Public Private Partnership Cell
Planning & Development Department
Government of the Punjab

Project Inception Guidelines

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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.
Government Agency	department, attached department, body corporate, autonomous body of the Government, local government or any organization or corporation owned or controlled by the Government.
PPP Steering Committee	High-level committee established by the Government and chaired by the Chief Secretary to promote, coordinate, approve and facilitate PPP projects.
Government	Government of Punjab.
Infrastructure	Both traditional infrastructure (transport networks, water supply, energy generation, etc.) and social infrastructure (education and health facilities, etc.).
Public-private partnership (PPP)	Partnership between the public sector represented by a Government Agency and a private party 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	Contractual arrangement between a Government Agency and a private party for financing, design, construction, operation and maintenance of a PPP project.
PPP project	Project implemented on a PPP basis in any of the eligible infrastructure sectors.
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.
Private party	Company, entity, firm, association, body of individuals, or a sole proprietor other than a Government Agency.
Project Development Facility	Pool of funds available for consulting services required for the preparation and transaction execution of PPP projects.
Project Inception Guidelines	Methodology for Government Agencies on how to identify, screen and register potential PPP projects, draft terms of reference and request for proposals for their preparation and transaction execution, and select consultants.
Project Preparation Guidelines	Methodology for Government Agencies on how to prepare a feasibility study for a PPP project and seek approval by the PPP Steering Committee.
Request for proposals	Package of documents prepared by the Government Agency to invite consulting firms to submit technical and financial proposals for the scope of services defined in the terms of reference.
Risk Management Unit	Entity established in the Finance Department to review requests for direct and/or contingent government support for PPP projects and ensure its fiscal sustainability.

Terms of reference	Document prepared by a Government Agency to provide a road map for the project and describe in detail the work to be done by the consultants in order to achieve the intended output.
Transaction Execution Guidelines	Methodology for Government Agencies on how to select the private party for undertaking a PPP project and seek approval by the PPP Steering Committee.
Value for money	Savings in net present value terms of undertaking the project in the PPP mode rather than through the traditional public procurement.

ABBREVIATIONS

ADB	–	Asian Development Bank
BOO	–	build-own-operate
BOOT	–	build-own-operate-transfer
BOT	–	build-operate-transfer
PDF	–	Project Development Facility
PPP	–	public-private partnership
P&DD	–	Planning and Development Department
RFP	–	request for proposals
ROT	–	rehabilitate-operate-transfer
TA	–	technical assistance
TOR	–	terms of reference

CONTENTS

I. INTRODUCTION

1. The Government of Punjab (the Government) is committed to sustainable economic growth and inclusive social development. 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 significantly increase infrastructure investments and has made provisions in the provincial budget to this effect. The Government is also the beneficiary of financial assistance for infrastructure projects from multilateral and bilateral 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. To provide an enabling framework for private sector participation in infrastructure development, the Government has adopted a PPP law,[1] issued a PPP policy,[2] and prepared detailed guidelines for the main phases in the life cycle of PPP projects.[3] The Guidelines presented herein are related to the second phase, namely, project inception during which the PPP project is identified and screened.

4. Lack of viable projects to offer to private investors has been pointed out in a number of countries as one of the major constraints in promoting PPPs. Therefore, a proactive approach is needed for identifying and screening infrastructure projects that are potentially suitable for implementation in the PPP mode. As the line departments and local governments in Punjab lack experience in this area, there is a need for support and capacity building, as well as for a relatively simple methodology and procedures, which they could follow during the project inception phase.

5. To provide the necessary support, the Government has established a PPP Cell in the Planning and Development Department, which is being staffed by technical, financial, and legal experts. All line departments and local governments, which want to implement PPP projects in their sector and/or geographical area of responsibility, can seek support from the PPP Cell in project identification, screening, preparation and transaction execution.

6. These Guidelines first provide an overview of the life cycle of PPP projects. Thereafter, they focus on the first phase of project inception. A practice-oriented methodology is described for the identification and screening of potentially suitable PPP projects, which can be used by

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[1] *Punjab Public-Private Partnership for Infrastructure Act 2009.*

[2] *Policy for Public-Private Partnerships in Infrastructur*e, approved by the Provincial Cabinet of Punjab on 19 August 2009, through Notification SO (CAB-II)1-6/2009, Services and General Administration Department (Cabinet Wing), Government of the Punjab.

[3] *Project Inception Guidelines for Public-Private Partnerships in Infrastructure*; *Project Preparation Guidelines for Public-Private Partnerships in Infrastructure*; and *Transaction Execution Guidelines for Public-Private Partnerships in Infrastructure*; all approved by PPP Steering Committee on 12-04-2011.

line departments and local governments in-house without undertaking complex and time-consuming assessment studies requiring external support. This is followed by outlining the principles and procedure for drafting terms of reference (TOR) for the subsequent phases of project preparation and transaction execution, and selecting consultants to provide assistance during those two phases.

7. These Guidelines apply to all types of infrastructure projects, which a Government Agency in the public sector may plan for development and implementation, and which are potentially viable under the PPP mode. Projects, which the private sector can do on its own without any need for government support and involvement, or those which can be privatized, are not covered by these Guidelines. The Guidelines will not apply retrospectively to PPP projects already implemented or under development.

8. When preparing these Guidelines, use has been made of some parts of the *Project Inception Guidelines for PPP Projects* issued by the Infrastructure Project Development Facility (IPDF) under the Ministry of Finance in Islamabad in July 2008. In addition, the following reference materials published by the Planning and Development Department (P&DD) and the Asian Development Bank (ADB) have proved to be helpful:

(i) *Public-Private Partnership Handbook,* ADB, *2008;*

(ii) *Identification of Infrastructure Projects*, Central Asia Regional Economic Cooperation (CAREC), ADB, 2009;

(iii) G*uidelines on Economic Analysis of Projects*, ADB, 1997;

(iv) *Consultant Selection Guidelines*, P&DD, September 2006;

(v) *Handbook for Consultant Selection*, P&DD, September 2006;

(vi) *Consulting Services Operations Manual*, ADB, 2008; and

(vii) *User Guide for Preparing Terms of Reference*, ADB, 2002.

