

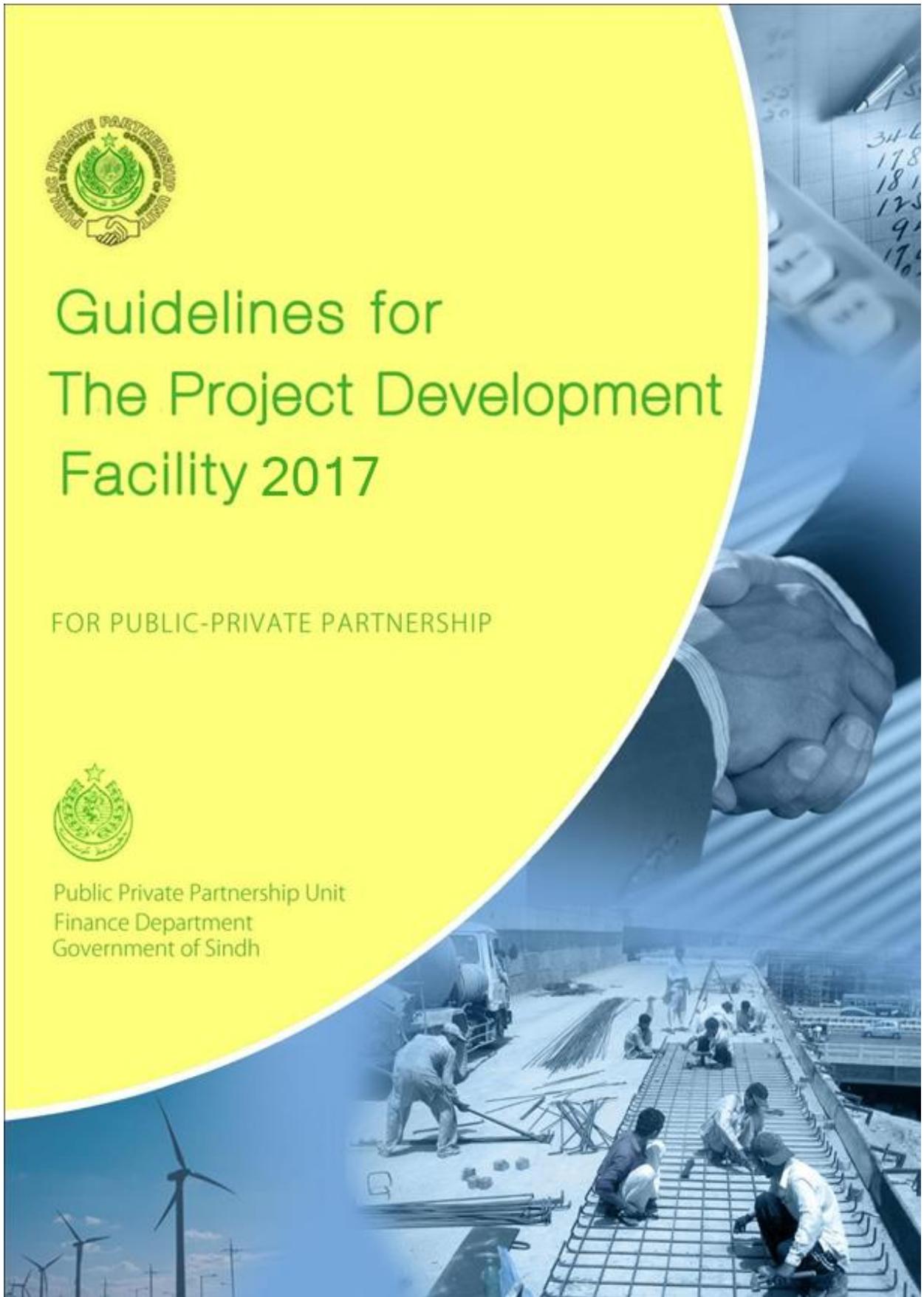


Guidelines for The Project Development Facility 2017

FOR PUBLIC-PRIVATE PARTNERSHIP



Public Private Partnership Unit
Finance Department
Government of Sindh



FINANCE DEPARTMENT



GOVERNMENT OF SINDH

Guidelines for Project Development Facility ('PDF') for Public Private Partnership Projects in Sindh Province

The amended PDF Guidelines for Public Private Partnership (PPP) Projects have been approved by the PPP Policy Board in its 22nd meeting (7th November 2017) held under the chairmanship of Honorable Chief Minister Sindh.

DEFINITIONS

Annual Development Program (ADP)	Government's Annual Development Program
Consultants	Individual consultants, or consulting firms, required for the preparation, structuring, analyzing, negotiation and implementation of a PPP project.
Development Partner	Bilateral, multilateral or commercial financing institutions that provide grants and/ or loans to the Government.
Government	Government of Sindh
Government Agency/PPP Node	Administrative Departments, attached department, body corporate, autonomous body of the Government, local government or any organization or corporation owned or controlled by the Government.
Project Support Facility(PSF)	As set forth in the Sindh Public Private Partnership Act, 2010, as amended
Public Service Infrastructure Project	As set forth in the Sindh Public Private Partnership Act, 2010, as amended
Public Private Partnership(PPP)	As set forth in the Sindh Public Private Partnership Act, 2010, as amended
PPP Agreement	Contract between a Government Agency and a Private Sector Partner for financing, construction, operation, maintenance, management or servicing of a Public Service Infrastructure Project.
PPP Unit	A Government body/entity as defined and referred to in the Sindh Public Private Partnership Act, 2010, as amended
PPP Project	Public Service Infrastructure Project implemented on a PPP basis in any of the eligible infrastructure sectors.
PPP Policy Board	As defined, with authority and powers, in the Sindh Public Private Partnership Act, 2010, as amended.
Private Sector Partner	Company, entity, firm, association, body of individuals, or a sole proprietor other than the Government, its agencies, local governments, and corporations.

