Draft Project Brief
Operation of Electric Buses on PPP basis

Revamping of Pakistan Post Logistics Network Across Pakistan

Project Brief

Upgradation of Pakistan Post Logistics on PPP basis

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1. Introduction

Pakistan Post Office Department (PPOD), functioning under the administrative control of the Ministry of Communications, is a state-owned enterprise (SOE) which functions as Pakistan's primary and largest postal operator. Currently, PPOD is running a network of almost 12,000 post offices across the country, out of which 85% are located in rural and remote areas of the country[1].

Under the proposed project, "Upgradation/ Revamping of Pakistan Post Logistics & Courier Business on Public Private Partnership (PPP) basis" (the Project), Pakistan Post intends to revamp its courier and logistics business on a PPP basis through inviting private sector investment to support:

1. the upgrading, modernizing and/or overhauling of infrastructure and associated facilities in its Express Post centers and other post offices across the country;
2. existing and new product development to leverage off Pakistan's increasing e-Commerce local and cross-border opportunities;
3. modernization of Pakistan Post's supply-chain including fleet, sorting and delivery assets/mechanisms to bring service delivery at par with the industry players; and
4. training and capacity development of Pakistan Post's human resources to cope with the modernday challenges of providing efficient and cost-effective postal services.

It is envisaged that the private sector will make the required investments in upgrading and overhauling the postal service infrastructure and operate it in partnership with Pakistan Post for a pre-defined period, tentatively under a revenue sharing arrangement.

Background

PPOD or Pakistan Post is one of the oldest government departments and was established through the Post Office Act 1898. PPOD is structured under the Ministry of Communications and regulated under the 'Pakistan Postal Services Management Board Ordinance, 2002'. It has remained a government department, except during the period between 1992-1996, when it functioned as a corporation. However, in 2002, PPOD was re-established under the 'Postal Services Management Board Ordinance, 2002'. Under the Ordinance, PPOD is overseen by a chairman and four board members. The board is empowered to manage day to day operations with complete decision-making power in all administrative, operational, and financial matters of PPOD. The board has the full authority to agree on a budget, set strategies, implement business plans, enter Joint Ventures / Concession contracts etc., as well as manage the Pakistan Postal Services Fund.

The executive management is below Directorate levels at three levels – the Circle level, the Regional level and Divisional / District level. PPOD provides postal services across the country, with a network of approximately 12,000 post offices that deliver to approximately 20 million households and businesses.
There are some 2,000 newly converted Digital Franchise Post Offices (DFPO) and an employee network of

[1] P3A Working paper

nearly 50,000 personnel. The DFPOs are said to offer a higher quality service with various benefits such as being equipped with state-of-the-art technology infrastructure that supports the streamlining of bookings and near real-time tracking and delivery of different articles[2]. However, the quality and level of service still needs to be substantially improved to offer a comprehensive solution to customers and increase footfall by offering a wider range of products and services.

The postal service serves as a critical communication link for individuals and businesses, specifically for the vast majority of citizens who live in rural areas that have no access to financial services. In addition to its traditional role, PPOD also performs agency functions on behalf of the federal and provincial governments, which include a Savings Bank, Postal Life Insurance, Collection of Taxes, Renewal of / Driving Licenses, Collection of Utility Bills, Food Support Schemes etc.

Challenges for Pakistan Postal network

PPOD's financial constraints are one of the key impediments to the rehabilitation of its courier, logistics, express and mail business supply chain network, and general infrastructure of the company. Hence, PPOD struggles to provide a reliable mail and goods logistics channel for end users, who are thus forced to utilize more expensive private channels to meet their postal needs. Unfortunately, private players are generally much smaller than PPOD and hence have limited connectivity within the country. In addition, they are also incentivized to only pick locations with a high footfall to achieve economies of scale.

Further challenges include:

1. Late deliveries and high rates of failure

Despite PPOD highlighting an average delivery time for parcels of three days, there are often complaints ranging from receiving mail deliveries several weeks late, up to complete failure of delivery, with an arduous process to secure compensation for losses. Often packages delivered sustain damages or are opened during the course of freight / goods movement, thereby offering a very poor level of service for end users. However, despite this poor service, many are forced to use this service in rural areas due to the lack of any other alternatives in rural and remote regions.

