USAID FIRMS PROJECT

Position Paper of Proposed PPP Framework for Developing Tourism in Gilgit-Baltistan

May, 2014

This publication was produced for review by the USAID. It was prepared by Semiotics Consultants (Pvt.) Limited for an assignment commissioned by Chemonics International under the USAID Firms Project

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Data Page

Contract Number:	GBTI II Task Order No. EEM-4-07-07-00008-00
Contractor Name:	Chemonics International, Inc.
Name of the Component:	Business Enabling Environment (BEE)
USAID Technical Office:	Office of the Economic Growth and Agriculture; USAID Pakistan
Date of Report:	May, 2014
Document Title:	Position Paper of Proposed PPP Framework for Developing Tourism in Gilgit Baltistan
Author's Name:	Semiotics Consultants (Pvt.) Limited
Photo Credits:	Semiotics Consultants (Pvt.) Limited
Editing:	Zehra, M
SOW Title and Work Plan &Action ID:	SOW Title: Develop a Tourism Policy and PPP Framework for GB Work Plan: 33650 Action ID: 7337
Project Area:	Gilgit Baltistan, Pakistan
Key Words:	PPP, Sector; Private; Transform; Framework; Tourism; Gilgit Baltistan

Abstract:

This report presents the position paper for developing tourism PPP framework for GB, identifying key issues that need to be addressed in the proposed framework and initiates the discussion around these issues.

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Executive Summary

GB has immense tourism potential but most of it has been untapped. The tourism sector in GB has been facing a host of challenges that have been impeding growth of the sector in GB. The flow of private investments in the tourism sector of GB has been limited resulting in adequate tourism infrastructure. The public sector has limited resources, owing to a small resource pool, thereby also limiting public investments in the sector. In order to promote private investments in the region, a number of steps need to be taken, with one of them being putting in place a public-private partnership framework to empower government officials and also to provide opportunities for secure investments to private sector investors. Presently, in GB, there is no such framework; which limits the execution of this option.

Public-private partnerships (PPPs) have been recognized worldwide as an essential mode of public service delivery. They attract private capital investment, increase efficiency through the profit motivation of the private sector, and help reform sectors through the reallocation of roles and risks.

The proposed PPP framework must clearly identify the sector focus for such a framework, the role of government vis-à-vis the private sector, the present capacity of public and private sector and the prospective PPP opportunities in the tourism sector. Some of these issues are highlighted in this position paper to initiate a debate/discussion to develop the PPP framework.

Once these issues are duly deliberated and a position is taken on each of them, a public private partnership framework would be developed, which can then form the basis for a public private partnership law and associated policies, guidelines and documents.

1. Background and Context

Situated in the north of the country and managed as a self-governed region, Gilgit-Baltistan (GB) has a mountainous terrain, known for its beautiful landscape, strategic location, tremendous economic potential and exotic culture. GB borders Azad Kashmir to the south, the province of Khyber Pakhtunkhwa to the west, the Wakhan Corridor of Afghanistan to the north, China to the east and northeast and the Indian-occupied Jammu and Kashmir to the southeast. Although presently Gilgit does not play a significant role in the economy of Pakistan, it has immense untapped economic potential owing to its tourism sector, deposits of minerals and precious stones and its location creating a trade link between Pakistan and China.

GB is blessed with a unique landscape, varied biodiversity, extensive wildlife and a rich culture. GB is home to world's most famous mountain ranges including the Himalayas, Karakaram and Hindukush. Besides being known for having K2 - world's second highest peak – GB boasts having five 8,000+ meters high mountain peaks, 101 7,000+ meters peaks, 5,100 glaciers, 2,200 sq. miles of area covered in snow and 119 Lakes. On biodiversity, GB has to its credit about 6592 sq. KM of forests, which constitutes 9.1 % of the total area. GB has four national parks, nine game reserves, 3 wildlife sanctuaries and is the home for 230 species of birds, 54 species of mammals, 20 species of fresh water fish, 23 species of reptiles and 6 of amphibians

GB also offers a rich cultural experience, with five ethnic groups and five languages with 36 dialects. The region has seven (7) Asia Pacific Heritage Conservation, UNESCO and British Airways Award Winning historical sites. Besides offering year-long festivals to its visitors and enchanting them with beautiful indigenous music, GB also has 23 historical forts, 75 polo grounds, 65 archeological sites and more than 39,000 rock carvings and inscriptions.

Despite having this immense tourism potential, the GB tourism sector has been facing a number of challenges hindering tourism growth in the region. Some of these challenges are cross-cutting, affecting the overall economy such as the sluggish economic growth, unclear policy and institutional regime in the wake of GB's special status as a region, law and order situation and perception about the region's security and sub-optimal regulatory and institutional capacity to manage private sector investments and services. Other issues that are sector-specific include unreliable air travel and link with frequent flight cancellations and poor condition of Karakaram Highway (KKH) often blocked by landslides; inadequate tourism and allied infrastructure; absence of online information pool and resources; limited availability of information to the government to monitor travel and tourism trends preventing planning; low quality of workforce; limited private investments in the sector; absence of standards; and sub-optimal marketing activities.

1.1 Need for Private Investment

GB is faced with serious infrastructure constraints both in terms of core tourism facilities as well as allied infrastructure such as roads, etc. GB is estimated to have only about 140 hotels, that too with varying quality, summing up to an overall capacity of mere 2,450 rooms. Gilgit city alone claims about half of this capacity, while Hunza and Skardu also claim substantial part of these rooms. Besides these hotels and some other basic infrastructure, there are no other facilities available for tourists. Interviews with stakeholders also indicate that there has not been any significant increase in this capacity in recent years.

Allied infrastructure is also not far behind and is in serious need of up gradation. The GB Economic Report notes that: "Tourist attractions and sites in GB are spread out, requiring substantial travel by road, relying on a road network which has the typical characteristics of mountainous environments: most roads are not paved and become difficult in inclement weather conditions. The main road network is comprised of two arteries: the section of the KKH crossing GB in the south-north direction, from Chilas to the Khunjerab Pass, and the east-west road connecting the Ghizer district with Khaplu. The two cross each other not far from Gilgit. The trip from Skardu to Gilgit on this road takes approximately four hours, covering a distance of 220 kilometers, and more facilities are needed en route to enhance the travel experience". This highlights the need to make substantial infrastructure investments in the allied facilities to link these sites with each other and provide them a convenient and efficient access.

The lack of infrastructure investments is dictated primarily by limited fiscal space available to GB government. The total development allocation for GB in 2012-13 stood at merely Rs. 8.039 Billion, including both rupee and foreign exchange component. This included Rs. 7.137 Billion of ADP funding and Rs. 901 million from federal PSDP. Out of this total development budgetary outlay, the allocation for tourism sector was merely Rs. 113 million, with 14 ongoing and three new schemes.

The list of schemes with their respective dates of approval, allocations and throw forward sheds further light on the limited flow of investment in the sector.

Table 1 List of Schemes

Name of Scheme/Project	Date of Approval	Approved Project Cost	Allocation for 2012-13	Throw Forward Beyond June 2013
Revival of Cultural Heritage & Promotion of Tourism in NA (Rev).	21-09-04	62.770	8.803	9.397
Holding of International Silk Route Festival.	30-03-02	29.450	1.98	0
Promotion of Eco and Adventure Tourism in GB (Modified).	14-06-10	10	0.64	0
Construction of Tourism Offices/Complex including Tourist Information Centre in Gilgit	05-07-07	39	8	26.150
Estab. Of Tourist Info. Centers at Chilas (Diamer), Ghahkuch (Ghizer), Khaplu (Ghanche) and Astore	05-07-07	30	9.28	0
Promotion of community based tourism through public privare partnership in GB.	10-01-11	55	8	43.8
Dev. Of record of Built Heritage of Gilgit-Baltistan	14-06-10	16	7	4
PTDC TFC at Gilgit, Gilgit-Baltistan		25.588	12.588	0
Construction of Youth Development Centre at Gilgit.		38.488	8	13.418
NEW				
Branding of Gilgit-Baltistan as Jewel of Pakistan.	Unapproved	55	2	53

Name of Scheme/Project	Date of Approval	Approved Project Cost	Allocation for 2012-13	Throw Forward Beyond June 2013
Feasibility study for infrastructure development of Tourism, Sports, Culture, Youth Affairs, Archeology and Museum sectors in GB.	Unapproved	10	5	5
DISTRICT GILGIT				
Const. of road from Harkoos to Gasho Pahote Lake Sai Bala Gilgit.	28-08-06	20	0.34	0
Const. of 8 KM Jeep able shingle road from Jut to Majinay Kargah.	28-08-06	18	2.04	0
DISTRICT SKARDU				
Establishment of Mountaineering Institute at Skardu	12-02-09	99.99	10	88.49
DISTRICT DIAMER				
Const. of Jeep able shingle road from Satil to Seven Natural Lakes Pai Nullah in Tangir.	11-11-06	12	6.23	0
Const. of 20 KM Shingle Road from KKH to Fairy Meadow	30-09-06	46.9	21.370	0
DISTRICT HUNZA-NAGAR (NEW)				
Const. of Tourism office including TIC at Hunza/Nagar.	Unapproved	42	2	40

All Figures - Rs. In Million

In terms of travel and tourism government expenditure, Pakistan was ranked 101st in the World Travel and Tourism Competitiveness Report, highlighting that while GB's tourism sector is faced with fiscal constraints due to resource crunch, even at the national level, tourism sector has not been given that priority, which it deserves.

In the absence of requisite flow of finances and investments, there is a need to beef up public sector support to the sector but also mobilize private investment to stimulate growth in the sector. Such investment should not only be limited to core tourism facilities but should also be directed towards allied infrastructure such as roads and transport.

Such private investment can support the tourism sector through:

- Bridging the financing gap in the sector and bring in much needed flow of funds;
- Enhance efficiency and quality of tourism and travel services in the region through use of private sector expertise;
- More effective use of available resources and facilities; and
- Reallocation of roles, risks and incentives, creating a robust and efficient investment and service delivery model.

1.2 How to Promote Private Investments in GB?

Much of the existing investment in GB's tourism sector is small scale, scattered and in informal sector. There has been no significant example in the recent past, where there has been a structured sizable investment in the sector from outside the region. Stimulating investment interest in the region is not going to be an easy task, considering the law and order situation and perceptions as well as the unreliable and difficult access. However, through a consistent and focused strategy, this can be done over the next three to five years.

Essential parts of such strategy should include:

- Creation of investment opportunities by the government in tourism sector
- Translating these opportunities into bankable projects
- Ensuring appropriate rate of returns for potential investors
- Promoting investment potential of the region through investment road shows and other means
- Providing appropriate guarantees to investors
- Putting in place a public private partnership framework in place to facilitate such investments
- Building sufficient institutional capacity in the government to execute such transactions
- Undertaking model PPP transactions to build confidence in this investment regime

While all the above pieces are required to mobilize private investments in the sector, the current assignment focuses on only one of these elements i.e. creating a PPP framework, which would set the foundation for such investments, through empowering government officials and providing opportunities for secure investments to private sector investors. Presently, in GB, there is no such framework in place.

2. Public-Private Partnership

The federal PPP policy issued by IPDF in November 2007 provides the following more detailed description, which also captures well the main PPP features:

"PPPs have been adopted around the world as a service delivery tool. Instead of the public sector procuring a public asset and providing a public service, the private sector creates the asset through a dedicated standalone business (usually designed, financed, built, maintained and operated by the private sector) and then delivers a service to a public sector entity/consumer, in return for payment that is linked to performance. PPPs permit the public sector to redirect its capital expenditures to meet urgent social needs and convert the infrastructure costs into affordable operating expenditure spread over time. PPPs allow each partner to concentrate on activities that best suit their skills. For the public sector that would mean focusing on developing policies and identifying service needs, while for the private sector the key is to deliver those services efficiently and effectively".

PUBLIC PRIVATE PARTNERSHIPS

Public-private partnerships (PPPs) have been recognized worldwide as an essential mode of public service delivery. They attract private capital investment, increase efficiency through the profit motivation of the private sector, and help reform sectors through the reallocation of roles and risks. Although the term PPP is frequently used in various government departments and agencies, there is a widespread confusion about what it exactly means. In this interpretation, classical PPP modalities like BOTs and BOOs are treated as purely private sector projects. One also comes across a wide variety of models perceived as PPPs in sectors like infrastructure, education and health. However, adhering to a more rigorous interpretation of PPP, many of these models do not qualify as true PPP projects. This applies, for example, to government-owned companies such as industrial estates that have a board of management consisting of private sector persons, or to schools with private sector representatives on the board of governors. The confusion about PPPs is not particular to Pakistan or GB and in fact there is no universally accepted definition of PPPs as well. The need for a clear definition of the term PPP, as well as of standard PPP modalities, is evident.

"PPPs are mostly long-term contractual arrangements between the public sector and a private sector company for the provision of an infrastructure service with a fair allocation of risks between the two parties.

Developing a comprehensive PPP framework for GB is not a simple task, as such a framework should encompass all aspects of PPP projects ranging from project identification and preparation to procurement and financing. While the proposed assignment would develop the overall PPP framework with a proposed policy/legal foundation, other aspects of the framework would be developed gradually over time. However, the following schematic presents what would or should eventually be a part of a comprehensive PPP framework for GB.

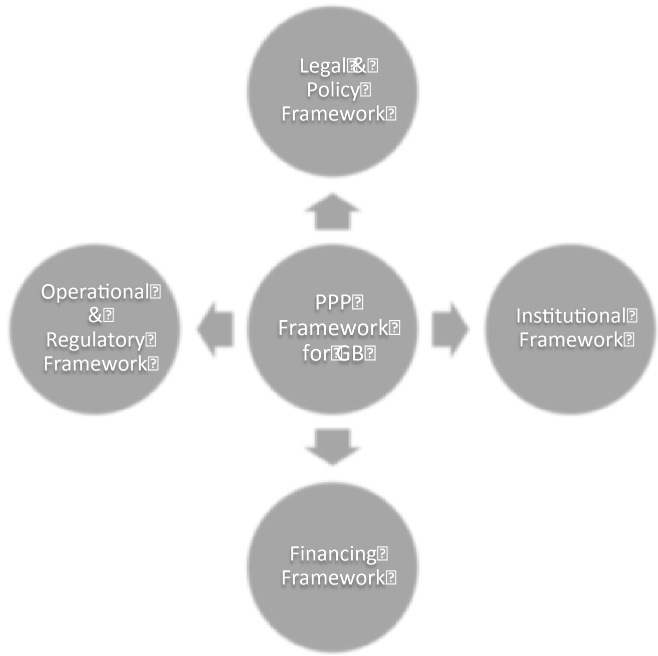

Figure 1 PPP Models

2.1 PPP Models

PPP models include a wide variety and range from service contracts to management contracts to lease contracts to concessions to BOT and BOO projects, with the role of the private sector gradually increasing along this range. Depending on the PPP modality, the infrastructure service is delivered with or without the provision of an infrastructure facility. The emphasis on service is important in this context as it distinguishes PPPs from traditional public projects where private companies may be involved in engineering, procurement and construction, but do not finance such projects, nor do they operate and maintain them after commissioning. The following matrix presents some of the key PPP models:

Modality	Owner-ship	Investment	O&M	Commercial Risk	Duration (Years)	Typical Example
Service Contracts	Public	Public	Public/ private	Public	1-3	Meter reading and billing, or road maintenance outsourcing
Management Contracts	Public	Public	Private	Public	2-5	Power utility management
Lease Contracts	Public	Public/ private	Private	Public/ private	10-15	Airport terminal operation
Concessions	Public/ private	Private	Private	Private	25-30	Water supply concession
Build-Operate-Transfer or Build-Own-Operate	Public/ private	Private	Private	Private	20-30	Independent power producers, or toll road companies

Source: Public-Private Partnership Handbook, ADB, Manila, 2008.

The last two categories may seem similar, however, they are quite different. In case of concessions, the customer is the end user and the private sector thus bears the tariff collection risk whereas in BOT/BOO contracts, the customer is a government department that provides the service to the end users so that the public sector bears the tariff collection risk. BOT/BOO projects are mostly Greenfield projects, while concessions cover both existing and new facilities within the service area. The high-grade PPP modalities such as BOT, BOO, etc. frequently involve complementary investments from the public and private sector.

2.2 Divestures

Some of the other definitions of PPPs also consider divestiture (sale of ownership or shares in a company owned by the public sector) as a PPP. However, divesture should generally fall under privatization.

2.3 Joint Venture

JVs are an alternative to full privatization in which a company is co-owned and operated by the public and private sector partners. While they may be suitable for economic sectors such as manufacturing and agriculture, JVs in the infrastructure sectors pose several problems. The government's dual role as the regulator and a part owner can lead to conflicts of interests. A clear risk allocation, which is a major advantage of PPPs, is blurred by JVs.

3. Review of Existing PPP Legal Regime at GB

Gilgit Baltistan (Empowerment and Self-Governance) Order, 2009

Gilgit Baltistan (Empowerment and Self-Governance) Order, 2009 governs the region of Gilgit Baltistan. Article 47 of the said Order provides the legislative powers and gives both the GB Council and the Assembly the power to make laws. However, the Council shall have exclusive power to make laws with respect to any matter in the Council Legislative List set out in the Third Schedule while the Assembly has exclusive power to make laws with respect to any matter enumerated in the Fourth Schedule. The Third Schedule puts ‘tourism’ and ‘forests’, under the mandate of GB Council, whereas the Fourth Schedule empowers Assembly to exclusively legislate in areas like ‘compulsory acquisition or requisitioning of property’; ‘libraries, museums and ancient and historical monuments’; ‘theaters; cinemas; sports; entertainments and amusements’; ‘protection of wild animals and birds’; ‘taxes on goods and passengers carried by road or on inland waterways’ and ‘on vehicles, whether mechanically propelled or not, suitable for use on a road’ and ‘on boats, launches and steamers on inland water; on tram cars’; ‘taxes on luxuries, including entertainments and amusements’ and last but not the least ‘tolls’. While tourism itself would be a subject of GB Council, all these allied matters would also have to be reviewed, which fall under the domain of Legislative Assembly.

Public Private Partnership Law

There is no Public Private Partnership (PPP) law in Gilgit Baltistan similar to the one in Punjab[1] or Khyber Pakhtunkhwa, which means that there is no specialized legal framework for processing, approving and/or regulating public private partnership arrangements in the special territory. While the absence of such a framework does not mean that government or government agencies cannot or do not enter into PPP arrangements it does imply inconsistent processing, lack of due diligence requirements, inadequate risk assessment, and reduced transparency.

Currently Government and government agencies enter into PPP arrangements by using their contractual power. Ordinary procurement and processing procedures are used to finalize PPP arrangements.

The power to issue a public private law depends on whether it is a law of general applicability or related to a particular sector. Since the subject ‘contracts and/or public private partnership’ does not appear in any of the legislative lists a PPP law of general applicability will have to be issued by the Federal Government. On the other hand a PPP law focusing on the Tourism sector can be issued by the Gilgit Baltistan Council since Tourism is a Council Subject[2].

[1] Punjab Public Private Partnership for Infrastructure Act, 2010 `

[2] Item No 39, Schedule 3, Article 47(2)(a), Gilgit-Baltistan (Empowerment and Self-Governance) Order, 2009

3.1 Scope of PPP Provisions in Existing Legislation

3.1.1 Public Procurement Rules

The Public Procurement Regulatory Authority Ordinance, 2002 is applicable in GB. This Act and rules made there under regulates the procurement of both goods and services. While Public procurement rules regulate the process of entering into contracts they are unsuited to deal with partnering arrangements where investments are tied to revenues or vice versa. Further the level of technical and financial inquiries are very different for ordinary public procurements and complex PPP contracts. The difficulty in determining actual costs can be illustrated by the fact that it was only in 2011 that a cross –party Treasury Select Committee in UK found that the long term expense of Private Finance Initiative (PFI) deals - where the private sector shoulders the upfront cost – were much higher than conventional forms of borrowing[3].

3.1.2 Power to Enter Into PPP Contracts As A Consequence Of Legal Personality

While all PPP contracts are a consequence of general contractual powers of government or government agencies (being an incidental power of legal personality), contracting powers of government agencies may themselves be limited for statutory and public policy reasons. Known as the principle of *ultra vires,* this means that a government agency may not do things, which are not sanctioned by its establishing statute or incorporating instrument. The same principle applies to companies, who may not act beyond the terms of their articles.

3.1.3 Tourism laws

There are no sub national tourism related laws in GB. The only national tourism-related law applicable in GB is the Pakistan Hotels and Restaurants Act, 1976[4]. The other major tourism related national laws – the Pakistan Tourist Guides Act, 1976 and the Travel Agencies Act, 1976, have not been extended to GB.

In addition to the above there are Rules and Regulations for undertaking mountaineering and trekking expeditions in GB. These Rules/regulations are however not issued as statutory instruments and are in the nature of executive orders.

None of these laws have any provisions relating to PPP.

A summary of these laws is as follows:

Table 2 Tourism Laws

Title	Status	Applicability	Regulator/ Agency responsible for administration	Objectives
Pakistan Hotel and Restaurants Act, 1976	Federal Act	Hotels and Restaurants	Controller for Hotels and Restaurants/ Department of Tourism Services	Regulates standards of Health, hygiene and comfort. Also regulates prices5
Pakistan Tourist Guides Act, 1976	Federal Act	Tourist Guides	Tourist Guides Regulatory Committee	Regulation of standards; Approval of rates; Maintenance of record

[3] See www.bbc.co.uk/news/uk-politics-14574059
[4] No. LA. Comm-9(7)/90 dated 15th April, 1990
[5] Registration, licensing and other legal requirements to establish a restaurant in Pakistan, SMEDA, March 10, 2006

Title	Status	Applicability	Regulator/ Agency responsible for administration	Objectives
Travel Agencies Act, 1976	Federal Act	Travel Agents (being persons who make travel and lodging arrangements or have authority to undertake sales for airlines)	Travel Agencies Regulatory Committee	Regulation of standards; Approval of rates
Mountaineering Rules and Regulations	Issuing Authority unclear	Foreign mountaineering expeditions	Gilgit Balistan Council Tourism Division Deputy Commissioner	Regulation of mountaineering expeditions
Trekking Rules and Regulations	Issuing Authority unclear	Foreign trekking expeditions	Gilgit Balistan Council Tourism Division Deputy Commissioner	Regulation of trekking expeditions

4. Need for PPP Framework

The proposed PPP framework will set the foundation for promoting private investment into GB through:

- Providing policy and legal certainty to investors;
- Introducing effective institutional arrangements for PPPs;
- Ensuring fair risk sharing between the public and private sector;
- Strengthening regulatory arrangements, including effective mechanisms for dispute resolution; and
- Introducing tariff regimes that are based on full cost recovery.

Law & Policy	Institutional Structure	Finanacing	Finanacing
•PPP laws •PPP Policy •Policy guidelines for risk management	•PPP project guidelines •Model contracts •Standard PPP contract provisions •Contracts Regula: Ons	•Decision making authority for PPP contract awards •PPP projects preparation •Secretariat	•Viability gaps fundings •Risk gurantees funds •Infrastructure financing facilities •Projects development financing

Figure 2 PPP Framework

5. Key Areas for Discussion

5.1 Sector Focus of Proposed PPP Framework

Although this position paper is being developed as part of assistance from USAID to develop PPP framework for tourism sector of GB, the question remains, whether such framework should be sector-specific for tourism industry or cross-cutting. As discussed earlier, PPP modality, irrespective of the sector, includes a number of models, which can be employed across a number of infrastructure sectors. There have been examples in Pakistan for sector-specific PPP frameworks, such as the federal Energy Policy of 1996 and 2004, which allowed PPP agreement for power plants. Having a cross-cutting PPP framework is generally better as the same expertise would be required in the government for many sectors and such an approach would also mean offering a wider portfolio of investments to the potential investors, however, the situation in GB may be a little different.

Although the PPP frameworks have been introduced in three provinces of Pakistan, including Punjab, Sindh and Khyber Pakhtunkhwa, none of these provinces have had any significant progress in undertaking PPP projects. This lack of success can be attributed to weak institutional capacity of the government. Considering the existing institutional base of GB, it would even be more challenging to create this capacity across the region and developing some initial expertise for tourism may be more viable. Once the PPP framework is firmly embedded in the government's institutional structure, the same framework or at least its principles can be applied to other sectors.

5.2 Prospective PPP Opportunities

The proposed PPP framework for tourism sector for GB is aimed at mobilizing private investment in the sector. It would however be critical to assess what type of PPP opportunities lie in the region, which will benefit from such a framework. Broadly, there are going to be three categories of PPP opportunities, which can be extended once the PPP framework is in place and a project pipeline is developed. The first category could be the contracts for managing any existing facilities. The private investment can be sought to upgrade these facilities and then manage them through a management contract or any other PPP modality. Such brown field projects are easier to execute and offer quick returns to the investors. The government can also expect improvement in services and enhancing such facilities. Secondly, the government can also identify opportunities for new facilities, resort development and recreational facilities, for which private investment can be sought. Thirdly, access roads and allied infrastructure can also be developed under PPP modality.

5.3 Existing Private Sector Capacity

One of the key factors in the success of the proposed PPP framework would be the capacity of existing private sector players. Strong private sector presence, coupled with its interest in PPP opportunities is likely to contribute towards PPP success. The preliminary research shows minimal capacity presently in GB. This would mean bringing in new investors from outside the region and possibly even international investment. This would be quite challenging and would require appropriate incentives and risk sharing mechanisms.

5.4 Cost Recovery

Full cost recovery should form the foundation of the proposed PPP framework, as it would be important for the private sector to fully recover their costs, along with the cost of capital. In case of allied infrastructure or even public recreational facilities, ideally, the cost should be recovered through user charges and tariffs. If however, the government feels that some of the projects may not be financially feasible, but they are socially viable, the provision of viability gap funding must be built into the framework to allow full cost recovery to the private sector. Moreover, as earlier mentioned the projects should be structured in a way to offer appropriate returns to investors so that they are attracted to investment opportunities in GB, as opposed to other areas.

5.5 Existing capacity of Public Sector

Undertaking PPP projects is a complex process and the government must have adequate capacity to undertake such ventures. PPPs in tourism sector or for that matter in any sector would require the government departments to:

- Understand the dynamics of PPP projects
- Identify appropriate PPP opportunities
- Undertake project preparation and procure consultants for feasibility studies development
- Procure transaction advisors and manage them
- Analyze risks for every PPP project
- Conduct pre-market assessments
- Financial closure through assistance from transaction advisor
- Take decisions on provision of funds to project through viability gap funding, etc.

Considering the existing capacity of the government in GB, there is a need to supplement this capacity through induction of new resources, provision of funds and training of existing resources.

5.6 Choice of PPP Models

As discussed earlier, the PPP regime covers a wide range of models. Some of them are more formal and advanced such as BOT, BOOT, BLT and concessions, while others are low-grade PPP models, with minimal private sector risk sharing such as management and service contracts. In some cases, even joint ventures and sponsorships are also considered a form of PPP, although that may not be entirely correct. Anyhow, the key question here would be to ascertain that which type of PPP models, the proposed PPP framework should cover.

5.7 Size of PPP Projects and Choice of Approach

The expected size of PPP projects is also important because for larger projects, it would be critical to have a thorough PPP regime, based on intensive competition and rigorous project preparation. The same approach may be too cumbersome for smaller PPP projects. A number of PPP frameworks around the world have addressed this issue through having a parallel approach, with fast-track simpler process for small projects and a rigorous regime for larger projects. Another possibility could be to have a minimum cost limit in the PPP regime, above which the applicability of PPP framework would be mandatory, while below this limit it would be optional.

5.8 PPP Unit

There is a need to have a key focal institution to drive the PPP process in the region. This institution should also have adequate capacity to undertake PPP projects and provide guidance to various government agencies across the provincial government. Similar institutions exist almost everywhere. For instance, at the federal level, this role is played by Infrastructure Project Development Facility (IPDF), which is an independent company registered under the Section 42 of the Companies Ordinance. In Punjab and Sindh, on the other hand, the PPP Cell/Unit are working under the respective Planning and Development Departments. In GB, if the government prefers a cross-cutting framework, such a unit can be developed under the Planning and Development Department, however, if the framework is to be sector-specific as suggested earlier, such a unit can also be housed under the Tourism Department.

5.9 Assessing PPP Project Risks

As described earlier, a key feature of a PPP project is the sharing of risks between the public and private sectors. The recommended principle for such risk sharing is that each risk should be managed by the party, which is best capable for managing that risk. In most of the projects, therefore, the construction and operational risks are borne by the private sector, whereas the regulatory risks are generally the public sector’s responsibility. In any risk sharing arrangement however, it is critical for the public sector to carefully asses and manage its direct and contingent liabilities arising out of each PPP project. The government must have the capacity for this task and in GB this would need to be developed. This capacity can either be housed at the PPP unit or also as a separate unit. In Punjab, for example, there is a separate Risk Management Unit, which assesses each PPP project and advises the PPP Cell accordingly.

6. Annexure

APPENDIX 1 - List of Persons Consulted

USAID Firms Project:

1. Mr. Suleiman Ghani, Sr. Policy Advisor, USAID Firms Project
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