II. PROJECT LIFE CYCLE

9. The following four main phases can be distinguished in the overall life cycle of PPP projects:

(i) Project inception (identification and screening);

(ii) Project preparation (feasibility study);

(iii) Transaction execution (selection of the private party); and

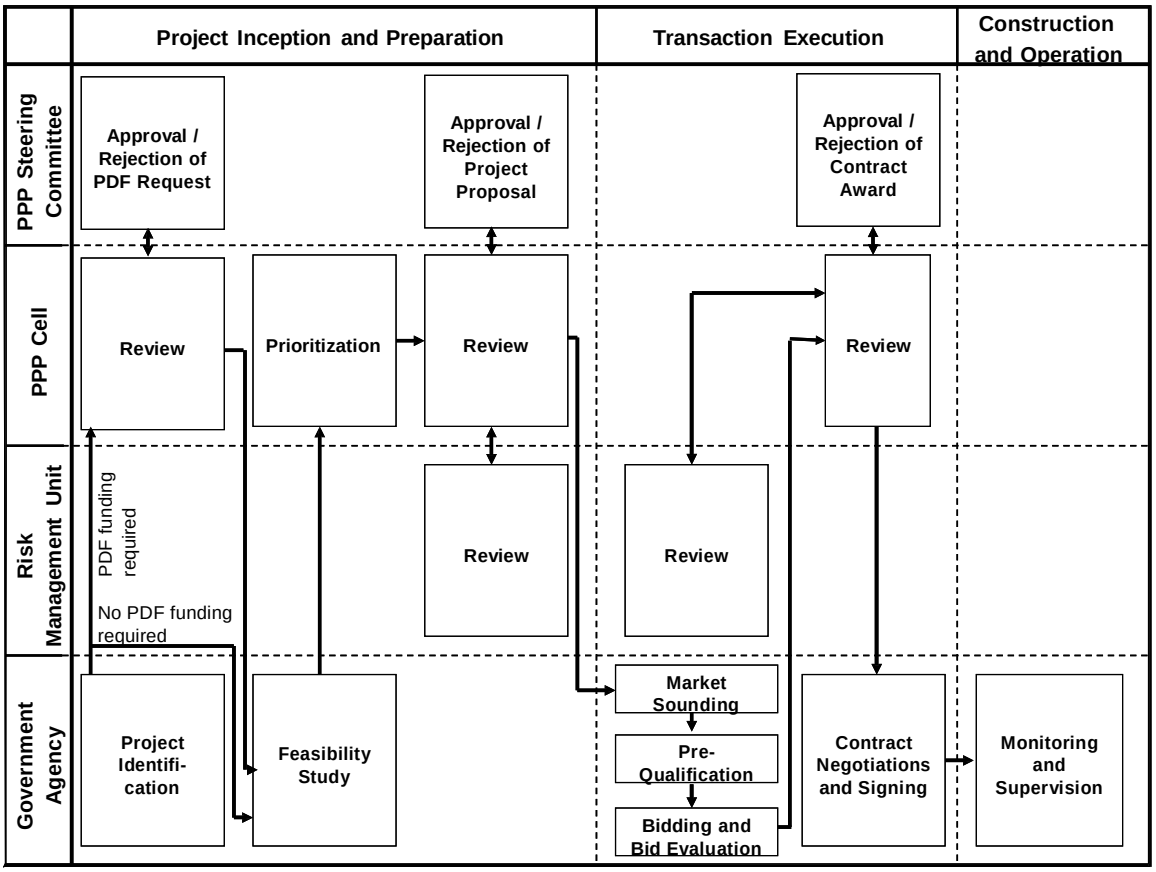
(iv) Construction, operation and transfer (development, delivery and exit).

A flow chart of the main activities during these phases is shown in Figure 1. The principal steps are listed in Appendix 1.

10. During the inception phase, the Government Agency will identify, screen 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 party, the Government Agency will recruit the consultants. Prior to doing so, it will decide whether to fund their cost from its own budget or the Project Development Facility (PDF).[4] In the latter case, 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 next two phases.

Figure 1: Flow Chart of Project-Related Activities



PDF = Project Development Facility; PPP = public-private partnership.

11. 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),[5] and drafting of tender documents

[4] As the costs of consultants are significant and cannot be always funded by the annual budgetary allocations, the Government has established the PDF as a 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. For further details, see the *Guidelines for the Project Development Facility for Public-Private Partnerships in Infrastructure*, approved by the Provincial Cabinet of Punjab on 19 August 2009, through Notification SO (CAB-II)1-6/2009, Services and General Administration Department (Cabinet Wing), Government of the Punjab.

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

including the PPP agreement. An important part of the feasibility study will be financial modeling to determine project "bankability" and affordability.

12. 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 – 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 party 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.

13. During the last phase that covers construction, operation and transfer (if applicable), the Government Agency will be responsible for monitoring and evaluating the PPP project to ensure its conformity with the plans, specifications, performance standards and tariffs in the PPP agreement. The Government Agency will submit annual reports on the PPP project to the PPP Cell. At the end of the period covered by the PPP agreement and if so provided therein, the PPP project will be transferred by the private party to the Government Agency.

III. PROJECT IDENTIFICATION

14. The planning framework for the given sector and/or geographical area is the basis for identifying suitable PPP projects. In most countries, the concerned ministries and local governments prepare long-term master plans, which can be used for this purpose. The degree of sophistication in the preparation of such master plans varies from country to country and from sector to sector. The best ones are developed using computerized optimization techniques to determine the least-cost sequence of projects required to meet the forecast national or regional demand for electricity, transportation, water and sanitation, and other infrastructure services in the next 10-20 years. Power development plans and transport master plans are good examples in this regard. When such master plans are available, the best PPP project candidates can be selected from the least-cost sequence using the screening criteria described in Chapter IV.

15. However, sometimes there are no master plans or other planning documents available, or their quality is unsatisfactory, either due to an inadequate demand analysis or because the master plan just represents a "wish list" of projects without any prioritization. In such cases, the Government Agency should conduct a preliminary needs analysis in the sector and/or geographical area and consider its options for meeting these needs within its mandate and the strategy for delivery.[6]

16. A strong commitment of the Government Agency is essential for successful implementation of any PPP project. The private sector's interest is considerably strengthened if the project under consideration has a high priority in the master plan. Some countries have adopted a strategy of using the traditional public financing for high-priority infrastructure projects and offering those with a lower priority ranking to the private sector. Experience indicates that this strategy has mostly failed to attract private financing.

[6] This preliminary assessment will serve as the basis for a comprehensive needs and options analysis undertaken by the consultants at the feasibility study stage.

17. The Government Agency should consider the PPP approach if

(i) It lacks the financial resources to develop and implement the project on its own; and/or

(ii) It lacks the technical expertise to manage and operate the project, and provide service at an acceptable level, which is in line with national and global service standards.

IV. PROJECT SCREENING

A. Sector Eligibility

18. In line with the PPP law and PPP policy (footnotes 1 and 2), the project should be in one of the following infrastructure sectors and sub-sectors defined in a broader sense to cover also physical infrastructure in the social sectors:

(i) Transport and logistics including provincial and municipal roads, 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 than those being undertaken at the federal level;

(v) Tourism projects including cultural centers, entertainment and recreational facilities and other tourism-related infrastructure; and

(i) Industrial projects including industrial parks and special economic zones.

B. PPP Applicability

19. The project should be consistent with the following PPP definition that underlies the Government's PPP policy:

PPPs are medium- to long-term contractual arrangements between the public sector and a private party for the provision of an infrastructure facility and/or service with a clear allocation of risks between the two parties.

