

Ppp in bangladesh assignment

Economics



Assignment On International Financial Management Topic: Public private partnership. Prepared For Md. Shoaib Ahmed Senior Lecturer, DBA ASA UNIVERSITY BANGLADESH Prepared By Md. Fazlul MobinID: 071-12-562 Md. Rakib SiddiqueID: 071-12-557 Shahanur Alam Bhuyan ID: 071-12-548 Syed Abdus SalamID: 071-12-550 Md. Ariful IslamID: 071-12-203 Date: 12th August, 2010 ASA UNIVERSITY BANGLADESH “ Public Private Partnership and Explore the Related Issue of It” Abstract This is an empirical study to investigate the feasibility of public private partnership idea that introduced by the government of Bangladesh to increase the GDP growth rate.

For the purpose of the analysis, different types of data and information were used as measured to identify the feasibility of public private partnership in our country. In this paper we examine the different information of PPP activities in different countries like India, Malaysia, South Korea and Philippine. From that information we found that there is a close relationship between PPP and the growth rate. If we deeply concentrate on PPP activities in our country then we can easily achieve high GDP growth. So the development of our country mostly depend on how we efficiently done the PPP activities.

Most of the People believe that PPP is a idea to develop a country. Key words: Public Private Partnership (PPP), Gross Domestic Product (GDP), development. Introduction A public private partnership is a legally-binding contract between government and business for the provision of assets and the delivery of services that allocates responsibilities and business risks among the various partners. In a P3 arrangement, government remains actively involved throughout the project’s life cycle. The private sector is <https://assignbuster.com/ppp-in-bangladesh-assignment/>

responsible for the more commercial functions such as project design, construction, finance and operations.

At present per capita income in Bangladesh is only USD 695 (BDT 47, 955) and almost 40percent (58 million) of population live below the poverty line. Income from industry is 29. 7 percent of total national income, and external trade is 40 percent of total national income. However, we are still considered as one of the least developed countries. 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.

Bangladesh economy failed to gather momentum until 1990. Average growth rate during this time was stagnant at less than 4 percent per year. The growth rate is also on the decline due to impact of the global economic downturn. Lack of investment in infrastructure, especially energy and power, port and communication has been identified as root cause behind sluggish growth. In order to achieve 8-10 percent growth, rate of investment needs to increase from 24-25 percent of GDP to 35-40 percent of GDP. A lot of resources are required to raise rate of investment to 35-40 percent of GDP.

It is challenging for the government to arrange such huge resources. Moreover, due to current global economic downturn, the prospect of receiving foreign assistance has diminished. Resource mobilization is not the only challenge for the government. It is also imperative to ascertain whether the government has skilled manpower and required institutional framework to implement mega infrastructure projects. So, the government of

Bangladesh has taken the initiative of public private partnership to increase the GDP growth.

Objective of the Study The objective of the paper is to investigate the impact of PPP on GDP growth of Bangladesh. The concept of the study is taken from one of the working paper of Finance Division “ Invigorating Investment Initiative through Public Private Partnership A Position Paper”. Moreover after completion of this paper we will know the rules and regulation of PPP contract, the pros and cons of PPP, how many project has already been taken under PPP contract, what are the other countries follow the PPP contract.

For the purpose of the study we have selected different countries from south Asia whose are the follower of PPP and by the help of PPP they develop their country. The ultimate objective of this paper is to identify whether any importance of PPP in economic development of Bangladesh or not. Historical perspective of PPP 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, divisions or agencies with formulation of project proposal and screening as well as to provide technical assistance. Later in 2004, under Public Private Partnership initiative, Bangladesh Private Sector Infrastructure Guidelines (PSIG), which forms the

basis of the current PPP, were issued in order to boost individual investment in the development and maintenance of infrastructure.

