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ROLE OF PUBLIC-PRIVATE PARTNERSHIP IN INFRASTRUCTURE DEVELOPMENT OF TRANSPORT SECTOR UNDER ROADS AND HIGHWAYS DEPARTMENT OF BANGLADESH

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ABSTRACT

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Roadways are the key to the development of a country's economy. A good roadway network constitutes the basic infrastructure that propels the development process through connectivity and opening up the backward regions to trade and investment. However, despite their importance to the national economy, the road network in Bangladesh is grossly inadequate. The existing network is unable to cope up with high traffic density. Roadways are now recognized as an infrastructure critical to economic and industrial growth. It must be noted, however, that greater output shall be realized if public and private partnership (PPP) agreements or contracts are structured in such a way that does not place the poor majority in any social, economic and/or political disadvantage. In order for government to deliver the minimum standard of services, products and/or care required for a PPP to thrive, it must put in place, laws, regulations and institutions or enhance existing ones, as well as improve the enabling environment for Private Sector Participation (PSP) in the provision and development of infrastructure to occur. The study was followed through primary and secondary sources of data: primary data were collected from Roads and Highways Department (RHD) and Ministry of Communication (MOC) through questionnaire. Secondary data were collected from newspapers, conference proceedings, working papers, journals, articles, term paper and research report. Although Public-Private Partnerships (PPPs) are not the only solution for the many problems of public management, they have contributed substantially to improve public services, and continue to provide government with much needed resources to close the infrastructure gap. This research has attempted to highlight the current thinking on PPPs, especially as regards to local authorities. In addition to the risks and challenges discussed above, governments and donors deciding whether to engage in PPPs should consider how to build on existing capacity rather than impose solutions. Therefore, planning and implementation of private sector infrastructure projects need to be integrated with the national planning process. Regardless of the road transport project contract type, the trend indicates that transportation contracts will be larger, both in size and dollar amounts with greater public-private partnership. So, it is essential to build up the relation of public-private on the basis of Roads and Highway in Bangladesh.

Key words: *roads and highways, public- private partnership, infrastructure development, primary and secondary data*

INTRODUCTION

In a public and private partnership (PPP) arrangement, each partner, usually through legally binding contract(s) or some other mechanism, agrees to share responsibilities related to implementation and/or operation and management of a project. PPPs have become attractive to governments as an off-budget mechanism for infrastructure development as this arrangement may not require any immediate cash spending. PPPs have also become important to meet the growing demand for infrastructure services in view of the fact that available funding from traditional sources in most countries falls far short of the financing needs of their infrastructure sectors.

Roadways are the key to the development of Bangladesh economy. A good roadway network constitutes the basic infrastructure that propels the development process through connectivity and opening up the backward regions to trade and investment. However, despite their importance to the national economy, the road network in Bangladesh is grossly inadequate. The existing network is unable to cope up with high traffic density. Roadways are now recognized as an infrastructure critical to economic and industrial growth. The National Highways comprises only 2% of the total length of Roadways, but carries over 40% of the total traffic across the length and breadth of the country. The development and maintenance of National Highways, Regional Highways and District Roads are the responsibility of the Central Government (RHD), whereas the Local Government Bodies concerned is responsible for the Roadways other than RHD Roads.

Transport systems worldwide are undergoing rapid change. Globalization has created a demand for goods and services that makes improved infrastructure and more efficient transport systems a precondition for economic development. The role of transport in economic development is usually discussed in relation to its contribution to carrying goods and people domestically and internationally. The ability of a country, particularly its more isolated communities, to participate in trade depends on how effectively its transport and communications infrastructure gives it access to the global trading system. Just as liberalization of trade can open new markets for developing countries, efficient transport systems and routes can increase the volume of trade and the movement of people, thus contributing to higher growth.

The arguments put forward to support PPP initiatives are primarily based on economic efficiency gains and reducing government overloads (Chowdhury 2011). Proponents of PPPs are convinced that whatever the government does the private sector can do better because as they pursue private gain, they serve the larger social order. In other words, due to the other activities of the private sector, there will be economies of scale to be gained. Proponents of PPPs also argue that the bidding process forces a more accurate and rigorous assessment of what actually needs to be provided. According to Van Slyke, even when a competition fails to result in a contract, the taxpayers still win because the competition forces government agencies to become more efficient. They can serve as a vehicle for the injection of private sector financing while allowing government to maintain their fiscal targets and avoid taking on additional debt. On the contrary, opponents of PPPs regard it as a way of relieving the government of its responsibilities, and they would argue that there is the risk of diminishing the welfare state, where only the fittest survive and the poor are left to cope as best they can.

