

**ASIAN DEVELOPMENT BANK**

**TAR:PAK 36651**

**TECHNICAL ASSISTANCE**

**TO THE**

**ISLAMIC REPUBLIC OF PAKISTAN**

**FOR PREPARING THE**

**PUBLIC-PRIVATE INFRASTRUCTURE FINANCING FACILITY**

**July 2003**

## CURRENCY EQUIVALENTS

(as of 7 July 2003)

Currency Unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0173
\$1.00	=	PRs57.77

## ABBREVIATIONS

ADB	–	Asian Development Bank
BOT	–	build-operate-transfer
GDP	–	gross domestic product
IPP	–	independent power producer
NHA	–	National Highway Authority
PPP	–	public-private partnership
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2003 ends on 30 June 2003.
- (ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. The Government of Pakistan requested the Asian Development Bank (ADB) to provide technical assistance (TA)<sup>1</sup> for preparing a public-private infrastructure finance project that will help accelerate infrastructure development through increased private sector participation in infrastructure development in Pakistan, and thereby promote economic growth and reduce poverty. Accordingly, a project preparatory TA grant amounting to \$400,000 for Public-Private Infrastructure Financing Facility was included in the 2003 Country Strategy and Program for Pakistan. A TA Fact-Finding Mission visited Pakistan during 21 April-5 May 2003 to discuss the scope of assistance with various stakeholders in the physical infrastructure sectors at the federal government level as well as the provincial governments of Punjab and Sindh, in preparation for processing the TA. This report reflects the findings of the Mission and the understanding reached with the Government on objectives, scope, cost, implementation arrangements, and terms of reference for the TA. The TA framework is in Appendix 1.

## II. ISSUES

2. Pakistan's infrastructure is grossly inadequate compared with world standards and has been identified as one of the critical reasons holding back more rapid economic growth. Pakistan's investment rates, low to begin with, declined during much of the 1990s. Overall fixed investment as a percentage of the gross domestic product (GDP) fell from 17.5% in FY1991 to about 13% in FY2002, while private investment declined from about 10% of GDP to about 7.6% during that period. Fiscal deficits have been high throughout the 1980s and 1990s, averaging about 6.5% of GDP. As a result the public debt-GDP ratio increased from 66% in the mid-1980s to about 97% in mid-2002, impacting development expenditures. Servicing the public debt currently takes up 64% of the Government's revenue. As a result, development expenditures have declined from 10% of GDP in FY1981 to about 3% by FY2001.<sup>2</sup>

3. Although public investment in infrastructure has declined as a percentage of GDP since the start of the decade, private investment has failed to fill the gap. As a result, total investment in infrastructure, as a percentage of GDP, is below the level in 1991–1993 (table).

**Investments in Infrastructure (% of GDP)**

Item	FY1992	FY1993	FY1995	FY1997	FY1999	FY2001	FY2002
Public	2.8	4.4	3.4	3.3	1.9	2.3	2.0
Private	1.0	1.0	1.0	2.1	1.2	1.3	1.2
<b>Total</b>	<b>3.8</b>	<b>5.4</b>	<b>4.4</b>	<b>5.4</b>	<b>3.1</b>	<b>3.6</b>	<b>3.2</b>

4. The infrastructure sector of Pakistan comprises power, telecommunications, roads, ports, railways, air transport, water supply, waste management, information technology, cyber parks, and industrial estates. Currently, the existing infrastructure is inadequate to satisfy the needs of economic development as well as the demand arising from population growth. The public sector has been the main provider of basic infrastructure. However, the large fiscal deficit has limited the Government's capacity to meet growing infrastructure needs and has emerged as a major constraint to the country's efforts to improve its investment climate. To augment limited public resources for infrastructure, private sector participation must be encouraged by creating the enabling environment for increased private sector involvement.

<sup>1</sup> The TA first appeared in *ADB Business Opportunities* on 17 March 2003.

<sup>2</sup> World Bank. 2003. *Improving the Investment Climate in Pakistan*. Washington, DC.