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. Benefit of PPP The government, the private sector investors, and public can all benefit if private sector can be enticed into infrastructure development under PPP. The likely benefits to the relevant three parties are as follow: Public Sector ?? 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. Private Sector ?? Expansion of Business ? PPP facilitates expansion of business. The private sector can engage in sectors where conventionally public sector invests. ?? 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. Public/ Users ?? Accountability ? Since services are purchased from the private sector by paying fees or charges, the service providers remain accountable to the government and public. ?? More Responsible Government ? Since the government approves the PPP projects, it has to supervise whether the private service providers are abiding by the contracts. ?? 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. Risks Associated with PPP Implementation 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. However, there might be some other risks as follow: ?? Loss of ownership of public properties ?? Approval of inflated costs ?? Overlooked public interest when pricing the services ?? Dysfunctional Infrastructure once ownership is handed over to the government

Prospective Sectors under PPP The government is interested in involving private sector in all sectors barring a few for national security reasons. Modern and reliable infrastructure is a must to uplift country's economy from the current state to a higher growth trajectory. But due to lack of investment in infrastructure in the past seven years, it is now stagnant. Realising the demand for change, the present 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 ?? Health and Family Welfare ?? Housing, etc Different PPP Implementation Models Different countries are implementing different PPP implementation models. The type of the model depends on the relevant sector (education, health, transportation) and on the type of the project itself. Some of the widely used models are:

There are more models besides the ones mentioned above. For example, education institutions can be co-financed and privately managed. Private

sector can also take responsibility of providing health care in a certain area as well as responsibility of all public health care providers in that area. The main idea behind these models is to outsource the management to the private sector ?? BOO ? The private sector manages the infrastructure belonging to this model on build? own? operate basis. Government usually does not manage the infrastructure developed under this model.

At present Independent Power Producer (IPP) are operating under BOO model in Bangladesh. ?? BOT ? The private sector manages the infrastructure belonging to this model on build? operate? transfer basis, i. e. the private sector manages it until a specified time, after which the government is responsible for management. ?? BOOT ? This is an extended version of the BOT model. Under this model the ownership and management belongs to the private sector until a specified time. After expiry of the term, ownership and management is transferred to the Government Progress of PPP

Implementation under the Present Framework

Three government organizations are involved in the project implementation by the private sector under the PPP initiative. So far the direct assistance of these organizations have enabled implementation of 27 projects of which 18 projects are in the power and energy sector, 6 projects in telecommunication sector, 2 projects in the port infrastructure sector and 1 project in the information technology sector (Annex 1). The contribution of the three organizations involved in PPP project implementation is summarized below: i) IDCOL ? Through this government sponsored company PPP project finance and financial intermediation are conducted.

Till date, BDT 13 billion has been financed by IDCOL in 22 projects implemented under PPP. ii) IPFF ? This project financed 5 power sector projects under the PPP initiative, generating 178 megawatt power. Three projects have started power generation on a commercial basis and have added 99 megawatt of power to the national grid. The remaining two projects are at the final implementation stage. The total expenditure in the 5 aforementioned projects was BDT 8. 67 billion of which IPFF financed BDT 4. 41 billion (51% of total expenditure), private investors financed BDT 2. 1 billion (32% of total expenditure) and participating banks financed BDT 1. 46 billion (17% of total expenditure). iii) IIFC ? This too is a government sponsored company which is responsible for providing expert assistance to relevant ministries, divisions or agencies regarding project development, project formulation, project design, technical, engineering, implementation and monitoring related issues for projects sanctioned by PPP initiative. Till now, IIFC has been under contract to design 30, provide technical support to 8 and consultancy support to 16 PPP projects.

Almost all the projects implemented under PPP have taken IIFC support. List of Important Mega Projects and its Model in Bangladesh | Sector | Name of the Project | Estimated Cost | PPP Model | | | (USD billion) | | | Transportation | Dhaka? Chittagong access control highway | 3. 02 | BOOT | | | Sky? rain encompassing the Dhaka metropolis | 2. 80 | BOOT | | | Dhaka city subway | 3. 10 | BOOT/BOT | | | Dhaka city elevated expressway | 1. 23 | BOOT/BOT | | | Dhaka? Narayanganj? Gazipur? Dhaka elevated expressway | 1. 90 | BOOT/BOT | | Power and Energy | Four coal, diesel or gas fired power plants capable of | 1. | BOO/BOT | | | producing 450 megawatts electricity in

different parts | | | | of the | | | | country | | | | Water transport | Deep sea port in Chittagong | | BOOT/BOT | | | Total (excluding Chittagong deep sea port) | 13. 85 | | List of Other Projects Sector | Name of the Project | Estimated Cost | PPP Model | | | (BDT Million) | | | Transportation | 1. Bus Rapid Transit (BRT) | 150 | BOO | | | 2. Articulated Bus Service | 50 | BOO | | | 3. Bus Route Franchise (BRF) | 50 | BOO | List of Projects in Education and Health Sectors | Sector | Name of the Project | | Health Health care provider for a specific area (a few districts) | | | Setting up cancer and/or other hospitals | | Education | Setting up quality secondary schools | | | Setting up dormitories, health centers, auditoriums, gymnasiums | | | in public universities | | | Development, expansion or improvement of present Degree colleges | | | Setting up research institutions or research foundations | | | dedicated to the institution | Literatures review According to Abu Naser Chowdhury (2009) The new government of Bangladesh has shown enough positive intent to incorporate PPP in the coming fiscal budget 2009-2010. Although late, it is a very wise decision by the Finance Minister.

Finance Minister AMA Muhith believed that the participation and assistance of the government, foreign and local private investors, the indigenous and foreign NGO's and the development partners in the PPP initiative will be a notable way of putting our Charter for Change to action. Methodology The process consists of a series of action that are necessary to effectively carry out the report. • Determine the research objective • Research design • Data collection • Literature review • Data analysis • Result evaluation • Report preparation Sources of Data Secondary Data Data used to represent the report most of them are collected from secondary sources. So data collected

through- ? PPP manual of Bangladesh, India, Philippine, Malaysia, South Korea. ? Newsletter edition ? Different research report ? Web search Primary Data

For the collection primary data, we discussed with different economist of our country about the concept of Public Private Partnership activities and the economy of Bangladesh. Limitations of the Study ? Unavailability of research information ? Time constrain Empirical Result Following figure 1 illustrate the investment comparison of Bangladesh with India, Philippine, South Korea, Malaysia during the period from 2001-02 to 2009-2010 fiscal year. The table shows that South Korea's invest more in public private sector rather than other countries. Their investment in PPP approximately \$0. 05056 trillion during the time period. India is the second position in case of amount of investment in PPP, amount of their investment is \$ 0. 04819 trillion. But Philippine is the last in terms of their invested amount, \$0. 2582 trillion is their total investment in PPP. Malaysia got the fourth position in the serial among the country there invested amount is \$ 0. 03725 trillion. Bangladesh invests \$ 0. 03780 trillion in PPP sector, now we are in the third position. [pic] Figure1: Investment comparison among the countries, (2001-2010). Figure 2 shows that the relationship between PPP and GDP growth rate among the country. Malaysia is a growing and relatively open state-oriented market economy. The state plays a significant but declining role in guiding economic activity through macroeconomic plans. But other countries GDP is steadily increase with the help of PPP activities. We see that the countries other than Malaysia GDP growth is increasing with the help of PPP, so we can say that our countries GDP will also increase with the help of GDP. [pic] Figure 2: GDP

growth rate among the country. (Estimated) (2010) Conclusion PPP is a good idea to develop the economy of any country. Many countries, particularly ASEAN and SAARC countries have successfully implemented PPP projects. In so doing these countries have managed to increase production capacity without putting any pressure on government revenue and could achieve double digit growth rates. There is no other way for us than to invest heavily in infrastructure if we want to develop like our neighboring countries.

In the uncertain external environment, the plan to raise GDP growth to 8 percent by 2013 will become real if infrastructure is developed under the PPP initiative. The vision for a prosperous and developed Bangladesh will become reality in 2021? the year of golden jubilee of Bangladesh's independence, if we lay the foundation today to raise GDP growth to 8 percent by 2013, and to 10 percent by 2017 and beyond. So there is relation between the Public Private Partnership and the economic development of a country. Reference 1. www. mof. gov. bd 2. finmin. nic. in 3. PPP Manual of Bangladesh, India, Malaysia, Philippin and South Korea. 4. Abu Naser Chowdhury (2009) " the method of infrastructure in Bangladesh" PhD candidate at Nanyang Technology University , Singapore. 5. doza. wordpress. com 6. www. unescap. org 7. Bangladesh bank 8. Junglim Hahm " private Participation in the Infrustructure Programme of the republic of Korea" Transport and Communications Bulletin for Asia and the Pacific. 9. www. pppindiadatabase. com Appendix PPP Framework – Cross Country Comparison The Government has issued Private Sector Infrastructure Guidelines (PSIG) in 2004 to accelerate private investment in infrastructure development and operation through Public Private Partnership (PPP) initiative. Since, the issuance of

PSIG? 2004, in the mean time, more than 5? years have elapsed but investment did not occur at the expected level.

Under these circumstances, it became imperative to revisit and give a fresh look to the institutional framework and terms of reference for project identification, scrutiny, approval, tender and project implementation procedures as envisaged in the PSIG 2004. At the same time, existing PPP framework of Bangladesh needs comparison with the PPP regulatory and institutional framework of other countries to identify the deficiencies in the prevailing PPP framework and formulate recommendation for making the framework time? befitting and effective. A large number of countries have prepared guidelines and/or enacted laws in attracting private investment for implementing projects through PPP approach. The following table shows the comparative position of India and the Philippines vis? a? vis Bangladesh. | SL. NO. Issue | Bangladesh | India | Philippines | Observation | | 01 | Regulatory | Guidelines of | Guidelines for formulation, |'The Philippines BOT | | | Framework | PSIG? 2004 is being | appraisal and approval of | law' enacted in | | | | followed | PPP | 1993 is being | | | | | projects, 2006 is being | followed | | | | | followed | | | | 02 | Institutional | An 11? member | a. A 5 member Public Private| There is no separate | a. 11? ember | | | Framework | Private | Partnership Appraisal | committee. PPP | PICOM is a big | | | | Infrastructure | Committee (PPPAC) has been | projects are | committee. It | | | | Committee | constituted. The PPPAC is | processed under | usually takes long | | | |(PICOM) has been | housed in Department of | delegated authority | time to arrange | | | constituted. The | Economic Affairs (DEA) under| approved by the | meetings of such a | | | | Board of | M/O. Finance.

Two more small| National Economic | big committee and | | | | Investment
 (BOI) | committees are in place for | Development | to maintain contacts | | | |
 provides | appraisal of projects up to | Authority (NEDA). | with the members.
 | | | | secretarial | certain level of project | | b. Single point | | | | services to
 PICOM | cost | | technical services | | | | ceiling. | | are hindered in the | | | |
 b. A dedicated PPP nit has | | absence of | | | | been constituted in the DEA |
 | dedicated PPP Unit | | | | for | | | | | providing technical services| | | | |
 to | | | | | PPPAC on PPP project | | | | | preappraisal | | | | | and
 recommendation | | | | | c. A separate PPP Appraisal | | | | | Unit | | | | |
 has been set? p in the | | | | | Planning | | | | | Commission | | | | 03 |
 Terms of | PICOM's role is | PPPAC examine the PPP | Each government |
 Since, PICOM's role | | | Reference | limited to | projects | department | is
 limited to | | | | coordination, | and place them to the | examines and |
 coordination | | | | communication | appropriate authority with | analyses its
 project | and | | | | and | its | and places to NEDA | communication | | | |
 encouragement | own recommendations for | for approval having | hence, it
 is | | | | for PPP related | consideration and approval. | cost above 300 |
 understandable that | | | | activities and | a. Project cost beyond 2500 |
 million peso. in most cases | | | | placement of | million rupees and project | |
 PICOM can not | | | | proposal to the | included in the National | | examine and
 | | | | Cabinet | Highway Development Plan | | evaluate PPP | | | | Committee
 on |(NHDP) having cost beyond | | projects properly. | | | | Economic Affairs |
 5000 million rupees are | | | | |(CCEA) through | placed | | | | | Cabinet
 Division | to PPPAC for recommendation | | | | | b. A Standing Finance | | | |
 | | | | Committee (SFC? 4 member | | | | | committee) examines project | | | |
 | | | | having cost above 1000 | | | | | million | | | | | rupees and less than
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2500 million rupees and NHDP listed project having cost less than 5000 million rupees and above 2500 million rupees and places them to a Committee under M/O.

Finance for recommendation to the appropriate authority for approval c. SFC or Expenditure Finance Committee (EFC? 4 member committee) considers and recommends a project costing less than 1000 million rupees to the appropriate authority for approval 04 Project a. CCEA for a. CCEA approves project a. NEDA approves Approval project having having project that has cost more or cost above 2500 million estimated cost of equivalent to USD rupees 200 million peso or 5 million. and NHDP listed project above b.

Concern having b. Local government ed ministry for cost beyond 5000 million institutions approve project having rupees project having cost cost less than USD with the recommendation of less than 200 million 5 million. PPPAC peso b.

Appropriate authority approves project having cost less than 2500 million rupees or above 1000 million rupees and NHDP listed project having less than 5000 million rupees and above 2500 million rupees c. An appropriate authority approves project costing less

| than 1000 million rupees | | | | 05 | Project | a. Project cost | a. PPPAC
empowered to give | a. Central | a.

After | | | Identification | more than USD 5 | 'approval in principle' of |
government | identification, all | | | | million identified | project | agencies
identify | projects large and | | | | by line ministries | for listing having cost |
projects with | small is needed to | | | | or PICOM is | above | estimated cost of
| be placed before | | | | placed to CCEA | 2500 million rupees and NHDP | 200
million peso or | CCEA for listing that | | | | for approval of | listed project
having cost | above and place | require long | | | | inclusion into the | beyond
5000 million rupees | them to NEDA for | processing and | | | | PPP project list.
| with an inter? ministerial | approval | discourages private | | | | b. Project
cost | committee recommendation | b. Local government | sector and | | | |
less than USD 5 | b. With SFC's recommendation | institutions (| concerned
ministry | | | | million identified | a 2? member committee under |
Municipality, | b.

Absence of | | | | by line ministries | finance ministry ' approval | provincial,
city and | involvement of | | | | is sent to PICOM | in | regional) identify |
Planning | | | | for inclusion into | principle' for listing of | project having cost |
Commission poses | | | | the PPP project | project | less than 200 million | the
risk of sectoral | | | | list. | having cost above 1000 | peso | imbalance and | | |
| | million | | duplication of | | | | rupees or less than 2500 | projects | | | |
million | | | | | rupees and NHDP listed | | | | | project | | | | | having
less than 5000 | | | | | million | | | | | rupees and above 2500 | | | | |
million | | | | | rupees | | | | | c.

SFC or EFC gives 'approval in principle' of projects costing less than 1000 million rupees on identification of projects by the relevant line ministry. Use of According to Different standard formats Different Concerned standard guidelines for departments ministries and formats for standard formats different stages have been provide its standard interested private approval for tender, included in the guidelines formats investors face contract, etc dilemma as no would be included standard formats have been included in the guidelines. Classification a. A Project a. Project cost 2500 million| a.

Project cost 200 Approval of CCEA of Project having capital rupees or more and NHDP million peso or for listing of all cost of USD 25 listed project having cost more projects (large and million or above is 5000 b. Project cost less small) is not defined as big million rupees or more than 200 million conducive to fast projects b. Project cost 1000 million| peso track decision b. A Project rupees or more and NHDP making. having capital cost listed project having cost of less than USD beyond 2500 million rupees 25 million is or defined as small less than 5000 million projects rupees c.

Project cost less than 1000 million rupees 08 Executive BOI provides DEA provides all technical Government Additional stages Responsibility secretarial as departments requires additional services to PICOM well as secretarial services perform necessary time for PPP project to activities. processing that <https://assignbuster.com/ppp-in-bangladesh-assignment/>

PPPAC through its PPP Unit. | cause delay in PPP | | | | Ministry of Finance acts as | | project approval | | | | the | | | | | nodal ministry in financial | | | | and | | | | | other stimulus matters | | | | 09 | Determinatio | CCEA constitutes | PPPAC and other relevant | Project related | Constituting a | | | n of terms & | separate | committees determine terms & | government | separate committee | | | conditions | committee for | conditions on the basis of | departments take | and determining | | | for project | each project as | reports on technical, | expert services to | Terms & Conditions | | | related | Major Terms and | engineering and legal | assess technical and | by that committee | | | different | Condition | matters at | financial soundness | require long time. | | contracts | Committee | feasibility study and | and determine | MTCC is constituted | | | (MTCC) for | preappraisal | relevant conditions | on an ad? hoc basis | | | determining | test stage. | | and in most cases | | | terms and | | | desired professional | | | conditions for | | | opinion remain | | | different | | | unavailable. | | | contracts in a | | | | | project | | | | 10 | Sick Project | According to | Nothing has been mentioned | According to | Presence of the sick | | | guidelines, in | in | provision of the act | project related | | | addition to other | the guidelines regarding | government shall | clause in the | | | causes, | this | take full | guidelines is not | | | government shall | issue | responsibility and | favourable to | | | | not take | | make required | private sector | | | responsibility of a | | compensation if any | entrepreneur for | | | project if turns | | project get sick due | investment in | | | sick | | to change in | infrastructure | | | due to change in | | government policy | development. | | | government policy, | | and arrangement | | | | increase in taxes | | | | | and reduction in | | | | | fiscal incentives. | | | [pic] ————— 0 0. 01 0. 02 0. 03 0. 04 0. 05 0.

06 Dollar in trillion Bangladesh S. Korea India Philippine Malaysia Country
Investment comparison Series1