



Technical Assistance Report

Project Number: 49407-001
Cluster—Capacity Development Technical Assistance (C-CDTA)
January 2016

Strengthening Project Preparation Capacity in Asia and the Pacific

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AP3F	–	Asia Pacific Project Preparation Facility
DMC	–	developing member country
PPP	–	public–private partnership
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

Head Director	R. Kaga, Office of Public–Private Partnership (OPPP) T. Koike, OPPP
Team leader	T. Lewis, Principal Public–Private Partnership Specialist, OPPP
Team members	A. Abon, Public–Private Partnership Officer, OPPP A. Belarmino, Operations Assistant, OPPP A. Jett, Public–Private Partnership Specialist, OPPP K. Yalung, Public–Private Partnership Analyst, OPPP

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CONTENTS

	Page
CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE	
I. INTRODUCTION	1
II. ISSUES	1
III. THE PROPOSED CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE	2
A. Impact and Outcome	2
B. Methodology and Key Activities	3
C. Cost and Financing	4
D. Implementation Arrangements	4
E. Governance	4
IV. THE PRESIDENT'S RECOMMENDATION	5
APPENDIXES	
1. Design and Monitoring Framework	6
2. Cost Estimates and Financing Plan	8
3. Outline Terms of Reference for Consultants	9
SUPPLEMENTARY APPENDIX (available on request)	
Indicative Procurement Plan	

CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 49407-001	
Project Name	Strengthening Project Preparation Capacity in Asia and the Pacific	Department /Division	OPPP/OPPP
Country	REG	Executing Agency	Asian Development Bank
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Transport policies and institutional development		4.00
Energy	Energy sector development and institutional reform		4.00
Water and other urban infrastructure and services	Urban policy, institutional and capacity development		2.00
			Total
			10.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 3: Money and finance		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas	Some gender elements (SGE)	✓
Partnerships (PAR)	Knowledge sharing activities		
Private sector development (PSD)	Commercial cofinancing		
	Private Sector		
	Conducive policy and institutional environment		
	Promotion of private sector investment		
	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Regional	High
6. TA Category:	A		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		10.00	
Capacity development technical assistance: Technical Assistance Special Fund		10.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		10.00	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. INTRODUCTION

1. The Asian Development Bank (ADB) established the Asia Pacific Project Preparation Facility (AP3F) in October 2014 to provide the additional resources and technical support for the preparation of public–private partnership (PPP) infrastructure projects in its developing member countries (DMCs). This is expected to help increase the amount and quality of infrastructure in Asia and the Pacific by facilitating the use of PPP modalities.

2. PPPs have the potential for ADB to provide leverage and thought leadership. Under its Public–Private Partnership Operational Plan, 2012–2020, ADB addresses PPP development holistically across four pillars: (i) advocacy, (ii) enabling environment, (iii) project development, and (iv) project financing.¹ Under pillars 1 and 2, ADB is helping its DMCs to develop PPP frameworks and is providing PPP project-related support. Accordingly, ADB is in the unique position to help advance its DMCs' knowledge on PPPs, apply recognized PPP principles and processes, and realize more PPP projects.

3. Through the AP3F, ADB will provide assistance to DMC governments and their public sector agencies to support the financial, legal, and technical advisory services required to prepare and structure PPP transactions, and bring them to the market. The AP3F can also provide related assistance for (i) reform and improvement of policy, legislative, regulatory, and institutional practices in DMCs, where this is linked or otherwise complementary to such infrastructure projects; and (ii) ongoing project monitoring and evaluation. This is expected to help increase the amount and quality of infrastructure in Asia and the Pacific by facilitating the use of PPP modalities.

4. The proposed cluster regional capacity development technical assistance (TA) will contribute to achieving the overall AP3F objective by providing upstream assistance to DMCs, essentially increasing their capacity to prepare and undertake PPPs and developing the enabling environment for PPPs. The TA will help DMCs address the project preparation gap by supporting a range of activities in DMCs to lay the groundwork (such as legislative and policy reform) necessary for DMCs to be able to tap the AP3F for further assistance in structuring their projects. The design and monitoring framework is in Appendix 1.

