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ICMA Pakistan: Please apprise us about the rationale behind establishing PPP Unit in Sindh and its mandate?

KMS: The thematic development of public and private sector collaboration in Pakistan is not new, rather dates back to 1950's whereby state-created credit institutions played an increasing role in allocating finance to private sector industry. The first dedicated PPP unit of sorts was created in 1994 in the form of Private Power and Infrastructure Board ('PPIB') as a "One-Window Facilitator" on behalf of the Government of Pakistan (GoP) to promote private investments in power sector. The precursor to PPPs in Sindh in terms of initiatives taken include the establishment of Sindh Institute of Urology and Transplantation ('SIUT') as a body corporate through an Act of the Sindh Assembly, followed by the intervention of the Sindh Government in the form of Sindh Education Foundation ('SEF'), which was established under the Sindh Education Foundation Act, 1992 as a semi-autonomous organization with a mandate to support education in the province. The third intervention that involved private sector participation for delivery in public sector was PPHI for provision of Primary Health Care in Sindh. The last major intervention with the public private partnership theme which predates the PPP Act is the establishment of Sindh Engro Coal Mining Company ('SECMC') in 2009. The projects being undertaken within its mandate are listed among top prioritized projects in the China Pakistan Economic Corridor.

The formal development of public private partnerships started off with the establishment of the federal PPP Unit, or

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the Infrastructure Project Development Fund ('IPDF') in 2006 through Ministry of Finance, Government of Pakistan. IPDF was to provide advisory and facilitation services to ministries and other autonomous bodies to structure, develop and procure infrastructure projects through Public Private Partnerships. By virtue of Public Private Partnership Authority Act the IPDF has been converted into Public Private Partnership Authority. Based on the themes as highlighted for the federal PPP regime, the Sindh Government framed its own PPP regulations and established its own PPP Unit (housed under the Sindh Finance Department) under technical assistance from the Asian Development Bank and by virtue of the Public Private Partnership Act, 2010. The PPP Unit acts as the secretariat to the Public Private Partnership Policy Board and provides support to the implementing agencies in development of viable PPP project structures.

ICMA Pakistan: What is the role and functions of PPP Policy Board of Sindh in formulating PPP policy? Who are its members?

KMS: The broad theme of Public Private Partnerships as envisaged under the PPP Act 2010 envisages development of infrastructure and services. The Sindh Government seeks to utilize private sector resources for financing, construction, maintenance/operation by introduction of modern technologies and management techniques. The PPP Framework seeks to incorporate principles of competition, optimal allocation of risks, and procurement transparency in PPP projects.

The Institutional framework of Sindh Public Private Partnership Program places the Public-Private Partnership Policy Board at the top in the governance chain, and attributes to the Board, the formulation of Public-Private Partnership policy based on Governments goals and objectives. The Board accords final approval to all the projects selected for implementation under the PPP mode. The members of Board include in Table-1.

From the very inception, the Policy Board is involved in the approval process as it approves the procurement of transaction advisors and external consultants, whose funding is utilized from the Project Development Facility. The Board considers any direct or contingent support for a project proposal submitted by a Line Department and determines whether that such support is fiscally sustainable, subsequently ensuring that such support is included in the provincial budget.

In terms of administrative matters, the Policy Board's role is to implement guidelines and coordinate implementation of the Public Private Partnership policy by the Line Department. At any stage, the Board may approve, reject or send back for reconsideration the recommendation submitted by an Agency including the approval for the contract award to a private party.

Table-1: Members of PPP Policy Board of Government of Sindh

i.	Chief Minister Sindh	Chairman
ii.	Minister, Finance	Vice Chairman
ii-a	Minister Law and Parliamentary Affairs	Member
ii-b	Minister Planning and Development	Member
iii.	Chief Secretary	Member
iv.	Minister of concerned department	Co-opted Member
v.	Two Members of Provincial Assembly of Sindh to be nominated by Chief Minister	Members
vi.	Additional Chief Secretary (Dev:), Planning and Development	Member
vii.	Secretary Finance	Member/ Secretary
viii.	Secretary of the concerned Department	Co-opted Member
ix.	Director General Public-Private Partnership Unit	Ex-officio Member
x.	Three (3) members from the private sector to be nominated by the Chief Minister	Members
xi.	Sectoral Specialist to be nominated by the Chief Minister	Member
xii.	Chief Executive Officer of Project Support Facility	Member

The Board also assist the Agencies in solving major problems impeding project preparation and implementation and as such the Board is the final deciding authority for all the projects.

ICMA Pakistan: What are the criteria for financing of a Public-Private Partnership project? How PPP unit is facilitating in the process?

KMS: Within the Public Private Partnership Framework, it is principally the role of a line department and the PPP node housed within the department to identify and prepare a project and define a selection criterion before tendering it. Such projects are identified and conceptualized from the line department's master plans within its sector and/or geographical area using criteria such as supply, and demand gaps, social and economic benefits, financial attractiveness, risks and uncertainties involved. Additional considerations are the catchment area of the project including estimated number of beneficiaries, its poverty scorecard indicators from NADRA, Pakistan Poverty Index and education & health indicators from deputy commissioner's officer. Schedule I of the PPP Act defines the sectors where PPP projects can take place. Few of those are works and services, health, education & energy.

Government support in a PPP Project is subject to the Public Private Partnership Act, 2010. The conceptualization of projects entails that the Line Department shall provide evidence that it has assessed other options within the partial or full control of the Government that can reduce capital and/or operating costs i.e., availability of land, support infrastructure such as buildings, access roads, water supply, electricity availability, gas pipelines, environmental/ resettlement/relocation costs, etc., payment/waiver/discounts on taxes/duties, payments for any disputes, settlement costs or to meet upfront.

The procurement process is governed by Sindh Public Procurement Rules. Once a project is conceived on such sound footing financial assistance is available only for the projects which are economically and socially important but may not be viable financially if constrained by factors such as the affordable user fees, initial capital requirements and revenue needed to generate a fair return on investment. Such support is injected into the projects in the form of capital subsidy

(including equity and debt commitments) or operating support (including minimum revenue guarantees).

For providing such support the PPP Act enabled the establishment of the Viability Gap Fund ('VGF') to make such requisite payments on a periodic basis over the life of the project and/or on an upfront capital subsidy basis using a Net Present Value ('NPV') calculation.

The preparation of PPP Projects shall consist of a feasibility study, initial environmental examination, environmental impact assessment, risk analysis. As a condition of VGF, the PPP agreement/concession contract should provide required detailed service levels and linked payments to such levels of service delivered or standards achieved by the private sector partner. An acceptable independent system of measuring that performance must be put in place by the Government Agency.

The financing facility for funding the viability gap has evolved through a foreign assisted project namely Enhancing Public Private Partnership Investments in Sindh, developed and financed by the Asian Development Bank. The said project has created the PPP Support Facility ('PSF') and now represents a formal independent VGF institution that has been incorporated as a ring-fenced section 42 Company under the Companies Act of 2017. The PSF will be used to enhance corporate governance and transparency and is intended to better ensure (i) rigorous use of Value for Money ('VFM') analysis of VGF proposals (taking into account both costs of the PPP project and the public-sector comparator and measurement of quantifiable and qualitative value added to the PPP project), (ii) approval only of VGF structures that appropriately addresses the risk allocation intended under the PPP Act, and (iii) taking necessary steps to explore viable alternatives for risk mitigation prior to any consideration of cash collateralization practices. The PSF shall be responsible for managing all project risks such as political, regulatory, macroeconomic, business and technical risks over the concession life for VGF exposure and for all existing VGF commitments.

ICMA Pakistan: Can you provide brief details of few key projects in Sindh which are being established under PPP mode?

KMS: Sindh rolled out its PPP program with its flagship road project, Hyderabad Mirpurkhas Dual Carriageway. The 60 km road constructed at a cost of PKR 6.8 billion was essentially a tolling road with the provincial government filling in the gap funding in terms of equity, soft loan, minimum revenue guarantee ('MRG') and minimum support guarantee ('MSG') to provide investor cushion on mark-up on commercial loan. This was succeeded by the PKR 4.5 billion Sir Aga Khan Jhirk Mulla Katyar bridge which at 1.7 km is the longest bridge over River Indus. The last completed project was the 49 km portion National highway (N5) from Karachi (Ghaggar Phatak) to Thatta, which was constructed at the cost of PKR 8.8 billion. Sindh government is also set to begin construction on what will then become the largest bridge over River Indus, i.e. the 2.2 km PKR 14 billion Ghotki Kandhkot Bridge Project. This will be followed by the 40 km long Malir Expressway Project.

Under the social services sector, the School Education & Literacy Department ('SELD') has outsourced forty-three (43) schools for ten (10) years. These schools were constructed from USAID-Sindh Basic Education Program ('SBEP') along with 25 Priority Schools (grouped with reconstructed schools) under the Education Management Organization ('EMO') project to credible partners like The Citizens Foundation, Charter for

Compassion, Beaconhouse Public Schools, IBA Sukkur and HANDS to name a few. On similar lines, the Health department contracted private partners for performance-based management contracts of medium term (5-10 yrs) for selected underperforming health facilities specifically RHCs/THQs/DHQs/RBCs and health services such as diagnostic services, ambulance services and health trainings such as nurses/ mid-wifery and paramedics and a few select provincial/district health development centers. Some of the prominent partners in the collaboration are Indus Hospital, Aman Foundation, HANDS, IHS and MERF.

Early success has enabled PPP portfolio to expand in sectors including energy, transport, local government (roads & parks), agriculture, culture & tourism, information technology and even development of a special economic zone. The table below illustrates the latest PPP project pipeline.

S.#	Project Name	Line Department
1	Khairpur Wholesale Dates Market	Agriculture, Supply and Prices
2	Larkana Fruit & Vegetable Mandi	Agriculture, Supply and Prices
3	Solar Dehydration Plant for Dates	Agriculture, Supply and Prices
4	Lab-e-Mehran Tourism (Sukkur)	Culture, Tourism and Antiquities
5	Teachers Training Institute for Education	School, Education and Literacy
6	Education Management Organization	School, Education and Literacy
7	Domicile & PRC Automation	Information, Science and Technology
8	Malir Expressway Project	Local Government
9	Karachi Theme and Safari Park Project	Local Government
10	50 MW Power Plant for K-IV Phase I Project KWSB	Local Government
11	Dhabeji Pumping Station KWSB	Local Government
12	Dhabeji Special Economic Zone	Sindh Board of Investment
13	Special Education Project	Special Education Project

ICMA Pakistan: What challenges you are facing in improving trust level between the public and private sectors? How PPP unit is developing effective partnerships with private sector for establishing PPP projects?

KMS: As is the case world over, one of the first things that private sector investors look while investing is a proven track record and firm counterparty commitment. While PPPs in Sindh predate the enactment of the PPP Act and establishment of the PPP Unit, within less than a decade the PPP Program in Sindh has executed a multitude of projects. When the PPP program started, there were just a handful of financiers, EPC contractors, legal, technical and financial advisors willing to participate. There was also a massive trust gap between the public and private sector to begin with, however with passage of time, the PPP Program has enabled successful delivery of mega projects across the province of Sindh alongside participation of well reputed local and international companies such as FWO, Sachal Engineering and Deokjae of South Korea.

In the development of PPP projects, the Sindh Government took

onboard the services of well reputed transaction advisors in the areas of finance, law and engineering. These advisors enabled vital structuring of highly complex and innovative PPP projects. Credible names that have contributed are Ernst & Young (EY), United Bank Limited, AF Fergusons, KPMG, Deloitte in terms of financial assistance; HaidarmotaBNR, Ahmed & Qazi and RIAA Law in terms of legal assistance; EA Associates, Techno Consultants, Loya Associates within engineering/technical assistance. Despite initial bottlenecks as PPP Program has steadily developed, the willingness and participation of transaction advisors has increased, and the results are being demonstrated in terms of ever improving financial structures.

With early harvest successes the same banks that were initially hesitant to provide financing to PPP Projects are now active financiers in PPP projects and that too at coverage levels that are significantly lower than before, thereby indicating increased risk appetite towards the Government of Sindh. Notable financiers include major banks such as HBL, UBL, MCB and NBP.

One of the most substantive steps towards building confidence in the PPP process is the establishment of an escrow financing mechanism and an independent monitoring process. The escrow mechanism operates by way of one-time standing instructions to the escrow agent bank whereby funds dedicated to any project are placed under a secure arrangement. The funds can only be utilized when the private partner in the PPP project demonstrates by way of performance that is being monitored by an independent technical expert and subsequent payments are verified by the independent auditor as derived from the original financing model. However, if for any reason the private partner's performance is lacking, not only will he not receive the payments for the components not yet delivered, but they will also be penalized for not meeting any requisite performance standards. If the government has failed to fulfil any of its obligations under the contract, or there is any adverse financial impact created out of an event not under the control of either party, such financial impact and its eventual disbursement is

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also determined through the independent monitors. Some of the names of the independent auditors and independent experts are Fergusons, Loya Associates & AASA Consulting.

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ICMA Pakistan: Can you share the progress on the Malir Expressway Project being built as PPP project?

KMS: The Local Government Department, Government of Sindh launched the Malir Expressway Project in January 2018 on Two Stage Two Envelop bidding procedure. This project shall be an access-controlled six-lane two-way facility, starting point of which is before Jam Sadiq Bridge on Korangi Road that is on the right bank of Malir River and travelling along the Malir River up to the existing Link Road between N-5 and M-9 (2.4 km short of M-9). From the Link Road junction point, the alignment will take a left turn and following the Link Road route up to M-9, the approximate length of expressway is 39.4 km. The exiting portion of the Link Road between N-5 and M-9 will need modification to meet the requirements of expressway typical cross-section. Similarly, the existing trumpet interchange on M-9 will also be modified to meet the design requirements of the expressway. The project will provide a southern route which will be able to reduce the travel time to 25 minutes only.

In first round of procurement, the bidders were required to submit technical proposals. Based on their technical inputs received from local and international participating bidders, the stage two Request for Proposal ('RFP') has been floated. The financial close for the project is expected to be achieved by July 2019. Malir Expressway Project to date is the biggest PPP Project being undertaken by the Sindh Government.

ICMA Pakistan: How you see the potential of PPP projects in Sindh as compared to other Provinces? What issues are faced by PPPs in Sindh?

KMS: Sindh is self-sufficient in terms of its resources. Access to the Arabian Sea's warm waters has enabled it to set up Karachi Port handling about 60% of the nation's cargo, and Port Qasim which handles 35% of the nation's cargo. Karachi also has two potential ports in the form of Ketu Bander and Shah Bander. In terms of energy resources, Sindh has the highest production of gas which is 73% of country's total production and 56% of country's output in terms of barrels of oil. Sindh also has the highest area wise potential reserves of shale gas and shale oil alongside having abundant quantities of coal spread over an area of 9,000 km² in Tharparkar. Sindh Engro Coal Mining Company ('SECMC') which is a form of PPP that pre-dates the PPP Act is operating in Block II the reserves of which alone are sufficient to support 50,000 MW of energy.

With regards to renewable energy, abundant solar irradiation of 5.5 kwh/m²/day in northern Sindh can potentially generate 10 GW of solar energy. Additionally, creeks network in the Indus Deltaic region, extending over an area of 170 km along the 990 km coastline that Pakistan shares with the Arabian Sea can generate 900 MW.

Agriculture crop yields remain low in Sindh currently earning only USD 1 billion in rice exports whilst in terms of potential, Sindh can generate around USD 4 billion from rice exports alone. With the second largest population of Pakistan at 55 million people from all across Pakistan, Sindh can potentially be

a powerhouse of Pakistan in terms of resources and financial capital. PPP interventions within these areas are subject to the constitutional rights of various governments.

Because of the Constitutional (18th Amendment) Act, 2010, most functions related to the social sector delivery in the areas of health and education have been devolved to the provinces. Dedicated interventions by the Government of Sindh are needed to enhance infrastructure in Sindh and there is huge potential to enhance service delivery in areas of health, education and other social services under PPP mode. Sindh government recently approved USD 6 million (approximately PKR 840 million) Sindh Road Network Master Plan 2020 – 2040, the terms of reference of which include data collection for 53,000 km-long road network in Sindh. The plan entails opportunities for future construction and/or operation & maintenance of roads under Public Private Partnership mode, which will result in improved access to far reaches of Sindh. This will have a positive impact on agriculture and tourism driven projects which the Government of Sindh is already working on under the Public Private Partnership mode.

In terms of education, whilst 42,383 schools of elementary, secondary and higher secondary education were functional in Sindh, yet 55% children aged between 5 and 16 in Sindh are out of school. It is estimated that upto 80% of the school going pupils were concentrated in 11,000 schools which prompted Government of Sindh to identify 4,524 high priority schools for infrastructure improvement and improvement in quality of education. Many of these will be part of the outsourcing plan under the Public Private Partnership.

Government of Sindh also has upwards of 1,400 facilities in primary health care and in the range of 150 facilities for tertiary health care. Whilst many of these are already part of the PPP outsourcing conducted to date, many others can yet be outsourced, and emphasis can also be placed on supporting health care facilities in urban slums under PPP mode.

Thus, PPPs entail a vast framework of opportunities that can be undertaken by the Sindh Government and with early harvest project under the belt, utilizing the Sindh PPP Act 2010 and political ownership behind it, Sindh is poised to enhance upon its tag of the forerunner of the Public Private Partnership Program in Pakistan. Interestingly, Sindh PPP program being sub-sovereign in nature does have limits in terms of non-funded guarantees it can raise for financing. It is hoped that with the concept of PPPs catching on all over Pakistan, the state would provide facilitation to PPP Projects with exemptions from taxation and other guarantees.

ICMA Pakistan: What do you say about engaging management accountants as Consultants to ensure cost efficiency of PPP projects in Sindh?

KMS: It is pertinent to mention that given the massive scale of projects carried out under the PPP mode, the government seeks to ensure maximum cost efficiency/minimum leakage in project associated costs. For the very same purpose, the government hires competent accounting and finance specialists from reputed professional bodies including, but not limited to ICAP, ACCA, CFA and ICMA Pakistan, to bring in their expertise and help the government develop sound projects from an overall perspective. In fact, in a bid to reform working structures across the province, the government has already hired many members from the aforementioned bodies to help them in areas such as internal audit, financial management, tax advisory amongst others.

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ICMA Pakistan: Can you identify areas where ICMA Pakistan and PPP Unit Sindh can jointly work together such as consultancy, research and arranging training programs on Public Private Partnerships?

KMS: There is potentially a huge scope for projects and services that can be delivered by collaboration between the public and the private sector in Pakistan. Professional bodies such as ICMA Pakistan can bring cost efficiencies to improve the delivery of PPP Projects, as well as create market awareness.

As far as research is concerned, the PPP literature, particularly for PPP interventions taking place within Pakistan are fairly limited, hence there is a need for academic research into PPP models. Already there are early signs that PPPs are said to increase exponentially at the federal and provincial levels due to the budgetary constraints of respective governments. Therefore, there is a need for research to be published.

In terms of training there are a host of stakeholders involved in the PPP program. The training aspect can be imparted towards the officials of the government, private parties such as commercial banks, and potentially employees of private sector so that they can understand how PPPs work and develop/propose potential PPP projects that can be executed.

It may also be noted that currently there are no proper knowledge banks or institutions that impart PPP specific knowledge. ICMA Pakistan can leverage from this market gap by designing PPP knowledge programs and trainings for students and professionals alike. Moreover, ICMA Pakistan can also include PPP based knowledge in their curriculum to give their students an edge over other professional bodies. Besides the aforementioned, the two bodies can also collaborate in developing knowledge sharing platforms, conducting training sessions and workshops on various topics such as financial modelling skills etc.

The Editorial Board thanks Mr. Khalid Mahmood Shaikh, Director General, Public Private Partnership (PPP) Unit Sindh for giving his exclusive interview for Management Accountant Journal.