Project Development Facility(PDF)	Pool of funds available for consulting services required for the preparation and transaction execution and monitoring of PPP projects.
Project Management Unit(PMU)	Unit located in the Sindh Finance Department, which assists implement of ADB financing documentation requirements.
Public Private Partnership Support Facility(PSF)	Has meaning set for the Sindh Public Private Partnership Act, 2010, as amended.
Sindh Fund Management House (SFHM)	A unit within the Finance Department, Government of Sindh. It manages an investment portfolio of different funds established under the Government including the PDF.
Value for Money(VFM)	Assessment which compares estimated project cost, including operational efficiency gains provided by Private Sector Partner.
Viability Gap Funding (VGF)	Fund of the Government which makes contractually agreed payments to PPP projects in order to make economically feasible projects financially viable.

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1. INTRODUCTION

1.1 The Government is committed to sustainable economic growth and inclusive social development in the province. Global experience has shown that there is a close relationship between these objectives and infrastructure development. The correlation works in both ways - investments in infrastructure are a major driver for economic growth, and economic growth requires well-functioning infrastructure facilities and services. If infrastructure investments are not kept at a sufficient level, economic growth becomes constrained by power shortages, traffic congestion, high transportation costs, and other infrastructure bottlenecks. As to the impact on social development, it is the low-income groups who are most affected by an inadequate access to poor quality of infrastructure services.

1.2 The Government is therefore investing in infrastructure and large ADP provisions have been kept in the provincial budget to meet infrastructure development requirements. The Government is also assisted with technical and financial assistance from various institutional partners, including Asian Development Bank. In addition to projects funded by its budget and development loans, the Government is committed to engaging the private sector in the provision of infrastructure and has succeeded in this regard with public-private partnerships (PPPs) projects implemented and under implementation in various sectors. However large development needs exist in meeting critical infrastructure requirements that demand high capital commitments and/or advanced technical/management skills to meet the growing provincial requirements beyond the financial capacity of the Government. Therefore, the preferred mode is increasing the emphasis on PPP's with enhanced Government support to attract credible and experienced private parties as partners for development.

1.3 Lack of commercially viable projects suitable for private sector investment has been identified as one of the major constraints in promoting PPPs. Therefore, a proactive approach is needed to develop a pipeline of bankable projects that can be offered to the private sector through competitive bidding process. For the PPP program to be successful, it is essential that PPP projects be technically, economically and financially viable and environmentally sustainable. They must also be established with a sound legal and regulatory structure using the most efficient tested and deliverable contractual arrangements. However, the Government Agencies in Sindh have capacity and resource constraints and this leads to difficulties in developing PPP projects that deliver value for the Government and consumers and, at the same time, are attractive to private investors.

1.4 The Government has established a PPP Unit, which is functioning and is staffed by competent technical, financial, and legal experts and a Public-Private Partnership Support Facility (PSF). All Government Agencies, which want to implement a project in PPP mode in their sector or geographical area of responsibility, seek support from the PPP Unit in project preparation, structuring and transaction execution. Nevertheless, given the complexity of PPP projects, it is recognized that external professional advice is needed in addition to the support provided by the PPP Unit, PSF and SFMH. To structure viable and bankable PPP projects, the Government Agencies recruit Consultants with proven track records in all areas affecting private sector participation in public service infrastructure. As the costs of using such Consultants are significant and frequently cannot be funded by the normal budgetary process, the Government has a functioning Project Development Facility (PDF) as an important part of the overall enabling PPP framework. The PDF is administered by the Sindh Fund Management House and the PDF has been instrumental in providing the funding to the nodes/ procuring Agencies to meet the project development needs. The PDF's continuing financial sustainability is part of a successful PPP framework and in this regard its management and funding need to be set through appropriate policy and guidelines.

1.5 These Guidelines provide an overview of the PDF and its role in promoting sustainable PPP projects for provision of infrastructure services in the Sindh. This is followed by a discussion of the operational and financial management of the PDF, as well as a description of the procedures that will be adopted for its operations.

2. CONCEPT BEHIND THE PROJECT DEVELOPMENT FACILITY

RATIONALE OF PDF

2.1 The worldwide successful introduction of PPPs has demonstrated the following main benefits:

- ✚ Attracting private capital investment into infrastructure sectors (and thereby releasing public resources for other needs);
- ✚ Increases in efficiency and improvements in quality of infrastructure services;
- ✚ Increases in the effectiveness of the use of available resources and facilities; and
- ✚ Reform of infrastructure sectors through a reallocation of roles, risks and incentives.