2. Electronic and digital avenues not fully utilized by PPOD

PPOD is generally using antiquated processes for its own systems, and no significant automation exists for its fleet management, mail inventory or logistics businesses. Even for end consumers, it is only able to offer basic tracking services of mail and goods, and the app user interface (UI) and user experience (UX) is poor. Data-driven analytics are severely underutilized to help PPOD alter its strategies to improve its services.

3. Issues in provisions of financial services

Given its vast footprint and presence in remote areas, PPOD is ideally placed to offer financial services to the rural and unbanked populace. However, this potentially lucrative business niche has not been adequately tapped and suffers from several issues emanating from lack of planning, focus, resources, and customer orientation. This has resulted in numerous complaints across the PPOD network. Based on a

study by the Federal Ombudsman ("Wafaqi Mohtasib"), 37% of these complaints were centered around savings products, and another 31% were regarding pension claims[3]. In cases of frauds / embezzlement of funds, there was no relief provided to those impacted for more than three years and all matters concerning release of funds or claims for deceased persons were significantly delayed. Military pension cases often

[2] https://nation.com.pk/07-Aug-2021/pakistan-post-to-be-made-profitable-through-digitisation-murad
[3] https://mohtasib.gov.pk/SiteImage/Downloads/WMS%20Committee%20report/POST-OFFICE.pdf

omitted the names of pension holders, and there were multi-year delays in providing pension payments to surviving family members.

In addition, the lack of digitization and automation of PPOD and adequate financial controls has made PPOD financial services operations difficult, especially in view of the regulatory requirements for AntiMoney Laundering and Combating of Finance Terrorism (AML / CFT) regime[4]. Given the gravity of the situation, PPOD has stopped opening new savings accounts for end-users for the time being, until such time it is able to upgrade its capacity to meet these requirements.

Accordingly, there may be need for a review and clarification of the basis and requirements for provision of financial services and related operations by PPOD under various regulatory statutes such as State Bank of Pakistan (SBP) licenses including (i) Electronic Money Institution (EMI), (ii) commercial banking license, (iii) microfinance banking license; Securities and Exchange Commission of Pakistan (SECP) licenses such as Non-Bank Financial Company (NBFC) or Non-Bank Financial Institution (NBFI) license[5]

4. Poor customer experience

PPOD suffers from many of the problems faced by other SOEs in Pakistan, which continue to act as an impediment to its performance efficacy. As typical of most SOEs, the lack of a customer centric approach is a key factor in the low performance of PPOD. Poor staff attitude and morale, difficult to understand and cumbersome processes, and lack of modernization and automation are all contributory factors for poor customer experience. Some of the other factors that cause poor customer experience include:

- Lack of oversight and implementation of strategies in developing a strong logistics network for the mail and goods delivery business;
- Failure in staff development plans, including training or implementation of incentive and penaltybased performance metrics for its ~50,000 employees; and
- High capital costs and lack of familiarity with digital modes that can be used to revamp its infrastructure.

E-commerce demand is increasing in Pakistan, as more people are getting access to internet connectivity. Currently in Pakistan there are more than 106 million broadband subscribers and 103 million 3G/4G subscribers[6]. This increasing demand combined with a lack of digitization in rural parts of the country requires a cost effective and efficient postal system in Pakistan which can support postal services and exchange of mail, parcels, and goods. This is also necessary for supporting opportunities for businesses, especially in rural locations, first and last mile delivery of services and facilitating online shopping and merchandising.

Private Sector in Post Office Operations: Global Context

A robust network of government-owned postal service offices can offer a wide array of direct and indirect economic benefits to a country. A reliable post network offers various consumer benefits, including easy and affordable access to goods and services for elderly, low-income groups, and those in remote locations. Due to their sheer scale, network and potential outreach, government postal networks are typically well positioned against newer competitors, which must typically offer other unique value-added services to remain in contention with a state-owned player who is able to provide reliable services and a wide distribution network.

