



Technical Assistance Report

Project Number: 41643
September 2008

**India: Preparing the Public–Private Partnerships Pilot
Projects Initiative (Mainstreaming Public–Private
Partnerships)**
(Financed by the Japan Special Fund)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 August 2008)

Currency Unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.0235
\$1.00	=	Rs42.5300

ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
DEA	–	Department of Economic Affairs
EA	–	executing agency
FIMs	–	financing instruments and modalities
GDP	–	gross domestic product
IDCA	–	indefinite delivery contract assignment
IIPDF	–	India Infrastructure Project Development Fund
IP	–	indigenous peoples
IR	–	involuntary resettlement
MIS	–	management information system
MOU	–	memorandum of understanding
NSL	–	nonsovereign lending
PCI	–	Planning Commission of India
PDCT	–	project development consultants' team
PPP	–	public–private partnership
PPTA	–	project preparatory technical assistance
TA	–	technical assistance
TOR	–	terms of reference

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Multisector (transport and communication; water supply, sanitation, and waste management; health, nutrition, and social protection; education)
Subsector	–	Multimodal transport and sector development, water supply and sanitation, health systems, basic education
Themes	–	Sustainable economic growth, private sector development, environmental sustainability
Subthemes	–	Fostering physical infrastructure development, public–private partnerships, urban environmental improvement

NOTE

In this report, "\$" refers to US dollars.

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Director General	K. Senga, South Asia Department (SARD)
Director	A. Sharma, Governance, Finance, and Trade Division, SARD
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I. INTRODUCTION

1. The project preparatory technical assistance (PPTA) objective, scope, implementation arrangements, and financing plan were agreed between the Asian Development Bank (ADB) and the Government of India (the Government) during missions fielded in March 2008 and July 2008. The PPTA is designed to deepen partnership between ADB and the Government for mainstreaming public–private partnerships (PPPs) through an innovative project development collaboration between ADB and the Government’s India Infrastructure Project Development Fund (IIPDF). The PPTA is in line with (i) ADB’s country strategy, (ii) ADB’s long term strategic framework (Strategy 2020)¹ expectation for greater ADB involvement in private sector development, and (iii) the promotion of new financing instruments and modalities (FIMs)² under the innovation and efficiency initiative.³ The design and monitoring framework is in Appendix 1.⁴

II. ISSUES

2. **Significant Infrastructure Investment Requirements.** While the Indian economy has achieved an average real annual gross domestic product (GDP) growth rate of 8.7%⁵ during FY2003–FY2007, sustaining this growth trajectory with a rising population requires massive investments in infrastructure. The Planning Commission of India (PCI) has observed that poor infrastructure is India’s “Achilles’ heel”, with an estimated cost of 3%–4% of lost GDP a year. PCI estimates a need to increase infrastructure spending from 4.7% to 8.0% of GDP to sustain growth and poverty alleviation targets. This translates into a \$500 billion investment requirement across sectors (including airports, ports, power, railways, transport, telecoms, and urban) during the period 2007–2012.

3. **Public Sector Constraints.** The ability of the public sector to meet the above requirements, including from sovereign guaranteed funds raised through multilateral agencies, is constrained by a high public debt level that averaged 81.5% of GDP from 2002 to 2008.⁶ Further public sector financing, already limited by the deficit reduction provisions of the Fiscal Responsibility and Budget Management Act, 2003,⁷ is also constrained by continued commodity subsidies. Unfavorable global economic conditions may further widen the fiscal deficit⁸ and, as a result, limit public infrastructure spending.

4. **Need for Public–Private Partnerships.** PCI has highlighted the need for private investment for bridging infrastructure investment deficits. However, against an estimated 29% of total requirements for 2007–2012, or about \$145 billion expected from the private sector, the share of private sector investment in infrastructure has been less than 1% of GDP or about \$9 billion on average per annum (2002–2007).⁹ While government initiatives have spurred

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

² Multitranche financing facility, subsovereign and nonsovereign public sector financing facility, local currency lending for the public sector, refinancing and restructuring modality, financing syndications, and risk sharing arrangements.

³ ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila.

⁴ The PPTA first appeared in the business opportunities section of ADB’s website in August 2008.

⁵ ADB. 2008. *Asian Development Outlook 2008*. Manila.

⁶ International Monetary Fund. 2008. India: 2007 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for India. Washington, DC.

⁷ The Act requires the Government to reduce the fiscal deficit by a minimum 0.3% of GDP per year and the revenue deficit by a minimum of 0.5% of GDP per year (3-year rolling targets set out in the annual Government budget).

⁸ Estimated to reach 6.2% of GDP by Standard & Poor’s Asia Pacific forecast, June 2008.

⁹ PPP cell, Department of Economic Affairs (DEA), Ministry of Finance.

private sector investment in sectors such as telecommunications and power, overall private sector participation has been poor in sectors such as urban, transport, water, and social.

5. **ADB Assistance.** Two advisory technical assistance (ADTA)¹⁰ projects have assisted the mainstreaming of PPPs through creating and strengthening PPP cells¹¹ for (i) capacity development and (ii) institutionalizing PPP skills.¹² Implementation coordination and technical advice for mainstreaming of PPPs nationwide (provided by the PPP cell at the Department of Economic Affairs [DEA], Ministry of Finance), along with ongoing government efforts, have generated significant interest among the states in pursuing PPPs as a preferred infrastructure development modality. The growing capacity to identify, conceptualize, and manage PPPs across the country is reflected in the identification of 80 potential PPP projects (the projects).¹³ This has led to increasing demand for ADB support for project development and structuring, and possible financing across the infrastructure sectors and subsectors including water, urban transport, and social.

6. **Indian Infrastructure Project Development Fund.** As part of the overall PPP development framework, the Government established the IIPDF in July 2007 with an initial contribution of \$25 million equivalent. Managed by DEA, the IIPDF supports up to 75% of costs for developing¹⁴ potential PPP projects through an advisory panel of pre-qualified transaction experts. The IIPDF is open to access by all central government and state government agencies that are willing to abide by specified criteria.¹⁵ The IIPDF may be replenished through successfully bid out projects and further potential central government budgetary support.