In line with this definition, the project should provide opportunities for risk transfer to the private sector, which is the primary driver of value for money in PPPs. Where such opportunities are limited, the potential for PPPs to deliver value for money compared with the traditional public procurement is reduced.

20. The project should adopt one of the PPP modalities shown in Table 1, or a combination of these:

Table 1: PPP Classification

Modality	Owner-ship	Invest-ment	O&M	Commercial Risk	Duration (years)	Typical Example
Service Contracts	Public	Public	Public/ **Private**	Public	1-3	Meter reading and billing, or road maintenance outsourcing
Management Contracts	Public	Public	**Private**	Public	2-5	Public utility management
Lease Contracts	Public	Public/ **Private**	**Private**	Public/ **private**	10-15	Leasing of existing tourism facilities
Concessions	Public/ **Private**	**Private**	**Private**	**Private**	25-30	Water supply concession
BOT Contracts	Public/ **Private**	**Private**	**Private**	**Private**	20-30	Independent power producer

BOT = build-operate-transfer; O&M = operation and maintenance.
Source: Public-Private Partnership Handbook, ADB, 2008.

21. The role of the private sector increases down the table, i.e., it is minor under service contracts and major under build-operate-transfer (BOT) contracts.[7] Given the public resource constraints, Punjab, like most of the developing countries, will be primarily looking for PPP modalities, under which the private party arranges financing for the project and is responsible for its design, construction or rehabilitation, operation and maintenance. Such modalities – concessions and BOT-type contracts – have so far been adopted for about 75% of PPP projects worldwide. If a PPP modality is chosen that does not bring about private investment, it should be demonstrated that such modality (e.g., a management contract) will generate efficiency improvements.

C. Specification of Outputs

22. The PPP approach represents a fundamental shift in the philosophy of public procurement. While the emphasis still remains for the procurement to be as efficient as possible, there is a change in the evaluation of what is being procured. The focus under PPP projects is towards outputs, i.e., services being provided. By contrast, the focus in the traditional public procurement has always been on inputs.[8] This change in the procurement paradigm means that the Government Agency should be able to specify in clear and measurable terms the project's outputs in terms of the expected improvements in the quantity and quality of service delivery, based on which a payment mechanism can be devised in the PPP agreement.

D. Private Sector Capability and Appetite

23. The project should be within the capability of the private sector to finance and implement. At the same time, the project should be able to attract strong market interest and have the potential to operate as a commercially viable venture on its own or with the help of viability gap

[7] Or their variations such as build-own-operate (BOO), build-own-operate-transfer (BOOT) and rehabilitate-operate-transfer (ROT) contracts.

[8] For example, in the case of building a power plant under traditional public procurement, the objective is to achieve the lowest construction cost for the given technical specifications. If the same project is to be done in the PPP mode, the objective will be the lowest cost per unit of electricity generated throughout the period of the PPP agreement.

funding (see para. 41(c)). These criteria highlight the importance of project size. On one hand, the project should have a certain minimum size to generate cash flows that will enable both public and private parties to achieve value for money and thereby attract investors' interest.[9] On the other hand, the project should not be a "white elephant" whose investment requirements exceed the financial capability of the majority of potential investors. The history of PPP projects in a given sector, if any, may provide a good indication about what project sizes have the best chances for success.

E. Technical Suitability of the Project

24. The project should be prima facie technically viable. The PPP approach is particularly suitable if the following is needed:

(i) Advanced design, and state-of-the-art technology of equipment and processes, which the traditional public procurement is unlikely to provide;

(ii) Faster construction of the project than under the traditional public procurement;

(iii) Improved quality of infrastructure services to customers in accordance with internationally recognized standards; and

(iv) Enhanced management of the project operation and maintenance compared with the management competence and capacity of the existing public utility. By transferring the management of public infrastructure to the private sector, staff of the public utility can focus on infrastructure planning and performance monitoring, leaving the management of day-to-day delivery of infrastructure services to the private party.

F. Financial Viability of the Project

25. A crucial task of the Government Agency during the inception phase is a preliminary assessment of whether the project can be made financially viable in the PPP mode. This is particularly important as the substantial debt taken up by the private investors to finance the project is usually repaid to the lenders from the revenues generated by it ("limited recourse financing" or "project financing"). To attract private investors and satisfy their lenders, it should be demonstrated that the project most likely can generate revenues over the concession period at levels sufficient to recover and repay the estimated investment cost, cover the estimated operation and maintenance expenses, and generate a commercially acceptable rate of return on equity.

26. Various techniques are used to assess financial viability of PPP projects. At the inception phase, a simple cash flow calculation of the financial internal rate of return and return on equity should be sufficient to indicate whether the project in question can be made financially viable and thus attractive for private investors. While the public sector tends to calculate cash flow before tax, private investors and their lenders are more interested in net cash flow after tax. Revenue flows are either contract-based (e.g., through a long-term take-or-pay purchase agreement for power projects) or market-based (e.g., through toll fees and traffic levels for toll road projects). While the expected toll structures and traffic levels should be assessed realistically, there is no need at this phase for comprehensive studies of past traffic levels, future growth potential and the impact of options for users to drive on slower parallel routes.

[9] There are exceptions such as small PPP projects, which may be suitable for small domestic investors or NGOs. The latter are frequently involved in service contracts in the social sectors.

G. Ability and Willingness of Customers to Pay

27. In developed countries, tariffs or fees to be paid by customers for electricity, water and sanitation, and other infrastructure services tend to be reduced by PPP projects. That, however, is not always the case in developing countries, which have the legacy of providing such services at tariffs or fees set below full cost recovery levels, mostly for political and social reasons. In such cases, the public demand and willingness-to-pay for a more expensive infrastructure service may be a key factor for successful implementation of the project. Experience has shown that despite many positive aspects of private sector participation in infrastructure development, PPP projects can create political and social problems related to payment for infrastructure services, foreign ownership, and fear of workers layoffs.

28. The Government Agency should therefore make a preliminary assessment of whether the project and the customer charges needed to make it financially viable are publicly acceptable. The assessment should help answer the following questions:

(i) Will the likely charges for the service (tariffs, fees, tolls, etc.) be affordable for the majority of customers?

(ii) Will the majority of customers be willing to pay a toll for improved road service or a higher tariff for improved electricity supply, water and sanitation services, etc.?

(iii) Are there any other reasons that could make the project politically sensitive?

H. Economic Viability of the Project

29. The purpose of the preliminary assessment of the project's economic viability is to ensure the best use of the resources of Punjab. This means that the assessment is made from the viewpoint of the country rather than that of the private investors who are more concerned about the return on their equity. The Government Agency should attempt to calculate the economic internal rate of return of the project by applying shadow pricing and replacing project financial revenues by the various economic benefits such as savings in travel time and vehicle operating costs brought about by road projects, and displaced fuel costs and benefits to electricity consumers resulting from power projects.[10]

30. However, the calculation of the economic internal rate of return may not be possible for most PPP projects at the inception phase because of lack of data. If this is the case, the Government Agency should at least clearly identify the various categories of direct economic benefits expected from the project and assess whether there are likely to be additional indirect long-term economic benefits. The latter may include positive effects on employment, development of the skills of labor force through work and training, access to better roads and utility services in the region, technology transfer, and the establishment of long-term industrial cooperation with foreign companies, for instance in research and development.