5. The full potential of the private sector to meet Pakistan's pressing infrastructure needs is largely untapped. There has been some success in attracting the private sector under build-operate-transfer (BOT) type schemes, but instances have been isolated and aided by specific policies and incentives, particularly in power generation in the 1990s. Although the 1994 energy policy allowed quick implementation and access to global capital and technology resources, the drawback was the absence of international competitive bidding procedures, inappropriate choice of fuel, and guaranteed high energy prices to independent power producers (IPPs). The payment to the IPPs adversely affected the Government financing of other public enterprises in the sector. The tariff issues with the IPPs have since been amicably resolved. As per the World Bank assessment of the investment climate, Pakistan will need to invest heavily in distribution and transmission, which cannot materialize without restructuring the two public sector power utility companies. The present energy policy allows the private sector in generation and distribution, but not in transmission.

6. The private sector has built new infrastructure in telecommunications, but basic services are still with the state-owned Pakistan Telecommunication Corporation. The cellular phone market is being opened for private sector participation; however, investments in the sector have not been enough to meet the current demand. A new telecommunication deregulation policy, which is likely to be implemented shortly, will grant licenses to private fixed-line telecommunication companies, provide a universal access system, and establish a framework for the growth of mobile services.

7. The National Highway Authority's (NHA's) efforts to attract private participation in developing the road sector has met with limited success. It appears that a more in-depth analysis is needed for assessing impediments in the existing policy, incentives, and legal framework. The capacity of the concerned agencies, particularly at the provincial level, to conduct prefeasibility studies and prepare road projects for tendering, land acquisition, and setting the toll fee is the main concern.

8. Other isolated BOT proposals include setting up an oil terminal at the Karachi Port by the private sector. Recent negotiations for a water treatment plant in Karachi met with setbacks due to lack of risk mitigation tools for investors, while a proposal for an urban mass transit system in Karachi has not made much headway. Other than the public-private desalination project proposed at Karachi, no projects have emerged for private participation in water supply and sanitation although there are attempts to have private sector involvement in solid waste management. The Government favors policies for public-private partnership for such municipal services, but BOT and build-own-operate-transfer (BOOT) structures remain untested in those areas.

9. Pakistan has restructured the government's role in power, to a large extent in generation but not in transmission and distribution, and to some extent in telecommunications. In other sectors, the process is incomplete or has not yet begun. This separation of roles and the creation of independent regulatory agencies will be particularly important when there is competition between private and publicly owned service providers and when there is a need to insulate tariffs from political pressure. Regulatory authorities have been established for the power and telecommunication sectors, but their independence and capacity need further strengthening.

10. Countries, such as Pakistan, that for a long time have financed infrastructure projects directly from fiscal budget allocations often lack the necessary institutional and regulatory

capacity to facilitate private participation in infrastructure provision. Other reasons why private sector infrastructure projects have not materialized follow: (i) reforms have not progressed as fast as anticipated; (ii) present governance structures are not suited to broad private sector participation in infrastructure envisaged in a liberalized environment; (iii) the public–private interface needs substantial strengthening—shortage within the Government of skills and institutional mechanisms needed for effective interaction with the private sector; and (iv) it remains difficult to disaggregate and allocate risks in the domestic capital market. Not all solutions can be pursued at the national level—some may involve provincial or even municipal policy and institutional reforms.

11. The focal infrastructure sectors for the provincial governments are mainly the road, water supply and sanitation, and solid waste management sectors where private sector participation is to be invited. With the absence of formal or enunciated provincial policy on private sector participation, none of the provincial governments in Pakistan are equipped to interface with the private sector, as they lack appropriate institutional structures and processes, established systems and procedures, and capable dedicated staff. Due to inexperience, the capacity for promoting and developing infrastructure projects is limited. Lack of financial engineering expertise poses difficulties in packaging projects that could be successfully offered for financing. Project development is proving to be a very risky and costly exercise. To address these issues, the capacity to formulate institutional frameworks and regulatory structures will be enhanced. Credible mechanisms for settling disputes also need to be established. Bidding procedures need to be streamlined and enhanced to meet international best practices, and bankable concession agreements have to be developed. Consistency of legal/regulatory frameworks and policies that engender investor confidence are essential for the country's ability to raise long-term financing for projects, both domestically and internationally.

