Recent experience of establishing a PPP framework to mitigate fiscal risks in Bangladesh

4 June 2018
Mita Conference Hall, Tokyo

PPP Authority
Prime Minister’s Office, Bangladesh
Doing PPPs for the right reasons?

World Bank called on to fix the accounting problems that make Public–Private Partnerships (PPPs) fundamentally flawed and dangerous.

Never mind the balance sheet – the dangers posed by public-private partnerships in central and eastern Europe.

PPP Accounting and Reporting Issues

Richard Hemming
Fiscal Affairs Department
International Monetary Fund


Remember: Public-Private Partnerships Aren't Free

LAURA BLISS  MAR 22, 2017
Bangladesh Macro-Economic Overview

**Bangladesh: Country Data**

- **Area**: 147,570 km²
- **GDP**: USD 249 billion (FY 2017)
- **GDP Per Capita**: USD 1544 (FY2017)
- **GDP Growth**: 7.28% (FY2017)
- **Inflation**: 5.7% (Dec 17, 12 month average)
- **Forex. Reserve**: USD 33 billion (Dec 2017)
- **Debt to GDP ratio**: 27.1% (FY2017)

**Rapidly Increasing Foreign Exchange Reserves (2009-17)**

**Improving Debt to GDP ratio (2007-16)**
Bangladesh 7th Five Year Plan (FY2016-2020)

“To become a middle income country by 2021 and a developed country by 2041”

- **Targets**
  - 7.4%: Annual average growth
  - $12.5bn: Target Infrastructure investment
  - 3.8% (GDP): Target ADP allocation on Infrastructure
  - 1.8% (GDP): Target PPP

Key Pillars to Delivering a PPP Program

- Regulatory Environment
- Institutional Framework
- Capacity Enhancement
- Project Bankability
- Long term Financing

Bangladesh PPP Law
September 2015

Transaction and Technical Advisors

Bangladesh: PPP Framework to mitigate Fiscal Risks
Tokyo Fiscal Forum 2018
Meeting the PPP Investment Challenge – Power Generation Plan

**Private Sector Financing**
(% of total financing needs)

- **2016**: $0.5bn (27%)
- **2017**: $0.5bn (25%)
- **2018**: $2.2bn (50%)
- **2019**: $3.5bn (58%)
- **2020**: $4.2bn (61%)

**Private Sector Power Generation**

- **2016**: 5,200 MW
- **2017**: 5,600 MW
- **2018**: 7,000 MW
- **2019**: 9,000 MW
- **2020**: 11,000 MW

**Total Installed Capacity**

- **2016**: 12,500 MW
- **2017**: 15,000 MW
- **2018**: 18,000 MW
- **2019**: 21,000 MW
- **2020**: 24,500 MW
PPP Projects Pipeline

In Principal Approval
(Number of Projects)

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<th>Health &amp; Education</th>
<th>Tourism</th>
<th>Zone</th>
<th>Civil Accomod.</th>
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PPP Projects by Sector
(Number of Projects)

- Transport: 14 projects
- Health & Education: 9 projects
- Tourism: 6 projects
- Zone: 9 projects
- Civil Accomod.: 5 projects
- Utilities: 2 projects

In Principle Approval

- 48 Projects (US$13bn*)

Projected Development
(Number of Projects)

- 11 Projects (US$4bn*)

Procurement
(Number of Projects)

- 15 Projects (US$2.0bn*)

Contract Signed
(Number of Projects)

- 10 Projects (US$3bn**) (including 1 project under PSIG)

* Estimated ** Approximately (Data as at May 2018) (excludes power sector PPP projects)
Comprehensive Regulatory Framework

- **Framework protecting rights, setting out obligations and providing empowerment**
- **Guidelines to develop, procure and implement PPP projects**
- **Guidelines to address unsolicited proposals for PPP projects**
- **Rules for implementing National Priority Projects**

- **Bangladesh PPP Law**
  - September 2015

- **Procurement Guidelines for PPP**
  - Feb 2018

- **Unsolicited Proposals Guideline**
  - Feb 2018

- **Bangladesh PPP Guidelines**
  - Feb 2018

- **Policy for developing PPPs in Partnership with other countries on a G2G basis**
  - June 2017

- **Guidelines for accessing funds for project and program development**
  - TAF Guideline*
  - July 2012

- **Guidelines for accessing grant funding for enhancing project viability**
  - VGF Guideline*
  - July 2012

- **Standard PPP Forms**
  - July 2012

(*) Note: Currently being updated to Rules)
Governance Framework for the PPP Programme

Board of Governors
- Chairman, Hon. Prime Minister
- Vice Chairman, Hon. Finance Minister
- Member, State Minister (Finance and Planning)
- Members, Cabinet Ministers (Infrastructure ministries)
- Member Secretary, Principal Secretary

Advisory Board
- Chairman, Principal Secretary
- Member, Finance Secretary
- Member, ERD Secretary
- Member, NBR Chairman
- Member, Legislative Secretary
- Member Secretary, CEO PPPA

Administrative Ministry
Prime Minister’s Office

PPP Authority

Tokyo Fiscal Forum 2018
Empowerment

- PPP Authority empowered to act as PPP Champion
- Ability to ensure best practice applied by ministries
- Centralised monitoring and oversight

Strategic Programme Oversight

- Programme oversight from the highest level
- Ensures objectives are aligned with national and fiscal policy
- Enables accelerated implementation of strategic goals

