

ASIAN DEVELOPMENT BANK

TA 7055-IND: Capacity Development of National Capital Region Planning Board
(NCRPB) – Package 1 (Components A and C)

Project Development Fund at NCRPB
(Concept Note)

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1. Our Understanding and Appreciation of the Project

1.1. Background

It has been increasingly being pointed out that in order to achieve its mission of promoting growth in the NCR through balanced regional development; NCRPB needs to go beyond its current role of formulating regional plans and providing plain vanilla loans. In the rapidly changing macro economic environment, NCRPB can promote economic growth via a series of interventions aimed at removing critical infrastructure bottlenecks and enhancing quality of life in the region by improving access to basic civic services to both urban and rural areas. NCRPB needs to transform itself into an institution which not only has the vision for planned development of NCR but possesses the means to provide the entire spectrum of infrastructure development and financial services to translate the vision into reality.

“Project Development” entails all aspects of project structuring such as institutional, financial and commercial, legal, environmental, and technical structuring ultimately leading to project execution.

However, the inability of implementing agencies to plan projects has led to a paradoxical situation wherein NCRPB is unable to optimally utilize its funds in a certain period while facing a liquidity crunch in another. Specifically, *significant costs of project preparation and development (usually about 3-5% of total project cost) are identified as a major bottleneck for preparation of bankable infrastructure projects* and hence, there is a need for a dedicated fund which would act as a catalyst to close the gap between the available public and private financial resources and vast infrastructure needs that can be translated into viable projects with real potential for achieving financial closure.

1.2. Need for a Project Development Fund

The key deterrent to the smooth flow of investments is an inadequate shelf of well structured and bankable projects. This is primarily because the government agencies lack the capacity and resources— both technical and financial to support project development for capital intensive infrastructure projects. Land development projects, commercially attractive power generation projects, traditional urban infrastructure projects as well as other complex yet innovative projects requires a differentiated project development and lending strategies.

It is envisaged that in the long run, NCRPB would strengthen its position as a catalyst for investments in infrastructure and evolve from a pure-play lender to an intermediary capable of conceptualizing, developing, structuring and financing a wide gamut of infrastructure projects in the region.

In line with the above, it is imperative that NCRPB go beyond its traditional model and enhance its existing product portfolio to offer a wide and comprehensive range of products including exploring development of projects in the Public Private Partnership (PPP) frameworks. In this respect, it is proposed that NCRPB set up **a Project Development Fund**, primarily to finance project preparation activities for complex yet innovative projects. Activities supported by the PDF include conducting feasibility studies, preparing detailed project reports, and structuring PPP projects by hiring transaction advisors etc. The availability of this technical assistance would prove to be an important driver to foster to demand for loan assistance.

In this context, it is believed that the ADB-NCRPB partnership via this Project Development Fund would be extremely crucial for developing projects to the desired standards and facilitating creation of replicable PPP models that have well-balanced risk and bankability structures. These would catalyze on the much needed private sector capital and bring in competitive commercial co-financing into the infrastructure sectors.

1.3. Aims and Objectives of the Project Development Fund

The financing plan for NCRPB envisages borrowing from multilateral and bilateral agencies. Many of the projects currently posed to NCRPB lack the desired level of due diligence and detail. They also do not comply with the environmental and social safeguard requirements of multilateral and bilateral agencies.

- The purpose of the fund is to support studies, concept development, demonstration pilots etc. to meet the **overall objective of increasing quality and quantity of credible and**

innovative projects. In addition the PDF can be used to support preparation of plans(functional plans, sub-regional plans, master plans, city development plans) as well as engaging resources for project supervision and monitoring.

- *The PDF would primarily be used to assist State Governments in the NCR region as well as counter magnet areas, and the local authorities, urban development authorities, housing boards and such other arms of the State Government responsible for implementing the sub-regional plans and project plans or for developing the counter magnet area. The focus would be on developing credible infrastructure projects including those that attract private sector financing through PPP models, and particularly capture social priority sectors such as water and sanitation.*

This fund is proposed to be exclusively used for developing sub projects and providing technical assistance to various departments for developing projects complying with the Regional Plan 2021.