There are issues of accountability regarding PPPs, which opponents argue undermine the benefits of PPPs. The most common one is that of “off-book” financing; the private sector borrows money for investment in public infrastructure but the borrowed funds are not registered on the government’s balance sheets even though they have entered into a long-term agreement to repay the private sector from future revenues. Unless there is sufficient risk transfer to the private sector, the government is in effect incurring “off-book” liabilities, which could eventually become actual liabilities. Also, the fact that the cost of borrowing is generally higher for the private sector can erode some of the potential economic benefits of PPPs.

In the new millennium, Bangladesh achieved growth rate of 6%. Growth rate, however, has become sluggish again. 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% growth, rate of investment needs to increase from 24-25% to 35-40% of GDP. A lot of resources are required to raise rate of investment to 35-40% 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 (Ministry of Finance 2009).

Therefore, the present study was undertaken to justify the efficacy of PPP in infrastructural development Projects of Bangladesh; to identify the measures that can be taken to enhance the efficiency of PPP; to find out primary constraints in transport-related areas that hinders the growth of regional trade, and to examine the options for financing the construction and subsequent maintenance of infrastructure projects.

METHODOLOGY

The study was followed through primary and secondary sources of data: primary data were collected from Roads and Highways Department (RHD) and Ministry of Communication (MOC) through questionnaire. Secondary data were collected from newspapers, conference proceedings, working papers, journals, articles, term paper and research report.

The Scenario of PPP in Bangladesh

Introduction for Public-Private Partnerships (PPPs)

Public-Private Partnerships (PPPs), fall within NPM (National Project Management) framework as alternative service delivery arrangement to traditional public procurement. The PPPs have become muddied over the years and conjures up different images in different parts of the world and subsequently for different academics. A typical contracting out involves a private-sector party providing commercially a service previously provided by the public sector itself. There is little transfer of control or risk to the private sector, and no substantive private sector involvement in decision-making. The difference between full privatization and a PPP arrangement is that in a PPP the public sector retains a substantial role while in privatization subsequent government involvement is minimal unless regulation of the post-privatized entity is necessary. For the purpose of this review, the term public-private partnership will represent the full spectrum of public and private collaboration; privatization and contracting out are treated as forms of PPPs.

Types of Public-Private Partnerships

Governments typically have certain objectives when developing infrastructure, it is up to them to choose which model of delivery best addresses those objectives. With PPPs, they also have to consider which particular arrangement allows for the optimum transfer of responsibilities and risks to the private sector to meet the said objectives. Bozeman classifies different types of PPPs as ownership, funding and control: (i) ownership could be state, private, or joint, (ii) funding refers to the amount of capital investing, coming from either partner, and (iii) control refers to the partner that is in charge of the operations and maintenance activities of the PPP.

A combination of different degrees of ownership, funding and control determines the type of PPP that has been formed. Some of the other classifications of PPPs have been based on the amount of power and expertise sharing between the partners. Kernaghan uses this criterion to differentiate between collaborative, operational and contributory partnerships. Rodal and Mulder argue that the type of partnerships depends on the extent to which the private sector is involved. Agreements can therefore cover consultative functions from the private sector (less involvement) or "devolution" of functions and service delivery responsibilities to the private sector (more involvement). In between the two are advisory, operational and collaborative partnerships. In the United Kingdom, the classification of PPPs is based on the implications for taxpayers, considering the amount of public funds that will be entering the project. The first of the three types of PPPs looks at free-standing projects, that is, projects that require no financial input from the government. Consumers pay user fees for the goods and services. In the second type, the public sector could buy services or lease infrastructure from the private sector. Thirdly, both sectors can invest (joint venture) but the private sector retains overall project control.