12. For reasons mentioned earlier, infrastructure financing will have to rely more on private resources. Over the longer term, only an efficient and properly functioning banking sector and capital market can sustain large-scale infrastructure financing. Due primarily to an underdeveloped market for long-term debt, Pakistan's capital market capacity is still limited relative to requirements and lacks the necessary depth of instruments and maturity profile to meet the complex and protracted term requirements of infrastructure projects, which typically have very long gestation periods. While good progress in developing a corporate bond market was made over the past 3 years, typical term finance certificates (corporate debt papers issued in Pakistan) do not have maturity exceeding 5 years. Some other policy constraints are the absence of a secondary market in debt securities and Government preemption of the funds of large contractual savings institutions—the main providers of long-term investment funds—for financing the domestic fiscal deficit. The absence of an active market in long-term debt securities accounts for the dearth of local financing in the amount and tenor required to finance infrastructure. However, considering the size of the financing needed for infrastructure, direct financing from financial institutions would not be sufficient to satisfy the demand, given the balance sheet and credit exposure limitations of these institutions. The alternative would be to raise funds directly from the public. To do this would require, in conjunction with ongoing reforms, raising institutional capabilities and developing financing instruments that more appropriately meet the long-term financing requirements of infrastructure projects so that resources can be mobilized on a sustained basis.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Purpose and Output**

13. The objectives of the project preparatory TA are to help design appropriate mechanisms for accelerating infrastructure development through increased private sector participation in Pakistan and thereby promote economic growth and reduce poverty. The TA will include components that will identify the key constraints to increased private sector participation in infrastructure development, identify the priorities that constitute the key constraints, and determine what further assistance is required to address the above constraints to creating the enabling environment for private sector involvement in infrastructure development. In the process, the policy and regulatory issues as well as the environment for mobilizing long-term resources will be reviewed and follow-up measures/interventions that need to be taken by the Government/local bodies will be recommended.

#### **B. Methodology and Key Activities**

14. The TA consultants will, provide guidance in enhancing governance structures and practices, and in strengthening the public-private interface, considering current weaknesses and gaps and best practices. The TA components follow: (i) assess the current activities and performance of key infrastructure sectors; (ii) identify and assess the legal, policy, regulatory, and institutional impediments in involving the private sector in those sectors, and identify key issues and priorities to be addressed with agreed-upon action plans; (iii) make recommendations for developing frameworks and sector strategies needed to improve the capacity for efficient and transparent contracting of infrastructure projects to the private sector; (iv) recommend measures to strengthen institutional capacity to efficiently channel private capital into long-term infrastructure projects, with agreed-upon action plans; and (v) design mechanisms to effectively use ADB's financing and risk management tools, particularly its guarantee instruments to facilitate private sector investments in long-term infrastructure finance. The focus will be on establishing the right market structures and in suggesting changes in approaches, institutional reorganizations, and appropriate policy. The TA will also coordinate recommended measures with ADB infrastructure divisions operating in the sectors. As a demonstrative effect, the TA will aim to structure and assist in bringing selected projects in road infrastructure to financial closure.

#### **C. Cost and Financing**

15. The total cost of the TA is estimated at \$500,000 equivalent comprising \$345,000 in foreign exchange, and \$155,000 equivalent in local currency. ADB will finance \$400,000 equivalent, which includes the entire foreign exchange cost and \$55,000 equivalent in local currency cost. The Government will contribute the remaining \$100,000 equivalent, which will include office accommodation, counterpart staff remuneration, transportation, and surveys. The TA will be financed as a grant from ADB's TA funding program. The detailed cost estimates and financing plan are in Appendix 3.

#### **D. Implementation Arrangements**

16. The Ministry of Privatization will be the Executing Agency for the TA. TA implementation will be guided by a steering committee headed by the minister of privatization or his designated representative, together with officials from The Board of Investments, Ministry of Power and National Electric Power Regulatory Authority, Information Technology and Telecom Division, the

Telecom Regulatory Authority, Ministry of Communications and Ports and NHA, Ministry of Public Water Supply, Ministry of Civil Aviation, representatives from provincial governments (Department of Communications, Water Supply, Sewerage Services and Solid Waste Management), and representatives from the private and financial sectors. At relevant milestones during implementation, the TA consultants will organize at least two workshops for all stakeholders, including the provincial governments, to review the results of the TA and the recommended approaches.