7. **Constraints in Project Development.** While developing the potential PPP projects for successful bid and financial closures is a natural progression in mainstreaming PPPs, these projects are largely in sectors (urban water supply, health, and education) with little up-front private sector financing interest. Notwithstanding the IIPDF, developing the projects requires (i) in-depth knowledge of infrastructure sector reforms; (ii) exposure to international best practices and innovations in financial structuring; and (iii) the need for an effective and credible interface between the project sponsors (central and state government ministries and departments, public sector undertakings, and other statutory authorities), private sector, and end users. At the current stage of mainstreaming PPPs, the convergence of these have proven to be difficult since PPP and infrastructure related reforms are still evolving in many states.

8. In this context, the Government has requested ADB support for developing the projects in partnership with the IIPDF. The Government's request is in recognition of ADB's ongoing support for mainstreaming PPPs, sector knowledge, financial structuring skills, and the ability to

¹⁰ ADB. 2006. *Technical Assistance to India for Mainstreaming Public–Private Partnerships at State Level*. Manila (TA 4890–IND, approved on 11 December); and ADB. 2007. *Technical Assistance to India for Mainstreaming Public–Private Partnerships at Central Line Ministries of the Government of India*. Manila (TA 4993–IND, approved on 16 November).

¹¹ Centers for awareness and capacity building for PPPs as well as for preliminary project development. Currently, PPP cells are operating in 15 states and 6 central line ministries.

¹² Capacity development includes developing training needs, management information systems, guidelines and manuals, project preparation and appraisal skills, knowledge and awareness of international best practices. Institutionalizing PPP skills includes improving the PPP policy and regulatory frameworks, compliance/public safety norms, management information systems, bid documents and procedures, risk-sharing structures, and adequate monitoring arrangements.

¹³ Available on www.pppinindia.com. This list is subject to periodic updates.

¹⁴ “Developing” refers to all steps for detailed structuring of a project's institutional, financial, commercial, legal, environmental, and technical aspects—including a competitive bid process to attract private sector participation.

¹⁵ IIPDF criteria include (i) eligibility of sector, (ii) project ability to create a public asset, (iii) adequate project ring-fencing, (iv) ability to attract private sector, and (v) projected service delivery outcomes.

apply new FIMs as needed. The Government's emphasis is primarily on development, structuring, and facilitating the bidding of the projects ("developing projects") rather than ADB financing of the projects. The ADB-IIPDF partnership will enable the development of a broader range of projects for a wider impact on mainstreaming PPPs. Once developed, the projects will have a demonstration effect for the relevant sectors.

9. The ADB-IIPDF partnership will play a crucial developmental role in reducing risk perception, catalyzing private¹⁶ and commercial cofinancing, improving lending costs and tenors, and promoting equitable outreach of infrastructure services. Policy and institutional reforms undertaken during project development will enable further private sector participation in infrastructure service provision. If required and requested, the application of FIMs, especially nonsovereign lending (NSL)¹⁷ for financing the projects, will be considered by ADB subject to availability of resources for catalyzing further reforms as well as private and commercial cofinancing. This approach complements the Government's emphasis on catalyzing domestic and international private sector sources for bridging infrastructure financing deficits, and is in perfect congruence with Strategy 2020 expectations for greater ADB involvement in private sector development and the marked emphasis on PPPs.

III. THE PROPOSED TECHNICAL ASSISTANCE

A. Impact and Outcome

10. The PPTA will support the Government in developing including structuring and facilitating the bidding of the projects. These projects will act as examples of bankable and replicable PPP models with the ability to attract private sector and commercial financing. The PPTA impact will be through improvements in infrastructure coverage and service provision efficiencies, as a result of increased private sector involvement in infrastructure provision, sustainability of operations, and increased utility efficiencies with a resultant conservation of natural resources.

11. The outcome of the PPTA includes an increase in the number of commercially sustainable and bankable PPP infrastructure projects being offered to the private sector by various state governments, central line ministries, and other government agencies.

B. Methodology and Key Activities

12. The PPTA focuses on the projects emerging from state governments and central line ministries supported by ADB's ongoing ADTA projects (para. 5). Projects for PPTA support will be selected based on the following criteria: (i) a PPP facilitating policy and institutional reforms agenda at the project sponsor (para. 7) level, (ii) needs-driven specific request for PPTA support from the project sponsors, (iii) replication potential for the project, (iv) potential for catalyzing private sector interest and commercial cofinancing, and (v) potential for environmental resource conservation.

13. **Co-Funding Support Modality.** The PPTA will share the development cost with the IIPDF on a project-by-project basis in the ratio of 25% (ADB) to 75% (IIPDF). In addition, ADB,

¹⁶ Initial ADB assessments confirm private sector interest in PPP projects which are well-structured with reasonable expectations of possible financial returns from early PPP projects.

¹⁷ Provision of NSLs to government-owned special purpose PPP project vehicles that meet the required threshold for ADB NSL support, adds a "bankability" assurance to a project and would catalyze further competitive financing, thus aiding a PPP project in achieving successful financial closure.

in consultation with the Government, may fund a larger proportion or the entire development cost for a specific project, if necessary.

14. **PPTA Components.** A project development consultants' team (PDCT) will be specifically engaged for a proposed project, and benchmarked for milestones. The PDCT is expected to develop the proposed project in three distinct but interlinked stages.

- (i) **Component 1: Project feasibility review and PPP options development.** Viability and validity assessment of feasibility and/or prefeasibility reports for the project will require overall assessment of PPP options with related analyses as follows: (a) economic analysis, (b) project rationale, (c) project cost estimates, (d) technical design, (e) institutional analysis, (f) preliminary financial model and financing plan, and (g) evaluation of PPP options, culminating in a recommended PPP model.
- (ii) **Component 2: Financial analysis and project structuring.** Detailed structuring by the PDCT of the PPP model as agreed in component 1. Deliverables will include finalization of (a) technical design and related cost estimates; (b) financial modeling and sustainability analysis; (c) institutional reform, legal issues, and contract structure; (d) financing plan;¹⁸ (e) project risk analysis; (f) social and environmental impacts; (g) stakeholder consultations and potential bidder lists; and (h) detailed timelines for bid process.
- (iii) **Component 3: PPP bid process management and transaction and contractual documentation.** The PDCT will undertake finalization of (a) bid documents (request for qualification and request for proposal), contractual agreements, and institutional reform clauses; (b) project pre-bid consultations; (c) bidder qualification and bid evaluation criteria; (d) monitoring and evaluation frameworks; (e) required due diligence documents for potential debt providers, including ADB's NSL facility;¹⁹ (f) an online "project data room"; and (g) assistance with the bid process, bid evaluations, and contract negotiations, expected to lead to the award of the proposed project to a bidder.