[4] https://www.brecorder.com/news/40106099
[5] Currently, an agency partnership agreement on digital financial services is under review between PPOD and the commercial bank, Habib Bank Limited (HBL).
[6] Pakistan Telecommunication Authority. https://www.pta.gov.pk/en/telecom-indicators

In addition, a key contribution of a national postal service comes during times of national emergencies, when it can utilize its infrastructure and network when power / communication networks are disturbed.[7]

Further, postal services play a vital role in society, mobilizing financial services across the country and providing access to basic communication and transaction services. They also enjoy a significant competitive advantage over many retailers due to pre-existing distribution networks that use convenience as the key driver in their value proposition. This is especially true in many developing countries, where the presence of banking services is relatively minimal as compared to the post office network.

Privatization/Deregulation

Globally, the monopolies that postal operators have enjoyed for so long are gradually being replaced by a deregulation of postal services (in parcels, periodicals, express, and, in some instances, direct mail) and structural reforms (with ownership in postal services being transferred to the private sector in some instances, such as 100% in the Netherlands; 86% in Argentina; 98% in Cote D'Ivoire, and 70% in Deutsche Post DHL). Several countries have already fully liberalized their post offices, such as New Zealand, Sweden, Finland, Argentina, Columbia, Estonia, Peru, Russia, and the United Kingdom. The EU is also moving towards full liberalization of the market, as it has a postal directive that sets common rules, including a waiving of postal monopolies.

The focus of reforms and private sector participation in postal services has been on remobilizing assets and creating viable entities in supply chain logistics (producer to consumer), financial services (banking, insurance etc.) and agency arrangements (bill payments, retail etc.), as globally hundreds of millions of un-banked or under-banked customers typically have an established relationship with the post office in their country.

Based on studies, a review of wages and the introduction of efficient working methods that better utilize technology, can give private sector operators cost advantages in the range of 30 to 40 percent. These cost advantages, when combined with optimizing the operating costs of an extensive network, can bring significant cost benefits that can potentially be transferred to end users/beneficiaries through lower transaction costs.

2. Institutional Capability & Preparedness

2.1 Institutional Mandate to Proceed with the Project

PPOD is one of the oldest SOEs in Pakistan, with operations prior to partition in 1947. PPOD is structured under the Ministry of Communications and is regulated via 'Post Office Act 1898' and 'Pakistan Postal Services Management Board Ordinance, 2002'. It appears that under 'Pakistan Postal Services Management Board Ordinance, 2002', PPOD has no institutional or legal restriction and to act as an implementing agency to implement this Project on PPP basis. The same has, inter-alia, been endorsed by the Executive Committee of the P3A Board while approving the government support to the project.

[7] A 2010 study by Urban Institute found that during the 2005 Katrina floods in the United States, "The Postal Service moved quickly to re-establish communications, to reopen lines of commerce, and to deliver government information, relief checks, and medicine to hurricane victims living in makeshift shelters. Its extensive address database enabled it to locate hundreds of thousands of displaced persons so that they could be reunited with their families." https://www.urban.org/research/publication/framework-considering-social-value-postal-services

2.2 Status of the Project

PPOD had earlier approached the Public Private Partnership Authority (P3A) to help in developing and structuring the transaction of its logistics and infrastructure on a PPP basis. Given the constraint on its financial resources, PPOD also requested P3A to provide Project Development Fund (PDF) support to meet the advisory costs related to appointing a Transaction Advisor for the Project to carry-out a Feasibility Study and assist PPOD in developing and procuring the Project on a PPP basis. P3A advised PPOD to first carry out a pre-feasibility study for the Project. PPOD subsequently carried out an in-house pre-feasibility study late last year.

