FEDERAL PUBLIC-PRIVATE PARTNERSHIP POLICY OF PAKISTAN

2023 – 2028

Government of Pakistan
Ministry of Planning, Development & Special Initiatives
Islamabad

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CHAPTER-I:
INTRODUCTION AND OBJECTIVES

A public-private partnership ("PPP") is a long-term contract between a public and private party for the construction/development and/or long-term management of a public asset. Such an asset may be used for the provision of public infrastructure, services, or both in PPP mode. In a PPP, the private party may assume significant risk in connection with the performance or responsible use of the public asset. The private party's remuneration is also linked to, and at the risk of, performance and/or demand benchmarks. PPP is also defined in greater detail in the Public Private Partnership Authority Act, 2017 (please refer to **Table A**).

Importance of PPPs

i. The Federal Government recognizes the importance of PPPs in increasing the availability of efficient and effective public infrastructure and service delivery, while upholding transparency and accountability in the development of such projects.
ii. In a socio-economic environment characterized by fiscal pressures along with a burgeoning and growing population, PPPs effectively help to bridge the gap between the supply and demand of public infrastructure and services, integrating the private sector into their provision.
iii. Partnering with the private sector gives access to sector-specific technical skills and managerial expertise, thus resulting in enhanced quality, timeliness, efficiencies, and transparency across development projects delivered in PPP mode. It also enables gradual knowledge and capacity transference from the private to the public sector.
iv. Additionally, integration of the private sector through PPPs triggers the 'crowding in' of further private sector investment, not just in PPPs and development projects but also in other avenues such as the domestic capital market and portfolio investments.
v. PPPs empower the population – whether through increased access to education and healthcare, increased mobility, increase integration to the digital economy, or any other such means – hence resulting in improvements in living standards and the citizenry's general well-being.

2. It is important to note that PPPs also enable the achievement of the UN Sustainable Development Goals ("SDGs"); of the seventeen (17) SDGs, fifteen (15) are enabled by development projects undertaken in PPP mode.

3. Thus, benefits from strategic, effective, and fiscally responsible implementation of PPPs result in the advancement of socioeconomic growth and stability.

4. **Key Objectives of the Federal PPP Policy:** With this context, the Federal PPP Policy (the "Policy") aims to provide strategic guidance along with the following

objectives to create an enabling environment for PPPs and, through that, their contribution towards socioeconomic growth:

i. Foster a clear and homogenous understanding of the Federal PPP regime among all key stakeholders
ii. Clarify its governance framework (institutional, policy and legislative), along with avenues of government support that Federal PPPs can avail
iii. Provide a set of key guiding principles, including those related to fiscal risk management, to effectively develop PPPs
iv. Identify primary sectors of interest for pursuing Federal PPPs
v. Emphasize the importance of sustainable PPPs in line with Pakistan's commitments towards the Paris Climate Agreement

CHAPTER-II:
UNDERSTANDING PPPS IN THE FEDERAL REGIME

5. **Scope of the Federal PPP Regime and this Policy:** A Federal PPP project is a PPP project that is sponsored by any of the line ministries, attached departments, body corporate, autonomous body of the Federal Government of Pakistan or any organization or corporation owned or controlled by the Federal Government. Hence, the Federal PPP regime as well as this Policy covers all such Federal PPP projects within their scope respectively.

6. **Qualified versus Non-Qualified PPP Projects:** There are two types of Federal PPP projects, *qualified* and *non-qualified*, as discussed below:

i. **Qualified PPP Projects:** The Federal regime carves out a subset of PPP projects that typically have higher complexity and require government support into "*qualified projects*". This distinction has been created under the Public Private Partnership Authority Act, 2017 (as amended) ("*P3A Act*"). Under the P3A Act, the following criteria has been prescribed for a PPP project to be considered as a qualified project:

a) support is required for the project in the form of funding from any facility established by the government for the purpose, including the VGF (viability gap fund);

b) a sovereign guarantee is required for the project in accordance with any rules or regulations that may be prescribed under this Act;

c) project receives funding through the PDF (project development facility);

d) any additional criteria for qualifying projects, as prescribed from time to time:

Provided that a project not fulfilling the aforementioned criteria may be deemed as a qualified project if so designated by the P3WP for reasons to be recorded in writing;

Further guidance with respect to circumstances in which a project is considered 'qualified' may be obtained from the P3A (Qualified Project Criteria) Regulations, 2023.

ii. **Non-qualified PPP Projects**: Any project which does not meet the aforementioned criteria for "*qualified projects*" may be categorized as a non-qualified project. If an Implementing Agency requires assistance, advice, and facilitation from P3A in connection with non-qualified projects, they may approach P3A within the ambit of advisory mandate of P3A as given to it under the Act.