15. An inception report will lay out the work approach, timelines, and required approval stages for each proposed project within 2 weeks of the start of the PDCT engagement. An interim project report will be submitted upon completion of component 1 and a draft final project report upon completion of component 2. A final project report, including all documentation produced for component 3, will be submitted upon the completion of the bidding process.

C. Cost and Financing

16. The cost of the PPTA is estimated at \$8.2 million equivalent, of which \$2.0 million equivalent will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government will provide \$5.7 million equivalent from its IIPDF on a project-by-project basis.²⁰ Project sponsoring agencies will contribute \$0.5 million in kind to cover project-specific office facilities, administrative support, and workshop facilitations. The detailed cost estimates and financing plan are in Appendix 2. The Government has been informed that approval of the PPTA does not commit ADB to finance any ensuing project.

¹⁸ Including potentially from ADB's NSL facility for loan provision to government-owned entities such as special purpose vehicles being considered for private sector partnerships (not including the privatization modality).

¹⁹ Any lending will require compliance with businesses processes, procedures, and safeguards.

²⁰ IIPDF share of the development cost of a project will be channeled through the project sponsors. ADB share of the development cost of the same project will be directly to the PDCT. Details are in Supplementary Appendixes B–E.

D. Implementation Arrangements

17. DEA's PPP cell will be the PPTA Executing Agency (EA). A steering committee chaired by the joint secretary at DEA will be established with representatives from DEA's PPP cell, IIPDF, and ADB,²¹ to meet once every 6 months and provide oversight, monitoring, and guidance on PPTA issues and stakeholder grievances.²² A consultant will assist the EA with overall PPTA management. Provision will also be made for independent midterm external review of the PPTA. A memorandum of understanding (MOU) between ADB and the Government, on overall PPTA implementation, is in Supplementary Appendix A.

18. **Screening of Project Proposals.** The projects will be screened²³ by the EA based on a project proposal application form²⁴ submitted by the project sponsors. After EA and IIPDF evaluation and approvals, the project sponsor will enter into an agreement through a project-specific MOU with ADB (proposed MOU clauses in Supplementary Appendix F).

19. **Procurement.** Procurement for engagement of a project-specific PDCT will be under an indefinite delivery contract facility involving pre-qualification and retention (without commitment) for a 3-year period using consultants' qualification selection, and selection for indefinite delivery contract assignments (IDCAs) using least-cost selection based on evaluation of a biodata technical and financial proposal in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). IDCAs will assist in taking a project from concept to bid closure; and require multidisciplinary inputs on financial analysis, transaction structuring, and legal, technical (engineering), social, and environmental aspects. An individual consultant specialized in IDCA design and implementation will provide initial support to the EA. Disbursements will be in accordance with ADB's *Technical Assistance Disbursement Handbook* (2008, as amended from time to time), including the advance payment facility described therein.

20. Detailed implementation arrangements are in Supplementary Appendixes B–E. Lump sum payments will be made per PDCT contract milestones, for which generic terms of reference are in Appendix 3. Project sponsors will be required to provide office space and furniture, and logistical and administrative support. PPTA implementation will last 36 months, from November 2008 to November 2011. The steering committee will disseminate PPTA results (6 months review reports and project-specific review reports) while project evaluation results will be made publicly available on the ADB website. An initial poverty and social analysis assessment is in Appendix 4.

IV. THE PRESIDENT'S RECOMMENDATION

21. The President recommends that the Board approve the provision of technical assistance not exceeding the equivalent of \$2,000,000 on a grant basis to the Government of India for preparing the Public–Private Partnerships Pilot Projects Initiative (Mainstreaming Public–Private Partnerships).

²¹ A representative from the private sector may also be included in the steering committee.

²² A complaints and problem management process, especially on project selection issues, will be developed.

²³ In line with IIPDF criteria and those noted in para. 12.

²⁴ This can follow the existing format for the IIPDF applications, as can be viewed on www.pppinindia.com.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <ul style="list-style-type: none"> Improvements in infrastructure coverage and service provision efficiencies 	<ul style="list-style-type: none"> An increase in overall investment in infrastructure from 4.7% of GDP per annum (2006 level) to at least 6% of GDP per annum on average, by 2012 At least a 3% improvement (from 2006 levels) in sectoral (water, transport, power, social sectors, etc.) indicators of coverage and efficiency of services by 2015 including (i) people per connection, (ii) nonrevenue water levels, (iii) energy efficiency levels, (iv) unserved population areas, and (v) access to affordable public transport 	<ul style="list-style-type: none"> Reports, statistics, and surveys from state governments and central line ministries Periodic reports from the PCI and similar government reports on infrastructure ADB evaluations and indicators TA review missions and TA audit reports 	<p>Assumptions</p> <ul style="list-style-type: none"> Stable state and central government policies Sufficient fiscal allocations buoyed by economic growth Continued commitment to overall reform Continued growth in demand for infrastructure services driven by a growing economy <p>Risks</p> <ul style="list-style-type: none"> Inadequate enabling environment deters commercial investments in infrastructure Time lags between infrastructure provision and usage for economic purposes Adverse government legislation and fiscal constraints
<p>Outcomes</p> <ul style="list-style-type: none"> Increase in the number of commercially sustainable and bankable PPP projects offered to the private sector by various state governments, central line ministries, and related agencies 	<ul style="list-style-type: none"> Governmental agencies develop an average of 2 PPP projects per year per state for at least 10 states between 2012 and 2017 Increase in the share of commercial financing for infrastructure projects of at least 10% from 2006 levels, by 2012 Share of private sector investment in infrastructure increases by at least 5% from 2006 levels by 2012 	<ul style="list-style-type: none"> Government reports and publications including annual budgets, statistics, and review of PPPs PPP cell (Ministry of Finance) data Project MIS data and progress reports ADB review missions 	<p>Assumptions</p> <ul style="list-style-type: none"> Improving PPP enabling environment and government capacity Strong political will and commitment of state governments and central line ministries Strong willingness and capacity of private sector (both technically and financially) to participate in the PPP projects Availability of commercial cofinancing for PPP projects <p>Risks</p> <ul style="list-style-type: none"> Inconsistent commitment across states and line ministries, including from changing political equations Adverse international economic environment reducing interest from the international private sector in Indian PPPs Slower-than-anticipated