II. ISSUES

5. Asia's infrastructure demand is huge. While ADB predicts that Asia will need to spend about \$8 trillion from 2010 to 2020 just to maintain current economic growth, a report by PricewaterhouseCoopers estimated that Asia and the Pacific will need to spend \$5.36 trillion annually on infrastructure by 2025—representing nearly 60% of the world's total. Infrastructure projects funded by national governments and development assistance, even when effectively delivered and implemented, will not suffice to address this growing infrastructure demand gap.

6. Adequate investment in infrastructure is crucial to promoting further growth of Asia and the Pacific, spreading the fruit of economic developments, and raising the living standards of people in the region. Governments have a key role to play in promoting an enabling environment for private investment. The region's vast savings are ripe to be efficiently channeled to funding long-term investment needs, thus helping the region to realize its full growth potential and lifting millions out of poverty. Governments need to draw on past lessons

¹ ADB. 2012. *Public–Private Partnership Operational Plan, 2012–2020*. Manila.

and consider more commercial approaches as to how to engage the private sector in building, operating, and maintaining sustainable infrastructure assets.

7. Given the region's huge infrastructure needs, mobilizing private sector investments is vital. PPPs are an important way forward since they can offer an additional procurement approach by tapping the private sector's financial resources and skills in delivering infrastructure effectively and efficiently on a whole life cycle cost basis. However, PPP development is constrained by limited or lack of understanding of PPP contracts, risk allocation, and lack of government capacity for project identification and preparation. Underdeveloped regulatory frameworks and unclear implementation, as well as limited coordination among central ministries, also contributed to the slow uptake of PPPs as a procurement modality. PPP schemes are generally long-term partnerships, so governments must possess, develop, and/or retain sufficient expertise to be able to understand the PPP arrangements, carry out their obligations under the PPP agreement, and monitor the performance of the private sector, and enforce their obligations.

8. Another pressing challenge that DMCs face is the lack of effective PPP project preparation. There is a shortage of well-prepared, bankable PPP projects where investors are sufficiently reassured by the commercial and technical feasibility, the risk allocation, the public sector's contractual commitment and capacity as well as the institutional and legal framework.

9. The PPP project preparation process is quite complex, as it involves large teams and multiple stakeholders (including ministries, regulators, engineering firms, banks, and users) as well as a multitude of interfaces between the different functional feasibility studies and the regulatory contract design. So it is of paramount importance to assemble capable and experienced teams within a well-defined governance structure, backed by strong and committed political and project leadership. High-quality project preparation is also costly and, in many cases, insufficient or ad hoc funding has led to poor quality, inconsistencies, and delays in project preparation. PPP planners need to ensure sufficient up-front funding, to be disbursed at set milestones, to conduct a thorough feasibility study.

III. THE PROPOSED CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

10. The TA will support capacity development in preparing infrastructure projects to be procured using the PPP modality. It will support policy dialogues, capacity building, and institutional strengthening to improve planning and project identification, and changes and modifications to policy and regulatory frameworks to enhance the enabling environment for PPPs. The TA will also provide ongoing project monitoring and restructuring.

11. The TA will use the cluster approach, targeting upstream activities, including sector or policy reform, linked to potential projects being prepared. The cluster approach is proposed because the subprojects are interrelated and will address the challenges of having better-prepared projects. The cluster modality will maximize TA coherence and coordination better than an individual TA approach.

A. Impact and Outcome

12. The impact will be contributing to increasing private sector investment in infrastructure projects. The outcome will be an increase in the number of properly prepared infrastructure projects that attract private sector investments.

B. Methodology and Key Activities

13. The TA will provide ancillary support for the preparation, structuring, and financing of infrastructure PPP projects of ADB's DMCs. It is intended to streamline DMCs' access to the resources of the AP3F. It will help them respond appropriately and expeditiously to the challenges and issues in developing and financing infrastructure projects through PPP approaches. Within the framework of the implementation guidelines, as set out under the AP3F, the TA will support a range of upstream activities and will give priority to projects that (i) have a positive impact on regional connectivity and support regional economic integration; (ii) take into account climate change and are demonstrably climate-friendly and climate-resilient; and (iii) demonstrate value for money and the potential for replication in the sector, country, and/or region.

