

Government of Punjab
Planning & Development Department

GUIDELINES
FOR THE PROJECT DEVELOPMENT FACILITY
FOR PUBLIC-PRIVATE PARTNERSHIPS
IN INFRASTRUCTURE

August 2009

DEFINITIONS

Consultants	Individual consultants, or a consulting firm, or a financial institution, which will provide the services required for the preparation and transaction execution of a PPP project. Given the importance of the transaction execution phase in the life cycle of PPP projects, the consultants are frequently called transaction advisors, and the project development services are referred to as transaction advisory.
Development Partner	Bilateral or multilateral financing institutions that provide grants and loans to the Government.
Government Government Agency	Government of Punjab. Department, attached department, body corporate, autonomous body of the Government, local government or any organization or corporation owned or controlled by the Government.
Infrastructure	Both traditional infrastructure (transport networks, water supply, energy generation, etc.) and social infrastructure (education and health facilities, etc.).
Public-Private Partnership (PPP)	Long-term contractual arrangement between the public sector and a private sector company for the provision of an infrastructure facility and/or service with a clear allocation of risks between the two parties. The PPP modalities range from service contracts to management contracts to leases to concessions to build-operate-transfer contracts and their variants.
PPP Agreement	Contract between a Government Agency and a Private Sector Partner for financing, construction, operation and maintenance of a PPP project.
PPP Cell	Entity established in the Planning and Development Department to assist Government Agencies in preparing and executing high-quality PPP projects, and act as a PPP catalyst and advocate, knowledge manager, and policy and project advisor to the PPP Steering Committee.
PPP Project	Project implemented on a PPP basis in any of the eligible infrastructure sectors.
PPP Steering Committee	High-level committee established by the Government and chaired by the Chief Secretary to promote, facilitate, coordinate and oversee PPP projects.
Private Sector Partner	Company, entity, firm, association, body of individuals, or a sole proprietor other than the Government, its agencies, local governments, and corporations in which the Government, its agencies, and local governments are holding more than 50% of paid-up share capital.
Project Development Facility (PDF)	Pool of funds available for consulting services required for the preparation and transaction execution of PPP projects.

CONTENTS

	Page
I. INTRODUCTION	1
II. PDF CONCEPT	2
A. Rationale	2
B. Objectives	2
C. Activities to Be Supported	3
D. Sectors to Be Supported	4
E. Institutional Arrangements	5
F. Contractual Arrangements and Flow of Funds	6
G. Funding Sources	7
H. Resource Commitment by Development Agencies	8
III. PDF PROCEDURES	8
A. Sector and Project Prioritization	8
B. Project Life Cycle	8
C. Steps for PDF Utilization	10
D. Submission of PDF Applications	12
E. Evaluation of PDF Applications	13
F. Decision on PDF Applications	14
G. Recruitment of Consultants	14
H. Disbursements	14
I. Reporting	15
 ANNEXES	
A. Memorandum for Consideration	16
B. PDF Application Form	18

I. INTRODUCTION

1. The Government of Punjab (the Government) is committed to sustainable economic growth and inclusive social development in the province. Global experience has shown that there is a close relationship between these objectives and infrastructure development. The correlation works in both ways – investments in infrastructure are a major driver for economic growth, and economic growth requires well functioning infrastructure facilities and services. If infrastructure investments are not kept at a sufficient level, economic growth becomes constrained by power shortages, traffic congestion, high transport costs, and other infrastructure bottlenecks. As to the impact on social development, it is the low-income groups who are most affected by an inadequate access to and poor quality of infrastructure services.

2. The Government has therefore decided to invest heavily in infrastructure and has made provisions in the provincial budget to this effect. The Government is also the beneficiary of financial assistance from the Asian Development Bank and other Development Partners. In addition to projects funded by its budget and development loans, the Government is committed to engaging the private sector in the provision of infrastructure. The preferred mode is public-private partnerships (PPPs) where the private and public sectors enter into mutually beneficial contractual agreements for the provision of public infrastructure services.

3. Lack of viable projects on offer to private investors has been identified as one of the major constraints in promoting PPPs. Therefore, a proactive approach is needed for preparing a pipeline of bankable projects that can be offered to the private sector through competitive bidding process. For the PPP program to be successful, it is essential that PPP projects are technically, economically and financially viable and environmentally sustainable, and that they have sound contractual structures. However, the Government Agencies in Punjab have capacity and resource constraints and find it sometimes difficult to develop PPP projects that deliver value for the Government and consumers and, at the same time, are attractive to private investors.

4. To overcome these constraints, the Government has established a PPP Cell, which will be staffed by technical, financial, and legal experts. All Government Agencies, which want to implement a PPP project in their sector or geographical area of responsibility, can seek support from the PPP Cell in project preparation and transaction execution. Nevertheless, given the complexity of PPP projects, it is recognized that external advice will be needed in addition to the support provided by the PPP Cell. To structure viable and bankable PPP projects, the Government Agencies will have to recruit Consultants with proven track records. As the costs of using such Consultants are significant and frequently cannot be funded by the normal budgetary process, the Government has decided to establish the Project Development Facility (PDF) as an important part of the overall enabling PPP framework. The PDF, which will be administered by the PPP Cell, will ultimately be a revolving fund, with the project preparation and transaction execution costs reclaimed from winning bidders.