31. Another indicator of economic viability is the value for money, which is measured by the savings in net present value terms achieved by undertaking the project in the PPP mode rather

[10] For details about the methodology, see ADB's G*uidelines on Economic Analysis of Projects* published in 1997 and available on http://www.adb.org/Documents/Guidelines/Eco_Analysis/default.asp. These Guidelines were complemented in 2001 by a CD-ROM, which contains tutorials on principles and methodologies, good practice illustrations, case studies, and practical exercises (see http://www.adb.org/Documents/Publication/product.asp?sku=0004CD).

than through the traditional public procurement. This criterion is particularly important in developed countries with strong public budgets sufficient to meet infrastructure needs. In such countries, the PPP approach will generally be used only if it can be reasonably expected to provide enhanced value for money compared with the public procurement methods. Recent studies in the United Kingdom and Norway have estimated the average savings in net present cost terms of using the PPP mode at about 20 per cent over the period of the PPP agreement.

32. Developing countries mostly do not have this luxury of choice as their public budgets are facing many competing demands. Their key objective in following the PPP approach is to attract the much needed private investment to accelerate infrastructure provision, rather than to achieve a better value for money compared with the traditional public financing of infrastructure. In addition, value for money assessment techniques are complicated and time consuming, and the results are only as good as the baseline data used. As such data will rarely be available at the project inception stage, the value for money assessment may be less important in developing countries.

33. These realities should not, however, prevent the Government Agency from trying to broadly assess the economic efficiency advantages expected from a PPP project compared with public infrastructure delivery. While factors determining value for money will vary from project to project and from sector to sector, PPP projects will generally generate value improvements as a result of the following factors:

(i) Competitive procurement of the private party;

(ii) Strong performance incentives inherent in the structure of PPP projects;

(iii) Faster construction of the project facilities;

(iv) Reduced life cycle costs due to the long-term nature of PPP agreements;

(v) Optimum allocation of project risks; and

(vi) Superior management skills of the private sector.

I. Environmental and Social Impact of the Project

34. Over the past few decades, the threshold of environmental and social acceptability for investment projects has been significantly raised, and it has become essential to fully address these issues from the earliest stage on. This is particularly important in the case of infrastructure projects, for which environmental screening, environmental impact assessment and the specification of environmental performance requirements are mandatory.

35. For potential PPP projects, environmental and social issues assume an added importance, particularly if resettlement of people is required, since the related requirements may have significant impact on their financial viability. If such issues are not adequately covered from the outset, there is a risk that the project will be delayed at the financing stage, or even abandoned. Even if it is only a delay, the cost can be high, to the extent that the financial viability of the project may be jeopardized, and its overall justification eroded by negative environmental, social or economic consequences.

36. The Government Agency should therefore examine whether there are any inherent social and environmental issues that may have an adverse impact on the development of the project once it is taken forward in the PPP mode. During the project inception phase, the

Government Agency should do so through an initial environmental and social screening. The purpose of the screening should be to identify the likely impact of the project on the environment and population in its area of influence. A project, which is viewed at this stage as having major negative environmental and social impacts, will obviously be regarded as less attractive by private investors than projects that have only marginal impacts.

37. The initial environmental and social screening should cover the following areas:

(i) Air and water pollution;

(ii) Community health, safety and security;

(iii) Land acquisition and involuntary resettlement;

(iv) Labor and working conditions;

(v) Biodiversity conservation and natural resource sustainability;

(vi) Indigenous peoples; and

(vii) Cultural heritage.

38. The likely impacts in each of the above areas should be categorized as follows:

(i) Potentially significant impact;

(ii) Potentially significant impact unless mitigation measures are taken

(iii) Less than significant impact; or

(iv) No impact at all.

39. The initial screening of the project is carried out to ensure that

(i) Its potential environmental and social impacts are clearly understood;

(ii) The project is categorized relative to type, location, scale and sensitivity in order to determine the scope of the environmental and social impact assessment to be done at the feasibility study stage, in accordance with the Pakistan Environmental Protection Act XXXIV of 1997 and other relevant rules, regulations and policies;

(iii) The Government Agency has adequate capacity to ensure that the project complies with the environmental and social requirements and safeguards;

(iv) Once selected, the private party has immediate access to the project site that is unencumbered by unresolved environmental or social issues; and

(v) There are effective consultations between the Government Agency, project stakeholders and other relevant organizations as part of overall environmental and social approval process for the project.

J. Need for and Availability of Government Support

40. There are four main categories of government support for PPP projects:

(i) Administrative support through the provision of permits and clearances, acquisition of land or rights-of-way, resettlement of population, provision of

access facilities, and provision of basic infrastructure at the construction site including water and power supply. This type of support should be made available for all PPP projects.

(ii) Asset-based support such as leasing land or infrastructure facilities owned by the Government or a Government Agency to the private party; the need for this type of support should be determined on case-by-case basis;

(iii) Direct financial support such as cash contribution to the investment cost, cash subsidy during operation, or rights for income from other sources. This type of support, which is referred to as viability gap funding, should be offered only for those PPP projects, which have a strong economic and social justification, but are not financially attractive enough for private investors because of tariff constraints attributable to affordability considerations (see Section IV.G).

(iv) Contingent support in the form of government guarantees for certain types of risks that will be borne by the Government. The need for this type of support should be determined on a case-by-case basis.

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41. A detailed assessment of the need for the various types of government support is an important part of the feasibility study undertaken at the project preparation phase. During the project inception phase, the Government Agency should seek answers to the following questions:

(i) What are the main types of administrative and asset-based support needed for the project? Are any of them essential, but difficult to ensure for social or political reasons (e. g., large-scale land acquisition requiring major resettlement of people)?

(ii) Is the project likely to require a major direct financial support to make it attractive for private investors? If yes, would such support be difficult to provide because of budget constraints?

(iii) What are the main types of risks likely to have to be borne by the Government? Are any of the related contingent liabilities[11] too high for the Government to assume?[12]

42. If the answer to any of the above questions is a clear yes, it is better to drop the project and thereby avoid wasting resources on the feasibility study.

