4

Improving Private-Public Partnerships in South Asian Transport and Logistics

This chapter examines the opportunities for public-private partnerships for developing an efficient transportation system in the region. It begins with a review of the views and comments presented in a discussion among private sector transport users and operators in a World Bank-sponsored consultative workshop in Kathmandu on February 4, 1999 (see Background Note 1 for the proceedings). The private sector expressed strong dissatisfaction with the existing state of freight transportation for domestic and international markets, especially the problems of route and mode restrictions, onerous cross-border procedures, and lack of consultation with users in bilateral and multilateral discussions on a cross-country route and mode choices.

Private sector groups are pursuing improvements in trade relations and transport logistics to ensure a smoother flow of goods and cost-effective services among the countries in the region. The purpose of the Kathmandu consultative meeting was to discuss specific regional constraints to the movement of goods and means of facilitating services. Four specific topics were discussed:

- Priority corridors,
- Cost of transit formalities,
- Recommendations for the role of the private sector, and
- Suggestions for government actions

The previous chapter discussed the first two items. The following section covers some of the specific problems identified by the participants. The remaining sections discuss specific examples of private sector involvement and conclude with lessons learned from international experience in private sector involvement in public transport infrastructure.

There was general agreement among the four representative groups about issues affecting regional transit and the need for interaction between the private and public sectors to improve transit of trade in multilateral or bilateral protocols. The Nepal transit facilitation initiative, which included the establishment of a broad-based trade and transport facilitation committee, was seen as a positive step toward bringing together the private and public sectors, providing cost-effective infrastructure, and influencing the renegotiations of transit treaties while prioritizing the facilitation of transit formalities.

The following issues were found to be common to all four countries:

- Poor harmonization of documents and procedures between the countries;
- Cumbersome cross-border procedures due to the high rate of inspections;
- Requirements for multiple copies of numerous types of documents;
- Manual, not automated, processing of documents;
- Regulatory and physical restrictions to potentially cost-effective transit corridors;
- A failure to identify the most cost-effective transit corridors in multilateral and bilateral protocols, partly because of insufficient consultation with the users;
- Customs facilities and communications in need of modernization and streamlining;
- Custom officials in need of more training and export orientation before being posted at borders; and
- Poor dialogue between the public sector in its role of facilitator and the private sector in its roles of user, subject of regulatory systems, and potential contributor to public investment.

Many of these problems could have been avoided if government officials had consulted more closely with business leaders and business people involved in trade and transport before negotiating bilateral agreements and protocols.

The representatives said that these various constraints produced long delays and high costs for transport. The problems they mentioned in specific countries included:

- Gateways in northwestern Bangladesh that link eastern Nepal and Bhutan are limited to Burimari for Bhutanese traffic and Banglabandha for Nepalese traffic.
- Land ports in northwest Bangladesh have poor road access and egress.
- Treaty or protocol agreements established on a bilateral basis between Bangladesh and neighboring countries require double handling of cargo at the border due to the transfer from trucks of one jurisdiction to trucks of another jurisdiction.
- Container transport in Bangladesh is not included in the present transit protocol with India, thereby encouraging costly break-bulk handling of containerizable goods.
- Container escorts are compulsory en route to Calcutta for Nepalese and Bhutanese trade with countries outside the subregion.
- Long lines on both sides of the India-Bangladesh border result from inadequate transshipment facilities, onerous clearance procedures, and lack of truck-to-truck and rail-to-truck transfer facilities.
- Bribery and corruption exist at various official levels at border crossings and ports, which makes the speedy clearance of goods a costly activity.

- Roads are in poor condition in India on the routes to Nepal, Bhutan, and Bangladesh. Particularly bad are sections of roads in Bihar and Uttar Pradesh on routes from Calcutta to Nepal and Bhutan, and heavy congestion on the route from Calcutta to Benapole due to high traffic volume on narrow, poorly maintained two-lane roads.

- Arbitrary procedures exist concerning the exchange of goods between India and Bangladesh, and the prohibition of trucks of one country entering the other.

- Indian railways limit the choice of corridors for cross-border movements of wagons and containers.

- There is a lack of legislation for the transport of containers by road in Bangladesh.

- Transshipments are required from broad- to narrow-gauge railroads in India and Bangladesh.