The pre-feasibility study of the Project only focused on upgrading infrastructure and the allied facilities of the Express Post Centers for the following four core products/ services of PPOD's logistics business:

1. Urgent Mail Services (domestic courier)

2. Express Mail Services (international courier) 3.

   Urgent Mail Services (cash-on-delivery), and

4. Facsimile Services.

As per the pre-feasibility study, the tentative capital costs related to upgrading infrastructure and allied facilities for the aforementioned services amount to PKR 2.12 billion. The pre-feasibility indicated a project equity return of 20% over a 15-year concession period.

It is understood that given the potential benefits visualized under the limited pre-feasibility, PPOD felt that it may be more appropriate to expand the scope of the feasibility to upgrade the entire supply chain (beyond the infrastructure upgrade of the four products/ services mentioned above), by undertaking the Project through private sector investment. To support a PPP, it will be important that the full-scope feasibility study estimates the entire life-cycle costs for the Project and the revenues the private sector will be earning and potentially sharing with PPOD over the period of the concession.

The Project was subsequently considered and approved for PDF support by the Executive Committee of the P3A Board in February 2021. A public procurement process for advisory services was initiated and undertaken in February and March of 2021 and a Request for Proposal (RFP) was issued by PPOD for the Upgradation of PPOD Logistics, Express and Mail Business on PPP basis. Five (5) proposals were received in response to the RFP. A consortium of firms led by KPMG (Pakistan) and comprising of members from KPMG (Singapore), Postal and Logistics Consulting Worldwide (United Kingdom), RHC (local technical partners) and FG Ebrahim (local legal firm) was shortlisted for appointment. The start of work is pending approval and signing of the Advisory Services Agreement.

Pakistan Post had earlier issued a separate Expression of Interest (EOI) for reputable banks to partner with Pakistan Post to offer financial services under an agency agreement. It is understood that a proposed partnership agreement with Habib Bank Limited (HBL) is under process / review. However, Pakistan Post will need to determine whether to continue with this partnership format or to develop financial services upgradation as part of the PPP process, or to explore a hybrid solution i.e., whereby in the initial years, a partnership model may be adopted, but eventually Pakistan Post will conduct all financial services related matters in-house, or via a private party through a PPP process.

2.3 Project Budget and Tentative Financing Plan

The financing plan for the Project will need to be derived from a robust commercial feasibility study and stakeholder consultations, especially with financial institutions, to get feedback on i) the level of financing they would be willing to provide and ii) the possible requirements for any financial guarantees and collateral required.

Due to the scale of the Project and its unique dynamics, it is recommended to first undertake stakeholder consultations to assess the level of potential interest from strategic private partners, such as local and foreign investors, logistics and last mile delivery companies, before finalizing the transaction structure.

Additionally, since this Project has a strong service element (particularly providing services to poorer, remote areas) as well as supports national security during natural disasters / pandemics, Multilateral Development Institutions (MDIs) could potentially be approached prior to the finalization of the transaction structure to seek grants, financing, and transaction support.

2.4 Project Execution Capability of Implementing Agency

Although PPOD has a long history of operations in Pakistan, it needs to have sufficient capacity and capability to understand the complexity of structuring and implementing PPP projects transactions. However, as yet, PPOD has not executed any projects on a PPP basis. Therefore, capacity building will be required, as well as transaction structuring support from third party transaction advisors.
Some of the key factors that PPOD will need to keep in mind, so that it can perform its duties as an effective Implementing Agency, include:

1. Ensuring it has the capacity and resources to manage the Project under a PPP modality;
2. Ensuring sufficient budget allocation and resources for overseeing the Project during the design, construction, and operation phases;
3. Developing a master plan that keeps in view the future needs of postal services in Pakistan, along with a Project specific plan for the next stages with timelines and allocated responsibilities;
4. Ensuring effective communication with relevant stakeholders; and
5. Providing support during operations, especially with regards to arrangements with existing employees - if some of them are to lose their jobs or be retrained/reassigned.

3. Project Background

3.1 Development of Project Scope

Given that the pre-feasibility study for the Project was undertaken internally, it is critical that a detailed feasibility is carried out by experienced external advisors. As part of this, a proper technical review of the Project needs to be undertaken, which should broadly cover all those key areas of overhaul that will be required for PPOD to become a profitable state-owned entity, as well as the associated costs of such an overhaul and other ancillary requirements. These areas have been identified in section 4.1 of this document.

