

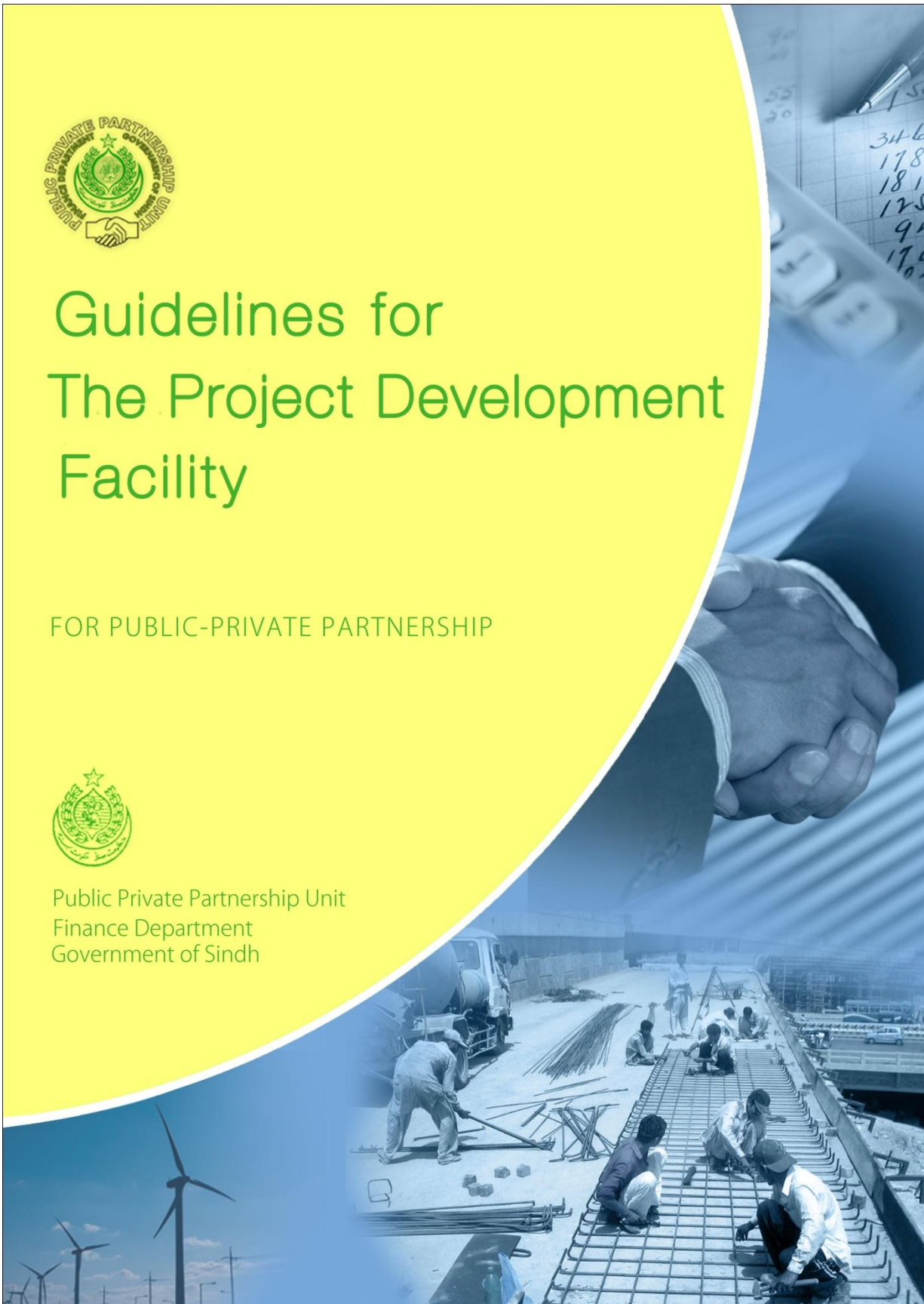


Guidelines for The Project Development Facility

FOR PUBLIC-PRIVATE PARTNERSHIP



Public Private Partnership Unit
Finance Department
Government of Sindh



FINANCE DEPARTMENT



GOVERNMENT OF SINDH

GUIDELINES

FOR THE PROJECT DEVELOPMENT FACILITY

FOR PUBLIC-PRIVATE PARTNERSHIP

PROJECTS IN SINDH

DEFINITIONS

Consultants	Individual consultants, or consulting firms, required for the preparation, structuring, analyzing, negotiation and implementation of a PPP project.
Developer	Any party other than the Government or Government Agency that signs an agreement to develop, build or manage a facility in public private partnership mode or any other form of facility development that the agreement might entail.
Development Partner	Bilateral, multilateral or commercial financing institutions that provide grants and/ or loans to the Government.
Government	Government of Sindh.
Government Agency	Administrative Departments, attached department, body corporate, autonomous body of the Government, local government or any organization or corporation owned or controlled by the Government.
Public Service Infrastructure Project	As set forth in the Sindh Public Private Partnership Act, 2010
Public-Private Partnership (PPP)	As set forth in the Sindh Public Private Partnership Act, 2010
PPP Agreement	Contract between a Government Agency and a Private Sector Partner for financing, construction, operation, maintenance, management or servicing a Public Service Infrastructure Project.
PPP Unit	Is the unit of Government referred to in the Sindh Public Private Partnership Act, 2010.
PPP Project	Public Service Infrastructure Project implemented on a PPP basis in any of the eligible infrastructure sectors.
PPP Policy Board	Has the meaning set forth in the Sindh Public Private Partnership Act, 2010.
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 of PPP projects.

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I. Introduction

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.

2. The Government has therefore decided to invest heavily in infrastructure and has made provisions in the provincial budget to this effect. The Government is also the beneficiary of technical and financial assistance from the Asian Development Bank and other institutional Partners. 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. The preferred mode is public-private partnerships (PPPs) where the private and public sectors enter into mutually beneficial contractual agreements for the provision of public infrastructure services.

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 carried out within a sound legal and regulatory structure using the most efficient contractual arrangements. However, the Government Agencies in Sindh have capacity and resource constraints and find it sometimes difficult to develop PPP projects that deliver value for the Government and consumers and, at the same time, are attractive to private investors.

4. To overcome these constraints, the Government has established a PPP Unit, which will be staffed by technical, financial, and legal experts. All Government Agencies, which want to implement a

