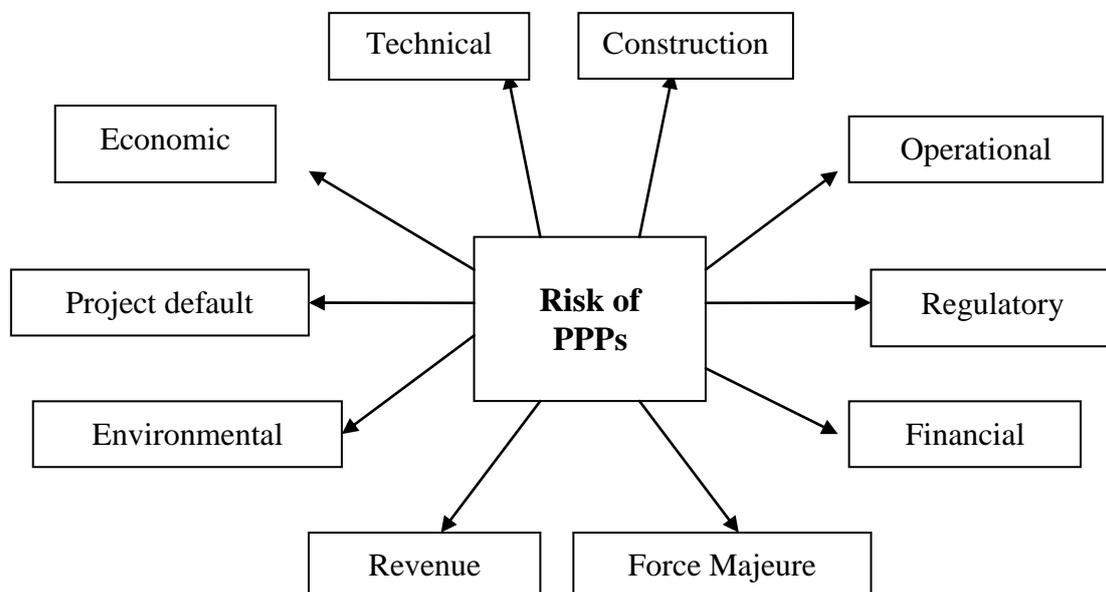


Table:

No.	Types of Risks	Causes or Factors
1	Technical	Engineering and design failures
2	Financial	Inadequate financial cost and hedging of revenue streams
3	Construction	Default in construction techniques , cost and time over runs
4	Revenue	Failure to extract resources
5	Environmental	Hazardous and adverse impacts on environment
6	Force Majeure	War and natural disaster
7	Operational	High operating cost and maintenance
8	Economic	Prices and demand of product and services fluctuations
9	Regulatory/ Political	Legal changes and lack of govt. support
10	Project default	Combination of any of above factors

*Source: Abu Naser Chowdhury .A view on Public Private Partnerships. Daily star.*

### Sectors of PPPs in Bangladesh

In general there are some different grounds to apply PPPs on the consideration of revenue generation, service .These projects can be classified broadly under the following categories:

Table:

Financially freestanding projects	Capital intensive projects	Economic projects
Generate High Revenue	Generate low Revenue	Generate moderate Revenue
Full cover of investment, Debt service, Operation and maintenance	Long pay back period	Large sunk investment and longer period to recoup
(i.e.-Telecommunication, Oil and Gas,Electricity)	(i.e.-School, Hospitals, Water Sanitation)	(i.e.-Industrial Estate parks, Recreation center, Hostels,Resorts)

*Source: Abu Naser Chowdhury .A view on Public Private partnerships. Daily star.*

Government's election manifesto accorded highest priority to infrastructure development, particularly to power generation and welcomes PPP investment in the following areas:

- □- Power and Energy,
- □ □ □ Transport Infrastructure (roads, rail, ports, airport and water transport)

- Pure Drinking Water and Sewerage
- Information Technology
- Air Transport and Tourism
- Industry
- Education (particularly secondary and technical) and Research – Housing, etc

Budget states that the present government is committed to take timely measures to attract private investment through PPP. Therefore, Finance Minister proposes to create three new expenditure heads. To facilitate new projects under PPP Bangladesh Budget contains proposal of creation following three new expenditure heads in the FY 2009-10:

Table:

Expenditure heads title	Features
1. PPP Technical Assistance (Tk. 100 crore)	<ul style="list-style-type: none"> <li>– To execute pre feasibility studies</li> <li>– To conduct preparatory work before asking the private sector to submit their bids for PPP projects</li> </ul>
2. Viability Gap Funding (Tk. 300 crore)	<ul style="list-style-type: none"> <li>– To attract private initiatives for the construction of non profitable but essentials for public sector</li> </ul>
3. Infrastructure Investment Fund setting up (Tk. 2100 crore)	<ul style="list-style-type: none"> <li>– To accelerate the process of investment through PPP</li> <li>– To provide (depending on the type of project) equity or loan to the private investors</li> <li>– To encourage investments different incentives will be provided</li> </ul>

*Source: Bangladesh budget 2009-2010*

### **Appropriateness in Bangladesh**

To begin with the issue of appropriateness, there is no doubt that success or failure of any project, policy, program depends on its localized contingency so there is no hard and fast rule or phenomena which can be matched with the justification. Struggling economy like Bangladesh, where private sectors contribute handsomely, expected to have more dynamic role throughout PPPs.

