Public Private Partnership Support Facility

Extract of Risk Report

June to September 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 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.

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:

(i) the affordability of the fiscal implications,

(ii) its sustainability and

(iii) 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:*

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[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.

- 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.
- 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.

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 got mitigated if implemented with true spirit.

Education PPPs	**# of Procurements**	**# of Schools**	**Funding Approved (Rs. In mn)**
EMOs	6	171	9366.048
TTIs	1	2	1082.287

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, PSF identified following issues and challenges which may convert into project related risks. PSF also discussed these issues in a stakeholder meeting with PPP Unit Finance Department and PPP Node of SELD. The meeting ended with suggestions and decisions as remedial actions to address the issues.

- The handing over of TTIs facilities is delayed over a year now. The process of completing the Condition Precedents (CPs) needs to be expedited. It was revealed that the delay in completion of the CPs remains with the operator. The PPP-Node was asked to hold a meeting with the operator to resolve the issues accordingly. Subsequently, the PPP-Node held a meeting with operator who assured to complete the CPs in one month time. Hopefully, the TTIs facilities may be handed over to operator during the next (October-December) quarter. If it happens as assumed, the operational risk may be mitigated substantially.
- 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. PPP-Node was asked to coordinate with the IEs and IAs to explore the reasons behind the delay reporting and make sure to resolve the matters accordingly. After the meeting, numerous reports were submitted before the end of the quarter which may be taken as an indication of efforts to decrease the potential risk of contract management.

- There is an issue of annuity amount payments which have been held due to potential differences in the opinions among the IA, operator and authority regarding the calculation of quarterly payments under RFP#2 and 3. The issue, if not resolved in due time, may lead to the project's operational, financial and contract management related risks. PSF emphasized to act in accordance with the terms and conditions as stipulated in the relevant contracts. The matter should be resolved on priority basis as any delay in the payment, whatsoever the reason may be, can jeopardized in achieving the project objectives and targets.

  In addition to the above mentioned challenges, there are issues which could not be resolved though they were identified several months before. 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. This challenge may become a potential project risk relating to project monitoring, evaluation and control. This risk may be mitigated if human resource of PPP-Node is strengthened.

  Despite all these project risks and challenges, it was informed that as per the internal assessment of the PPP-Node technical expert, the key objectives of the project i.e. increase in students' enrolment and improvement in student learning outcomes are showing positive results. PSF asked to share the results of the study which may be mentioned in next quarterly risk report if the data and information is timely shared.

Health Sectors PPPs

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.

[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).

- 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 to the needs of this project, this project seems affordable with no/minimal increase in VGF future allocations.
- The quantitative VFM of the 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 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 overruns 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

[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

project will be monitored by the PSF on a 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. A less than 90% score will trigger the adjustment in management fee on a prorate basis in accordance to the KPI score achieved in the quarter

According to the recommendations outlined in the Project Appraisal Report (PAR), the PSF Board approved funding for the project during its meeting on 17th January 2023. The board also advised to review and explore the option of funding the salaries of human resources for this project separately 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.