5. These Guidelines provide an overview of the PDF and its role in promoting sustainable PPP projects for provision of infrastructure services in the Punjab. This is followed by a discussion of the operational and financial management of the PDF, as well as a description of the procedures that will be adopted for its operations.

II. PDF CONCEPT

A. Rationale

6. The worldwide successful introduction of PPPs has demonstrated the following main benefits:

- (i) Attracting private capital investment into infrastructure sectors (and thereby releasing public resources for other needs);
- (ii) Increases in efficiency and improvements in quality of infrastructure services;
- (iii) Increases in the effectiveness of the use of available resources and facilities; and
- (iv) Reform of infrastructure sectors through a reallocation of roles, risks and incentives.

7. To reap these benefits, adequate project preparation leading to successful transaction execution is essential. Project preparation has the following objectives:

- (i) Ensuring overall success of the PPP program;
- (ii) Ensuring technical, economic and financial viability and environmental sustainability of PPP projects;
- (iii) Designing sound contractual structures for PPP projects that make them bankable;
- (iv) Minimizing and fairly allocating risks of PPP projects;
- (v) Allowing informed decision making by the Government, based on good-quality feasibility reports;
- (vi) Enhancing competition in the procurement process;¹
- (vii) Providing the basis for contract negotiations;
- (viii) Minimizing the transaction costs of PPP projects and avoiding unnecessary delays; and
- (ix) Facilitating financial closure for PPP projects.

8. By providing funding for project preparation and transaction execution in the eligible infrastructure sectors, the PDF will lead to efficiency gains and will help conserve resources.

B. Objectives

9. The primary objective of the PDF is to help Government Agencies overcome budget constraints in funding project development expenses of potential PPP projects including costs of engaging Consultants so that (i) the Government makes informed decisions based on good-

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

quality feasibility studies; and (ii) the Government Agencies with the support of the PPP Cell develop well-structured PPPs that can be delivered and financed by the private sector.

10. The secondary objectives of the PDF are to:

- (i) Ensure that all PDF-funded projects adhere to international best practice;
- (ii) Enhance the project management and technical capacity of the Government Agencies and PPP Cell to successfully undertake PPP projects;
- (iii) Ensure that the PDF operations are sustained by recovering expenses from PPP projects where appropriate; and
- (iv) Enable the Development Partners to contribute their funds and leverage their sector objectives.

C. Activities to Be Supported

11. The PDF will only support PPP projects, which are consistent with the Government's PPP Policy² and thereby follow international best practice. The PDF will not support projects, which can be undertaken solely by the private sector without any partnership with the public sector.

12. The PDF can only be used to finance (i) services rendered by Consultants for preparing PPP projects and providing advice during the transaction execution; and (ii) capacity building of the Government Agencies and the PPP Cell. The PDF cannot be used to fund the subsequent project implementation or the running costs of the PPP Cell.

13. The capacity building has to be directly linked to the particular PPP project, for which preparation and transaction advisory support from the PDF has been approved. This will also help ensure that the Consultants have informed counterparts. The capacity building can take the form of on-the job training, workshops, seminars, conferences and overseas training. The maximum amount that can be spent on such capacity building is 10% of the respective project allocation from the PDF.³

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

- (i) Identifying sources of technical services that can help prepare high-quality projects;
- (ii) Undertaking of a feasibility study that includes
 - (a) Study of demand and supply options;
 - (b) Preliminary technical design and specifications of the project;
 - (c) Preparation of detailed cost estimates and financing plan;

² Policy for Public-Private Partnerships in Infrastructure, issued by ... in ... 2009.

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

- (d) Social and environmental impact analysis;⁴
 - (e) Economic and financial analysis, including tariff analysis and testing for project robustness;
 - (f) Assessment of the need for direct government support in case the project is not financially viable on its own;
 - (g) Analysis of PPP options leading to the optimum project structure;
 - (h) Risk assessment, including recommendations on the risk allocation between the public and private sectors;
 - (i) Preparation of a procurement plan; and
 - (j) Drafting of pre-qualification and bidding documents, including the PPP Agreement.
- (iv) Transaction execution services for PPP procurement that include
- (a) Preparation of an information memorandum for the PPP project;
 - (b) Market sounding aimed at attracting private sector interest and finalizing the project structure;
 - (c) Assistance during the pre-qualification of bidders, including evaluation of pre-qualification applications;
 - (d) Assistance during the bidding, including evaluation of technical and financial proposals from the pre-qualified bidders;
 - (e) Assistance during negotiations with the preferred bidder and finalization of the PPP Agreement; and
 - (f) Assistance in meeting the Development Agency's obligations towards the financial closure.

