Corruption in Infrastructure Projects in Bangladesh and Sri Lanka: Implications for Public Debt

Mushtaq Khan, Pallavi Roy, Ulrich Volz

A project supported by Open Society Foundations, led by SOAS University of London in partnership with

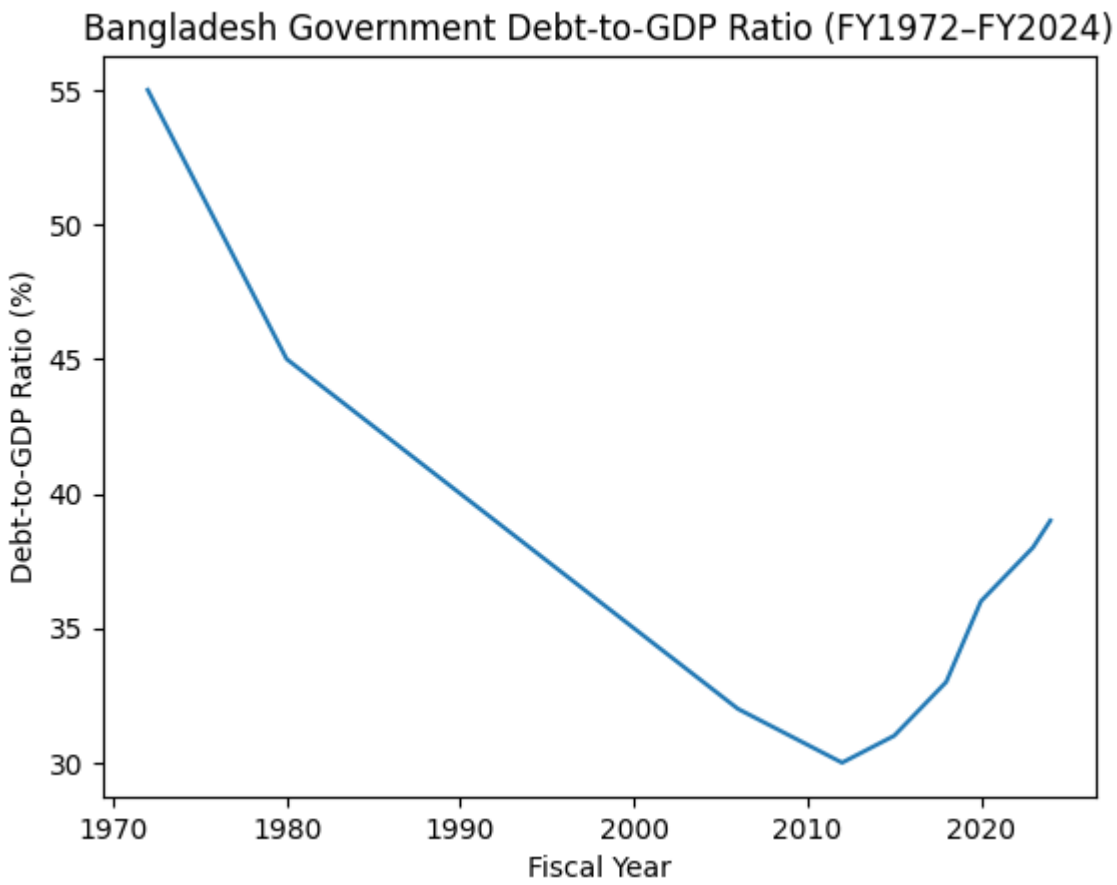
Change Initiative (for Bangladesh part).

