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: contractural partnerships with shared risks and responsibilities
- NPM: competition, incentivization and fragmentation
- Regulation: input or output focus?

Public Private Partnerships 2

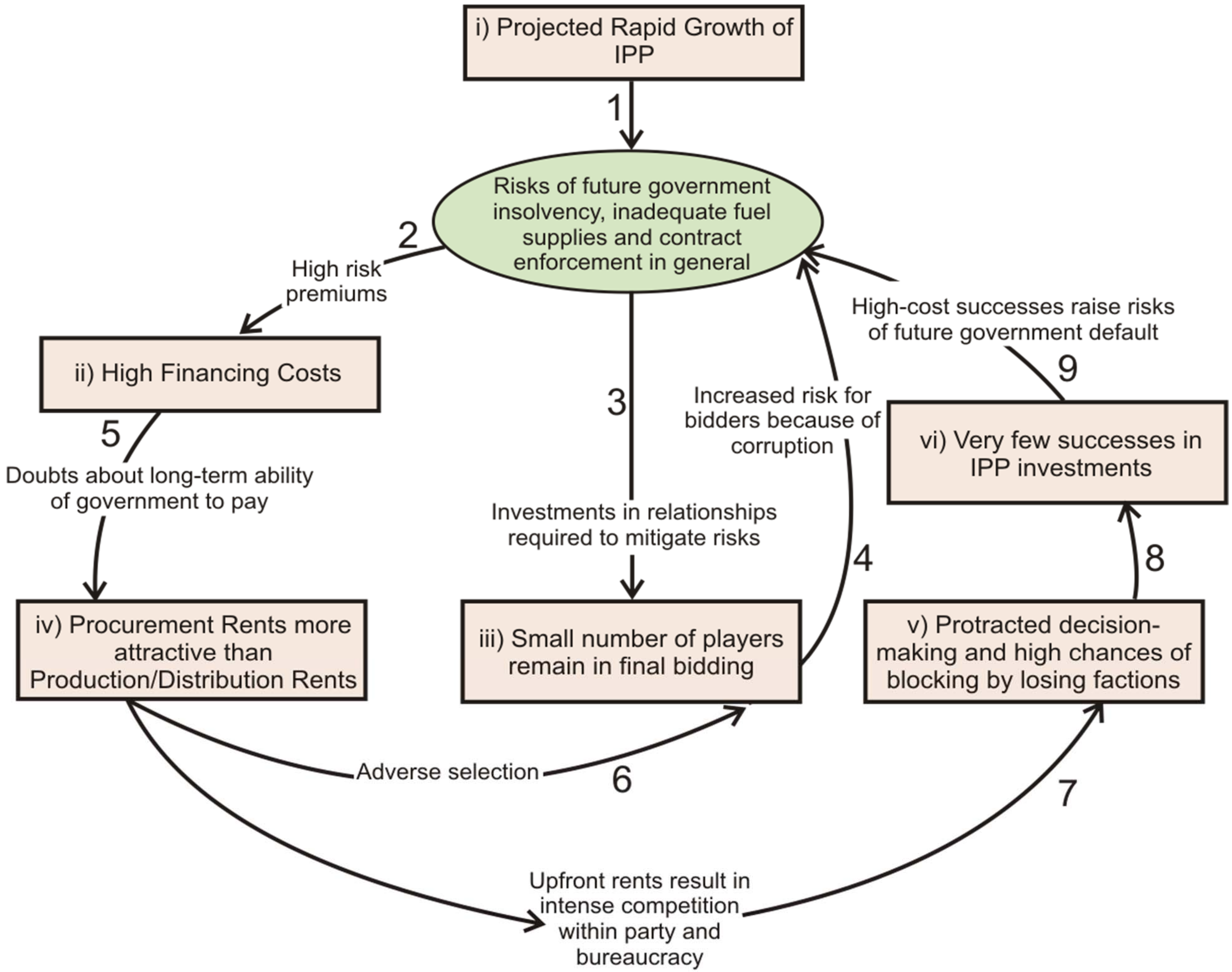
- Risks: weak procurement, moral hazard, and asymmetric capacities
- Added challenges in developing countries: governance arrangements heighten corruption risks

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
1
Risks of future government insolvency, inadequate fuel supplies and contract enforcement in general
2
High risk premiums
ii) High Financing Costs
3
Investments in relationships required to mitigate risks
Increased risk for bidders because of corruption
4
High-cost successes raise risks of future government default
9
vi) Very few successes in IPP investments
5
Doubts about long-term ability of government to pay
iv) Procurement Rents more attractive than Production/Distribution Rents
iii) Small number of players remain in final bidding
v) Protracted decision-making and high chances of blocking by losing factions
8
Adverse selection
6
7
Upfront rents result in intense competition within party and bureaucracy

Policy Responses

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