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
			<p>growth of domestic private sector capable of bidding for PPP projects</p> <ul style="list-style-type: none"> Alternative investment opportunities driving away private sector from infrastructure projects
<p>Outputs</p> <ol style="list-style-type: none"> Government approved and recommended PPP structures available for replication by the relevant sectors Involvement of private sector in PPP projects through bid closures Involvement of commercial financing in PPP projects 	<ul style="list-style-type: none"> A list of 10 approved and recommended PPP structures prepared by 2012 Completion of at least 5 bid processes for PPP projects by 2012 Award of at least 3 PPP projects to the private sector by 2012 Commercial financing of at least 2 PPP projects by 2012 	<ul style="list-style-type: none"> Official reports and review from project sponsoring local governments Reports from state PPP cells EA reports and online database on www.pppinindia.com ADB review missions 	<p>Assumptions</p> <ul style="list-style-type: none"> Timely selection of qualified consultants to implement the project Timely delivery of rigorous assessments and reviews Project proposal remains valid and is not awarded to another agency or terminated during the due diligence process Commercial bank willingness to provide funding for projects not constrained by macroeconomic or other factors Timely assistance and approval from the Government, including IIPDF, to process the PPP projects No policy change or reversal in DEA on IIPDF support or on ADB's lending products (including NSL, if required) <p>Risks</p> <ul style="list-style-type: none"> Approval delays from sponsor institutions Delays in commercial lending (including ADB's NSL) processes Stakeholder resistance for PPP projects Delays in flow of IIPDF funds Procurement hurdles between IIPDF and ADB systems
<p>Activities with Milestones (All activities below undertaken continuously from November 2008 to November 2011)</p> <ol style="list-style-type: none"> Development of government approved and recommended PPP structures for replication by relevant sectors <ol style="list-style-type: none"> Regular updates of PPP project pipelines by EA and ADB, including with visits to PPP cells in state government and central line ministries 			<p>Inputs</p> <p>ADB: \$2.0 million</p> <ul style="list-style-type: none"> Consulting inputs involving international and national consultants (from transaction advisory firms contracted using the IDCA modality)

Activities with Milestones	Inputs
<p>1.2. EA and ADB approve project proposals based on IIPDF and PPTA criteria</p> <p>1.3. PDCT engagement undertaken for a specific approved project under a three-phased TOR with payments benchmarked to four milestones (project-specific PDCTs will be engaged for all approved projects, simultaneously if needed)</p> <p>1.4. Project-specific PDCT produces an inception report on work scope and timelines for approvals of EA, project sponsor, and ADB (within 2 weeks of engagement)</p> <p>1.5. PDCT conducts all required project-specific analysis for developing a recommended PPP structure and submits an interim project report at the end of component 1 of the TOR (within 2 months from start of engagement)</p> <p>1.6. EA, project sponsor, and ADB provide feedback and approvals on initial PPP recommended structure</p> <p>1.7. PDCT completes detailed structuring of agreed PPP structure under component 2 of the TOR, including finalization of technical, financial, institutional, legal, social impacts, and aspects of the proposed PPP project; and submits a draft final project report at end of component 2 (within 4 months from start of engagement, excluding any approval periods)</p> <p>1.8. EA manages approvals from project sponsor on draft final project report for commencement of bid process for project</p> <p>1.9. Stakeholder consultations and workshop/s organized to disseminate PPP structures and gain feedback from potential private sector investors, end users of services, and other stakeholders</p> <p>2. Involvement of private sector in PPP projects through bid closures</p> <p>2.1. Project bid process management undertaken by PDCT under component 3 of the TOR, including bid documentation, marketing and pre-bid consultations, due diligence documents preparation for potential investors, and development of an online data room</p> <p>2.2. Bid submissions evaluations completed by PDCT, and necessary approvals for bid rankings and commencement of negotiations with a preferred bidder managed by project sponsor and EA</p> <p>2.3. Negotiations with a preferred bidder completed, leading to a bid award and PPP documentation signing (within 7 months from start of engagement, excluding any approval periods)</p> <p>2.4. Dissemination workshop(s) held</p> <p>3. Involvement of commercial financing in PPP projects</p> <p>3.1. PDCT assists project in developing due diligence documents for potential commercial lenders (including the Government's viability gap funds facility and ADB) as part of component 3 of the TOR</p> <p>3.2. Project sponsor, with PDCT assistance, confirms the need for part commercial funding to be completed prior to PPP bid process to improve project viability</p> <p>3.3. Discussions held with a range of commercial lenders on potential lending for the project prior to the bid process and loan terms sheets received, where possible</p> <p>3.4. Negotiations held on loan term sheets prior to the bid process, where applicable</p> <p>3.5. Term sheets included as part of the PPP bid process in item 2 above as required for project enhancement</p> <p>3.6. If commercial lending is not required pre-bid process, commercial financing for the project will be undertaken separately by the winning bidder after bid award</p>	<p>over a 3-year period</p> <ul style="list-style-type: none"> • Consulting inputs on a milestone basis for about 23 projects, each project requiring an estimated 7 months (excluding governmental approvals) preparation period, with varying individual consultant inputs • Consulting inputs from 2 consultants (international project management specialist and domestic procurement specialist) over the initial 12 months of PPTA • Stakeholder consultation workshops, midterm external PPTA review provision <p>Government (IIPDF): \$5.7 million</p> <ul style="list-style-type: none"> • Part funding for consulting inputs involving international and national consultants (from transaction advisory firms contracted using the IDCA modality) on a project-by-project basis for an estimated 23 projects over a 3-year period • Facilitation, equipment, office accommodation, and approvals assistance <p>Project Sponsor Institutions: \$0.5 million</p> <ul style="list-style-type: none"> • In-kind provision of contributions of office accommodation, workshop facilitations, administrative support for project PDCT