project in PPP mode in their sector or geographical area of responsibility, can 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 will be needed in addition to the support provided by the PPP Unit. To structure viable and bankable PPP projects, the Government Agencies will have to recruit Consultants with proven track records in all areas affecting private sector participation in public service infrastructure projects. As the costs of using such Consultants are significant and frequently cannot be funded by the normal budgetary process, the Government has decided to establish the Project Development Facility (PDF) as an important part of the overall enabling PPP framework. The PDF, which will be administered by the PPP Unit, will ultimately be a revolving fund, where the upfront costs for consultants will be recovered from the successful bidders of PPP projects either through direct payments from the developers or through periodic payments set forth in the applicable PPP agreement.

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.

II. PDF CONCEPT

RATIONALE

6. The worldwide successful introduction of PPPs has demonstrated the following main benefits:
- (i) Attracting private capital investment into infrastructure sectors (and thereby releasing public resources for other needs);
 - (ii) Increases in efficiency and improvements in quality of infrastructure services;
 - (iii) Increases in the effectiveness of the use of available resources and facilities; and
 - (iv) Reform of infrastructure sectors through a reallocation of roles, risks and incentives.
7. To reap these benefits, adequate project structuring and preparation leading to successful transaction execution is essential. Project preparation has the following objectives:
- (i) Ensuring overall success of the PPP program;
 - (ii) Ensuring technical, economic and financial viability, and environmental sustainability of PPP projects;
 - (iii) Designing sound contractual structures for PPP projects that make them bankable;
 - (iv) Mitigating and fairly allocating risks (including financial, economic, environmental, social risks) of PPP projects;
 - (v) Allowing informed decision making by the Government, based on good-quality feasibility reports;
 - (vi) Enhancing competition in the procurement process;¹
 - (vii) Providing the basis for contract negotiations;
 - (viii) Avoiding unnecessary future delays; and
 - (ix) Facilitating financial closure for PPP projects in an efficient manner.
8. By providing funding for project preparation and transaction execution in the eligible infrastructure sectors, the PDF will lead to efficiency gains and will help conserve resources.

¹ PPP procurement includes pre-qualification, bidding, negotiation, and signing of the PPP Agreement with the selected Private Sector Partner.

OBJECTIVES

9. The primary objective of the PDF is to fund project development expenses of potential PPP projects including costs of engaging Consultants so that (i) the Government makes informed decisions based on good-quality feasibility studies; and (ii) the Government Agencies with the support of the PPP Unit develop well-structured PPPs that can be delivered and financed by the private sector.
10. The secondary objectives of the PDF are to:
- (i) Ensure that all PDF funded projects adhere to international best practice;
 - (i) Enhance the project management and technical capacity of the Government Agencies and PPP Unit to successfully undertake PPP projects;
 - (ii) Ensure that the PDF operations are sustained by recovering expenses from PPP projects where appropriate; and
 - (iii) Enable the Development Partners to contribute their funds and leverage their sector objectives.