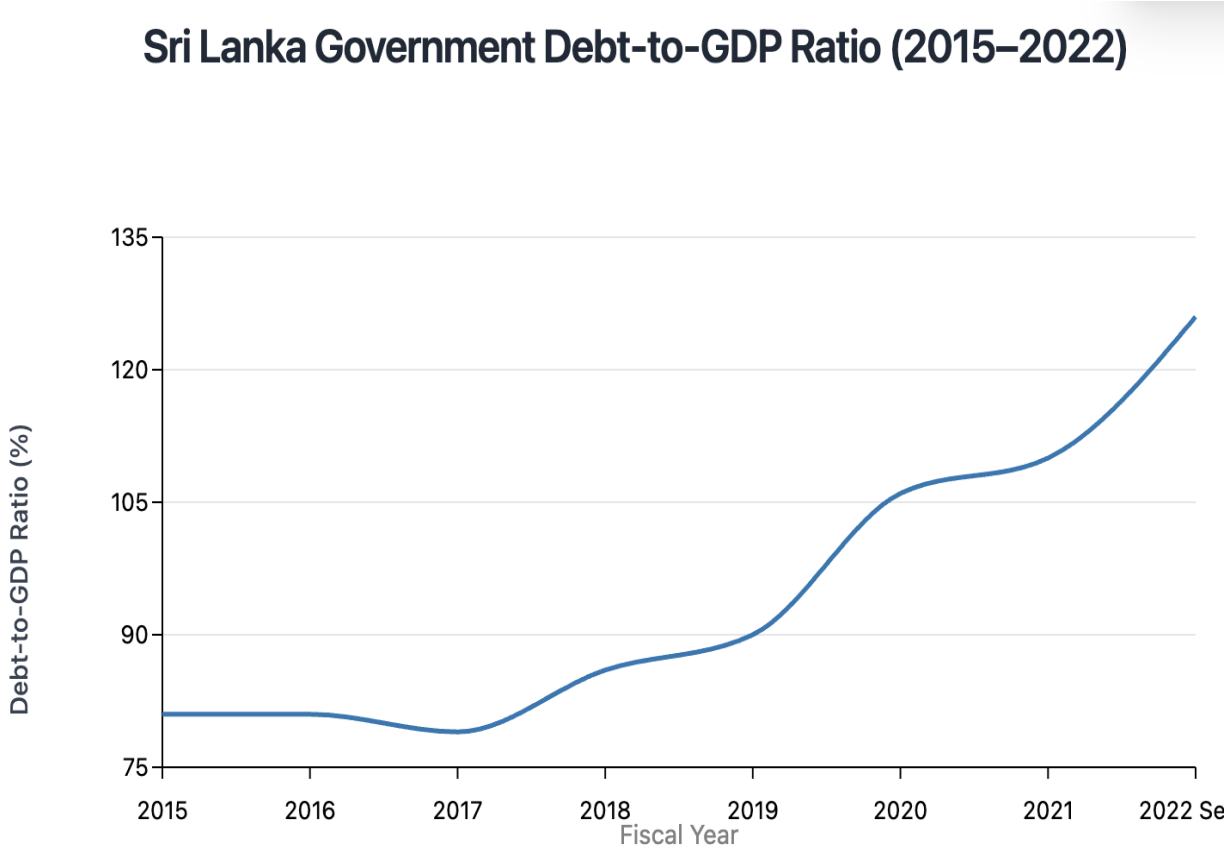
18th February 2026, Dhaka

The Economics of Infrastructure Sustainability

- Infrastructure can result in public debt unsustainability for two types of governance failures
- Infrastructure may be well constructed but the price is too high, the investment cannot be repaid → debt burden increases
- Infrastructure is poorly constructed, inappropriate, or poorly planned and so cannot be fully used → debt burden increases
- Sri Lanka and Bangladesh suffered from both problems: infrastructure was high priced and often badly planned
- Why did this happen? They were almost never just mistakes
- Almost always they were deliberate governance failures involving corruption or political collusion
- Why is this so pervasive and why have standard governance approaches failed? What is the way forward?

THE DEBT REALITY: BANGLADESH vs SRI LANKA

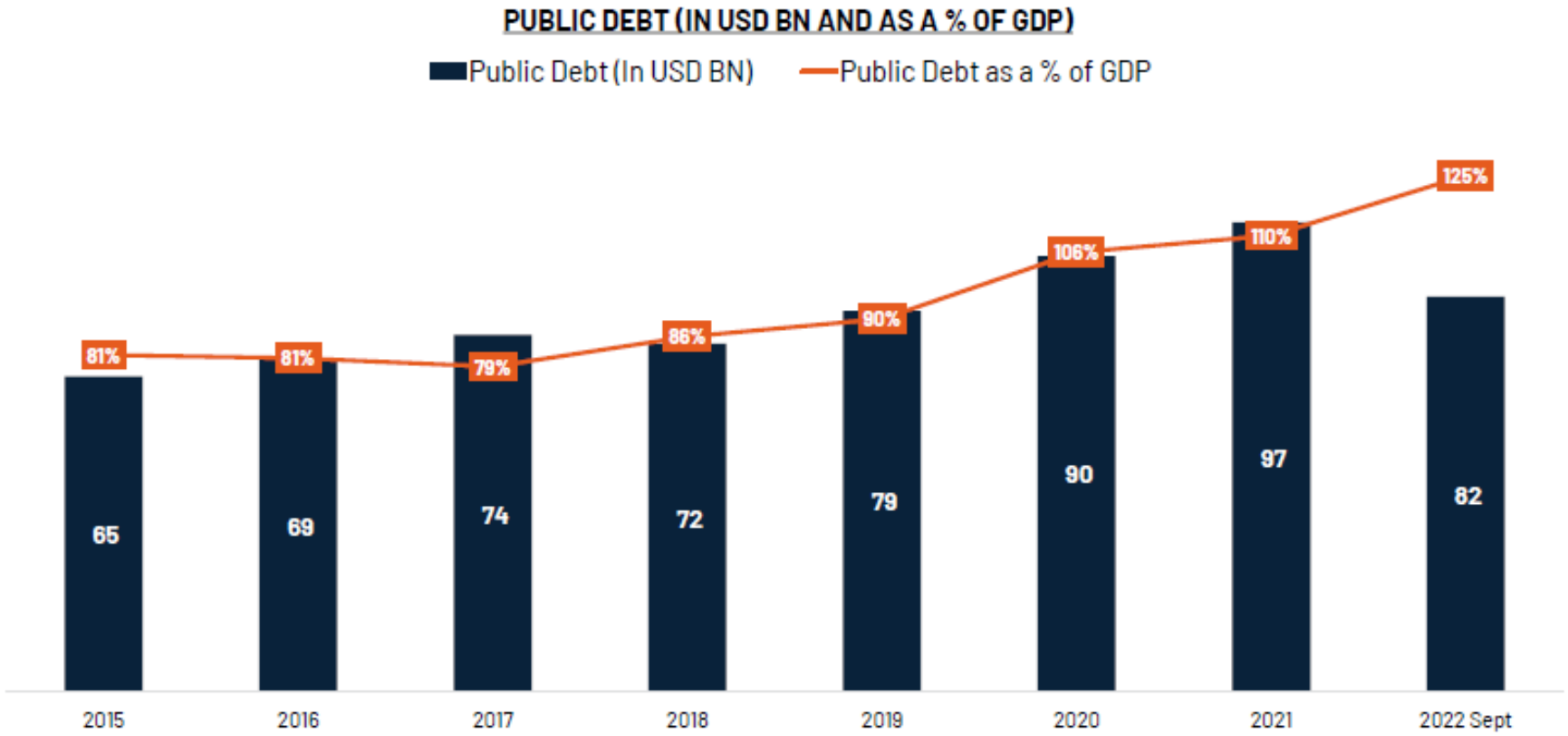




- Bangladesh has moved from a **low-risk stability phase** to a **moderate-risk acceleration phase**.
- Sri Lanka had higher debt ratio and went into **default** in 2022.
- However, Bangladesh statistics are less trustworthy: GDP figures are known to be inflated and a lot of debt in Bangladesh is off the books

Sri Lanka: Bad Infrastructure Decisions and Debt Crisis

Sri Lanka's Public Debt to GDP grew by 15 percentage points from 2021



Source: CBSL Annual Report 2015-2021 | 2022 September Quarterly Debt Bulletin

Note: Central Government Debt includes treasury guarantees, public debt includes central government debt and central bank debt

Main takeaway: Debt can suddenly become unsustainable: the 2022 default could not be anticipated simply by looking at the trends. Crisis happens simply because one day interest and capital payments cannot be made

Bangladesh debt vulnerability rapidly increasing

377%

External Debt Stock Surge from $24 bn to $112 bn (2009-2025)

1/5

Revenue Budget Consumed by Interest Payments

Structurally Higher Corruption and Collusion Risks in Infrastructure and Power Projects

- The higher the potential excess profits in a project, the greater the incentive to organize kickbacks and engage in political collusion to share the benefits
- This is why corruption and collusion are much more serious problems in high-value infrastructure and power projects where investments may be in billions of dollars
- A **few cents difference** in the contracted price in power projects can mean **hundreds of millions to tens of billions of dollars** in additional profits over 25 years depending on the project
- How much time, money and political capital would a collusive group of politicians, bureaucrats and businesses be willing to spend to capture this?

Infrastructure in Sri Lanka and Bangladesh

- The infrastructure spending boom in Sri Lanka began in 2008 with victory of Rajapaksa who won the civil war in 2009
- Financed by China, India and bond issues, prestige projects included Mattala Rajapaksa International airport, Rajapaksa International Cricket Stadium, the Hambantota Port, the West Container Terminal, highways and roads, power projects including Adani's Mannar Wind power project
- The infrastructure boom in Bangladesh began with the Awami League victory in 2009 that gave it a two-thirds majority
- Financed by China and India, prestige projects included the Padma Bridge, a spate of power projects under the QEEES Act 2010, the MRT system and new roads and highways

Costly and inefficient infrastructure investment

- The debt incurred to finance large-scale infrastructure projects contributed significantly to the increase in Sri Lanka's public debt.
- 65% of the foreign debt accrued over the decade prior to the crisis was investment on transportation, power/energy, water, and port and airport infrastructure projects.
- Many of these externally funded infrastructure projects failed to produce the expected economic benefits (Hoole and Wanigaratne, 2022).

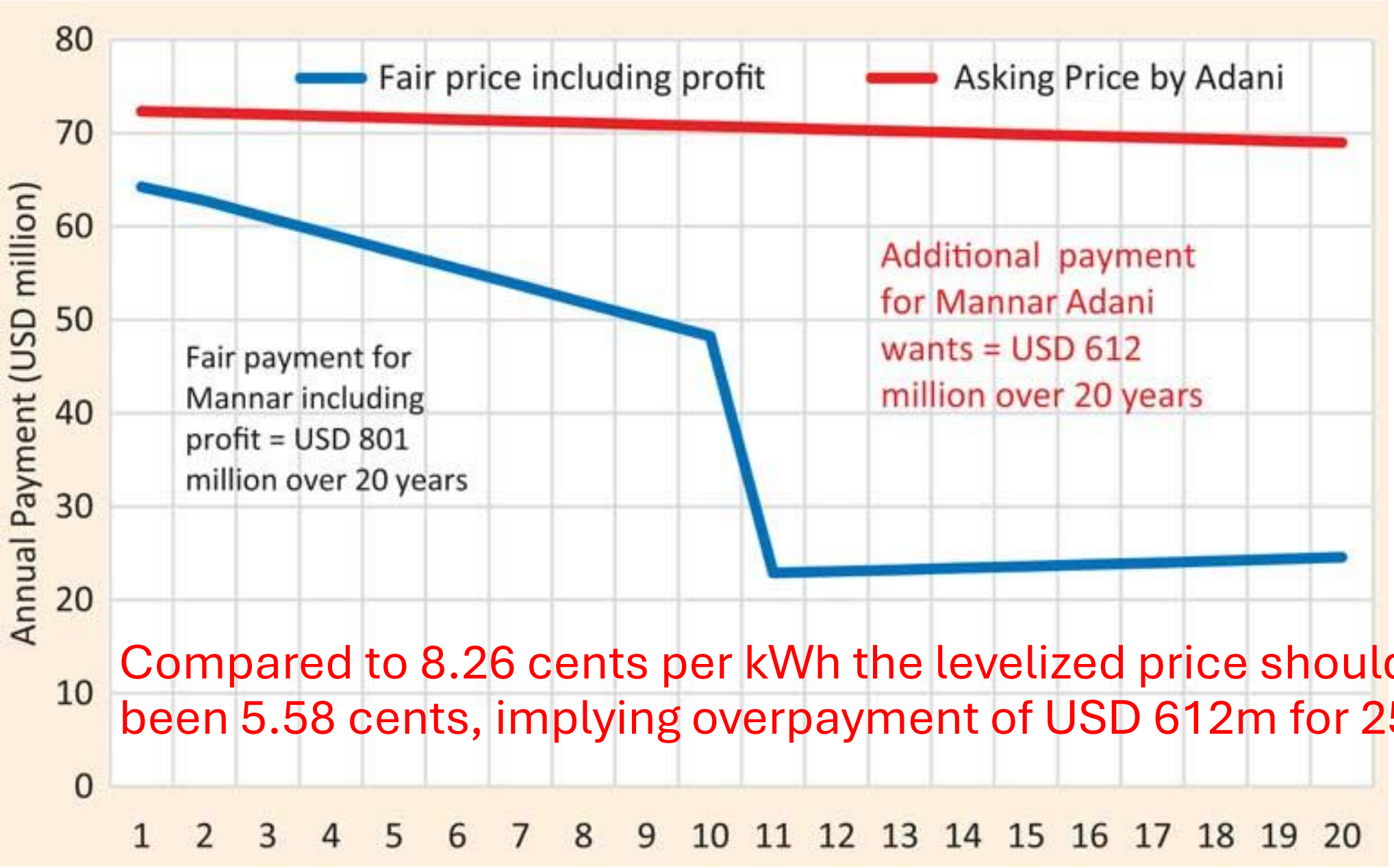
Examples of overpricing: Adani's Mannar Project in Sri Lanka

- Mannar in northern Sri Lanka was planned to be a relatively small (250MW) wind power project
- The negotiations began in 2021 and an MOU was announced in parliament with no bidding. In 2022 the Electricity Act was amended to enable this contract to be awarded without competition. The bid was treated as G2G even though Adani was a private company.
- The Sri Lankan Aragalya (uprising) took place in 2022. The MOU came under extreme scrutiny from community groups, MPs, and energy experts
- When it appeared likely that the government would insist on a renegotiation, Adani withdrew from the project in 2025.

Examples of overpricing: Adani's Mannar Project in Sri Lanka

- The MOU set a unit price for Mannar power at 8.26 cents per kWh
- Between 2017 and 2023, Adani's own wind power rates in India dropped from 5.3 cents/kWh to 3.8 cents/kWh, reflecting technological learning and procurement competition
- But prices in India reflect different circumstances including the price of land and hidden subsidies
- Calculating a fair levelized price of a power project is a complex task: we relied on international power sector experts to provide an analysis
- We assume the levelized price needs to recover all investment costs with a 14% annual return to equity, an 8% interest on USD debt, annual maintenance costs of 2% and depreciation at 0.25%

Examples of overpricing: Adani's Mannar Project in Sri Lanka



Compared to 8.26 cents per kWh the levelized price should have been 5.58 cents, implying overpayment of USD 612m for 250MW!

Bangladesh: Similar evidence of project overpricing

- The White Paper (2024) identified 29 megaprojects under the Awami League (over 10,000 crores)
- Deeper study of 7 megaprojects shows **average cost escalation of 70.3%** and time escalation of **5 years**
- Not all the cost escalation is a rent, but even if the overpricing is 50%, the excess profit is billions of dollars
- In addition to overpricing, project selection and planning may also be corruptly determined
- A nuclear plant may be selected rather than 5 gas plants because the overpricing may be easier in a massive nuclear plant
- A tunnel may be built although the traffic will not generate much income and so on
- If the investment does not generate a return to pay for itself, the debt is unsustainable

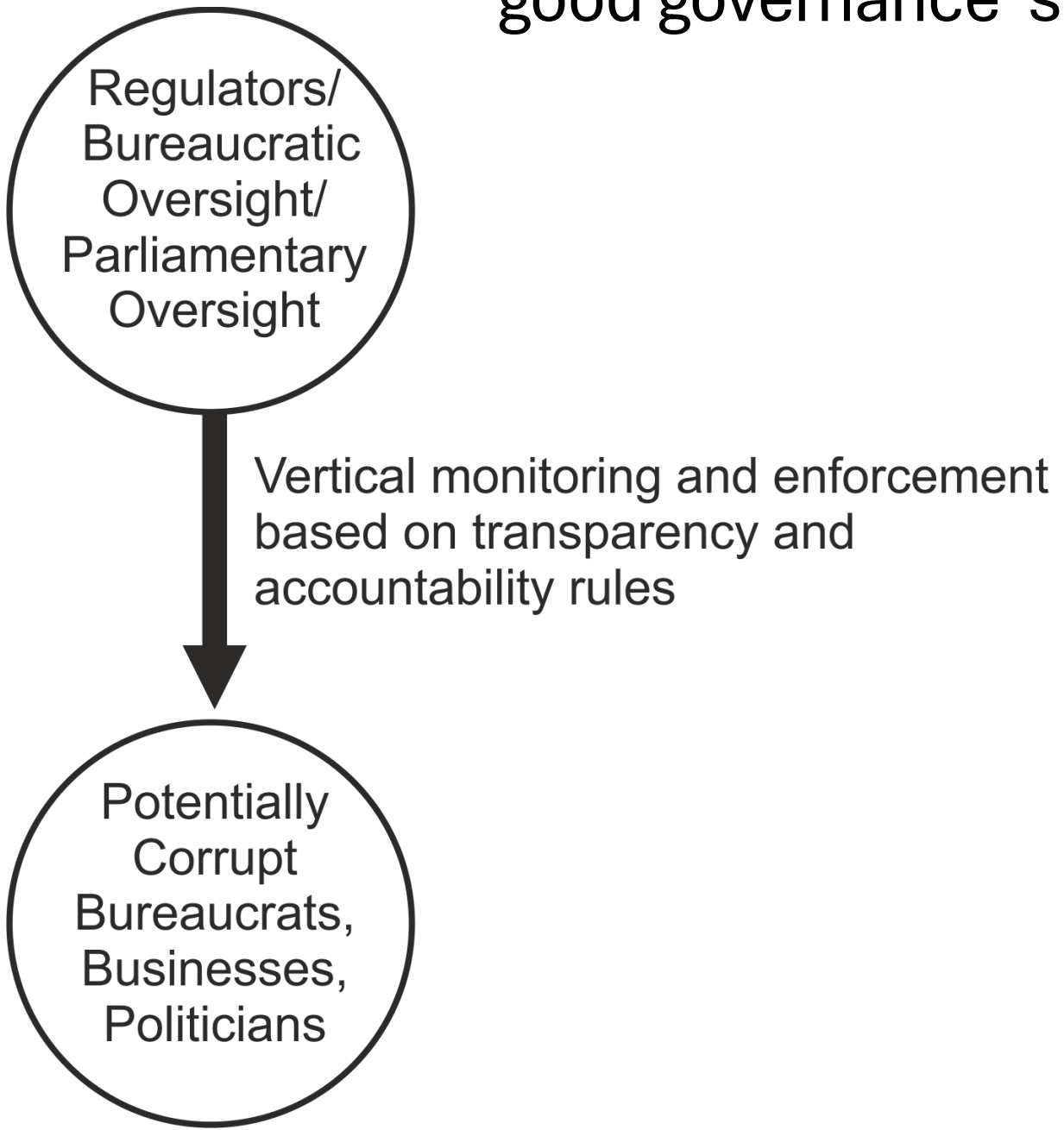
Bangladesh: Similar evidence of project overpricing

- In the power sector, the National Power Review Committee (2026) report showed contracted prices with power providers were so high that **annual subsidies of USD 4.9 billion are required to keep retail prices affordable**
- **Without the subsidy, prices would rise 86%** resulting in deindustrialization and consumer hardship
- From 2011 to 2024 payments to power producers increased 11-fold and capacity charges 20-fold but generation only increased 4-fold
- The disastrous outcome was due to a **combination of high contracted prices** (40-80% higher depending on type of plant) and **deliberately poor planning so many plants do not have access to fuel, resulting in capacity charges for ghost plants**
- Both overpricing and planning failures resulting in plants that cannot generate electricity are **deliberate** results of governance failures

Adani Godda 1600MW Coal Plant located in Jharkhand

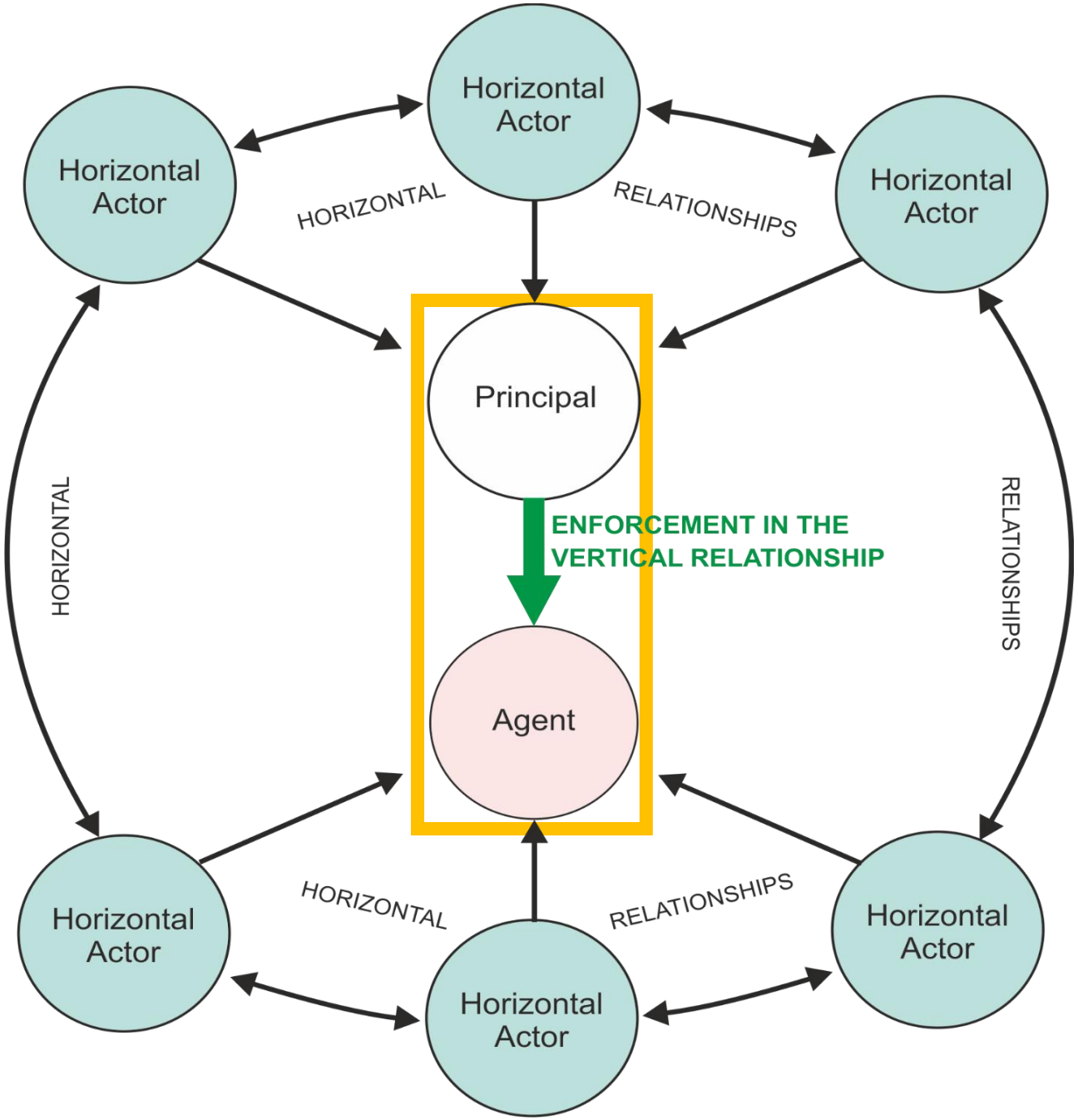
- There are interesting parallels with the Mannar project
- Though Jharkhand is a coal state, Godda imports coal from Australia using an inflated index to price the coal and transmits to Bangladesh using a 90 km transmission line whose cost (USD 500m) is included in the price
- The levelized price agreed was US cent 8.61 per kWh when Bangladesh was importing power from the Indian grid at that time at USC 4.46
- Using a similar calculation as we used for Mannar, we estimate the power price here is at least 40-50% overpriced compared to a fair levelized price
- Bangladesh will pay Adani roughly USD 25 billion over 25 years, so the overpricing in this plant is more than USD 10 billion
- In the case of Adani, the NRC was given compelling evidence by whistleblowers of significant payments to bureaucrats involved in the signing of the contract, and government investigations are ongoing

How planning and procurement rules are supposed to be enforced by ‘good governance’ systems



But transparency (knowing corruption is taking place) and established rules of accountability usually do not result in stopping corruption in developing countries: WHY?

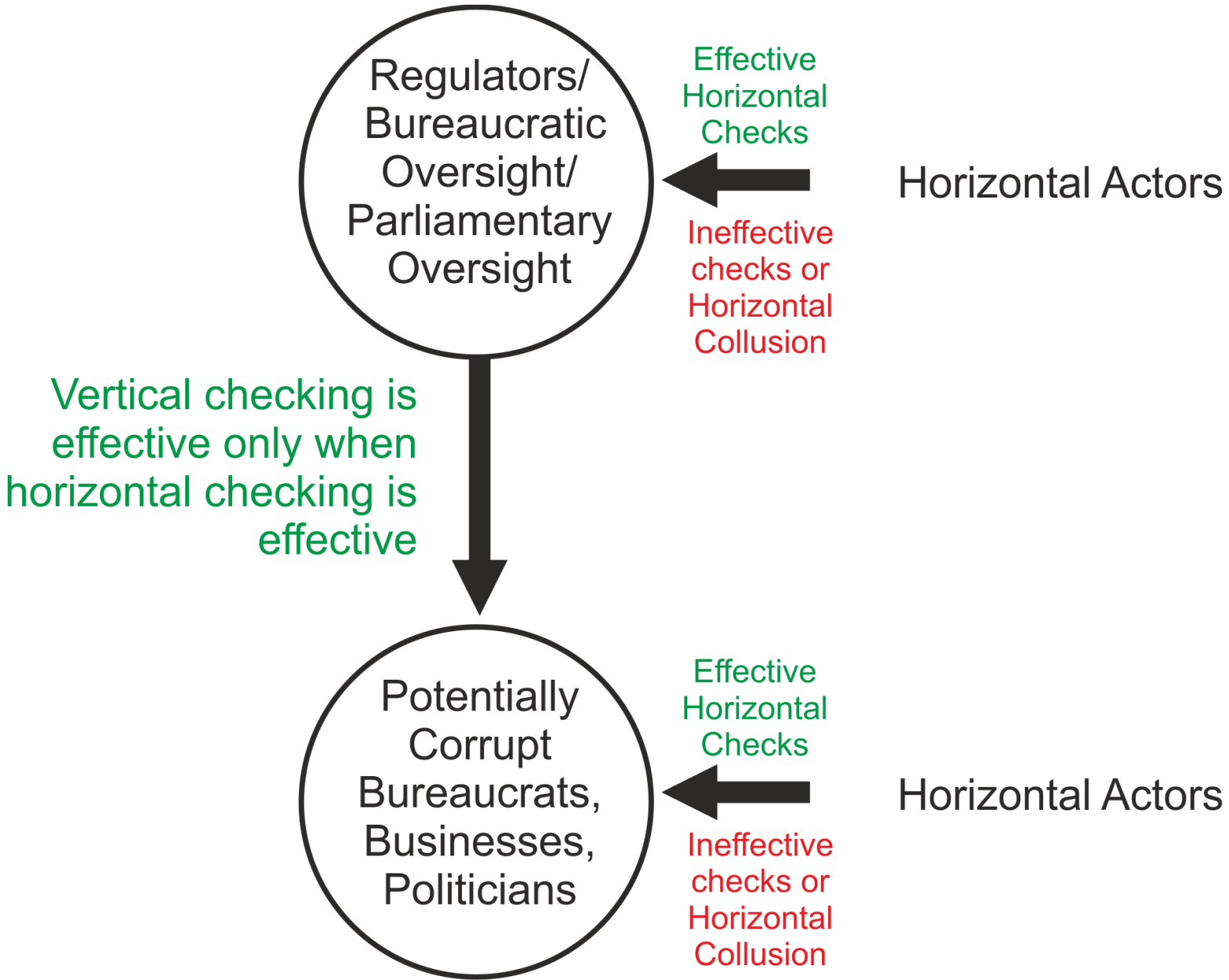
The ‘Political Settlements’ framing: Vertical enforcement depends on the PCI of horizontal actors



Horizontal checks depend on the PCI of Actors

- Effective horizontal checks depend on the *power, capabilities and interests (PCI)* of actors affected by a policy.
- **Power** refers to the (economic or political) **power** of actors to block the behaviour of other actors.
- **Capabilities** refer to how actors make a living: if they have ***productive capabilities,*** they are more likely to want rules to be enforced.
- **Interests** describe whether an actor ***wants to follow and enforce*** rules and that depends on the behaviour of ***other* actors**.
- Power, capabilities and interests are ***revealed by behaviour*** and are very context specific.

Our Explanation: In Developing Countries Effective Horizontal Checks are often absent



In developing countries, horizontal checks are weak because horizontal actors (competing businesses, opposition politicians) are either not powerful or have no interest in fighting to enforce rules

AND Violators are protected by powerful horizontal actors who are also corrupt

The ‘Political Settlements’ framing: Vertical enforcement and regulation is insufficient

- In the typical developing country, generic good governance reforms focusing on transparency and accountability systems are not sufficient.
- For instance, strengthening regulatory bodies like BERC is unlikely to work because regulatory bodies are easily captured and there are weak horizontal checks to make them effective
- BERC submitted reports during the Awami League rule but was totally ineffective in preventing mega corruption (as were the ACC, civil society, opposition parties and others)
- Similarly, in Sri Lanka, the Public Utilities Commission (PUCSL) performs a regulatory function, but as a bureaucratic body it too has limited horizontal pressure to be effective
- A huge effort was taken in Sri Lanka after the 2022 Aragalya to strengthen vertical governance through an IMF Governance Diagnostic Assessment

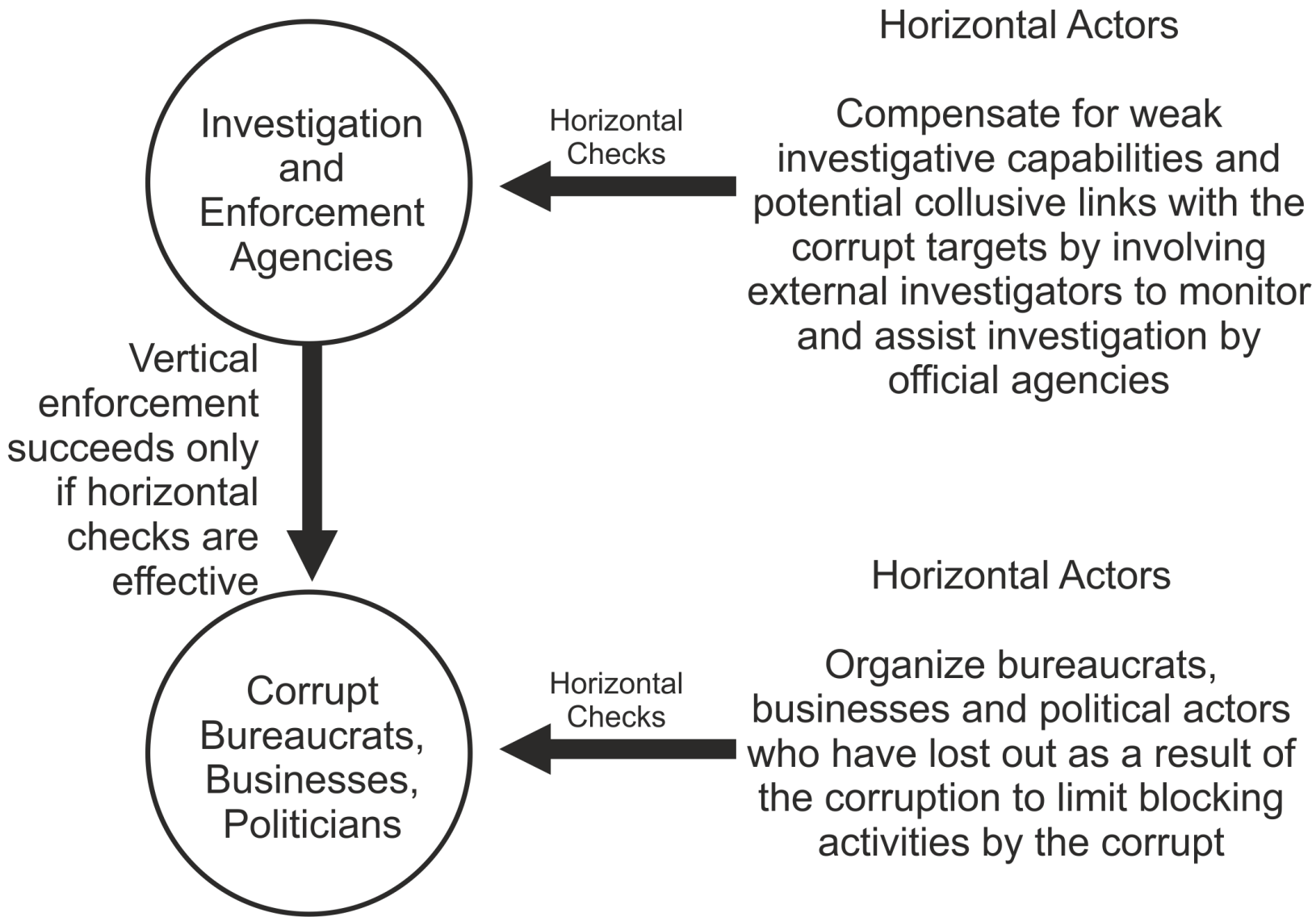
Sri Lanka's IMF governance diagnostic report

- The IMF's Governance Diagnostic Assessment was conducted in March 2023 and evaluated corruption vulnerabilities and governance weaknesses in areas critical to macroeconomic sustainability.
- It highlighted systemic issues across fiscal governance, public procurement, SOEs, the judiciary, and anti-corruption enforcement.
- The IMF identified significant institutional failings, including a lack of transparency in budget execution, poor public investment management, excessive ministerial discretion over tax policy, and the ineffective functioning of oversight bodies like the Commission to Investigate Allegations of Bribery or Corruption.
- Priority recommendations focused on strengthening asset declaration frameworks, amending procurement laws, establishing a beneficial ownership registry, and depoliticising appointments within oversight institutions.
- These are primarily vertical monitoring and enforcement mechanisms

Out of the box thinking required

- The PCI framework identifies two parallel lines of attack
- i) Tough legal action against corruptly awarded contracts whenever evidence is available and renegotiation of other corrupt contracts using the threat of investigation whenever possible: this is one of the recommendations of the NRC
- ii) Searching for effective horizontal checks that go beyond creating new bureaucratic agencies or formal procedures (like procurement rules) that are likely to be evaded without proper monitoring
- An example is the use of strategies to enhance the attraction of new productively capable companies who can create effective horizontal checks on the enforcement of procurement rules

Successful anti-corruption investigations: The role of the National Review Committee (Bangladesh) as horizontal checking body



Can the NRC be replicated?

One of the recommendations of the NRC report is to set up an **Energy Oversight Commission** modelled on the NRC

This would be staffed with external technical experts (not bureaucrats) who would report to the Power Division and to the public just as the NRC

Why would a government do this? If the crisis in the power sector reaches a point where there is a risk of a default, or of significant price rises that will damage industry, a government may be persuaded to have a watchdog limit the corruption and address legacy problems

Competition as horizontal checking

The capture of regulatory and bureaucratic bodies is easier with a few big players as they can easily collude, and horizontal checks disappear

If many investors can be attracted, their entry directly creates horizontal checks because many relatively powerful actors have an interest in creating pressure on regulators to limit corrupt awards

In Sri Lanka, the prices of wind and battery storage began to drop when the number of investors increased as a result of new smaller-scale technologies and competition between Chinese battery manufacturers

Not only did this directly reduce prices, corruption also declined

One implication is that if we shift to a larger number of smaller projects there may be lower aggregate corruption losses because of greater horizontal checks on regulators and procurement agencies

Earlier research in Bangladesh showed that reducing risk for investors to attract new investors reduces corruption through horizontal checking

Khan, M., Watkins, M. and Zahan, I. (2022) De-risking private power in Bangladesh: How financing instruments can stop collusive contracting ***Energy Policy*** https://doi.org/10.1016/j.enpol.2022.113146.

ELSEVIER

Energy Policy

Volume 168, September 2022, 113146

De-risking private power in Bangladesh: How financing design can stop collusive contracting

Mushtaq Khan [a], Mitchell Watkins [a], Iffat Zahan [b]

Show more

+ Add to Mendeley Share Cite

https://doi.org/10.1016/j.enpol.2022.113146

Get rights and content

Under a Creative Commons license

Open access

Highlights

- Private power investors face high risks in places where contract enforcement is weak.
- Investors without political connections rarely participate allowing collusion.
- 'Contestable subsidies' accessible to all bidders increase participation.
- Participation enhances competitive scrutiny and constrains collusion.
- In Bangladesh over 2004–2017, contestable subsidies reduced power prices by 26%.

Small amounts of low-cost financing reduce risks for investors and attract them to invest

- Collusive prices are high if only politically connected investors are bidding
- In this circumstance, no amount of transparency and accountability will help because businesses will collude and there are no horizontal checks on bureaucrats and regulators
- We have to attract new investors who are not politically connected, but they keep away because of high political risks
- We found that a small reduction in the cost of capital that is only available to investors who bid competitively for a project, significantly reduces risk
- New investors are attracted and contracted prices drops by at least 25% because new actors ensure horizontal checks on procurement agencies

Blocking collusion in power procurements (Bangladesh)

Treatment effects from multivariate-distance matching analysis				
Treatment variable	ATT on plant-level price (log)	Standard error	z-score	% change in price due to treatment
Lower-cost 'contestable' financing	-0.293**	0.146	-2.01	-25%

Note: The treatment effect is estimated using Mahalanobis distance nearest neighbour matching method with bootstrapped standard errors. Control variables include land lease support, plant age, capacity, and fuel type (gas, HFO, and HSD). The dependent variable is the log of plant-level prices. The actual percentage change in prices is calculated by exp(ATT)-1.

Competition Reduces Corruption in Infrastructure Projects

- We analysed **42 major infrastructure projects** and found that around **35%** of project costs (equivalent to billions of dollars) are lost to corruption and inefficiency.
- Projects with open international competition are significantly cheaper, while direct G2G deals consistently drive-up costs by over **400%** compared to more transparent options.

ECONOMETRIC FINDINGS: WHAT AFFECTS PRICE?

*** Statistical significance at 5% level based on 2SLS causal modeling.*

- Open bidding **lowers project costs** while G2G deals drives it up.

Conclusions

- Horizontal governance solutions are required to complement standard governance approaches to limit the corruption resulting in overpricing and planning ‘failures’
- The complexity of infrastructure and power projects needs to be appreciated: technology and financing are rapidly evolving, and insiders are necessary to check other insiders.
- First, when there is large legacy problem as in Bangladesh, the prosecution and cancellation of some bad contracts is essential, but this requires horizontal support from a body like the NRC
- Secondly, policy has to bring in competitive (high capability) actors with the power and interest to provide effective horizontal checks.
- A larger number of smaller projects is one way, or the reduction of investor risk with financing or providing leased land, but only for investors who meet competitive bidding conditions.