- Bangladesh railways have capacity constraints, such as short loops and limited rail terminals, which if corrected would improve the utilization of Indian wagon capacity.

- Differences in wagon technology create time delays. This should be addressed in bilateral agreements between India and Bangladesh.

- India and Bangladesh should issue multiple visas to genuine importers and exporters as recommended by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and their constituent customers.

- The lack of insurance coverage for Indian goods in Bangladeshi government warehouses leads to large losses for Indian exporters. Bangladeshi insurance companies should provide coverage on import cargo, and banking and insurance norms followed by both nations' banks should be standardized;

- The formats for issuing letter of credit in Bangladeshi banks are not compatible with international informational norms, and nonfulfillment of letter of credit commitments by Bangladeshi banks presents problems for Indian exporters. The FICCI and FBCCI should resolve issues on a case-by-case basis in order to build the confidence of exporters and importers in both countries.

The representatives mentioned problems in specific locations, including:

- Poor performance at Chittagong and Calcutta ports, which increases the cost of trade to and from international markets because of poor management, labor problems, lack of infrastructure, rigid rules and regulations, and the failure of the landlocked cargo owners to claim their shipments in a timely manner. The rail connection between Radhikapur and Birol should be converted from meter gauge to broad gauge.

- The working times at Petrapole and Benapole are not synchronized. That is, operating hours and holidays at the two cross-border points differ, creating inefficiencies in traffic movement.

- Banglabandh has no customs clearance services unless authorities are notified in advance.

- Problems of work duplication at Ranaghat and Gede customs should be resolved by forming an Indian Export Processing Zone in Bangladesh, patterned after the Korean Export Processing Zone.

- Lengthy export procedures at Ranaghat should be reduced by posting an assistant customs commissioner at Ranaghat instead of Krishnanagar, and providing a single window customs clearance at Ranaghat or Gede.

DELEGATES' VIEWS OF THE PRIVATE SECTOR ROLE

The delegations recognized the limitations of the private sector in overcoming infrastructure shortcomings, but they voiced the desire to be consulted through appropriate trade organizations on all decisions concerning the negotiation and ratification of agreements and protocols related to regional trade. They also wanted to be consulted on other regulatory and trade matters. They offered the following comments about their prospective role.

- **Management of landports and logistics facilities.** There is a need for greater private sector involvement in the operation of these facilities and in the development of container transport. The current experience with private sector concessions in the Nepal Multimodal Project was mentioned as a good example of this involvement. Private sector activity should extend to the management of landport facilities and services, cargo-handling facilities and services, container operations, and facilities and labor.

- **Third-party logistics at the landports.** There is a need for the private sector to provide services, including freight forwarding, customs clearance, financial services, storage and warehousing, and general transit and shipping services at seaports and land border crossings. This needs to be supported by appropriate regulatory provisions and adequate government contributions for basic infrastructure facilitation.

- **Operations.** The private sector would work with appropriate government bodies through its trade associations to pass cost-effective transport policies, such as transit facilitation for Nepalese cargo moving in containers to the JNPT and facilitation of Nepalese and Bhutanese cargo transiting Bangladesh and India.

- **Electronic communications and improved procedures.** The private sector would support the introduction of new customs systems and procedures, especially the electronic communications interface with users. It would contribute to public-private training programs, as are being conducted in Nepal.

EXPECTATIONS ABOUT GOVERNMENT ACTION

Historically, the governments in the region have provided transportation infrastructure and transport services through state-owned corporations (such as the Bangladesh Inland Waterway Transport Corporation, Indian Railways, and Bangladesh Railways). In recent years, the private sector has replaced the government in providing trucking and inland waterway transport, but private sector participation in rail services has been limited. The government continues to provide infrastructure, but this has slowly started to change as government officials accept the need for private financing, especially for ports and expressways.

The delegates made a number of proposals for government action in trade facilitation. These proposals included:

- Harmonize government trade and transport policies and regulations (such as road transport regulations, customs, and insurance and liability) with transit treaty and protocol stipulations to encourage seamless multimodal transport. This includes the compatibility of key procedures and documents for trade, transport, and fiscal transactions. This effort should aim at a "one-stop window."

- Amend transit treaties and protocols to allow for a freer choice of transport routes and service providers, such as carriers and clearing agents. Service providers should operate under the coverage of regionally acceptable document and insurance.

- Institute a program of modernization for customs and cross-border facilities under the joint responsibility of national and local government authorities, supported as necessary by industry and trade associations.

- Increase the use of container transport by removing institutional impediments, such as the protocol between India and Bangladesh, which does not recognize container transport, and Bangladesh's trade and transport legislation, which makes no provision for road transport of containers.

- Construct ICDs in the region to encourage container transport outside of the main India rail transport corridors. This should be the joint concern of government and trade associations, and it should be supported by private investment as appropriate.

- Improve the access to credit and financial intermediation services throughout the region, particularly in the landlocked countries, so carriers can finance the development of an efficient trucking fleet in order to compete in cross-border transport markets.

The public sector should view the private sector not only as a user but also as a potential investor and a facilitator. Legal instruments and bilateral agreements should reflect the public and private sector interaction. Government officials should rely on the support of the private sector trade associations when defining the needs and responsibilities for operation and shared investment.

ORGANIZATIONS FOR INNOVATIVE PRIVATE-PUBLIC INVESTMENTS

Private sector-led activities in the subregion are a nascent but emerging force. There have been several interesting and innovative ways in which private sector participation has been elicited in the various countries. Some of these activities have been in predominantly public sectors. Some initiatives were geared toward the creation of a better investment environment with more active private sector participation. In other cases, the private sector is directly involved in logistic services. Four organizations that have been established to address private sector participation in logistics and transport infrastructure are the Emerging East Initiative, Infrastructure Investment Facilitation Center, Infrastructure Development Company Limited, and West Bengal Infrastructure Development Corporation.

Emerging East Initiative

West Bengal, Bangladesh, Bhutan, Nepal, and East India have joined efforts to coordinate economic development through a multicountry private sector forum under the Emerging East Initiative. This group has identified goals to improve trade and shipments of goods within the region, including the need for standardizing procedures and documents. This endeavor was initiated by the Indian Chamber of Commerce and has the support of the various countries involved as well as that of the Asian Development Bank. The forum is comprised of various industry and business leaders in the different nations as well as chamber members from each region. Its mission statement includes the following:

- To help promote subregional economic cooperation in the Emerging East Region, comprising of Bangladesh, Bhutan, Nepal and Eastern India;

- To accelerate economic development in this region for the mutual benefit of all the countries and its people;

- To identify joint initiatives that would further the cause of subregional co-operation in trade, investment, tourism, infrastructure, services and any other areas that could enhance the growth of the subregion;

- To strengthen the private sector and its organizations in individual nations of this subregion;

- To discuss, negotiate, promote, and undertake continuous dialogue with the government and relevant authorities;

- To promote the objectives of subregional co-operation and implementation of agreed initiatives, such as, those under the South Asian Growth Quadrangle;

- To propagate the benefits of subregional co-operation through the media to enhance the awareness of the people and the decision-makers in this region.

Infrastructure Investment Facilitation Center

Bangladesh has committed itself to improvement through its support of such institutions as the Infrastructure Investment Facilitation Center (IIFC). This is a group that the Bangladeshi government and the World Bank set up to help the government encourage private sector participation. Financing and technical assistance comes in part from the United Kingdom's Department for International Development and the Canadian International Development Agency. The IIFC's resources include expertise in engineering, economics, finance, competition and regulation, procurement, and contracting.

The IIFC is organized into two teams. One, which works on the design phase, is comprised of concession policy and design team specialists; the other, which works on the implementation phase, is comprised of transaction award and execution team specialists. The spectrum of partnership arrangements that are available range from a service contract to management contracts to leases, concessions, build-operate-transfer agreements, and, finally, divestitures. The IIFC will work together with the line ministries to address such questions as:

- What is the goal of the private sector participation arrangement—new capacity, new technology, wider distribution, or other improvements?

- Are the necessary political and stakeholder support systems in place, along with mechanisms for cost recovery, knowledge of existing infrastructure, an adequate regulatory framework, and appropriate sources of finance?

- What would be the best private sector participation option?

- What is needed in terms of assistance with concession design and the tendering and negotiation of a formal arrangement with the private sector?