Risks of Public-Private Partnerships

There are certain risks that are associated with the implementation of a PPP project, which should be allocated appropriately between the public and private partners, according to which party can manage the risk better. These risks are common to any project-financing activity, and apply with more or less force, depending on the project concerned are as below:

- Technical risk due to design failures;
- Construction risk as faulty construction techniques may result in cost escalation and delays;
- Operating risk as a result of higher operating and maintenance costs;
- Revenue risk, especially when demand for the products and services sold is volatile;
- Financial risks arising from inadequate hedging of revenue streams and financing costs;
- Environmental risks because of the adverse impact the project may have on the environment;
- Regulatory and political risks resulting from planning changes, legal changes and unsupportive government policies; and
- Force majeure risk as a result of calamities and acts of God.

The critical question is always whether revenue streams can cover operating costs, service debt finance and provide return to risk capital. On the other hand, there are other risks of PPPs that need to be mitigated to ensure projects are successful.

Good Practices in Managing Public-Private Partnerships

Local authorities looking to engage the private sector in public service delivery need to consider all the issues discussed above, including the possible risks they stand to face. To avoid these risks, one has to identify the good practices that contribute to successful projects. Some of these are highlighted below:

- There are needs for an organizational arrangement with clearly defined responsibilities and roles for departments and individuals.
- Both parties must accept that the transaction is not a purchaser-supplier contract but a partnership in which there is a sharing of risks and responsibilities.
- A sound legislative and regulatory framework is needed for PPPs to succeed. There is the need to evaluate existing legislature to ensure that it has the appropriate corporate and commercial laws in place to support private investment.
- Governments should promote the use of on-going benchmarks to ensure continuing value for money from existing projects.
- Ensuring that the bidding process is competitive, applying proper procurement procedures, and that public sector entities are permitted and encouraged to bid. It is crucial that the final bid is the best, or is dropped and the project is re-entered.
- The PPP contract should be sufficiently flexible to take account of any new targets and future monitoring and reporting requirements that may develop over the lifetime of the project.
- A detailed assessment of the value of risks transferred to the private sector should be conducted. In addition, an assessment of the impact of the project on other sectors is also important for the project.

- Governments can also encourage the growth of privatization through removing regulatory barriers that once restricted private firms from delivering a service. Further, by lowering the cost to provide a service (i.e., by lowering taxes), the private sector can be encouraged to get into that particular market.
- In fact, Linowes (1988) states that these two methods, de-regulation and tax-reductions, are the most important forms of privatization in the United States.

Impacts of the Financial Crisis on Public-Private Partnerships

Traditionally, governments have to borrowed money to pay for the building of infrastructure, in most countries; this is still the way in which it is financed. It might be expected that responding to the recession would increase the demand for PPPs from governments, because they are a way of building infrastructure while limiting the apparent effect in the official government deficit. However, in PPPs, the private sector also borrows to finance the infrastructure. The credit crisis means that banks and investors are much more reluctant to lend to private companies, as a result, companies are practically unable to borrow money to finance PPPs. For existing PPPs, the financial crisis has meant lower revenues due to falling demand, especially for concession-type PPPs. This in turn, has affected their ability to re-finance their original debt. Some have suggested that the obvious solution is to revert to traditional government borrowing, which is cheaper and banks are more willing to lend to governments than private companies.

Considerations and Key Impediments to PPP in Infrastructure Developments

Impediments to PSP (Private Sector Participation) in infrastructure development have not always been systematically identified or effectively addressed. Support might be required for public sector management, procurement, and judicial reforms involving improved incentives and governance mechanisms for regulatory and judicial bodies, and for public sector utilities. Any support for policy reform programs, therefore, needs to systematically consider and incorporate PPP/PSP aspects.

Strengthening country programming arrangements by defining sector road maps that reflect both public and private sector assistance

Given the increasing emphasis on PPPs in Strategy 2020, it is essential for Country Programming Strengthening (CPS) to identify the scope for, and respective roles of the public and private sector in meeting infrastructure investment and service provision needs, and to plan ADB support accordingly. Sector road maps have to analyze the conditions for, as well as policy, regulatory, and institutional constraints to PSP; determine what sub sectors and projects would benefit from PSP; and identify appropriate assistance modalities including support for PPPs. Public sector operations should also consider interventions that facilitate or are complementary to PPP transactions, such as environmental or social mitigation measures, investments in related network infrastructure, or support for related sector policy and regulatory reforms and capacity development.

