Public-Private Partnerships in Bangladesh's Power Sector: Risks and Opportunities

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Overview

- Evolution of the idea of PPPs in recent years
  - Definition, link to NPM, regulation, corruption and other risks, efficacy, transfer to developing countries
- PPPs in the Bangladesh Power Sector
  - Constraints to new Power PPPs, including corruption risks
  - Evaluation of policy responses
Public Private Partnerships 1

- Definition: contractual partnerships with shared risks and responsibilities
- NPM: competition, incentivization and fragmentation
- Regulation: input or output focus?
Risks: weak procurement, moral hazard, and asymmetric capacities

Added challenges in developing countries: governance arrangements heighten corruption risks
Bangladesh Power Sector

- Power shortage costs 2% pa in growth
- Rate subsidy 4% of government budget
- Fuel mainly domestic gas (83%); coal reserves could fuel all power for 25 yrs
- Since 90s, encouraged PPPs, but no new ones since 2001.
Constraints to Power PPPs

- High risk premium: likelihood of government default
- Small number of bidders
- Irregularities and rent capture
- Protracted decision making
- Few IPP successes
i) Projected Rapid Growth of IPP

Risks of future government insolvency, inadequate fuel supplies and contract enforcement in general

High risk premiums

ii) High Financing Costs

Doubts about long-term ability of government to pay

iv) Procurement Rents more attractive than Production/Distribution Rents

ii) High Financing Costs

Increased risk for bidders because of corruption

Investments in relationships required to mitigate risks

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iii) Small number of players remain in final bidding

vi) Very few successes in IPP investments

v) Protracted decision-making and high chances of blocking by losing factions

High-cost successes raise risks of future government default

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Adverse selection

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Upfront rents result in intense competition within party and bureaucracy

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Policy Responses

- Strengthening procurement
- Long-term, affordable financing
- Formal PPP regulatory framework
- Priorities for international assistance