K. Availability of Key Inputs

43. For some types of infrastructure projects, the long-term availability and supply reliability of key inputs are critical. Fuel supply for thermal power generation projects and bulk water supply for water distribution projects are typical examples. The Government Agency should make a preliminary assessment of whether these inputs can be ensured. For instance, unless the Government Agency guarantees the supply of required fuel and thereby bears the fuel risk,

[11] A contingent liability is defined by the International Accounting Standards Board as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

[12] For instance, the output of a power generation project is to be sold by the private party to a public power utility for distribution to end users, but the utility is in a poor financial condition due to inefficiencies and low retail tariffs. For the private party, the utility thus represents a credit risk, which is beyond its control. The private party is therefore likely to seek a back-up guarantee from the Government in case the utility fails to make the contractual payments.

the following areas are of particular interest for private investors in thermal power generation projects:

(i) Availability of the particular fuel needed for the project, based on long-term fuel supply agreements;

(ii) Availability of back-up fuel sources;

(iii) Reliability and creditworthiness of the potential fuel suppliers; and

(iv) Reliability of the fuel transporters (if different from the fuel suppliers).

L. Impact of the Project on Competition

44. A common concern for the Government as well as customers of infrastructure services is that a PPP arrangement may create monopoly or provide extensive exclusivity rights for the private party for a long-term period, or that it would ”lock in” the Government Agency to concession terms dictated by current market conditions. This may have a negative impact on tariffs for the services and constrain the Government Agency’s ability to promote competition and innovations in the service provisions at a later stage.

45. In worst cases, private monopoly and exclusivity rights may result in excessive (”windfall”) profits for the private party and preclude future developments within the given infrastructure sector, as has been experienced in several developing countries. There are efficient legal and contractual remedies against such private exploitation of concessions, but it is preferable to structure the PPP project in such a way that this problem does not arise.[13]

M. Comparison with Other Project Candidates

46. After the Government Agency has completed the screening of the project and found the outcome positive, it should compare it to other potential projects in the same sector and/or geographical area in order to select the best candidate for the PPP mode. The principal criteria to be used for this comparison include supply and demand gaps, social and economic benefits, financial attractiveness, amount of government support required, risks and uncertainties involved, and readiness for implementation.

V. PROJECT REGISTRATION

47. Once the Government Agency has completed the screening process described in Chapter IV and decided to adopt the PPP approach, it should register the project with the PPP Cell and request its support in further developing the project. To allow the PPP Cell to review whether the project qualifies to be developed in the PPP mode, the Government Agency should submit a concept paper that provides as much detail as possible at this stage.

48. The concept paper should have the following content (for details, see Appendix 1):

(i) Sector background;

[13] To give an example, when the Philippine government decided to award a long-term concession for water supply and sanitation for Manila, it split up the concession area into two parts and made it a condition in the tendering process that a different private party be selected for each part.

(ii) Problems the PPP project intends to solve;

(iii) Description of the project;

(iv) Preliminary investment cost estimate and financing plan;

(v) Tentative project development schedule;

(vi) Financial attractiveness of the project;

(vii) Economic and other benefits of the project;

(viii) Major environmental and social impacts;

(ix) Scope for private sector involvement;

(x) Legal authority of the Government Agency to undertake the project in the PPP mode;

(xi) Proposed PPP modality and duration of the PPP agreement;

(xii) Proposed cost recovery mechanism;

(xiii) Preliminary risk identification and allocation;

(xiv) Regulatory regime for the PPP project;

(xv) Indication that the political authorities support implementation of the project in the PPP mode;

(xvi) Human, physical and financial resources, which the Government Agency is willing to commit to project preparation and transaction execution;

(xvii) Human, physical and financial resources, which the Government Agency is willing to contribute to project implementation;

(xviii) TOR and cost estimate for the consulting services for project preparation and transaction execution;

(xix) Capacity building proposed as part of the project preparation and transaction execution;

(xx) Funding sought from the PDF for the consulting services (if any); and

(xxi) Draft procurement notice for the consulting services.

49. An important milestone during the inception phase is the appointment of the Project Manager by the Government Agency, who should be capable and appropriately qualified to guide the PPP project throughout its life cycle. The Project Manager should be responsible for undertaking the project work for the Government Agency on time and to the standards set by the Government. He/she should ensure that all institutional, regulatory and operational tasks and obligations detailed in the PPP policy, project guidelines and PPP agreement are adhered to and done in timely manner. The Project Manager should head a team of staff who can provide the necessary administrative and technical support.

50. The Project Manager's roles and responsibilities should span the whole project life cycle from inception to feasibility study to procurement to development to delivery. The main functions of the Project Manager should be as follows:

(i) Managing the planning, development, procurement and implementation of the PPP project on behalf of the Government Agency;

(ii) Establishing a project team to monitor all project-related activities;

(iii) Managing the remaining activities during the inception phase, such as the drafting of the TOR and request for proposals (RFP), and appointment of the consultants;

(iv) Guiding the work of the consultants and approving payments to them in accordance with the consulting contract for project preparation and transaction execution;

(v) Reviewing the deliverables of the consultants and providing feedback to ensure that the work is done in line with Government Agency's objectives;

(vi) Acting as the focal point of the Government Agency for the project and guiding it through every step of its life cycle;

(vii) Assisting the PPP Cell and the appointed consultants in their queries and requests pertaining to the project;

(viii) Ensuring that the requisite approvals and permits are processed in a timely and efficient manner by the relevant departments and agencies;

(ix) Ensuring a smooth flow of communications between the Government Agency and the relevant departments and agencies;

(x) Providing strategic direction and ensuring political buy-in in all phases of the project life cycle;

(xi) Ensuring that the progress of the project is effectively communicated within the Government Agency and to the public; and

(xii) Managing the PPP agreement on behalf of the Government Agency by monitoring and evaluating project performance during construction and operation.

VI. DRAFTING OF TERMS OF REFERENCE

51. Drafting of detailed TOR for a PPP project should be conducted by the Government Agency prior to the appointment of the consultants. The TOR should describe the purpose and structure of the project, and specify the work to be done by the consultants in support of the Government Agency during project preparation and transaction execution. Good-quality TOR are critical to successful project preparation and execution. As such, they should clearly define the following benchmarks for the consulting assignment:

(i) Objectives, scope and deliverables (i.e., what has to be achieved);

(ii) Stakeholders, and their roles and responsibilities (i.e., who will take part in it);

(iii) Human resource, financial and quality plans (i.e., how it will be achieved); and

(iv) Work breakdown structure and schedule (i.e., when it will be achieved).

52. The TOR should set out a road map for the project with specific deliverables that conform to the requirements, scope and constraints specified therein. They should serve as a working document for the consultants appointed by the Government Agency, and show the project team a clear path for the progression of project preparation and transaction execution,

by stating what needs to be achieved, by whom and when.[14] The TOR should be drafted immediately after the Government Agency has completed the screening of the project and found it potentially suitable as a PPP, and prior to registering the project with the PPP Cell. Once approved by the Government Agency and endorsed by the PPP Cell, the TOR shall be made part of the RFP package.

53. The TOR should have the following standard content, tailored as necessary to the specific objectives and needs of the PPP project:

(i) *Introduction* – Briefly describe the project and outline the content of the TOR.

