



**Public Private Partnership Support Facility**  
**Extract of Risk Management Report**  
**For the Period Ended April to June 2024**

**Disclaimer**

This report has been prepared by the Public Private Partnership Support Facility ("PSF") to highlight potential risks associated with Public Private Partnership projects approved by the Board of Directors of PSF. This report is uploaded on PSF's website solely for the purpose of sharing information. Under no circumstances should this report be used for any purpose other than sharing information regarding projects approved by the PSF Board. The report must not be shared with any third party without the prior written consent of PSF management, its board, and the relevant government agencies. While reasonable care has been taken to ensure the accuracy and non-misleading nature of the information contained herein at the time of publication, PSF makes no representations or warranties regarding the accuracy or completeness of the report. Reliance on the report for any purpose is strictly restricted. Furthermore, the content of this report may be subject to change over time, and PSF disclaims any liability for any alterations that may occur. All rights to this report are reserved by PSF. This report, or any portion thereof, may not be reproduced, distributed, quoted, or published in any manner or forum, including social media, without the prior written consent of PSF. Unauthorized reproduction, distribution, or publication may result in legal action.

Contents

**1. INTRODUCTION AND OVERVIEW** ..... 3

**2. PROJECT-WISE RISK ANALYSIS**..... 4

## 1. INTRODUCTION AND OVERVIEW

---

- 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 the 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 Organization (EMOs)*

The EMO reform is one of the Government of Sindh's (GoS) initiatives focusing on improving access and governance, enhancing the quality of education, and efficiently utilizing public resources. To achieve these objectives, the operation and management of selected public schools and institutes are outsourced to reputable and experienced private sector parties. This is aimed at helping achieve the targets defined in the Key Performance Indicators (KPI) framework of the EMO reform.

The PPP Support Facility (PSF) has, to date, approved funding for 211 schools and 3 Teacher Training Institutes (TTIs), which were outsourced through 8 rounds of procurements, totaling an overall spent of PKR 19,743 million. However, one of the operators of the TTI project requested to withdraw their offer to operate the GECE Sukkur, resulting in the project comprising 2 TTIs and reducing the project amount to PKR 19,113 million.

The project's overall risk profile is low. PSF believes that the Concession Agreements have effectively allocated the perceived risks between the Government and the private parties. These risks could be further mitigated if the agreements are implemented in true spirit.

### *Education PPP (number of institutes and funding)*

Education PPPs	# of Procurements	# of Schools	Funding Approved (Rs. in mn)
EMOs	7	211	18,031.249
TTIs	1	2	1,082.287

### *Health Sector*

GoS has initiated multiple health projects under the PPP modality. These projects include the operation and management of health facilities through Health Management Organizations, outsourcing security and safety services at the National Institute of Child Health, and the operation and management of Regional Blood Centers (RBCs).

The health department conducted a feasibility study to enter into a management contract with a reputable private partner to provide safety and security services at Jinnah Post Graduate Medical Centre (JPMC) in Karachi. The PSF Board, in its meeting held on 17<sup>th</sup> Jan 2023, approved funding for the project with a suggestion to explore the possibility of funding the salaries of the project's human resources from the old VGF (Viability Gap Fund). PSF informed the procuring agency about the principal approval of the project.

### *Water Supply Sector*

The Government of Sindh is currently working on multiple projects related to water supply including the Nabisar Vajihar project (under construction), TP1 (Feasibility completed), TP4, the 5 MiGD Desalination Project, and the 65 MiGD water supply project.

### **General Risks of PPP Projects**

	Ongoing projects/Under Development	General Issues/Lessons from Projects
	<b>Road Construction Projects</b> <i>Malir, Ghotki</i>	<ul style="list-style-type: none"> <li>• Need to consider all technical alternatives and identify least cost solutions</li> <li>• Lack of dependable feasibility studies with accurate estimates</li> <li>• Define and lock in baseline, cost, scope, timeline</li> <li>• Identify all E&amp;S impacts</li> <li>• Define comprehensive KPIs</li> <li>• Risk transference, need to transfer design, construction, and maintenance risk completely</li> <li>• Identify all potential relief events</li> <li>• Land procurement needs to be completed in all respects along the Right of Way (RoW), all affectees need to be paid before the start of construction</li> <li>• Detailed design completed and approved before the start of construction</li> <li>• All tests completed before the start of construction</li> <li>• Financial Close achieved before the start of construction</li> <li>• IA/IE fees paid through independent escrow</li> <li>• IA/IE approvals mandatory</li> </ul>

		<ul style="list-style-type: none"> <li>• No deemed approval for essential aspects such as detailed design, test, financial close, E&amp;S safeguards</li> <li>• Change of Scope limited to ancillary activities, not for scope necessities missed in the original baseline</li> <li>• Escalation on four major items initial 10% on concessionaire thereafter equally.</li> <li>• Ownership from the department and administrative arrangements on the ground i.e. PD, PMIU, Land Revenue department, etc.</li> <li>• Recurring monitor as-built drawings, conduct tests, and approved by IA/IE</li> <li>• Monitor schedule and cost variance and estimate the cost at completion</li> </ul>
	<p><b>Water Treatment/Transmission Projects</b> Hub Canal, TP1,</p>	<ul style="list-style-type: none"> <li>• Prioritization of projects essential</li> <li>• Define comprehensive KPIs</li> <li>• Meet all E&amp;S requirements</li> <li>• Consider Affordability and contingent liability</li> <li>• Land procurement should be completed before tender or engagement with private concessionaires</li> <li>• All relevant approvals in place before commencement</li> <li>• Engage local contractors as much as possible</li> <li>• Maximum reliance on local equipment and content</li> <li>• Park offshore risk with onshore contractor, recover sites, no horizontal defenses or Extension of Time (EOT)</li> <li>• Avoid International Arbitration</li> <li>• Recurring monitor as-built drawings, conduct tests, and approved by IA/IE</li> <li>• Monitor schedule and cost variance and estimate the cost at completion</li> </ul>
	<p><b>Management Contracts</b> Health, HMOs, EMOs, TTIs, RBCs</p>	<p><b>Key Issues</b></p> <ul style="list-style-type: none"> <li>• Challenges of selecting credible consultants for feasibility studies of the proposed projects.</li> <li>• Challenges to meet defined deliverables, as no due diligence of required technical aspects of the KPIs is done properly.</li> <li>• Optimal service levels should be identified from the service level requirement and resource levels available. E.g. the number of beds for the former and the number of donors for later in RBC project.</li> <li>• Lack of providing data/information for a timely and evidence-based baseline, which should be verified by the IE. Lessons learned based on challenges faced previously</li> <li>• Follow the competitive procurement process</li> <li>• Complete any construction and/or supply works pending before tender</li> <li>• Complete all codal formalities of handing over primary and ancillary facilities before commencement</li> <li>• Ensure IE/IA know the scope of their work and follow diligently in terms of timely reports and approvals.</li> <li>• Allow concessionaire to do construction/refurbishment and maintenance and repair</li> <li>• Avoid any delay in the opening of an escrow account and handing over the facility</li> <li>• Empower Nodes/PMIU and provide adequate manpower, to enforce contracts.</li> <li>• Ensure bottlenecks to projects are removed in a timely fashion.</li> <li>• Fulfillment of CPs to be ensured timely and due diligently.</li> <li>• Avoid the practice of delay or deferment of fulfillment of CPs</li> </ul>

#### Ongoing PPP Projects in Sindh Education Sector

- During this quarter, ADB approved the funding of EMO-RFP-7 project under PPP mode.
- A key prospective PPP project in the education sector is to seek partnership with the 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-based 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 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, SELD initiated the procurement process of 03 packages comprising 19 Girls' Elementary Schools for public-private partnership contracts. PSF is preparing the Project Appraisal Report (PAR) of this project to get approval for the project structure from the PSF Board. PSF is providing its technical input for the collection of necessary data for the schools to be incorporated in the procurement documents.
- A project of outsourcing the operation and management of four 04 public schools, which are currently run by a board chaired by a 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.

### Ongoing and Emergent Issues in Education Sector

S.No	Project/Issue	Nature of Issue
1	Teachers Training Institutes (TTIs)– Handing Over of Facilities	The handover of TTI facilities has been delayed for over a year. The completion of the Condition Precedents (CPs) needs to be expedited. PSF has stressed to SELD's PPP-Node to promptly remove the hurdles in fulfilling the CPs so that the facilities can be handed over without any further delay. It is expected that the handover will be completed in the next quarter. However, the operational risk is still categorized as medium level.
2	TTIs - Delay in Rehabilitation Work	<p>It was noted in the previous quarterly report that there was a delay in rehabilitation activities, which was linked to the delay in handing over the facilities.</p> <p>The operators are responsible for the rehabilitation of the TTIs buildings within the six-month installation period. The delay in handing over the facilities may lead to challenges related to inflation, potentially affecting the quality or quantity of the rehabilitation work due to insufficient provision in the budget bid by the operators.</p> <p>To mitigate the potential risk, PPP-Node was requested to expedite the process of handing over the facilities to the operators. PPP-Node has informed us that the design installation work is currently under review by the Independent Engineer for approval. Once approved, the execution of the concession agreement is expected to begin, likely in this quarter.</p>
3	EMOs – submission as well as quality of evaluation reports	<p>Comparatively, the submission of timely quarterly evaluation reports is improved potentially. However, the quality of reports is somewhat needs to be further improved. PPP Node conducted several meetings with IEs and IAs on the matter but the pace of improvement is very slow.</p> <p>This challenge is bringing more risks to the acknowledged success of the EMO reform projects. PSF provides technical support to PPP-Node to mitigate the risk.</p>
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>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 to the project team also couldn't bring the desired results. Hence, the general weakness in accountability remains strong. The other reasons for ineffective contract management include the insufficient number of staff, weak administrative powers and capacity to timely address the project issues, and poor record keeping at PPP-N of SELD.</p> <p>However, the PPP-Node of SELD recently started to monitor the progress of the EMOs through an online dashboard of the data management software. This provision may help to increase the efficacy of the progress monitoring mechanism.</p>

		This risk may also be further mitigated if the human resource of PPP-Node is strengthened.
5	Education Management Organization Project - Data Management/ Availability of Effective Information System	Data management and effective information systems a fundamental deliverables of the EMOs to be used as an evaluation source for assessing the progress of the project. However, this system was not able to provide real-time data and information about the progress/ status of the project. PPP-Node has worked out a centralized Education Management and Reporting System (EMIRS) where the EMO will transfer or update their data in real-time.  An orientation session is expected in the next quarter. The system will be fully operational from the next quarter. Hence, several risks in contract management, quarterly reports, and governance will be reduced.

#### *Affordability and Contingent Liability of Education Sector Projects*

- There is no new project of the education sector included in this quarter, nor any potential financial activity that took place that may affect the financial scenario of the education PPP projects, hence affordability, contingent analysis, and funding ratio analysis will remain the same as done in the previous 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 affordability analysis, the 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 0.016% - 0.516% of the GoS provincial ADP Budget of FY 2023-24. When it is compared to the ADP budget of SELD for FY 2023-24, the EMO cost of all these projects shall have an impact range, in percentage terms, between 0.226% (2016) and 7.327% (2024).

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

The project design, structure, and financial model of the “Outsourcing Safety and Security Services at JPMC” project was discussed in detail in the previous quarterly report. The executing agency is still not able to launch the project for the investor solicitation phase. Henceforth, there is no substantial change in the status of the project. However, to refresh the project design and structure, the previous detail is reproduced here.

Under the backdrop of providing quality healthcare services in 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 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 5.5 years, i.e. six months as the installation period and 05 years as the Operation and Management (O&M) period.
- Keeping given 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<sup>1</sup>) by the Single Stage Two Envelope Bidding process.
- The total concession amount for the project is estimated at Rs. 1,972,775,633<sup>2</sup> 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 its two main components i.e. (i) Installation Cost during six months estimated as Rs. 240,797,804 and (ii) Operation and Management Cost for 5 years estimated as Rs. 1,731,977,829.
- 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. Concerning the CL

<sup>1</sup> 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).

<sup>2</sup> 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'

analysis, the GOS obligations for this project range from Rs. 26.84 million (2023) to Rs. 36.51 million (2028) per annum. The government has no further financial or non-financial obligations under these agreements. Also, since the 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 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, in 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. The Concessionaire will bear risks of design, installation, performance, cost overruns, and non-political force majeure events of the project for the 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 emerging during the execution phase of the project will be monitored by the PSF every quarter and the same will be presented to the PSF Board vide a quarterly risk management report of the project.
- 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 quarter and are contingent on meeting KPIs.