Many developed countries have set up specialised PPP units to facilitate and manage large infrastructure investments. Others have established public institutions that support PPP development. Such units have recently begun to proliferate in the developing world as well. Considerations of such units in regions like Africa, East Asia, and South Asia has been driven by increasing recognition of the need to boost infrastructure investment' (Szkhan, The Financial Express)

“Government involvement in the provision of economic infrastructure and utility services crowd out private investment in the utility services in Bangladesh. The services were under priced and of poor quality. In this context the government has opted for Public Private Partnerships to ensure expeditious development of utility services by attracting local and foreign investment, and improve the expertise and technology needed for its growth.”(Moving Ahead, p:164).Not only developed country, developing countries has positive experiences also what signifies the attempts of PPPs. ‘From the different facets of education, health and other equally important social services we found that PPP can harness the strength and overcome the weakness of government in delivering to the people. We found best practices not only in Germany but also in Malaysia, in South Africa, in Turkey and Latvia.’(Osborne, 2000)

To begin with the issue of appropriateness, there is no doubt that PPPs have positive images throughout the developing world over the last couple of years. Services sector has been able to create the plat form for enormous investment by private sectors.

Table: 1: Investment in infrastructure Projects with Private participation in Developing countries, by Sector and Region 1995-2004 (\$ billion)

Sector	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Energy	21.7	30.0	46.3	29.3	21.1	27.4	15.6	19.2	17.6	12.7
Electricity	18.2	27.4	43.3	23.3	18.3	24.9	14.1	10.3	14.7	12.1
Natural Gas	3.6	2.6	3.0	6.1	2.7	2.5	1.5	8.9	2.9	0.6
Telecommunication	17.2	24.6	39.9	51.8	36.1	48.9	45.2	33.0	32.2	45.0
Transport	8.2	15.7	19.4	17.5	8.2	9.1	8.1	3.6	5.0	4.5
Water & Sewage	1.5	1.7	8.4	2.2	6.5	4.8	2.4	2.0	1.4	1.9
<b>Region</b>										
East Asia & Pacific	18.8	28.0	34.9	9.7	13.1	14.3	11.0	9.7	13.0	8.7
Europe& Central Asia	8.1	10.5	14.2	12.1	9.4	25.0	12.3	16.8	12.2	12.5
Latin America & Caribbean	17.1	25.8	49.3	71.2	37.3	38.7	33.7	19.6	15.8	17.4
Middle East North Africa	0.1	0.3	5.1	3.1	3.0	4.1	4.4	1.6	6.2	10.9
South Asia	3.8	5.8	6.3	2.3	4.6	4.4	4.6	6.0	3.4	9.6

*Source: World Bank and Public –Private Infrastructure Advisory Facility (PPIAF), Private Participation in Infrastructure Database.*

Having reviewed the evidence concerning the take-up of the PPPs in developing countries (Table 1) it is clear that to draw a attractive sketch in Bangladesh, PPP may be a appropriate strategy.

The Election Manifesto of the government envisages that GDP growth rate will accelerate to 8 percent in 2013 and to 10 percent by 2017 which will then be maintained till 2021. In order to attain higher GDP growth, investment in infrastructure, especially in power and energy, port, transport and communication, drinking water supply, waste management, education, and health has been prioritised. Preliminary assessment of the required investment to boost growth rate has been prepared till 2014. The estimate assumes that desired investment will be achieved from 2009 to 2014 with participation of the private sector and target growth rate has been set in line with the government's Election Manifesto. According to the estimate, from FY10 till FY14, there will be USD 28 billion investment deficit (Table 2). The government is determined to raise GDP growth to 8 percent by augmenting investment by mobilizing private sector's resources, expertise and experience through the PPP initiative.

