



Technical Assistance

TAR: PAK 36155

Technical Assistance to the
Islamic Republic of Pakistan
for Preparing the Private
Participation in Infrastructure
Sector Development Program

October 2005

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 5 October 2005)

Currency Unit	–	Pakistan rupee (PRe/PRs)
PRe1.00	=	\$0.0168
\$1.00	=	PRs59.69

Pakistan maintains a managed floating rate system under which the rupee is fixed on a daily basis in terms of the US dollar.

ABBREVIATIONS

ADB	–	Asian Development Bank
CEO	–	chief executive officer
CPMU	–	core program management unit
IPDF	–	Infrastructure Project Development Facility
IPFF	–	Infrastructure Project Finance Facility
KRA	–	key result area
PPI	–	private participation in infrastructure
SDP	–	sector development program
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Multisector: energy; transport and communications, education, health water supply, sanitation, and waste management; finance
Subsectors	–	Financial sector development
Themes	–	Sustainable economic growth, private sector development
Subthemes	–	Promoting economic efficiency and enabling markets, policy/institutional/legal/regulatory reforms, private sector investment

NOTES

- (i) The fiscal year of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2005 ended on 30 June 2005.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by R. Hartel.

I. INTRODUCTION

1. The Government of Pakistan accords high priority to private participation in infrastructure (PPI) to establish and upgrade economic infrastructure and save precious budgetary resources. It has requested the Asian Development Bank (ADB) for help to design and implement the PPI Sector Development Program (SDP). While TA 4154-PAK¹ had emphasized the need to establish a financial institution dedicated to infrastructure along with regulatory and promotional entities at the provincial level, the absence of a significant deal flow of infrastructure projects involving private participation requires a simple and more robust design than the one previously proposed. This entails building capacity in the public sector and in financial institutions, providing easy access to a project development facility for all levels of government, and setting up a financing facility that complements the funding provided by market sources to enhance the commercial viability of PPI projects. The 2005 country strategy and program for Pakistan includes technical assistance (TA) for developing the PPI SDP, taking into account the findings of the previous TA. A Fact-Finding Mission fielded in September 2005 reached understanding with the Government on the purpose, approach, implementation arrangements, and terms of reference of the TA.²

II. ISSUES

2. Pakistan has shown remarkable success in turning its economy around based on far-reaching economic, fiscal, and financial sector reforms. ADB has provided assistance to the Government's financial sector, capital markets, and governance reform agenda, and as a result of its long-standing relationship with the Government is now engaged in supporting Pakistan's more challenging second-generation reforms. These include addressing the Government's institutional constraints to development, thereby improving the business environment and increasing employment opportunities. The Government's Medium-Term Development Plan 2005—2010 recognizes the large backlog of infrastructure investments required in both urban and rural areas to improve Pakistan's competitiveness, support the business climate, enhance employment, and reduce poverty. Business climate assessments highlight the importance of access to good quality, affordable infrastructure services if private sector businesses are to succeed. Infrastructure entails fixed assets and services related to transport (roads, airports, rail, mass transport systems, and ports), water supply and sanitation, solid waste treatment, education, health, and small-scale projects (energy, power, telecommunications, irrigation, and water storage).

3. With economic growth accelerating to an annual rate of 8.4% in FY2005, Pakistan's business climate and confidence has improved considerably since 2000. By June 2005 the fiscal deficit had fallen to 3.2% of gross domestic product, and the country's debt-service ratio has also dropped substantially. Reforms were associated with reduced support for important sectors, including the social sectors, and local governance reforms pose challenges pertaining to local governments' capabilities to undertake their functions.

4. To further improve debt management, the Government is committed to maintaining prudent fiscal management, which limits its ability to borrow. Government estimates indicate that under normal budget allocations, it can only cover less than its investment needs from FY2006 to FY2010. Innovative approaches are required to tap private sector resources and to fast-track investments that are heavily constrained under the conventional investment planning

¹ ADB. 2003. *Technical Assistance to the Islamic Republic of Pakistan for Preparing the Public-Private Infrastructure Financing Facility*. Manila. (TA 4154-PAK, approved on 25 July 2003, for \$400,000)

² The TA first appeared in the *ADB Business Opportunities* (Internet edition) on 24 August 2005.

and approval processes. Particular efforts are required to leverage the professional skills, incentives, and financial resources of the private sector in relation to establishing and managing infrastructure. While the Government is keen to mobilize the private sector's financial resources, it has so far been unable to deal effectively with the private sector and incentivize PPI transactions.