ACTIVITIES TO BE SUPPORTED

11. The PDF will only support PPP projects, which are consistent with the Government's PPP Policy² and thereby follow international best practice. The PDF will not support projects, which can be undertaken solely by the private sector without any partnership with the public sector.
12. The PDF can only be used to finance (i) services rendered by Consultants for preparing PPP projects and providing advice during the transaction execution; and implementation phase of the Project (ii) capacity building of the Government Agencies and the PPP Unit. The PDF cannot be used to fund the operating costs of the PPP Unit.
13. The capacity building has to be directly linked to the 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 on

² Policy for Public-Private Partnerships in Sindh which is available on Finance Department Website

the job training, workshops, seminars, conferences and overseas training. The maximum amount that can be spent on such capacity building is 10% of the respective project allocation from the PDF.³

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

- (i) Identifying sources of technical services that can help prepare high-quality projects;
- (ii) Undertaking of a feasibility studies that include
 - (a) Study of demand and supply scenario;
 - (b) Preliminary technical design and specifications of the project;
 - (c) Preparation of detailed cost estimates and financing plan;
 - (d) Social and gender analyses, and environmental impact analysis;⁴
 - (e) Economic and financial analysis, including tariff analysis and testing for project robustness;
 - (f) Assessment of the need for direct government support in case the project is not financially viable on its own;
 - (g) Analysis of PPP options leading to the optimum project structure;
 - (h) Risk assessment, including recommendations on the risk allocation between the public and private sectors;
 - (i) Preparation of a procurement plan; and
 - (j) Drafting of pre-qualification and bidding documents, including the PPP Agreement.
 - (k) Financing cost of the Consultants for oversight during project implementation.
- (iii) Transaction execution services for PPP procurement that include:
 - (a) Preparation of an information memorandum 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;

³ Examples of topics to be covered by the capacity building component include PPP fundamentals and best practices, preparation of feasibility studies, methods for tariff setting in full cost recovery projects, and structuring options for PPP projects.

⁴ Including an assessment of any labor-related concerns or issues, particularly in the case of brownfield projects.

- (d) Assistance during the bidding, including evaluation of technical, legal and financial proposals from the pre-qualified bidders;
- (e) Assistance during negotiations with the preferred bidder and finalization of the PPP Agreement; and
- (f) Assistance in meeting the Development Agency's obligations towards the financial closure.
- (g) Assistance throughout implementation of the project including retention of consultants to monitor and evaluate the project.

SECTORS TO BE SUPPORTED

15. The Sindh Public Private Partnership Act 2010 defines public service infrastructure projects 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. 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 intra and inter-city rail systems;
- (iii) **Various Services** including water supply and sanitation, solid waste management; low cost housing, education, health, livestock and fisheries etc
- (iv) **Energy projects** including hydro and thermal power generation projects other than those being undertaken at the federal level;
- (v) **Tourism projects** including cultural centers, entertainment and recreational facilities and other tourism-related infrastructure; and
- (vi) **Industrial projects** where public property will be used to support private industry and manufacturing activities.
- (vii) **Food Storage Godowns** including improving and rehabilitation of existing and new FSG under entirely private sector or multi-sector ventures.
- (viii) 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

16. The PDF will be an instrument of the PPP Unit unless a separate PDF Management Board is not established, for facilitating the preparation and execution of PPP projects. It will be established through the approval mechanism of PPP Policy Board and by notification of Finance Department. Its accounting procedures will be integrated in the PPP Unit's systems or through separate PDF Board as the case may be. To make it as functional and efficient as possible, the operations of the PDF will be overseen and supervised by the PPP Policy Board, and managed by the PPP Unit/ PDF Board.

17. The PPP Policy Board will be responsible for setting policy directives, determining priority sectors, approving the operational and management procedures and any amendments to these, approving the financial statements, and receiving management reports on PDF operations and utilization. The PPP Policy Board will 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 will also decide on the recovery of funds by the PDF and co-funding requirements. It may also attach conditions to funding as it deems appropriate.⁵

18. The PPP Unit, unless a separate PDF Board is established, will have two main functions related to the PDF: (i) technical and administrative support to the PPP Policy Board in receiving, processing and assessing all applications for PDF funding from the Government Agencies; and (ii) management of the PDF funds in accordance with the PDF policy and operational procedures.

