

## DEVELOPMENT COORDINATION

### A. Major Development Partners: Strategic Foci and Key Activities

1. The major development institutions that support infrastructure development and private sector participation in Pakistan are the Asian Development Bank (ADB), the World Bank, the International Monetary Fund (IMF), the European Union, the Islamic Development Bank, the Department for International Development of the United Kingdom (DFID), the United States Agency for International Development (USAID), the Japan International Cooperation Agency (JICA), and German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). In September 2016, the IMF finalized its review on the extended fund facility program, which was implemented during 2013–2016 and totaled \$6.6 billion. DFID is a leading donor to Pakistan with a commitment of £1.306 billion.<sup>1</sup> Its support is concentrated in education, health, disaster relief, and financial inclusion.<sup>2</sup> USAID provided aid of \$4.681 billion during 2009–2014, largely in energy, health, education, agriculture, and disaster relief.<sup>3</sup> GIZ's activities focus on education and vocational training, health, renewable energies, and energy efficiency.<sup>4</sup> JICA actively supports infrastructure development in Pakistan; its current ongoing assistance is ¥100.5 billion, with energy and transport sectors receiving the most assistance.<sup>5</sup>

<b>Major Development Partners</b>			
Development Partner	Project Name	Duration	Amount (\$ million)
ADB	Supporting Public-Private Partnership Investments in Sindh Province	2016	100
		2013–2014	0.225
	Support for Efficient Structuring of Public–Private Partnership in Punjab and Sindh Provinces	2008–2010	200
	Sindh Growth and Rural Revitalization Program <sup>a</sup>	2007–2010	250
	Punjab Government Efficiency Improvement Program <sup>b</sup>	2006–2010	400
USAID	Private Participation in Infrastructure Program		
	Pakistan Private Investment Initiative Pakistan Firms Project	2013 2010–2014	48 90
World Bank <sup>c</sup>	Operational Design for VGF and PDF	2010	1.2
	Contingent Liabilities in PPPs	2010	
	Operating Guidelines for Infrastructure PPPs	2007	
	Infrastructure Project Financing Facility Business Plan	2009	

ADB = Asian Development Bank, PDF = project development facility, PPP = public–private partnership, VGF = viability gap fund.

<sup>a</sup> In addition to the promotion of private sector participation, the program included components to strengthen public sector expenditure management and address the urban–rural divide.

<sup>b</sup> The program comprised establishment of a fiscally sustainable pension system, fostering an efficient civil service, and nurturing private sector-led growth through PPPs.

<sup>c</sup> These were technical assistance grants that totaled \$1.2 million.

2. The World Bank is supporting the government under the IMF's recently completed extended fund facility program for stabilizing the economy, controlling inflation, and accelerating growth. The program includes improving the business climate to raise investment, which will entail (i) promulgation of a bankruptcy law to enforce contracts; (ii) establishment of a virtual and

<sup>1</sup> DFID. 2014. [Operational Plan 2011–15: DFID Pakistan](#).

<sup>2</sup> DFID. Development Tracker: [Pakistan](#).

<sup>3</sup> USAID. [U.S. Assistance Disbursements to Pakistan Oct 2009–Sept 2014](#).

<sup>4</sup> GIZ. Worldwide: [Pakistan](#).

<sup>5</sup> JICA. [Activities in Pakistan](#).

physical one-stop shop for registering limited liability companies; (iii) strengthening of the Board of Investment in facilitating implementation of an investment-friendly business environment; (iv) development of PPPs in power, gas, and other areas; (v) conversion of 50% of remittances into investments; (vi) implementation of large infrastructure projects, including highways, dams, and housing; and (vii) establishment of a Bureau of Infrastructure Development to coordinate private sector participation in infrastructure and develop financing schemes. The focus areas for the World Bank include energy, private sector development, and leveraging of regional markets, with an indicative financing envelope of \$11 billion over 2015–2019.<sup>6</sup> It also plans to use PPPs as a tool for achieving results, as explained in its country partnership strategy for 2015–2019.<sup>7</sup> The World Bank has provided small-scale technical assistance (TA) for PPP impact evaluation at the federal and provincial levels under its analytical and advisory activities.<sup>8</sup> The International Finance Corporation (IFC) has been actively providing advisory services for PPP transactions to government authorities since 2010. IFC is currently the financial advisor to the governments of Punjab and Sindh for proposed grain silos projects in both provinces. Previously, IFC worked with the Government of Pakistan's Privatisation Commission on privatization of the Faisalabad Electricity Supply Company, an electricity distribution company. IFC is interested in providing financial advisory services to the Privatisation Commission during the government's reinstituted privatization process, as well as to other provincial PPP projects (footnote 7). In addition, IFC is collaborating with the ADB Private Sector team in the development of the proposed Pakistan Infrastructure Bank, a private sector bank that will support the development of infrastructure projects.

## **B. Institutional Arrangements and Processes for Development Coordination**

3. Since 2012 ADB has sought to collaborate with and obtain cofinancing from development partners in Pakistan, and has held bilateral meetings with DFID, JICA, USAID, and the World Bank.