(ii) *Scope of services* – Describe in detail the tasks to be carried out during the two main parts of the consulting assignment:
- (a) Project preparation (feasibility study); and
- (b) Transaction execution (selection of the private party).

(iii) *Background* – Introduce the project as comprehensively as possible:
- (a) Institutional mandate of the Government Agency to proceed with the project;
- (b) Institutional needs of the Government Agency (capacity building, etc.);
- (c) Objectives of the project;
- (d) Background documentation such as the legal and policy framework, and sector issues and opportunities; and
- (e) Previous preparatory work.

(iv) *Feasibility study deliverables* – Set out the deliverables for the feasibility study phase:
- (a) Components of the feasibility study;
- (b) Presentation of the feasibility study; and
- (c) Submission requirements for the inception, interim, draft final and final feasibility reports.

(v) *Transaction execution deliverables* – Set out the deliverables for the transaction execution phase:
- (a) Pre-qualification and bidding documents including draft PPP agreement;
- (b) Administration of the tendering process;
- (c) Evaluation of pre-qualification applications and bids, including preparation of evaluation reports;
- (d) Contract negotiations; and
- (e) Signing of the PPP agreement and financial closure.

(vi) *Time schedule and phasing* – Indicate the time schedule for the feasibility study and transaction execution, and make it clear that the Government Agency will proceed with the latter only if the outcome of the former is positive (i.e., the project's viability is confirmed).

(vii) *List of key professional staff* – Indicate their desired basic qualification and experience, main tasks assigned, and estimated time input.

[14] For further details and specific TOR examples, see ADB's *User Guide for Preparing Terms of Reference* published in 2002 and available on http://www.adb.org/CONSULTING/Handbooks/ucsvol3.pdf.

VII. SELECTION OF CONSULTANTS

A. Existing Guidelines

54. The selection process should follow the *Consultant Selection Guidelines* and the *Handbook for Consultant Selection* issued by P&DD in September 2006.[15] The guidelines set forth the Government's general policies and procedures concerning the selection and use of consultants. Their provisions apply to all government departments, agencies, autonomous bodies, district governments, boards, project management units/offices, universities and similar other organizations. The handbook provides the templates and evaluation tables that are necessary to implement the guidelines. However, unlike the guidelines, the handbook is intended as an additional help and is not a policy document with binding powers.

55. The two documents issued by P&DD were based on ADB's and the World Bank's guidelines on the use of consultants, which dated back to 2002 and 2004, respectively. Those guidelines were subsequently revised and harmonized, and in 2008 ADB's comprehensive *Consulting Services Operations Manual* was published.[16] The following sections summarize the main principles and procedures prescribed by P&DD's guidelines and recommended in its handbook. To reflect international best practice, they also incorporate those of the more recent improvements and refinements in evaluation criteria for short-listing and technical proposals, which are relevant to consulting services for PPP projects.

B. Role of Consultants

56. The consultants should be appointed by the Government Agency to provide support and advice during the second and third phase of the life cycle of the PPP project, namely, its preparation and execution. The consultants are crucial for helping secure the best possible PPP deal for the Government Agency. They should therefore be viewed as a good investment rather than an unnecessary expense that could be shifted to the private sector. For small projects, the support can be provided by an individual consultant or a team of individuals but for larger projects, a consulting firm or a consortium of such firms is typically required.

57. The consultants should do all the detailed technical, financial, economic, environmental and legal work required to prepare and execute a PPP project. Their support is particularly important during the transaction execution, starting with the preparation of all necessary documentation and ending with the financial closure. The consultants should have skills and experience in project finance and economics, contract and administrative law, procurement management, project management and the technical disciplines relevant to the particular project and sector.

C. Drafting of Request for Proposals

58. The RFP is a set of documents that the Government Agency prepares to invite technical and financial proposals from qualified consulting firms or consortiums of firms for providing the services defined in the TOR. The purpose of the RFP is to facilitate the preparation of the proposals by the consulting firms/consortiums and their evaluation by the Government Agency. The RFP should consist of the following components:

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[15] Available on http://www.pndpunjab.gov.pk.
[16] Available on http://www.adb.org/Documents/Manual,Consulting-Services-Operations-Manual/CSOM.pdf.

(i) *RFP Cover;*

(ii) *Letter of Invitation* – A covering letter inviting the short-listed consulting firms to submit technical and financial proposals, listing the names of these firms and indicating the selection method;

(iii) *Instructions to Consultants* – Instructions on preparing the technical and financial proposals, a data sheet, and evaluation criteria;

(iv) *Technical Proposal* – Standard forms;

(v) *Financial Proposal* – Standard forms;

(vi) *Terms of Reference* – See Chapter VI;

(vii) *Draft Consulting Contract* – Standard forms; and

(viii) *List of Eligible Countries* – Countries allowed to participate in the selection process (depending on the source of funding for the consulting services).

59. The data sheet attached to the Instruction for consultants is a particularly important part of the RFP package. Among other things, it should indicate (i) the selection method, (ii) the proposed budget for the assignment, (iii) the deadline for the submission of proposals to the Government Agency, (iv) the required number of copies of proposals, (v) the name and address to which proposals are to be sent; and (vi) the evaluation criteria.

60. Regarding the selection method, the quality- and cost-based selection should be the default method for PPP projects, as it allows for both efficiency and economy.[17] Efficiency is achieved by requiring the consulting firms to attain a minimum technical score, while economy is ensured by giving a degree of advantage to firms with lower priced proposals (see Sections VII.E and VII.F for details).

61. The RFP template is provided in P&DD's *Handbook for Consultant Selection* dated September 2006. RFP templates for consulting services funded by ADB are available on http://www.adb.org/Consulting/ta-rfp.asp (for technical assistance projects) and http://www.adb.org/Consulting/all-methods-loan.asp (for loan projects).

D. Short-Listing of Consulting Firms

62. The RFP package should be advertised by the Government Agency in the media giving consulting firms an opportunity to express their interest. This should be followed by the short-listing of about six firms with the best skills and experience in the given area. Typical short-listing criteria include the following:

(i) Experience with activities similar to the given consulting assignment;

(ii) Experience in similar geographical areas;

(iii) Experience with similar project authorities;

(iv) Experience with projects funded by multilateral financing institutions;

[17] Other accepted methods include quality-based selection, fixed-budget selection, least-cost selection, consultants' qualifications selection, and single-source selection.

(v) Nature of the consulting firm (e.g., whether it is a small, specialized firm with limited staff or a large firm with access to a pool of expertise);

(vi) History of the consulting firm (i.e., whether it has been in business for an extended period and developed a track record in the field and/or region); and

(vii) Degree of in-house quality control (for example, whether the firm adheres to requirements of the International Standards Organization or has an ethics code).