ADB = Asian Development Bank, DEA = Department of Economic Affairs, EA = executing agency, GDP = gross domestic product, IDCA = indefinite delivery contract assignment; IIPDF = India Infrastructure Project Development Fund, NSL = nonsovereign lending, MIS = management information system, PCI = Planning Commission of India, PDCT = project development consultants team, PPP = public-private partnership, PPTA = project preparatory technical assistance, TA = technical assistance, TOR = terms of reference.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. International—Transaction Advisory ^b	407
b. National	
i. Transaction Advisory ^b	1,409
ii. Procurement and PPTA Management	84
2. Workshops and Seminars	33
3. Contingencies	52
4. Provision for External Review	15
Subtotal (A)	2,000
B. Government of India Financing^c	
1. Consultants	
a. International—Transaction Advisory ^b	1,221
b. National	
i. Transaction Advisory ^b	4,225
2. Workshops and Seminars	100
3. Contingencies	154
Subtotal (B)	5,700
C. Sponsor Institution Financing^d	
1. Office Accommodation and Equipment	218
2. Workshops and Seminars	282
Subtotal (C)	500
Total (A+B+C)	8,200

PPTA = project preparatory technical assistance.

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Costs will be paid as lump sum payments based on milestones agreed under indefinite delivery contract modalities.

^c Funded by the Government's India Infrastructure Project Development Fund (not administered by ADB).

^d Funded by various project sponsoring government agencies in kind.

Source: Asian Development Bank estimates.

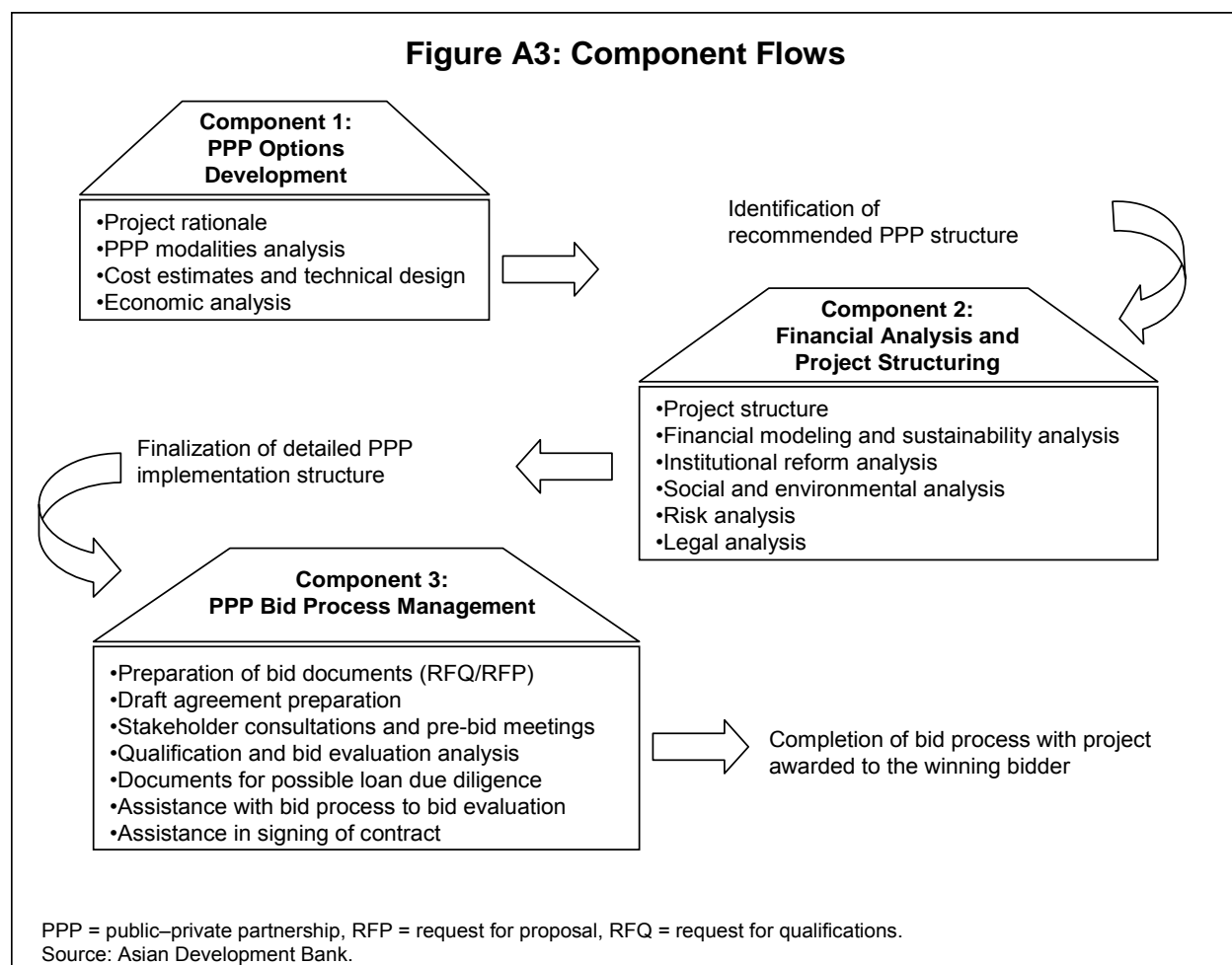
GENERIC TERMS OF REFERENCE FOR PROJECT DEVELOPMENT CONSULTANTS TEAM

A. Background and Objective of the Assignment

1. Under an Asian Development Bank (ADB)-Government of India (Government) program to develop pilot public-private partnership (PPP) projects in the country, a project development consultants' team (PDCT) will be engaged to assist potential PPP projects (the projects) from concept development to bid process. Funded by the India Infrastructure Project Development Fund of the Government and ADB, a multidisciplinary PDCT will include transaction advisory consultants with expertise in (i) PPP advisory and financial structuring, (ii) economic analysis, (iii) technical (engineering), (iv) legal advisory and review, (v) environmental safeguards, and (vi) social safeguards. Successfully bid-out projects are expected to become models for replication. The Department of Economic Affairs (DEA) of India's Ministry of Finance is the Executing Agency, assisted by an ADB team.