4. USAID and DFID expressed interest in supporting the PPP framework and portfolios in collaboration with ADB at the provincial level. USAID is also assisting with capacity building and institutional repositioning of the federal government's debt management function. DFID's country office has agreed to cofinance the project by providing £40 million in TA for capacity building and funding of PPP support facilities, federally and for Punjab and Sindh provinces.

## **C. Achievements and Issues**

5. ADB supported the GOPb's PPP initiative in 2007.<sup>9</sup> The GOPb introduced the Punjab Public-Private Partnership for Infrastructure Act 2010 and the Punjab Public Private Partnership Act 2014 to augment private sector participation in infrastructure through PPPs.<sup>10</sup> GOPb established an institutional framework and guidelines to facilitate the structuring, approval and implementation of PPPs.<sup>11</sup> A PPP Cell was established within the Planning and Development Department (PDD) to coordinate efforts of line departments and facilitate the approval of PPP projects by the Steering Committee.<sup>12</sup> A Risk Management Unit (RMU) within the Finance

<sup>6</sup> World Bank. 2014. [World Bank Group Pakistan Country Partnership Strategy FY2015–19](#).

<sup>7</sup> World Bank. 2014. [Country Partnership Strategy for the Islamic Republic of Pakistan for the Period FY2015–19](#).

<sup>8</sup> World Bank. 2011. [Country Partnership Strategy Progress Report for the Islamic Republic of Pakistan for the Period 2010–14](#).

<sup>9</sup> ADB. 2007. *Punjab Government Efficiency Improvement Program (Subprogram 1)*. Manila.

<sup>10</sup> [Punjab Public Private Partnership Act 2014](#).

<sup>11</sup> Planning and Development Department, Public Private Partnership Cell. [Guidelines](#).

<sup>12</sup> Approving authority under the [Punjab Public Private Partnership Act 2014](#).

Department reviews project proposals, focusing on potential fiscal risks and contingent liabilities emanating from PPP projects. Proposals are submitted (via the PPP Cell and RMU) to the steering committee; if approved, line departments tender the project to interested private sector concessionaires, negotiate agreements, and manage PPP project implementation over the term of the concession agreement.

6. GOPb has a strong pipeline of over 40 PPP projects at various stages of development; 6 PPP projects have been awarded since 2010 and 2 are now operational.<sup>13</sup> Nevertheless, additional resources are required to improve GOPb's capacity and deliver fiscally sustainable PPP projects that offer VMF. In some cases, projects receive upfront government support through a viability gap fund (VGF),<sup>14</sup> in addition to operational support in the form of minimum revenue shortfall guarantees. For example, the 70 kilometer Lahore Ring Road Southern Loop project, a toll road with a 25-year concession costing PRs25 billion (\$238 million) awarded in 2016, included (i) upfront VGF support of PRs4.25 billion (\$40 million) for land acquisition (for land access not provisioned at no cost by the government under the project), (ii) free provision of land worth PRs4 billion (\$38 million) to secure part of the project bank borrowing, and (iii) a guarantee of 50% of the toll revenue shortfall to the concessionaire should toll revenues fall below 80% of estimated toll revenues. Projects that have not relied on the VGF for support have received public support from line departments in other forms (e.g., land allocation). There is no mechanism for (i) monitoring the contingent liabilities of the government resulting from the PPP projects and (ii) reflecting these in the provincial financial statements.

7. The GOPb retained a significant portion of project risk under the Lahore Ring Road project, which may limit the GOPb's ability to derive VFM in the long term. Ideally, PPP projects should be structured to provide a reasonable balance between the private investor's interests and fiscal prudence. The project example underscores the lack of appropriate risk sharing between the private concessionaire and the government, which prevents adequate leverage of scarce public funds. While a few GOPb line departments have developed some experience in PPP projects, large skill gaps exist within the line departments that need to be addressed to enhance the flow of benefits to the taxpayers through rigorous scrutinizing and due diligence of projects, and a VFM test.

8. Raising funds for PPP projects from local commercial lenders is a key challenge. The proposed project will aim to improve the commercial viability and bankability of PPP projects by engaging experienced transaction advisers to structure PPP projects through the Project Development Facility, and by leveraging government resources by increasing the VGF resources. ADB is a leading development partner with regard to PPPs, and other development partners can effectively enter into cofinancing arrangements with ADB.

#### **D. Summary and Recommendations**

9. ADB will continue to coordinate assistance for PPP development in Punjab with other development partners to develop synergies and avoid duplication of efforts during project implementation.

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<sup>13</sup> Projects include roads, affordable housing and upgrade of health care facilities. Planning and Development Department, Public Private Partnership Cell. [Awarded Projects](#).

<sup>14</sup> VGF is currently an allocated annual budget item under the GOPb's Annual Development Programme. The VGF budget is managed by the Finance Department and monitored by Finance Department RMU. Decisions on the use of the VGF are made by the PPP steering committee.