Policy Alignment

- Ensures policy development takes into account fiscal issues, international and development agencies relationships, legislative and legal matters

Administrative Support

- Enables inter-ministerial and inter-agencies co-ordination and allows issues to be rapidly escalated and resolved.
Approval Authorities for PPP Project

**Project Approval**
- Cabinet Committee on Economic Affairs

**Linked Project Approval**
- Executive Committee of the National Economic Council

**PPP Project**

**Planning Division**
- Investment decision ratification

**Finance Division**
- VGF Subsidy & guarantee approval

**Line Ministry**
- Policy Decision Approval

**Agency**
- Implementation Approval

**PPP Authority**
- Legislative & Parliamentary Affairs Division
  - Legal review and concurrence
  - Regulatory, transaction & process review and concurrence
**Project Identification Approval**

**Annual Development Program (ADP)**

1. **Agency**
   - Identify Needs
   - Submit ADP List

2. **Ministry**
   - Prioritise competing needs
   - Submit revised ADP List

3. **Planning Division**
   - Confirm investment decision & financing modality
   - Final ADP List

4. **Finance Division**
   - Review against fiscal space and finalise

5. **Parliament**
   - Parliament review and approve finance bill

**Approval of Project Selection**

1. **Agency**
   - Initiate Project
   - Projects Proposal Form

2. **Ministry**
   - Policy Approval
   - Endorsed Projects Proposal Form

3. **PPPA**
   - PPP Screening
   - Projects Concurrence

4. **LM**
   - Administrative approval for CCEA
   - CCEA Summary

5. **Cabinet Committee (CCEA)**
   - In-Principal Approval

- **Investment prioritised as part of ADP process by Planning Ministry and Finance Ministry**
- **Projects with revenue generation opportunities identified as PPPs in the ADP**
- **Distinguish between service concessions and revenue concessions**
- **Individual projects in principle approved for PPP by Cabinet Committee on Economic Affairs (headed by Hon. Finance Minister)**
Detailed Feasibility Study Approval

Feasibility Study

- **Project Team**: Draft feasibility study (DFS)
- **Agency**: DFS approval
- **PPPA**: DFS review & comments
- **IA**: Feasibility approval

Viability Gap

- **Agency**: VGF Application
- **PPPA**: Summary report & recommendation
- **Finance Division**: Review & Scrutiny against budget
- **Finance Minister**: VGF approval

- **DFS includes needs assessment and socio-economic return analysis**
- **Full technical, legal, commercial and financial assessment carried out including linked projects**
- **Ring fenced VGF subsidy budget approved in parliament**
- **Provision for VGF or direct guarantees need approval from Finance Ministry**
Bid Documents and Linked Project Approvals

**Bid Document & Structuring Approval**

1. **Project Team** → **Agency**
   - Draft Bid Docs
   - Structuring with TA
   - DFS approval

2. **Agency** → **PPPA**
   - Draft Bid Docs
   - DFS review & comments

3. **PPPA** → **Agency**
   - Endorsed Bid Docs
   - Final approval

**Approval of Linked Project**

1. **Agency** → **Ministry**
   - Identify Linked Project
   - Endorsed DPP
   - Policy Approval

2. **Ministry** → **Planning Division**
   - PPP Screening
   - Projects Concurrence

3. **Planning Division** → **National Economic Council (ECNEC)**
   - In-Principal Approval

**Key Points**

- **Bid docs based on ‘draft’ model templates; changes to risk allocation scrutinised**
- **Screening carried out by inter-ministerial team and practitioners**
- **Linked projects (e.g. land acquisition, resettlement, utility shifting costs) separately approved by ECNEC (headed by Hon. Prime Minister)**
**Approval of Selected Bidder and Contract Terms and Conditions**

- **Evaluation Committee**: Technical & Financial Evaluation
  - Evaluation report

- **PPPA**: Approval
  - Feedback

- **Agency**: Approval to negotiate
  - Negotiation with Selected Bidder

- **Negotiation Team**: Negotiated contract
  - Agency Approval
  - Negotiated & endorsed contract
  - Ministry Processing for vetting

- **Legislative Division**: Legal Vetting
  - Vetted Documents

- **Ministry**: Processing for CCEA Approval
  - CCEA Summary

- **Cabinet Committee (CCEA)**: Final Approval

- **Strong oversight over evaluation and negotiations**
- **Contract terms and conditions are legally vetted by Legislative Division**
- **Final approval of project, contract terms and conditions and selected bidder provided by CCEA**
Concluding Remarks

**Strategic allocation of fiscal revenue**
- ✔ Investment decision prioritisation
- ✔ Maximise revenue raising opportunity
- ✔ Needs assessment and socio-economic returns

**Ensuring relevant approvals**
- ✔ Programme and PPP Budget approved by Parliament
- ✔ Approval by Cabinet Committee and National Economic Council
- ✔ Subsidy and guarantee approval by Finance Ministry

**Appropriate risk allocation**
- ✔ Detailed feasibility identifying project execution risks
- ✔ Allocation of risk according ability to mitigate
- ✔ Use of standard bid docs and terms and conditions

**Contingent liability management**
- ✔ Quantify contingent liability of PPP transactions
- ✔ Develop funding envelope/fund for direct & contingent liabilities
- ✔ Reporting, on-going monitoring & measuring fiscal impact