



## Technical Assistance Report

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Project Number: 49128-002  
Transaction Technical Assistance (TRTA)  
November 2017

# Islamic Republic of Pakistan: Enhancing Public– Private Partnerships in Punjab Project (Financed by the Government of the United Kingdom)

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 23 October 2017)

Currency unit	–	Pakistan rupee/s (Pre/PRs)
PRe1.00	=	\$0.0095
\$1.00	=	PRs105.2500 or £0.7573
£1.00	=	PRs138.9826 or \$1.3205

## ABBREVIATIONS

ADB	–	Asian Development Bank
GOPb	–	Government of Punjab
PDD	–	Planning and Development Department
PDF	–	project development facility
PPP	–	public–private partnership
RMU	–	Risk Management Unit
TA	–	technical assistance
VFM	–	value-for-money
VGf	–	viability gap fund

## NOTE

- (i) In this report, "\$" refers to United States dollars and "£" refers to pound sterling.

<b>Vice-President</b>	Wencai Zhang, Operations 1
<b>Director General</b>	Sean O’Sullivan, Central and West Asia Department (CWRD)
<b>Officer-in-Charge</b>	Werner Liepach, Public Management, Financial Sector, and Trade Division, CWRD
<b>Team leader</b>	Adrian Torres, Principal Financial Sector Specialist, CWRD
<b>Team members</b>	Naeem Abbas, Senior Procurement Officer, Pakistan Resident Mission (PRM), CWRD Shauzab Ali, Senior Project Officer, PRM, CWRD Nurlan Djenchuraev, Senior Environment Specialist, CWRD Ashfaq Ahmed Khokhar, Senior Social Safeguard Officer, PRM, CWRD Sana Masood, Senior Project Officer, PRM, CWRD Jose Tiburcio Nicolas, Senior Development Specialist, PRM, CWRD Douglas Perkins, Senior Counsel, Office of the General Counsel Lyle Raquipiso, Senior Economics Officer, CWRD Mary Alice Rosero, Gender Specialist, CWRD Mariane Sual, Operations Assistant, CWRD Guntur Sugiyarto, Principal Economist, PRM, CWRD
<b>Peer reviewers</b>	Haroun Khawaja, Senior Risk Management Specialist, Office of Risk Management Peter Marro, Principal Financial Sector Specialist, CWRD

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## I. THE PROPOSED PROJECT

1. The Government of Punjab (GOPb), through the Government of Pakistan, has requested the assistance of the Asian Development Bank (ADB) to support public–private partnerships (PPPs) in Punjab. To attain its growth objectives, the GOPb has identified key drivers of change, including upgrading its infrastructure, reviving private sector investment, and providing quality social services.<sup>1</sup> However, available budget resources are inadequate to fund much-needed public infrastructure and public service investments;<sup>2</sup> consequently, the GOPb has established a legal and institutional framework to facilitate the structuring, approval and implementation of PPPs and thereby bridge the financing gap and address the province’s infrastructure deficit.<sup>3</sup> A project development facility (PDF) to support the use of transaction advisory services and a viability gap fund (VGF) for the public financing portion of PPPs were also established. However, key decision-making bodies lack the required skills and resources, leading to approval of PPP projects that are not well structured and offer limited or no value for money (VFM), and thereby exposing GOPb to significant contingent liabilities, and operational and fiscal risks.

2. The proposed project will augment (i) PDF resources to support line departments by engaging transaction advisors and (ii) VGF resources to support the viability of PPP projects. A significant component of the project will be used to fund a dedicated VGF window, which will be managed by the GOPb Planning and Development Department (PDD).

3. The Government of Pakistan has requested a regular loan of \$100 million from ADB’s ordinary capital resources to help finance the project. ADB will finance the expenditures in relation to the VGF funding. The Government of United Kingdom, through the Department for International Development, will provide grant cofinancing equivalent to \$19.6 million, to be administered by ADB.

4. The project impact is aligned with growth in private sector investments and overall employment in Punjab increased. The project will have the following outcome: sustainable and fiscally responsible PPP projects that offer VFM increased. The outputs are (i) PDF and VGF resources for PPP projects augmented, and (ii) PPP institutional capacity enhanced and strengthened.

## II. THE TECHNICAL ASSISTANCE

### A. Justification

5. The government requested ADB to extend technical assistance (TA) to support the capacity building component of the project. The institutional capacity in Punjab for PPPs needs

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<sup>1</sup> Government of Punjab. 2015. *Punjab Growth Strategy 2018: Accelerating Economic Growth and Improving Social Outcomes*. Lahore.

