Public Private Partnership Support Facility

Brief of Risk Report

October to December 2022

1. Introduction and Overview

This Risk Report serves multiple purposes such as:

- Highlights project specific risks and elaborate upon risk mitigation measures already embeddedin the projects' Concession Agreement, and to suggest risk mitigation measures for risks assessed by PSF.
- 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, who are helpful in achieving targets as set out through the objectives of the EMO reform.

Three things we can highlight in the risk report as to why PSF has recommended a project:

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

We can further elaborate on the three items as follows – and the risk report can present calculations around each project with the following in perspective.

- *Affordability*:
  - The fiscal impact of one particular project should be affordable within the long-term budgetconstraints of the implementing agency as per the medium-term expenditure framework forat least the first 5 years of the PPP term.
  - The fiscal impact of the direct liabilities should be affordable within the overall debt balanceof the government i.e.
- *Sustainability:*
  - From a risk perspective, there are no material risks in terms of high probability of occurrence in combination with a high fiscal impact. We could further define any risk as (we have already used and defined this):
  - High probability of occurrence is defined as a probability of more than 50%

[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 June2022
- After the amendment in project agreement, the partner contribution ratio of whole amount of the projects RFP#4-6 and TTI istaken as ADB + FCDO @ 76.49% and GoS @ 23.51% whereas same ratio has been taken for the payable amounts between Julyto 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 relevantratio 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 besigned soon.

- Value for money: Positive for every transaction

- ***Justification (of undertaking the risks):***

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. The overall risk profile of the project is proposed to be lowas 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 truespirit.

On budgetary perspectives, PSF could identify thresholds for putting in affordability criterions: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:

Education PPPs	# of Procurements	# of Schools	Funding Approved (Rs. In mn)
EMOs	6	171	9366.048
TTIs	1	3	1712.784

- 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% - 0.325% of the GoS provincial ADP Budget of FY 2022-23. Whenit 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 0.382% (2016) and 7.042% (2023)
- The contingent liabilities as percentage of GoS-School Education provincial ADP Budget of current FY 2022-23 ranges from 0.218% (AY 2032)- 0.748%(2026) during 2022 to 2032.

During this quarter, flowing 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 risk of high Student Teacher Ratio (STR) due to low strength of government staff as compared to RFP numbers has made challenges in implementation of schools being managed under RFP#1 to 5. From RFP#6 and onward, the risk mitigation strategy is part of the concessionagreement through which the concessionaire has the budget available to fill the gap/less number of government teachers available. No such risk is expected in TTIs as well.
- Rehabilitation old buildings of SBEP schools needs to be cater for. Current project structure doesnot allow private parties to rehabilitate these schools, hence these schools have to be rehabilitated through the GoS ADP schemes. Any delays or lags in the same, results in interruptions and challenges in overall performance of the project.
- Optimal capacity vs. high enrolment is a long-standing issue, which needs to be resolved by the development of a rationalized enrolment policy, thereby ensuring quality education to thechildren.
- A big gap is found in signing of concession agreement, handing over the school buildings and effectiveness of the concession agreements of RFP#5 and 6 schools project. This risk is seen lownow, but may rise to medium level if the gap between handing over and effective date continuesto widen.
- A delay in signing of concession agreements and handing over facilities relating to TTIs project may also lead to the challenge of delay in academic activities which are linked to affiliating universities academic calendar.

Malir Expressway Project

The Malir Expressway Project ('MEW'), with an estimated project cost of approximately PKR 28 billion, will be the single largest PPP transaction to date, and is expected to significantly ameliorate the road infrastructure of Karachi, the commercial capital of Pakistan. Therefore, it is imperative that MEW is executed completed and remain operational as per estimated costs, quality standards, maintenance and agreed timelines.

Failure to execute the project as per estimated costs and agreed timelines may result in reputationaldamage to the Government of Sindh, in addition to wastage of precious financial resources and lost economic value. Alternatively, if executed successfully, not only will the project realize the envisaged socio-economic benefits, but also strengthen the PPP credentials of the Government of Sindh.

In terms of the risk profile, the MEW project has allocated envisaged risks to a large extent between the GoS and Private Party. The Concession Agreement has also covered the envisaged risks extensively; however, some areas require further clarity. Moreover, PSF has conducted Affordabilityand Contingent Liability Analysis in order to provide the PPP Policy Board with a broader picture of the fiscal implications of executing the project.

Our analysis indicates the following:

- The MEW is affordable for the GoS as the ratio of GoS support (both upfront equity and MRG) to the Annual Development Plan of the Local Govt. Department ranges from 0.42% to 6.9% based on conservative scenarios and methodology detailed in the main sections of this report.
- Contingent Liabilities however present a different picture, the quantum of which is dependent onthe effective resolution of (i) Lead Costs (estimated by Transaction advisors to be around PKR

  4.25 billion), and (ii) Land Acquisition issues. Since lead costs and land acquisition costs are to be borne by the GoS, therefore any delays in the timely execution of the project will result in ballooning of these costs, thereby affecting the project's Value for Money.
- PSF, ADB and FCDO will enable the project to comply with ESMS provisions through EIA and LARP studies. It is envisaged that any PSF's support will remain conditional on the adherence to ESMS provisions and their applicability in all letter and spirit throughout the project. During recent development, it has emerged that ADB may require additional studies for safeguards, andwould continue to look positively at the MEW funding based on the conclusions from such studies.
- The direct and contingent liabilities arising from termination and non-termination events rangefrom a maximum of PKR 49.23 billion and PKR 29.39 billion to a minimum of PKR 15.57 billion and PKR 13.1 billion respectively.

By virtue of this Risk Report, the PPP Policy Board is requested to consider the significance of the following factors in the successful implementation of the MEW project, and to direct the concerned Department(s) / Agency to proactively work towards the timely resolution of the following issues:

- Capacity building with respect to contract administration and management, environmental and social safeguard implementation, and setup of fully functional PPP node in the Local Government Department.
- Delays in Land Acquisition.
- Section – 4 has already been issued on 18 Oct 2021. While necessary action/corrigendum has been requested by Project Director to DC office on May 03, 2022 in lieu of the recent changes in the alignment of MEX (for the sake of minimizing/avoiding the acquisition of private land up to the extent possible). Any further notification from DC office is awaited.
- The Consultants (NESPAK) has completed the field activities pertaining to completion of Draft LARP of MEX and has submitted the same in mid-Dec, 2022. However, few smaller patches in the alignment are left pending intentionally because of the unavailability of formal approval of changes in the alignment (for some elevated sections of the alignment).
- The Draft LARP as submitted by NESPAK in Dec 2022, has been reviewed and later shared with the PD MEX through PPP Unit before submitting to ADB. His response/feedback on the Draft LARP is still awaited.
- AG Sindh has issued legal opinion for lifting of sand from Malir Riverbed vide letter AG-2763 of 2020.