17. The TA is expected to start in November 2003 and be completed in February 2004. The consulting team will include four international consultants (11.5 person-months total) and two domestic consultants (5 person-months total). International consultants will comprise an infrastructure/public-private partnership policy expert (the team leader); two regulatory experts focusing particularly on road and water supply, sewerage and solid waste management; and an infrastructure financing expert. The domestic consultants will have expertise in Pakistan's existing framework and local financial practices as well as government and political processes, federal-state relations, and municipal government administration. While the international consultants will be recruited through a firm—using a simplified technical proposal under the quality based selection method in view of the specialized expertise required for the project—the domestic consultants will be engaged on an individual basis, in accordance with ADB's *Guidelines on the Use of Consultants* for recruiting consultants and other arrangements for selecting domestic consultants. Appendix 4 gives the outline terms of reference for the consultants.

18. The consultants will submit to the Executing Agency and ADB, within 3 weeks of the start of the services, an inception report that outlines the approach and the key issues to be addressed; and an interim report, that presents their preliminary findings and outlines the general direction and detailed plan for the TA within 8 weeks of the start of the TA. The draft final report, to be submitted 2 weeks before the completion of the TA, will have proposals and action plans that identify the legal, policy, regulatory and institutional framework that need to be implemented and established. The draft final report will be discussed at a tripartite meeting. The final report will be submitted after incorporating comments at the end of the consulting period.

19. Considering the size and scope of the TA, additional assistance is envisaged as a follow-up measure for creating the appropriate enabling environment and developing institutional capacity to prepare the different stakeholders for the ADB Public-Private Infrastructure Financing Facility of \$200 million, proposed for 2005. To address the above need, it is proposed that the TA be complemented by a TA loan in 2004. From the outcome of the TA, the consultant's final report will provide the framework for the proposed TA loan in 2004, including detailed terms of references. The TA loan will outline the policy and procedures to follow in preparing a resettlement plan as well as a detailed environment assessment and will design an environmental management system to comply with ADB's environment requirements for infrastructure projects.

#### **IV. THE PRESIDENT'S DECISION**

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$400,000 on a grant basis to the Government of Pakistan for preparing the Public-Private Infrastructure Financing Facility, and hereby reports such action to the Board.

### TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b> Economic growth</p> <p>Poverty reduction</p>	<p>Infrastructure development strategies set up</p> <p>Enabling environment for increased public-private partnership in infrastructure development created</p> <p>Sectoral policy, legal and regulatory reforms to promote private participation in infrastructure development promoted</p> <p>Increased investment in infrastructure</p> <p>Increased employment in infrastructure generated</p> <p>Improved access to infrastructure services</p>	<p>Government reports</p> <p>Studies conducted by bilateral and multilateral organizations</p> <p>Asian Development Bank (ADB) review missions</p> <p>Federal/provincial government reports</p> <p>Studies conducted by bilateral and multilateral organizations</p>	<p>Macroeconomy remains stable and economic reforms are sustained.</p> <p>Government policies are oriented toward reducing the incidence of poverty.</p>
<p><b>Purpose</b> Enhance private sector participation in infrastructure development through enhanced governance structures and practices, and strengthened public-private interface, based on current weakness and gaps and best practices</p>	<p>Public-private interface strengthened through improved institutional capacity for efficient and transparent contracting of infrastructure projects to the private sector</p> <p>Increased private investments in infrastructure</p>	<p>Federal/provincial government reports</p> <p>Financial institutions reports</p> <p>Technical assistance (TA) progress reports</p> <p>TA completion report</p> <p>ADB review missions</p>	<p>Environment remains conducive to private investments.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
Efficiently channel private capital into long-term infrastructure projects	Mobilized financing for infrastructure		
<p><b>Outputs/Components</b> Enabling environment for public-private participation in infrastructure developed</p> <p>Establish right market structures and redefined approaches, institutional reorganizations, and appropriate policy</p>	<p>Legal, policy, regulatory, and institutional impediments for involving the private sector in infrastructure projects identified, and frameworks and sector strategies developed</p> <p>Institution of transparent systems and processes in dealing with the private sector</p> <p>Financial instruments and procedures for raising funds developed</p>	<p>Government/sector reports</p> <p>ADB review missions</p> <p>Government/sector reports</p> <p>Market reports</p> <p>Reports of financial intermediaries</p>	<p>Reform agenda is pursued.</p> <p>There is a potential delay in implementing required framework and strategies.</p> <p>Experience in dealing with the private sector is limited.</p> <p>Private sector interest is limited.</p>
<p><b>Activities</b> Assess the current activities of key infrastructure projects</p> <p>Identify and assess the legal, policy, regulatory, and institutional impediments for involving the private sector in the key infrastructure sectors, identify key issues and priorities to be addressed with agreed-upon action plans</p>	<p>Initial study completed within 3 weeks of TA inception</p> <p>Impediments/key issues identified by end-December 2003. Action plans to address key impediments/issues submitted by end-January 2004</p> <p>Workshops conducted and recommendations/action plans</p>	<p>TA consultants reports</p> <p>Feedback from federal/provincial governments</p> <p>ADB review missions</p> <p>Feedback from other stakeholders</p>	<p>Government agencies/local bodies cooperate and coordinate.</p> <p>Recommended action plans are pursued by government/local bodies/other involved agencies.</p> <p>Stakeholders' interest is limited.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Recommend measures for improving capacity for efficient and transparent contracting of infrastructure projects to the private sector</p> <p>Recommend measures to strengthen institutional development capacity to efficiently channel private capital into long-term infrastructure projects</p> <p>Design mechanism to effectively use ADB's financing and risk management tools, particularly its guarantee instruments to facilitate private sector investments in long-term infrastructure projects</p>	<p>disseminated for the benefit of the different stakeholders in developing private sector infrastructure</p> <p>Recommendations for improving capacity submitted by end-January 2004</p> <p>Recommendations submitted by end-December 2003</p> <p>Workshops conducted for evaluating and financing infrastructure projects</p> <p>Recommendations submitted by end-December 2003</p> <p>Draft final report submitted 2 weeks before completion and final report submitted end-February 2004</p>	<p>TA consultants reports</p> <p>ADB review missions</p> <p>Reports from participating institutions</p> <p>TA consultants reports</p> <p>Feedback from financial intermediaries and private sector</p> <p>ADB review missions</p>	<p>TA consultants recommendations are accepted and pursued.</p> <p>Coordination between government, financial intermediaries, and private investors is close.</p>

<b>Design Summary</b>	<b>Performance Indicators/Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<b>Inputs</b> TA consulting services	ADB financing of \$400,000  International: 11.5 person-months, \$317,000  Domestic: 5 person-months, \$33,000  Others: \$50,000	Contract invoices	Consultants will be contracted by ADB in a timely manner.  Government counterpart support facilities will be timely and adequate.

## SUMMARY INITIAL POVERTY AND SOCIAL ANALYSIS (IPSA) REPORT FORM

### A. Linkages to the Country Poverty Analysis

Sector identified as a national priority in country poverty analysis? Yes	Sector identified as a national priority in country poverty partnership agreement? No (Agreement signed on 2 September 2002)
<p>Contribution of the sector/subsector to reduce poverty in Pakistan:</p> <p>The incidence of poverty in Pakistan increased from 26.6% in 1993 to 32.2% in 1999 and the number of the poor increased by 12 million over the period. The Government has made poverty reduction the key objective of its economic policies. One of the priorities under the poverty reduction strategy is good governance and creating a conducive environment for private sector growth. Broad-based economic growth leads to generation of productive employment opportunities and increased incomes resulting in sustainable poverty reduction. This will depend much on the Government's ability to address Pakistan's structural weakness, particularly in infrastructure sectors. Increased investments in physical infrastructure, such as power, roads, and transportation, will be conducive to a sustainable poverty-reducing plan. Given the huge resource requirements for infrastructure development, and the increasing inability of the Government to fund it from budgetary sources, increased private sector participation through long-term frameworks, policy incentives mechanisms, and public-private partnerships are necessary to achieve the desired economic growth. Private sector funding for public utilities and infrastructure enables governments to direct more resources to social spending. Well-designed private sector projects function more efficiently, which results in lower prices, improved services, and expanded access for the poor. The project will help the government develop an enabling environment for private sector participation in infrastructure development and thus lead to sustained economic growth and poverty reduction. Through good governance, the project will encourage the growth of the private sector in infrastructure development and promote effective delivery of public services.</p>	