2.2 To reap these benefits, adequate project structuring and preparation leading to successful transaction execution is essential. Project preparation has the following objectives:

- ✚ Ensuring overall success of the PPP program;
- ✚ Ensuring technical, economic and financial viability, and environmental sustainability of PPP projects;
- ✚ Designing sound contractual structures for PPP projects that make them bankable;
- ✚ Mitigating and fairly allocating risks (including financial, economic, environmental, social risks) of PPP projects;
- ✚ Allowing informed decision making by the Government, based on high quality feasibility reports and analysis;
- ✚ Assessing the need for Viability Gap Funding (VGF) and if needed, recommending the type and estimated quantum of VGF support. Assessing the need for other forms of Government support.
- ✚ Enhancing competition in the procurement process
- ✚ Providing the basis for contract negotiations and draft concession contract prepared for each project and made available to prospective bidders for their views and recommendations. These recommendations and feedback facilitates in expediting contract negotiation/ signing and consequent financial close;
- ✚ Avoiding unnecessary future delays by anticipating requirements of project support facilities including subsidy and infrastructure and making necessary support available that enhances investor and project finance lender comfort;

- ✚ Facilitating financial closure for PPP projects in an efficient manner by ensuring that all commitments made are fully met through enduring structural changes, if required, that are acceptable to all parties to the agreement and consistent with initial bid parameters.

2.3 By providing adequate funding for project preparation, structuring development and transaction execution in the eligible infrastructure sectors, the PDF leads to efficiency gains and will help conserve resources.

OBJECTIVES OF PDF

2.4 The primary objective of the PDF is to fund project development expenses of the Government of potential PPP projects including costs of engaging Consultants so that (i) the Government makes informed decisions based on high quality feasibility studies; and (ii) the Government Agencies with the support of the PPP Unit / PSF develop well-structured PPPs that can be implemented by the private sector.

2.5 The secondary objectives of the PDF are to:

- i. Ensure that all PDF funded projects adhere to international best practice
- ii. Enhance the project management and technical capacity of the Government Agencies, PSF and PPP Unit to successfully undertake PPP projects;
- iii. Ensure that the PDF operations are also supported by recovering funding provided for project development and implementation from PPP projects where appropriate; and
- iv. Meet conditions that enable the Development Partners to contribute their funds, as committed, and leverage their sector development objectives.

ACTIVITIES TO BE SUPPORTED BY PDF

2.6 The PDF will only support PPP projects, which are consistent with the Government's PPP Policy (as developed for implementation of the PPP Act 2010 as amended) and meet international best practice standards. The PDF will not provide funding support for development of projects, which in the opinion of the Government can be developed by the private sector outside the PPP framework. Such list of projects shall be identified and advertised accordingly by the Government to meet its development objectives or proposed under unsolicited bid rules elaborated in the Sindh PPP Policy.

2.7 The PDF can only be used to finance:

- i. services rendered by Consultants for preparing/ structuring PPP projects and providing advice during the transaction bidding, execution and implementation phase of the Project; and
- ii. capacity building of the PPP nodes and the PPP Unit.

2.8 The PDF cannot be used to fund the operating costs of the Government Agencies, the PPP Unit, PSF or SFMH.

2.9 PDF support for capacity building has to be directly linked to a particular PPP project, for which preparation and transaction advisory support from the PDF has been approved. This will also help ensure that the Consultants have informed counterparts. The capacity building can take the form of the job training, workshops, seminars, conferences and overseas training. The maximum amount that can be spent on such capacity building shall be determined by the PPP Policy Board. This shall however not exceed 10% of the respective project allocation from the PDF. Examples of topics to be covered by the capacity building component include PPP fundamentals and best practices, preparation/analysis of feasibility studies, project implementation, methods for tariff setting and structuring options for PPP projects and other capacity development needs as identified by the consultant.

2.10 The project preparation and transaction advisory support under the PDF will include, but not limited to:

1. Undertaking of feasibility studies that include:
 - (a) Study of demand and supply scenario;
 - (b) Preliminary technical assessment, technology options, design and specifications based on recommended best technology for the project with cost, efficiency and quality output considerations kept foremost;
 - (c) Preparation of detailed cost estimates and financing plan based on best technology option;
 - (d) Social and gender analyses, and environmental impact analysis including an assessment of any labor-related concerns or issues, particularly in the case of brownfield projects and more relevant in the case of PPPs in urban utility distribution services;
 - (e) Economic and financial analysis, including tariff analysis and testing for project robustness;
 - (f) Assessment of the need for VGF and other government support in case the project is not financially or commercially viable on its own. If VGF is deemed necessary, then the most optimal type of VGF Analysis of PPP options leading to the optimum project structure;

- (g) Legal viability assessment;
- (h) Tax and insurance viability assessment;
- (i) Risk analysis, including recommendations on the risk allocation between the public and private sectors;
- (j) Preparation of a procurement plan;
- (k) Drafting of pre-qualification and bidding documents, including the PPP Agreement;
- (l) Costs of the Independent Experts/ Independent Auditors for oversight during project implementation and
- (m) Value for Money (VFM) Assessments.

2. Transaction bidding services for PPP procurement that include:

- (a) Preparation of a project information memorandum to support procurement for the PPP project;
- (b) Market sounding aimed at attracting private sector interest and finalizing the project structure;
- (c) Assistance during the pre-qualification of bidders, including evaluation of prequalification applications;
- (d) Assistance during the bidding, including evaluation of technical, legal and financial proposals from the pre-qualified bidder.
- (e) Assistance during negotiations with the preferred bidder and finalization of the PPP Agreement; Assistance in meeting the Development Agency's conditions for PPP project financial closure.

2.11 In case of Unsolicited Bid, a PDF may be used to hire consultants/ advisors to assess the commercial, legal, financial and technical aspects of the Unsolicited Proposal along with the documents submitted therewith.

SECTORS TO BE SUPPORTED

2.12 The Sindh Public Private Partnership Act 2010 defines public service infrastructure project sectors in a broader way by covering both the traditional physical infrastructure sectors such as energy, transport and water supply, and facilities in social sectors such as education and health.

