BALOCHISTAN
PUBLIC-PRIVATE PARTNERSHIP
POLICY 2021

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PUBLIC-PRIVATE PARTNERSHIP POLICY 2021

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The province of Balochistan is gifted with enormous wealth and resources. The province is rich in natural resources, has an approximately 750-KM long coastline, and sits at the intersection of some of the world's most important trade routes and strategic regions. These locational and resource advantages offer great growth potential. The multi-billion-dollar China Pakistan Economic Corridor (CPEC) is opening up new opportunities for trade, investment, and socio-economic development in the province.

The Government of Balochistan is committed to putting the province on the path of sustainable development and growth. I believe that the private sector has a critical role to play in the implementation of the GoB's development vision and agenda. To facilitate and attract the private sector as a key partner in pursuit of the foregoing development vision, we have reviewed and improved the existing PPP framework and come up with a comprehensive policy and legal framework to guide the implementation of PPP projects. The Balochistan PPP Policy 2021 underlines the Government's commitment to providing legal, institutional, operational, and financial support for attracting and facilitating private sector investment.

I sincerely hope that the adoption of this revamped and investor-friendly PPP framework will mark the beginning of a new era of inflow of private sector investments in infrastructure and service delivery projects. A strong and vibrant private sector is critical to socio-economic growth and development.

Jam Kamal Khan Alyani
Chief Minister, Balochistan

Balochistan has tremendous potential for economic growth and socio-economic development. The province's unique geography and demography, however, have constrained the realization of the province's true growth potential. Ensuring the provision of basic public services to a small population that is scattered over a large territory is a herculean task, especially given the province's weak fiscal base and huge development deficit accumulated over decades.

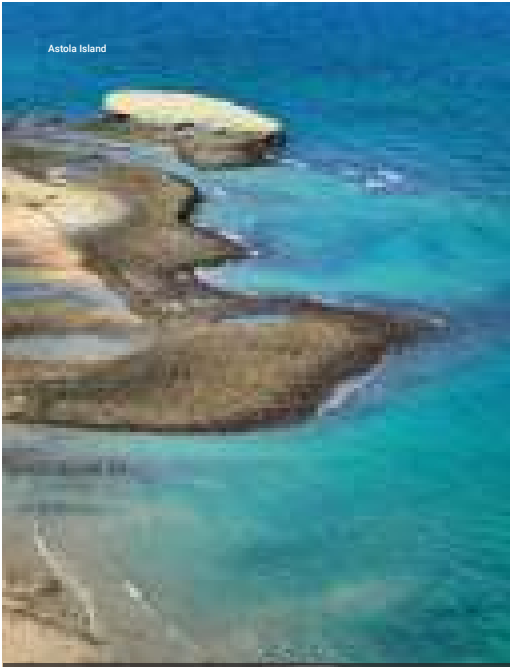
To bridge major gaps in public infrastructure and services in innovative ways, the Government of Balochistan is determined to engage the private sector on the Public-Private Partnership model to harness its strengths regarding raising finances and the creation and maintenance of assets. This Policy provides the overarching framework for implementing PPP projects. A new PPP Law and sub-ordinate legislation and guidelines shall follow it.

Balochistan PPP Policy 2021 is a collective effort of the Planning and Development Department under the visionary leadership of the Minister for Planning who provided unequivocal support and useful inputs and feedback throughout the process. The Strategic Planning and Reforms Cell (SPRC) deserves special credit for spearheading the research, consultative and thought-leadership work on the subject, and developing a vibrant and context-sensitive policy framework. The formulation of this Policy also involved consultations with diverse stakeholders, namely the Law and Finance Departments of the Government of Balochistan, Federal PPP Authority, PPP units of sister provinces, and private firms. The Governance and Policy Project implemented by the World Bank also provided financial support for the development of this framework. All these stakeholders played crucial roles in bringing this policy document to fruition.

I hope that this is a first step in the right direction and will go a long way towards attracting private sector interest, finances, and expertise for public interest projects, which will probably lead to improvement in access to and quality of public infrastructure and social services.

Hafiz Abdul Basit
Additional Chief Secretary (Dev.),
Planning & Development Department

INTRODUCTION



With 750 KM+ coastal belt, PPP modality can be used to convert and develop the tourism sector in line with world class facilities, meeting global standards. The Tourism sector alone offers immense opportunities under PPP mode where sound ideas may even be considered under USPs.

1. INTRODUCTION

A. CONTEXT

Balochistan accounts for nearly 45% of the total land area of Pakistan but is home to only 6% of the total population. The province is rich in natural resources, has vast rangeland, and possesses nearly 750 KM long coastal belt-accounting for nearly two-thirds of Pakistan's total coastline. It has large deposits of coal, copper, lead, gold, chromite, and other minerals. Moreover, the province has tremendous potential for generating large amounts of energy from conventional and renewable sources. Lastly, Balochistan's important strategic location makes it an ideal place for becoming a hub for regional trade by connecting South Asia with the strategically and economically important regions of Central Asia and the Middle East.

The enormous locational and natural resource potential of Balochistan, however, remains untapped. The province has experienced the weakest growth rate (World Bank, 2012) and the highest rate of multi-dimensional poverty compared to other provinces of Pakistan (UNDP, 2016). Transport infrastructure in the province is limited and of low quality, leading to poor connectivity of the province with key markets and industrial centers in the country. Road density (road length per square kilometer) is only about half of the national average. The province lags behind other regions of Pakistan on nearly all key indicators of socio-economic development.

A host of political, economic, geographical, and social factors explain the under-realization of the province's tremendous economic potential. Key barriers to growth include an unstable security situation, low population density, weak fiscal base, uncertain and limited supply of water, low investments, a weak private sector, and inadequate institutional and human resource base. Difficult terrain and a low population density (i.e. 36 per square kilometer against the national average of 216) mean that the per-unit cost of public service provision in the province is significantly high compared to other provinces of Pakistan. The constraints imposed by harsh geography and small demography have been worsened by the absence of a vibrant and well-developed private sector.

Notwithstanding the aforementioned challenges, Balochistan's large youth bulge and promising natural endowments, such as mines and minerals, vast land, large coastline, continue to offer potential window of opportunity for embarking on the path of sustainable growth and development. Political and economic developments over the past decade have further opened up new economic opportunities for growth. The adoption of the 18th Amendment to the Constitution of Pakistan in 2010 gave the province administrative autonomy over key social sector subjects and empowered it to design a development strategy appropriate to its unique circumstances and special needs. Similarly, the 7th National Finance Commission (NFC) Award nearly doubled the financial resources that the province used to receive from the Federal Government. More recently, the multi-billion dollar China Pakistan Economic Corridor (CPEC) has opened new avenues of growth and development in the province. CPEC has the potential to create jobs, bridge major infrastructural gaps, address energy needs, and foster industrial development in Balochistan (UNDP, 2018).

The Government of Balochistan (GoB) is committed to making the most of these opportunities to improve basic economic and social infrastructure in the province. The GoB is developing medium-term development and sectoral plans that provide an overarching framework and roadmap for development in the province. These plans set targets and recommend concrete actions for improving indicators of socio-economic development and public service delivery in the medium term. For instance: the Balochistan Comprehensive Development Strategy focuses on bridging infrastructural gaps in key sectors such as roads, energy, water, education, and health (Planning & Development Department, 2020). Furthermore, Government of Balochistan has put in place mechanisms to achieve the goals and targets set by the 2030 Agenda for Sustainable Development. In partnership with the United Nations Development Programme (UNDP) Pakistan, the Government of Balochistan has developed a provincial framework for Sustainable Development Goals (SDGs) and created an SDGs Support Unit at UNDP Sub-Office in Quetta (UNDP, 2019).

The medium-term development plans and sectoral plans as well as the SDGs framework of the Government of Balochistan envisage an important role for the private sector. Government of Balochistan recognizes and appreciates the critical role that the private sector can play in putting the province on the path of sustainable development and is, therefore, keen to create an enabling environment and framework for engaging the private sector through Public Private Partnerships (PPPs).

Government of Balochistan believes that engaging the private sector in PPP mode for achieving development targets and implementing public interest projects will go a long way towards improving the coverage, efficiency, management, and affordability of public goods and services. PPPs can help harness the financial resources, expertise, and operational efficiency of the private sector. In pursuit of the aforementioned objectives, the Government of Balochistan has developed a comprehensive policy framework to guide the implementation of PPP projects in the province.

This policy documents outlines the broad principles, processes, institutional architecture, and governance mechanisms for pursuing projects under PPP mode in Balochistan. Government of Balochistan has thoroughly reviewed the existing PPP framework in the province and revamped it to make it more conducive and attractive for the private sector. The PPP project approval processes have been simplified and a robust institutional setup has been approved to manage PPP projects.

INSIGHT BOX 1.1: SUSTAINABLE DEVELOPMENT GOALS AND PPPs

In September 2015, the international community endorsed and signed up to the Sustainable Development Goals (SDGs) that provide the blueprint for the world's development till the year 2030. The SDGs expand the scope of global development agenda to include goals on economic growth, climate change, sustainable consumption, innovation, and the importance of peace and justice for all (UNDP, 2015). These 17 SDGs revolve around 5Ps i.e. people, prosperity, peace, planet and partnerships.

The implementation of the 2030 Agenda for Sustainable Development, however, presents a major challenge. Achieving the SDGs requires unprecedented investments in key areas such as health, education, sustainable infrastructure, agriculture and food security, environmental protection and peace and security. According to estimates of the United Nations Conference on Trade and Development (UNCTAD), the total investment needs in developing countries alone ranged from US$3.3 trillion to US$4.5 trillion per year. The gap between the investments need and the actual investment is substantial and growing every year. Given limited availability of public finances, a considerable amount of private finances will be required to fill this gap.

Public Private Partnerships will be critical to fill the financing and capacity gaps with regards to SDGs. PPPs not only offer a model for harnessing private sector finances, innovation and efficiency for addressing sustainable development challenges but also provide private businesses a real opportunity to go beyond philanthropy and voluntary corporate social responsibility (CSR) and move toward inclusive, responsible and sustainable business practices and models—all while maintaining profitability (UNCTAD, 2014). The SDGs provide an opportunity for companies to create value for both their business and society through:

i. Developing products and services to reach low-income consumers;
ii. Investing in supply chains which are ethical, inclusive, resource-efficient and resilient;
iii. Improving the skills, opportunities, well-being and hence productivity of employees, contractors and suppliers; and
iv. Increasing investment in renewable energy and other infrastructure projects;

There is growing consensus on the value of public-private partnerships for achieving the SDGs. The conversation on engaging the private sector has moved from "why to partner" to "how to partner". Countries are developing comprehensive and business-friendly policy, legal and institutional frameworks for engaging the private sector on a sustainable and in a responsible manner.

B. Definition of Public Private Partnership (PPP)

There is no internationally agreed-upon definition of public private partnerships. Most governments and development organizations have adopted the definition developed by the PPP Knowledge Lab, which is a joint initiative of major multilateral banks. According to this definition:

"PPP is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance" (World Bank, 2014, P. 14).

PPP contracts typically involve a long-term commitment to provide infrastructure or address service delivery gaps, either for new or existing assets and services that are traditionally provided by the government. Besides the duration of a contract and the type of asset or service involved, PPPs vary in several other dimensions as well. Notable aspects include but are not limited to the involvement of the private party, payment mechanism, and level of ownership of the asset involved.

To begin with, the involvement of the private party varies from project to project. Depending upon the type of contract and nature of the project, responsibility for some or all of the following project functions may be transferred to the private party: design, build or rehabilitate, finance, maintain, operate, or manage. The private party usually bears significant risks and is accountable for project performance (World Bank, 2014).

Secondly, PPPs also vary depending on the payment mechanism. They can remunerate the private party for its investment or services through the following three mechanisms:

a. The private party may charge fees to the users of the service they are provided;

b. The government pays the private party fully or partially;

c. A combination of user-fees and government payments (World Bank, 2014);

Payment to the private party in PPP projects is typically linked to performance. Lastly, PPPs also vary in terms of the level of ownership of the asset involved. The ownership of an asset may remain with a government agency or the private party depending upon the type of project and asset involved.

In short, the key characteristics of a PPP arrangement are as follows:

i. A long-term contract between a private party and a government entity;

ii. Involves the provision of a new public asset and/or service or the up-gradation and rehabilitation of an existing public asset and/or service;

iii. The private party typically performs all or some of these projects functions: design, build, rehabilitate, finance, maintain, and operate;

iv. The private party earns revenues through charging user fees or is paid fully or partially by a government agency or a combination of user fees and government payments;

v. Private party bears significant risk and management responsibility;

vi. Payment to the private sector is linked to performance and based on the extent of project risk share; and

vii. Conformance by the private party to pre-defined realistic and measurable performance standards;

C. Vision

The Balochistan Public Private Partnership Policy 2021 envisions engaging the private sector in the implementation of public interest projects to improve the coverage, management, and affordability of infrastructure and public services in the province.

D. Policy Objectives

i. To promote cost-effective, sustainable, and efficient ways of bridging infrastructure gaps in key social and economic sectors;

ii. To harness private sector strengths in asset creation, maintenance, and service delivery;

iii. To improve the efficiency, management, and affordability of public services in a responsible manner;

iv. To encourage innovation and technological improvements in the provision of public infrastructure and services; and

v. To encourage and incentivize the private sector to play a more active role in the socio-economic development of the province;

E. Policy Scope

This policy covers the entire province of Balochistan and includes all sectors. Any project that qualifies the definition of PPPs as defined in this policy and is proposed and implemented by a line department, attached department, public authority, or any organization or corporation owned or controlled by the Government of Balochistan will be governed under this Policy.

There is one notable exemption from the scope of this policy. This exception is in the case of mining exploration licenses where a Government Agency is engaged on a free-carried basis and bears no cost or contingent liability.

F. Principles Governing The Implementation of PPPs

i. Provide a fair and transparent framework for facilitating projects under PPP mode;

ii. Devise an efficient, consistent and competitive process for selecting the private party;

iii. Protect the interests of the public, government entities, end-users especially those from poor and socially marginalized backgrounds;

iv. Create an investment-friendly climate and enabling environment for attracting greater private sector participation;

v. Encourage innovative practices in the delivery and maintenance of public services; and

vi. Encourage strict transparency and devise procedures to identify, monitor, and manage conflicts of interest;

INSIGHT BOX 1.2: DIFFERENCE BETWEEN PPP AND TRADITIONAL PROCUREMENT

Governments enter into a wide range of contracts with private parties. All of these contracts don't qualify the definition of PPPs. For instance: PPPs typically don't include design-build contracts, which are usually characterized as normal public procurement projects. (UNESCAP, 2008) PPP contracts typically involve the sharing of risk and management responsibilities and provision of assets and services that are traditionally provided by the Government.

i. PPP projects typically have a minimum level of commercial viability.

ii. Private sector generally mobilizes finances for PPP projects, especially in case of infrastructure projects.

iii. Risk allocation is more complex in PPP projects. Private party often bears major but pre-determined risks.

iv. PPP projects typically have longer tenures than normal procurement projects.

v. PPP is not full privatization either. The latter involves the transfer of ownership permanently to the private party and involves minimal regulatory role for government.

INSIGHT TABLE 1: EXAMPLES OF PPP PROJECTS BY SECTORS

SECTORS	EXAMPLES OF PPP PROJECTS
Health and Education	Education facilities and related services such as e-learning. Health facilities and related services.
Transport	Construction of roads, tunnels, bridges, mass transit systems, construction, maintenance, operation of the rail system, airports, and ports.
Water and Sanitation	Wastewater treatment plants, desalination plants, water distribution systems, sewerage and solid waste management services, and sewerage sanitation system.
Urban Planning and Development	Housing schemes for the public, Government employees, or other beneficiaries, low-cost housing schemes, urban town planning or regeneration projects, public parks, slaughter houses, and wholesale markets.
Power	Power generation and power distribution systems.
Industrial Development	Industrial estates, special economic zones, warehouses, storages, power supply, and grain / food silos.
Agriculture, Livestock and Fisheries	Corporate farming, tunnel framing, seed improvement programs, aquaculture, boat manufacturing projects, jetty, model farms, breeding farms, dairy projects, and poultry projects.
Culture & Tourism	Cultural centers, entertainment facilities, sports facilities, recreational facilities, and coastal tourism.
Information Technology	IT parks and IT training programs.
Mines & Minerals	Mining projects, mines & metal parks, and steel mill plant.

OVERVIEW OF PPP FRAMEWORK

Bolan Pass, Balochistan

PPP modality can be used to explore viable opportunities in railways domain that may be developed and operated by PPP Concessionaire. The Province lacks connectivity among major destinations that can be explored and executed via PPP mode.

2. OVERVIEW OF PPP FRAMEWORK

Given the complex nature of PPP projects, the Government of Balochistan is putting in place a comprehensive framework for facilitating smooth and efficient management of PPP projects. The aim is to create an enabling environment and a transparent framework for private sector participation in public infrastructure and service delivery projects. This framework comprises policy, legal, institutional, financial, and regulatory components. Key elements of the framework are:

a. **PPP Policy:** To provide broad vision and strategic direction.

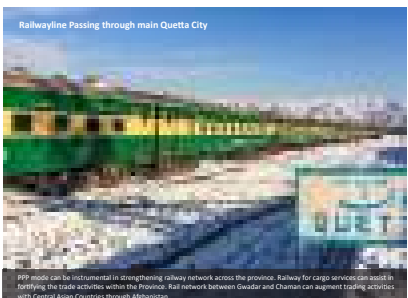
b. **PPP Act, Rules, Regulations, and Guidelines:** To provide legal certainty and detailed guidance on enabling clauses provided in the Legal document.

c. **PPP Institutional Structures:** To ensure effective implementation and management of the PPP projects.

d. **Financing Mechanisms:** To facilitate project preparation and development as well as support projects with low commercial viability.

e. **Adequate Regulatory Arrangements:** In the form of contracts to protect public interest.

f. **Risk Management Guidelines:** To ensure appropriate allocation of risks between the public and private sector.



PPP mode can be instrumental in strengthening railway network across the province. Railway for cargo services can assist in fortifying the trade activities within the Province. Rail network between Gwadar and Chaman can augment trading activities with Central Asian Countries through Afghanistan.

POLICY AND LEGAL FRAMEWORK

Quaid-e-Azam Residency, Ziarat

With Ziarat Development Package announced, there are potential projects including 'chair-lift' services project that can be undertaken through PPP mode. Similarly, road projects can also be developed by engaging concessionaires through PPP mode.

3. POLICY AND LEGAL FRAMEWORK

The Government of Balochistan is committed to creating a clear and sound legal framework for facilitating the implementation of PPP projects in the province. The key elements of this framework include a PPP policy, PPP law and rules, and procedures.

A. PPP Policy

PPP Policy 2021 provides the broad vision and strategic framework governing PPP projects in the province. This policy articulates the rationale, scope, guiding principles, processes, institutional architecture, and governance mechanisms for pursuing projects through PPP mode. The primary purpose of the policy is to ensure that PPP projects are aligned with the Government's development strategy and generate the greatest economic returns for society.

B. PPP Act

To enable the Government to enter into PPPs and ensure that the mechanisms governing these projects are clearly spelled out, a new PPP law titled "Balochistan Public Private Partnerships Act 2021" (Govt. of Balochistan, 2021) is being enacted. The GoB has repealed the existing PPP Act 2018 and is replacing it with a new law to make the regulatory and business environment attractive for the private investors. The new law establishes the guiding principles, institutional and governance mechanisms and processes for selecting and executing PPP projects.

C. PPP Rules

While the PPP Law will set out the broad principles and institutional arrangements, a more detailed set of rules, regulations and guidelines have been developed to guide all the stakeholders involved in the preparation and implementation of PPP projects. These rules provide further details about identification, selection, procurement and implementation processes and dispute resolution mechanisms. The rules will cover solicited as well as unsolicited guidelines. Furthermore, the rules will also have guidelines for managing Project Development Facility, Viability Gap Funds and Risk Management Framework.

INSIGHT BOX 3.1: GOOD GOVERNANCE FOR PPP FRAMEWORK

The success of PPP projects depends on a number of variables including the quality of legal and institutional frameworks and capability of actors involved in the management of PPP projects. In addition to these variables, governance framework also plays a critical role in the success of PPP projects (World bank, 2009). Governance failures may open doors to discretional, opportunistic and inefficient practices, which may ultimately jeopardize the credibility and business value of PPP projects. A good governance framework is essential to ensure that PPP projects result in the provision of public good and creation of market value.

Key elements of such framework are:

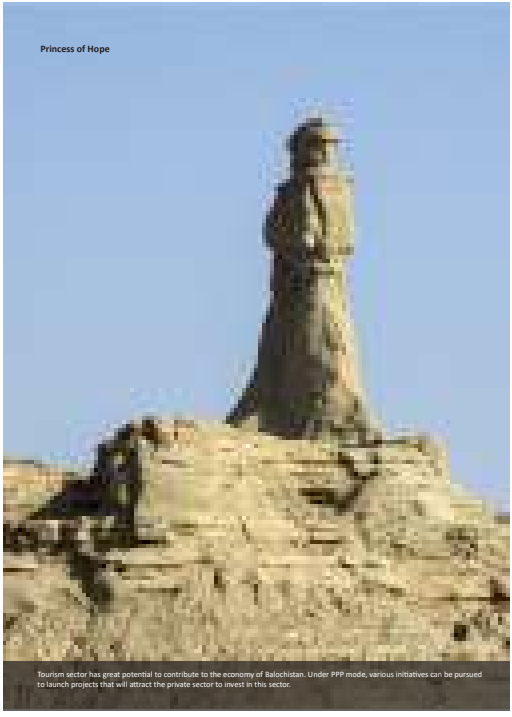
i. **Participation:** Inclusive approach to ensure that all concerned stakeholders including citizens, policy-makers and the private sector, are involved in the management of PPP projects and public interest is protected.

ii. **Efficiency:** Ensuring the use of resources without waste, delay, corruption, or undue burden on future generations.

iii. **Accountability:** The extent to which processes are fair, performance is monitored, and all actors involved in management of PPP projects are held accountable for their actions.

iv. **Transparency:** The extent to which all stakeholders, especially end-users and the private sector, have access to information and decision-making processes related to PPP.

INSTITUTIONAL ARRANGEMENTS



Tourism sector has great potential to contribute to the economy of Balochistan. Under PPP mode, various initiatives can be pursued to launch projects that will attract the private sector to invest in this sector.

4. INSTITUTIONAL ARRANGEMENTS

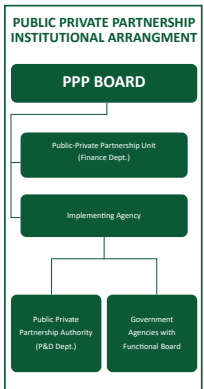
The institutional setup for PPPs comprises the following forums and bodies:

PPP Board is the premier decision-making and approval forum with regards to PPP projects in the province. The Board will supervise the overall PPP processes and framework in the province and approve project proposals and associated requests for Government support. The PPP Board shall be headed by the Minister for Finance and co-chaired by the Minister for Planning and Development. The Board will oversee the preparation, design, costing, implementation and monitoring of PPP projects in the province.

The **PPP Unit** will serve as the Secretariat as the well technical arm of the PPP setup in the province. It will be based in the Finance Department. The primary mandate of the PPP Unit will be to appraise and evaluate PPP projects and carry out a comprehensive risk assessment. The Unit shall also provide technical inputs in the evaluation of bids and drafting of PPP agreements. The PPP Unit will perform the risk management function, including risk identification, assessment, and allocation. It shall develop guidelines and technical notes regarding different aspects of PPP projects. The PPP Unit will be headed by a Managing Director, who shall be hired from the open market competitively.

Implementing Agency: A PPP Authority shall be established in the province through a new PPP law. The PPP Authority shall have the primary responsibility for identifying, developing, structuring, implementing, and executing PPP projects for existing and new projects in the Province. As far as applicable, the PPP Authority will do so in coordination with concerned line departments. It shall also be responsible for developing PPP Investment Plans and identifying a pipeline of priority projects in line with sectoral plans that can fuel growth in development of the Province. The Authority shall also provide support to other government agencies engaged in implementation of PPP Projects. The PPP Authority will be headed by a Chief Executive Officer (CEO), who shall be hired from the open market through competitive process.

Besides PPP Authority, **Public Sector Authorities or Companies,** which have functional Board of Directors, may also act as implementing agencies for PPP projects. These agencies will have the power to enter a PPP agreement with a private party.



PPP PROCESSES

Coal Mining Project, Mines Sector
(For Illustrative Purpose only)

Mines & Minerals is a major part of productive sector which offers tremendous opportunities to the private sector to tie up with the 'Government of Balochistan' on Joint Venture basis under PPP mode.

5. PPP PROCESSES

The Government of Balochistan aims to ensure that approval processes and procedures are efficient and friendly for private sector. A brief overview of the approval process is as follows:

a. Project Initiation and Development

PPP Authority will identify and originate potential projects that may be implemented under the PPP model. These projects will be identified from PPP Investment Plan, sectoral plans, annual development plans, and provincial and national development frameworks and policies. Tentative PPP projects will be identified based on 'Value for Money (VFM) analysis and the impact on improving public access to infrastructure and services. PPP Authority will prepare concept notes for identified projects and submit them to its 'Executive Committee' to be established by the PPP Board for review, approval, and access to 'Project Development Facility' funds for projects with a cost of up to PKR 50 Million. For projects where funds required from PDF exceed PKR 50 Million, the PPP Authority shall seek approval of the PPP Board via the PPP Unit.

b. Transaction Advisors

Transaction advisors will be hired to conduct detailed feasibility studies initially and in a case where the project is viable, prepare all project documents, including but not limited to a detailed feasibility study, financial model, environmental risk assessment, the quantum of Government support required if any and draft PPP agreement. These project documents shall be submitted by the PPP Authority to the PPP Unit for review. After due review process and risk assessment, the PPP Unit shall submit the same to the PPP Board for consideration and approval with its recommendations and comments. Public sector authorities or companies with functional Boards may also submit PPP projects to the PPP Unit for consideration, review, and onward submission to the PPP Board for approval. Those PPP projects whose cost is less than PKR 300 Million and don't require any VGF may be undertaken by the concerned Government Agency on its own without having to be presented to the PPP board for approval.

c. The Approving Bodies for PPP Projects

RANGE OF PROJECTS	APPROVING FORUM
PPP projects with a cost up to PKR 300 Million and involving no VGF component.	Concerned Government Agency
PPP projects with a cost between PKR 300 Million and PKR 5 Billion.	PPP Board
PPP projects whose: ➢ Total cost exceeds PKR 5 Billion or ➢ Involve VGF component of PKR 500 Million or more or ➢ Lease of asset or land worth PKR 500 Million or more or ➢ Contingent liabilities worth PKR 500 Million or more or ➢ Provincial Guarantee worth PKR 500 Million or more.	Provincial Cabinet on the recommendation of the PPP Board

Upon approval of a PPP project by the competent forum, the concerned Implementing Agency may proceed to Selection of the Concessionaire through open competitive bidding.

d. Selection of the Concessionaire

Once project documents are approved by the Board or the Provincial Cabinet, as the case may be, the Implementing Agency will move towards project procurement. The guidelines for procurement and criteria for evaluation of bids will be explained in detail in the PPP rules. Upon conclusion of the bidding process, the PPP Authority will share results with the 'Executive Committee' for review and approval and announce results of the bidding and enter into formal negotiations with the selected private party.

Subject to approval of the PPP Board and the Cabinet and any other approvals required by the law, the requirement related to open competitive bidding may be waived in case a project is undertaken as a result of a direct arrangement or Agreement of the Government with a foreign state or states.

e. Negotiation of PPP Agreement

After completion of the bid evaluation, a 'Negotiation Committee' led by the Implementing Agency with representation from PPP Unit will negotiate the contract and all the terms and conditions with the successful bidder. If there are any amendments in the terms of the draft agreement, the re-negotiated draft agreement will be shared with the PPP Board for final approval.

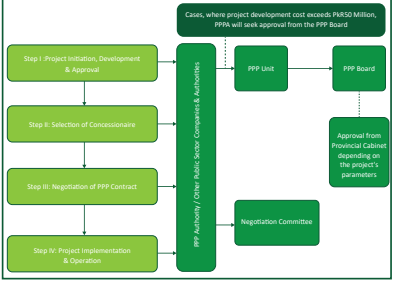
f. Project Implementation

The PPP Agreement shall be executed by the Implementing Agency with the Concessionaire through a formal arrangement as laid down in the finalized PPP Agreement.

g. Project Monitoring & Evaluation

The Implementing Agency will be responsible for monitoring and evaluating the PPP project during its construction and operation period to ensure its conformity with the plans, specifications, performance standards and tariffs in the PPP agreement. The Implementing Agency will submit quarterly progress reports for the PPP project to the PPP Unit.

PPP PROCESS FLOW CHART



FINANCING SUPPORT

Model Housing & Low-Cost Housing Schemes

(For Illustrative Purpose only)

PPP mode can be a vital tool to attract private sector investment and expertise to develop model housing and low-cost housing schemes across Balochistan. Such projects are need of time owing to ever-growing population of the province.

6. FINANCING SUPPORT

The Government of Balochistan has devised a range of mechanisms to provide financial support to PPP projects in the province. The form and extent of this support will vary according to the nature and scale of projects. Four main financial support mechanisms are as follows:

A. Viability Gap Fund (VGF)

Given Balochistan's unique geographic and demographic characteristics, infrastructure projects in the province often have socio-economic need and justification but lack financially viability. These are projects where expected economic benefits exceed economic costs when analysed for society as a whole but are not capable of generating profits or recovering capital costs in a reasonable time period. In other words, there is a gap between the finances needed to make a project commercially viable and the revenues likely to be generated by user fees. The successful completion of such projects, therefore, requires some form of financial support from the government.

The Government of Balochistan will establish a Viability Gap Fund to make economically-viable infrastructure projects commercially viable for private investors. Under the VGF scheme, the Government will provide funds to private investors which shall not exceed 20% of the total project cost. This subsidy may be linked with performance (i.e. based on the private service provider delivering measurable outputs) and targeted towards projects that are likely to generate wider socio-economic benefits. VGF will help mobilize private sector investment for infrastructure projects while ensuring that it still shares the risks of infrastructure delivery and operation.

A project's eligibility for receiving funds under VGF will be determined in its feasibility study and announced in tender documents. The exact amount will be determined through competitive tendering to ensure the lowest liability for the Government. Detailed mechanism for administering VGF will be elaborated in VGF Guidelines, which will be prepared along with PPP rules.

B. Project Development Facility (PDF)

The development and procurement of PPP projects is a highly technical process, requiring expertise and advisory services of a number of specialists. Governments often end up spending large amount of money upfront to ensure a high-quality project design. Recognizing the importance of project development, the Government of Balochistan plans to create a "Project Development Facility" (PDF) to finance the hiring of advisors and specialists and support other elements of project development. It will be a revolving fund to cover and support costs incurred on preparation of the project documents. These costs will be recovered from the successful bidder of the PPP project under consideration. The PDF will be administered by the PPP Authority.

C. Infrastructure Project Financing Facility (IPFF)

Unlike traditional procurement projects, PPP projects entail greater risks for the private sector and require significantly larger investments and participation beyond the construction period. For implementation of PPP projects, long-term financing is required in the form of both equity and debt. The private partner typically arranges such financing through either their own resources and / or commercial lenders. Sometimes, the private party may find it difficult to mobilise private financing because of excessive exposure to foreign exchange risk and/or weak capacity of local financial markets. In such cases, the government may want to use its support to mobilise private financing, preferably from local financial markets, for the private party.

The Government of Balochistan plans to establish in the medium term, a non-banking private financial entity titled "Infrastructure Project Financing Facility" (IPFF). IPFF should follow commercially-oriented private sector governance model. Acting as an intermediary between local financial markets and the private borrowers, IPFF will aim to mobilise finances without creating undue risk for the local financial market. IPFF will either make equity contributions to PPP projects or provide long-term loans in local currency on commercial rates.

D. In-kind Support

In addition to the above, the Government may also provide indirect and in-kind support to PPP projects in the province. Such support will be part of the project documents and PPP Agreement. This support may take the following forms:

i. Administrative Support;

ii. Provision of Utility Connections;

iii. Asset based support such as leasing, licensing or grant of right to use land and / or infrastructure facility;

iv. Provide equity in the form of land or infrastructure facilities;

v. Grant under Government control;

vi. Various Government guarantees;

vii. Availability based payments;

viii. Exempt tax liabilities and waive fees that the private party would otherwise have to pay; and

ix. The Government may top up tariffs to be paid by some or all consumers to improve the affordability of services and reduce the demand risk borne by the private party;

INSIGHT BOX 6.1: FINANCE STRUCTURES FOR PPP

The private party to most PPP contracts create a Special Purpose Vehicle (SPV) or the Project Company. This project company raises finance through a combination of equity—provided by the project company's shareholders—and debt provided by banks, or through bonds or other financial instruments. The finance structure is the combination of equity and debt, and contractual relationships between the equity holders and lenders.

Typical PPP Project Structure is reflected by a typical contract structure for a PPP project. The government's primary contractual relationship is with the project company. This may be complemented by a direct agreement between contracting authority and lenders; although often this relationship is limited to the provisions in favor of the lenders included in the PPP agreement, such as step-in rights or senior debt repayment guarantees.

The initial equity investors, who develop the PPP proposal, are typically called project shareholders. Typical equity investors may be project developers, engineering or construction companies, infrastructure management companies, and private equity funds. Lenders to PPP projects in developing countries may include commercial banks, multilateral and bilateral development banks and finance institutions and institutional investors.

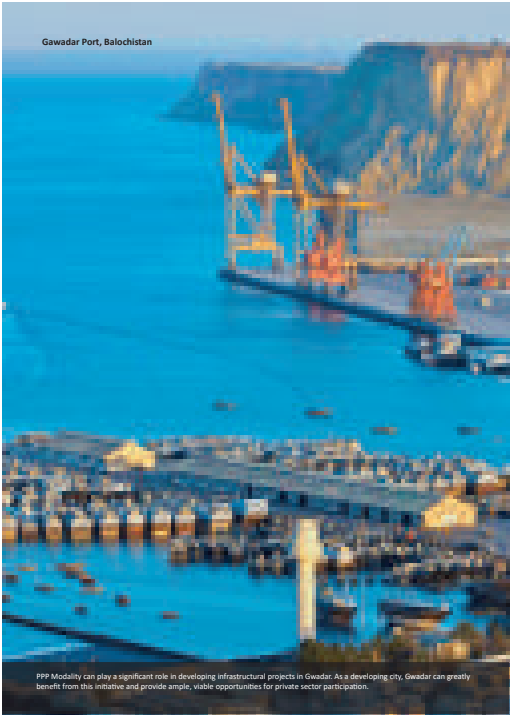
The project company contracts with firms to manage design and construction (usually known as an Engineering, Procurement and Construction, or EPC contract), and operations and maintenance (O&M). These contractors may be affiliated with the equity investors.

Equity investment is 'first in, last out'—that is, any project losses are borne first by the equity investors, and lenders suffer only if the equity investment is lost. This means that equity investors accept a higher risk than debt providers and therefore require a higher return on their investment.

The aim of the project shareholders and their advisors in developing the finance structure is typically to minimize the cost of finance for the project. Because equity is more expensive than debt, project shareholders use a high proportion of debt to finance the project. This proportion may vary from project to project, depending on the risks assumed by the PPP operator.

The financial modeling for the PPP project will tailor debt service and expected dividends according to the expected flow of funds, including revenue from user fees and government payments, and construction and on-going expenditures, namely for maintenance and operations.

RESOLUTION OF DISPUTES



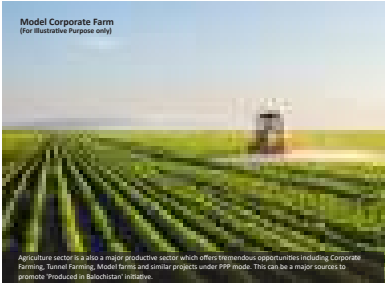
Gawadar Port, Balochistan

PPP Modality can play a significant role in developing infrastructural projects in Gwadar. As a developing city, Gwadar can greatly benefit from this initiative and provide ample, viable opportunities for private sector participation.

7. RESOLUTION OF DISPUTES

Public Private Partnership projects are generally long-term contract with complicated, tailor-made structuring to maximize the value for all the stakeholders. The contracts are complex and may not capture the entirety of the project at the time of awarding and execution of the projects, leading to variation in understanding or interpretation of the PPP contract. This may result in dispute between the private party and the Implementing Agency.

In order to ensure that such incidences are carefully addressed, the new Balochistan PPP Act 2021 and Balochistan PPP Rules define a detailed mechanism, aiming to resolve such incidences with utmost efficiency and ensuring that the services are not disrupted. Further, the mechanism to resolve disputes will also be built into each PPP contract to have a refined process to deal with such issues.



Agriculture sector is a also a major productive sector which offers tremendous opportunities including Corporate Farming, Tunnel Farming, Model farms and similar projects under PPP mode. This can be a major sources to promote 'Produced in Balochistan' initiative.

RISK MANAGEMENT

Livestock (Dairy) Farm
(For Illustrative Purpose only)

Livestock sector is a primary productive sector of Balochistan providing immense opportunities under PPP modality including Model Farms, Breeding Farms, Mega Dairy Projects, Meat Processing Plants for local and export markets, Poultry Projects and other similar projects.

8. RISK MANAGMENT

Risk management is the process of identifying, analyzing and managing various kinds of risks in a project on a sustained basis and mitigate the prospects of risk, wherever possible. The principle governing risk transfer is one of 'optimal risk allocation' i.e. risk should be allocated to whoever is best able to manage it, taking into account public interest considerations. Prime objective of the risk management is to ensure sustainability of PPP projects by identifying and devising mitigation mechanism ab initio.

Main objectives of risk identification and management are as follows, which will be used to develop risk sharing and management guidelines:

a. Identify various forms of risks associated with a particular PPP project;

b. Ensure sustainability of PPP projects;

c. Ensure that the targets set are realistic;

d. Help improve strategic management of PPP projects;

e. Improve governance and operational management;

f. Enhance financial management;

g. Assess and manage any contingent liability arising through the PPP project; and

h. Facilitate PPP Board in PPP projects' risk-related issues;

Risks will be identified, using various effective tools and as per categories already identified by countries and organizations well experienced in PPP, during feasibility stage and shared with the parties concerned. Risk identification will be based on extensive consultation with all the stakeholders. Bidders to the PPP projects may make their own assessment of the risks and reflect such risks in their financial bids.

Risk allocation matrices will be developed for each PPP project. Risk allocation will be followed by translating the same to the contract structure so that roles and responsibilities are clearly defined without leaving any grey area.

The PPP Unit will be responsible for identifying, allocating and managing risks related to PPP projects. The PPP Unit will develop a detailed and comprehensive 'Risk Management Guideline', which will be used as a benchmark to assess project risks in their entirety.

INSIGHT BOX 8.1: HOW GOVERNMENTS MANAGE RISKS IN PPP PROJECTS?

In typical public procurement contracts, it is the government, which normally bears all, or significant portion of the project associated risks. However, the case is different in PPP projects. In PPP arrangements, an appropriate portion of risks is shifted to the private sector partners. Risk allocation will be based on the following two goals:

a. Create incentives for the parties to manage risk well—and thereby improve project benefits or reduce costs; and
b. Reduce the overall cost of project risk by "insuring" parties against risks they are not happy to bear.

The Government will ensure that the private sector takes appropriate and least-cost risk mitigation measures on its part in order to sustain the PPP project. Guidelines will be issued on risk mitigation principles, and the request for proposals from the private sector will include the Government's suggestions for risks related to the specific project under tendering. For the risks allocated to the public sector, the Government will issue, if necessary, guarantees to backstop the obligation of its agencies, which have entered into a PPP agreement with private firms. The fiscal impact of these contingent liabilities will be quantified and monitored by the PPP Unit in Finance Department.

The Government will contemplate over and decide whether a Guarantee Fund (GF) should be set up to cover all guarantees for PPP projects. The GF would be an entity separate from the Government and would have its own capital base. The GF would not issue guarantees creating an exposure or contingent liability greater than its capital. The GF would issue guarantees only for risks that the Government can influence, or which are uncontrollable and uninsurable. To be eligible to receive a guarantee, a project would have to be economically and financially viable, and the private partners would have to be competitively selected.

POLICY FOR DEALING WITH UNSOLICITIED PROPOSALS

Fishermen Community in Gwader

Fisheries sector is one of the most important pillars of Balochistan's economy. By introducing various projects and interventions under PPP mode in this sector, private parties can be attracted for investment and development. This can lead to further generation of employment opportunities as well as standardization of processes (at par with global standards) for export markets.

9. POLICY FOR DEALING WITH UNSOLICITIED PROPOSALS

In addition to projects identified by the government departments, the Government of Balochistan will also consider unsolicited proposals (USPs)—proposals that are submitted by the private party and are not in response to a specific request for proposal (RFP) floated by the Government to procure PPP projects—for implementation under PPP mode. The Government wants to take benefit of the knowledge and ideas of the private sector related to generation of cost-effective and innovative solutions to public policy challenges. However, the Government of Balochistan is also aware of the potential risks associated with USPs. To ensure that the public interest is protected during the development, evaluation, and procurement of USPs, PPP Authority and PPP Unit shall follow the following principles:

a. PPP Authority will develop a vetting procedure to review and appraise USPs in order to ensure that they are aligned with the government's development priorities, address a real socio-economic need and offer the best value for money. Furthermore, the vetting procedure should also involve an analysis of the potential risks to be borne by the government;

b. The unsolicited proposal will have to pass through all stages of project initiation and development, appraisal and approval and subsequently implementation as per rules and regulations. Competitive procurement procedure will be followed;

c. Outputs will have to be clearly specified and performance measurement standards will be set;

d. Direct negotiations will not be held with the project proponent prior to going into competitive procurement process;

e. If no valid comparative bids are received, the PPP Authority may negotiate the PPP agreement with the project proponent; and

f. Intellectual property rights, if any, of the project proponent will be protected following best practices around the world in PPPs;

INSIGHT BOX 9.1: MANAGING UNSOLICITIED PROPOSALS: EVIDENCE FROM THE WORLD

According to PPP knowledge lab, "an unsolicited proposal (USPs) refers to proposals made by a private party to undertake a PPP project, submitted at the initiative of the private firm, rather than inresponse to a request from the government."

USPs offer potential benefits as well as risks. On one hand, USPs allow governments to benefit from the knowledge and expertise of the private sector with regards to project identification, especially in generation of innovative solutions to public policy challenges. On the other hand, USPs may not necessarily align with government's plans and priorities as private parties are motivated more by self-interest and profit than a concern for public interest. Countries have dealt differently with USPs. Some have restricted the sectors for which USPs can be considered whereas others have discouraged USPs altogether. Here are few examples:

- **Priority Areas:** In the Philippines and Pakistan USP proponents are specifically not allowed to submit proposals for government priority projects whereas Cambodia allows and encourages USP proponents to come up with proposals for infrastructure investments in priority policy areas.
- **Dealing with USP:** Some countries like Myanmar and Laos do not yet have a framework for dealing with USPs, while countries like the Philippines have had frameworks awhile, which they are now revising based on lessons learned. Countries like Bangladesh and Vietnam have only started regulating USPs since 2015. Cambodia has not enacted specific regulations concerning USPs for PPPs, but unsolicited proposals were outlined in the first draft of the country's PPP Procurement Manual and Guidelines.
- **Treatment of Competition:** All countries encourage competition, but in some cases they mandate competitive selection for USPs, while others may allow direct negotiation under specific circumstances. For example, in Bangladesh, if the USP passes all the internal assessments and is given the in-principle approval by the approving authority, the competitive bidding procedure will take place with the original proponent given the status of unsolicited bidder.

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