5. Since the early 1990s, Pakistan has gained valuable PPI experience in the power, telecommunications, oil and gas, and service sectors. Notable privatization transactions have taken place that highlight the need for careful balancing of investors' and service users' interests and for reaching equitable agreements. Issues of concentration of market power, pricing, service quality, protection of property and users' rights, and management of foreign exchange risks require a consistent separation of the Government's executive, rule-making, and supervisory powers. Pakistan's experience has shaped the development of regulatory mechanisms, the facilitation of investments, and the provision of financing incentives. A policy and regulatory framework has attracted private investors and financiers from Pakistan and abroad.

6. A coherent PPI policy and strategy is needed. Unlike in the power, oil and gas, and telecommunications sectors, no coherent policy and institutional framework exists for PPI in transport, water supply and sanitation, and urban development, particularly at the provincial and local government levels. Policies need to address complexities across various levels of jurisdiction that blur the assignment of ownership and accountability and the division of regulatory responsibilities (investor and consumer protection), from service delivery functions, and legal enforcement powers of public entities. While Local Government Ordinance 2001 assigns accountability to local governments, in practice, agencies at a higher level maintain services. Whether local governments will be able to fulfill the service provider function as prescribed by the Local Government Ordinance is uncertain.

7. The financial strength and management capacity of provincial, district, and municipal governments are currently extremely limited and need to be strengthened. Policies are needed to improve their financial management; establish independent credit rating in the market, and identification, structuring and development of revenue-earning services.

8. Poor performance by utilities is a result of poor enforcement of laws. Users' low willingness to pay is directly related to poor service standards and practices. The limited ability of public service providers to minimize system losses, collect revenues in a timely fashion, and charge service fees that recover costs indicate the low quality of services provided and the need for professional management. Some agencies do not understand the benefits of PPI, and vested interests favor the status quo. It is critical that PPI is well understood and that policy is developed in a consultative process. PPI will be used if it is found to be more economically viable than public sector solutions and if it increases service coverage and standards.

9. The Government largely lacks the ability to prepare, manage, and oversee PPI projects. In addition, because of the absence of regulatory and dispute resolution mechanisms, conflicts of interest undermine investors and service users' confidence. Finally, domestic private expertise in infrastructure project design and management must be nurtured.

10. In the past, PPIs in Pakistan have often relied on financing and management by foreign investors. The 1998 currency crisis highlighted the challenges of transferring revenues outside Pakistan and of devaluation in relation to utility charges. Currency and maturity mismatches between foreign currency liabilities and debt service, full dependence on domestic currency revenues, and shortages of long-term capital must be addressed by developing long-term

domestic currency markets. This includes tapping the potential of institutional investors (pension funds and insurance companies) to provide long-term funds.

11. Currently, infrastructure lending plays only a minor role even for larger financial institutions. Important constraints within the financial institutions need to be addressed, including lending processes that ignore the specifics of project financing and the absence of in-house interdisciplinary skills in project financing. The lack of long-term domestic debt instruments, such as long-term corporate bonds, constrains the asset liability management ability of financial institutions.

12. The Government recognizes that it needs to develop a consistent PPI policy to address the foregoing constraints and its future support to PPI. Professional support is required to ensure that PPI transactions are effectively carried out between Government and private sector investors. Public sector funding is also required to complement and enable financing of the market, the private sector, and subsovereign entities. The PPI policy and transaction experience will shape further policy and institutional development, including regulatory and consumer protection functions, financial institutions, and Government capabilities for participating in and managing the PPI process. The rationale for the proposed PPI SDP is to support the Government's poverty reduction strategy through sustainable economic growth and employment. PPI normally generates substantial benefits in relation to improving the investment and business climate. Direct infrastructure investments and the indirect impact of improved infrastructure provision will create economic activity and employment and enhance skills in the private sector. The TA and the PPI SDP approach fit well into ADB's support of Pakistan's reforms in the private and financial sectors, capital markets and infrastructure, and governance.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

13. The desired impact of the proposed PPI SDP is to enhance the number, volume, and service quality of infrastructure projects financed and managed through PPI. The objective of the TA is to help the Government and ADB prepare and finalize the design of the PPI SDP and to assist the Government in establishing the institutions and some pilot transactions needed to facilitate a seamless transition from design to implementation.

14. The TA will support the development of policy, regulatory, and institutional reforms for the PPI SDP. The PPI SDP is expected to finance the cost of reform, including a portion of the capital endowment for the Infrastructure Fund. The TA will help the Government through the establishment of a task force to (i) develop PPI policies, laws, contract arrangements, and regulatory functions and institutions; (ii) design and establish the Infrastructure Project Development Facility (IPDF) as an independent, not-for-profit company operating on a corporate basis; (iii) design and establish the Infrastructure Project Finance Facility (IPFF), which will house the Infrastructure Fund, as an independent company operating on a corporate basis; (iv) develop an approach for building the capacity of line agencies at the federal, provincial, and local levels in preparing and managing PPI; (v) develop an approach for providing assistance to financial institutions in establishing project finance units; and (vii) help develop the domestic long-term capital market. The TA will provide the necessary resources and expertise to complete the design, establish institutions, and commence pilot activities to ensure that the proposed PPI SDP is ready for implementation at loan effectiveness.

B. Methodology and Key Activities

15. The proposed PPI SDP has support from the top levels of the Government. The Government will establish a task force chaired by the minister of finance (currently the adviser to the prime minister on finance). Members of the task force will include high-level government representatives at the national and regional levels as well as representatives of private sector professional organizations. The task force will provide advice on the design and implementation of the PPI SDP. The task force will be assisted by a secretariat, which is a function of the Core Program Management Unit (CPMU) currently housed at the Prime Minister's Special Programs Wing at the Ministry of Finance. The CPMU will manage the PPI SDP, monitor overall progress, and disseminate information to the public for feedback by means of information bulletins, seminars, and a web site. To ensure adequate implementation capacity, the CPMU will be fully staffed by November 2005 based on a development and resource plan. The design and monitoring framework is in Appendix 1. The TA will help develop the following tentative outputs and key results areas (KRAs), which will be finalized during further preparation of the proposed PPI SDP:

- (i) **Output 1: establish PPI framework**
 - (a) KRA 1.1: develop the PPI strategy and policy; and
 - (b) KRA 1.2: develop PPI law, contracts, and regulatory functions and institutions.
- (ii) **Output 2: develop PPI transactions**
 - (a) KRA 2.1: establish IPDF,
 - (b) KRA 2.2: establish the Infrastructure Fund and IPFF, and
 - (c) KRA 2.3: develop PPI management capability within the Government.
- (iii) **Output 3: develop supporting financing policies and instruments**
 - (a) KRA 3.1: establish dedicated project finance capability in financial institutions, and
 - (b) KRA 3.2: enhance credit and develop a long-term domestic debt market.

16. The PPI SDP will clarify and spell out the Government's objectives and means for implementing them. The PPI SDP design entails, but is not limited to, the following:

- (i) defining the scope of PPI and the role of the task force, working groups, and the CPMU;
- (ii) developing policies and mechanisms, including
 - (a) clarifying institutional responsibility at the federal, provincial, and local government levels for selecting, developing, implementing, and overseeing PPI design and implementation;
 - (b) clarifying the separation of powers of line ministries and agencies in relation to their judicial, legal, regulatory, and executive functions;
 - (c) clarifying and streamlining applicable procurement and investment approval processes, including managing the fiduciary aspects of the impact of PPI on resettlement, the environment, and indigenous peoples;
 - (d) establishing stakeholder feedback and consumer and investor protection mechanisms;
 - (e) streamlining dispute resolution between the Government, investors, contractors, and consumers; and
 - (f) establishing appropriate fiscal arrangements;
- (iii) establishing IPDF for preparing PPI projects in cooperation with relevant federal, provincial, local planning, and line authorities and IPFF;

- (iv) establishing IPFF for financial structuring and for arranging finance for PPI projects;
- (v) preparing a capacity-building plan in relation to PPI design and management for Government agencies;
- (vi) preparing a capacity-building plan for private sector and financial institutions investing in and financing PPI; and
- (vii) developing market-based long-term domestic resources for PPI and financial institutions, including a bond market and supporting services such as credit rating.

C. Cost and Financing

17. The TA is estimated to cost \$1.3 million equivalent. ADB will provide \$1 million equivalent on a grant basis from ADB's TA Funding Program. The Government will finance the remaining cost by providing in-kind contributions of office space and suitable CPMU counterpart staff. The cost estimate and financing plan is presented in Appendix 2. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing program.

D. Implementation Arrangements

18. The Ministry of Finance is the executing and implementing agency for the TA. The ministry will establish a task force, led by the minister of finance (currently the adviser to the prime minister on finance) to coordinate the TA's efforts. It has committed to providing permanent counterpart staff, suitable offices, and transportation; facilitating the consultants' interaction with other stakeholders; close collaboration with ADB, and ensuring the participation of stakeholders in the policy formulation process.

19. The TA will provide a total of about 40 person-months of consulting services, including 16 person-months of domestic consulting services and 24 person-months of international consulting services. All consultants will be recruited by ADB in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements for the engagement of domestic consultants satisfactory to ADB. KRAs 2.1 and 2.2 require an innovative approach. Given the lack of a standardized approach for the delivery of such services and given that developing systems, processes, and procedures for PPI transactions and finance are complex and require highly specialized skills and a significant degree of flexibility in the allocation of expertise, the quality-based selection method will be applied for KRAs 2.1 and 2.2. Consistent with ADB's procedures, the biodata technical proposal will be applied. For KRA 2.3, experts will be recruited with experience in PPI practice and training either as individuals or through a firm using the quality-based selection method. For output areas 1 and 3, consultants will be recruited as individual senior experts in the fields of PPI policy and law and PPI finance. Appendix 3 presents outline terms of reference for consultants. The TA completion date will be 21 months from the Government's signing of the TA letter. The TA is expected to commence in November 2005.

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 \$1,000,000 on a grant basis to the Government of Pakistan for preparing the Private Participation in Infrastructure Sector Development Program, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
Impact Enhance the number, volume, and service quality of public sector infrastructure projects financed and managed through private participation in infrastructure (PPI) and subsovereign entities	<ul style="list-style-type: none"> • Growth of PPI projects (number and volume) since FY2006 • Growth of PPI projects financed by subsovereign funds • Customer feedback • Growth of PPI pipeline 	<ul style="list-style-type: none"> • Core Program Management Unit reports posted on the Government's web site • Government economic reports 	Assumptions <ul style="list-style-type: none"> • Full government commitment to economic reforms and PPI • Timely loan effectiveness • Effective professional implementation
Outcome Help the Government and the Asian Development Bank (ADB) prepare and finalize the design of the PPI sector development program (SDP) and help the Government establish the institutions and some pilot transactions so as to facilitate seamless transition from the design to the implementation of the SDP	<ul style="list-style-type: none"> • Policy matrix and background analysis • Detailed institutional design and incorporation of the Infrastructure Project Development Facility (IPDF), the Infrastructure Project Finance Facility (IPFF), and the Infrastructure Fund (IF) agreed on by the Government and ADB 	<ul style="list-style-type: none"> • Task force reports • Tripartite reviews • Consultants' reports • Stakeholder feedback and consensus on reforms • ADB review missions 	Assumptions <ul style="list-style-type: none"> • Good quality outputs delivered on time • Government endorsement of the final design • Continued high-level support
Outputs 1. Establish PPI Framework <ul style="list-style-type: none"> • Develop PPI strategy and policy • Develop PPI law, contracts, and regulatory functions and institutions 2. Develop PPI Transactions <ul style="list-style-type: none"> • Establish IPDF • Establish the IF and IPFF • Develop PPI management capability within the Government 3. Develop Supporting Financing Policies and Instruments <ul style="list-style-type: none"> • Financial institutions establish dedicated project finance capability • Credit enhancement and development of a long-term domestic debt market 	<ul style="list-style-type: none"> • Draft strategy and policy • Draft institutional framework • Detailed design for IPDF by December 2005 • IPFF and the IF established by March 2006 • Consultants' terms of reference agreed by November 2005 • Selection of consultants commences in December 2005 • Based on initial study, scope of assistance determined by November 2005 	<ul style="list-style-type: none"> • Consultants' reports • Task force reports • Tripartite meetings • Business plans and standard operating procedures for IPDF and IPFF • ADB review missions 	Assumptions <ul style="list-style-type: none"> • Qualified consultants are fielded on time • Timely feedback received from the Government • Commencement of services within 1 month of technical assistance (TA) effectiveness • Timely approval of resources
Activities with Milestones^a Phase 1—Diagnostic <ul style="list-style-type: none"> • Analysis and draft design of outputs 1 and output 3; final design of output 2, including draft policy matrix and implementation arrangements • Government review of analysis and design • Stakeholder seminar within 6 weeks of TA commencement Phase 2—Design: <ul style="list-style-type: none"> • Finalize detailed design; strategies; and detailed reform action plans, operation plans, and resource plans for each output and key result area • Finalize the policy matrix and implementation arrangements within 12 weeks of TA commencement • Hold final stakeholder feedback meetings within 16 weeks of TA commencement Phase 3—Implementation <ul style="list-style-type: none"> • Incorporation and staffing of institutions, including IPDF, IPFF within 24 weeks of TA commencement. TA to be completed within 21 months. 			Inputs About 40 person-months of consulting services, consisting of 24 person-months of international consulting services and 16 person-months of domestic consulting services. Total cost is \$1.3 million, of which ADB is financing \$1 million.

^a The schedule is indicative and will be updated based on the effective fielding of the consultants, the conclusion of phases, and the clarification of plans for subsequent phases.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	708.0
ii. Domestic Consultants	116.0
b. International and Local Travel	60.0
2. Training, Seminars, and Conferences	
a. Training Program	15.0
3. Surveys	10.0
4. Contingencies	91.0
Subtotal (A)	1,000.0
B. Government Financing	
1. Office Space and Facilities	80.0
2. Remuneration, Per Diem, and Transport of CPMU Staff	170.0
3. Others	50.0
Subtotal (B)	300.0
Total	1,300.0

CPMU = Core Program Management Unit.

^a Financed by the Asian Development Bank's technical assistance funding program.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The consultants will help the Government and the Asian Development Bank (ADB) to (i) formulate and complete the design for the Private Participation in Infrastructure Sector Development Program (PPI SDP), and (ii) design and establish the institutions to implement the program. The consultants will work with the chair of the PPI SDP task force (and, on a day-to-day basis, with the Core Program Management Unit (CPMU), a dedicated team within the Ministry of Finance. The CPMU will be responsible for managing program implementation and will act as the secretariat of the task force. The secretariat will set up topic-specific working groups and the consultants will provide effective guidance to the working groups that will reflect international best practices and their applicability in Pakistan.

A. Output 1: Establish the Private Participation in Infrastructure Framework

1. Key Result Area 1.1: Develop Private Participation in Infrastructure Strategy and Policy

2. The consultants will prepare a private participation in infrastructure (PPI) policy issues paper and propose well-sequenced solutions and a policy matrix taking into account relevant outputs provided under TA 4154-PAK,¹ domestic and international experience with PPI, and Pakistan's Medium-Term Development Framework 2005–2010 and other documentation provided to the consultants. The consultants will help identify policy issues and prepare the draft strategy and policy and will assist with the national and regional consultation process. Once endorsed by the Cabinet, the Government will prepare a draft of the PPI law for ultimate submission to Parliament. The consultants will provide topic-specific action plans, terms of reference, and resource plans for external assistance to the working groups.²

3. The strategy and policy will clarify and spell out the Government's objectives and means for implementing them. This includes, but is not limited to, the following:

- (i) defining the scope of PPI and the role of the task force;
- (ii) clarifying institutional responsibility at the federal, provincial, and local government levels for selecting, developing, implementing, and overseeing PPI implementation, choosing selection criteria for projects and approving preselection and negotiated contracts;
- (iii) clarifying the separate powers of line ministries and agencies in relation to judicial, legal, regulatory, and executive functions;³
- (iv) clarifying applicable procurement and investment approval processes;
- (v) establishing mechanisms for stakeholder feedback and consumer and investor protection;
- (vi) establishing mechanisms for timely dispute resolution between the Government, investors, contractors, and consumers;
- (vii) determining incentives for PPI;

¹ ADB. 2003. *Technical Assistance to the Islamic Republic of Pakistan for Preparing the Public–Private Infrastructure Financing Facility*. Manila. (TA 4154-PAK, approved on 25 July 2003, for \$400,000)

² In this context, an arbitration framework to enhance investor confidence, efforts to establish PPI laws at the provincial level (for example Punjab), and relevant legal and judicial reforms recommended under TA 3015-PAK: *Legal and Judicial Reform Project* will be considered.

³ The consultants will also evaluate existing institutions' capabilities in relation to infrastructure regulation and consider whether the existing entities would merit integration in a wider PPI responsibility or whether a new multisector infrastructure regulator should be established. They would pay particular attention as to whether a central-level regulator can be established to avoid duplication of effort in each province.

- (viii) setting out the business objectives, organizational structure, and resources for the Infrastructure Project Development Facility (IPDF) in relation to preparing PPI projects in cooperation with relevant federal, provincial, and local planning and line authorities and the Infrastructure Project Financing Facility (IPFF);
- (ix) determining the structure, resources, and mandate of the Infrastructure Fund to be housed in IPFF;
- (x) setting out the business objectives, organizational structure, and resources for IPFF in relation to the financial structuring of projects and arranging finance for projects;
- (xi) establishing the process for building capacity for nonrecourse borrowing by subsovereign entities;
- (xii) setting out the process for building capacity in the private and financial sectors for participation in investing and financing PPI and incentives for them to do so; and
- (xiii) assessing how to develop market-based long-term domestic resources for financial institutions and infrastructure projects, including development of the bond market and supporting services such as credit rating.

2. Key Result Area 1.2: Develop Private Participation in Infrastructure Law, Contracts, and Regulatory Functions and Institutions

4. In a consultative process with the working groups and the CPMU, the consultants will prepare a draft PPI law that will cover a broad range of contractual arrangements for involving the private sector, beginning with service contracts for comprehensive, multiyear concessions. The working groups will review the suitability of existing public bidding laws and prepare amendments as necessary to ensure timely and flexible bidding processes.⁴ Laws will provide the broad parameters, while implementation regulations would permit flexibility to modify and adapt arrangements to local and sector contexts. Consultants and working groups will submit the policies to the task force for advice before submitting them for feedback from regions and stakeholders in the private and financial sectors and to the Cabinet and Parliament.

B. Output 2: Develop Private Participation in Infrastructure Transactions

1. Key Result Area 2.1: Establish the Infrastructure Project Development Facility

5. To facilitate the timely preparation of PPI transactions, the Government will establish IPDF as a not-for-profit company under Article 42 of the Company Law. A representative of the Ministry of Finance will chair IPDF's board, which will consist largely of private sector professionals. The company will be run independently, under commercial principles, with an incentive to deliver PPI transactions.

6. IPDF will have a chief executive officer (CEO) who will be responsible for originating projects in close collaboration with the project sponsors. IPDF will be equipped with sector and legal experts who will create project teams to evaluate projects proposed by local or other public authorities and private sector partners.

7. The CEO will be a senior professional experienced in the preparation of infrastructure projects in the private sector and will also have management oversight experience. The IPDF

⁴ This process will be closely coordinated with the Pakistan Procurement Regulatory Authority.

will be staffed by professional staff on a private sector pay scale and will be audited by independent auditors.

8. Support is required to develop a business plan, budget, and standard operating procedures (currently being drafted) and the legal documentation incorporating IPDF. The consultant will help establish the company. This process includes (i) reviewing its business plan and standard operating procedures, (ii) establishing accountability and staff reporting lines through the CEO and the board, (iii) preparing the memorandum and articles for the incorporation of IPDF as a company under Article 42a of the Company Ordinance (2002), (iv) setting out procedures for appointing board members, (v) selecting and recruiting the CEO, (vi) establishing an office, (vii) recruiting staff, and (viii) establishing logistics. IPDF start-up includes the selection and processing of PPI pilot projects prior to and immediately after loan effectiveness.

2. Key Result Area 2.2: Establish the Infrastructure Fund and the Infrastructure Project Finance Facility

9. Financial institutions participate in infrastructure financing through their corporate and investment banking arms in the absence of dedicated in-house sector, market, and project management expertise. Given the financial institutions' limited capacity, the absence of a long-term domestic debt market, and the affordability gaps of projects, alternative financing mechanisms are required to support PPI.

10. The Government has decided to establish IPFF as an independent company. IPFF's mandate is to structure and arrange supplemental financing of PPI projects. IPFF will establish appropriate business and financial policies for leveraging other bank and nonbank financial institution financing and will also set minimum standards for the quality of proposals that will be entertained to ensure quick decisions. IPFF will likely only receive projects that have been vetted and recommended by IPDF. IPFF and IPDF will collaborate during the early stages of a project to ensure that commercial financing criteria are consistent with IPFF credit management policies.

11. The Government has recommended considering the integration of the existing long-term credit fund with IPFF. The consultant will (i) set out the structure, business plan, and operating and risk management procedures for IPFF; (ii) review the established lending and risk management processes of the long-term credit fund; and (iii) recommend whether the long-term credit fund might be integrated with IPFF. To facilitate subordinate and normal long-term debt financing and targeted subsidies for PPI, the Government announced its decision to establish the Infrastructure Fund in its FY2006 budget. The IF will be housed in the IPFF.

12. IPFF will set up a business model and risk management processes that are comparable with those of commercially successful infrastructure financial institutions. At a later stage, IPFF may be converted into a financial institution once the uptake of viable PPI projects justifies a commercial operation. Independent underwriting processes for extending credit, grants, and guarantees will be established to avoid conflicts of interest between the use of these instruments and ensure that IPFF will be able to customize assistance to the diverse needs of PPI in more and less developed locations.

13. The consultant will help establish IPFF, including (i) preparing a five-year business plan, budget, financial projections, and standard operating procedures; (ii) establishing the organizational structure and policies; (iii) clarifying accountability and staff reporting lines

through the CEO and the board; (iv) preparing the memorandum and articles of incorporation for IPFF as a limited company under the Company Ordinance; (v) appointing board members; (vi) selecting and recruiting the CEO; (vii) setting up the office; (viii) recruiting staff; and (ix) establishing logistics. IPFF will supplement the financing provided by the market. It is not intended to be a public sector development program funding window. IPFF will also help project sponsors gain access to improved market financing terms.

3. Key Result Area 2.3: Develop Management Capacity for Private Participation in Infrastructure within the Government

14. Capacity development is required to enable public sector counterparts to manage and supervise PPI contracts. IPDF will provide on-the-job assistance. IPDF will share experience from other regions and locations, which is particularly important during the initial stages when few contracts are under way. Periodic training and outreach will also be necessary to transfer expertise. This training of local government in PPI management skills can be imparted through suitable training institutions. The consultant will prepare a strategy, implementation plan, and resource plan for curriculum development that includes the use of existing higher education institutions under a separate project component. Any such training and capacity building will complement, and not substitute for, the training and management systems established by each individual project.

C. Output 3: Develop Supporting Financing Policies and Instruments

15. Capacity for PPI financing needs to be established within financial institutions. This process requires convincing financial institution management that PPI is a profitable commercial business. It also involves developing mitigation measures for political and regulatory risks, especially for long-term financing.

1. Key Result Area 3.1: Financial Institutions Establish Dedicated Project Finance Capability

16. PPI policies should encourage some financial institutions to recognize the market potential of PPI and consider building dedicated expertise and business models. Larger financial institutions with a diversified resource and product base may be suitable candidates. The PPI SDP will provide for a technical assistance subproject to support financial institutions with top-level commitment to building dedicated and specialized project finance expertise. This would entail line management responsibility of an experienced project finance specialist to establish an infrastructure unit as a profitable business. Support normally entails the buildup of project finance and management and of sector, legal, and asset liability management capabilities. Consulting assistance may be required to finalize the existing technical assistance concept for this key result area.

2. Key Result Area 3.2: Credit Enhancement and Development of a Long-Term, Domestic Debt Market

17. Developing financial institution capacity will be insufficient to meet PPI funding needs, thus the domestic long-term bond market must be tapped. Significant potential exists for investing long-term funds held by pension funds and public and private insurance companies; however, bond issuers and rating instruments for these potential investors are not currently available. Under the PPI SDP, a policy and action plan will be put in place to develop the domestic long-term bond market for infrastructure. Bond issuances by subsovereign bond

issuers will also be generated when the enabling environment has been created. ADB will undertake a market assessment of whether assistance to bond market development is feasible. Based on the market feedback, consulting assistance may be required.

3. Consulting Expertise and Selection Method

18. **Output 1.** The consultants will be senior experts with at least 7 years of relevant practical experience in the development of (i) PPI strategies and policies in industrial and developing countries in a consultative process, (ii) PPI regulatory bodies and arrangements to ensure investor and consumer feedback, and (iii) PPI laws in a consultative process. This includes legal, regulatory, economic, project management, and sector skills. Output 1 will require about 8 person-months, with consultants to be selected as individuals.

19. **Output 2.1.** The establishment of IPDF mainly requires senior management and legal expertise in establishing and running a service facility, and engineering, legal, and financial skills are required to help IPDF structure pilot projects. Output 2.1 will require about 6 person-months. Consultants will be selected under quality- and cost-based selection and biodata technical proposals.

20. **Output 2.2.** The IPFF and Infrastructure Fund require extensive managerial and banking skills in establishing financial institutions and recruiting a suitable team. Output 2.2 will require about 10 person-months. Consultants will be selected under quality- and cost-based selection and biodata technical proposals.

21. **Output 2.3.** Expertise in PPI implementation and curriculum structuring is required to set up training programs for the public and private sectors. Output 2.3 will require about 6 person-months. Consultants will be selected either under quality- and cost-based selection and biodata technical proposals or on an individual basis.

22. **Output 3.** Project financing, bond market development, and banking expertise is required to undertake the necessary best practice benchmarking, to prepare the program for developing PPI project finance capacity at dedicated commercial banks, and to analyze the domestic currency bond market. Output 3 will require about 5 2 person-months). Consultants will be selected as individuals.

23. Project management requires about 8 person-months. Consultants will be selected as individuals.

4. Implementation Schedule

24. The design is expected to be completed within 8 weeks of the commencement of the technical assistance. The subsequent work will focus on establishing the IPDF and IPFF and conducting policy reforms under the lead of the policy task force.

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Contribution of the sector or subsector to reduce poverty in Pakistan:			
<p>The development of infrastructure is an integral component of Pakistan's overall development strategy. This focus is evident in the Medium-Term Development Framework 2005–2010 published in May 2005. The absence of adequate infrastructure has been one of the main bottlenecks to achieving all-around growth and reducing poverty. Promoting private participation in infrastructure will create fiscal space for the Government to invest in the social sector.</p> <p>The provision of infrastructure will also affect other sectors and will boost construction, manufacturing, services, and agriculture. This in turn will generate employment opportunities. The initiative is a high priority to promote sustainable economic growth and meet the growth target of 8% per year in the medium term. To provide infrastructure services, institutional mechanisms will have to be put into place that address the concerns of both infrastructure providers and users. Thus a proper enabling environment in terms of a policy and regulatory framework and financing instruments will have to be put in place.</p>			

B. Poverty Analysis

Targeting Classification: General intervention

What type of poverty analysis is needed?
<p>High-quality and reasonably priced infrastructure will benefit the overall economy in several ways. For example, round the clock availability of power at reasonable prices will improve the productivity of the manufacturing sector and lead to job expansion. The reduction in operating costs through low-cost infrastructure will also improve the performance of manufacturing units, services, and agriculture and could potentially lead to additional investments.</p> <p>While the provision of infrastructure to the economy has an immediate impact on productivity and growth, the creation of an enabling environment for providing and operating the infrastructure units is essential. However the impact of policy reform to promote private participation in infrastructure will be indirect and not immediately measurable.</p>

C. Participation Process

Is there a stakeholder analysis?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
<p>Under this technical assistance (TA), a broadly based task force will be established and will consist of representatives from the Government, professional bodies, regulatory institutions, and the private sector. This task force will reflect all shades of opinion and will meet periodically to develop a policy framework for pertinent issues. The iterative dialogue between the task force and the working groups will ensure that the policy framework will reflect the concerns of all stakeholders.</p>		
Is there a participation strategy?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
<p>The consultative process between the task force and the working groups will be designed to ensure that the process of policy formulation is participatory. Stakeholder participation will be a key element of the design of the processes whereby the task force, the topic-specific working groups, and the consultants take the process forward. The task force, which is envisaged as an apex body, will be consulted during the policy formulation process. This process is a critical part of developing the enabling environment for private participation in infrastructure projects.</p>		

D. Gender Development**Strategy to maximize impacts on women:**

While the TA is not designed to specifically address issues related to women's empowerment, the overall impact of the program is expected to improve the condition of women. Sectors that are likely to be affected by the intervention, such as water supply and sanitation, are of immediate relevance to women.

Has an output been prepared? Yes No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The TA for preparing the project will have no resettlement implications. However, the design of the Infrastructure Project Development Facility and the Infrastructure Project Finance Facility will include the assessment of and eventual remedies for resettlement related to infrastructure projects. The measures will build on systems established in Pakistan and relevant Asian Development Bank policy guidelines will be taken into account in the design of standard operating procedures.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The policy and regulatory improvements and financing arrangements will likely result in better access to and improved quality of infrastructure services.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	A positive labor impact is expected as a result of direct and indirect employment generation through better provision of infrastructure.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The TA will have no effect on indigenous peoples. However, the design of the Infrastructure Project Development Facility and the Infrastructure Project Finance Facility will include the assessment of and eventual remedies for resettlement related to infrastructure projects. The measures will build on systems established in Pakistan and relevant Asian Development Bank policy guidelines will be taken into account in the design of standard operating procedures.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No