14. The TA will have three subprojects, to be carried out under the overall framework of the AP3F and in close coordination with ADB's regional departments. Subproject 1 will provide capacity development support to DMCs to continuously improve their skills in project identification, preparation, and management. Subproject 2 will provide support to DMCs in monitoring the operational performance of a specific PPP project, and during project restructuring. Subproject 3 will support DMCs to undertake the necessary reforms to facilitate PPPs. These subprojects may be undertaken in a single DMC at the same time. ADB will determine what type of intervention is needed and plan the sequence of such intervention accordingly.

- (i) **Subproject 1: Support for capacity development, knowledge and networking support.** This component will help assess and build the capacity of national and local governments, stakeholders, and other project sponsors to identify, develop, structure, and implement infrastructure PPP projects. This will include assessing and building the capacity for multi-stakeholder, integrated infrastructure and strategy planning; capital investment planning and programming; financial management; and project management and supervision. It will also include knowledge generation and dissemination on policy, fiscal, and institutional frameworks for sustainable delivery of PPP projects.
- (ii) **Subproject 2: Support for ongoing monitoring and project restructuring.** This component will provide support to DMC agencies in monitoring project performance against the key performance indicators set out in the project agreement to ensure that service delivery is in accordance with the output specification. This will also include support to the DMC during project restructuring, provided that the DMC has not been the party causing default, except in the case of political force majeure.
- (iii) **Subproject 3: Support for the establishment of enabling environment for public-private partnerships.** This will include advising DMC agencies (such as line ministries and PPP units) on enabling reforms (such as changes to legislation, policy, and regulatory frameworks; and possible use of guarantees, viability gap financing, new financing vehicles, and investment incentive schemes); appropriate PPP project selection criteria; staff training; and market and/or stakeholder awareness.

C. Cost and Financing

15. The TA is estimated to cost \$10 million, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V) and broken down as follows: (i) subproject 1: \$5.00 million, (ii) subproject 2: \$2.86 million, and (iii) subproject 3: \$2.14 million. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

16. ADB will coordinate the TA through its Office of Public–Private Partnership. Upon TA approval, the subproject proposals will be submitted for approval to the Head, Office of Public–Private Partnership, in accordance with ADB guidelines on cluster TA processing.² ADB will be the executing agency and implementing agency for each subproject, and will work closely with regional departments, DMCs, and AP3F financing partners. The TA will finance consulting services; workshops and training events, including study visits and resource persons; preparation of reports and knowledge products; as well as communication, miscellaneous administration, support costs, and equipment. The TA and its subprojects are expected to be implemented from January 2016 to December 2019.

17. The TA activities will be coordinated with other ongoing ADB projects under the overall framework of the AP3F. All subprojects will be supported and monitored by ADB's regional departments, and activities will be closely coordinated with them.

18. Input of 271.9 person-months of international consultants and 127.3 person-months of national consultants is envisaged. Different methods of consultant selection will be applied, depending on the size and nature of the contracts. Consultants may be engaged via consulting firms(s) or individually. Consultants will be engaged using the following procurement modalities: (i) quality- and cost-based selection using a financial ratio of 90:10; (ii) quality-based selection; (iii) consultant qualification selection; and (iv) single source selection, as appropriate. All consultants will be engaged by ADB in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time). The outline terms of reference for consultants for subprojects are in Appendix 3.

19. All procurement under the TA will be carried out in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Disbursements under the TA will be in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

E. Governance

20. The core TA implementation team will consist of management level staff, technical staff, and consultants with PPP and/or project finance expertise. The team will regularly communicate with the subproject teams, AP3F financing partners, and other partners; organize meetings; and prepare reports required by ADB and AP3F partners. The TA will be monitored through assessment of quality and timely delivery of outputs. Overall TA results will be disseminated through the AP3F donor meetings, PPP thematic group, and other relevant sector and thematic groups.

² ADB. 2013. Technical Assistance. *Operations Manual*. OM D12/BP. Manila.

IV. THE PRESIDENT'S RECOMMENDATION

21. The President recommends that the Board approve the provision of technical assistance not exceeding the equivalent of \$10,000,000 on a grant basis for Strengthening Project Preparation Capacity in Asia and the Pacific.

DESIGN AND MONITORING FRAMEWORK

Impact the Technical Assistance Project is Aligned with			
Increased private sector investment in infrastructure projects ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome Number of properly prepared infrastructure projects that attract private sector investments increased</p>	<p>By 2020 At least 7 infrastructure projects successfully bid out with AP3F support (2014 baseline: 0)</p>	<p>a. Reports of the Ministry of Finance and PPP unit b. AP3F annual report</p>	<p>Lack of political will to implement infrastructure projects using PPP scheme</p>
<p>Outputs 1. Capacity of DMC officials in preparing infrastructure projects strengthened 2. Support for ongoing project monitoring and restructuring provided 3. Policy, legislative, and regulatory environment for private sector participation in infrastructure projects enhanced</p>	<p>1. At least eight DMCs provided capacity development support that resulted in PPP transactions (2014 baseline: 0) 2. At least one PPP project provided with ongoing monitoring and/or restructuring support (2014 baseline: 0) 3. At least eight DMCs provided upstream support that resulted in PPP transactions (2014 baseline: 0)</p>	<p>1-3. Reports of the Ministry of Finance and PPP unit, AP3F annual report</p>	<p>The main risk will be weakening of political support to continue to enhance the enabling environment for PPPs, absence of which can result in diminished interest from the private sector to invest.</p> <p>Capacities in DMC implementing agencies to identify, prepare, procure, implement, and manage complex infrastructure projects can be lacking. A downturn in the economy or failure of banks in the relevant region can reduce private sector interest in PPP, particularly for long-tenor financing.</p>
<p>Key Activities with Milestones</p> <p>Output 1: Capacity of DMC officials in preparing infrastructure projects strengthened and Output 3: Policy, legislative, and regulatory environment for private sector participation in infrastructure projects enhanced</p> <p>1.1 Secure no objection letter from DMCs (Q2 2016) 1.2 Establish a panel of consulting firms for the timely deployment of support to DMCs (Q1 2016) 1.3 Assess the needed support and prepare an intervention plan (Q2 2016–Q4 2018) 1.4 Deploy the consultants to provide support to DMCs (Q2 2016–Q4 2018) 1.5 Monitor progress (Q3 2016–Q4 2019)</p> <p>Output 2: Support for ongoing project monitoring and restructuring provided</p> <p>2.1 Secure no objection letter from DMCs (Q2 2016) 2.2 Evaluate the type of support needed by the project (Q1 2017–Q4 2018) 2.3 Deploy the consultants (Q1 2017–Q4 2018) 2.4 Monitor progress (Q2 2017–Q4 2019)</p>			

<p>Project Management Activities</p> <p>Assess the applications for support and design the intervention (Q1 2016–Q4 2018) Manage the deployment of consultants to DMC clients (Q1 2016–Q4 2018) Manage the consultants' output (Q1 2016–Q4 2019) Prepare AP3F annual reports and any other report as needed (Q1 2016–Q4 2019)</p>
<p>Inputs</p> <p>Asian Development Bank: \$10 million</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable.</p>

AP3F = Asia Pacific Project Preparation Facility, DMC = developing member country, PPP = public–private partnership, Q = quarter.

^a Asian Development Bank. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila; and Asian Development Bank. 2012. *Public–Private Partnership Operational Plan, 2012–2020*. Manila.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Subproject			Amount
	1	2	3	
Asian Development Bank^a				
1. Consultants				
a. Remuneration and per diem				
i. International consultants	3,483.8	2,039.4	1,503.0	7,026.3
ii. National consultants	481.4	204.5	218.2	904.1
b. International and local travel	790.4	499.2	332.8	1,622.4
c. Reports and communications	15.0	10.0	10.0	35.0
2. Equipment ^b	40.0	30.0	20.0	90.0
3. Training, seminars, and conferences ^c	100.0	20.0	20.0	140.0
4. Miscellaneous administration and support costs ^d	35.0	25.0	15.0	75.0
5. Contingencies	54.4	31.8	21.0	107.2
Total	5,000.0	2,860.0	2,140.0	10,000.0

Note: Numbers may not sum precisely because of rounding.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

^b Includes purchase and/or rental of information technology equipment (computers and printers) and software.

^c Includes international and local travel costs for Asian Development Bank staff and consultants as resource persons; and will include venue, meals, and beverages (including liquor).