2. Structure and Management of the Project Development Fund

2.1. Sources of Finance

In the short term, efforts would be expended in conceptualizing a PDF to provide technical assistance to NCRPB for achieving the objectives of the regional plan 2021. This would be done through providing assistance to states and implementing agencies for preparation of functional and master plans, project development support for projects identified through regional and functional plans and city development plans. It would also support screening of eligible projects for implementation under PPP frameworks before taking up further project preparation.. The initial corpus for the facility would be Rs. 50 Crores for which an initial contribution of Rs. 25 crores (\$5mn) would be from NCRPB and the balance from donor agencies including ADB.

Overtime the funds can be enhanced by

- Provisions created from the NCRPB Fund partly financed through lapsed incentives offered to borrowers.
- Sourcing technical assistance grants from multilateral and bilateral agencies.
- Replenishment / reimbursement under prevailing Government of India or State Government schemes such as JNNURM, UIDSSMT and India Project Development Fund.

The assistance for project development can be factored as part of project costs, which would then get funded at the time of financial closure, which can then be recovered by NCRPB from the borrowers. This would ensure that the limits for providing technical assistance would be available for new projects identified subsequently.

Over time, this assistance would facilitate structuring of viable projects by incorporating Public Private Partnership (PPP) frameworks and addressing economic, environment and social concern in such a manner that the projects meet the needs of multilateral agencies as well as regulators.

2.2. Activities

The funds would be primarily deployed for (i) preparation of sub-regional/functional and city development plans, (ii) preparation of detailed project reports compliant with NCRPB appraisal criteria and those of multilateral lenders such as ADB, (iii) undertaking project monitoring and supervision of projects (iv) any other as may be deemed appropriate by NCRPB.

2.4. Process and Procedures

For overseeing the Project Development Fund (PDF), a committee shall be formed by NCRPB (the fund manager) which will approve subproject preparation and monitor the progress of the fund.

Figure no. 1 illustrates the procedures to be followed for such a fund.

The implementing agency can approach the PDF for technical assistance, and the fund manager would then prepare an appraisal note for the approval of the committee. The broad parameters which need to be checked are compliance with regional plan 2021, project name, cost estimates, background and scope of work to the consultants.

After approval, NCRPB shall proceed with identification of consultants in line with ADB's procurement guidelines. Detailed terms of reference shall be provided to the consultant, as part of the tender documents¹.

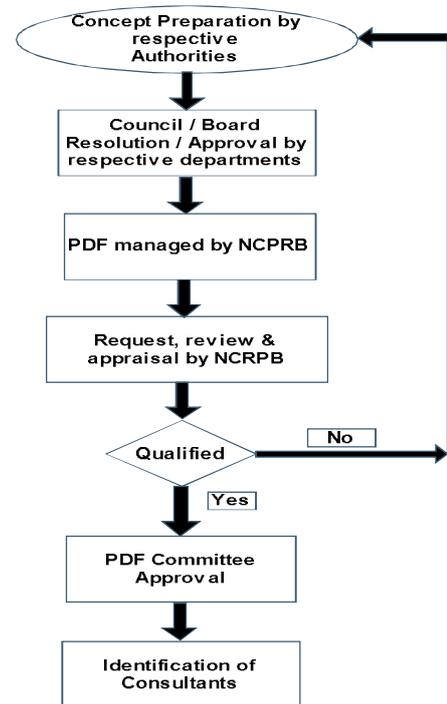
A pre-bid meeting shall be conducted to clarify queries from consultants on various issues in the terms of reference given to them. The consultants shall be selected based on bidding procedures ranging from a least cost selection, quality based selection, and/or, a combination of both².

In order to ensure that views of the implementing agency on the concepts and designs are being incorporated, constant review at various stages is required. Therefore, a review committee should be constituted consisting of representatives of all stake holders of the sub-project. The committee should consist of:

- Chairman of the Council / Committee;
- Representatives of the respective ULB / Departments / Statutory Board;
- Engineers/Planners of the respective ULB / Departments / Statutory Board;
- Technical Sanctioning Authority of the project; and
- Representative from NCRPB.

The role of the NCRPB representative is to ensure that all appraisal requirements are being met at the time of preparation of the sub-project.

Figure 1: Procedures for PDF



It is believed that this PDF would lead to acceleration in Infrastructure development through preparing quality feasibility studies and an open and transparent bidding process for selection of consultants, based on the ADB's procurement guidelines.

3. Approach and Methodology

In the incumbent stage, NCRPB would require initial handholding and capacity building to manage and operate the fund. Over the years the fund would evolve as an independent and integral component in establishing well structured PPP projects in the region.

It is proposed that the NCRPB PDF would be managed by a Project Management Unit (PMU) which would comprise of staff from this TA for the initial one year August 2009- April 2010 after which ADB could procure their own consultants to provide similar services. Their detailed scope

¹ Guidelines for PDF, model appraisal note, Sample council resolution, RFP, ToR documents etc have been provided in the Annex of the project appraisal manual)

² A Least Cost Selection (LCS) is where consultants are selected on the least financial cost, whereas Quality based Selection (QBS) is the method of selecting consultants purely on quality only without giving any weightage to financial aspects. There is a method which provides weight for both, viz., the Quality and Cost Based Selection (QCBS), which provides weight for both quality of the proposals and financial costs.

of work of the PMU is given in the Terms of reference given in Annexure 1.

It is proposed that after initial handholding to set up and operationalise the PDF, the Team Leader and the PPP expert oversee the PDF operations and be involved in inducting the PMU staff and supervising their performance.

The DPR for **Panipat Water Supply Project** is under preparation by component B of this TA. The financial structuring of this project under PPP formats and preparation of bidding documents would be the initial output of the PMU. This would not only facilitate capacity building at NCRPB in PPP project development, but also ensure operationalization of the PDF and putting in place the necessary mechanisms.

It is proposed that an initial team be constituted comprising of the following experts (Detailed ToR attached) which would include balance available resources, but also hiring new consultants.

1. **Team Leader** (National, 4 person- months) – Existing Team Leader; Of the proposed 4 person months, 3 person months are available from current TA
2. **Project Development and Contract Specialist** responsible for overall operation and management of the Project Development Fund; (National, 9 person-months)
3. **PPP Financial Modelling expert** (International, 2 person-months)
4. **PPP/Project Structuring Expert** to assist in financial structuring of all projects (National, 3 person-months)- Existing PPP expert , 3 person-months available from current TA
5. Two Management support positions:
 - **Infrastructure Planning Specialist, Technical** with minimum 7 years experience (National, 4 person- months)
 - **Financial Economist** –Masters in Economics / MBA Finance (National, 9 person- months)

The Team Leader and the PPP/Project Structuring expert would be used from the available balance / existing resources of this TA. The existing Team Leader in addition to her existing responsibilities would also supervise overall functioning of the PDF. The existing PPP expert would also be responsible for project structuring as and when required.

In addition to the team proposed, it is assumed that services of legal expert would be procured on a need basis on this PDF by NCRPB. It is recommended that the process of getting administrative and financial approvals start immediately so that by the time the agreement is signed with ADB, the approvals are in place and NCRPB can straightaway go for recruitment. Also it is proposed that during the course of piloting the PDF, the in house human resources be involved as much as possible which would not only facilitate the much desired training, but may even eventually eliminate the need to hire external consultants after some time.

The staff mentioned above could be procured using the savings of this ADB TA. It is recommended that ADB procure another set of consultants on similar lines on the completion of this TA, i.e. April, 2010 for a period of 2-3 years.

4. Key Deliverables and Outcomes

It is envisaged that this PDF would lead to acceleration in project pipeline at NCRPB through preparation of quality projects using an open and transparent bidding process for selection of consultants, based on the ADB's procurement guidelines.

The expected outcome of this technical assistance would be:

- Operationalising the PDF by putting in place the necessary mechanisms
- Identification of a few iconic projects for further development
- Identification of a panel of technical experts in different areas to support NCRPB
- Using the procurement manual of ADB and development of internal procedures to act according to the manual and standard bidding documents for procurement of consultants as well as civil works, compliant with ADB procedures

Annex 1: Detailed Terms of Reference

(The existing Team Leader in addition to her existing responsibilities would also supervise overall functioning of the PDF. The existing PPP expert would also be responsible for project structuring)

1. **Team Leader** (National, 4 person-months): This role would be undertaken by the existing Team Leader who in addition to her current responsibilities would also supervise overall design and establishment of the PDF. Of the proposed 4 person months, 3 person months are available from the current TA.
2. **Project Development and Contract Specialist** (National, 9 person-months): S/he would be a Senior Civil Engineer with a basic degree of BE in Civil Engineering and minimum 10 years' experience (preferably in managing civil works) at a managerial level. S/he would primarily be responsible for providing strong leadership in conceiving the projects, augmenting the project pipelines by working closely with partner states and NCR cells manage the Project Development Fund as well as procure consultants. The scope of work includes:
 - Expedite the process of project development and structuring
 - Advice participating states and NCR cells on project development, project structuring and project management
 - Ensure project appraisal (technical, financial, economic, environmental, social and institutional)
 - Present the appraised projects before the project sanctioning group
 - Operate and manage the PDF
 - Procure consultants for project development
 - Monitor the implementation of projects and take corrective action for timely implementation.
3. **PPP Financial Modeling expert** (International, 2 person-months): The Financial modeling expert would –
 - Train NCRPB's staff on financial models used in PPP transaction
 - Prepare Financial models for one or two sample projects
4. **PPP/Project structuring Expert** (National, 3 person-months): It is proposed to use the balance 3 person-months of existing PPP expert from the current TA. In addition to his current role, he would also be responsible for:
 - Give inputs to the technical advisor/planner on Terms of Reference for financial consultants procured through the PDF
 - Training NCRPB staff and Financial economist in developing financial models for projects
 - Oversee financial structuring of PPP and other projects for which DPRs are prepared through the PDF
 - Review financial assessment of implementing agencies prepared by financial economist
 - Carry out financial appraisal of all projects posed to NCRPB for financial assistance with support from financial economist

In addition to the core team above, there would be **two Management Support Positions:**

5. Infrastructure Planning Specialist, Technical (National, 4 person-months)

The expert should be an Engineer/planner with minimum 7 years experience. The terms of reference would include, but not be limited to the following tasks:

- Draft Terms of Reference for consultants to be procured through the PDF in consultation with the project structuring expert;
- Work with Project Development and Contract Specialist in developing projects;
- Oversee preparation of master plans awarded to consultants through the PDF;

- and
- Prepare Terms of Reference for project monitoring and supervision consultants sourced through the PDF

6. Financial Economist (National, 9 person- months)

A young and dynamic person with an appropriate qualification in finance such as a Masters in Economics/MBA Finance; S/he who is self motivated with an ability to learn quickly The tasks to be undertaken would include:

- Carry out financial appraisal of projects posed to NCRPB
- Carry out periodic financial assessment of implementing agencies
- Develop financial models for structuring various projects
- Preparation of training materials for training NCRPB staff in project development structuring and appraisal

Annex 2: Work Plan

- I) Preparation Activities (August 2009 – November 2009)
 - Approval of the PDF (end September)
 - Preparation of the PDF Manual
 - Preparation of internal procedures for procurement

- II) Operationalization of the Project Development Fund (October 2009- April 2010)
 - Project Structuring under PDF
 - Monitoring pilot projects