<sup>2</sup> K. Hussain. 2016. Punjab Imposes More Taxes in Rs 1.68tr Deficit Budget. Daily Times. (June 14) <http://dailytimes.com.pk/punjab/14-Jun-16/punjab-imposes-more-taxes-in-rs-168tr-deficit-budget>

<sup>3</sup> *The Punjab Public-Private Partnership for Infrastructure Act 2010* and the *Punjab Public Private Partnership Act 2014*. 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. A Risk Management Unit (RMU) within the Finance Department reviews project proposals, focusing on potential fiscal risks and contingent liabilities emanating from PPP projects. Project proposals are submitted by the PPP Cell and RMU to the steering committee; following committee approval, line departments tender the project to interested private sector concessionaires. It is the line department’s role to negotiate agreements and manage the implementation of a PPP project over the term of the concession agreement. GOPb provides line agencies with financial assistance through the Project Development Facility to engage transaction advisors.

to be enhanced and improved through (i) proper identification and structuring of eligible PPP projects that offer VFM, (ii) the implementation of a sound policy that guides the use of public resources (such as the VGF), and (ii) the observance of strong risk management policies and systems that identify and mitigate potential project-related and fiscal risks emanating from PPP-supported projects.

6. The TA is needed to help implement the VGF guidelines to be established under the project, which will articulate the (i) applicability and use of VGF resource as capital support for eligible PPP projects, (ii) review and approval process (from application to approval),<sup>4</sup> (iii) VGF use restrictions (if applicable), (iv) conditions for disbursements of VGF resources to eligible PPP projects, (v) performance monitoring of VGF-supported projects by the Finance Department Risk Management Unit (RMU),<sup>5</sup> and (vi) relevant annexes to further articulate key provisions of the VGF guidelines. The VGF is a powerful tool for leveraging PPP by (i) providing upfront capital relief to fund project costs and thus ensure commercial viability, and (ii) lowering the cost of capital by providing concessional funding or capital subsidies that do not require future dividends or budget payments. It is thus critical to build the government's capacity to use the VGF and enhance taxpayer benefits by scrutinizing transactions through rigorous due diligence and a VFM test.

7. The transaction TA will help improve government capacity to (i) review PPP project proposals that require VGF support, (ii) provide recommendations to the PPP steering committee, and (iii) monitor project performance. The TA will also help improve the capacity of the government in evaluating PPP project proposals from selected line departments,<sup>6</sup> and in monitoring projects in accordance with the environmental and social management system and other relevant regulations. The TA will also support information sessions on PPPs to identify and navigate impediments to private sector participation, which will promote the sustainability of and knowledge sharing about PPPs in Punjab. A fact-finding mission visited Pakistan on 10–17 May 2017 and reached an understanding with the government on the objectives, scope, cost, financing, and implementation arrangements for the TA.<sup>7</sup>

## B. Outputs and Activities

8. The major outputs and activities are summarized in Table 1.

**Table 1: Summary of Major Outputs and Activities**

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Capacity of PPP Cell and RMU improved	December 2022	1.1. Establish and adopt ESMS, with social and gender indicators, by March 2018. 1.2. Hire and mobilize key specialists (project finance, legal, environmental, social safeguards, and procurement experts) in PPP Cell and RMU by March 2018. 1.3. Submit 12 PPP project proposals with PDF support to RMU and PPP Cell, and undertake RMU

<sup>4</sup> The use of VGF resources will be reviewed by a steering committee subcommittee, composed of steering committee members who represent the PDD, Finance Department, and private sector. Subcommittee recommendations will be submitted to the steering committee for approval.

<sup>5</sup> Monitoring by the RMU will include review of contingent asset and liabilities, as well as review and monitoring of covenants, repayments, and/or returns on government support (with respect to VGF).

<sup>6</sup> The selected line departments will include the Health Department, Communications and Works Department, and Housing Urban Development and Public Health Engineering Department.

<sup>7</sup> The TA first appeared in the business opportunities section of ADB's website on 15 May 2017.