7. **Solicited versus Unsolicited Proposals***:* Private sector entities can submit proposals for Federal PPP projects (whether qualified and non-qualified) that are either solicited or unsolicited.

i. **Solicited Proposals:** Mode of procurement initiated by a public sector entity of the Federal Government whereby the public party solicits private sector participation in PPP projects through competitive bidding processes, starting with a published procurement request.

ii. **Unsolicited Proposals:** Mode of procurement initiated by a private party through submission of an unsolicited proposal (the "*USP*"). In case of a USP, a private party may identify an unmet public need and submit proposals to the P3A or the IA, in accordance with applicable rules and regulations. The USP does need to be aligned with the mission and objectives of the procuring public sector entity and is subject to competitive selection process as well. P3A will issue further guidance on USPs.

CHAPTER-III:
FEDERAL PPP GOVERNANCE FRAMEWORK

8. **Policy Framework:** Planning and development is undertaken across long, medium, and short timeframes using respective policy and planning instruments to facilitate this process:

i. **Long-Term:** The Federal Government is committed to developing a long-term planning document that prevails beyond political regimes, in acknowledgment of the fact that a sustained long-term vision is a critical foundation for socioeconomic development. Additionally, PPPs and other complex development projects have a gestation period that is typically several years long. Hence, these projects require strategic planning cycles that mirror such longer-term efforts. One such instrument is the National Development Framework, the development of which is being spearheaded by the Planning Commission of Pakistan.

a) **National Development Framework ('NDF'):** In the aftermath of the 18th constitutional amendment, it has been necessitated to revisit Federal roles and responsibilities and to devise a national development framework to synergize and optimize Federal and provincial resources. The NDF aims to provide policy guidelines for development at the national level, the objective being to focus on development priorities and improve project effectiveness, ultimately helping to prioritize development spending by the Federal Government in regions and sectors that need it the most. The NDF provides a framework to group development projects into one of the four categories – *national, Federal, provincial, and local* – so that appropriate and best-suited resources and institutions can be mobilized accordingly and effectively. Once fully developed and implemented, the NDF will also support the streamlined identification of Federal PPP projects from the larger pool of development projects.

ii. **Medium Term:** This comprises two (2) main instruments:

a) **Five-Year Development Plans and/ or National Vision:** To provide an overarching development policy direction, the Planning Commission formulates the Federal Government's growth strategies, Five-Year Plans, and vision documents (if any). These documents are prepared in collaboration with relevant Federal Ministries, Divisions, Autonomous Bodies and Development Partners, and reflect the country's development priorities and international commitments, such as, the UN SDGs and the Paris Climate Agreement (2016).[1]

b) **Medium-Term Fiscal Framework (MTFF):** Following the Planning Commission's policy guidance, the Ministry of Finance prepares a three (3)-year Medium-Term Fiscal Framework (MTFF), with an *indicative* financial allocation for development projects, including estimates for viability gap funding for *qualified* PPP projects, to be undertaken by the Federal Government.

iii. **Short Term:** This comprises two (2) main instruments:

a) **Sectoral Plans:** Aligned with the Planning Commission's long-term development plan and the Ministry of Finance's *indicative* financial allocations in the MTFF, each Federal Implementing Agency prepares a two (2) year Sectoral Plan. Based on the targets set within these Sectoral Plan(s), a list of potential pipeline projects, in order of priority, is shared with the Planning Commission.

b) **Annual Plan:** The Federal Government's "Public Sector Development Program" (PSDP) is a cross-sectoral selection of projects which reflects a granular view of the Planning Commission's larger development priorities. In coordination with the Ministry of Finance and the Economic Affairs Division, the Planning Commission selects projects annually from the shared Sectoral Plan(s). Prioritized projects are then approved and allocated budget, including the Federal Government's total VGF and other financing for the year, by the Planning Commission. Likewise, to build the overall PPP pipeline, all IAs shall prepare respective project pipelines and submit to CDWP with a copy to P3A their corresponding funding requirements pertaining to PDF and VGF requirements before 31st March every year starting from 2024. The IAs shall consider a project for development under PPP modality at inception stage.

[1] For additional information please refer to the Planning Commission's "Manual for Development Projects (2021)."

iv. **PPP-specific Federal Policy and Framework:** In view of the policies and development frameworks mentioned above, there are two (2) instruments that are specific to Federal PPPs that draw from the long-to-short term frameworks and policies stated above:

a) **<u>Federal PPP Policy (the "Policy"):</u>** This provides strategic guidance on the Federal PPP regime and its operational structure for all key stakeholders involved in Federal PPP projects to facilitate the development, processing, and approval of Federal PPPs. This supports the build-out of a robust Federal PPP ecosystem while ensuring policy consistency, information uniformity, and transparency; and

b) **<u>Medium-Term PPP Development Program ("P3DP"):</u>** A four (4) year cross-sectoral pipeline of Federal PPP qualified and non-qualified projects. The P3DP draws PPP projects directly from (and contributes to) the Federal Government's short-term instrument, that is, the PSDP and the Sectoral Plans, and indicatively aligns to the medium-term MTTF.

c) These two policy instruments provide a holistic overview of the Federal PPP regime, while ensuring consistency and coherence with the overall Federal planning and development framework.

9. **<u>Legislative Framework:</u>** The primary legislation for the Federal PPP regime is the P3A Act. **Table-B** provides a list of key legislations and regulations across the PPP project lifecycle.

10. **<u>Institutional Framework:</u>** The roles and responsibilities of the key stakeholders are as follows (in alignment with the P3A Act):

i. **Implementing Agency ("IA"):** Any of the line ministries, attached departments, body corporate, autonomous body of the Federal Government or any organization or corporation owned or controlled by the Federal Government. The IA is responsible for procuring the PPP project from the Federal Government's side and will remain the public sector signatory to PPP contracts. As a best practice, these entities are encouraged to develop capability in PPP development, including, where appropriate, by setting up internal PPP nodes. IAs may solicit the support of the Federal PPP Authority ("P3A") in doing so. The roles and responsibilities of IA are comprehensively detailed in Section 13 of the P3A Act. All IAs shall prepare their tentative project pipeline, VGF requirements, and PDF requirements and communicate these to the Ministry of Planning, Development & Special Initiatives before 31st March every year starting from 2024.

ii. **Private party:** means a person who is eligible to bid for a project with an implementing agency in accordance with the rules and regulations prescribed under the P3A Act.

iii. **Lender:** A financial institution (which may be a development partner, development finance institution (DFI), Pakistan Development Fund Limited (PDFL), any investment fund set up by the P3A under clause 8(2)(i) of the P3A Act 2017, or any other financial institution) that provides loan to a private party for implementation of a project.

iv. **Transaction Advisory Services ("TAS"):** Third-party independent service-providers procured by an IA to provide an unbiased and thorough detailed feasibility study including techno-commercial evaluation of the PPP opportunity and an optimized financial structure. TAS typically also include PPP project-related legal advisory (also an independent, third-party service provider), responsible for preparing requisite legal documents for a PPP project including the proposals and bid documents in accordance with the respective legal framework. PPP projects leverage the private sector investment for those infrastructure or development projects that are attractive in terms of bankability that involves comprehensive appraisal process therefore, all IAs are required to conduct the feasibility study as per applicable provisions of the P3A regulations complying fully with the scope, content and parameters defined in the regulations.

v. **Ministry of Finance, Risk Management Unit ("RMU"):** The RMU is a unit established within the Finance Division which is responsible for fiscal oversight and for evaluation of direct and contingent fiscal risk and liabilities for PPP projects. This is to ensure approval and implementation of fiscally responsible projects. RMU performs Fiscal Risk Management in four steps pertaining to Analysis, Control, Budget, and Report as per FCCL guidelines. All IAs are required to conduct and submit risk profiles of the projects in compliance with FCCL guidelines and P3A Act. Additionally, the RMU will also act as a centralized register for all Federal PPPs. Hence, all IAs are required to provide the RMU with requisite information for both qualified and non-qualified projects.

vi. **Federal PPP Authority ("P3A" or "Authority"):** P3A is an independent body corporate formed under the P3A Act. As regulator, P3A's primary responsibility entails evaluating the proposals submitted, particularly the transaction structure (including requests for government support), while ensuring value-for-money and bankability of qualified PPP projects. Once evaluated and if so deemed by the Authority, qualified proposals will be presented by the P3A to the relevant governing and approving body (please see sub-section H below) for consideration and approval. The Authority also manages the Project Development Facility and Viability Gap Fund as empowered by the P3A Act. (please refer to Section IV Government Support for Federal PPPs).
Furthermore, the Authority supports PPP-based capacity building and knowledge sharing across key stakeholders in the PPP ecosystem (please refer below to Strategic Facilitation under Section IV: Government Support for Federal PPPs). In

addition, P3A has the mandate to advise, support and facilitate the IAs with respect to non-qualified projects in accordance with its advisory mandate.

Overarchingly, P3A's mandate includes the promotion of domestic and foreign private investment in development projects to increase the availability of efficient, effective, reliable and quality public infrastructure and service delivery in a fiscally responsible and transparent manner.

vii. **P3A's Board of Directors and the P3WP:** Under the P3A Act, there are two (2) governing and approving bodes:

a) ***PPP Authority Working Party ("P3WP"):*** The P3WP is responsible for reviewing and granting approval to qualified PPP projects at the concept and/or qualification proposal stage. The powers and composition of the P3WP are detailed in the PPP Authority Working Party Rules, 2021 and PPP Authority Working Party Regulations, 2021 (please refer to Table B).

b) ***P3A's Board of Directors ("P3A Board" or the "Board"):*** The P3A Board is responsible for providing leadership direction to the Authority across policy, regulatory, project-related and institutional matters. For qualified PPP projects, the Board is responsible for considering for approval (or otherwise) project proposals submitted by IAs. Specifically, the Board will review for approval transaction structures and financing requirements of qualified projects.

Post tendering and evaluation of bids, the updated project proposals will be re-submitted to the P3A Board prior to contract award to approve (or otherwise) any deviations from the previously approved terms of conditions of the PPP project. The Board's powers and composition are as detailed in the P3A Act.

viii. **Central Development Working Party ("CDWP") and Executive Committee of National Economic Council ("ECNEC"):** All Implementing Agencies are required to obtain approvals of the Projects from CDWP and in the event the project cost exceeds the financial threshold set forth under the P3A (Approvals & Process Flow) Regulations, 2021, approval from ECNEC shall also be required.

CHAPTER-IV:
GOVERNMENT SUPPORT FOR FEDERAL PPPS

11. There are various types of support available for Federal PPPs:

i. **Project Development Facility ("PDF")**: This supports the preparation of Federal PPP proposals. The PDF fund is managed, controlled, and administered by P3A. Implementing Agencies can apply for this if they require support for hiring of transaction advisors, legal counsels or for fulfilling any techno-analytical requirements of a Federal PPP proposal. A Federal PPP project for which PDF is approved is deemed a qualified PPP project and will be processed as such. The PDF application, processing, and approval process is detailed in the Project Development Facility Regulation 2022 and the PPP Manual (please refer to Table B).

ii. **Viability Gap Funding ("VGF"):** This supports Federal PPP projects for which a feasibility study has found them to be economically or socially justified but not financially viable. VGF may be provided by the Federal Government through the Public Sector Development Program, the viability gap fund, or any other such funding facility designated by the Federal Government for the purpose from time to time. The viability gap fund is managed, controlled, and administered by P3A. Implementing Agencies can apply for VGF in the form of up-front, intermittent, or other such payment schedule to increase the bankability and marketability of PPP projects. A Federal PPP project for which VGF is approved is deemed a qualified PPP project and will be processed as such. The VGF application, processing, and approval process is detailed in the Viability Gap Fund Regulation 2023 and the PPP Manual (**Table-B**).

iii. **Sovereign Guarantees:** This constitutes support in the form of sovereign guarantees in accordance with the procedure established by the Finance Division. Private Parties may require a sovereign guarantee for a PPP project based on the degree of political, credit and other such risk associated with that project. A Federal PPP project which requires a sovereign guarantee is deemed a qualified PPP project and will be processed as such. As stated earlier, the RMU will provide fiscal oversight and be responsible for evaluation and monitoring of direct and contingent liability exposure arising from Federal PPP projects.

iv. **Other Government Securities:** A PPP project may be extended additional guarantees other than a sovereign guarantee to make the project financially viable and bankable. These include contractual, revenue-based, or other such guarantees provided by an Implementing Agency. In such cases, the contingent liability is generally limited to the issuing IA and not the Federal Government. Hence, such guarantees would not generally classify a project as a qualified PPP project. Besides, the Federal Government may provide credit enhancement to improve bankability of a project. In addition, the Federal Government may invest/co-finance in PPP projects.

   a) **Asset-based Support:** The Federal Government and/or the IA may extend support such as leasing, licensing or grant of right to mortgage and use land or infrastructure facilities owned by the government or an IA to the private party.

   b) **Administrative Support:** This type of support to the private party (consistent with the private party's responsibilities under the public private partnership agreement and applicable laws) includes obtaining licenses and clearances from the Federal Government, a public sector organization, or an IA for the purpose of the Federal PPP project. This can include provision of utility connections for power, gas, telephone, and water at the project site, acquisition of land or rights of way necessary for the project and rehabilitation and resettlement of displaced persons directly required to execute the project, environmental impact assessment, safeguards and approvals, and other local permits and approvals.

c) **Strategic Facilitation:** P3A offers a suite of value-added services including but not limited to:
   1) Project/program management support to public sector entities for non-qualified PPP projects;
   2) PPP-related reform advisory, organizational transformation and change management support, and technical capacity building for public sector entities; and
   3) Knowledge sharing across the PPP ecosystem.

CHAPTER-V:
SUSTAINABLE PPPS: ENSURING CLIMATE AND SOCIAL RESPONSIVENESS

12. As a party to the Paris Agreement of United Nations Framework Convention on Climate Change ("UNFCCC"), the Government of Pakistan has submitted an updated National Determined Contribution in 2021 ("*Updated NDC*") which represents national consensus to accelerate transition towards a climate-resilient economy. As per its Updated NDC, Pakistan is targeting a fifty (50) percent reduction in projected emissions by 2030; fifteen (15) percent of the reduction being unconditionally based on the country's own resources, and thirty-five (35) percent being conditional subject to provision of international grant finance. High priority actions to achieve emission reduction target sectors including renewable energy, transportation, coal, and land use and forestry. As a signatory of the Paris Agreement, Pakistan is also committed to the monitoring, reporting and verification mechanisms to regularly track contributions and GHG emissions.

13. Article 6 of the Paris Agreement particularly reference non-market-based approaches that aim to:

a) Enhance public and private sector participation in the implementation of nationally determined contribution;
b) Promote mitigation and adaptation ambitions; and
c) Enable coordination across instruments and relevant institutional arrangements.

14. In line with the Paris Agreement, Pakistan's Updated NDC "*encourages the involvement of the private sector in implementing its climate ambitions across sectors and developing nature-based solutions that address Pakistan's mitigation and adaptation potential.*" The Updated NDC specifically identifies the role of P3A in facilitating PPPs in several sectors central to Pakistan's mitigation and adaptation needs such as i) transport and logistics, ii) mass urban public transport (including buses, and intra and inter-city rail), and iii) municipal services (including water supply and sanitation, solid waste management, low-cost housing, and health and education facilities). This Policy further reiterates and carries forward this commitment by including these sectors in the list of

strategically prioritized sectors for Federal PPPs (please refer to Section VIII Primary Sectors of Interest for Federal PPPs).

15. Additionally, and also in compliance with Pakistan's Updated NDC, the P3A's Environmental and Social Management System ("*ESMS*") provides comprehensive coverage on managing environmental and social risks across PPP projects and establishing the requisite safeguards. The ESMS also enforces safeguards to ensure gender-responsiveness of projects.

CHAPTER-VI: FISCAL RISK MANAGEMENT

16. Fiscal discipline across PPP projects is critical to developing and implementing a sustainable and effective pipeline. This also ensures affordability, value-for-money, and alignment with national priorities both at a project and a portfolio level. The Finance Division bears primary responsibility for fiscal risk management of Federal PPP projects, with P3A and IAs assuming a secondary role in evaluating and assessing financing structures on a project-by-project basis for qualified and non-qualified projects respectively. Within the Finance Division, the RMU follows a four (4) step operational framework for managing fiscal obligations. The framework is detailed in Fiscal Risk and Contingent Liabilities ("FCCL") Guidelines (please refer to Table B). The four (4) steps are as follows:

i. ***Step 1: Analysis – Identifying and Quantifying Fiscal Commitments:*** The first step entails undertaking a comprehensive analysis including (identifying and quantifying) direct and contingent fiscal liabilities. It requires use of established methodologies and tools for effectively calculating the net present values of such liabilities using, for instance, scenario and probabilistic analysis.

ii. ***Step 2: Control – Assessing Affordability as Input for Approval:*** This step entails assessing quantified direct and contingent fiscal liabilities for approval keeping in mind two (2) considerations: i) projects approved are fiscally affordable in the long term, that is, their funding is adequately within the Federal Government's budget, and ii) they offer value-for-money ("*VfM*") by using a public sector comparator approach, that, is the benefits of doing a project under PPP mode outweighs their costs of doing a project through traditional procurement. VfM may be calculated qualitatively, quantitatively or through a blended approach. This analysis will be captured in a critical Fiscal Affordability Assessment ("FAA") report prepared by the RMU for both qualified and non-qualified projects. Indicators and their respective hurdle rates established under both affordability and VfM considerations provide clear guidelines on how to ensure a fiscally disciplined PPP portfolio that is well within fiscal affordability and ensures value for money. The FAA will also comprise, among other components, a comprehensive risk assessment for all proposed PPP projects. The RMU will maintain and manage risk assessment for all Federal PPP projects in a comprehensive risk register. The RMU will prepare and update the FAA at every transaction point during the project development-to-implementation lifecycle (upon completion of the feasibility study, prior to tender launch, prior to signing the PPP agreement, during implementation) to assess affordability and VfM.

iii. ***Step 3: Budget – Planning and Ensuring Funds are Available:*** To ensure comprehensive fiscal control and management, it is essential to integrate the assumption of long-term and contingent liabilities into the national budgetary process. Budgeting for direct liabilities implies multi-year payment commitments by the Federal Government. These are systematically calculated and the commitments are subsequently appropriated by the Budget Wing of the Finance Division in i) the medium-term budgetary framework, and ii) its annual budget statements comprising project-wise VGF commitments. As for indirect commitments, the RMU shall prepare the Contingency Budget Estimates against the contingent liabilities of present value of the PPP portfolio as part of the annual budget exercise through the budget call circular.

iv. ***Step 4: Report – Disclosing FCCL for Transparency:*** To effectively manage and report FCCLs arising from PPP projects, the RMU maintains accurate and up-to-date records of all commitments at both the project and portfolio levels. The RMU will be responsible for monitoring direct and contingent fiscal risks and liabilities at the overall Federal PPP project and portfolio level. The RMU will ensure that sufficient information through relevant Finance Division publications is provided to concerned agencies for reporting on FCCLs.

CHAPTER-VII:
PRIMARY SECTORS OF INTEREST FOR FEDERAL PPPs

17. Federal PPP projects (qualified and non-qualified) will be prioritized across the sectors mentioned below due to their strategic socioeconomic criticality to the nation and its people. However, this does *not* exclude PPP projects in any other sectors not stated in the list below. The Federal Government recognizes the importance of PPPs and encourages this modality to be adopted across all sectors:

i. Transport and Logistics
ii. Mass Urban Public Transport
iii. Government Services (including low-cost housing, water recycling, supply and sanitation, solid waste management, health, education, and skills-development)
iv. Industrial Projects (including industrial parks, special economic zones, trade development and related projects)
v. Technology and Connectivity
vi. Oil and Gas, Energy Efficiency (including renewable energy)
vii. Agriculture, livestock, fisheries, Food and Water Security
viii. Mining and Quarrying (extraction, processing, refining, etc.)

The sectors mentioned above are also aligned with Government of Pakistan's commitment to the Paris Agreement as stated in the Updated NDC, as well as other key policy instruments.

CHAPTER-VIII: HIGH-LEVEL PPP PROCESS FLOW

18. The process flow for all Federal PPP projects – qualified and non-qualified – largely follow five (5) key stages with key decision-gates and governing bodies at each stage. The stages are as follows:

i. ***Stage 1: Project Identification and Screening:*** During this first stage, PPP projects are identified typically on a need-based assessment. Projects are also screened using criteria that include whether they are serving a national priority and the sector-specific strategy, and a high-level assessment of whether they are economically viable and fiscally responsible. At the Federal level, PPP projects can be identified by Implementing Agencies, by P3A and/or by Private Parties themselves through the submission of unsolicited proposals. Additionally, the Federal Government can deem a development project which is part of the PSDP or a similar policy instrument to be most-suitably procured in PPP mode and may instruct its addition to the Federal PPP pipeline for further analysis and development.

ii. ***Stage 2: Project Development and Appraisal:*** Screened projects are then developed and appraised. This is an iterative, multi-stage process and is typically the basis for approval to proceed with the PPP transaction. Largely, PPP projects undergo a detailed feasibility analysis that includes a technical, economic, environment, social and legal assessment typically by independent, third-party Transaction Advisory Services providers. The projects' financial structure is also assessed for fiscal affordability (to ensure that the fiscal direct and contingent liabilities of a project are within the Federal Government's budgetary constraints), commercial bankability, and value for money.

iii. ***Stage 3: Contract and Procurement Structuring:*** This stage focuses on procurement preparation including the bid documents, proposal requirements, the draft PPP agreement, the bid evaluation criteria, among others. In order to make the bid package attractive to Private Parties while achieving the Federal Government's objectives, the PPP framework should ensure that all significant risks have been identified and optimally allocated to the most suitable party (public or private) to the PPP transaction. Appropriate risk mitigation plans should also be developed and put in place so to both minimize the likelihood or a risk occurring, as well as its impact in case it occurs.

iv. ***Stage 4: Tendering and Award:*** The primary governing legislation for tendering of all Federal PPP projects is the PPRA Ordinance 2002 and the rules and regulations prescribed thereunder. The tendering process should ensure competitiveness, fairness, transparency, and integrity. Bid evaluation should be conducted based on a clearly defined evaluation criteria (predetermined and approved in Stage 3) that justly reflects the requirements of executing a complex PPP project. Prior to contract award, terms and conditions and milestones should be jointly established and agreed upon for achieving the project's financial close.

v. ***Stage 5: Contract Management:*** After contract execution, the PPP project enters its final and longest stage of managing the contract through its operational phases. This includes construction, service delivery, and hand-back. A robust contract management and governance framework – with clearly identified roles and responsibilities performance monitoring and reporting requirements, risk management processes, and escalation mechanism – is critical to ensuring the effective execution of stage 5. In the Federal PPP regime, the key Federal public entities involved in contract governance and management of PPP projects include Implementing Agencies (being the public-sector sponsor and executor of the Federal PPP project, whether qualified or non-qualified), the RMU (to ensure fiscal affordability of all Federal PPP projects), and the P3A (for high-level monitoring and evaluation of qualified PPP projects).

CHAPTER-IX:
POLICY LIFECYCLE MANAGEMENT

18. This Policy's owner is the Ministry of Planning, Development and Special Initiatives ("MoPDSI"), and it will have a five-year life cycle. To ensure an effective and efficient policy lifecycle (approval, implementation, monitoring and reporting, review, and update), it will lead the following agencies to perform their respective roles at each lifecycle stage:

Stage	Approval	Implementation	Monitoring and Reporting	Review
Primary Responsible	• Federal Cabinet	• MoPDSI / Planning Commission	• MoPDSI / Planning Commission	• MoPDSI / Planning Commission
Secondary Responsible	• Economic Coordination Cabinet Committee • P3A Board	• Implementing Agencies • P3A • RMU, Finance Division	• Implementing Agencies • P3A • RMU, Finance Division • Ministry of Climate Change and Environmental Coordination	

Figure 1: Policy lifecycle management - Key public sector entities responsible

19. Policy-level, measurable, key performance indicators ("KPI") will be developed for monitoring and reporting and to ensure that the policy is being effectively implemented. The KPIs will include, and may not be limited to, tracking achievement of the following outcomes:

Policy outcome	Indicative KPIs*	Primary responsibility
Public sector PPP capacity building	• Line ministries targeted • Dedicated PPP capacity built in Federal agencies • Number of knowledge sessions conducted	P3A
Private sector engagement for PPP projects	• Roadshows completed • Major private sector players targeted • Sectors/industries engaged • USPs received	P3A
Federal PPP projects development in sectors of national interest	• National sectors of interest with pipeline PPPs • National sectors of interest with pipeline PPPs	MoPDSI
Ensuring sustainability through climate and social responsiveness	• Total projects with estimated GHG emissions reported • Total GHG emissions from Federal PPP projects • Percentage projects cleared ESG screening	P3A, Ministry of Climate Change and Environmental Coordination
Effective fiscal risk management of Federal PPP projects	• Present value of Federal PPP portfolio as a percentage of GDP • Total contingent liabilities as a percentage of present value of Federal PPP portfolio	RMU, Finance Division

**KPIs are indicative. These, along with other required information and metrics such as targets, secondary responsible agencies, sub-timelines, any potential resource requirements, etc. are subject to finalization in a detailed Policy implementation plan*

20. The MoPDSI will be the owner of the policy-level KPIs and will have primary responsibility for monitoring and reporting against them, with support from other agencies such as IAs, P3A and the RMU. The KPIs developed may be cascaded further into initiatives, programs and sub-level KPIs to facilitate trackability and measurability.

Figure 2 below provides a directional timeline to undertake each stage of the Policy's five-year lifecycle.

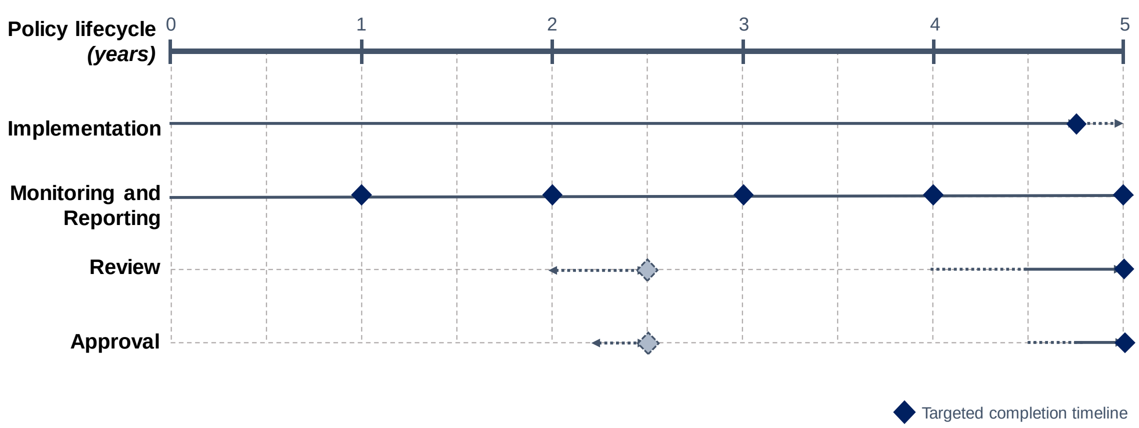

Figure 2: Policy lifecycle - High-level timelines

21. The Policy will be **implemented** over its lifetime, with the aim of completing implementation of initiatives and programs arising from it by the third quarter of the final year of the Policy.

22. **Monitoring and reporting** will take place annually throughout the lifecycle of the Policy to show performance against key indicators. If required, based on the findings of the annual report, the Policy may be reviewed and updated at the mid-point of its five-year lifecycle as well (as illustrated).

23. **Policy review** may span from six to twelve months and will be undertaken in the last year of the lifecycle, whereas its **approval** process may span from three to six months depending on the magnitude of the review, the socialization requirements with key strategic stakeholders.

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TABLE A:
KEY DEFINITIONS

The following definitions are aligned with those in the Public Private Partnership Authority Act 2017 ("P3A Act") as and where applicable. Any amendments to the definitions in the P3A Act will prevail and the definitions below will mirror those updates.

Term	Definition
Authority or P3A	The Public Private Partnership Authority established under section 3 of the P3A Act
Board or P3A Board	Means the Board constituted in accordance with section 6 of the P3A Act
CDWP	Central Development Working Party
DFI	Development Financial Institution
ECNEC	Executive Committee of the National Economic Council
Implementing Agency or IA	Any of the line ministries, attached departments, body corporate, autonomous body of the Federal Government or any organization or corporation owned or controlled by the Federal Government
Lender	A financial institution that provides loan to a private party for implementation of a project
P3WP	The public private partnership working party established under section 13A of the P3A Act. The powers and composition of the P3WP are detailed in the PPP Authority Working Party Rules, 2021 and PPP Authority Working Party Regulations, 2021 as prescribed under the P3A Act
PPRA	Public Procurement Regulatory Authority
P3IF	Public Private Partnership Infrastructure Fund (*yet to be established under clause 8(2)(i) of the P3A Act 2017*)
PDFL	Pakistan Development Fund Limited
Private party	A person who is eligible to bid for a project with an Implementing Agency in accordance with the rules and regulations prescribed under the P3A Act
Project Development Facility or PDF	The facility established under section 12 of the P3A Act
Proposal	Any and/or all PPP proposal (as relevant and applicable) as defined by PPRA for non-qualified projects, and in the P3A Act for qualified projects.
Public private partnership	A commercial transaction between an Implementing Agency and a private party in terms of which the private party- i. Performs part of an Implementing Agency's functions on behalf of it; ii. Assumes the responsible use of public property for a project; iii. Assumes substantial financial, technical and operational risks in connection with performance of certain functions of the

	Implementing Agency or the responsible use of public property; or iv. Receives a benefit for performing the Implementing Agency's functions or from utilizing the public property, either by way of — a. Consideration to be paid by the Implementing Agency from its budget or revenue; or b. Charges or fees to be collected by the private party from users or customers of a service provided to them; or c. A combination of such consideration and such charges or fees.
Qualified project	A project undertaken on public private partnership basis that meets any of the following criteria, namely: - i. Support is required for the project in the form of funding from any facility established by the government for the purpose, including the viability gap fund; ii. A sovereign guarantee is required for the project in accordance with any rules or regulations that may be prescribed under the P3A Act; iii. Project receives funding through the project development facility; iv. Any additional criteria for qualifying projects, as prescribed from time to time: Provided that a project not fulfilling the aforementioned criteria may be deemed as a qualified project if so designated by the P3WP for reasons to be recorded in writing
Risk Management Unit	The unit established under section 12A of the P3A Act
VGF or Viability Gap Fund	The fund established under section 11 of the P3A Act

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<u>TABLE B:</u>

<u>FEDERAL PPP REGIME – KEY RULES, REGULATIONS AND GUIDELINES</u>

i. **Public Private Partnership Authority Act, 2017 (as amended) ("P3A Act"):** The keystone legislation for the Federal PPP regime

ii. **Public Procurement Regulatory Authority Ordinance 2002, and rules and regulations prescribed thereunder:** Primary legislation for regulating public procurement of goods, services, works and disposal of public assets in the public sector

iii. **Public Private Partnership Working ("P3WP") Rules, 2021:** Establishes the composition of the P3WP

iv. **P3WP Regulations, 2021:** Establishes the functions and powers, and other administrative details of the P3WP in compliance with the P3A Act

v. **Qualified Project Criteria Regulations, 2023:** Defines certain criteria of qualified PPP projects under the P3A Act

vi. **Public Private Partnership Authority (Approvals and Process Flow) Regulations, 2021:** Details the process flow for identification, preparation, appraisal, approval, and financial support for qualified PPP projects

vii. **Viability Gap Fund ("VGF") Regulations, 2023:** Details the procedure for application, processing and approval of VGF

viii. **Project Development Facility ("PDF") Regulations, 2022:** Details the procedure for application, processing and approval of PDF

ix. **Direct contracting of International Financial Institutions ("IFI") as Transaction Advisers Regulations, 2023:** Outlines the approval process to hire an IFI on direct contracting basis for the transaction advisory services to a PPP project

x. **Project Preparation, Appraisal and Development Guidelines, 2023:** Guidelines for the process of procurement and awarding of contract for a Federal PPP project

xi. **PPP Manual:** A comprehensive document providing step-wise guidance as well as templates for each development and processing stage for qualified PPP projects

xii. **Environmental and Social Management System:** A comprehensive framework to ensure compliance with environmental, social and gender-based safeguards and standards in Federal PPP projects

xiii. **Guidelines for Unsolicited Proposals ("USP"), 2024:** The process for submission of unsolicited proposals by private parties for PPP projects

xiv. **Dispute Resolution Guidelines, 2024**: Provides guidance on the application, processing and resolution of disputes arising in Federal PPP projects

xv. **Guidelines for Fiscal Commitment and Contingent Liabilities, 2024:** Guidelines that provide an operational framework for effective management of long-term fiscal obligations arising from Federal PPP projects, including direct and contingent liabilities. These Guidelines are issued and owned by the Finance Division

xvi. **Medium-Term PPP Development Program ("P3DP"):** A four (4) year cross-sectoral pipeline of Federal PPP qualified and non-qualified projects.
Note: Further rules, regulations and guidelines may be prescribed or notified under the P3A Act, or the existing framework may be amended from time to time. Therefore, it is recommended that up to date information on the regulatory framework be obtained from the P3A by interested public and private sector entities.

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