



Pakistan Public Private Partnership Program (PPPPP)

November 2007

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I. Background –Country Profile

- Population: 160 million (2006 est.)
- GDP (Nominal): US \$145 billion (FY07)
- Foreign Investment: US\$ 8.4 billion (FY07) - FDI has primarily come in four major areas: telecom, energy (*oil and gas, power, petroleum refineries*), banking and finance, and food and beverages. These four groups accounted for over 80 percent of FDI inflows
- GDP per capita: US \$925 (FY07)
- FX Reserves: US \$16 billion
- Market capitalization – US \$66.4 billion (June 30, 2007)
- Stable Exchange rate for 6 years

Background - State of the Economy

- Pakistan's economy has grown at an average rate of about 7.5% in the last three years (2003/2004 – 2005/2006), positioning itself as one of the fastest growing economies in South Asia
- The Government of Pakistan estimates that less than half of the infrastructure investment needs can be covered by public funds, signaling the need for private sector involvement
- Private sector investment in infrastructure projects has been forthcoming, albeit at a slow pace averaging 1.4% of GDP
- However, over the next decade, Pakistan needs to invest around 7.5% of its GDP per annum in infrastructure to sustain a GDP growth of 7-8%
- This indicates significant need for private sector participation for every rupee that the Government of Pakistan spends on infrastructure development

Background – State of the Economy (2)

- Pro Business Investment Policies
- Improved Regulation
- Financial Sector & Capital Market Reforms
- Deregulation, Privatisation and liberalization policies implemented – success stories in the telecommunications, financial and energy sectors
- Multilateral and international donor support for Private Sector Infrastructure

Background – Issues in Infrastructure

- Public Sector investment in Infrastructure had been largely Stagnant
- Public Sector Funds for Infrastructure Investment are unlikely to increase greatly
 - Limited Fiscal Space - Fiscal Responsibility and Debt Limitation Legislation
 - Competing Needs from Social Sector
 - Lack of institutional capacity
 - Underdeveloped Long-term Debt Markets
 - Lack of Expertise, Latest Technology, and Best Practice in public sector

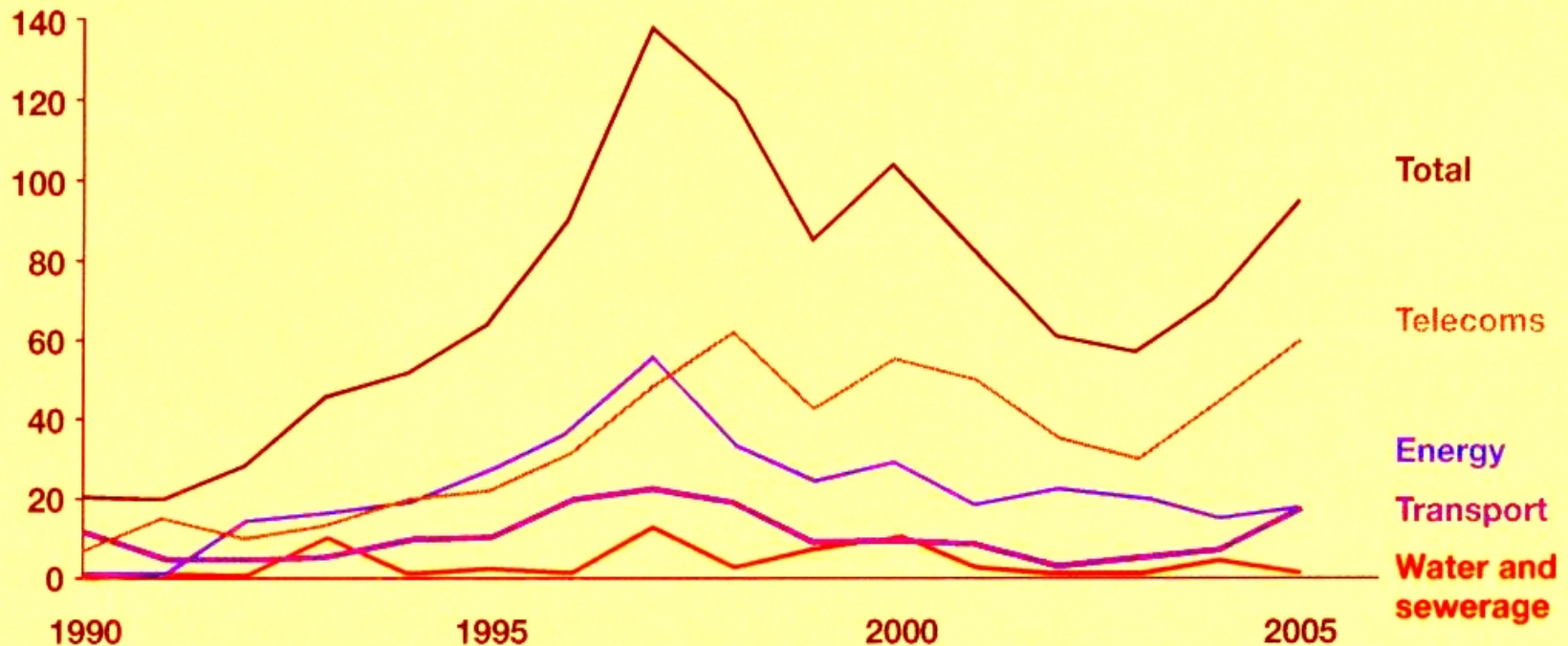
II. The Need for PPPs

The Global Infrastructure Challenge

Substantial new growth in investment

Investment commitments to infrastructure projects with private participation in developing countries by sector, 1990–2005

2005 US\$ billions





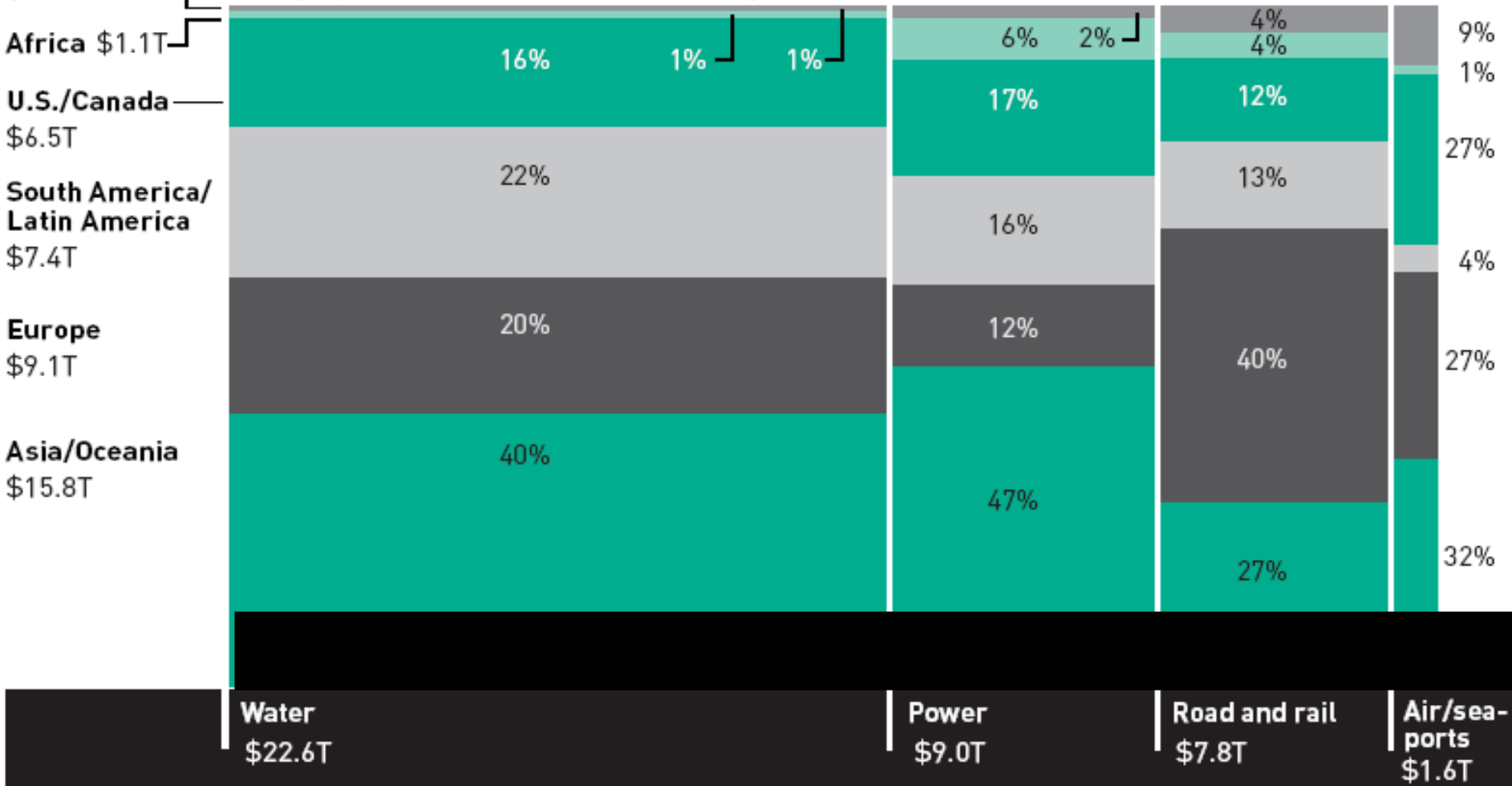
The Need for PPPs

The Global Infrastructure Challenge

Percentages of total projected cumulative infrastructure investment needed during the next 25 years to modernize obsolescent systems and meet expanding demand, broken down by region (rows) and sector (columns).

Middle East

\$0.9T Total projected cumulative infrastructure spending 2005–2030: **\$41 trillion**





The Need for PPPs

The Infrastructure Challenge in Pakistan

Broad Infrastructure Needs

Throw-Forward of Infrastructure Projects (PSDP): \$20 billion

Maintenance backlog (Estimated): \$10 billion

Multipurpose Water Reservoirs: \$22 billion

Other Energy Projects: \$18 billion

Transport and Comm. (NTC, Shipyards, NHA, Railways): \$16 billion

Urban Mass Transport – Karachi and Lahore Metro: \$4 billion

Municipal Services (Water, Sanitation, Solid Waste): \$2.5 billion

Health and Education (physical Infrastructure): \$4-5 billion

Total Requirement (Approx) = \$ 100 billion or \$ 20 billion/Year

Last year's PSDP on Infrastructure: \$4 – 5 billion

The Need for PPPs

The Infrastructure Challenge in Pakistan

Expected annual investment and operations and maintenance needs, 2005-2010 (% of GDP) [The World Bank]

Country Group	Investment needs	O & M needs	Total
Low Income	3.5 – 4.5	4.0 – 4.5	<u>7.5 – 9.0</u>
Middle Income	2.8 – 3.8	2.7 – 3.2	5.5 – 7.0
Developing Country Average	3.2 – 4.2	3.3 – 3.5	6.5 – 7.7

PSDP Allocation for Infrastructure is about 3.0 to 3.5% of GDP

Total Infrastructure Spending is about 5.0% of GDP

Yearly Infrastructure Spending Gap is about \$ 8 billion



The Need for PPPs

The Infrastructure Challenge in Pakistan

Private Funding – New Approach: Issues

- Capacity to plan and procure projects with private investment
- Tradition of Ad-hocism – no institutionalized structured approach
- Gap between Economic Viability and Financial Viability
- Credit Worthiness of the Off Takers (WASAs/Local Govts, WAPDA etc.)
- Lack of Long Term Fixed Rate Financing



III. PPPPP- Objectives

- **More services**, to meet increasing demand in basic services such as water and sanitation, solid waste management, transport and rural electricity.
- **Better services**, to improve the quality of existing services and provide incentives and funding for infrastructure maintenance and up-gradation.
- **Affordable services**, to segments of the population that cannot pay cost recovery tariffs.
 - The Government will provide targeted (to low income consumers), explicit (not hidden as budget support) and performance based (only provided once the service is actually delivered) subsidies.
- **Timely services**, to meet the immediate service demands of citizens.

PPPPP

Ministry of Finance

Policy

Task Force on Public Private Partnerships

Policy and Law

Standard Provisions

Viability Gap Funding

Risk Mgt. Framework

Development

Financing

IPDF

Viability Gap Fund

Guarantee Fund

IPFF

PPPPP - Policy Salient Features

- *IPDF to be the platform for encouraging private sector investment in infrastructure sectors*
- *In line with the deregulation and liberalization reforms of the Government – recognizes the private sector as the main driver of economic growth*
- *Provides for eligibility criteria for federal assistance*



PPPPP - Policy Salient Features

- *Provides a focal point and a structured approach for infrastructure development in the country*
- *Communication of the program structure (TF, IPDF, IPFF, VGF etc.) based on international best practice and national experience*
- *The approach is demand driven, and the policy does not infringe upon the provincial and local government autonomies*



PPPPP - Policy Salient Features

Sector Focus

- **Transport and Logistics** (provincial and local roads, rail, seaports, airports, fishing harbors, warehousing etc.)
- **Urban Mass Transport** (buses, intra/inter city rail)
- **Municipal Services** (water and sanitation, solid waste management, desalination, water treatment plants, low cost housing, health and education facilities)
- **Energy** (hydroelectric, small scale captive power etc.)



PPPPP - Policy Salient Features

■ Project Life Cycle

- Needs and Options Analysis
- Pre-Feasibility Study
- In-depth Due Diligence
- Robust Feasibility Model
- Approval in Principle of VGF/guarantee, if required
- Market Test
- Bidding (RFQ, RFP, Bidder Due Diligence)
- Final Approval of VGF/guarantee, if required
- Signing / Financial Close

■ Unsolicited Proposals

- Balance between innovation and value for money
- Competitive process
- Original Proponent reimbursed, if unsuccessful





PPPPP – Progress

- **Prime Minister's approval of IPDF and its Board in April 2006**
- **Policy Task Force on PPPs constituted in June 2006**
- **First tier recruitment of staff / setting up of office July-October 2006**
- **Formal launch of IPDF by the Prime Minister in November 2006**
- **Approval of PPP Policy**

PPPPP – Progress

Guidance and Support

- Feasibility Guidelines
- Procurement Guidelines
- Standardized Contractual Provisions
- **Viability Gap Funding Guidelines** (For provision of viability gap funding – or targeted subsidies – for PPP projects that are economically and socially justified but fall short of financial viability. This would be an explicit subsidy that is performance driven based on achieving measurable outputs)
- Risk Management Framework (Guarantees)
- Project Development Fund
- **Infrastructure Project Financing Facility**(for any ‘residual’ financing needs that are not available in the market)

PPPPP – Progress

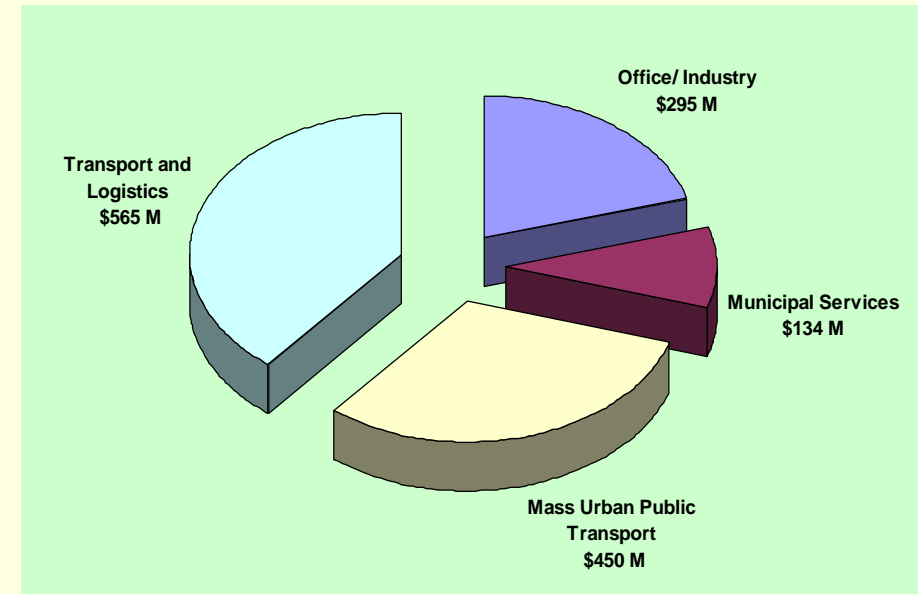
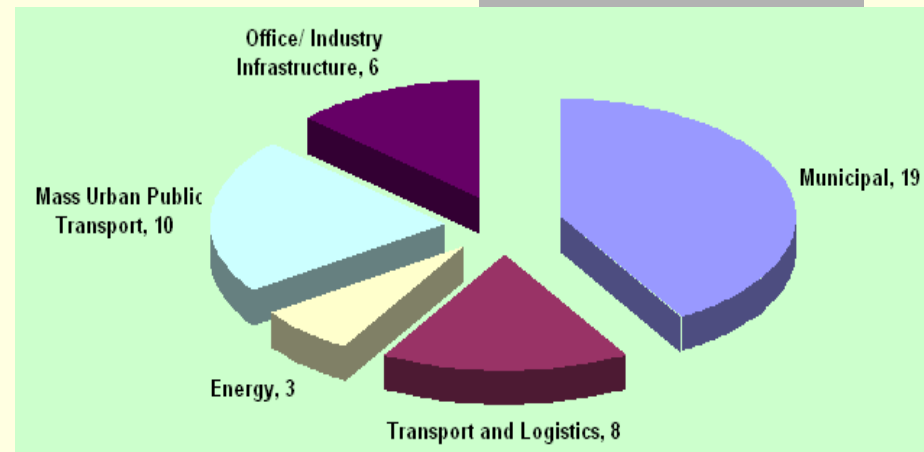
Capacity Building

- In house Staff (courses, workshops, seminars)
- Other Stakeholders (courses, seminars, workshops, publications, newsletters)
 - PPP Forum, November 2006. PPP Forum report was disseminated to 1000 stakeholders.
 - Transport and Municipal PPP Workshop, June 2007
 - Consultative Workshops on Contractual Provisions
 - Water Reservoir Financing Workshop jointly with the World Bank, June 2007
 - Municipal Workshop scheduled for December 2007
 - PPP Forum scheduled for March 2008

PPPPP – Progress

Building a Robust Project Pipeline

- ***At present IPDF has 21 projects (value in excess of \$1.44 billion) in active phase, whereas additional 23 projects have been identified for development.***
- ***There is a wide diversity in terms of these projects spread across the four provinces and the federal territory and the sectors covered.***
- ***Largest number of projects relate to transport, logistics and municipal services.***



IV. The Way Forward

- PPP Law??
- Operationalising Viability Gap Fund
- Operationalising Project Development Fund
- Operationalising Infrastructure Project Financing Facility
- Operationalising a Guarantee Fund
- Government directions to its agencies on role of PPPs and IPDF



The Way Forward

- Creation of 'PPP Market'- Lenders, Accountants, Lawyers
- Infrastructure Mapping Study jointly with the federal, provincial and local governments
- Creation of a National PPP Network
- Link to the International Network: ASEAN – Seoul Inter-ministerial PPP Declaration, Signing MOU with PUK etc.
- Investor Conferences: 2008 PPP Forum



Thank You