Major Outputs	Delivery Dates	Key Activities with Milestones
		and PPP Cell review, by 2022.
2. Capacity of selected line departments improved	December 2022	<p>2.1. Develop and implement PPP training plan for relevant government agencies by March 2018.</p> <p>2.2. Provide PPP training (in three sessions) to relevant government agencies, with women accounting for 20% of participants from at least one department, by 2022.</p> <p>2.3. Develop and implement plan for investment conference events by June 2018.</p> <p>2.4. Hire and mobilize environmental specialist and social safeguards specialist in selected line departments by March 2018.</p>
3. Accountability and governance of VGF enhanced	December 2022	<p>3.1. Steering committee approves, adopts and enacts VGF guidelines by March 2018.</p> <p>3.2. Award five PPP projects with VGF support by 2022.</p>

ESMS = environmental and social management system, PDF = project development facility, PPP = public-private partnership, RMU = Risk Management Unit, VGF = Viability Gap Fund.

Source: Asian Development Bank estimates.

### C. Cost and Financing

9. The TA is estimated to cost \$4,450,000, of which \$4,008,724 (£3,120,844 equivalent)<sup>8</sup> will be financed on a grant basis by the Government of the United Kingdom, and administered by ADB. The key expenditure items are listed in Appendix 1. The government will provide counterpart support in the form of counterpart staff, office and accommodation, office supplies, and other in-kind contributions.

### D. Implementation Arrangements

10. ADB will administer the TA. ADB will select, supervise and evaluate the consultants, in consultation with the government. ADB and the executing and implementing agency will ensure the timeliness and quality of the consultant outputs. The consultants will work with counterpart government staff in the relevant government offices to ensure responsiveness to client needs and to enable them to support project deliverables. The Pakistan Resident Mission will work closely with the executing and implementing agency during TA implementation for effective oversight of activities and results monitoring. Disbursements under the TA will be made in accordance with the ADB Technical Assistance Disbursement Handbook (2010, as amended from time to time).

**Table 2: Implementation Arrangements**

Aspects	Arrangements
Indicative implementation period	January 2018–December 2022
Executing agency	Planning and Development Department, Punjab
Implementing agency	Planning and Development Department, Punjab
Consultants	To be selected and engaged by ADB
	Individual consultant selection   321 person-months   \$2,401,170
Advance contracting	All individual consultant contracts are being proposed for advance contracting.
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).

Source: Asian Development Bank estimates.

<sup>8</sup> Exchange rate on 14 July 2017.

11. **Consulting services.** The TA will require 321 person-months of national consulting services. The PPP Cell will be supported with a procurement specialist, an environmental safeguard specialist, an external resettlement monitoring specialist, and a social and gender specialist. The RMU will be provided with a project finance specialist and a project finance lawyer. The selected line departments will be supported with environmental safeguards specialists and social safeguards specialists.<sup>9</sup> The consultants will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time). The consultants will be hired using individual consultant selection. Lump sum payments and output-based contracts will be considered for consulting services under the TA. The consultants will procure works and goods in relation to training sessions and seminars in their respective fields. The consultants will prepare regular progress reports during implementation, and will report to the executing and implementing agency and ADB.

12. Training modules and workshop materials will be made available to counterpart staff and trainees. They will also be made available to ADB's PPP Thematic Group, as the knowledge repository for ADB support for PPPs in Asia and the Pacific. The PDD will ensure that (i) bid documents (request for qualification and request for proposal); (ii) bidder qualification and bid evaluation criteria; (iii) monitoring and evaluation frameworks; and (iv) due diligence documents (e.g., those covering demand analysis, engineering analysis, and social and environmental safeguards issues such as resettlement plans and environmental management plans), including those developed with TA support, will also be provided to ADB in a timely manner.

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<sup>9</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).



**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Amount
<b>A. Government of the United Kingdom<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. National consultants	2,383.970
b. Out-of-pocket expenditures	
i. Local travel	17.200
2. Training, seminars, and conferences	1,006.245
3. Contingencies	601.309
<b>Total</b>	<b>4,008.724</b>

Note: The technical assistance (TA) is estimated to cost \$4,450,000, of which contributions from the Government of the United Kingdom are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, and other in-kind contributions. The value of the government's contribution is estimated to account for 10% of the total TA cost.

<sup>a</sup> Administered by the Asian Development Bank. This amount (i) is inclusive of bank charges and foreign exchange fluctuation for conversion of the Government of the United Kingdom funds from pounds sterling to US dollars from time to time; and (ii) was estimated using the prevailing exchange rate, i.e., £1=\$1.2845 on 14 July 2017.

Source: Asian Development Bank estimates.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=49128-002-TARreport>

1. Terms of Reference for Consultants