D. Sectors to Be Supported

15. The PPP Policy defines infrastructure in a broader way by covering both the traditional physical infrastructure sectors such as energy, transport and water supply, and infrastructure in social sectors such as education and health. Consistent with this Policy, the PDF can be availed of for the following sectors:⁵

- (i) **Transport and logistics** including provincial and municipal roads, bridges, rail, airports, as well as warehousing, wholesale markets, slaughter houses and cold storage;
- (ii) **Mass urban public transport** including integrated bus systems as well as intra and inter-city rail systems;
- (iii) **Local government services** including water supply and sanitation, solid waste management; low cost housing, and education and health facilities;
- (iv) **Energy projects** including hydro and thermal power generation projects other

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

⁵ As provided in the Punjab PPP for Infrastructure Act, 2009, the Government may, by notification, add infrastructure projects in any other sector.

than those being undertaken at the federal level;

- (v) **Irrigation projects** including canals and dams;
- (vi) **Tourism projects** including cultural centers, entertainment and recreational facilities and other tourism-related infrastructure; and
- (vii) **Industrial projects** including information technology, industrial parks and special economic zones.

E. Institutional Arrangements

16. The PDF will be an instrument of the PPP Cell for facilitating the preparation and transaction execution of PPP projects. It will be established by a notification of the Planning and Development Department. Its accounting procedures will be integrated in the PPP Cell's systems. To make it as functional and efficient as possible, the operations of the PDF will be guided and supervised by the PPP Steering Committee, and managed by the PPP Cell.

17. The PPP Steering Committee will be responsible for setting policy directives, determining priority sectors, approving the operational and management procedures and any amendments to these, approving the financial statements, and receiving management reports on PDF operations and utilization. The PPP Steering Committee will approve/reject/modify applications for funding and select PPP projects that meet the set criteria. The PPP Steering Committee will also decide on the recovery of funds by the PDF and co-funding requirements. It may also attach conditions to funding as it deems appropriate.⁶

18. The PPP Cell will have two main functions related to the PDF: (i) technical and administrative support to the PPP Steering Committee in receiving, processing and assessing all applications for PDF funding from the Government Agencies; and (ii) management of the PDF funds in accordance with the PDF policy and operational procedures.

19. The specific functions of the PPP Cell with respect to managing the PDF will include the following:

- (i) Distributing information on the PDF, its processes and objectives, to all interested Government Agencies;
- (ii) Presenting relevant information, including a list of projects approved for PDF funding and the status of PDF utilization, on the PPP Cell's website;
- (iii) Receiving applications for PDF funding;
- (iv) Acknowledging, processing and assessing these applications;
- (v) Presenting the applications in a form appropriate for the PPP Steering Committee to consider;
- (vi) Communicating the decisions of the PPP Steering Committee to the Government Agencies;
- (vii) Preparing the internal agreements between the Planning and Development Department and the Government Agencies on the PDF use;

⁶ For example, an application from a Government Agency may be assessed as high risk because of a lack of an experienced project manager. A condition to PDF funding might be that the Government Agency addresses this shortfall by appointing a suitable project manager.

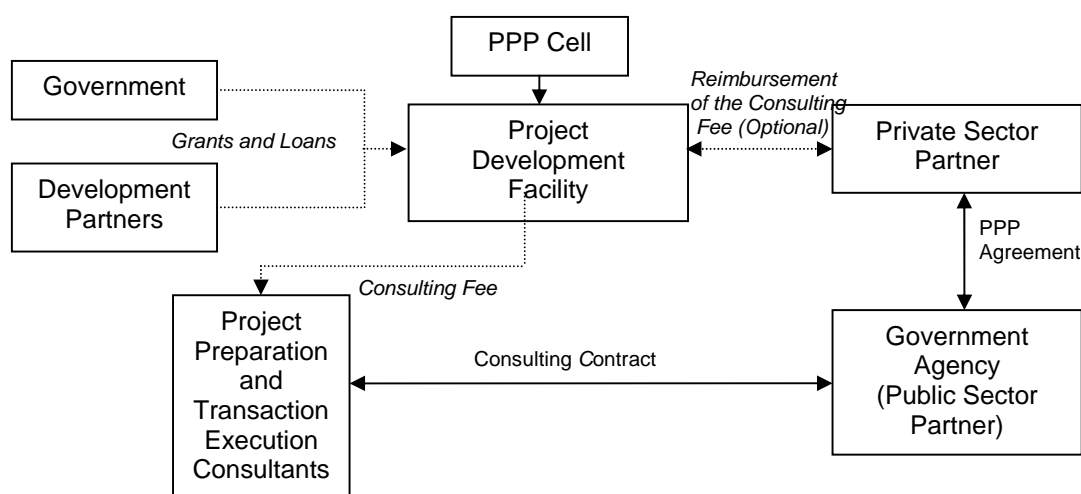
- (viii) Ensuring that the Government Agencies report adequately on the project preparation and transaction execution;
- (ix) Verifying the correctness of all invoices submitted for payment;
- (x) Making payments to the Consultants;
- (xi) Implementing the PDF financial management system;
- (xii) Submitting the PDF accounts for the annual audits; and
- (xiii) Developing and maintaining a database of qualified and experienced Consultants.