### B. Poverty Analysis

### Improved Governance/ Economic Development

<p>The causes of poverty (at the macro level) are attributed to failure of governance, which includes social exclusion of the poor and their lack of political voice, poor fiscal management, persistent failure to address accountability and performance issues with the public service, a slowdown in the pace of economic growth with the burgeoning debt obligations, and a decline in the public sector development programs. The economy will need to show more dynamic and faster growth, leading to labor absorption and an increase in the real income levels. Private sector provision for infrastructure has great potential to improve the poor's access to infrastructure. The key focus areas for any poverty analysis would be to identify constraints to the poor's access to basic utility services, and product and factor markets. Infrastructure investments complemented by policy and institutional reforms will enable markets to develop and function efficiently, thereby mainstreaming the poor. It will lead to (i) development of nonfarm incomes in rural areas; (ii) more efficient management and distribution of resources; (iii) reduced inflationary pressures through lower cost of goods and services; (iv) freeing up of public sector funds for investments in education, health, and other antipoverty measures; and (v) substantial job creation for semiskilled and unskilled workers, particularly in rural areas. As the role of the federal and provincial governments as regulator rather than direct operators of infrastructure projects assumes greater importance, improved regulatory and supervisory capacity and conduct of public policy, will be critical to ensure that the negative impacts on the poor, job losses, increased costs from higher tariffs, etc., even in the short term, of the private provision of infrastructure services are properly mitigated.</p>
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### C. Participation Process

Stakeholder analysis: Yes.

The social assessment process will be required during infrastructure project development and will involve (i) initial social screening; (ii) scoping of social assessment; (iii) analysis of project alternatives, and minimizing social impacts; (iv) carrying out detailed social assessment and preparing a draft resettlement and rehabilitation plan; and (v) preparing and implementing a detailed resettlement and rehabilitation action plan (RRAP) after technical design and before implementing the project. The special purpose vehicle (SPV) developing and implementing the subprojects will be responsible for implementing the agreed-upon RRAPs. The TA at this point in time, will assist mainly in identifying key issues and priorities to be addressed with agreed-upon action plans, and make recommendations for developing frameworks and sector strategies that need to be taken to improve the capacity for efficient and transparent contracting of infrastructure projects to the private sector. The social assessment process will be covered and developed in more detail, under the TA loan proposed for 2004.

Participation strategy: It will involve (i) identifying the people affected and assets lost to the infrastructure project, (ii) valuing assets, (iii) identifying vulnerable groups, (iv) formulating entitlement packages through effective public consultations, (v) publicly disclosing an implementable RRAP, (vi) disbursing entitlements, and (vii) providing grievance redressal. The public participation in the form of informal meetings, focus group discussions, and public information consultation meetings, as applicable and necessary, will be internalized at each stage of infrastructure project development.

### D. Gender and Development

Strategy to maximize impacts on women: Though no specific strategy is envisaged to maximize impacts on women, it is expected that investment in infrastructure will directly generate employment and improve income, including that of women. For example, investment in transport, particularly road infrastructure, will lead to substantial job creation for semiskilled and unskilled workers, including women.

No gender plan has been prepared.