^d Includes printing, translation, and communications; and will include rental of office space and related overhead expenses for technical assistance consultants as may be necessary.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. Implementation of the Asian Development Bank's cluster technical assistance (TA) will require (i) a core team of permanent staff who will oversee the subprojects, and (ii) staff with designated responsibility for the three subprojects. A range of consultant inputs will be needed to supplement core staff inputs. This implies the retention of some international and national consultants in long-term support roles. Short-term consultancy inputs are also likely to be required for a range of technical tasks.

2. The subprojects will require the services of experts in project finance, public-private partnerships (PPPs), and project management. Detailed terms of reference, the precise extent of consultancy inputs, and consultant selection methods will be defined during subproject processing, in accordance with Asian Development Bank procedures for cluster TA. Some of the key tasks consultants will undertake under each subproject are outlined below.

A. Subproject 1: Support for Capacity Development, Knowledge, and Networking Support

3. **International and national consultants.** The firm or experts will have postgraduate degrees in business, economics, law, finance, or a related field or equivalent relevant practical experience; and at least 10 years of experience in PPP project development and management (128.2 international person-months and 36.4 national person-months).

4. The experts will:

- (i) assess the capacity of national and local governments, stakeholders, and other project sponsors to identify, develop, structure, and implement infrastructure PPP projects;
- (ii) identify capacity gaps and assist with the development of training inputs;
- (iii) design and deliver capacity building for developing member country (DMC) clients;
- (iv) provide training to DMC clients on their roles and responsibilities in developing PPPs within the overall planning process of the government;
- (v) design, organize, and manage international forums and workshops on PPPs to serve as networking events for DMC PPP officials;
- (vi) conduct other capacity building as might be identified during TA implementation;
- (vii) design, develop, and maintain customized websites; and
- (viii) manage the production of a range of knowledge outputs to disseminate the learning and experiences from the Asia Pacific Project Preparation Facility (AP3F)-supported projects and activities.

B. Subprojects 2: Support for Ongoing Monitoring and Project Restructuring

5. **International and national consultants.** The firm or experts will have postgraduate degrees in business, economics, finance, or a related field or equivalent relevant practical experience; and at least 10 years of experience in developing infrastructure projects, including PPP transactions (72.3 international person-months and 54.5 national person-months).

6. The experts will:

- (i) develop a monitoring and evaluation system to track the progress of AP3F-supported projects, and prepare progress reports as needed;

- (ii) develop and maintain monitoring and evaluation database for AP3F-supported projects and activities;
- (iii) support DMCs in monitoring performance against the criteria and milestones set out in the project agreements;
- (iv) provide support to DMCs in monitoring borrower and loan administration;
- (v) provide support and expert advice to DMCs during project structuring; and
- (vi) develop knowledge products synthesizing current practices, strengths and weaknesses, lessons learned, and good practices of DMCs supported by the AP3F.

C. Subproject 3: Support for the Establishment of Enabling Environment for Public–Private Partnerships

7. **International and national consultants.** The firm or experts will have postgraduate degrees in business, economics, law, finance, or a related field or equivalent; relevant practical experience; and at least 10 years of experience in the development of PPP institutional, legal, and regulatory frameworks (71.4 international person-months and 36.4 national person-months).

8. The experts will:

- (i) review DMC procedures and processes for planning and budgeting with regard to PPP projects, including for the acquisition of land rights, creation of rights-of-way, and resettlement; and provide advice on possible improvements to such procedures and processes;
- (ii) review the applicability of environmental and gender equity guidelines to PPP projects, and advise on improvement options;
- (iii) conceptualize and carry out the PPP institutional, legal, and regulatory framework enhancement review; and formulate all necessary PPP laws, policies, rules, and regulations as applicable;
- (iv) develop or update templates and standardized documents and contracts;
- (v) review and make recommendations on how to improve implementation regulations, national PPP manuals, guidelines, and policy notes; and
- (vi) develop the methodology for and conduct the PPP program impact assessment to show the developmental impact of PPPs in terms of contribution to growth, poverty reduction, employment generation, reducing inequality, and other important development objectives.

9. **Resource persons** (international and national, intermittent, up to 10 persons, up to 10 person-days each). The resource persons will have a degree in finance, economics, law, management, public policy, health, social development, international development, engineering, or a closely related field. At least 10 years' experience in helping government agencies prepare and implement investment projects or deliver social services is preferred. The resource persons will participate in awareness raising and meetings, consultations, or workshops to provide specific expertise and experience relevant to the issues being addressed by the event.