2.13 Consistent with this, the Act and government policy, the PDF can be used in the following sectors:

- (i) Transport and logistics including provincial and municipal roads, bridges, rail, airports, as well as warehousing, wholesale markets, slaughter houses and cold storage;
- (ii) Mass urban public transport including integrated bus systems as well as inter-city rail systems;
- (iii) Various urban Services including water supply including water desalination, water treatment and sanitation, solid waste management, traffic and parking management, slaughter houses, facilities monitoring and tracking services and other projects as low-cost housing, education, health, livestock and fisheries etc., large flood water storage facilities and reservoirs;
- (iv) Energy projects preferably renewables and including hydro and thermal power generation projects other than those being undertaken at the federal level;
- (v) Tourism projects including cultural centers, entertainment and urban parks and recreational facilities and other tourism-related infrastructure;
- (vi) Industrial projects where public property will be used to support private industry and manufacturing activities;
- (vii) Modern wheat storage silos and other Food Storage Godowns including improving and rehabilitation of existing and new FSG under entirely private sector or multi-sector ventures and Any other sector where the public sector can transfer efficiently risks to the private sector to provide traditional public services to optimize value for money and to improve socio-economic conditions along with addressing gender equality issues.

INSTITUTIONAL ARRANGEMENTS

2.14 The PDF is an independent project development support facility set up under the PPP Act 2010, as amended, administered and managed by the SFMH that once established for facilitating the preparation and execution of PPP projects. PDF has been established through the approval mechanism of PPP Policy Board and by notification of Finance Department under the provisions of the PPP Act 2010 as amended. PDF shall have an independent accounting system managed by the SFMH and will have independent audit conducted for its operations and financial accounts on half yearly and annual basis for presentation to and approval of the PPP Policy Board. To make it as functional and efficient as possible, the operations of the PDF are overseen and supervised by the PPP Policy Board. The PDF funding requirements and the funding sources will be the responsibility of PPP policy board.

2.15 The PPP Policy Board is responsible for setting policy directives, determining priority sectors, approving the operational and management procedures and any amendments of these functions, approving the financial statements and audited accounts, and receiving management reports on PDF funds utilization and funds availability. The PPP Policy Board can approve/reject/modify applications for funding and select PPP projects that meet the set criteria as laid down in annexures A and B. The PPP Policy Board also decides on the means for recovery of PDF (if any) from Private Sector partners on a project-by project basis. It can also attach conditions to PDF funding as it deems appropriate.

2.16 The PPP Unit shall provide technical and administrative support to the PPP Policy Board in receiving, processing, and assessing, all applications for PDF funding from the Government Agencies.

2.17 The PPP Unit shall be responsible for the following:

1. Distributing information on the PDF, its processes and objectives, to all interested Government Agencies and other stakeholders and provide support to the Government agencies as requested by them;
2. Receiving applications for PDF funding;
3. Acknowledging, processing and assessing these applications;
4. Presenting the analysis and recommendations for PDF requests received in the form that is approved by the PPP Policy Board to consider requests for approval and make its decisions;
5. Communicating the decisions of the PPP Policy Board to the Government Agencies/nodes and the relevant stake-holders;
6. Agencies/nodes on the use of PDF;
7. Assisting the Agencies/ nodes in procurement process to engage consultants;
8. Ensuring that the Government Agencies/nodes report as required in the PDF approval conditions and the agreements signed on the project preparation and transaction execution;
9. Verifying the correctness of all invoices submitted for payment based upon the terms agreed in the agreements signed between the Government Agencies/nodes, the Finance Department and other stakeholders including regulator/Fund Contributors as agreed;
10. Making payments directly to the Consultants with information to Government Agencies/nodes, regulator, and the PPP Policy Board;
11. Developing and Implementing a PDF financial management system that is managed by the SFMH; and

12. Developing and maintaining a database of qualified and experienced Consultants. PPP Unit should also encourage and facilitate the development of market and capability of consultants, banks and other relevant entities for planning and execution of a PPP project.

CONTRACTUAL ARRANGEMENTS AND FLOW OF FUNDS

2.18 The key features of these arrangements are:

- i. The PDF will be administered by the SFMH and SFMH will maintain a dedicated PDF bank account for all PDF related transactions. SFMH is responsible for PDF financial management and independent audits and reporting.
- ii. The Government and the participating Development Partners will transfer their contribution into the PDF account and, when due, the PDF will transfer funds to Government Agency for onward payment to the Consultants.
- iii. In the event of a Development Partner preference not to transfer funds directly into the PDF account to finance consulting services approved by the PPP policy board, it shall have the discretion to pay the Consultants directly for the services rendered. The payments to the consultants shall be made on the conditions and procedures agreed under the contractual arrangements signed between the Government Agency and such Donors, the consultants.
- iv. The SFMH manages the day-to-day operations of the PDF. It will also ensure an effective financial management of the PDF.

2.19 The SFMH also has the following responsibilities for management of PDF:

- i. Manage the project development facility (PDF)
- ii. Ensure that where PPP projects are awarded to investors, the investors repay PDF for any PDF funds previously utilized to prepare such projects ("clawback") if such arrangement is approved by the PPP Policy Board
- iii. Making payments directly to the Consultants with information to Government Agencies/nodes, regulator, and the PPP Policy Board; and
- iv. Submitting the PDF audited accounts for the half yearly and annual audits

2.20 The SFMH has the responsibility to acquire the services of a reputable and well-qualified accounting and auditing firm to conduct half yearly and annual audits that meet the requirements of the Government and participating Development Partners.

