



Public Private Partnership Support Facility

Extract of Risk Report

January to March, 2024

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1. Introduction and Overview

- Highlights project specific risks and elaborate upon risk mitigation measures already embedded in the projects' Concession Agreement, and to suggest risk mitigation measures for risks assessed by Public Private Partnership Support Facility ("PSF").
- Provides a complete picture of fiscal commitments that the Government of Sindh ("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 Management Organisations

Education Management Organization (EMO) reform is one of the GoS initiative 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.

The PPP Support Facility (PSF) has, to date, approved funding of 211 schools and 3 (three) Teacher Training Institutes (TTIs), which were outsourced under 8 rounds of procurements, amounting to PKR 19,743 million in terms of nominal value. However, one of the operator 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 19,113 million.

The overall risk profile of the project is 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 got further mitigated if implemented with true spirit.

Table 5: Education PPP (number of institutes and funding)

Education PPPs	# of Procurements	# of Schools	Funding Approved (Rs. In mn)
EMOs	7	211	18031.249
TTIs	1	2	1082.287

Health Sector

GoS has initiated numerous health projects under PPP modality which included operations and management of health facilities through Health Management Organizations, outsourcing security and safety services at National Institute of Child Health, operation and management of Regional Blood Centers (RBCs). PSF has reviewed all of the aforementioned.

The health department conducted a feasibility study 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 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 (old VGF). PSF informed¹ the procuring agency about principle approval of the project.

Since then, more than a year passed but the executing agency is yet to start the procurement process of the said project i.e. contracting out safety and security services of JPMC Karachi under PPP mode. In addition to the additional coordination through email and WhatsApp, PSF has also formally been sending letters as the follow-up to the PPP-Unit Finance Department and PPP-Node of Health Department exploring the status of initiation of the project and offering the technical assistance (if required) to start the process of procurement of the said project.² The procurement has not been started yet. Apparently, a potential financial risk may be faced by the project due to the delay in procurement process.

Water Supply Sector

The Government of Sindh is working multiple projects for the supply of water transmission, filtration and distribution. These include Nabisar Vajihar project (under construction) Hub Canal Project TP1, (Feasibility completed), TP4, 5MiGD Desalination Project, 65 MiGD water supply project.

Table 6: General Risks of PPP Projects

	Ongoing projects/Under Development	General Issues/Lessons from Projects
	<p>Water Treatment/transmission project Hub Canal. Nabisar Vajihar, TP1, TP4,</p>	<ul style="list-style-type: none"> • Prioritization of projects essential • Define comprehensive Key Performance Indicators • Meet all E&S requirements • Consider Affordability and contingent liability • Land procurement should be completed prior to tender or engagement with private concessionaires • All approvals in place prior to commencement • Engage local contractors as much as possible • Maximum reliance on local equipment and content, • park offshore risk with onshore contractor, recover sites, no horizontal defenses or Extension of Time (EOT) • Avoid International Arbitration • Recurring monitor as-built drawings, conduct tests, and approved by IA/IE • Monitor schedule and cost variance and estimate the cost at completion
	<p>Management Contracts Health, HMOs, EMOs, TTIs</p>	<p>Key Issues</p> <ul style="list-style-type: none"> • Challenges of selecting credible consultants for feasibility studies of the proposed projects • Challenges to meet defined deliverables, as no due diligence of required technical aspects of the KPIs is done properly.

¹ PSF letter No. PSF/PPP-Social/JPMC/HD/01-01/2023 Karachi, the dated: 27 January, 2023

² PSF letter No. PSF/HD/JPMC/RFP/DCA/01/23 Karachi the dated 13th September 2023 & letter No. PSF/PPP-Social/JPMC/HD/PPP-N/01-12/23 Karachi the 8th December, 2023.

		<ul style="list-style-type: none"> • Lack of providing data/information for a timely and evidence-based baseline, which should be verified by the IE Lesson learned based on challenges faced previously • Follow the competitive procurement process • Complete any construction and/or supply works pending prior to tender • Complete all codal formalities of handing over primary and ancillary facilities prior to commencement • Ensure IE/IA know the scope of their work and follow diligently in terms of timely reports and approvals. • Allow concessionaire to do construction/refurbishment and maintenance and repair • Avoid any delay in opening escrow accounts and handing over the facility • Empower Nodes/PMIU and provide adequate manpower, to enforce contracts. • Ensure bottlenecks to projects are removed in a timely fashion. • Fulfillment of CPs to be ensured timely and due diligently. • Avoid the practice of delay or deferment of fulfillment of CPs
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Project Wise Analysis

Ongoing PPP Projects in Sindh Education Sector

- The PSF Board approved the funding of EMO-7 project under PPP mode. Accordingly, PSF submitted the project for approval from ADB under EPPP funding support. ADB approval is still pending and is likely to be approved in the next quarter.
- A key prospective PPP project in the education sector is to seek partnership with private sector for the establishment, management and operations of non-formal education centers to cater to the needs of out-of-school children providing them with life skills base education. Currently, a feasibility study of this project is being carried out to assess its feasibility for PPP mode. PSF is providing technical advice for identifying and mitigating potential risks of the proposed project structure.
- A project of outsourcing the operation and management of four (04) public schools, which are currently run by a board chaired by the commissioner or deputy commissioner, is under consideration, for which SELD is conducting a pre-feasibility study to assess the appropriateness of this project under PPP mode. PSF is also providing its technical advice for developing project objectives along with low risk project structure.
- A project of 54 public sector schools, rehabilitated under Japan International Cooperation Agency (JICA) assistance, has been proposed by SELD to outsource their operation and management under PPP mode. In the first phase of this project, 19 schools have been selected

by SELD. PSF is providing its technical input for the collection of necessary data for the schools to be incorporated in the procurement documents.