### E. Social Safeguards and Other Social Risks

	Significant/ Nonsignificant/ None	Strategy to Address Issues	Plan Required
Resettlement	Nonsignificant for this TA	The SPVs implementing the infrastructure projects will be responsible for implementing the RRAPs.	The existing resettlement policy framework will be reviewed and assistance provided under the proposed TA loan in 2004 for formulating and adopting resettlement and rehabilitation policy applicable to all infrastructure projects.
Indigenous Peoples	As above	As above	As above
Labor	None	Positive labor impact is expected.	No
Affordability	None under this TA	The affordability issue under each infrastructure projects will be based on "willingness to pay" and government policy on subsidies for public utility services.	Affordability will be assessed under the feasibility studies.
Other Risks/ Vulnerabilities	None	No other adverse issues are anticipated.	No

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

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration			
i. International Consultants	245	0	245
ii. Domestic Consultants	0	18	18
b. Per Diem			
i. International Consultants	47	0	47
ii. Domestic Consultants	0	12	12
c. International and Local Travel	20	8	28
2. Miscellaneous Administration and Support Costs	3	2	5
3. Seminars and Workshops	0	5	5
4. Contingencies	30	10	40
<b>Subtotal (A)</b>	<b>345</b>	<b>55</b>	<b>400</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Utilities	0	30	30
2. Remuneration and Per Diem of Counterpart Staff	0	30	30
3. Transportation	0	15	15
4. Surveys and Workshops	0	25	25
<b>Subtotal (B)</b>	<b>0</b>	<b>100</b>	<b>100</b>
<b>Total</b>	<b>345</b>	<b>155</b>	<b>500</b>

<sup>a</sup> Financed by ADB's TA funding program.  
Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. International Consultants

#### 1. Infrastructure/Public-Private Policy Specialist, Team Leader (3 person-months)

1. The consultant team will be composed of a team leader, preferably, the head of a board of investments in a developed or developing country with extensive background in policy and practice and a record of success in attracting private sector and foreign investments in physical infrastructure projects, and engaged in developing an environment conducive to public-private partnership (PPP) in infrastructure sectors.

2. As team leader, the specialist will (i) have strong interpersonal and communication skills, (ii) be a proficient writer, and responsible for all activities under the technical assistance (TA) and timely delivery of all outputs. Aside from leading and coordinating the team and integrating the team's report, the team leader will have the following responsibilities.

- (i) Analyze and assess the current activities and performance of the private sector in key infrastructure sectors in Pakistan.
- (ii) Assess, in coordination with the regulatory experts, the legal, policy, regulatory, and institutional framework for completeness of coverage and identify impediments in involving the private sector in key infrastructure sectors.
- (iii) Make recommendations for developing frameworks and sector strategies that need to be adopted to improve the capacity for efficient and transparent contracting of infrastructure projects to the private sector, especially at the provincial government level.
- (iv) In coordination with the infrastructure financing expert, design mechanisms to effectively use the Asian Development Bank's (ADB) financing and risk management tools, particularly its guarantee instruments to facilitate private sector investments in long-term infrastructure finance.
- (v) Examine current incentives offered to private investors in infrastructure and recommend an incentive framework based on best practices.
- (vi) Determine whether existing mechanisms for settling disputes that arise out of private sector sponsored projects are adequate and recommend a suitable mechanism for speeding up resolution of possible cases.
- (vii) Examine the feasibility of bringing some of projects to financial closure and, in the process, assist the government body to prepare, structure, and negotiate the project with the private sector until financial closure.
- (viii) At identified milestones, conduct at least two workshops in developing private sector infrastructure to disseminate recommendations and action plans for the benefit of the stakeholders. The workshops should include a review of government PPP policies and their objectives, a preliminary analysis of the range of opportunities for raising the level of PPP in the interest of efficiency, and the

existing legal and institutional constraints and action plans for addressing the constraints.

- (ix) In coordination with other team members, develop the framework and the terms of reference for the TA loan proposed for 2004.

3. Focus should be on establishing the right market structures and in suggesting changes in approaches, institutional reorganizations, and appropriate policy. In the process, recommended measures will also be coordinated with ADB infrastructure divisions operating in the sectors.

## **2. Regulatory and Governance Specialists (2, 3 person-months each)**

4. The regulatory and governance specialists will have extensive experience and exposure in regulating and developing utilities in developed economies and a background in dealing with affordability/cost recovery issues. The specialists will undertake the following tasks.