Systematically identifying the potential for PPP in ADB's support for public sector investments

The identification of PPP potential and opportunities has to be an integral part of sector planning. Potential for PSP needs to be assessed early on in the project development cycle. ADB attempts to add PSP components/ covenants to infrastructure projects that had been conceived by line Ministries, as public sector investments were usually not successful. Projects with the highest potential for PPP will be those that are based on strong economic and social need, have good financial viability with no or minor fiscal support needed, have manageable risks, and no major adverse social or environmental impacts.

This test should be applied to any ADB-supported public sector investment project: can the project or some of its components also be done with PSP? Clear criteria should be established for this purpose to help ensure that rational decisions are made about whether or not to develop a project as a PPP. The use of PPP modalities should be considered if they present the best option to enhance a facility's/utility's capacity to deliver services more efficiently to more people. If a utility or a public sector entity is performing at unacceptable levels and cannot easily be reformed, the use of management/service contracts or operating concessions should be considered for any new ADB lending. CPS sector road maps should identify potential and government plans for PSP in each sub sector.

Increasing partnerships with public entities that have potential for PPP operations

ADB's public sector operations after the Poverty Reduction Strategy (PRS) gradually moved away from investment support for national highways, water utilities in large urban areas, and power generation projects toward funding the development of state and rural roads often in less developed areas of the country, water supply systems in secondary towns/rural areas, and rural electrification projects.

While these activities are crucial for meeting the Millennium Development Goals (MDGs), they usually do not easily lend themselves to PSP. Also, relationships with key utilities/public services providers that are good parameters for PPPs have been difficult to maintain/build under these circumstances.

It is noteworthy that many PPP transactions that materialized with ADB support, e.g., Theun-Hinboun, Nam Theun II, Meghnaghat, Karachi Electric Supply Corporation, Pathum Thani, and Phu My projects, had their origins in a long-standing relationship between ADB and the relevant government utility. To implement Strategy 2020, ADB must (i) pro-actively seek relationships with key utilities to prepare them for private sector involvement, and (ii) allocate sufficient TA funds for this purpose.

Improvement of the effectiveness of support for infrastructure financing

Previous financial intermediation-type loans for infrastructure projects were only partly effective. ADB should identify and financially support innovative financing mechanisms and credit enhancements for infrastructure projects in both, its public and private sector operations. The objective should be to catalyze funds from other sources through products and mechanisms that primarily provide risk mitigation. There may also be need for assistance that helps develop Delegated Management Contract (DMC) capacity for infrastructure financing.

It is important to recognize that infrastructure financing has not been constrained by a lack of funds per se, but by the failure of financial systems to translate savings into long-term funds for investment, and by structural problems that constrained the development of bankable private infrastructure projects. This would not necessarily rule out investments in specialized institutions that can act as financial advisors for PPP transactions or the provision of long-term debt financing to viable financial institutions in cases where ADB assistance can indeed help leverage additional funds, improve lending practices of such institutions, or address long-term funding needs that could otherwise not be met. However, the development of corporate and municipal debt markets and related support will likely be more effective and sustainable in mobilizing long-term resources than the provision of direct financial assistance. A recent IED study points out the issues affecting bond market development and associated assistance needs.

Infrastructure Development in PPPs

PPPs are also increasingly expected to improve the efficiency and quality of service delivery, although these have tended to be secondary objectives for most countries in the Regions Global experience indicates the potential for private infrastructure (built, owned or operated by private sector for public use) to reduce project costs, improve quality and access to services, and improve efficiency.

The United Kingdom's (UKs) Treasury reported that 70% of non-PPP projects were delivered late, compared with 20% of PPP projects, and 73% of non-PPP projects went over the budget compared with 20% of PPP projects. In Australia, PPP projects generated project cost savings of 30.8% and were completed on average 3.4% ahead of time, whereas traditional public sector projects were completed 23.5% behind time. Actual levels of private sector financing for infrastructure have stayed below funding needs.

The trends in South Asia are slightly different, with private investment in infrastructure starting from a low base, but growing rapidly in recent years in the energy and transport sectors following the development of a comprehensive PPP program in India. Despite this rapid growth, levels of private investment in infrastructure have fallen short by a wide margin of the target levels presented in India's 5-year plans.

ADB has not yet adopted any transport sector strategy. The focus of ADB sector assistance has evolved and broadened over time. Initial support narrowly focused on completing network gaps, and rehabilitating and preserving assets. Subsequently, increasing attention has been given to improve the policy and institutional environment so as to increase efficiency and service quality, and enhance the poverty reduction impact of transport projects. In the roads sub sector, the strategic and operational emphasis shifted from highway/expressway systems to secondary and rural roads. ADB's TA operations also began to concern them with strengthening institutional capacity and sector policies and regulations in an effort to improve sector performance.

ADB has also sought to assist in improving the conditions for mobilizing private resources needed for investments and facilitate the use of PPP arrangements. However, there have not been any explicit strategies at the corporate or country levels to support ADB's PPP activities in the transport sector, other than general statements of intent to help include PSP in sector planning; create an enabling legal and regulatory environment for PPP in transport; develop model concession agreements; and identify and prepare pilot projects. There has been comparatively little focus on railways and port-related assistance.

The Activities of PPP (Public-Private Partnership) under RHD of MOC

In the Transport Sub-Sector, the participation of private sector by the side of the public sector requires to improve the facilities and services for the road users at an urgent basis. In concurrence with the actual requirement for the overall development of the country the following 13(thirteen) PPP Projects under Roads and Highways Department of the Ministry of Communication in Bangladesh have been taken for implementation as per The Annual Report 2012 of Road Division of the Ministry of Communication are as follows:

01. Construction of Dhaka-Chittagong Expressway,
02. Upgrading of Joydebpur-Debogram-Bhulta-Modanpur (Dhaka Bypass) Road into 4 lane,
03. Dhaka Eastern Bypass (Demra-Tongi) 4 lane Road,
04. Construction of Dhaka Western Bypass (Kodda-Baliarpur-Ruhitpur-Bourvita-Mukterpur),
05. Construction of Bourvita-Fatullah-Madanpur 4 lane Road,
06. Upgrading of Hemayetpur-Singair-Manikganj Road into 4 lane,
07. Development of Mynamati-B.Baria Sarail-Akhaura Road to 4 Lane,
08. Elevated Expressway from Oxygen Morh to Hatazari, Chittagong,
09. Development of Jhenaidah-Jessore-Khulna-Mongla Highway to 4 Lane,
10. Upgrading of Jatrabari-Sultana Kamal Bridge-Tarabo Road into 4 lane,
11. Upgrading of Dhaka-Sylhet-Tamabil road into 4 Lane,
12. Construction of Multi-Modal Hub Terminal at Shah Jalal International Airport, and
13. Construction of Sylhet-Bholagonj Road.

ADB Assistance Program for PPPs Assistance through the Public Sector Window

Public sector (sovereign) assistance for PPPs has been a combination of program loans, investment loans, financial intermediation loans and technical assistance (TA) projects. Thirteen (13) program loans in (five) 5 DMCs had components involving policy dialogue on the development of legal, policy, and institutional frameworks for PPP. Eight (8) investment loans included provisions for performance-based service or management contracts to operate and maintain ADB-funded public infrastructure, 2 (two) loans financed complementary public sector infrastructure investments for PPP projects, and 3 (three) loans funded government equity stakes in PPP arrangements (ADB 2000).

ADB has provided comparatively little support for PPP in the ports sector, but in the railways sector, it had a number of PPP-related initiatives despite its generally limited engagement in the sector. Despite involvement of the RDs in PPP-related operations in the transport and water sectors in a number of DMCs, there has been little PSOD engagement. Particularly in the power, port, and water sectors, the number of DMCs with PPP transactions has substantially exceeded the number of DMCs where ADB has had PPP support.

ADB has promoted the creation of enabling conditions for PSP in the roads, port, and railways sectors through its public sector window by supporting general sector reforms:

(i) Outsourcing O&M for highways in India (Madhya Pradesh), Kyrgyz Republic, Philippines, and Viet Nam;
(ii) Sector unbundling for ports in Indonesia and Indian Railways;
(iii) Establishing independent regulators for toll roads in Indonesia, ports in Pakistan and Sri Lanka;
(iv) Increasing competition in Sri Lankan ports; Introducing user fees and commercial pricing for expressways in the PRC, and toll roads in Indonesia;
(v) Acquiring land/right-of-way for toll roads in Indonesia; and
(vi) Strengthening integrated sector planning in the Philippines and Viet Nam.

More directly related to PPPs were assistance for and/or policy dialogue on the:

(i) Creation of an enabling legal and regulatory environment for PSP for highways in India, Indonesia, Pakistan, PRC, and Viet Nam, and for local ports in Indonesia;
(ii) Identification of PPP opportunities in PRC and Viet Nam railways and rapid transit systems;
(iii) Commercialization, corporatization, (partial) privatization of expressway companies (PRC), ports (Pakistan, Sri Lanka), and railways (Cambodia, Philippines);
(iv) Development of PPP modalities for highways in India and PRC, and for ports in Indonesia; and
(v) Development of pilot PPPs and related capacity development for highways in India, PRC, Sri Lanka, and Viet Nam, for ports in Indonesia and Sri Lanka, for railways in Cambodia, and for rapid transit systems in the PRC and Thailand.

ADB also incorporated PPP components in public sector investment projects. In India, a portion of the ADB-financed East-West Corridor of the National Highways Development Program was developed under BOT and the

ADB-financed Surat-Manor toll way is being operated and maintained by a private concessionaire. Supplementary Appendix H contains more detailed information on ADB assistance for PPP in the transport sector.

KEY FINDING OF THE STUDY

Public-Private Partnership can potentially capture significant productivity, efficiency and gains

PPPs are not a universal solution as experience with first generation PPPs shows. PPP procurement needs to be transparent and competitive, and projects properly identified and well designed so that risks are efficiently allocated to maximize opportunities to achieve Value for Money (VFM).

Lately, there has been renewed interest in PSP in infrastructure in Asia including the use of new PPP modalities. Several DMCs have embarked on comprehensive measures to support greater private sector involvement in infrastructure investment and services, and there appears to be scope for expanding PPPs and related support in many of these countries.

India's success in mobilizing considerable private sector resources for infrastructure, highlights the potential benefits of a comprehensive approach to PPPs, which involves the implementation of sector reforms, the systematic incorporation of PPP in sector development plans, PPP-related capacity development support for line ministries and state governments, support for project development by line ministries and state governments, and Government financing and financial support schemes. Indonesia and Pakistan, with comparable levels of support from ADB, are pursuing similar approaches with varying degrees of success so far, which appear to underscore the importance of overall investment conditions for PPPs.

Some infrastructure sectors are more conducive to PSP and PPP than others

The power sector has received significantly more private investment than the transport or water sectors. This is due to a range of reasons including better potential for cost-recovery, highest political commitment due to the sector's importance for economic growth, lowers level of stakeholder resistance to PSP, greater institutional capacity, more progress with sector unbundling and utility restructuring, the centralized nature of decision-making and funding, and the availability of established PPP procurement modalities.

Nevertheless, this does not mean that PPP in other sectors is without prospects. With appropriate modalities, support for capacity development, and political commitment to sector reforms, PPP is feasible in other sectors as well. It is noteworthy that while ADB's assistance was most successful for power sector PPPs, its assistance for roads was also successful, mainly due to the use of innovative PPP modalities that involved governments' assumption of the demand and a portion of the commercial risks. By comparison, ADB support for port PPPs was not successful on the average despite the sector's good scope for PPP. Assistance for cross-sector PPP frameworks can also help address some of the policy and capacity constraints affecting particular sectors.

PPP support has not substantially increased PPP transactions in most DMCs

The responsible factors are mentioned bellow-

First, private sector interest in PPPs is dependent on prospects for economic growth, political stability, the quality of the legal environment, the overall investment climate, the political economy, general business and procurement practices, the presence of local infrastructure developers, and the development of local capital markets, areas that have not been sufficiently addressed and continue to constrain investment in many DMCs.

Second, institutional capacity for developing and implementing PPPs is still low in most DMCs. PPPs put substantial demands on governments with regards to project identification and development, contract negotiation, the establishment of regulatory capacity for PPP supervision and contract monitoring, benchmarking, and management of social impact.

Third, the development of PPPs is a long-term process requiring sustained assistance for extended periods. The reform agenda for PPPs is complex and the process of reforms typically drawn out. Isolated interventions are less likely to have a discernible impact. Particularly in larger DMCs with significant PPP potential, extensive support for establishing adequate legal, regulatory, and institutional frameworks is required.

Fourth, assistance for the establishment of PPP frameworks alone is not sufficient, and needs to be accompanied by support for the development of “pathfinder projects” that are structured in line with best practices. Resources allocated for this purpose were often inadequate and potential pilots not well chosen. However, ADB experience also shows that successful pilots do not guarantee equally successful repeat transactions, particularly in countries with low capacity.

Fifth, private infrastructure projects had to compete with more lucrative investments for scarce domestic investor funds.

Sixth, the Asian financial crisis, while not directly affecting the majority of ADB-supported transactions, highlighted risk allocation and governance issues associated with many first generation PPPs, which at least temporarily reduced DMC interest in PPPs.

Improving public perceptions of PSP will require greater transparency, improved transaction design and oversight, and better mitigation of any social impact. Project cancellations, low returns, and global industry changes has also affected interest of international investors and operators in emerging markets infrastructure. Nevertheless, some international companies have, since the crisis, returned to Asia, and there have been an increasing number of domestic infrastructure companies in India and the PRC, which indicate scope for further expansion. Indian and PRC companies have also started to invest in infrastructure projects in other DMCs.

The potential for PPP projects at local government levels has to be carefully assessed

Decentralization and devolution in a number of DMCs have increased political interest in PPPs at local government levels. Water projects in particular tend to be implemented with local government involvement. More than 245, mostly non-ADB funded, PPPs involve local water utilities in DMCs, although less than 10 percent of these were implemented outside the PRC. There is comparatively little evidence of local-level PPPs in the other studied infrastructure sectors, in which local governments tend to play a less pronounced role. Despite a large number of road PPP projects at the state/provincial levels in India and the PRC, investment in transport projects at sub state/provincial and municipal government levels has mainly been limited to the PRC, which accounts for 10 out of 15 of such projects in DMCs.

There are questions regarding the feasibility of many local government PPP projects, given their small scale, limited bank ability, and associated political risks. Experience in the water sector indicates some developer interest-even by international water companies-to participate in smaller-scale local PPPs. However, effective demand will have to be carefully assessed up-front. Supply-driven support schemes including project development or financing facilities are unlikely to be of help if there is no effective demand. Earlier ADB assistance efforts in Indonesia and the Philippines involving support for preparing PPP transactions were unsuccessful mainly due to lack of commercial feasibility of identified project opportunities, limited buy-in by local authorities, and regulatory constraints.

Sustained political will is the ultimate determinant of PPP success

The Indian experience, among other things, shows the importance of high-level political commitment and support for obtaining buy-in for PPPs from stakeholders at various levels. Without the support of key stakeholders, PPP arrangements either did not materialize or were unlikely to last. Opposition to change and fear of consequences (job losses, higher tariffs, loss of political control) and resistance by non-governmental organizations opposed to private sector entry have thwarted many attempts to introduce PPP, particularly in the water sector.

The development of PPPs was derailed in several DMCs, e.g., Indonesia, Nepal, and Sri Lanka, due to changes in (local) government commitment. The challenge in introducing PPPs is to make political leaders at all levels understand that PPP, if structured properly, could indeed be the most effective and fastest way of improving utility performance, and the quality and reliability of services provided. Support for public comparator analyses and the introduction of VFM concepts/methodologies can play an important role in establishing the case for more PSP. ADB should consider initiating support for a sustained program of advocacy and outreach to DMCs to clarify the role of PPPs and their potential benefits. The target audience of these outreach efforts should be decision makers (politicians, nongovernmental organizations, the media, key government sector agencies) and not, as is often the case, the “converted.” There has been comparatively little assistance provided for this purpose so far, also because many bureaucracies are not used to explaining and justifying their plans and decisions to the public and have not requested support in this area.

PPP is a substitute for reform:

Too often, the private sector is seen as a solution to long-standing sector efficiency problems. That is true only if contractual arrangements and their enforcement provide adequate incentives for performance, and if the private partner is given the tools and means needed to achieve the contract targets. Private operators cannot succeed if they are subjected to the same constraints that caused the public utility to fail. The ability to make decisions free from undue political interference and micromanagement is crucial. Tariff issues are a particular concern, and cost-covering tariffs are a condition for many PPPs that do not rely on off-take contracts.

The success or failure of a PPP arrangement depends on the quality of documentation, and processes and risk-sharing arrangements

Poorly constructed PPPs with uneven risk allocations are more likely to fail, as evidenced by the experience with many "first generation" BOT projects. Successful and sustainable PPP arrangements require the careful selection of options, coupled with a clear up-front understanding of and commitment of the public and private partners to the obligations each is to assume.