A. Ongoing/Emergent Issues in Sindh Education Sector

Table 7: Ongoing and Emergent Issues in Education Sector

S.No	Project/Issue	Nature of Issue
1	Teachers Training Institutes – Handing Over of Facilities	The handing over of TTIs facilities has been delayed for over a year. The process of completing the Condition Precedents (CPs) needs to be expedited. PSF emphasized the PPP-Node of SELD to immediately remove the hurdles in fulfilling the CPs so that the facilities may be handed over without delays. The handing-over is likely to be completed in the next quarter. However, the operational risk is still categorized as medium level.
2	Teachers Training Institutes - Delay in Rehabilitation Work	<p>As previously stated in the last quarterly report, the problem of delayed rehabilitation activities, which is also associated with a late handover of the facilities, persisted throughout the current quarter as well.</p> <p>The operators are responsible for rehabilitating the TTIs buildings within a six-month installation period. If there are delays in handing over the facilities, there may be challenges due to inflation, and the budget may not be adequate to complete the work effectively.</p> <p>PPP-Node was asked to expedite the process of handing over the facilities to the operators to mitigate the potential risk relating to construction/rehabilitation work. PPP-Node informed that the design installation work is under review by the Independent Engineer for approval. Once approved, the execution of the concession agreement would start, likely in this quarter.</p>
3	Education Management Organizations – submission as well as quality of evaluation reports	The timely submission of quarterly evaluation reports has improved slightly. However, there is still room for improvement in the quality of the reports. The PPP Node has held several meetings with IEs and IAs regarding this matter, but the pace of improvement is very slow.
4	Education Projects Overall – Contract Management	<p>This issue remains prominent due to insufficient staff at PPP-Node of SELD which works as PIU of EMO reform as well.</p> <p>Contract management continues to be a significant challenge, as it has been since the project's early days. The efforts to improve by appointing a contract compliance manager have not yielded the desired results. Therefore, there is still a clear lack of accountability. Ineffective contract management can also be attributed to factors such as understaffing, limited administrative authority, the inability to promptly address project issues, and inadequate record-keeping at PPP-N of SELD. This risk could be mitigated by enhancing the human resource capacity of PPP-Node.</p>

5	Education Management Organization Project - Data Management/ Availability of Effective Information System	<p>Data management and an effective information system are fundamental deliverables of the EMOs. They will be used as an evaluation source for assessing the progress of the project. However, the existing system was unable to provide real-time data and information about the progress or status of the project. PPP-Node has developed a centralized Education Management and Reporting System (EMIRS), where EMOs will transfer or update their data in real time.</p> <p>An orientation session is expected in the next quarter. The system will be fully operational in the next quarter; hence, several risks related to contract management, quarterly reports, and governance will be reduced.</p>
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Affordability and Contingent Liability of Education Sector Projects

- This quarter, there have been no new education sector projects or financial activities that could impact the financial situation of the education PPP projects. As a result, the affordability, contingency analysis, and funding ratio analysis will remain unchanged compared to last quarter.
- As per the Affordability and Contingent Liability Analysis conducted by the PSF, both these amounts will not make an adverse financing burden on the GoS budgetary outlays and resources. Our finding is based on the following indicators:
 - For the affordability analysis, we compared the total bid cost of all education projects for 10-year period to the current year ADP budget. The EMOs' costs range from 0.016% to 0.516% of the GoS provincial ADP of 2023-24. Additionally, when comparing the ADP budget of SELD for 2023-24, the EMO cost ranges between 0.226% (2016) and 7.327% (2024).

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

The project design, structure and financial model for “Outsourcing Safety and Security Services at JPMC” was discussed in detail in the previous quarterly report.

However, the executing agency has not been able to launch the project for investor solicitation. Henceforth, there is no substantial change in the status of the project. But, to refresh the project design and structure, the project detail is reproduced hereunder.

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, 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 (ICB³) by the Single Stage Two Envelope Bidding process.
- The total concession amount for the project is estimated at PKR 1,973⁴ million 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 into two main components i.e. (i) Installation Cost of PKR 241 million and (ii) Operation and Management Cost of PKR 1,732 million.
- 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 year's management fee payable to the Manager, and thus, it has been accordingly accounted for in the contingent liability calculation.
- Likewise, all other PPP projects, the hospital security and safety service projects may also face several risks, which may affect the efficacy and benefits of the project(s) if the risks are not effectively managed through mitigation measures.
- 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 every quarterly and are contingent on meeting KPIs.

³ 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).

⁴ 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'