- (i) Assess the efficacy of existing governance and regulatory frameworks in infrastructure sectors in respect of independence, impartiality, and nonsusceptibility to external pressure. Identify key issues and priorities to be addressed.
- (ii) Based on this assessment, recommend strategies, with agreed-upon action plans, for developing appropriate formal policies in key sectors that address the constraints to private sector participation in infrastructure, and are viewed primarily as a mechanism for allocating risks among the parties involved. Structuring projects on build-operate-transfer (BOT) or its variant models should be suitably provided.
- (iii) Recommend appropriate structures, with agreed-upon action plans, for setting up autonomous regulatory authorities (examine the need for having one integrated regulator or regulators for each key sectors not covered so far).
- (iv) Provide hands-on advice and start-up assistance, with agreed-upon action plans, for developing suitable contractual/concession agreements, based on international best practices, particularly for the road and water supply and sewerage sectors.
- (v) In coordination with other team members, review a couple of road and/or water supply projects needing funding, determine their feasibility, and recommend alternative ways of handling affordability issues to facilitate project processing and financial closure.

5. The above tasks should not seek to specify the clause-by-clause amendments needed in each of the acts, rules, and regulations, but should be more in the nature of pointers to the directions in which these changes should take place. In addition, the regulatory and governance specialists should assist the team leader to develop the framework and the terms of reference for the TA loan proposed for 2004.

### **3. Infrastructure Financing Specialist (2.5 person-months)**

6. The infrastructure financing specialist must have extensive experience in financing infrastructure projects under BOT and its variant models. Must have very good training skills in financing techniques and risk mitigation mechanisms. The specialist will undertake the following tasks.

- (i) Evaluate institutional capacity and identify institutional development needs to efficiently channel private funds into long-term infrastructure projects, with agreed-upon action plans.
- (ii) Provide advice and training in BOT and similar finance modality techniques, risk mitigation strategies, and appropriate commercial terms and conditions for the various project agreements that will be required as part of the overall security package for private sector projects.
- (iii) Examine resources for mobilizing long-term financing for infrastructure projects and recommend action plans, suited to local conditions, to develop innovative financing techniques and instruments for financing infrastructure projects in the private sector.
- (iv) Recommend measures needed to strengthen financial institutions, including a long-term training program to develop in-house skills for carrying out the necessary functions.
- (v) In coordination with the infrastructure policy expert/team leader, design mechanisms to effectively use ADB's financing and risk management tools, particularly its guarantee instruments to facilitate private sector investments in long-term infrastructure finance.
- (vi) Conduct at least two workshops on private sector financing of infrastructure projects and evaluation of private infrastructure projects.
- (vii) In coordination with other team members, review a couple of projects needing funding in road and or water supply, and determine the feasibility of financing these projects.

## **B. Domestic Consultants**

### **1. Regulatory and Governance Expert (2.5 person-months)**

7. The local regulatory and governance expert, preferably from a reputed local law firm, should have extensive knowledge and experience with local regulatory and governance issues, particularly those related to physical infrastructure. The expert will undertake these tasks.

- (i) Advise the team on existing regulatory practices, relevant legislation, legal interpretations, and legal processes and procedures, government and political processes, federal-state relations, and local government administrations.

- (ii) Assist the international regulatory and governance experts in assessing the efficacy of existing governance and regulatory frameworks in the infrastructure sectors in terms of independence, impartiality and nonsusceptibility to external pressure. Identify key issues and priorities to be addressed.
- (iii) Assist the international regulatory and governance experts in recommending appropriate strategies for developing sector policies and a regulatory framework for identified physical infrastructure sectors.
- (iv) Provide logistical support for arranging meetings and preparing reports.

**2. Financial Expert (2.5 person-months)**

8. The financial expert should have extensive knowledge of local financial/capital markets, particularly financing of infrastructure projects, and will undertake these tasks.

- (i) Advise on local financial market conditions and local financial practices, and help identify financial institutions for infrastructure financing.
- (ii) Assist the international infrastructure financing expert in evaluating institutional capacity and identifying institutional development needs to efficiently channel private funds into long-term infrastructure projects.
- (iii) Assist in identifying resources for mobilizing long-term financing for infrastructure projects and recommending action plans to develop innovative financing techniques and instruments suited to local conditions for financing infrastructure projects in the private sector.
- (iv) Assist in organizing at least two workshops on private sector financing of infrastructure projects and evaluation of private infrastructure projects.
- (v) Provide logistical support for arranging meetings and preparing reports.