Infrastructure Development Company Limited

The Infrastructure Development Company Limited (IDCOL) is a nonbank financial institution. It was established in Bangladesh in 1997 as a government-owned limited company. The board of directors is comprised of senior government officials and prominent private sector entrepreneurs. A team of project financial advisors assists this group.

The IDCOL's objective is to promote significant participation of the private sector in investment, operation, ownership, and maintenance of infrastructure facilities. The government of Bangladesh and the World Bank fund IDCOL, which has access to roughly US$225 million. The organization has garnered interest from other international agencies that are willing to provide additional funds if sufficient demand is realized. The intent of IDCOL is to participate as a lender in limited recourse project finance, based on satisfactory evaluation of all aspects of the projects, in conjunction with the private sector. Its specific focus is the infrastructure sectors, including telecommunications, ports, toll roads, and other logistics infrastructure as may be approved by the government of Bangladesh.

IDCOL will finance up to 40 percent of the total costs of the build-own-operate and build-operate-transfer types of projects. The sponsor must have 20 percent of the equity for the total capital contribution.

Current projects in IDCOL's pipeline total an estimated total US$1.1 billion, including various energy projects valued at $672 million, the $200 million Stevedoring Services of America, Bangladesh (SSAB) container port, and the estimated $200 million Bangladesh Telephone and Telegraph Board's (BTTB) 300,000 telephone lines.

West Bengal Infrastructure Development Corporation

The West Bengal Infrastructure Development Corporation Ltd. (I-WIN) is a joint venture between the All India Public Financial Institution, ICICI Limited (formerly the Industrial Credit and Investment Corporation of India), and the state government owned West Bengal Industrial Development Corporation Ltd. (WBIDC). I-WIN was formed in 1995 with the objective of promoting and facilitating infrastructure development in the state of West Bengal in India. It began operations in 1997. Its equity structure is comprised of 76 percent from ICICI and 24 percent from WBIDC. The board of directors includes professionals from ICICI and the state government. I-WIN participates in the following activities:

- Identifying suitable infrastructure projects for development, including the preparation of project feasibility reports and proposals for suitable financial structuring, mode of implementation, and appropriate ownership arrangements (such as the spectrum between purely private and purely public).

- Marketing properly packaged projects to potential domestic and international investors.

- Evaluating proposals for setting up infrastructure projects and assessing the competence of sponsors.

- Arranging finance for projects—equity, loans, and guarantees from the government, private sector, financial institutions, banks, and multilateral agencies.

- Providing project management services to selected projects.

- Advising the government on legal and regulatory reforms required to facilitate the flow of investments into projects.

Development efforts for the transportation infrastructure are focused on the following segments: roads and expressways, urban transportation and integrated area development, industrial parks, ports, waterways, and airports.

I-WIN also arranges requisite financing for infrastructure projects. Investments in Haldia include a major water supply project, internal roads, drainage, sewerage, and solid waste management systems, and commercial complexes. I-WIN is also involved in representing the state government's interest in a limited-access expressway that will connect Haldia, West Bengal, to the northern gateway city of Siliguri (in the northern part of West Bengal).

ORGANIZATIONS FOR PRIVATE OPERATIONS OF TRANSPORT INFRASTRUCTURE AND OPERATIONS

Under this emerging investment environment there have been several private-public partnerships in transport infrastructure and services traditionally restricted to the public sector. Examples of such initiatives include the contracting of operation and maintenance of the Jamuna Bridge in Bangladesh, the leasing contracts between Bangladesh Railways and the private sector, and a proposal for private development and operation of the port of Patenga in Bangladesh.

Jamuna Bridge Toll Operations

The concept of constructing the Jamuna Bridge began in 1964, seven years before the establishment of the Bangladeshi republic. The bridge was completed and became operational in June 1998 and was renamed the Bangabandhu Bridge. This is a multipurpose bridge providing road, rail, and gas connections between the physically divided regions.

A tender for private operation and management was awarded to an international joint venture consortium formed from South African, United Kingdom, and Bangladeshi corporations in June 1998. The contract involves the upkeep of all existing facilities, including roads, river, bridges, buildings, and equipment, as well as traffic management and the collection of tolls. The responsibilities include providing a maintenance management system, overseeing inspections of the main bridge structure and the east and west approach road, and routine maintenance inspections for the main bridge, river training, and highway structures.

This operation and maintenance five-year contract with the Jamuna Multipurpose Bridge Authority is based on a fixed fee to cover the provision of all defined services in the authority's area. Ownership, investment, and commercial risk reside with the government. The advantage of this arrangement for the government and the region is that the foreign private sector operator brings experience and foreign technology to the region, which may not have been feasible in a public arrangement.

Bangladesh Railway

Bangladesh Railway has involved the private sector in various initiatives to become more efficient, market-oriented, and financially self-sustaining. The efforts are aimed at enhancing productivity, improving service quality, and providing flexibility in the management of assets through leasing and BOT arrangements with the private sector. Among the initiatives are:

- Leasing out commercial activities of passenger trains on a 16-kilometer section connecting Dhaka to Narayanganj. This is a passenger service for commuters between Dhaka and Narayanganj daily. This section was leased out on July 7,1997, to a private operator who took over the commercial activities of the passenger trains running between this section. The result was an increase in revenues of roughly 90 percent. In August 1998, the commercial activities (including ticketing and luggage booking) of Padmagarh Express, which runs between Santahar and Lalmonirhat, were also leased, producing a 368 percent increase in revenues.

- Leasing onboard services of the prestigious nonstop Subarna Express, which runs between Dhaka and Chittagong. As per the 1998 agreement, the lessee is responsible for the cleanliness of the coach, including toilets, passenger comfort, and safety. The staff posted by the private contractor ensures that only genuine passengers board the train, operates the public address system, and looks after any passenger requirements during the run. The lessee is permitted to run a pantry and buffet car, and to serve snacks, tea, and mineral water at a prefixed rate to the passengers. Bangladesh Railway pays service charges to the contractor after adjusting for the revenues from the pantry and buffet car. This agreement has assured better quality of service to the traveling public. Encouraged by the improvement in service quality, the railway intends to offer similar arrangements for a number of intercity trains running between important town and district centers.

- Leasing out of surplus capacity of Bangladesh Railway's fiber optic telephone system to a private phone company, Grameen Phone Ltd. (GP), on a long-term basis. As per this 1997 lease, GP assumes all relevant costs for the repair, replacement, operation, and maintenance of the railway telecommunication system, including paying the salaries of personnel engaged in this system. GP pays an annual rental for the lease to Bangladesh Railway. GP also repaired and upgraded the network and paid for the redundancies to improve the reliability of the system. The results of this partnership are the generation of revenues from the surplus capacity of the fiber optic telephone system and the added social benefit of increased telecommunication services at better prices.

- Private sector participation in a build-operate-transfer arrangement to upgrade nonairconditioned cars. Bangladesh Railway's main constraint for modernizing its fleet has been inadequate funds for procurement and repairs. Intercity train distance between any two main city centers is about 300 to 400 kilometers, but none of the intercity trains have air-conditioned cars for these five-hour journeys. Air-conditioned buses plying the same routes have very competitive fares and are able to attract passengers away from the railroad. Under this arrangement, the private party will convert these coaches at their cost, improve their décor and interiors, and maintain them for the next four years. Bangladesh Railway will run the coaches in two intercity trains between Dhaka-Chittagong and Dhaka-Sylhet. The conversion of these coaches will be done in the railway workshop where the private party will bring its own equipment, material, and manpower. It will also train railway personnel in this conversion work. Bangladesh Railway will benefit by getting state-of-the-art technology at no initial cost and will get increased revenues due to the superior class of service provided to the traveling public.

- The Indian Railways have made similar arrangements, but these have been primarily limited to services on passenger coaches.

Port Development

In the mid 1990s, Orient Maritime Limited (a local ship chartering company and subsidiary of OPSIN Chemicals) and Stevedoring Services of America (an international terminal operator), proposed developing a second container seaport terminal for the Bangladesh market in Patenga south of the existing terminal in Chittagong Port. In December 1997, the Ministry of Shipping granted a concession on an unsolicited basis to SSAB, a joint-venture company owned equally by Orient Maritime and Stevedoring Services. The terms included the exclusive right to develop and operate the project for a 99-year tenure with an option to renew for another 99 years. As the container market for the proposed Patenga container terminal is close to Dhaka, the consortium pursued another proposal to develop and operate an ICD at Panagaon, in the vicinity of Dhaka. The intent was to complement the Patenga terminal by linking to the ICD with an inland waterway barge system. The Bangladesh Inland Waterway Transport Authority accepted this second proposal in 1998.

The proposal calls for an expenditure of about $220 million to build the terminal on a 50-acre site. The terminal will be capable of handling 300,000 TEU per year initially and, eventually, 600,000 TEU per year. At first, a break-bulk trucking system will be used to serve the Dhaka market. But when the ICD at Panagaon is ready, a barge system will carry the containers between the two terminals.

So far no approval has been given to develop the project, but negotiations are currently underway between the Ministry of Shipping and SSAB. The Ministry receives project advice from the IIFC while SSAB is receiving support from IDCOL.

FUTURE OF PRIVATE-PUBLIC PARTNERSHIP IN THE REGION

As the economies in the subregion develop and expand, significant capital will be required to finance transport projects to keep pace with the demand for infrastructure. Attracting capital from the private sector will be a major task. The governments need to consider more seriously the type of environment needed to attract foreign sources of capital. Because many of the projects call for limited recourse financing with its attendant risks, government officials must create an enabling environment that will be acceptable to investors.

There are many international lessons to be learned, whether the project is full-scale privatization, build-own-transfer, or a variation of the two (or based on leases or service contracts, especially after the explosion of private sector involvement in infrastructure services in East Asia and elsewhere in the 1990s). For every project that gets completed there are as many as four to five others that fail in the implementation process.[1] The reasons most often cited include underestimation of corruption, bureaucratic delays, and organized crime.

Even without these unconventional risks, typical infrastructure projects have complicated processes and long cycle times. Project developers have to:

- Establish the potential of the project;
- Identify the relevant decisionmakers;
- Determine the official procedures to steer the project through the approval process;
- Conduct economic, legal, financial, and engineering reviews;
- Prepare bidding documents and proposals;
- Obtain the relevant approvals, permits, and licenses;
- Structure the ownership of the project;
- Negotiate with lenders;

1.The Financial Times on March 11, 1999, commented on a survey of 7,500 multinational firms, of which 84 percent did not meet their financial targets for the last three years and 26 percent eventually failed.

- Select a contractor to build the project; and

- Choose an operator for the facility.

Some of the things that governments need to avoid if they are to develop a good reputation with the investment community include:

- Lack of a strong institutional framework that can lead to poor coordination and disagreement among government agencies whose approvals and clearances are required. A particular problem is the absence of a single authority to control the process.

- Poor institutional capacity due to a shortfall in expertise in private infrastructure projects. Although civil servants involved in publicly financed turnkey projects tend to be highly skilled in the engineering aspects of the projects, they lack the legal and financial skills to manage a complicated project structure such as a build-operate-transfer (BOT).

- Lack of transparency in the selection process due to insufficient experience and political cronyism that often leads to over-reliance on unsolicited proposals. Although unsolicited proposals that are correctly executed have merit, particularly in terms of speed and directness in developing projects, they lack the transparency, market orientation, and potential efficiency gains of competitive bidding.

- Market inefficiency that occurs when a government privatizes a project or liberalizes a sector without paying sufficient attention to the type of market it is creating. Governments frequently fail to establish an effective regulatory framework for protecting the public interest.

- Policy reversal that occurs when the commitments made by a previous government are not honored by the current government. The project developer at best is forced back to the negotiating table or, at worst, faces cancellation of the contract.

There is no particular road map for an effective policy framework to avoid the problems encountered in a public-private partnership. Each country has its own economic, social, and political circumstances and must develop its own solutions. Nevertheless, private sector projects are commonly judged on the basis of the ease or difficulty with which they are taken through the project cycle. The cycle consists of contract signing (such as concession or BOT), financial closure, permit and license approvals, project construction, sustainable operations, and responsiveness to consumer needs. Governments need to establish:

- An enabling environment that is transparent and consistent,

- A sound legal framework to assure the investment community concerning the rules of the game,

- A cadre of civil servants with the skills to implement private sector projects,

- Effective regulatory procedures to deal with market imperfections after privatization, and

- A sustainable commitment.