Table 2: Required Investment for Attaining Target Growth Rate and Investment Deficit (Optimistic Scenario)

	2009-10	2010-11	2011-12	2012-13	2013-14
<b>GDP Growth (percent)</b>	6.0	6.8	7.5	8.0	8.0
Required Investment (Billion USD)	24.59	30.63	37.18	43.82	49.69
Investment (% of GDP)	24.0	27.02	29.25	30.40	30.40
Required Investment- MTMF (Billion USD)	23.25	27.10	31.36	35.54	40.29
Investment Deficit (Billion USD)	1.04	3.53	5.82	8.27	9.40

*Source: Preliminary Estimates of Finance Division*

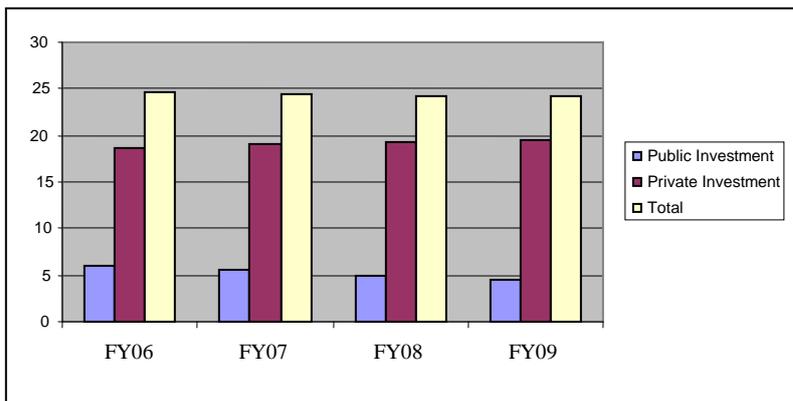
Investment as percentage of GDP is remained almost unchanged in FY06 to FY09 (Table 3, Chart 1). While the private sector component of investment as percentage of GDP increased from 19.3 in FY 08 to 19.6 in FY09, the public sector component of investment as percentage of GDP decreased from 5.0 in FY08 to 4.6 in FY09. It can be magnificent from varieties approaches of PPP, governance, development and financial, where private sector's bold contribution in investment foster the national economy. Private sector's positive images will provide a new scenario in Bangladesh economy through partnership with government.

Table: 3 Public and Private Investment (as percent of GDP)

	FY06	FY07	FY08	FY09
Public Investment	6.0	5.5	5.0	4.6
Private Investment	18.7	19.0	19.3	19.6
Total	24.7	24.5	24.2	24.2

*Source: National Accounts Statistics, May 2009, BBS*

Chart: 1 Public and Private Investment (as percent of GDP)



Whatever the ultimate effect of newly incorporated PPPs in Bangladesh budget there is no doubt that this initiative is one of the wisest efforts to make traditional public management update and dynamic. To change the trend of prevail all responsibilities to government shoulder; private sector’s participation will be encouraged.

Though many private sectors, multinational companies used to take part in various social services, awareness programme (Controlling drugs, Tree plantation, Beautification projects) as there social responsibilities, sometimes as there business policies but eventually this intervention will leave the places for the private sectors to participate directly with government in mainstream. Moreover, there were exist an imaginary wall of specific role and responsibilities, scope of blaming and claiming between public and private sector .So far we asses, it will create a new avenue of “we feeling” through the risk and benefit sharing .

Developing countries cases considerations show that PPPs has long history of success. “From the different facets of education, health and other equally important social services, we found that PPP can harness the strengths and overcome the weaknesses of government in delivering to the people. We found best practices not only in Germany, but also in South Africa, in Turkey and in Latvia.” Managing Director General of ADB at the Asia-Pacific Business Forum pointed out that “none of us should view public-private partnership as a panacea. Nevertheless, it can definitely contribute to filling the infrastructure gap in many countries of the region, if we can find ways to reconcile the often conflicting interests of the large number of parties involved.”

### Conclusions

Values, tradition, attitude and interest of political parties and government may affect a PPP. Bureaucracy is the main administrative arm of the

government to transform the policy into reality. Especially in developing countries the 'power-seeking' attitude of the politicians and the 'rent-seeking' behaviour of the bureaucrats and lobbying groups (Grindle1991) may affect the PPP policy design and implementation, which needs to be very specific.

To meet transparency, accountability and creditworthiness of PPP projects to the nation particularly to the opposition party Government should ensure competitive bidding system and

participate in investment in capital investment of PPP projects. The government must also ensure performance guarantee in 'Put or Pay' supply contract if state owned enterprise are the suppliers, and creditworthy purchase guarantee 'Take or Pay' as off taker for the project (Abu Naser,The Daily Star).Appropriate legal attributes selection, sufficient implementation period are considered as prerequisites for PPPs. It is also important in the advocacy for PPP that we keep dialogue alive and well among public sector proponents, policy makers, researchers and the business sectors.

Under the context of globalization and rapid change of development paradigms it is prove worthy that, PPPs shall have to play significant role in the economic growth of developing country. Bangladesh budget magnificently enshrined due sectors and allocation to PPPs project but unfortunately it could be mention worthy that the final guidelines are not known yet. What become very clear from the above discussion is that PPPs are one of the important grounds to embrace the new thoughts of public management and able to be success if there is ascertained institutional and befitting legal support. The PPP projects should require a proactive regulatory framework, with appropriate checks and balances, to ensure transparency.

In fine, it is thus imperative to find proper ways and strategies for, before successful implementation, creating the positive attitudes to this new dimension and clear understanding of all to the related issues and approaches, features and factors, problems and prospects.

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