FUNDING SOURCES

2.21 The Government has the main responsibility to maintain the annual budgeted requirements as advised by the PPP Unit that is determined based on the ongoing contracted commitments and the information for new funding requirements provided by the Government agencies/nodes and approved by the PPP policy board. In addition the PPP Unit shall work with the Finance department to seek grants and soft loans from the Development Partners.

2.22 The PDF is envisaged as a revolving facility through reimbursement of disbursed funds, including the capacity building component, as given below:

- (i) From the Private Sector Partner upon signing of the PPP Agreement as agreed between the concerned parties. The recommendation whether or not to seek such reimbursement will be made in the PDF application of the Government Agency. If the recommendation is positive and if it is approved by the PPP Policy Board in the process of the overall approval of the PDF funding, the reimbursable cost of project preparation and transaction execution will be specified in the bid documents, thus becoming a part of the total project cost; or
- (ii) The Finance Department to maintain the required funding levels to meet all commitments as budgeted and approved by the Government.

3. PDF PROCEDURES

SECTOR AND PROJECT PRIORITIZATION

3.1 As the funds in the PDF will not be unlimited, an important responsibility of the PPP Policy Board will be to allocate these funds among the different infrastructure sectors and projects in a way that maximizes the benefits of their use. When deciding on the priorities, the PPP Policy Board will take into account the socio-economic goals of the Government and the preparedness of the various Government Agencies to implement PPP projects. Only sectors, which have a coherent strategy and a properly evaluated pipeline of potential PPP projects, will be considered.

PROJECT LIFE CYCLE

3.2 The following four main phases can be distinguished in the overall life cycle of PPP projects:

1. Project inception (Pre-Feasibility, initial cost estimates, completion time estimate, estimated savings, budgetary requirements, concept clearance);
2. Project preparation (feasibility study, contracts preparation etc.);
3. Transaction execution (procurement of the Private Sector Partner); and
4. Construction, operation and transfer (development, delivery and exit).

3.3 During the inception phase, the Government Agency will identify and conceptualize a potential PPP project from its master plans and other planning documents. This phase will include an initial needs and options analysis to determine the best solution for developing the given infrastructure facility and/or providing the necessary infrastructure service, as well as an initial viability analysis. Any study done for this purpose will take into account gender differences in end-user needs. To help prepare the PPP project and select the Private Sector Partner, the Government Agency will recruit the Consultants. Prior to doing so, it will decide whether to fund the cost of these advisors from its own budget, the PDF or through a reimbursement agreement with the Sponsors. In the latter case, the Government Agency will submit a request for PDF funding through the PPP Unit to the PPP Policy Board. The project inception phase will end with the recruitment of the Consultants who will provide support to the Government Agency during the subsequent phases as required.

3.4 In the second phase, the Government Agency will manage preparation of the PPP project by the Consultants. The preparation will consist of a feasibility study, supplemented by initial environmental, social and gender assessments, environmental impact assessment and mitigation measures (if required), risk analyses, assessment of the need for VGF and other government support, (infrastructure support including land, licensing, right of ways required, removal of encroachments/hurdles in routes determined, illegal and unlicensed competition removed, demand and capacity to pay analysis through actual on ground surveys and assignment of responsibility for revenue / user charge recovery (whether Government agency or concessionaire company and with reasons), technical, legal, environmental and financial due diligence, private investor and lender surveys and requirements assessment, determination of the PPP modality (project structuring), Value for Money (VFM) analysis and drafting of tender documents including the PPP Agreement. An important part of the feasibility study will be financial modeling to determine project bankability and affordability, including estimates of viability gap, if any. Another important activity will be stakeholder consultations.

3.5 In the event the feasibility conclusions meet the objectives and requirements set for the project to be met under the PPP mode, the PPP project proposal is referred to the PPP policy board for approval and once approved by the PPP Policy Board for implementation, the third phase - the transaction execution will start. The Consultants will assist the Government Agency in undertaking market sounding as advised in the feasibility report and market the project to attract the private sector investors and the each investor's identified candidate project finance banks to finance the project. This would be done simultaneously to address market concerns, if any, when structuring the project for tender offering to the public. The market sounding will be followed by a two-stage tendering process consisting of private investor pre-qualification and subsequent final bidding. Based on a technical and financial evaluation of the bids received, the preferred bidder will be determined and invited for contract negotiations. After the PPP Agreement has been signed, the selected Private Sector Partner will endeavor to arrange the necessary financing and thereby achieving financial closure for the PPP project. This will mark the end of the transaction execution phase and the beginning of project construction.

3.6 In case of an unsolicited bid, a PPP Node may also apply for PDF funding to analyze the technical, commercial, legal and financial aspects of the proponent's Feasibility Report.

STEPS FOR PDF UTILIZATION

3.7 PDF purpose is to facilitate the achievement of the objectives of completing a process (that includes a comprehensive feasibility preparation) for PPP project identification, prioritization, selection, preparation and project execution. A summary of the main steps to achieve the main objectives are:

- i. The Government Agency identifies a suitable PPP project and determines that it cannot fund its project development and its execution costs from its own budget;
- ii. Alternatively, the Government Agency receives an unsolicited bid and determines that it cannot fund its analysis of the proponent's Project Feasibility Study and potential transaction execution from its own budget.
- iii. The Government Agency drafts the terms of reference for the required consulting services and prepares a cost estimate for these (with the PPP Unit's support);
- iv. The Government Agency approaches PPP Unit with the application for PDF funding required for the cost of consultancy and other costs for project development and its execution
- v. The PPP Unit assesses whether the project is eligible for the PDF and whether enough funds are available for it, and makes a recommendation to the PPP Policy Board;
- vi. In case the PPP Policy Board approves the PDF use for the given project, the Government Agency begins the recruitment of Consultants (with the PPP Unit's support, if necessary);
- vii. The Government Agency signs the consulting contract, including a clause according to which the payment will come directly from the PDF or other sources as advised by the Government Agency and the Government Agency backs all commitments to the satisfaction of the consultants;
- viii. The Government Agency manages the project preparation and transaction execution (with the PPP Unit's support);
- ix. In case a Government Agency is given approvals for PDF by the PPP Policy board based on condition of PDF support reimbursement, it will reimburse the funds to the PDF, once the Private Sector Partner has been selected, and the PPP concession Agreement signed with the reimbursement condition and
- x. If grant funds provided by an International Development Donor had been used, SFMH will prepare a report for the donor agency describing how, and to which effect, the grant funding was used.

SUBMISSION OF PDF APPLICATIONS

3.8 All Government Agencies seeking support from the PDF will have to submit a formal application through PPP UNIT to the PPP Policy Board. The application will consist of the following documents:

- i. Memorandum for Consideration (see the recommended content in Annex A);
- ii. Completed PDF Application Form (see the format in Annex B); and
- iii. Draft Request for Proposals, including terms of reference and cost estimate for the consulting services to be financed from the PDF.

3.9 The PDF application will be prepared with the assistance of the PPP Unit. Other Government agencies such as PSF/Planning and Development department may also assist in preparation. Such application may have the following content:

- i. Sector background;
- ii. Problems the proposed PPP project intends to solve or the socio-economic benefits and the gender equality principles that the project execution would entail along with its wider impact on the local area;
- iii. Parameters of Initial Environment Examination (IEE): After Project identification, the Administrative Department would describe very clearly the Environmental & Social Impacts in light with the parameters laid down in the existing Environmental & Resettlement Framework in Pakistan and Pakistan Environment Protection Act (EPA) requirements, describe such process, efforts will be made to ensure implementation consistent with international good practices and the EPA and also as reflected in internationally recognized standards such as the Equator Principles.
- iv. Detailed description of the project with service it shall provide, purpose/objective that will be met and demand requirements fulfilled;
- v. Preliminary investment cost estimate, the basis for such estimates and proposed financing plan;
- vi. Tentative project development schedule and the basis of proposing such schedule and brief option analysis of conditions/ support that can improve project completion schedule;
- vii. Economic benefits of the project at the macro and micro levels, with an analysis on how the project will impact on women's economic status.
- viii. Legal authority of the Government Agency to undertake the project on a PPP basis;

- ix. Proposed PPP modality and term of the contract with supporting preliminary analysis that would support recommendations;
- x. Regulatory regime for the PPP project and if such regime not currently available suggestions for providing contractual regulatory structure;
- xi. Scope for private sector involvement and supported with any initial marketing effort with potential private investors and their lenders;
- xii. Proposed cost recovery mechanism;
- xiii. Any requirement of VGF support to ensure ROE for investor with and without required upfront Government infrastructure availability;
- xiv. Preliminary risk identification and allocation;
- xv. Evidence that would reflect the political authorities support the project being implemented on a PPP basis;
- xvi. Resources, if any, which the Government Agency can formally commit to project preparation and transaction execution;
- xvii. Resources, which the Government Agency is willing to contribute to project implementation;
- xviii. Terms of reference and cost estimate (and basis for such estimates) for the consulting services;
- xix. Funding sought from the PDF for the consulting services;
- xx. Justification for and recommendation on recovery of the PDF funding from the Private Sector Partner;
- xxi. Draft procurement notices for the consulting services; and
- xxii. Capacity to undertake project preparation and transaction execution.

EVALUATION OF PDF APPLICATIONS

3.10 The evaluation of each PDF application will be based on a set of criteria related to the Development Agency, sector and project. The Development Agency-related criteria may include the following:

- i. Has the Development Agency undertaken a PPP project? If yes, has it been successful or unsuccessful in doing so?
- ii. Will the strategic goals of the Development Agency, including commitments to environmental, social safeguards and gender equality, be achieved by the proposed PPP project?
- iii. Is the Development Agency committed to following the principles and procedures espoused in the PPP Policy of the Government?

- iv. Has the Development Agency made a formal commitment to provide the necessary personnel and in-kind resources for the project preparation and transaction execution?

3.11 The sector-related criteria may include the following:

- i. Is the proposed PPP project in an eligible sector?
- ii. Is the project included in the ADP and is a priority project of the Government Agency?
- iii. What is the history of PPP projects, if any, in the sector inside and outside Pakistan?

3.12 The project-related criteria may include the following:

- 1. Is the PDF application complete?
- 2. Has the proposed PPP project been properly defined?
- 3. Does the project meet the PPP definition under the PPP Act of 2010, as amended.
- 4. Have all necessary initial steps and pre-requisites such as public notification and consultation been completed?
- 5. Is the quality of the demand forecast or other studies indicating the need for the project valid and reliable?
- 6. Has the Development Agency undertaken a preliminary assessment of the technical, economic, legal and financial prospects of the project vis-à-vis other similar projects and PPP projects in general? If yes, has the outcome been positive?
- 7. What is the ability of the project to generate private sector investment?
- 8. If the project does not attract private sector investment, what is its ability to generate system improvements through outsourcing of construction and/or operations to the private sector?
- 9. What improvements in the quantity and quality of service delivery are expected from the Project in PPP mode?
- 10. What measures will be taken to safeguard vulnerable groups (women, children, elderly, indigenous peoples, persons with disabilities, etc.) from any negative impacts the project may have?
- 11. Is there a capacity and appetite in the private sector to participate in the project?

12. Can qualified Consultants be recruited in accordance with the provisions of these Guidelines?
13. Has the scope of services of the Consultants been properly defined in the terms of reference?
14. Is the estimated cost of these services realistic and proportional to project value?
15. What are the prospects for meeting initial public investment requirements for project implementation, such as land acquisition?
16. Is the project likely to require VGF? What other direct and/or contingent government support is required? If yes, is it likely that such support can be provided?

DECISION ON PDF APPLICATIONS

3.13 Within one month from the receipt of the complete PDF application, PPP Unit will inform the Government Agency whether funds are available in principle for the project. During its next meeting and based on an evaluation by PPP Unit, the PPP Policy Board will consider the PDF application and decide whether to approve it unconditionally, approve it subject to certain modifications / conditions, or reject it. The PPP Unit will inform the Government Agency without delay about the decision of the PPP Policy Board, together with the required modifications or reasons for rejection, if any. PPP Unit will also advise the Government Agency about the cost recovery mechanism, if applicable. After each meeting of the PPP Policy Board, PPP Unit will publish on its website the list of all projects and the related consulting services, for which PDF financing had been approved.

RECRUITMENT OF CONSULTANTS

3.14 The recruitment of the consultant shall only be made by the Administrative Department after the PPP Policy Board has approved the PDF funding. The recruitment process, however, will start only after the Government Agency's application to use the PDF has been approved by the PPP Policy Board. The responsibility for the recruitment process will rest with the Government Agency, which can request support of the PPP Unit, if necessary.

3.15 The recruitment funded through PDF will have to follow Sindh Public Procurement Rules. If the cost of the consulting services is financed from a PDF contribution made by a Development Partner, which insists that its recruitment rules are used, those rules will also be followed.

3.16 The consulting contract will be negotiated and signed by the Government Agency. Its scope will depend on the specific circumstances of the PPP project, as described in the terms of reference. Normally, the contract will be subdivided into two phases, namely, (i) project preparation and (ii) transaction execution. There will be a provision allowing contract termination after the first phase if the PPP project is found to be not viable. However, if a good-quality feasibility study already exists, the contract will cover only the transaction execution up to and including the signing of the PPP Agreement. (This shall not preclude use of PDF to analyze the feasibility study for an unsolicited bid).

DISBURSEMENTS

3.17 Disbursements from the PDF will be made in installments based on milestones achieved by the Consultants. These milestones will be those as defined in the Memorandum for Consideration (see Annex A) sent by the Government agency to the PPP Policy Board and approved by the PPP Policy Board. The procurement agency shall report in writing to the PPP Unit the achievement of the said milestone for making the disbursement. The PPP Unit shall rely on the advice/information of the procurement agency and also if it deems necessary to review the consultant output based on the milestone prior to making any payments.

REPORTING

The PPP Unit will prepare annually reports on the PDF operations in terms of the projects supported and their progress, recruitment of consultants, fund utilization, disbursements, potential projects that may require funding, and any other relevant matters as required by the PPP Policy Board and other parties. The respective government agency shall provide all the necessary support and data for making the report. The reports will be circulated to the PPP Policy Board and all Development Partners providing co-financing for the PDF. The reports might also be published on the PPP Unit's website.

Annexure A

MEMORANDUM FOR CONSIDERATION

Guidelines for preparation of PDF application for PPP projects development and execution

1. Introduction

The Memorandum for Consideration is an application to be made by any Government Agency, which seeks funding from the Project Development Facility (PDF) administered by the Sindh Fund Management House (SFMH), Finance Department, Government of Sindh. The information to be provided in the Memorandum is described below. In addition to the Memorandum, the Government Agency should complete the PDF Application Form given in Annex B.

2. Project Proposal

The Government Agency, with the aid of the PPP Unit if necessary, will highlight the broad contours of the project and issues related to its implementation on a PPP basis. The Memorandum for Consideration may include the following information:

- (i) **Background to the sector;** sector policies, priorities and main issues; and evidence that the proposed PPP project is a priority for the sector.
- (ii) **Project Description:** Description of the main components of the PPP project, preliminary technical information on its capacity/ size, estimates of cost on fixed price, date certain Engineering Procurement Construction (EPC) contract basis, Operations and maintenance costs and other technical and operations cost, if any.
- (iii) **Rationale:** Problems the PPP project intends to solve, such as physical deficiencies, inefficiencies, financial and regulatory issues, etc. or the socio-economic impact to affected population, especially women, and development focus that the project would deliver.
- (iv) **Political Commitment:** Evidence that the political authorities support project implementation on a PPP basis. Such as preference highlighted in the ADP to develop such projects under PPP mode.
- (v) **Preliminary Financial Analysis:** Cost estimates for capital investments, development costs and operations and maintenance, the proposed sources of investment, and the

estimated projected revenues over the contract period, and, if possible, a preliminary estimate of the financial internal rate of return. Financial analysis should include the potential need for VGF support and other government support such as tax exemptions and land donation which are assumptions of the financial analysis. In case of VGF, the type of VGF support anticipated should be indicated together with investor expectations of ROE, and debt front end fee, interest and other costs.