F. Contractual Arrangements and Flow of Funds

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

- (i) The PDF will be administered by the PPP Cell and will have a dedicated bank account where deposits and disbursements can be made.
- (ii) For each PPP project supported by the PDF, there will be an advisory and capacity building contract between the Government Agency and the Consultants. There will also be an internal agreement between the Planning and Development Department and the Government Agency stipulating the duties of the latter, such as contribution in kind and repayment of the consulting fees. If requested by the Consultants, the PPP Cell will issue a commitment letter ensuring them that their services will be paid from the PDF.
- (iii) There will be a very limited movement of funds. The Government and participating Development Partners will transfer their contribution into the PDF account and, when due, the PDF will make payments to the Consultants on behalf of the Government Agency.
- (iv) Experience shows that some Development Partners may prefer not to transfer money into the PDF, but to keep it in their own bank account instead. In cases like that, the Development Partner will pay the Consultants directly for the services rendered. The other contractual arrangements will be the same.
- (v) The PPP Cell will manage the day-to-day operations of the PDF and provide the necessary administrative support. It will also ensure an effective financial management of the PDF.
- (vi) The PPP Cell will hire a well-qualified accounting and auditing firm to conduct annual audits that meet the requirements of the Government and participating Development Partners.

Figure 1: PDF Contractual Arrangements and Fund Flow



G. Funding Sources

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

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

- (i) From the Private Sector Partner upon signing of the PPP Agreement. This option will be chosen only if the size and cost recovery characteristics of the PPP project are such that the reimbursement of the PDF-funded cost of project preparation and transaction execution does not make the project financially non-viable and hence unattractive for the Private Sector Partner, nor does it increase the end user charges for the given infrastructure service to an extent making it unaffordable.⁷ The recommendation whether or not to seek such reimbursement will be made in the PDF application of the Government Agency. If the recommendation is positive and if it is approved by the PPP Steering Committee in the process of the overall approval of the PDF funding, the reimbursable cost of project preparation and transaction execution will be specified in the bid documents, thus becoming a part of the total project cost; or
- (ii) From the Government Agency if it decides to stop pursuing the PPP project prior to concluding the PPP Agreement. This option will not be exercised if the Government Agency can justify its decision based on economic and financial

⁷ The latter could be the case of some social projects in rural areas.

considerations, such as the PPP project failing the "value for money" test or becoming unaffordable for the Government Agency and/or end users.

H. Resource Commitment by Development Agencies

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

III. PDF PROCEDURES

A. Sector and Project Prioritization

24. As the funds in the PDF will not be unlimited, an important responsibility of the PPP Steering Committee will be to allocate these funds among the different infrastructure sectors and projects in a way that maximizes the benefits of their use. When deciding on the priorities, the PPP Steering Committee will take into account the socio-economic goals of the Government and the preparedness of the various Government Agencies to implement PPP projects. Only sectors, which have a coherent strategy and an adequate pipeline of potential PPP projects, will be considered.