B. Work Outline—Milestones Based

2. Approved project proposals will include pre-feasibility details as required by the India Infrastructure Project Development Fund-ADB application process. These details will be the starting point for a PDCT engaged for the project to provide transaction advisory/due diligence assistance in three main areas (Figure A3).



3. In line with the above work scope, the PDCT will be remunerated on a lump sum basis on the achievement of milestones. The three-phased assignment, expected to be completed over a 7-month period per project, is benchmarked according to the milestones in Table A3.

Table A3: Work Components

Component	Milestone	Linked Proposed Lump Sum Payment
1	<ul style="list-style-type: none"> Preparation of inception report (program of work activities) within 2 weeks of engagement ADB approval of interim project report at the end of component 1 	10% 25% fee
2	<ul style="list-style-type: none"> ADB approval of draft final project report submitted at the end of component 2 	40% fee
3	<ul style="list-style-type: none"> PPP project contract signing (with successful bidder) or 3 months post-submission of final project report, whichever is earlier 	25% fee

ADB = Asian Development Bank, PPP = public-private partnership.
Source: Asian Development Bank estimates.

C. Detailed Terms of Reference

4. **Components and Deliverables.** The three-component approach for a PDCT engaged for a project will allow for clear and defined milestones (as per Table A3) to be achieved. The review, discussion, and approvals of these milestones (by ADB, DEA, and the project sponsor)¹ will allow for a structured road map, with issues identified and dealt with in the early stages to facilitate a successful bid award. The PDCT is expected to produce an inception report within 2 weeks from start of its engagement to lay out the work approach, timelines, required approval stages. The three components are defined as follows:

- (i) **Component 1: Project feasibility review and PPP options development.** Viability and validity assessment of feasibility/prefeasibility reports for a project requiring overall assessment of PPP options, with the following related analyses: (a) economic analysis, (b) project rationale, (c) project cost estimates, (d) technical design, (e) institutional analysis, (f) preliminary financial model and financing plan assumptions, and (g) evaluation of PPP options culminating in a recommended PPP model. Based on this analysis, an interim project report will lay out a recommended PPP structure with the above outputs (component 1 is expected to take 2 months, excluding any approvals).
- (ii) **Component 2: Financial analysis and project structuring.** Detailed structuring by the PDCT of the agreed PPP model once approved by DEA, the project sponsor and ADB—leading to finalization of (a) technical design and related cost estimates; (b) financial modeling and sustainability analysis; (c) institutional reform, legal issues, and contract structure; (d) financing plan² and likely funding sources; (e) project risk analysis; (f) social and environmental impact studies; (g) stakeholder consultations, as appropriate, and a list of potential private sector bidders; and (h) detailed timelines for bid process. This analysis will be submitted as a draft final project report, for ADB, project sponsor, and DEA approvals (component 2 is expected to take 2 months, excluding any approvals).

¹ Central and state government ministries and departments, public sector undertakings, and other statutory authorities.

² Including potential provision of nonsovereign lending (NSL) from ADB's public sector window to government-owned special purpose vehicles and other entities considering PPP modalities not including the privatization option.

- (iii) **Component 3: PPP bid process management, and transaction and contractual documentation.** The PDCT will undertake finalization of (a) bid documents (request for qualification and request for proposal), contractual agreements, and agreed institutional reform clauses and issues; (b) project marketing and pre-bid consultations; (c) bidder qualification and bid evaluation criteria; (d) monitoring and evaluation frameworks; (e) required due diligence documents for potential debt providers, including ADB's NSL facility;³ (f) an online "project data room"; and (g) assistance with the bid process, bid evaluations, and contract negotiations. All documentation will be submitted as a final project report (component 3 is expected to take 3 months, excluding any approvals).

5. **Detailed Outputs.** The skills of the specialists within the PDCT will be utilized by the PDCT leader at different points in the engagement, in line with the work scope and deliverables from each specialist area as laid out below.

- (i) **Coordination: project team leader.** The PDCT leader will be from the financial or PPP transaction advisory specialization. He/she will be responsible for coordinating all inputs of the PDCT; submission of reports to ADB, DEA, and the project sponsor; facilitation of meetings and stakeholder consultations, as required; and liaison with the project sponsor and DEA, as required.
- (ii) **Financial and PPP analysis.** Develop a financial model, incorporating a PPP modality and manage the bid process. Based on the technical (engineering) assessment, assess expenditures (capital, operations, provisions) and projected revenues for reasonableness, completeness with project objectives, and accuracy to (a) develop an appropriate base case financial model with suitable assumptions, resulting in a set of projected financial statements (balance sheet, cash flow, income statement, key ratio analysis) and sensitivity scenarios; (b) recommend a suitable PPP modality for the project after assessment of alternative choices including the commercial, legal, and institutional impacts of this suggested modality such as the required contracts (e.g., concession contracts) and institutional structures (e.g., special purpose vehicles); (c) ascertain the potential acceptability of the recommended PPP structure from investors and potential lenders; (d) in consultation with the economic specialist, ensure that the project provides desired and equitable benefits to end users, with a satisfactory project rationale; (e) recommend a suitable bankable financing plan for the recommended PPP structure, including appropriate debt equity ratios, loan tenures and rates for project viability, and required government grant support; (f) identify appropriate funding sources, including government grant funds, commercial debt and equity funds, ADB's NSL facility,⁴ and the private sector; and identify their likely terms and conditions, incorporating them in the base case financial model; (g) develop all required due diligence documents for potential lenders; (h) test all key assumptions against financial model outputs, including the financial internal rate of return and debt service coverage ratio, identifying any required policy revisions for project sustainability, including on the revenue model; (i) provide project risk analysis with suitable mitigation strategies; (j) assess project financial management capacity in accordance with ADB

³ Any lending will require compliance with ADB businesses processes, procedures, and safeguards.

⁴ NSLs may be offered to government-owned entities, such as special purpose vehicles or joint venture vehicles, and may potentially be included as part of a bid package to improve project viability and risk perception. Provision of an NSL will require appropriate ADB procedures and processes to be followed.

- guidelines;⁵ (k) produce and manage all project and bid process documentation and post-bid monitoring frameworks with the legal specialist; and (l) manage the bid process, including marketing, pre-bid meetings, identification of potential bidders, bidder query responses, bidder qualification and evaluation criteria development.
- (iii) **Technical (engineering) and cost analysis.** Complete the technical validation of project design and cost estimates through (a) review and updating of the pre-feasibility technical analysis to confirm the technical validity/viability of the project, including verifying assumptions such as population coverage, loss levels, national policy guidelines, current and projected demand levels for project outputs, design criteria and standards, capacity, and prevailing topographical and other conditions; (b) verification of quantities and rates for major civil works, equipment, construction and supervision consulting, and other input items; (c) verification and development of projected operation and maintenance costs for the project; (d) review and quantifying costs and benefits from the project, and confirm the project design on a least-cost basis in financial and economic terms; and (e) assistance in the project's financial and economic analysis with inputs on project rationale, project costs (capital expenditures, operations, maintenance), required contingency levels, and any other information as requested.
- (iv) **Economic analysis.** Undertake project economic analysis to provide an economic cost–benefit analysis and project rationale on the proposed project. The analysis should (a) incorporate sector assessments, demand-supply for public services, opportunity cost implications, projected project benefits and impacts; (b) identify project economic rationale in comparison with alternative options, and develop indicators for project performance monitoring; (c) compute an economic rate of return for the project in accordance with ADB's *Guidelines for the Economic Analysis of Projects* (1997, as amended from time to time); and (d) assist the team leader and financial specialist in developing appropriate bidder qualification and evaluation criteria.
- (v) **Legal and institutional analysis.** Develop policy and institutional analysis impacting the selected PPP modality for the project, and assist with bid process, project documentation, and evaluation procedures. For the analysis, (a) conduct a policy and institutional assessment to ascertain the validity and viability of the proposed PPP structure for the project and project sponsor capacities to manage the project once operational and recommend required changes and capacity improvement measures as appropriate; (b) recommend institutional measures to improve the governance of the project entity after implementation; (c) develop “bankability” measures for the proposed PPP project structure, such as fee payment mechanisms, preconditions for a private operator to fulfill in meeting service obligations, default and risk clauses, and step-in rights of government; and (d) assist in bid process management through documentation preparation, including request for qualification, request for proposal, contractual agreements between project sponsor and winning bidder, as well as in developing bidder instructions, bid qualification parameters and bid evaluation criteria, bidding process schedules, and stakeholder consultations.
- (vi) **Social impact and safeguards analysis.** Ensure adequate due diligence on project social impacts consistent with ADB social safeguard policies. To fulfill this, (a) undertake an initial poverty and social analysis in accordance with ADB guidelines, and based on this, a social analysis of likely social impacts, design

⁵ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

measures, and implementation arrangements for maximizing project social benefits and minimizing/avoiding social risks; (b) summarize social analysis results (e.g., gender action plans, resettlement plans, indigenous peoples development plan) into a summary poverty reduction and social strategy with recommendations for involuntary resettlement (IR), indigenous peoples (IP), and gender safeguards—enhancing existing project social impact reports, where appropriate, to ensure project compliance with ADB’s safeguards policies;⁶ (c) assess project capacity and commitment to undertake social impact due diligence, impact monitoring, and mitigation measures implementation (e.g., resettlement implementation); (d) ensure adequate investigations and consultations with affected persons; (e) ensure timely and correct project classification—discussing with the team leader any IR concerns in accordance with the IR checklist and key impacts on IP, completing the IR and IP checklists, and filling in project categorization forms for endorsement by ADB; and (f) ensure overall project compliance with ADB’s involuntary resettlement and IP safeguards—with adequate draft resettlement plans and frameworks, appropriate indigenous peoples safeguards, adequate procedural and public disclosures for resettlement plan improvements integrated in the project design, and adequate documentation.

- (vii) **Environmental analysis.** Ensure the project environmental impact assessment is adequate and compliant with ADB guidelines through the following activities: (a) review any existing environmental assessments and finalize—ensuring that substantive contents and format are consistent with ADB’s environmental requirements, conducting environmental due diligence and confirming the environment category,⁷ and information disclosure and public consultation requirements (*Public Communications Policy* [2005]); (b) in the absence of an environmental assessment, conduct a scoping exercise to identify the major environmental issues, classify the project in accordance with ADB guidelines, and determine the level of environmental assessment needed and the consultation and disclosure requirements; conduct an environmental assessment and prepare an initial environmental examination for a category B project (or an environmental impact assessment for a category A project) in accordance with ADB’s *Environmental Assessment Guidelines* (2003, amended from time to time); inform and consult with affected persons and local nongovernment organizations in accordance with ADB’s EA requirements; estimate the cost of an environmental management plan and funding sources, ensuring that these are included in the total project cost; seek government environmental clearance, required permits, and approvals; (c) ensure adequate public consultations and information disclosure of project-specific and quantitative information on potential environmental impacts (both positive and negative) and proposed mitigation measures; (d) evaluate the capacities of the project sponsor to implement mitigation measures, and where necessary recommend capacity improvement training programs and measures; and (e) include environmental management plan (following ADB and government approvals) in bid documents, along with the requirement to comply with mitigation measures therein.

⁶ *Involuntary Resettlement Policy* (1995); ADB. 2006. *Operations Manual*. Section F2/BP: Involuntary Resettlement. Manila (25 September); *Handbook on Resettlement: A Guide to Good Practice* (1998); and *Policy on Indigenous Peoples* (1998).

⁷ Based on ADB’s project classification system.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country/Project Title: India/Public–Private Partnerships Pilot Projects Initiative (Mainstreaming Public–Private Partnerships)

Lending/Financing Modality: JSF (PPTA Grant Fund) Department/ Division: South Asia Department/ Governance, Finance, and Trade Division

I. POVERTY ISSUES

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

Based on the country poverty assessment, the country partnership strategy and the sector analysis describe how the project would directly or indirectly contribute to poverty reduction, and how it is linked to the poverty reduction strategy of the partner country.

Infrastructure deficit is identified as a key constraint to economic growth by the Government of India (the Government). Inadequate infrastructure is estimated to cost the country between 3%–4% of lost GDP growth, or about \$20 billion per annum. PCI estimates that infrastructure spending needs to increase from 4.7% to 8% of GDP to enable the country to meet its growth and poverty alleviation targets. This is crucial, given the strong correlation between economic growth and poverty reduction in the last decade.^a

Furthermore, the link between infrastructure provision and expansion of public goods is essential to mitigate poverty and widen the opportunities for the poor. In India, the public sector's ability to fund the required infrastructure investments, estimated at \$500 billion (2007–2012), is constrained by an unsustainable public debt level. To provide public goods to a larger number of citizens, the Government has prioritized private sector investments through the modality of PPPs.

While previous ADB assistance has led to improvements in awareness and capacity at Government as well as at the state level to undertake PPP projects, this has not yet translated into an adequate number of actual PPP projects—with a resultant lag in private sector investment in infrastructure. Catalyzing significant volume of private sector investments requires in-depth knowledge of infrastructure sector reforms, exposures to international best practices in infrastructure financing and PPP structures, and a credible interface between project sponsors (governmental agencies) and the private sector.

This PPTA, with its underlying ADB–Government partnership, will thus play a crucial role in reducing risk perceptions, catalyzing private investors and commercial financing, improving lending terms, and ultimately improving the coverage and reach of equitable infrastructure services. This is directly in line with ADB's long-term strategic framework 2008–2020 (Strategy 2020)^b expectation of greater ADB involvement in private sector development, and with the Government's policies for encouraging private investment as a means of economic growth and poverty reduction.

B. Targeting Classification

1. Select the targeting classification of the project:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

2. Explain the basis for the targeting classification.

Ensuing pilot PPP projects (the project) under the PPTA will be across infrastructure sectors for general infrastructure improvements—coverage, efficiency, and service delivery.

C. Poverty Analysis

1. If the project is classified as TI-H, or if it is policy-based, what type of poverty impact analysis is needed? N/A

2. What resources are allocated in the PPTA/due diligence?

The PPTA supports the engagement of consultants for social and environmental impacts analysis including conducting surveys and analysis to decide on poverty impact and required interventions.

3. If general intervention, is there any opportunity for pro-poor design (e.g., social inclusion subcomponents, cross subsidy, pro-poor governance, and pro-poor growth)?
- The PPTA will enable the development (structuring and facilitating of bidding) of the projects for expansion of public infrastructure. The feasibility and analysis includes outreach of services as a key criteria. Thus, the design and development process of the projects will allow for improvements to the livelihoods of the poor, either directly or indirectly.

II. SOCIAL DEVELOPMENT ISSUES

A. Initial Social Analysis

Based on existing information:

1. Who are the potential primary beneficiaries of the project? How do the poor and the socially excluded benefit from the project?
The expected beneficiaries are end users of the utilities (e.g., water supply, urban transport) for the projects to be developed. The expansion of coverage of utilities and conservation of natural resources will benefit the poor and socially excluded.
2. What are the potential needs of beneficiaries in relation to the proposed project?
Efforts will be made on a project-by-project basis to identify such needs.
3. What are the potential constraints in accessing the proposed benefits and services, and how will the project address them?
The projects to be developed under the PPTA will ensure that services and benefits are accessible to all groups with regard to efficiency and equity as far as possible.

B. Consultation and Participation

1. Indicate the potential initial stakeholders.
The key stakeholders include the private sector, public sector agencies, end-users of utility services and regulatory institutions.
2. What type of consultation and participation (C&P) is required during the PPTA or project processing (e.g., workshops, community mobilization, involvement of nongovernment organizations and community-based organizations, etc.)?
Extensive stakeholder consultations will take place during the development of the projects. Wherever required and possible, workshops and community briefings will be undertaken on a project-by-project basis.
3. What level of participation is envisaged for project design?
 Information sharing Consultation Collaborative decision making Empowerment
4. Will a C&P plan be prepared?
 Yes No Please explain.

C. Gender and Development

1. What are the key gender issues in the sector/subsector⁸ that are likely to be relevant to this project/program?
Women and men are equally expected to benefit from the projects developed under the PPTA, through employment opportunities and use of utility services, once established.
2. Does the proposed project/program have the potential to promote gender equality and/or women's empowerment by improving women's access to and use of opportunities, services, resources, assets, and participation in decision making?
 Yes No Please explain.
The projects to be developed under the PPTA are in vital sectors, such as water and urban transport. Investments and resultant improvement in services will have direct impacts on women's time and status, household management, and mobility—especially with respect to access to employment and increased incomes.
3. Could the proposed project have an adverse impact on women and/or girls or to widen gender inequality?
 Yes No Please explain

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS			
Issue	Nature of Social Issue	Significant/Limited/ No Impact/Not Known	Plan or Other Action Required
Involuntary Resettlement	The impact will be determined for each project to be developed under the PPTA	Not known	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input type="checkbox"/> No Action <input checked="" type="checkbox"/> Uncertain
Indigenous Peoples	(As above)	(As above)	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input type="checkbox"/> No Action <input checked="" type="checkbox"/> Uncertain
Labor <input checked="" type="checkbox"/> Employment Opportunities <input type="checkbox"/> Labor Retrenchment <input type="checkbox"/> Core Labor Standards	Employment opportunities will be explored for each project to be developed under the PPTA.	Not known	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> No Action <input checked="" type="checkbox"/> Uncertain
Affordability	No affordability issues are expected.	No impact	<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action <input type="checkbox"/> Uncertain
Other Risks and/or Vulnerabilities <input checked="" type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human Trafficking <input type="checkbox"/> Others (conflict, political instability, etc.), please specify	The issues of HIV/AIDS will be explored for each project to be developed under the PPTA.	Not known	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> No Action <input checked="" type="checkbox"/> Uncertain
IV. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT			
<p>1. Does the TOR for the PPTA (or other due diligence) include poverty, social and gender analysis and the relevant specialist/s?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If no, please explain why.</p> <p>2. Are resources (consultants, survey budget, and workshop) allocated for conducting poverty, social and/or gender analysis, and C&P during the PPTA/due diligence?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If no, please explain why.</p>			

ADB = Asian Development Bank, GDP = gross domestic product, JSF = Japan Special Fund, PCI = Planning Commission of India, PPP = public-private partnership, PPTA = project preparatory technical assistance, TOR = terms of reference.

^a "Rapid growth helped reduce poverty from 36% in 1993-1994 to 26% in 1999-2000", Keynote Speech, H. Kuroda President, ADB, Hyderabad, Administrative Staff College of India, 9 March 2006.

^b ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.