19. The PDF Board when established shall be responsible for the following, however unless a separate PDF Board is established, the same shall be undertaken by the PPP Unit:

- (i) Distributing information on the PDF, its processes and objectives, to all interested Government Agencies and other stakeholders;
- (ii) Presenting relevant information, including a list of projects approved for PDF funding and the status of PDF utilization, on the PPP Unit's website;
- (iii) Receiving applications for PDF funding;
- (iv) Acknowledging, processing and assessing these applications;

⁵ For example, an application from a Government Agency may be assessed as high risk because of a lack of an experienced project manager. A condition to PDF funding might be that the Government Agency addresses this shortfall by appointing a suitable project manager.

- (v) Presenting the applications in a form appropriate for the PPP Policy Board to consider;
- (vi) Communicating the decisions of the PPP Policy Board to the Government Agencies and the relevant stake-holders;
- (vii) Preparing the internal agreements between the Finance Department and the Government Agencies on the use of PDF ;
- (viii) Ensuring that the Government Agencies report adequately on the project preparation and transaction execution;
- (ix) Verifying the correctness of all invoices submitted for payment;
- (x) Making payments to the Consultants;
- (xi) Implementing the PDF financial management system;
- (xii) Submitting the PDF accounts for the half yearly and annual audits; and
- (xiii) Developing and maintaining a database of qualified and experienced Consultants⁶. 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

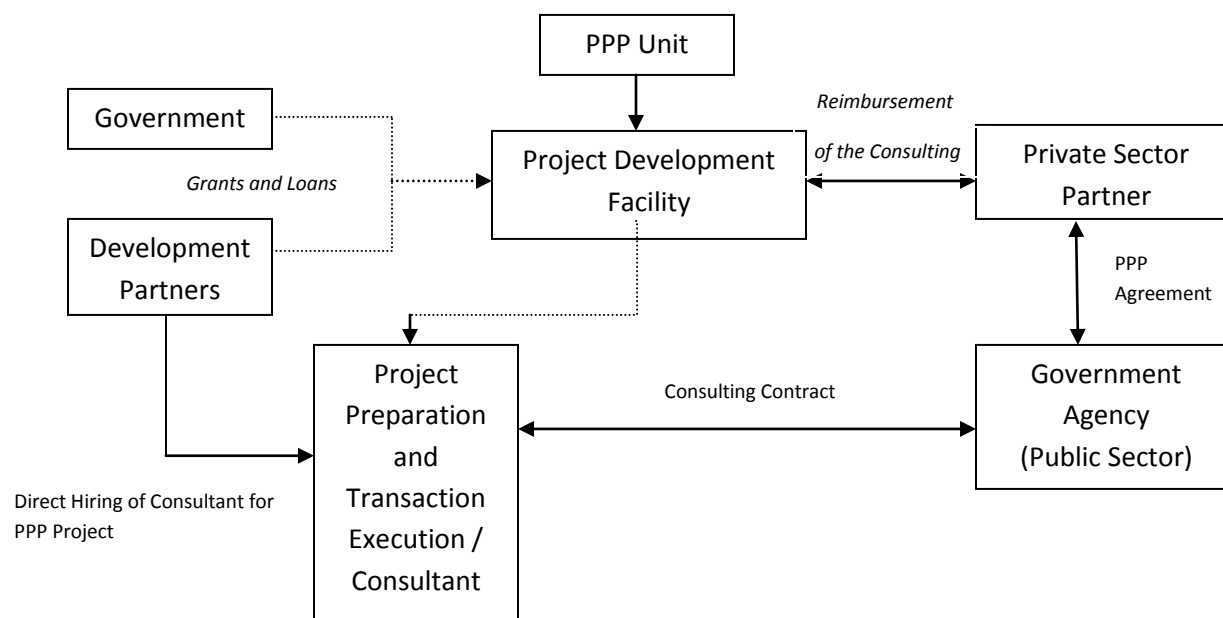
20. Figure 1 below shows the flow of funds and the contractual arrangements for the PDF. The key features of these arrangements are:

- (i) The PDF will be administered by the PPP Unit and will have a dedicated bank account where deposits and disbursements can be made.
- (ii) For each PPP project supported by the PDF during the implementation phase, there will be a contract between the relevant private sector company and the Consultants. There will also be an internal agreement between the Finance Department and the Government Agency stipulating the duties of the latter, such as contribution in kind and repayment of the consulting fees. If requested by the Consultants, the PPP Unit will issue a commitment letter ensuring them that their services will be paid from the PDF.
- (iii) There will be a very limited movement of funds. The Government and participating Development Partners will transfer their contribution into the PDF account and, when due, the PDF will make payments to the Consultants on behalf of the Government Agency.

⁶ Consultants will need to be registered and prequalified by the PPP Unit before they can be considered for any PDA funded projects.

- (iv) Experience shows that some Development Partners may prefer not to transfer money into the PDF, but to keep it in their own bank account instead. In cases like that, the Development Partner will pay the Consultants directly for the services rendered. The other contractual arrangements will be the same.
- (v) PDF funds will be available on a timely basis to cover most if not all of the upfront costs to be borne by the government agencies including those that will be reimbursed by the private sector party through payments into the fund. Such reimbursement agreements would be executed between the private party and the Consultants. Under such an agreement, the private Sponsors to defray certain transaction related expenses such as the costs of the Independent Engineer whose services would be retained to support the Government Agency. The government would thus be able to quickly execute consulting agreements without having to carry out a traditional procurement since the costs would be covered by the private sector parties, even though the government agencies would retain full control over the consultants, would define their terms of reference and monitor the work carried out on their behalf. The execution of such Agreement would be carried out upon the award of the bid and would be a condition precedent to the execution of the final concession or PPP Agreement between the government and the Sponsors.
- (vi) The PPP Unit will manage the day-to-day operations of the PDF and provide the necessary administrative support. It will also ensure an effective financial management of the PDF.
- (vii) The PPP Unit will hire 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.

Figure 1: PDF Contractual Arrangements and Fund Flow



FUNDING SOURCES

21. The PDF will have an initial life span of 8 years, with a performance review after 4 years. The "seed money" for the PDF will be provided by the Government. Additional financing for the PDF will be sought in the form of grants and soft loans from the Development Partners. Some of these may be willing to transfer the grants and soft loans directly to the PDF while others may wish to keep the money in their bank account and pay the Consultants directly. The PDF will have the flexibility to deal with both options. Although the PDF is envisaged to become ultimately a revolving facility, it can be supplemented by the Government through budget support if and when such need arises.

22. In order for the PDF to be a revolving facility, reimbursement of disbursed funds, including the capacity building component, will be sought in two ways:

- (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) From the Government Agency if it decides to stop pursuing the PPP project prior to concluding the PPP Agreement. This option will not be exercised if the Government Agency can justify its decision based on economic, environmental, legal, technical and financial considerations, such as the PPP project failing the "value for money" test or becoming unaffordable for the Government Agency and/or end users.
- (iii) If appropriate, the Government Agency will reimburse the funds to the PDF, once the Private Sector Partner has been selected, and the PPP Agreement signed
- (iv) The Finance Department, Government of Sindh, will reimburse the funds to the PDF on account of services rendered by external Consultant for conducting feasibility study of PPP project in case if Government Agency is not able to reimburse due to shortfall of funds

RESOURCE COMMITMENT BY GOVERNMENT AGENCIES

23. To ensure a strong ownership of the PPP project by the Government Agency, the PPP Unit will seek its written commitment to (i) provide co-funding in kind, such as office facilities and equipment; and (ii) assign dedicated project personnel to manage the PPP project. If the Government Agency is not able or willing to provide such commitment, the PDF will not fund the requested consulting services.

III. PDF PROCEDURES

SECTOR AND PROJECT PRIORITIZATION

24. 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.

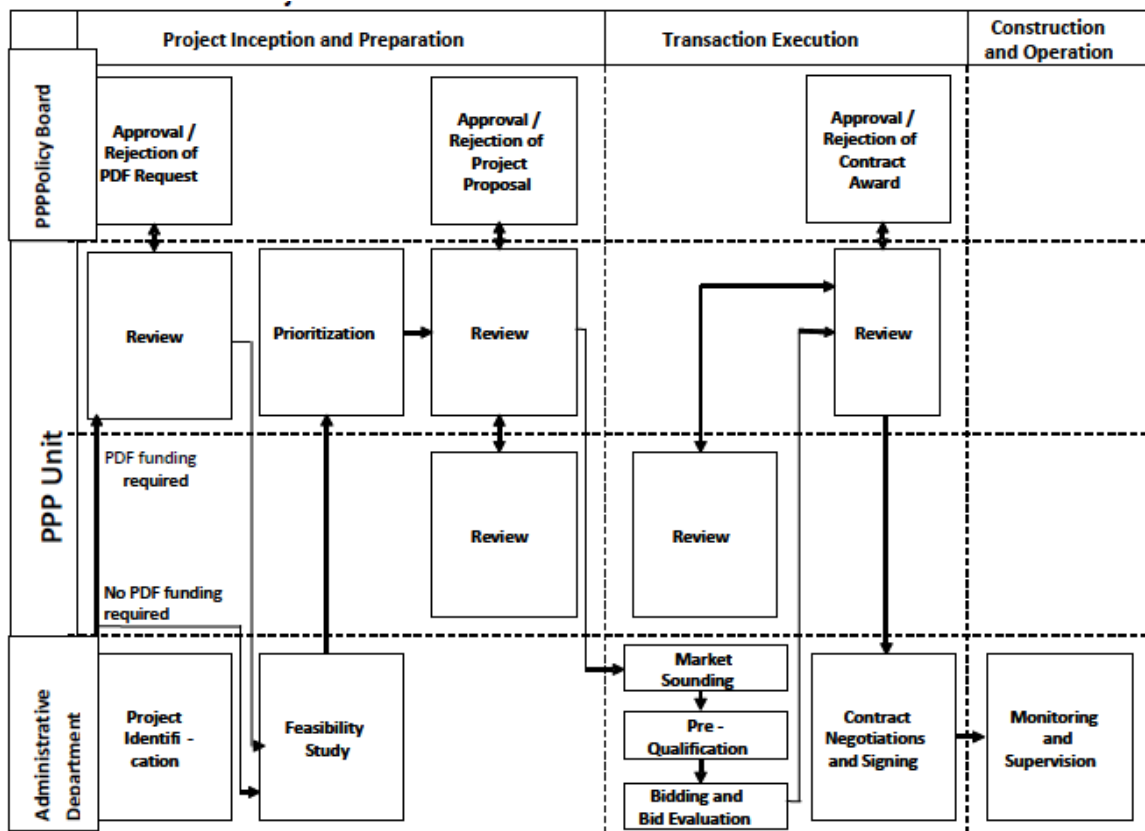
PROJECT LIFE CYCLE

25. The following four main phases can be distinguished in the overall life cycle of PPP projects, with the PDF-related activities extending over the first three of them:

- (i) Project inception;
- (ii) Project preparation (feasibility study, contracts preparation etc);
- (iii) Transaction execution (procurement of the Private Sector Partner); and
- (iv) Construction, operation and transfer (development, delivery and exit).

The sequence of the main activities during these phases is shown in Figure 2.

Figure 2: Flow Chart of Project-Related Activities



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 three phases.

26. 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 an initial environmental, social and gender assessments, environmental impact assessment and mitigation measures (if required), risk analyses, assessment of the need for government support, stakeholder consultations, determination of the PPP modality (project structuring)⁷, 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.

27. Provided the outcome of the feasibility study is positive and the PPP project proposal is 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 aimed at packaging the project in a way that attracts interest of private investors. The market sounding will be followed by a two-stage tendering process consisting of pre-qualification and bidding. Based on a technical and financial evaluation of the bids received, the preferred bidder will be determined and invited to 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. At this point, the Government Agencies will determine whether additional PDF funding will be required to cover consultants during the operational phases of the project.

STEPS FOR PDF UTILIZATION

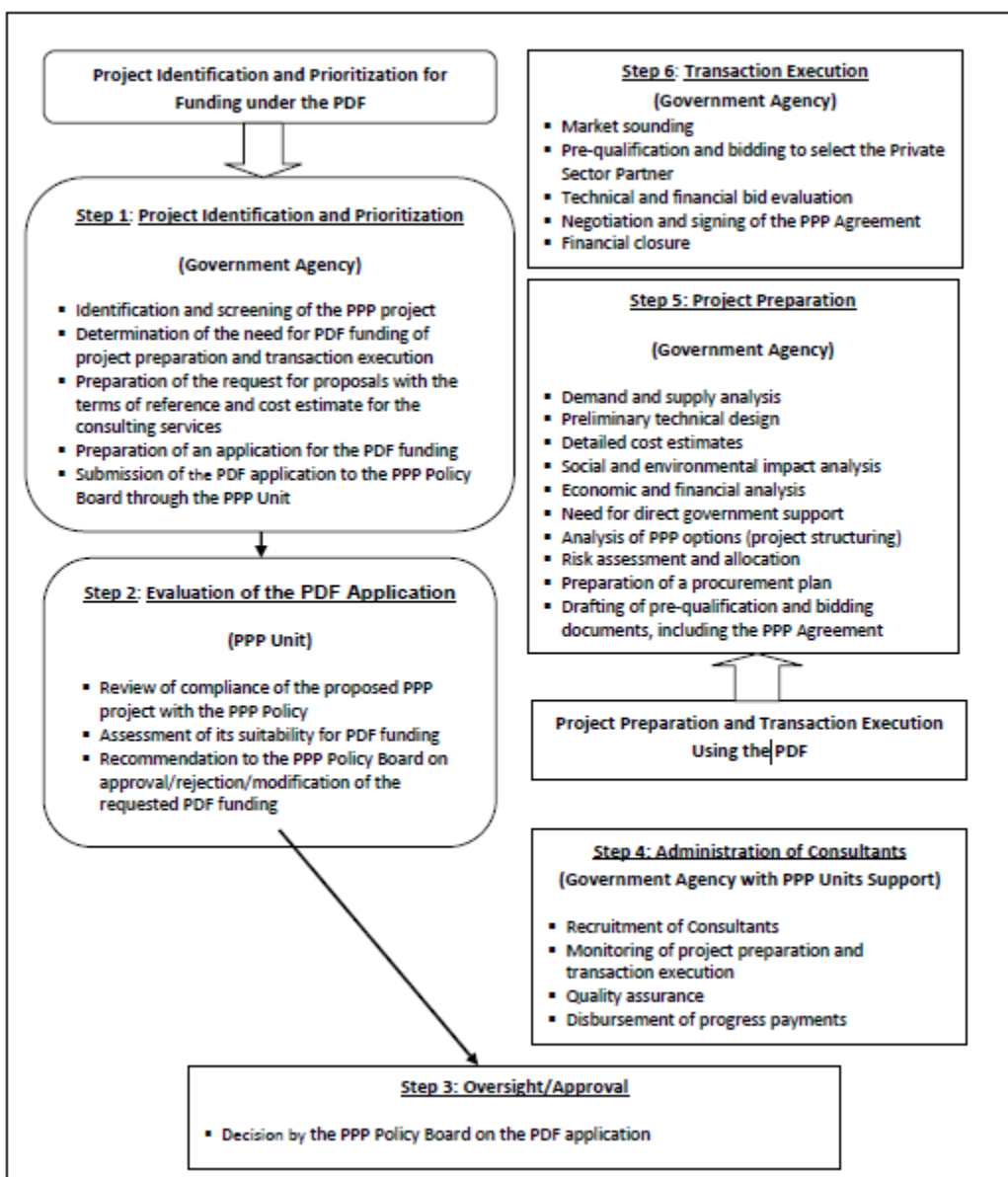
28. Figure 3 below presents the various steps involved in project identification, prioritization, selection, preparation and transaction execution, and shows how the PDF is integrated in the process. A summary of the main steps follows:

- (i) The Government Agency identifies a suitable PPP project and determines that it cannot fund its preparation and transaction execution from its own budget;
- (ii) 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, if necessary);

⁷ These activities are sometimes referred to as technical, legal, environmental and financial due diligence

- (iii) The Government Agency approaches the PPP Unit with the application for PDF funding for the preparation and transaction execution of the project;
- (iv) 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;
- (v) 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);
- (vi) The Government Agency signs the consulting contract, including a clause according to which the payment will come directly from the PDF;
- (vii) The Government Agency manages the project preparation and transaction execution (with the PPP Unit's support, if necessary);
- (viii) If appropriate, the Government Agency will reimburse the funds to the PDF, once the Private Sector Partner has been selected, and the PPP Agreement signed; and
- (ix) If grant funds provided by an International Development Donor had been used, the PPP Unit will prepare a report to that agency describing how, and to which effect, the grant funding was used.

Figure 3: Steps in the PDF Use for Project Preparation and Transaction



SUBMISSION OF PDF APPLICATIONS

29. All Government Agencies seeking support from the PDF will have to submit a formal application through the 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.

30. The PDF application will have at least 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 the Project identification, the Administrative Department would describe very clearly the Environmental & Social Impacts in light with the parameters laid in the existing Environmental & Resettlement Framework in Pakistan, efforts will be made to ensure implementation consistent with international good practices, as reflected in internationally recognized standards such as the Equator Principles.
- iv) Description of the project;
- v) Preliminary investment cost estimate and financing plan;
- vi) Tentative project development 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;
- x) Regulatory regime for the PPP project;
- xi) Scope for private sector involvement;
- xii) Proposed cost recovery mechanism;
- xiii) Preliminary risk identification and allocation;
- xiv) Evidence that the political authorities support the project being implemented on a PPP basis;
- xv) Resources, which the Government Agency formally commits to project preparation and transaction execution;
- xvi) Resources, which the Government Agency is willing to contribute to project implementation;
- xvii) Terms of reference and cost estimate for the consulting services;
- xviii) Funding sought from the PDF for the consulting services;

- xix) Justification for and recommendation on recovery of the PDF funding from the Private Sector Partner;
- xx) Draft procurement notices for the consulting services;
- xxi) Capacity to undertake project preparation and transaction execution.

EVALUATION OF PDF APPLICATIONS

31. 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 will include, but not be limited to, 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?

32. The sector-related criteria will include, but not be limited to, the following:

- (i) Is the proposed PPP project in an eligible sector?
- (ii) Is the project reflected in the planning framework of the Government Agency?
- (iii) What is the history of PPP projects in the sector?

33. The project-related criteria will include, but not be limited to, the following:

- (i) Is the PDF application complete?
- (ii) Has the proposed PPP project been properly defined?
- (iii) Does the project meet the PPP definition?

- (iv) Have all necessary initial steps and pre-requisites such as public notification and consultation been completed?
- (v) Is the quality of the demand forecast or other studies indicating the need for the project valid and reliable?
- (vi) Has the Development Agency undertaken a preliminary assessment of the technical, economic, legal and financial prospects of the project vis-à-vis other projects? If yes, has the outcome been positive?
- (vii) What is the ability of the project to generate private sector investment?
- (viii) If the project does not require private sector investment, what is its ability to generate system improvements?
- (ix) What improvements in the quantity and quality of service delivery are expected from the project?
- (x) 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?
- (xi) Is there a capacity and appetite in the private sector to participate in the project?
- (xii) Will the Consultants be recruited in accordance with the provisions of these Guidelines?
- (xiii) Has the scope of services of the Consultants been properly defined in the terms of reference?
- (xiv) Is the estimated cost of these services realistic and proportional to project value?
- (xv) What are the prospects for meeting initial public investment requirements for project implementation, such as land acquisition?
- (xvi) Is the project likely to require direct and/or contingent government support? If yes, is it likely that such support can be provided?

DECISION ON PDF APPLICATIONS

34. Within one month from the receipt of the complete PDF application, the 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 the PPP Unit, the PPP Policy Board will consider the PDF application and decide whether to approve it unconditionally, approve it subject to certain modifications, 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. The PPP Unit will also

advise the Government Agency about the cost recovery mechanism, if applicable. After each meeting of the PPP Policy Board, the 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

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

37. The recruitment funded through PDF will have to follow the existing appropriate procurement Rules and Transaction Advisory Rules for Selection of Consultants if any. 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 be followed. For those projects, where PDF funds shall be reimbursed by the private sponsors, no government procurement rules shall be applied and the contracting will be executed under procurement procedure followed by the private sponsor with the concurrence of the Government Agency.

38. 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, project preparation and 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. During the period between such signing and the financial closure, the Consultants will be available on a needs basis only as the main responsibility for achieving the latter will rest with the Private Sector Partner.

DISBURSEMENTS

36. Disbursements from the PDF will be made in installments based on milestones achieved by the Consultants. These milestones will be those set in the Memorandum for Consideration 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.

REPORTING

37. The PPP Unit will prepare quarterly reports on the PDF operations in terms of the projects supported and their progress, recruitment of consultants, fund utilization, disbursements, potential projects up for funding, and any other relevant matters. 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.

Annex A

MEMORANDUM FOR CONSIDERATION Under Guidelines for the PDF for PPPs in Infrastructure

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 PPP Unit, 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 should include the following information:

- (i) **Background Information:** 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/ sizing, future maintenance and repair procedures, etc.
- (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 entail.
- (iv) **Political Commitment:** Evidence that the political authorities support project implementation on a PPP basis.
- (v) **Preliminary Financial Analysis:** Cost estimates for investments and future maintenance and repair works, 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.

- (vi) **Preliminary Economic Analysis:** At least a qualitative description of the economic benefits of the PPP project to affected population, especially to women. If some quantification is possible, a preliminary estimate of the economic internal rate of return.
- (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?").
- (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.
- (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.
- (xiv) **Regulatory Aspects:** The existing regulatory mechanism, as applicable, in case tariffs are to be structured in the PPP option. In the absence of 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.
- (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 be recovered 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 milestones.
- (xix) **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.

Annex B

PDF APPLICATION FORM

Nature of Assistance: Funding from the Project Development Facility for Rs. _____ Million	
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: (include environment-friendly, gender inclusive design features of the project)	
Proposed PPP Modality for Project Implementation:	

___ Service Contract

___ Management Contract

___ Lease

___ Concession

___ Build-Operate-Transfer (BOT) Contract

___ Others (specify)

Likely Impact(s) of the Project: (on environment, women and other socially vulnerable groups)

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

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**

Item	Rs. Million
Project Preparation (feasibility study, etc.)	
Transaction Execution	
Capacity Building	
Others Expenses (specify)	

Development Expenses:

Total	
Requested PDF Contribution	

PDF Funding to be

Recovered from the Private Sector Partner: Yes ____ No ____

Justification:

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: