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## **SESSION 2A:**

### **CASE STUDY: How PRF helped Preparedness of Urban Sector Projects in Pakistan Khyber Pakthunkhwa Cities Improvement Project - Project Readiness Financing Developing Resilient Environments and Advancing Municipal Services in Punjab Project (DREAMS)**

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# SESSION 2: IMPROVING PROJECTS QUALITY at ENTRY

## *Case Study: Pakistan*



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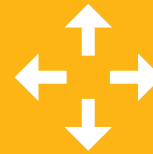
# Project Readiness Financing (PRF) At a Glance

## Purpose



Supports one or more ensuing ADB financed project(s) to ensure high project implementation readiness including cross-sectoral support for entire country pipeline

## Size



Small-scale PRF:  $\leq$  \$15 million approved by Vice President

PRF  $>$  \$15 million approved by the ADB Board of Directors

## Scope



Supports sector preparation including sector studies, investment plans, feasibility studies, due diligence, detailed engineering design, safeguards pre-implementation work, advanced procurement actions, pilot-testing, capacity building, and limited project start-up activities

## Financing



Through loans, grants and/or ADB-administered cofinancing

A project readiness loan may be refinanced under any ensuing or ongoing project to the same borrower.



### PRF for more than one ensuing project

- (i) lists ensuing projects at the time of PRF approval, or
- (ii) includes eligibility criteria for project selection during PRF implementation



# What can PRFs finance?

- |                               |  |   |
|-------------------------------|--|---|
| <b>1</b> Pipeline development | <b>4</b> Feasibility studies, surveys, due diligence | <b>7</b> Pilot testing<br>up to 50% of PRF financing or \$5 million, whichever is smaller |
| <b>2</b> Sector studies       | <b>5</b> Detailed engineering design                 | <b>8</b> Pre-implementation activities for safeguards                                     |
| <b>3</b> Investment plans     | <b>6</b> Capacity development                        | <b>9</b> Limited project start-up activities  |

## What cannot be financed by a PRF?

### Project implementation costs

- |                                   |                           |
|-----------------------------------|---------------------------|
| <b>X</b> Construction supervision | <b>X</b> Land acquisition |
| <b>X</b> Project management       |                           |

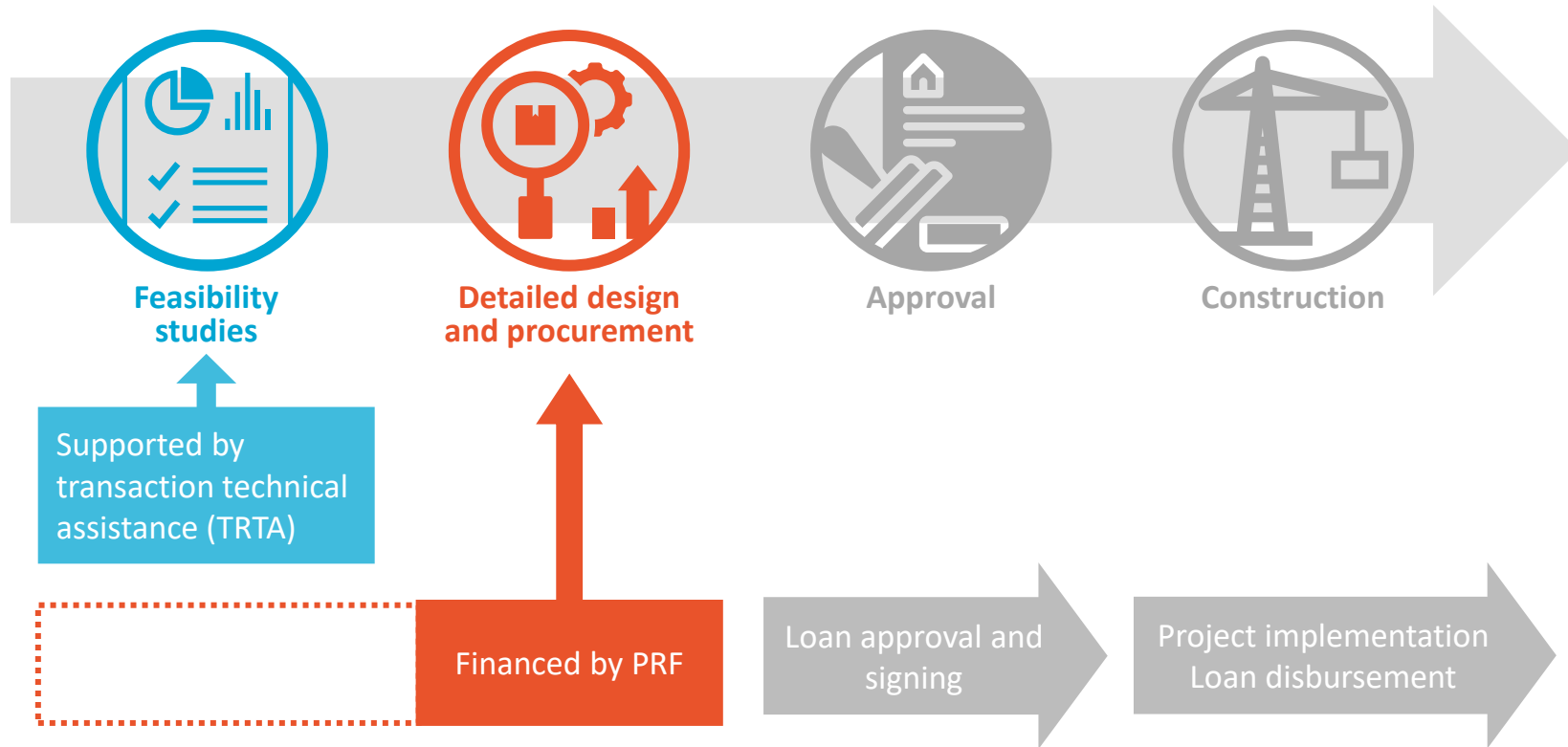


These costs should be covered by the ensuing loan.

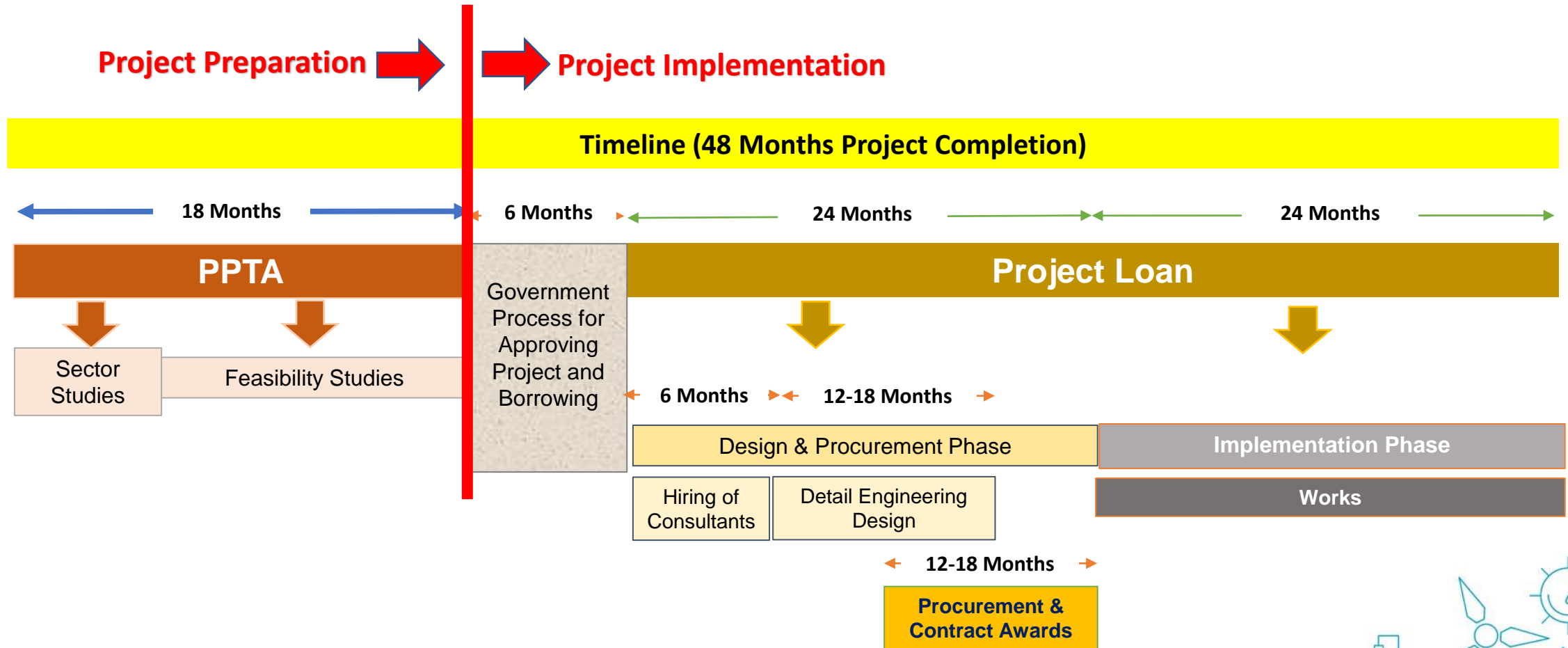


# How does it work?

## Synchronize TRTA and PRF Planning

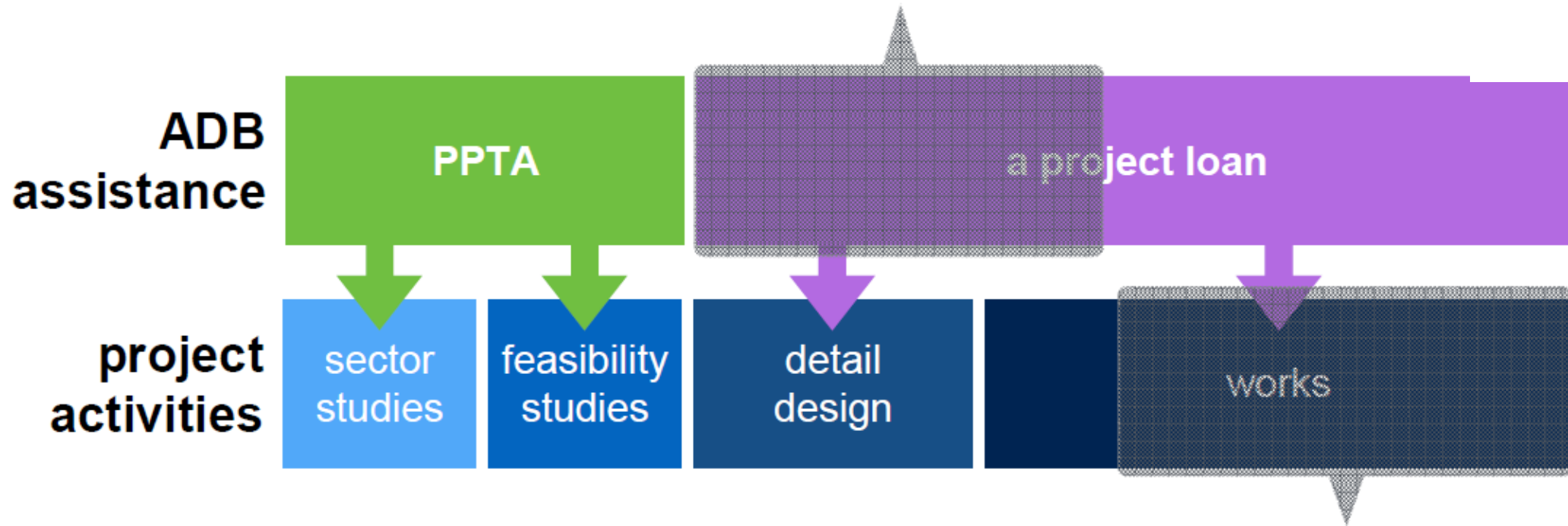


# Conventional Approach of ADB Loan Approval and Implementation



# Problems with the conventional approach?

low loan utilization, leading more commitment charges



## issues

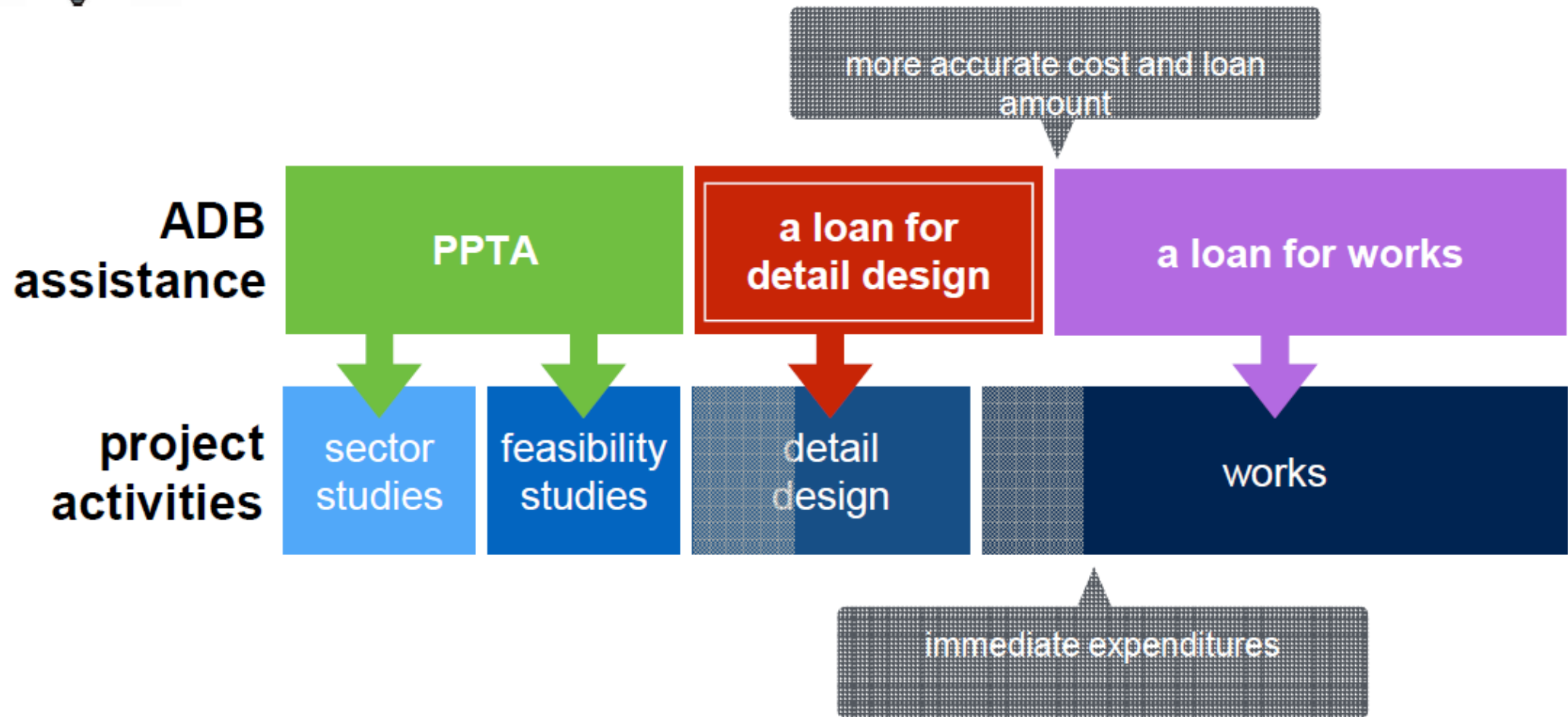
- cost to borrowers (commitment charges)
- lost investment opportunity for ADB



# Introducing Project Readiness Financing (PRF) to Project Cycle



Finance a project with two loans



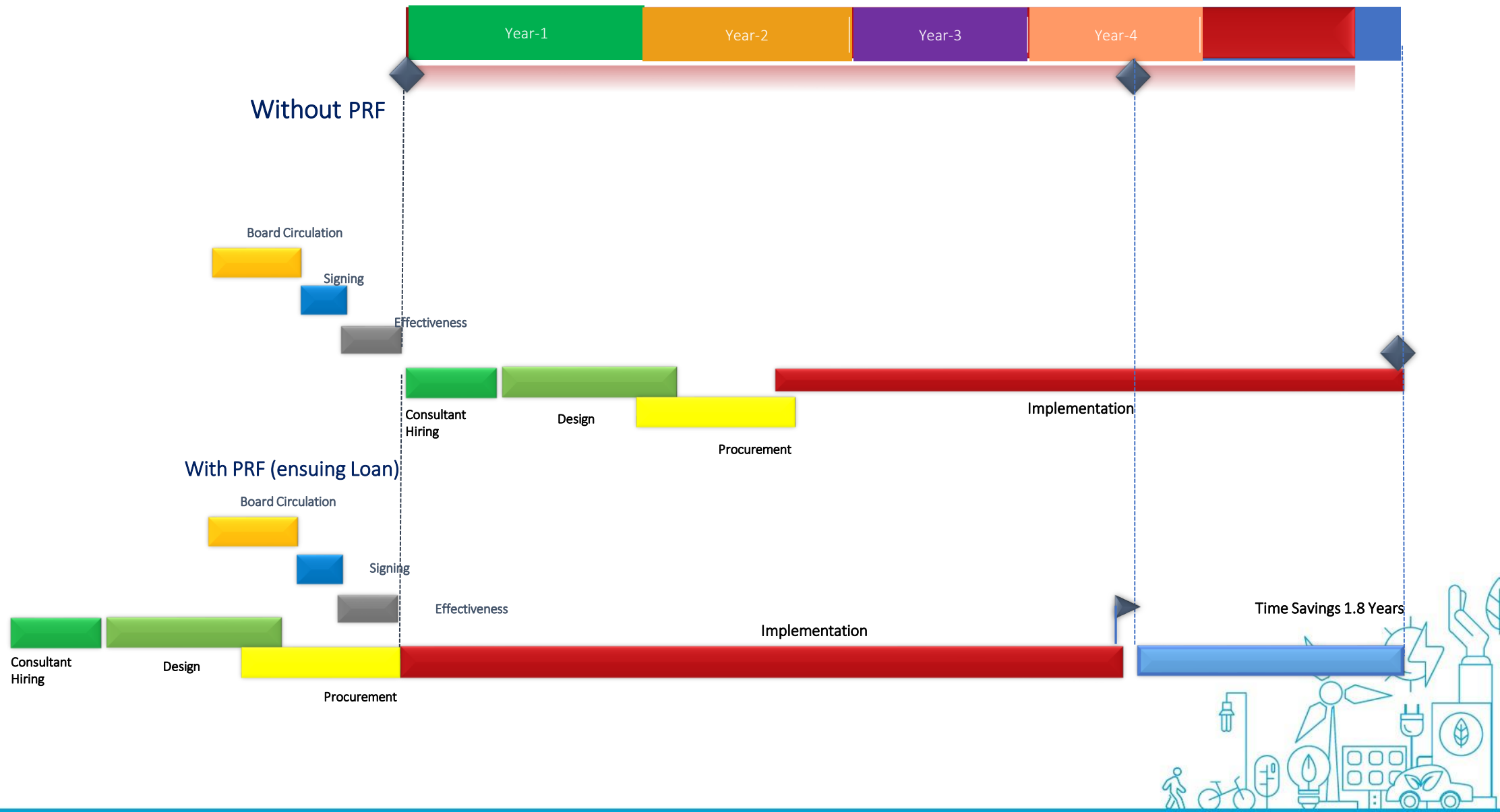


# Advantages of PRF

- Good tool to conduct advanced preparatory activities for complex projects, notably in the urban sector, to ensure readiness ahead of loan approval:
  - ✓ Detailed Engineering Design (DED), incl. utilities' relocation plan, and accurate **Costing**
  - ✓ **Advance Procurement** activities (bidding documents, support for evaluation, etc.)
  - ✓ Update and finalization of safeguards documents (LARP, EIA) based on DED
  - ✓ Implementation of LARP and EMP (**third-party monitoring**)
  - ✓ Institutional developments and capacity building
  - ✓ Stakeholders' consultations and project communication
  - ✓ **Social Impact Mitigation activities**
  - ✓ **Operational planning and financial modeling**
- Gives you time to ensure buy-in internally (ADB), from the Client, and from affected communities
- Cost savings from commitment charges
- Timely establishment of institutions



# Projects without PRF VS with PRF



# Project without PRF

## Lesson from Punjab Intermediate Cities Improvement Investment Project (PICIIP)



# Punjab Intermediate Cities Improvement Investment Project

Effectiveness: 16/03/2018

Loan Closing: 30/06/2026

**Total Project Cost: \$250 Mil**

ADB OCR	\$200 Mil	Government Share	\$50 Mil
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Category	Amount Allocated for ADB Financing
Equipment, Civil Works, Consulting Services - Project Implementation, Project Management	\$ 194.17 Mil
Consulting Services - Capacity Development	\$ 5.83 Mil
Unallocated	\$ 0 Mil
<b>Total ADB Share</b>	<b>200</b>

**Infrastructure sub-projects in Sahiwal and Sialkot:** Improvement of Water Supply System, Improvement of Sanitation System (WWTPs included), Improvement of urban public spaces (parks, walk ways, greenbelts, bike lanes etc.)

## Project Development:

PICIIP was processed in absence of a PRF



# Lack of Preparedness of PICIIP at the time of project processing

Key Activities Carried Out Before Loan Signing	Completed before signing of loan
Urban Sector Assessment and Government Consultations	✓
Subsector Master Plans	X
Project scope finalized in light of above activities	X
Detailed engineering design of all subprojects prepared	X
Operational plan and business models prepared	X
Preparation and Government Approval of Umbrella PC-1	✓
Preparation and Government Approval of PC-1 of Sub-projects	X
Submission of EIA/IEE/EMPs to ADB and relevant Government departments	X
Submission of LARP of WATSAN and WWTP Schemes	X
Advance Procurement initiated for sub-projects	X
Land Acquisition process at an advanced stage	X
Establishment of companies, office space and equipment, hiring of key staff	X



# Issues faced due to lack of preparedness

**The project lost 18 months in start-up delays due to:**

- Time taken to decide on project scope by the government in the initial 2 years
- Preparation and approval of water and sanitation sub-sector plans for project cities
- Time taken for Identification, feasibility, detailed design and procurement of selected investments

**Upto 2 years went into land acquisition, including:**

- Conducting Independent Valuation Study (IVS)
- LARP preparation and approvals
- Governemnt's land acquisition process (IVS integrated)

Preparation of EIA/IEE/EMPs and submission to ADB and relevant Government departments

**Upto 3 years** have gone into hiring of Consultant firm and preparation of operational plans and business models for water and sanitation companies.

**5 years** have gone by and water and sanitation companies have not been established yet that will take over the project investments



# Project with PRF

## Lesson from Khyber Pakhtunkhwa Cities Improvement Project- Project Readiness Financing (KPCIP-PRF)



# PRF: Khyber Pakhtunkhwa Cities Improvement Project (KPCIP)

Effectiveness: 30/04/2019

Loan Closing: 28/08/2024

Total Project Cost: \$9.00 Mil

ADB OCR	\$7.00 Mil	Grant	\$2.00 Mil
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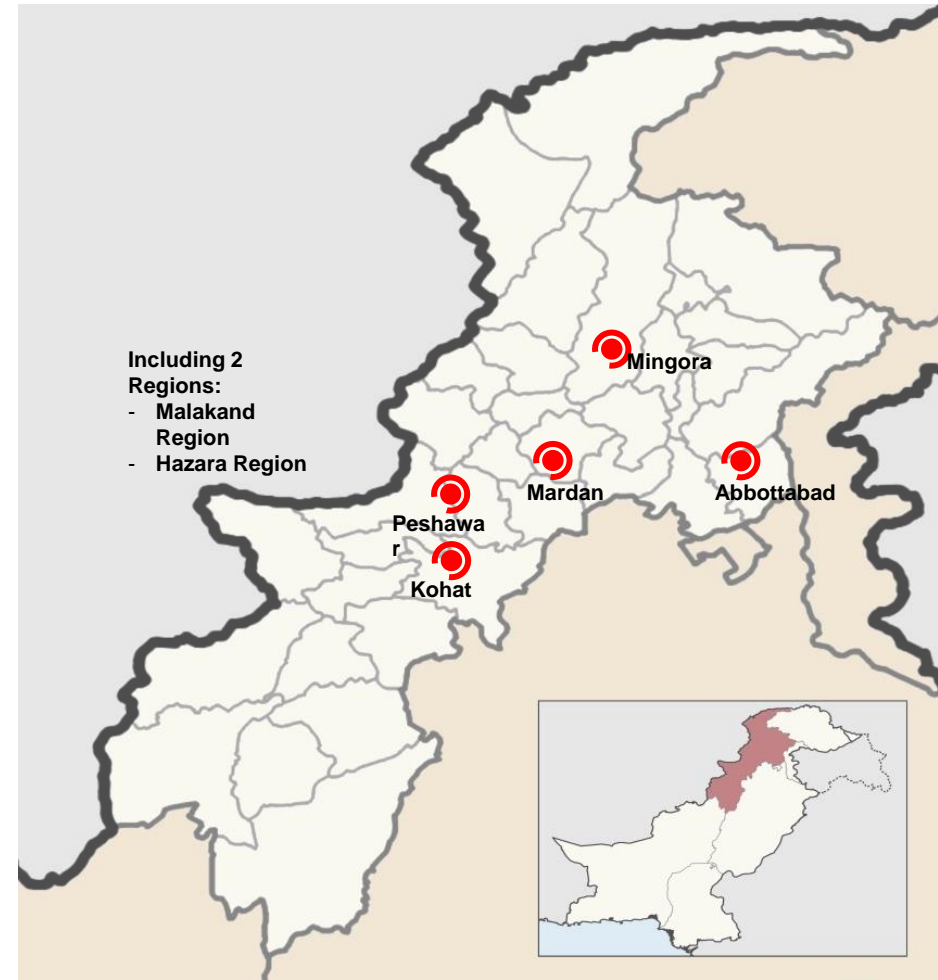
Category	ADB Financing (\$ Mil)
Consulting Services (Loan)	\$7.00
Consulting Services (Grant)	\$ 2.00
Unallocated	\$ 0.00
<b>Total Base Cost (ADB Share)</b>	<b>\$9.00</b>

## Ensuing Project:

### **Khyber Pakhtunkhwa Cities Improvement (Investment) Project**

Net Loan/Co-Fin: \$585 mil

Processed in 2021





# PRF Team's contribution to the processing of KPCIP

## Engineering Design and Construction Management (EDCM)

Responsible for detailed engineering design of project investment, including:

- Engineering Surveys
- Detailed Designs of water supply, sanitation and sewerage infrastructure and integrated solid waste management (ISWM) of 5 project cities
- Bidding Documents

## Project Management Unit (PMU) of KPCIP Project

Responsible for linking and coordinating with all teams, and:

- Project Management,
- Procurement Support,
- Institutional Development and Capacity Building

## Institutional Reform and Capacity Building (IRCB)

Responsible for developing the operational systems of project investments, including

- Situation analysis and industry scan
- Comparative analysis and preferred operational and business models
- Develop and implement, institutional reforms, system improvement measures and capacity building of EA and IAs
- Develop and implement reforms for city governments
- KPIs and detailed documents for Design-Build-Operate (DBO) model of the ISWM project



# Level of Preparedness of KPCIP at the time of project processing

Key Milestones	Completed before signing of loan
Situation Analysis, Stakeholder Consultations and Spatial Plans completed	✓
Project scope finalized in light of above activities	✓
Detailed engineering design of all subprojects prepared	✓
Operational plan and business models prepared	✓
Preparation and Government Approval of PC-1	✓
Submission of EIA/IEE/EMPs to ADB	✓
Submission of LARP to ADB	✓
Advance Procurement initiated	✓
Land Acquisition process at an advanced stage	✓
Capacity Building of EA and IAs	✓



# Level of Preparedness: Comparison between projects with and without PRF

Key Activities Carried Out Before Loan Signing	Projects with PRF		Projects without PRF
	DREAMS-1	KPCIP	PICIIP
City-level Spatial Plans/ Master Plans completed	✓	✓	X
Project scope finalized in light of above activities	✓	✓	X
Detailed engineering design of all subprojects prepared	✓	✓	X
Operational plan and business models prepared	✓	✓	X
Preparation and Government Approval of subproject PC-1s	✓	✓	X
Submission of EIA/IEE/EMPs to ADB	✓	✓	X
Submission of LARPs to ADB	✓	✓	X
Advance Procurement initiated	✓	✓	X
Land Acquisition process at an advanced stage	✓	✓	X
Institutions in place/ established that will take over the O&M of project investments	✓	✓	X



# Ensuing Investment Project: KPCIP—Effect of PRF

**Loan Signing:** Dec 2021  
**Effectiveness:** April 2022  
**Total Project Cost:** \$650 Mil

ADB OCR	\$380 Mil	AIIB Share	\$200 Mil
ADF Grant	\$5 Mil	Government Share	\$65 Mil

## Infrastructure sub-projects (In 5 Cities of KP)

1. Urban Green Spaces (5 Lots)
2. Water Supply
  - a. Water supply network
  - b. Water treatment plants
3. Sewerage System
  - a. Sewerage network
  - b. Sewerage treatment plants
4. Integrated Solid Waste Management System (ISWM)
5. Gender Interventions

## Within 6 months of loan effectiveness:

1. Signing of first contract: 45 days prior to effectiveness
2. Signing of first civil works contract: 77 days
3. Contract awards: \$53.1 million (14%)
4. Disbursements: \$7.3 million (13.7% of CA)