63. The short-listed firms should be issued the request to submit their technical and financial proposals by a set date and time. They should be given sufficient time to familiarize themselves with the project and its requirements, establish a team of professionals, cost the required services, and prepare proposals that are fully consistent with the RFP. For larger projects, a meeting of the short-listed firms should be held before the submission deadline to develop a complete understanding of the scope of the assignment and its deliverables, and provide any other clarifications pertaining to the RFP.

E. Evaluation of Technical Proposals

64. Both technical and financial proposals should be submitted at the same time but in separate sealed envelops, clearly marked “Technical Proposal” on one and “Financial Proposal” on the other. Thereafter, a two-stage evaluation process should begin, with the technical evaluation carried out first, followed by a financial evaluation for those firms that have qualified technically. Criteria, rating categories, the weighting and scoring system, and the minimum technical threshold against which the Government Agency will evaluate the proposals should be set out in the RFP package. The technical and financial proposals should be each scored out of 1,000 points, and the scores achieved should be combined into the overall score using pre-defined weights.

65. The Project Manager of the Government Agency should circulate the technical proposals to the evaluation committee, while the financial proposals will remain sealed. The evaluation committee should carry out the technical evaluation, applying the evaluation criteria, and rating system devised for the project and specified in the RFP.

66. Technical proposals should be evaluated against three principal criteria: (i) qualifications of the firm, (ii) approach and methodology, and (iii) personnel. These criteria should be further broken down into sub-criteria, with weights applied to these as shown in Table 2. All weights should add up to 1,000:

Table 2: Sample Standard Evaluation Criteria for Technical Proposals

Criteria	Example of Weights Given [b)]
I. Qualifications of the Firm	**(100-250)**
a. Experience in similar projects	70
b. Experience in similar geographic areas	50
c. Additional relevant sub-criteria (optional)	30
II. Approach and Methodology	**(150–400)**
a. Understanding of objectives	40
b. Quality of methodology	80
c. Innovativeness (or comments on the TOR)	40
d. Work program	70
e. Personnel schedule	30
f. Counterpart facilities	20
g. Proposal presentation	20
III. Personnel	**(350–600)**
a. Nominated international consultants [a)]	
Team leader (concurrent with another position)	100
Road engineer	80
Transport economist	90
Environment specialist	70
Social/poverty specialist	60
b. Nominated national consultants [a)]	
Soil mechanics engineer	40
Transportation engineer	40
Physical survey specialist	35
Traffic modeling specialist	35
Total	**1,000**

[a)] Each evaluated separately.
[b)] The weights should be chosen within the given ranges bearing in mind the needs of the project and requirements of the Government Agency.
Source: Consulting Services Operations Manual, ADB, 2008.

67. Further and separate evaluation criteria should be prepared for personnel by dividing the rating of each expert into three parts: (i) general qualifications, (ii) experience related to the project, and (iii) overseas/country experience. These, in turn, should be assigned percentage weights to signify their relative importance for evaluation. The weights should normally be within the percentage ranges shown in Table 3:

Table 3: Evaluation Criteria and Weights for Personnel

Criteria	Weight Range (%)	Example (%)
General qualifications	10-20	15
Project-related experience	60-70	70
Overseas/country experience	10-20	15
Total		**100**

Source: Consulting Services Operations Manual, ADB, 2008.

68. Since personnel account for the majority of points in the technical evaluation, it is preferable to evaluate the personnel from each firm first. This will give a good idea of the

relative strengths and weaknesses of the various firms. The other principal criteria can then be used to distinguish between firms that are close in terms of personnel ranking.

69. To ensure consistency, transparency and fairness in evaluation, the six categories of ratings defined in Table 4 should be used:

Table 4: Rating Categories and Definitions

Category	Rating (%)	Definition
Excellent	100	The proposal substantially exceeds the sub-criteria requirements.
Very good	90	The proposal exceeds the sub-criteria requirements.
Above Average	80	The proposal fully meets the sub-criteria requirements.
Average	70	The proposal adequately meets the sub-criteria requirements, but there are minor deficiencies.
Below Average	50	The proposal has significant deficiencies against the sub-criteria requirements that will probably impact negatively on the implementation of the consulting assignment.
Non-complying	0	The proposal either does not comply with the sub-criteria requirements or does not provide enough information to allow a higher rating (e.g., nominating an expert who is a national of a non-eligible country is non-complying).

Source: Consulting Services Operations Manual, ADB, 2008.

70. The overall technical score of the firms should be determined by

(i) Applying the weights of the evaluation criteria to the individual ratings to calculate a score for each criterion; and

(ii) Adding up the individual scores to get an overall score for the technical proposal.

F. Evaluation of Financial Proposals

71. Financial proposals should be opened only for those firms that are able to reach or exceed the minimum technical score specified in the RFP. To ensure high technical standards in the execution of the consulting assignment, a minimum threshold of 650 points is recommended. Firms scoring below this threshold should be rejected, and their financial proposals returned unopened. The opening of the remaining financial proposals should be done publicly by the Government Agency on a date notified to the firms.

72. The lowest financial proposal in terms of remuneration and out-of-pocket expenditures should be given the maximum score of 1,000 points. This should then be used as a basis to calculate the score of the other proposals. The financial score for each proposal should be inversely proportional to its amount (i.e., the higher the amount, the lower the financial score):

Financial score = Lowest financial proposal divided by the proposal under consideration, multiplied by 1,000

G. Ranking of Consulting Firms

73. Once the financial score for each qualifying technical proposal is calculated, the evaluation process can be completed. This should be done by applying a weight to the technical score and a weight to the financial score (which together add up to 100%) and adding them up

to determine the overall score. Technical scores should be given a significantly higher weight in the overall evaluation than financial scores, because unless the firm is well qualified, the nominated personnel highly experienced, and the proposed work plan and methodology sound, the firm may not be able to structure the project in the best way and deliver it on time. It is recommended that the standard weight used for the technical component be 85%, and that for the financial component 15%.[18]

74. After the overall scores for each proposal have been calculated, they should be ranked from the highest one to the lowest one. In the event two or more proposals have the same overall scores, the proposal with the highest technical score should be ranked higher first. After the final ranking, the first-ranked consultant should be invited for contract negotiations.

H. Contract Negotiations

75. Contract negotiations should be conducted by the Government Agency with the authorized representatives of the first-ranked firm to finalize the terms of the contract and complete all the necessary documentation within the validity period of the proposals. Focus should be on issues related to work plan, deliverables, contract duration and the procedure for disbursements/payments.

76. The final terms of the contract should not deviate materially from the original TOR or the terms of the draft contract, taking account of the changes proposed by the first-ranked firm if any. Deliverables made part of the contract should be based on the deliverables specified in the TOR and the first-ranked firm's response as to how they will be achieved. The first-ranked firm should not be required, as a condition of being awarded the contract, to undertake responsibility for work not stipulated in the TOR.

77. In case negotiations with the first-ranked firm are unsuccessful, they should be terminated by the Government Agency. If this happens, the second-ranked firm should be invited to negotiate.

[18] The weight ratio can be modified to either 80:20 for projects with a low level of risks and where cost is an important factor, or 90:10 for projects with a high level of complexity or impact.

Appendix 1

MAIN STEPS DURING THE PROJECT LIFE CYCLE

Phase	Steps	Responsibility				
		GA	PPPC	RMU	CF	PPPSC
1. Project Inception	➢ Decide to explore the PPP mode	✓				
	➢ Identify a potential PPP project from master plan or through preliminary needs analysis	✓	✓ a)			
	➢ Screen the project using multiple criteria	✓	✓ a)			
	➢ Decide whether to pursue the project any further	✓	✓ a)			
	➢ Prepare a project concept paper	✓	✓ a)			
	➢ Register the project with the PPP Cell	✓				
	➢ Appoint a project manager	✓				
	➢ Draft terms of reference for the feasibility study and transaction execution	✓	✓ a)			
	➢ Prepare a budget estimate for the required consulting services	✓	✓ a)			
	➢ Apply for financing from the PDF (optional) b)	✓				✓
	➢ Prepare and issue a request for proposals for consulting services	✓	✓ a)			
	➢ Evaluate the technical and financial proposals					
	➢ Negotiate and sign a contract with the first-ranked consultants	✓				
		✓				
2. Project Preparation	➢ Carry out the feasibility study				✓	
	➢ Review its conclusions and recommendations	✓				
	➢ Decide on whether to proceed with the project any further	✓				
	➢ Prepare a report on the project proposal	✓			✓	
	➢ Submit the project proposal through the PPP Cell to the PPP Steering Committee	✓				
	➢ Review the project proposal and prepare a briefing paper for the PPP Steering Committee		✓	✓ c)		
	➢ Decide on whether to approve, reject or send back for reconsideration the project proposal					✓
3. Transaction Execution	➢ Prepare an information memorandum for project marketing				✓	
	➢ Undertake market sounding of potential investors and lenders				✓	
	➢ Finalize project structure and tender documents				✓	
	➢ Establish a data room for due diligence by investors	✓			✓	
	➢ Issue a request for pre-qualification applications	✓				
	➢ Evaluate pre-qualification applications	✓			✓	
	➢ Issue a request for technical and financial proposals to pre-qualified bidders	✓				
	➢ Evaluate bids received	✓			✓	
	➢ Prepare a bid evaluation report including recommendation on contract award	✓			✓	
	➢ Submit the bid evaluation report through the PPP Cell to the PPP Steering Committee	✓				
	➢ Review the bid evaluation report and prepare a briefing paper for the PPP Steering Committee		✓	✓ c)		
	➢ Decide on whether to approve or send back for reconsideration the contract award recommendation					✓
	➢ Conduct negotiations with the preferred bidder	✓			✓	
	➢ Sign the PPP agreement	✓				
	➢ Fulfill conditions precedent to financial closure	✓			✓	
4. Construction, Operation and Transfer	➢ Monitor project implementation to ensure conformity with plans and specifications	✓				
	➢ Monitor and evaluate project operation to ensure conformity with performance standards and tariffs	✓				
	➢ Prepare annual reports on project performance to the PPP Cell	✓				
	➢ Monitor and evaluate financial performance of the project			✓		
	➢ Make arrangements for project transfer to the Government at the end of the term of the PPP agreement	✓				

CF = consulting firm; GA = Government Agency; PDF = Project Development Facility; PPP = public-private partnership; PPPC = PPP Cell; PPPSC = PPP Steering Committee; RMU = Risk Management Unit.

CF = consulting firm; GA = Government Agency; PDF = Project Development Facility; PPP = public-private partnership; PPPC = PPP Cell; PPPSC = PPP Steering Committee; RMU = Risk Management Unit.

a) If support by the PPP Cell in this activity is requested by the Government Agency.

b) See the *Guidelines for the Project Development Facility for Public-Private Partnerships in Infrastructure*.

c) If government support is required for the project.

Appendix 2

CONCEPT PAPER FOR INFRASTRUCTURE PPP PROJECTS

1. Introductio

n

The concept paper should be prepared by any Government Agency, which wants to register a PPP project with the PPP Cell in the Planning and Development Department. The information to be provided in the concept paper is described below.

2. Project Proposal

The Government Agency, with the aid of the PPP Cell if necessary, should highlight the broad contours of the project and issues related to its implementation on a PPP basis. To the extent possible, the concept paper 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) **Rationale:** Problems the PPP project intends to solve, such as physical deficiencies, inefficiencies, financial and regulatory issues, etc.

(iii) **Project Description:** Description of the location and main components of the PPP project, preliminary technical information on its capacity/sizing, etc.

(iv) **Cost Estimate and Financing Plan:** Preliminary estimate of investment cost and tentative sources of financing.

(v) **Project Development Schedule:** The proposed project development activities and their tentative timeframe, starting with the appointment of consultants and ending with the selection of the private party and financial closure. This should also indicate all important decision-making milestones.

(vi) **Preliminary Financial Analysis:** If possible, cash flow of the estimated investment costs, operation and maintenance expenses, and revenues over the period of the PPP agreement, and a preliminary estimate of the financial internal rate of return.

(vii) **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.

(viii) **Environmental and social screening:** Preliminary assessment of the likely impact of the project on the environment and population in its area of influence.

(ix) **Private Sector Involvement:** Scope for private sector involvement ("What is the private sector supposed to do?").

(x) **Legal Aspects:** Provisions under the relevant laws and regulations that grant authority to the Government Agency for developing and implementing the project in the PPP mode.

(xi) **Proposed PPP Implementation Structure:** The Government Agency's view about the most suitable PPP modality, along with the proposed duration of the PPP agreement. 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.

(xii) **Cost Recovery:** How the private party is proposed to recover project costs (user charges, government payments, etc.).

(xiii) **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.

(xiv) **Regulatory Aspects:** The existing regulatory mechanism, as applicable, in case tariffs are to be structured in the PPP option. In the absence of such regulatory mechanism, an indication of the proposed for regulation by contract.

(xv) **Political Commitment:** Evidence that the political authorities support project implementation on a PPP basis;

(xvi) **Contribution to Project Development:** Resources in terms of counterpart staff and facilities, which the Government Agency is willing to contribute to the preparation and transaction execution of the PPP project.

(xvii) **Contribution to Project Implementation:** Resources in terms of land and other support, which the Government Agency is willing to contribute to the implementation of the PPP project.

(xviii) **Terms of Reference:** Draft terms of reference for the consulting services for project preparation and transaction execution, including a detailed cost estimate.

(xix) **Capacity Building:** Details of the capacity building support proposed as part of the project preparation and transaction execution.

(xx) **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. A recommendation should be provided whether or not the PDF funding, including the capacity building component, should be recovered from the private party selected through the competitive tendering process.

(xxi) **Draft Advertisement:** Draft procurement notice for the consulting services for project preparation and transaction execution.

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