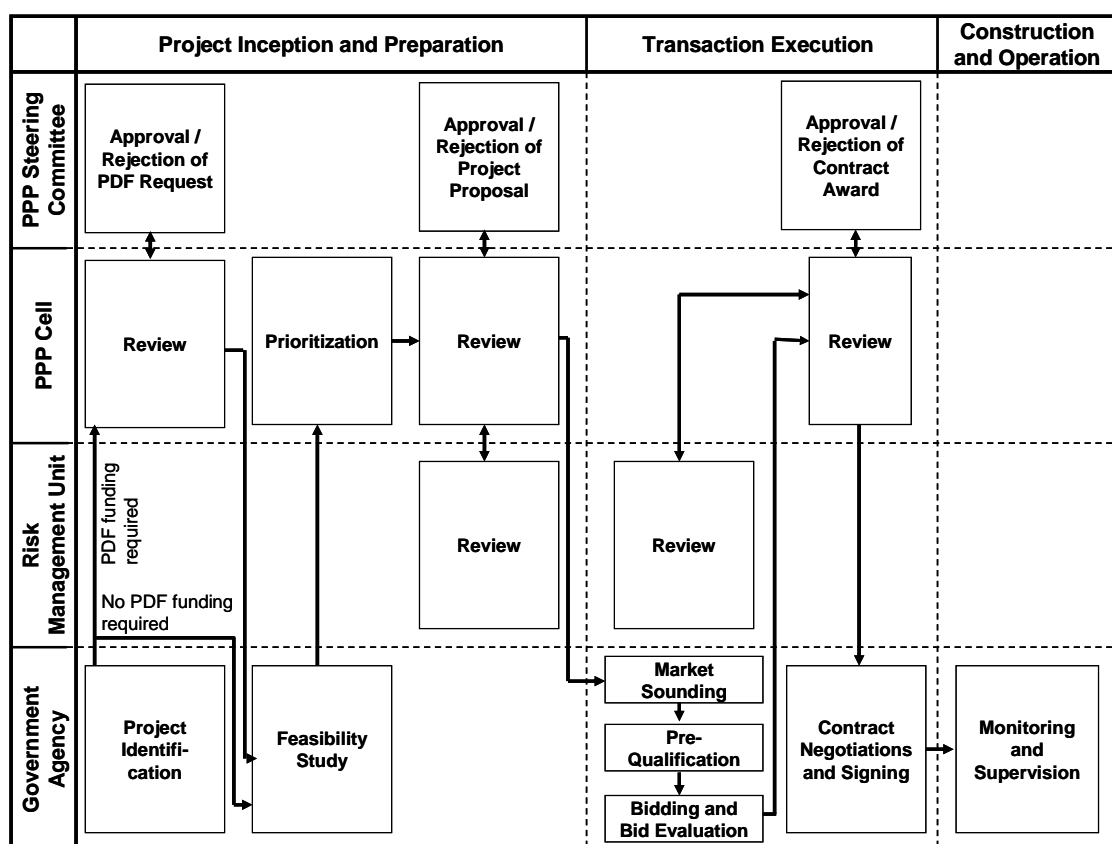
B. Project Life Cycle

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

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

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

Figure 2: Flow Chart of Project-Related Activities



26. During the inception phase, the Government Agency will identify and conceptualize a potential PPP project from its master plans and other planning documents. This phase will include an initial needs and options analysis to determine the best solution for developing the given infrastructure facility and/or providing the necessary infrastructure service, as well as an initial viability analysis. To help prepare the PPP project and select the Private Sector Partner, the Government Agency will recruit the Consultants. Prior to doing so, the Government Agency will assess whether it can fund the cost of the Consultants from its own budget. If this is not possible because of budget constraints, the Government Agency will submit a request for PDF funding through the PPP Cell to the PPP Steering Committee. The project inception phase will end with the recruitment of the Consultants who will provide support to the Government Agency during the subsequent two phases.

27. In the second phase, the Government Agency will manage preparation of the PPP project by the Consultants. The preparation will consist of a feasibility study, supplemented by an initial environmental examination, environmental impact assessment (if required), risk analysis, assessment of the need for government support, stakeholder consultations, determination of the PPP modality (project structuring),⁸ and drafting of tender documents including the PPP Agreement. An important part of the feasibility study will be financial modeling

⁸ These activities are sometimes referred to as technical, legal, environmental and financial due diligence.

to determine project bankability and affordability, including estimates of viability gap, if any. Another important activity will be stakeholder consultations.

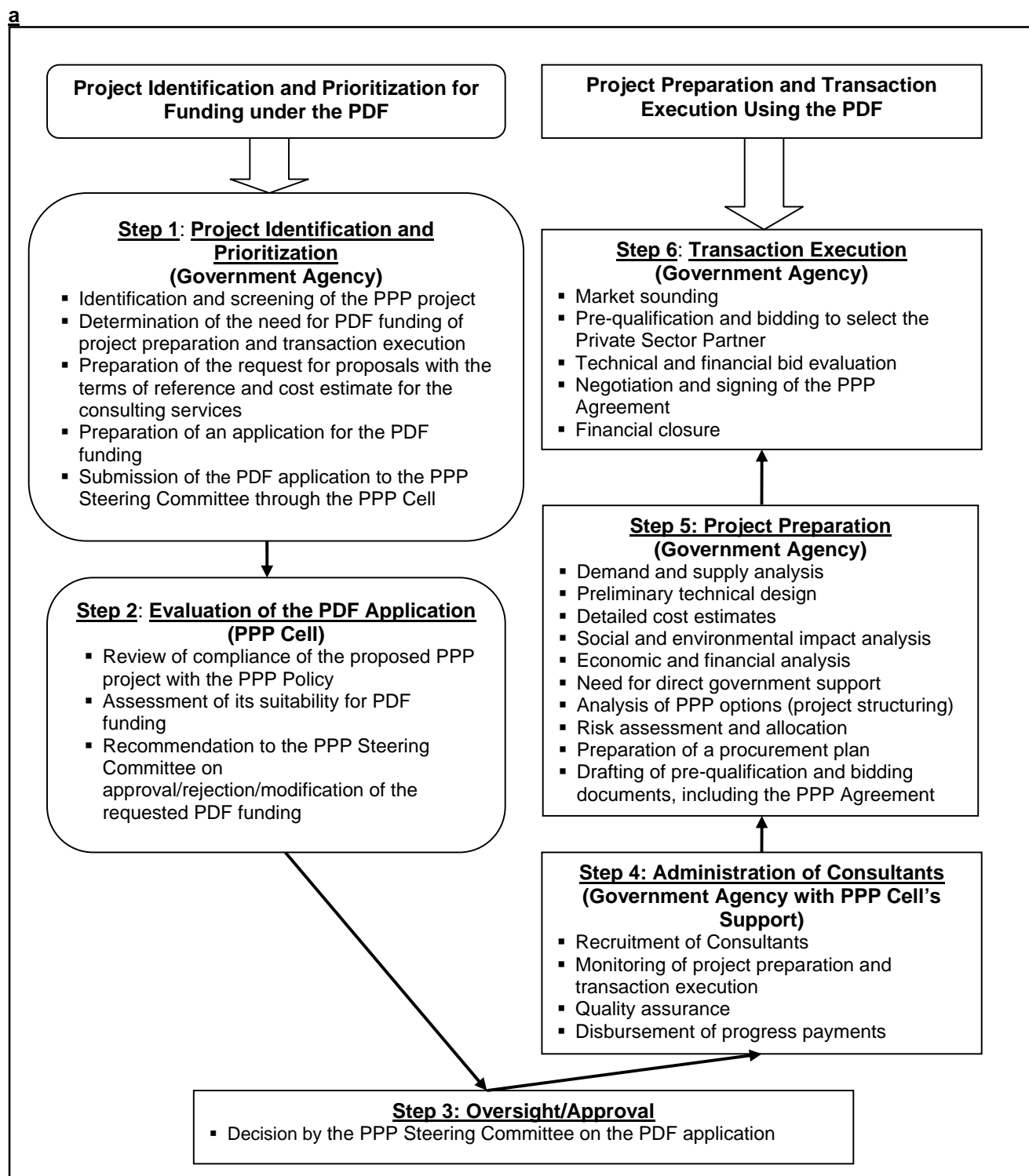
28. Provided the outcome of the feasibility study is positive and the PPP project proposal is approved by the PPP Steering Committee for implementation, the third phase – the transaction execution – will start. The Consultants will assist the Government Agency in undertaking market sounding aimed at packaging the project in a way that attracts interest of private investors. The market sounding will be followed by a two-stage tendering process consisting of pre-qualification and bidding. Based on a technical and financial evaluation of the bids received, the preferred bidder will be determined and invited to contract negotiations. After the PPP Agreement has been signed, the selected Private Sector Partner will endeavor to arrange the necessary financing and thereby achieve financial closure for the PPP project. This will mark the end of the transaction execution phase and the beginning of project construction.

C. Steps for PDF Utilization

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

- (i) The Government Agency identifies a suitable PPP project and determines that it cannot fund its preparation and transaction execution from its own budget;
- (ii) The Government Agency drafts the terms of reference for the required consulting services and prepares a cost estimate for these (with the PPP Cell's support, if necessary);
- (iii) The Government Agency approaches the PPP Cell with the application for PDF funding for the preparation and transaction execution of the project;
- (iv) The PPP Cell assesses whether the project is eligible for the PDF and whether enough funds are available for it, and makes a recommendation to the PPP Steering Committee;
- (v) In case the PPP Steering Committee approves the PDF use for the given project, the Government Agency begins the recruitment of Consultants (with the PPP Cell's support, if necessary);
- (vi) The Government Agency signs the consulting contract, including a clause according to which the payment will come directly from the PDF;
- (vii) The Government Agency manages the project preparation and transaction execution (with the PPP Cell's support, if necessary);
- (viii) If applicable based on para. 22 (i), the Government Agency will reimburse the funds to the PDF, once the Private Sector Partner has been selected, and the PPP Agreement signed; and
- (ix) If grant funds provided by a Development Partner had been used, the PPP Cell will prepare a report to describing how, and to which effect, the grant funding was used.

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



D. Submission of PDF Applications

30. All Government Agencies seeking support from the PDF will have to submit a formal application through the PPP Cell to the PPP Steering Committee. The application will consist of the following documents:

- (i) Memorandum for Consideration (see the recommended content in Annex A);
- (ii) Completed PDF Application Form (see the format in Annex B); and
- (iii) Draft Request for Proposals, including terms of reference and cost estimate for the consulting services to be financed from the PDF.

31. The PDF application will have at least the following content:

- (i) Sector background;
- (ii) Issues and problems the proposed PPP project intends to address;
- (iii) Description of the project;
- (iv) Preliminary investment cost estimate and financing plan;
- (v) Tentative project development schedule;
- (vi) Economic benefits of the project;
- (vii) Legal authority of the Government Agency to undertake the project on a PPP basis;
- (viii) Proposed PPP modality and term of the contract;
- (ix) Regulatory regime for the PPP project;
- (x) Scope for private sector involvement;
- (xi) Proposed cost recovery mechanism;
- (xii) Preliminary risk identification and allocation;
- (xiii) Evidence that the political authorities support the project being implemented on a PPP basis;
- (xiv) Resources, which the Government Agency formally commits to project preparation and transaction execution;
- (xv) Resources, which the Government Agency is willing to contribute to project implementation;
- (xvi) Terms of reference and cost estimate for the consulting services;
- (xvii) Funding sought from the PDF for the consulting services;
- (xviii) Justification for and recommendation on recovery of the PDF funding from the Private Sector Partner;
- (xix) Draft procurement notices for the consulting services;
- (xx) Capacity building requested as part of the project preparation and transaction execution.

E. Evaluation of PDF Applications

32. The evaluation of each PDF application will be based on a set of criteria related to the Development Agency, sector and project. The Development Agency-related criteria will include, but not be limited to, the following:

- (i) Has the Development Agency undertaken a PPP project? If yes, has it been successful or unsuccessful in doing so?
- (ii) Will the strategic goals of the Development Agency be achieved by the proposed PPP project?
- (iii) Is the Development Agency committed to following the principles and procedures espoused in the PPP Policy of the Government?
- (iv) Has the Development Agency made a formal commitment to provide the necessary personnel and in-kind resources for the project preparation and transaction execution?

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

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

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

- (i) Is the PDF application complete?
- (ii) Has the proposed PPP project been properly defined?
- (iii) Does the project meet the PPP definition?
- (iv) Have all necessary initial steps such as public notification and consultation been completed?
- (v) Is the quality of the demand forecast or other studies indicating the need for the project adequate?
- (vi) Has the Development Agency's undertaken a preliminary assessment of the technical, economic and financial prospects of the project vis-à-vis other candidates? If yes, has the outcome been positive?
- (vii) What is the ability of the project to generate private sector investment?
- (viii) If the project does not require private sector investment, what is its ability to generate system improvements?
- (ix) What improvements in the quantity and quality of service delivery are expected from the project?
- (x) Is there a capacity and appetite in the private sector to participate in the project?
- (xi) Will the Consultants be recruited in accordance with the provisions of these Guidelines?

- (xii) Has the scope of services of the Consultants been properly defined in the terms of reference?
- (xiii) Is the estimated cost of these services realistic and proportional to project value?
- (xiv) What are the prospects for meeting initial public investment requirements for project implementation, such as land acquisition?
- (xv) Is the project likely to require direct and/or contingent government support? If yes, is it likely that such support can be provided?

F. Decision on PDF Applications

35. Within one week from the receipt of the PDF application, the PPP Cell will inform the Government Agency whether funds are available in principle for the project. During its next meeting and based on an evaluation by the PPP Cell, the PPP Steering Committee will consider the PDF application and decide whether to approve it unconditionally, approve it subject to certain modifications, or reject it. The PPP Cell will inform the Government Agency without delay about the decision of the PPP Steering Committee, together with the required modifications or reasons for rejection, if any. The PPP Cell will also advise the Government Agency about the cost recovery mechanism, if applicable. After each meeting of the PPP Steering Committee, the PPP Cell will publish on its website the list of all projects and the related consulting services, for which PDF financing had been approved.

G. Recruitment of Consultants

36. The recruitment process will start only after the Government Agency's application to use the PDF has been approved by the PPP Steering Committee. The responsibility for the recruitment process will rest with the Government Agency, which can request support of the PPP Cell, if necessary.

37. The recruitment will have to follow the Planning and Development Department's Guidelines for Selection of Consultants. However, if the cost of the consulting services is financed from a PDF contribution made by a Development Partner, which insists that its recruitment rules are used, those rules will be followed. The result of the recruitment process will be published on the PPP Cell's web-site.

38. The consulting contract will be negotiated and signed by the Government Agency. Its scope will depend on the specific circumstances of the PPP project, as described in the terms of reference. Normally, the contract will be subdivided into two phases, namely, project preparation and transaction execution. There will be a provision allowing contract termination after the first phase if the PPP project is found not viable. However, if a good-quality feasibility study already exists, the contract will cover only the transaction execution up to and including the signing of the PPP Agreement. During the period between such signing and the financial closure, the Consultants will be available on a needs basis only as the main responsibility for achieving the latter will rest with the Private Sector Partner.

H. Disbursements

39. Disbursements from the PDF will be made in instalments based on milestones achieved by the Consultants. These milestones will be those set in the Memorandum for Consideration and approved by the PPP Steering Committee.

I. Reporting

40. The PPP Cell will prepare quarterly reports on the PDF operations in terms of the projects supported and their progress, recruitment of consultants, fund utilization, disbursements, and any other relevant matters. The reports will be circulated to the PPP Steering Committee and all Development Partners providing co-financing for the PDF. The reports will be also published on the PPP Cell's website.

MEMORANDUM FOR CONSIDERATION

Under Guidelines for the PDF for PPPs in Infrastructure

1. Introduction

The Memorandum for Consideration is an application to be made by any Government Agency, which seeks funding from the Project Development Facility (PDF) administered by the PPP Cell, Planning and Development Department, Government of Punjab. The information to be provided in the Memorandum is described below. In addition to the Memorandum, the Government Agency should complete the PDF Application Form given in Annex B.

2. Project Proposal

The Government Agency, with the aid of the PPP Cell if necessary, will highlight the broad contours of the project and issues related to its implementation on a PPP basis. The Memorandum for Consideration should include the following information:

- (i) **Background Information:** Background to the sector; sector policies, priorities and main issues; and evidence that the proposed PPP project is a priority for the sector.
- (ii) **Project Description:** Description of the main components of the PPP project, preliminary technical information on its capacity/ sizing, future maintenance and repair procedures, etc.
- (iii) **Rationale:** Problems the PPP project intends to solve, such as physical deficiencies, inefficiencies, financial and regulatory issues, etc.
- (iv) **Political Commitment:** Evidence that the political authorities support project implementation on a PPP basis.
- (v) **Preliminary Financial Analysis:** Cost estimates for investments and future maintenance and repair works, the proposed sources of investment, the estimated projected revenues over the contract period, and, if possible, a preliminary estimate of the financial internal rate of return.
- (vi) **Preliminary Economic Analysis:** At least a qualitative description of the economic benefits of the PPP project. If some quantification is possible, a preliminary estimate of the economic internal rate of return.
- (vii) **Legal Aspects:** Provisions under the relevant Acts and Rules that grant authority to the Government Agency for developing and implementing the project on a PPP basis.
- (viii) **Private Sector Involvement:** Scope for private sector involvement ("What is the private sector supposed to do?").

- (ix) **Cost Recovery:** How the private sector partner is proposed to recover project costs (user charges, government payments, etc.).
- (x) **Risk Management:** Preliminary risk identification and allocation (which party shall carry the construction risk, which party the revenue risk, etc.). The information should also bring out any environmental or social risks that can affect the project.
- (xi) **Contribution to Project Preparation:** Resources in terms of counterpart staff and facilities, which the Government Agency formally commits to contribute to preparation and transaction execution of the PPP project.
- (xii) **Contribution to Project Implementation:** Resources in terms of land and other support, which the Government Agency is willing to contribute to implementation of the PPP project.
- (xiii) **Proposed PPP Implementation Structure:** The Government Agency's view about the most suitable PPP modality, along with the proposed contract period. This should also describe plans by the Government Agency to undertake any improvements before the PPP project is undertaken, and indicate whether the PPP project is a part of a portfolio of such projects to be undertaken by the Government Agency.
- (xiv) **Regulatory Aspects:** The existing regulatory mechanism, as applicable, in case tariffs are to be structured in the PPP option. In the absence of regulatory mechanism, an indication of the proposed steps for regulation by contract.
- (xv) **Terms of Reference:** Draft terms of reference for the consulting services, including a detailed cost estimate.
- (xvi) **PDF Funding Requested:** Total estimated budget for the consulting services and the amount requested from the PDF. The budget should be broken down into project preparation, transaction execution, and capacity building. The amount requested from the PDF should exclude any expenses incurred by the Government Agency on its own staff and facilities.
- (xvii) **Plan for Recovery of PDF Funding:** Justification for and recommendation on whether or not the PDF funding, including the capacity building component, should be recovered from the private sector partner selected through the competitive tendering process.
- (xviii) **Tentative Project Development Schedule:** The proposed project development activities and their timeframe, starting with the appointment of consultants and ending with the selection of the private sector partner and financial closure. This should also indicate all important decision-making milestones.
- (xix) **Draft Advertisement:** Draft procurement advertisement/notice for the consulting services for project preparation and transaction execution.
- (xx) **Capacity Building:** Details of the capacity building support requested as part of the project preparation and transaction execution.

PDF APPLICATION FORM

Nature of Assistance:	
Funding from the Project Development Facility for Rs. _____ Million	
Project Name:	:
Sector:	:
Government Agency: (Sponsoring Authority)	:
Location: (District/Town or Tehsil)	:
Implementing agency: (if different from above as in case of a subordinate government organization)	:
Need for the Project:	
:	
Brief Project Description:	
:	
Proposed PPP Modality for Project Implementation:	
<input type="checkbox"/> Service Contract <input type="checkbox"/> Management Contract <input type="checkbox"/> Lease <input type="checkbox"/> Concession <input type="checkbox"/> Build-Operate-Transfer (BOT) Contract <input type="checkbox"/> Others (specify)	

Likely Impact(s) of the Project:

Cost and Financing Structure of the Project:

A. Estimated Project Cost

Item	Rs. Million
Land	
Civil Works	

B. Tentative Financing Plan

Source	Rs Million
Private Sector Partner	
Government of Punjab	
Government Agency	
Viability Gap Fund	
Others (Specify)	
Total	
Equipment	

**Qualitative or Quantitative
Economic Benefits of the Project:**

**Preliminary Estimate of the Financial
Internal Rate Of Return (if available):**

Estimated Project Development Expenses:	Item	Rs. Million
	Project Preparation (feasibility study, etc.)	
	Transaction Execution	
	Capacity Building	
	Others Expenses (specify)	
	Total	
	Requested PDF Contribution	

PDF Funding to be Recovered from the Private Sector Partner: Yes ____ No ____

Justification:

Enclosures: : ____ Memorandum for Consideration
 ____ Draft Request for Proposals for Consulting Services (including terms of reference and cost estimate)
 ____ Draft Advertisement for Consulting Services
 ____ Others (specify)

Signature:

**Name and Title:
 (Authorized Signatory
 of the Government Agency)**

Date: