

Public-Private Partnerships for Vision 2041

Private Sector Role and Investment Opportunities

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Ports of South Korea: *A PPP Success*

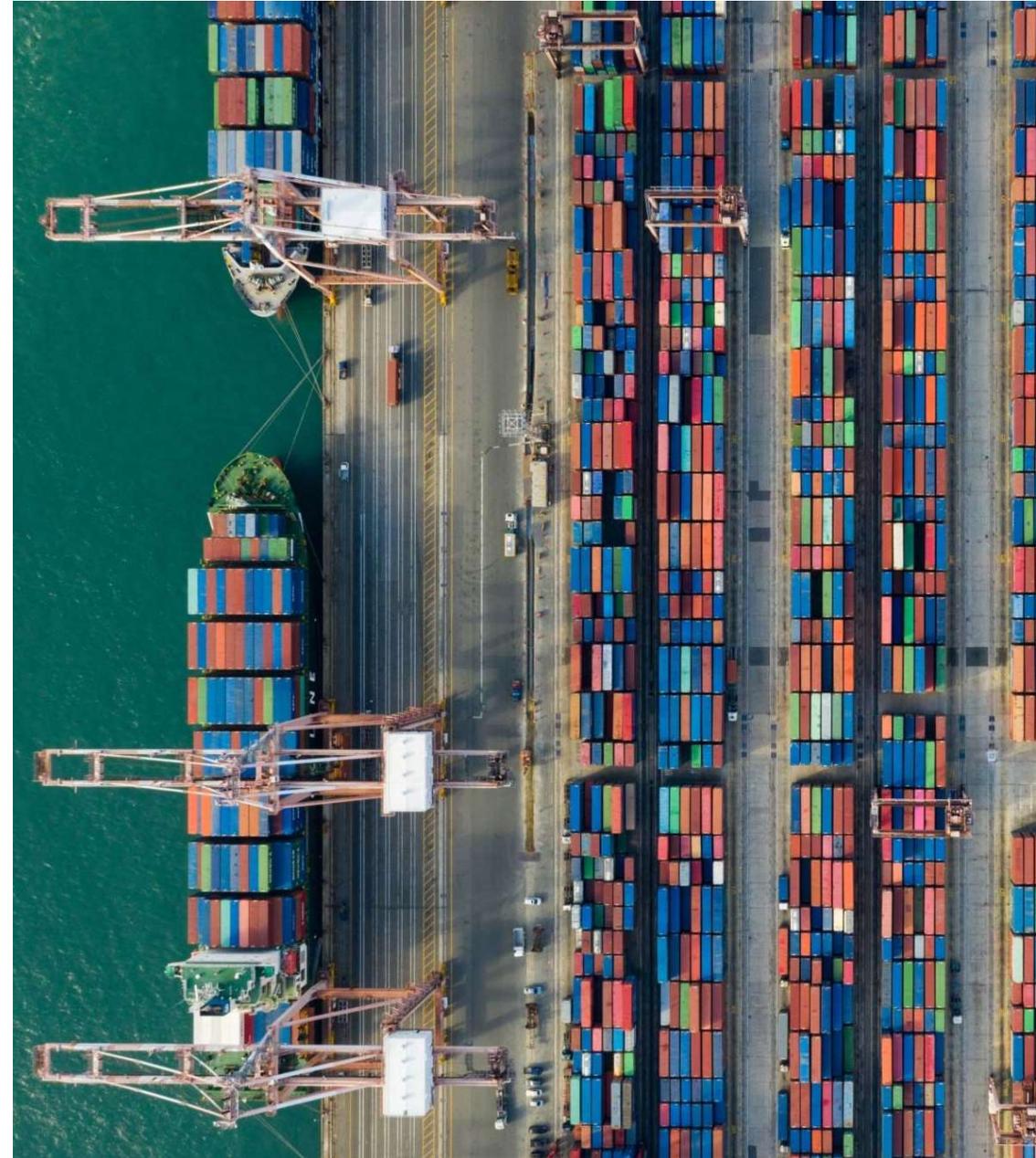
Overview

- 19 port facilities executed under a Build–Transfer–Operate (BTO) PPP mechanism including expansion of the **Port of Busan**, the seventh busiest port in the world.
- Total investment value was **USD 6.4 Bn** and represented 12.5% of all port investments.
- By comparing the PPP projects with the turnkey based government projects, the study estimated that USD 0.56 Bn i.e. **8.8% of investment value was saved**.

Success Factors

- Detailed **independent feasibility studies** were completed to optimize implementation and resulted in 8.8% savings.
- **Competitive bidding processes** i.e. there are multiple bidders ensuring fair contract values costs and quality outputs.

Source: ADB



Olympia Motorway, Greece: *Challenges and Lessons Learned*

Overview

- 3 major motorways under one project.
- Total original investment value was **EUR 5.9 Bn** out of which the EU funded 19% of costs.
- Execution delays and over-runs **cost the EU and additional EUR 1.5 Bn** while reducing the project scope by 35%.

Source: European Court of Auditors

Challenges Faced

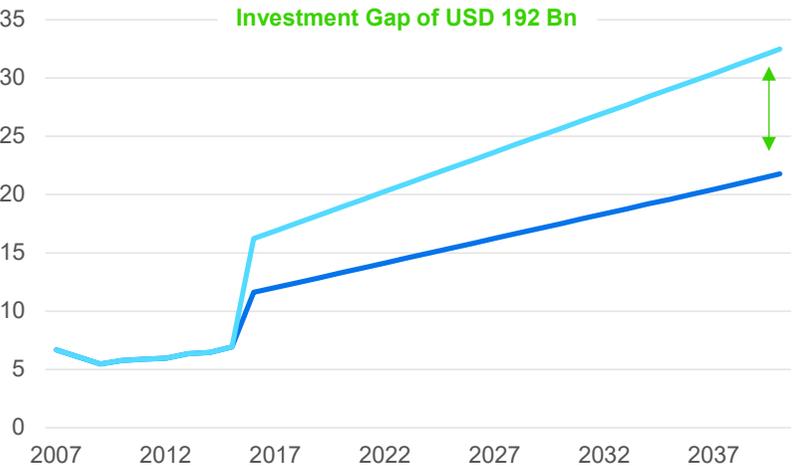
- Utilization was 35% lower than initially envisaged resulting from **inadequate analyses and comparative studies**.
- Poorly designed projects and **PPP contracts signed before land issues were solved** resulting in EU paying additional EUR 705 Mn to clear archaeological sites.



Strategic Goals & Requirements for 2041

- 1. Eradication of extreme poverty by 2031 and reducing **poverty to less than 3% by 2041**.
- 2. Upper middle-income country by FY 2031 and high-income country by 2041.
- 3. Industrialization with **export-oriented manufacturing** will drive structural transformation into the future.
- 4. Paradigm shifts in agriculture will enhance productivity and ensure nutrition and food security for the future.
- 5. A **service sector** of the future will provide the bridge for the transformation of the rural agrarian economy to a primarily industrial and digital economy.
- 6. The **urban transition** will be an essential part of the strategy to move to a high-income economy.
- 7. Efficient **energy and infrastructure** will be essential components of the enabling environment that facilitates rapid and sustainable growth.
- 8. Building a Bangladesh **resilient to climate change** and other environmental challenges.
- 9. Establishing Bangladesh as a knowledge hub country for promoting a skill-based society.

Infrastructure Requirement



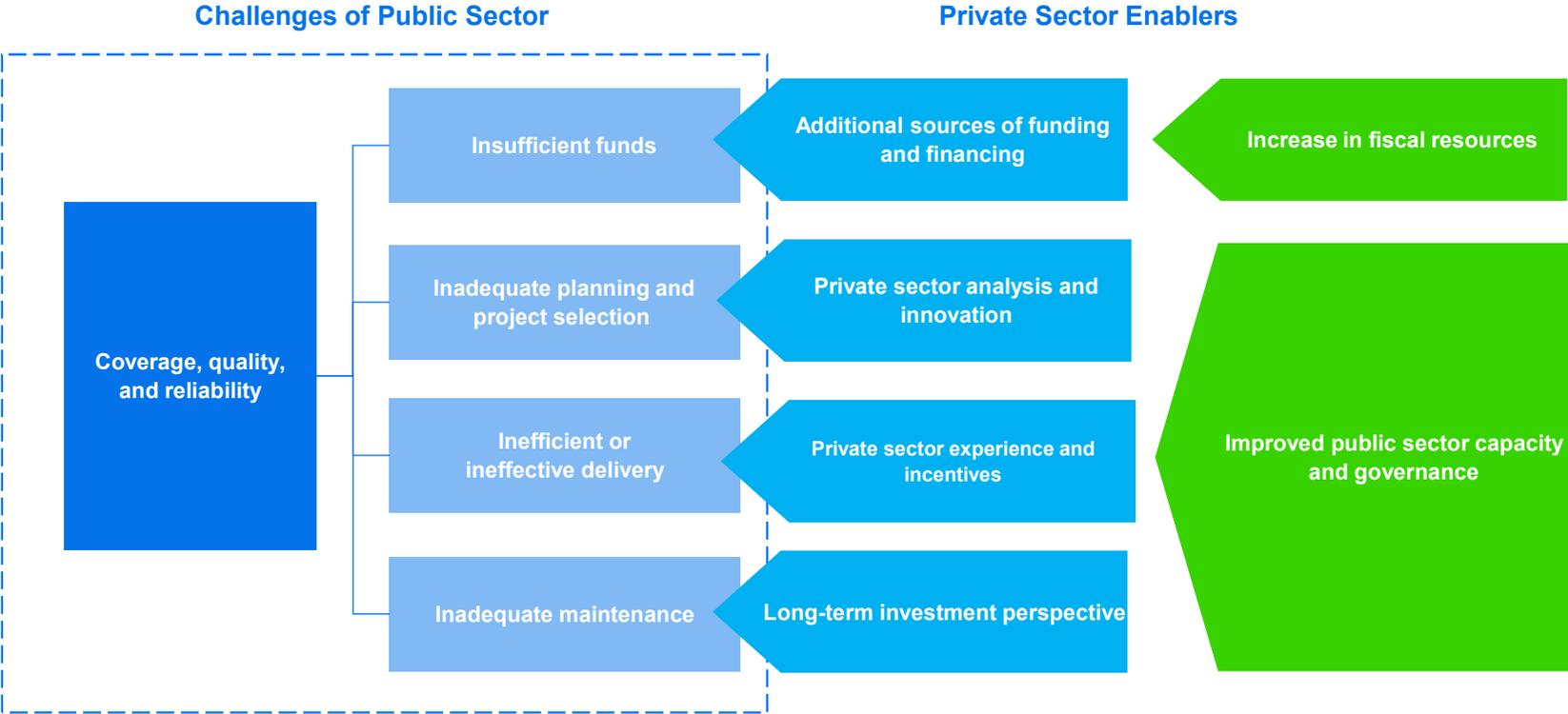
Source: Global Infrastructure Hub
— Current trends — Investment need



■ Energy ■ Telecommunication ■ Transport: Ports ■ Transport: Rail ■ Transport: Road ■ Water ■ Airport

Public-Private Partnerships (PPP) Overview

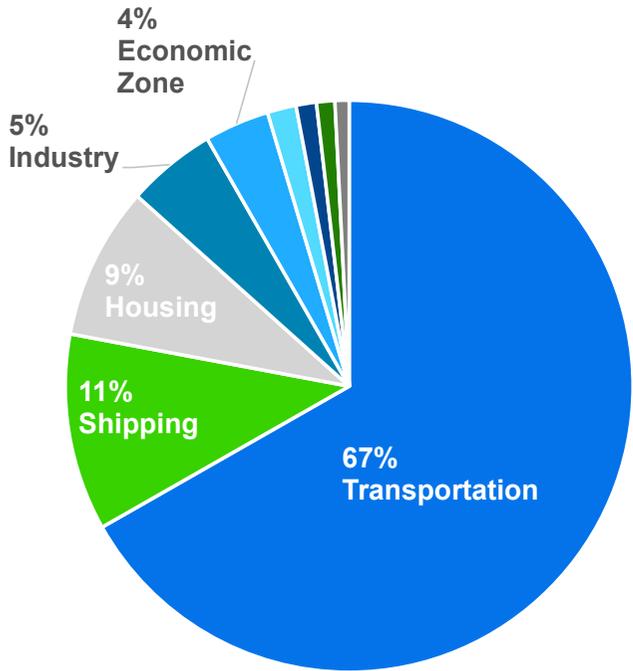
PPP is a long-term contract between a private party and a government entity for providing a public asset or services, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. The mechanisms by which PPP can help improve infrastructure delivery are often summarized as ‘value drivers’—that is, how using PPPs to provide infrastructure can achieve value for money. These value drivers are often integrated in the PPP policies.



PPP Landscape in Bangladesh

77 Projects | USD 22.5 bn

Tracked under the PPA (and does not include the power sector).



Strengths

- Strong **political commitment** from policy makers which translates to the right policy frameworks.
- The enactment of the PPP Act in 2015, Procurement Guidelines 2018, and clear project screening, technical assistance financing, viability gap funding (VGF) guidelines.
- **Policy framework recognized by the ADB PPP Monitor.**

Economist Intelligence Unit Infrascope Index for PPP						
	Overall	Regulation	Institution	Maturity	Investment & Climate	Financing
BD	66	65	90	71	56	47
APAC	58	58	64	57	64	46
Global	59	59	58	59	62	44



Success of PPP in Bangladesh *The Power Sector*

- Installed capacity has grown **4.2x** from 5,305 MW in 2008 to **22,482 MW in 2022**.
- Total PPP investment of **USD 5.2 bn between 1990 – 2019**.
- Alignment across all pillars:
 - Strong **political commitment** backed by economic growth ambitions.
 - Globally **recognized legal framework** and structuring through off-take agreements (PPAs).
 - Capacity payments and demand side subsidies made the projects **bankable**.
 - Private partners had record in public infrastructure, ensuring **timely execution** and subsequent maintenance agreements.

Public-Private Partnerships (PPP) & Success Factors

Public-Private Partnerships (PPP) respond to a **gap in the market requirement**. There is a public need but not economical for the private sector on a standalone basis. Hence, the public sector needs to make these projects adequately attractive to incentivize private participation and benefit from private sector efficiency.

Public Sector



Political Commitment



Legal Framework

Private Sector



Economics



Execution



Bankability

PPP Pillars – Public Sector’s Role



Political Commitment

- **Enact required laws**, design the right incentive structure, and governance structures. **Achieved** in Bangladesh through the PPP Act in 2015 and subsequent guidelines in 2018.
- Political will also **gives strength to risk mitigants** such as sovereign guarantees and political risk insurance.
- The public entity needs to **secure land rights**, environmental clearances, and support to obtain necessary licensing and approvals.



Legal Framework

- Contracts need to be bankable with **clearly defined responsibilities** of the private and public sector participants.
- Clauses for force majeure, termination provisions, and dispute resolution terms need to be clearly articulated.
- The World Bank’s **International Centre for Settlement of Investment Disputes (ICSID)** can be leveraged to adopt global best practices.

PPP Pillars – Private Sector’s Role



Economics

- Look at **cost optimization** and not be the lowest bidder.
- For projects in developing markets, required **Return on Equity (RoE) is 15%**.
- Engage **advisers with adequate experience**. Absorb up-front costs for the right expertise.
- Financial partners will get adversely affected for long term PPP projects under Basel III guidelines. **Participate in risk sharing** with ECAs, DFIs, and other multilateral agencies.



Execution

- Good **governance in procurement** is critical to ensure open and unbiased tendering with wide private sector participation.
- Secure **global and local expertise** with sufficient research, **data, and feasibility assessments** at the outset of implementation.
- Ensure that the **project management, implementation,** and governance should have **private sector experts**.
- **Timelines, interim milestones,** and obligations if milestones are not need to be **clearly articulated and agreed** at the outset.

PPP Pillars – Private Sector’s Role



Bankability

- Lenders seek **protection through the contract** between the Project Company (borrower) and the government. Key protections to consider:
 - **Compensation-on-termination:** Allows recovery of outstanding debt and exists as an incentive to stop 'hair-trigger' termination
 - **Step-in rights:** The lender has the right to replace the Project Company or operate the asset themselves and collect the cashflow
 - **Guarantees:** Lenders may require certain guarantees on project revenue and other risks (e.g. political risks such as nationalization).
 - **Collateral:** This is particularly challenging for Bangladesh as the underlying land tends to be publicly owned.
- The **underlying usage data** (e.g. road traffic; port throughput; etc.) needs to **accurately predict the future cashflow** (e.g. tolls and port fees).



PPP Challenges and Recommendations

No.	Challenge	Recommendations
1	<p>Access to Land</p> <ul style="list-style-type: none">• There is no regulation regarding land rights under the PPP framework and land documentation is largely manual.• Laws to follow: (i) 1950 State Acquisition and Tenancy Act (ii) Transfer of Property Act of 1882, (iii) Registration Act of 1908, and (iv) Land Reforms Board Act of 1989.• These laws and regulations make it complex, long, and costly to administer and find relevant information for a piece of land.	<ul style="list-style-type: none">• Increasing access to and preservation of property records should be initiated by computerizing/digitizing all land records and property title registration.• PPPA authority can have a coordinator for (i) ministerial approvals for land leases (ii) resettlement and relocation (iii) assess land related costs at the outset.
2	<p>Implementation Capacity</p> <ul style="list-style-type: none">• Government employees overseeing execution have short term appointments while PPP projects are long-term in nature.• Project review and milestone tracking are done by an inter-ministerial committee.	<ul style="list-style-type: none">• Targeted capacity building in the line ministries and implementation authorities. This can be done in partnership with multilateral agencies like the ADB with significant experience in the space.• The PPA needs a strong board of advisors which spans both private sector and multilateral agencies with representation across key PPP components – finance, legal issues, and EPC.

PPP Challenges and Recommendations

Bankability Challenge

- 3 • Lack of sufficient protections for lenders as well as confidence in future cashflows limit bankability. This in turn creates challenges for long-term financing.

Recommendations

- Engage financial advisors and legal team at the onset for **market-sounding i.e. incorporating contractual terms that will make the project bankable**. This will provide necessary comforts for lenders to offer optimized debt strategy through short and long-term solutions.

Solutions & Opportunities for Investors

Project Finance

- a. • Lenders provide loans to the **Special Purpose Vehicle (SPV)**. Their recourse in case of default is limited to the cash flows generated by the assets of the SPV but not to the balance sheet of the equity investors. Lenders will typically have security over the assets of the SPV.

Refinancing

- b. • **Take-out financing**, in which a second lender promises to take over a loan at some future point—thereby encouraging the original lender to provide longer-term debt during the construction phase.

Capital Market Instruments

- c. • Existing debt can be refinanced through **project bonds for pension or sovereign wealth funds** with appetite for long term investments. New solutions such **sustainable bonds** or **sukuk bonds** can be pursued for a wider range of investors.

Results-Based Financing (RBF)

- d. • Enhance access to and delivery of infrastructure and **social services** using performance-based incentives, rewards.

Opportunities *Aligned to Country Priorities*



Logistics for Trade

- Essential for export growth and competitiveness. Will carry strong political commitment to execute.
- Well defined off-take and cashflow.
- Globally established PPP model for **sea-ports, airports, inland container depots, and highways.**



HealthCare

- Demand linked to rising income and growing affluence.
- Government priority to increase access in semi-urban/rural settings.
- **Precedence for consumers willing to pay.** Hence, lenders can take comfort in a longer pay-back period.
- **Established private entities** who can deliver in the space.



Education

- Targeted training programs in **priority sectors like IT or vocational training** for manpower export.
- Promotes a skill-based society.
- Financing may need to include multilateral support.
- Regionally successful cases include Philippines, Nepal, and Sri Lanka.



Resilient Infrastructure

- The **scale** of the requirement is not solely feasible by public/private entities. **Naturally lends to PPP.**
- One project can address multiple **SDG targets.**
- Funding appetite from multilateral partners and institutional investors.

PPP for Vision 2041

- 1**

Investment Gap of USD 192 Bn
Country's plans are ambitious and the public sector alone cannot fulfil the requirement.
- 2**

PPP to Leverage Private Sector Enablers
Access to additional sources of financing, efficiency, innovation, and management practices.
- 3**

Project Design & Ensure Bankability
Pragmatic approach on data analysis to predict future demand and incorporate sufficient protection for lenders.
- 4**

Mobilize Institutional Investors & Capital Markets
They can generally provide longer tenor, and — as risk is lower after the construction phase — can often provide cheaper debt.
- 5**

Governance
The project team should consist of experts in the field. These teams should not be government agents/nominees nor proxies from the private partner.

Thank You



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