- (vi) **Preliminary Economic Analysis:** At least a qualitative description of the economic benefits of the PPP project to achieving important government policy objectives and to affected population, especially to women. If some quantification is possible, a preliminary estimate of the economic internal rate of return should be estimated.
- (vii) **Legal Aspects:** Provisions under the relevant Acts and Rules that grant authority to the Government Agency for developing and implementing the project on a PPP basis.
- (viii) **Private Sector Involvement:** Scope for private sector involvement ("What is the private sector supposed to do?"). Elaborate type of PPP concession based on whether project is for providing services (Service and management Contracts) or to develop and operate an infrastructure project (BOT, BTO, etc.)
- (ix) **Cost Recovery:** How the private sector partner is proposed to recover project costs (user charges, government payments, etc.).
- (x) **Risk Management:** Preliminary risk identification and allocation (which party shall carry the construction risk, which party the revenue risk, etc.). The information should also bring out any environmental or social risks that can affect the project, including any anticipated negative effects on women, children, indigenous peoples, persons with disabilities, and other vulnerable groups of the population. Indication as to what if any guarantee(s) outside of already indicated VGF support may be needed i.e. political risk, foreign exchange risk, etc.
- (xi) **Contribution to Project Preparation:** Resources in terms of counterpart staff and facilities, which the Government Agency formally commits to contribute to preparation and transaction execution of the PPP project.
- (xii) **Contribution to Project Implementation:** Resources in terms of land and other support, which the Government Agency is willing to contribute to implementation of the PPP project.
- (xiii) **Proposed PPP Implementation Structure:** The Government Agency's view about the most suitable PPP modality, along with the proposed contract period. This should also describe plans by the Government Agency to undertake any improvements before the PPP project is undertaken, and indicate whether the PPP project is a part of a portfolio of

such projects to be undertaken by the Government Agency. It should be clear whether the project is in the greenfield or brownfield category.

- (xiv) **Regulatory Aspects:** The existing regulatory mechanism, as applicable, in case tariffs are to be structured in the PPP option. In the absence of independent regulatory mechanism, an indication of the proposed steps for regulation by contract.
- (xv) **Terms of Reference:** Draft terms of reference for the consulting services, including a detailed cost estimate, timeline for consultancy completion and payment milestones.
- (xvi) **PDF Funding Requested:** Total estimated budget for the consulting services and the amount requested from the PDF. The budget should be broken down into project preparation, transaction execution, and capacity building. The amount requested from the PDF should exclude any expenses incurred by the Government Agency on its own staff and facilities.
- (xvii) **Plan for Recovery of PDF Funding:** Justification for and recommendation on whether or not the PDF funding, including the capacity building component, should normally be recovered in part or in full from the private sector partner selected through the competitive tendering process.
- (xviii) **Tentative Project Development Schedule:** The proposed project development activities and their timeframe, starting with the appointment of consultants and ending with the selection of the private sector partner and financial closure. This should also indicate all important decision-making and payment for services milestones.
- (xviii) **Draft Advertisement:** Draft procurement advertisement/notice for the consulting services for project preparation and transaction execution.
- (xx) **Capacity Building:** Details of the capacity building support requested as part of the project preparation and transaction execution.

Annexure B

PDF APPLICATION FORM

Nature of Assistance: <p style="text-align: center;">Funding required from the Project Development Facility: Rs. _____ Million</p>
Project Name: _____ :
Sector: _____ :
Government Agency: _____ : (Sponsoring Authority)
Location: _____ : (District/Town or Tehsil)
Implementing agency: _____ : (if different from above as in case of a subordinate government organization)
Need for the Project: (include explanation how this will meet the needs of women)
Brief Project Description:

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Proposed PPP Modality for Project Implementation:

- Service Contract
- Management Contract
- Lease
- Concession

- Build-Operate-Transfer (BOT) Contract

- Others (specify)

<p>Likely Impact(s) of the Project:</p>
--

Cost and Financing Structure of the Project: A. Estimated Project Cost

Item	Rs. Million
Land	
Civil Works	
Equipment	
Others (Specify)	
Total	

B. Tentative Financing Plan (with attachment of justification such as initial market soundings from private party and its lenders on risk appetite and their return expectations, a sensitivity analysis note on impact of funding participation from each equity and debt financing source on transaction structure and consequent levels of Government support needed)

Source	Rs Million
Private Sector Partner	
Government of Sindh	
Government Agency	
Viability Gap Fund	
Others (Specify)	
Total	

Qualitative or Quantitative**Economic Benefits of the Project:**

(Discuss any difference in how women and men may be able to access and use economic benefits from the project.)

Preliminary Estimate of the Financial

Internal Rate of Return (if available):

Estimated Project Cost

Item	Rs. Million
Project Preparation (feasibility study,	
Transaction Execution	
Capacity Building	
Sponsor Development Fee (if any)	
Others Expenses (specify)	

Total Development Costs:

Total	
Requested PDF Contribution to meet costs (on NPV and nominal basis)	

PDF Funding to be

Recovered from the Private Sector Partner:

Yes ____ No ____

Justification(Whether project would require Government subsidy support or will be financially viable without support, as an example):

Enclosures: : Memorandum for Consideration

Draft Request for Proposals for Consulting Services

(including terms of reference and cost estimate)

Draft Advertisement for Consulting Services

Others (specify)

Signature:

Name and Title:

(Authorized Signatory of the Government

Agency) Date: