Public Private Partnership Support Facility

Risk Management Report

April to June 2023

1. Introduction and Overview

This Risk Report serves multiple purposes such as:

i. Highlights project-specific risks and elaborates upon risk mitigation measures already embedded in the projects' Concession Agreement, and suggests risk mitigation measures for risks assessed by PSF.

ii. Provides a complete picture of fiscal commitments that the GoS may have to incur in the likely occurrence of the assessed risk events. These fiscal commitments include direct obligations, contingent obligations, and measures of affordability against available fiscal space.

2. Project-wise Risk Analysis

Education Sectors PPPs[1]

Education Management Organization (EMO) reform is one of the GoS initiatives focusing on the objectives of improved access and governance, better quality education and effective utilization of public resources. For this purpose, the operation and management of selected public schools/institutes is outsourced to credible and experienced private sector parties to make them helpful in achieving the targets as set out in Key Performance Indicators (KPI) framework based on the objectives of the EMO reform.

Three key aspects of education sector PPP projects can be discussed in the risk report to highlight the PSF recommendation to select a project under PPP mode:

- the affordability of the fiscal implications,
- its sustainability and
- the justification of the fiscal exposure in terms of value for money.

Following perspectives have been considered for the discussion of these three aspects of the education PPP projects in the risk report;

- *Affordability*:
    - The fiscal impact of education sector project(s) including EMOs and TTIs may be categorized affordable within the long-term budget constraints of the implementing agency as per the medium term expenditure framework for at least the first 5 years of the PPP term.
    - The fiscal impact of the direct liabilities, if occurred simultaneously to all the education sector PPP projects executed so far, may be termed affordable within the overall debt balance of the government
- *Sustainability:*
    - From risk perspective, there is no material risks in terms of high probability of occurrence in combination with a high fiscal impact. We can further define any risk, if identified, along with its mitigating measures.

---

[1] EPPP project has been amended time to time since its inception. The following legends are used for education PPP project analysis;

- The funding amount has been calculated from April 2018 to December 2022 with different applicable dates for each project due to their actual effective dates
- The partner contribution ratio for projects of RFP#1 to RFP#3 is taken as ADB+FCDO @65.48% and GoS @ 34.52% upto June 2022
- After the amendment in project agreement, the partner contribution ratio of whole amount of the projects RFP#4-6 and TTI is taken as ADB + FCDO @ 76.49% and GoS @ 23.51% whereas same ratio has been taken for the payable amounts between July to December 2022 for the project RFP#1-3.
- The project amount (exclusive of taxes) to be incurred during the EPPP period, is then divided in accordance with the relevant ratio of the partner contribution as mentioned above.
- The tax amount is to be paid by GoS.
- These amounts may also change in future as another amendment of extension of EPPP project till June 2024 is expected to be signed soon.

- High probability of occurrence is defined as a probability of more than 50%

- *Justification (of undertaking the risks):*
  - Value for Money (Vfm) has been projected positive for every transaction of all approved PPP projects in the education sector.

Education PPPs	# of Procurements	# of Schools	Funding Approved (Rs. In mn)
EMOs	6	171	9,366
TTIs	1	2	1,082

The PPP Support Facility (PSF) has to date approved funding of 171 schools and 3 (three) teacher training institutes, which were outsourced under 6 rounds of procurements, amounting to PKR 11,078 million in terms of nominal value. However, one of the operators of the TTI project requested to withdraw his offer to operate the GECE Sukkur which turned the project comprising 2 (two) TTIs lowering the project amount to PKR 10,448. The overall risk profile of the project is proposed to be low as PSF is of the view that the Concession Agreements have satisfactorily allocated the perceived risks between the Government and the private parties which might be mitigated if implemented with true spirit.

From budgetary perspectives, PSF could identify and set thresholds for putting in affordability criteria:

As per the Affordability and Contingent Liability Analysis conducted by the PSF, both these amounts will not make adverse financing burden on the GoS budgetary outlays and resources. Our finding is based on the following indicators:

- For affordability analysis, total bid cost of all education projects, so far, for 10 years' period was compared to the current FY ADP budget of GoS which ranges from 0.018% - 0.316% of the GoS provincial ADP Budget of FY 2022-23. When it is compared to ADP budget of SELD for FY 2022-23, the EMO cost of all these projects shall have an impact range, in percentage terms, between 0.401% (2016) and 6.850% (2025)
- The contingent liabilities as percentage of GoS-School Education provincial ADP Budget of current FY 2022-23 ranges from 0.144% (AY 2032)- 0.697%(2026) during 2022 to 2032.

During this quarter, following project related risks have been identified which have already been discussed with PPP Unit Finance Department and PPP Node of SELD to take risk mitigation measures.

- The challenge of Rehabilitation of old buildings of SBEP schools has been in demand of immediate attention of the authority as the current project structure does not allow private parties to rehabilitate these schools, hence these schools have to be rehabilitated through the GoS ADP schemes. However, this issue has not been addressed on priority basis which may result in interruptions and challenges in overall performance of the project.
- Recent floods and heavy rains (2022) caused unpredicted damages to the school buildings, some of them are being managed by EMOs. As mentioned earlier that the current project structure allows private sector parties to only do minor repair and maintenance. For the repair and maintenance of post-floods and rain damages, the EMOs seek the technical support and financial assistance of the authority. This challenge may grow to higher level if it is not attended in due time.
- Effective contract management is still a big challenge as it was in the initial days of the project. The remedial strategy of appointment of contract compliance manager in the project team also couldn't bring the desired results. The other reasons for ineffective contract

management include insufficient number of staff, weak administrative powers and capacity to timely address the project issues and poor record keeping at PPP-N of SELD.

- Quarterly/ annually progress evaluation reports i.e. KPIs reports are generally not submitted in due time by the EMOs. Subsequently, the delay of evaluation and annuity payments is occurred which leads to compromise effective accountability, monitoring or remedial measures. This challenge is slowly causing the reversal of initial success of the EMO reform.
- Another risk is also growing towards medium level as some of the EMOs are facing retention of the key staff or hiring the key personnel whose qualification and relevant experience are not compatible to the project requirement as was committed in the technical bids of the EMOs.
- A delay is seen in opening the escrow accounts of schools under EMO-RFP#6. The delay is considered as a potential risk which may impede some or all the operations and management of schools, especially the activities relating to capex cost.
- The same delay is also observed in opening the escrow account of TTIs project which is also a condition precedent for execution of the contract. This delay may cause the following challenges;
    - The delay may take long time than usual for handing over facilities to the operators. The academic activities may have challenges to start in due time as they are linked to affiliating universities academic calendar.
    - The delay has caused the lapse of a certain budgeted amount to be disbursed from FCDO grants.

One of the operators under TTIs project i.e. Sukkur IBA (SIBA) refused to continue its service partnership to operate and manage the GECE Sukkur. The refusal is justified on the basis of increasing inflation which may, SIBA thinks, be the sole regulator in hindering the success of the project. Another operator i.e. IoBM had already refused to acknowledge the Acceptance of Letter for Award of Contract as the successful bidder for GECE Darsano Channo Karachi. Hence, contracts of two of four TTIs under the same procurement package would not be executed due to refusal/ withdrawal of interest by the successful bidders. The executing agency should consider the terms and conditions of procurement management to avoid wastage of time and money which leads to delay the prospective benefits to the learners.

Health Sectors PPPs

On the basis of recommendations by the transaction advisor feasibility report, the health department intends to procure a management contract with a credible private partner for provision of safety and security services at Jinnah Post Graduate Medical Centre (JPMC) Karachi. The feasibility report suggests the proposed project's economic viability has features of Value for Money (VfM). The transaction advisor also proposed the project design as an International Competitive Bidding (ICB) process under PPP mode based on performance-linked payment mechanism and risk management regime.

Based on the recommendations as assumed in Project Appraisal Report (PAR) on the basis of above mentioned design of the project in its feasibility report, the PSF Board, in its meeting held on 17th January 2023, approved to fund the project with an advice to review and explore an option if the salary of human resource under this project may be sorted out from VGF.

The constitution of the Technical and Financial Evaluation Committee (TFEC) of the project is in process which once notified will be assisted by the transaction advisor to launch and execute the procurement process of the project under PPP mode. The process of procurement may start in the next quarter.

Safety and Security Services at Jinnah Post Graduate Medical Centre (JPMC)

Under the backdrop of providing quality healthcare services in Jinnah Post Graduate Medical Centre (JPMC) Karachi, Health Department, Government of Sindh with the assistance of the PPP Unit, Finance Department, conducted a feasibility study for providing safety and security services for patients, staff and visitors at Jinnah Post Graduate Medical Centre (JPMC) Karachi. The transaction advisor, the consultant, of the study proposed to outsource the safety and security services of the JPMS under PPP mode. The key takeaways of the study are as follows;

- A partnership agreement under Management Contract is proposed for a period of 5.5 years, i.e. six months as installation period and 5 years as Operation and Management (O&M) period.
- Keeping in view of the project cost as per consultant estimates, the Request for Proposal (RFP) of this project has been designed to select the bidder through a fair and competitive International Competitive Bidding (ICB[2]) by the Single Stage Two Envelope Bidding process.
- The total concession amount for the project is estimated Rs. 1,972,775,633[3] inclusive of taxes and the costs for IE and IA), as the total outstanding commitment till the end of the concession period (2023-2028). The cost under this project is bifurcated as its two main components i.e. (i) Installation Cost during six months period from July 2023-December 2023 estimates as Rs. 240,797,804 and (ii) Operation and Management Cost for a period of 5 years from January 2024-December 2028[4] estimates as Rs. 1,731,977,829.
- The economic value of safe and secure healthcare environment in the JPMC is meant the enhancement in the improved health and life prospects of the people i.e. the patient and other visitors.
- Under this project under PPPs, the Government shall bear all PPP costs relating to Safety and Security Services Project at JPMC and pay it to the Manager on a quarterly basis through the Viability Gap Fund (VGF) Account. A thorough analysis of financial feasibility reveals the highest budget requirement, which is Rs. 387 million in 2027 for this project, reveals an additional allocation of budget in the VGF account as equal to 0.12% of the current year development budget of GoS and 1.66% of that of Health Department. Keeping in view of the volume of additional allocation, as stated above, to cater the needs of this project, this project seems affordable with no/minimal increase in VGF future allocations.
- The quantitative VFM of safety and security project at the hospital through a Public Sector Comparator (PSC) model is proved positive (+) with a value of Rs. 359 million in nominal term (Rs. 252 million in real term) in favour of PPP mode for a period of project term. The qualitative VfM analysis suggests that the proposed JPMC project will achieve its objective in an effective manner. It will also increase the confidence of the public at large on public healthcare sector. Thus, this PPP project yields Value for Money (VfM) as it results in a net positive gain to society which is greater than what which can be achieved through any alternative procurement route.
- Any termination event due to (a) Fundamental Changes in Law; (b) Political Force Majeure Event and (c) GOS Event of Default could cause contract termination, thereby making GOS liable for one

---

[2] When transaction advisor presented the project estimated cost of Rs. 1.9 billion, approximately to 10m $ that implies ICB as default method of procurement as per Rule 15(2)(ii) of the SPPRA Rules 2010. However, the increasing price of the dollar has made the estimated cost less than 10m $ that implies the ICB method of procurement on the discretion of the procuring agency to adopt it under SPPRA Rule 15(2)(iii).

[3] Cost estimates by the Project Transaction Advisor 'Montacons' in its "Feasibility Report for Contract Out Safety and Security services at JPMC Karachi under Public Private Partnership Mode" Page# 86 Section 10.4 'Project Total Cost'

[4] Based on anticipated effective date of the project

year's management fee payable to the Manager, and thus, it has been accordingly accounted for in the contingent liability calculation. With respect to the CL analysis, the GOS obligations for this project ranges from from Rs. 26.84 million (2023) to Rs. 36.51million (2028) per annum. Government has no further financial or non-financial obligations under these agreements. Also, since safety and security contract is purely a service/management contract, it poses no government asset risk. In case of any CL triggers, the indicative maximum contingent liability in one year is calculated as 0.16% to the current ADP aforementioned as PKR 23.00 billion of Health Department budget 2022-23. Also, this liability amounts to 0.01% of the provincial ADP budget of PSDP. Henceforth, no significant budgetary risk exists.

- Likewise, all other PPP projects, the hospital security and safety service projects may also face with several risks, which may affect the efficacy and benefits of the project(s) if the risks are not effectively managed through mitigation measures.

  The Concessionaire will bear the entire risks of design, installation, performance, cost over-runs and non-political force majeure events of the project for provision of the safety and security services at JPMC. The government will bear the risks of demand and revenue, change in law, and political force majeure events. The risks involved and emerged during the execution phase of the project will be monitored by the PSF on quarterly basis and the same will be presented to PSF Board vide a quarterly risk management report of the project.

- Key Performance Indicators (KPIs) have been designed to ensure a conducive safe and secure hospital environment based on best industry practices. These KPIs represent minimum standards that the Manager is subjected to achieve. The annuity payment and/or management fee linked with the Manager's performance are made on quarterly basis and are contingent on meeting KPIs.

  The adjustments shall be computed by the Independent Auditor based on the quarterly evaluation of the KPIs done by the Independent Auditor. On achieving 90% KPI score, 100% management fee will be paid. Less than 90% score will trigger the adjustment in management fee on prorate basis in accordance to the KPI score achieved in the quarter

Based on the recommendations as assumed in Project Appraisal Report (PAR) on the basis of above mentioned design of the project in its feasibility report, the PSF Board, in its meeting held on 17th January 2023, approved to fund the project with an advice to review and explore an option if the salary of human resource under this project may be sorted out from VGF.

The constitution of the Technical and Financial Evaluation Committee (TFEC) of the project is in process which once notified will be assisted by the transaction advisor to launch and execute the procurement process of the project under PPP mode. The process of procurement may start in the next quarter.