Most successful PPPs were based on: (i) Full understanding of the options available; (ii) Well-defined objectives and realistic expectations shared by key stakeholders and partners utility management, politicians, customers, civil society; (iii) Clear contract scope and conditions with properly defined and allocated risk; (iv) Transparent and competitive selection of the financier/contractor based on good bidding documents; (v) Appropriate and unambiguous legal documents with effective arbitration arrangements; (vi) Competent contract regulation and oversight by the public partner; and (vii) Common goals and trust between the private and public partners.

PPPs have to be mutually beneficial to both public and private sector partners to succeed in the long run. Market feedback should be sought to understand the concerns of project developers and financiers. Bangladesh has been changing from within itself attributed to increasing GDP growth, per capita income growth, creation of job opportunities in farm and non-farm sectors, growth in manufacturing and exports, trade and commerce due to infrastructure improvement realized so far along with other contributing factors.

Although Public-Private Partnerships (PPPs) are not the only solution for the many problems of public management, they have contributed substantially to improve public services, and continue to provide government with much needed resources to close the infrastructure gap. This research has attempted to highlight the current thinking on PPPs, especially as regards to local authorities. In addition to the risks and challenges discussed above, governments and donors deciding whether to engage in PPPs should consider how to build on existing capacity rather than impose solutions. In the same vein, they should seek to understand the nature of skills that are lacking; constraints to PPPs are usually due to a lack of professional skills rather than managerial skills.

Successful project development and the design of a contract agreement fair to all parties are extremely important for the motivation of the private sector in infrastructure development. However, these tasks require special skills and expertise that may not always be available to public sector agencies. Approval of private infrastructure projects should also be clear to all parties. Furthermore, the planning and implementation of private sector infrastructure projects need to be integrated with the national planning process. There is a need for an inside sponsor or a special unit for the accomplishment of these objectives.

In its first three years of operation, International Institution of Foreign Currency (IIFC) has gained considerable experience as an inside sponsor for the promotion of private sector involvement in infrastructure development in Bangladesh. Based on its experience, the following observations may be made which could be of relevance to other countries:

(a) The concept of a special PSP/PPP unit as the inside sponsor of private sector infrastructure project needs to be discussed and understood more thoroughly. The discussions should include the prospective private developers or outside sponsors;

b) Project recognition skills are extremely important for an inside sponsor and this can be ensured through a commercial focus, and

(c) The concept, with some revisions based on the lessons learned, may be of assistance to countries, which are facing difficulties in increasing private sector participation (PSP) in infrastructure development projects.

CONCLUSION

Although public-private partnerships are not the only solution for the many problems of public management, they have contributed substantially to improve public services, and continue to provide government with much needed resources to close the infrastructure gap. This research has attempted to highlight the current thinking on PPPs, especially as regards to local authorities. In addition to the risks and challenges discussed above, governments and donor deciding whether to engage in PPPs should consider how to build on existing capacity rather than impose solutions. In the same vein, they should seek to understand the nature of skills that are lacking; constraints to PPPs are usually due to a lack of professional skills rather than managerial skills.

After all, road and transportation projects demand substantial capital and available right of way. Also, will the private sector partner save money or want to save money on maintenance? This will depend on how the PPP contract is written and whether or not there are any benefits for the private sector partner in saving money on maintenance. Are PPP profits limited to investment or return on revenue? Either could provide an incentive to search out cost efficiencies or to ignore them. It all depends on how the contract is written. Suffice it to say, more longitudinal study of international existing PPP contracts will be needed to settle the public policy debates on the advantages/disadvantages of PPP.

Successful project development and the design of a contract agreement fair to all parties are extremely important for the motivation of the private sector in infrastructure development. However, these tasks require special skills and expertise that may not always be available to public sector agencies. Approval of private infrastructure projects should also be clear to all parties.

Furthermore, the planning and implementation of private sector infrastructure projects need to be integrated with the national planning process. There is a need for an inside sponsor or a special unit for the accomplishment of these objectives. In its first 3 years of operation, IIFC has gained considerable experience as an inside sponsor for the promotion of private sector involvement in infrastructure development in Bangladesh.

Regardless of the road transport project contract type, the trend indicates that transportation contracts will be larger, both in size and dollar amounts with greater public-private partnership. So, it is essential to build up the relation of public-private on the basis of Roads and Highway in Bangladesh

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