Currently, the RFP broadly defines the scope of the Project. However, after the initial due diligence has been completed by the advisors, a detailed options and needs analysis needs to be undertaken before the transaction structure is developed, keeping in view the current challenges being faced by PPOD. Accordingly, there needs to be an awareness that the proposed design and structure of the Project may need to be adjusted as the Project moves forward.

The Project should be looked at from the perspective of the overall development of PPOD as a viable entity. While the development of financial services and logistics infrastructure are currently being envisaged by PPOD as being two different work streams, there are possible areas of overlap and interplay, such as in the delivery of pensions, remittances etc. Also there needs to be a thorough review of the operational dependencies/interdependencies and requirements of the various services being envisaged roject. It will also be important to clarify the services that can be delivered under the PPP modality and the practical issues during implementation. Pakistan Post is a massive organization in terms of size and, as such, even a strong private partner would face significant challenges dealing with employee related matters and separation of assets etc., in taking over certain operations of PPOD within a short time frame. This issue can be partially addressed by outsourcing certain functions to the private party, while other functions remain under the operational control of PPOD (such as last mile delivery).

In addition to the scope identified in the RFP document, other broad parameters that need to be evaluated include:

(i) future strategy for digitization;

employee management and HR policies going forward in view of the employee related sensitivities and issues.

(ii) delivery of financial services and products; and

(iii)

3.2 Strategic Fit within Sector and the Overall Economy

While the Project is expected to improve and strengthen the postal and communications sector and offer various benefits to the economy, many state-owned entities in Pakistan have not performed well due to various legacy, administrative and governance issues including (i) weak management, (ii) lack of systems for monitoring and evaluation, (iii) poor financial controls, (iv) budgetary constraints; (v) vested interests and politicization and (vi) lack of corporate governance.[8]

[8] https://agp.gov.pk/SiteImage/Misc/files/Article9Governance%20Related%20Issues%20ofSOEs.pdf

The inclusion of the private sector can help address some of the above issues. Indeed, it is likely that any restructuring or upgradation attempt by PPOD without the inclusion of the private sector may not lead to a successful outcome, as many of these issues will likely remain.

Development and implementation of an effective communication strategy is also considered necessary for a successful transaction under the PPP modality, given the past experiences of private sector participation in areas considered until now to be the exclusive domain of the public sector. Previous attempts at restructuring and private sector participation in Pakistan in the provision of public services and privatization attempts in the banking, transportation, and utilities sectors, have often given rise to employee related issues and push-back from employees and unions. Therefore, the employee related aspects of this Project will need careful consideration and handling.

3.3 Sectoral & Institutional Context

The interplay between this Project and the provision of financial services is an important consideration and needs to be kept in view while developing the transaction structure. [9] As part of this transaction structuring exercise, it may be useful to look at the possible bundling of some financial services with this Project as a key area of potential growth for PPOD is in the area of financial services. The benefits of doing so would include (i) fast-tracking the implementation of the Project, (ii) generating interest from a larger pool of private sector investors including fintech players, telcos and banks, and (iii) reducing the costs to PPOD of upgrading the processing and logistics of the mail and parcel delivery services through cross subsidies from the profits earned from delivering financial services.

The following summarizes some of the advantages and opportunities for PPOD with respect to financial services:

Snapshot of PPOD Financial Services

Postal Savings Bank	• Large branch network offering secure cash saving mechanisms and attractive schemes • Supports financial access in rural areas with limited banking service
Postal Insurance Products	• Exempt from corporate and income tax • Wide range of life insurance products can be offered in rural network with very limited competition
	• Opportunity to expand into general insurance and Takaful products

[9] The Federal Government has already affirmed its intention of revamping the services of Pakistan Post to make it FATF compliant[9]. As of 1st October 2020, the Federal Government announced the PPOD (AML & CFT) supervisory board (powers & functions) Rules, 2020. The purpose of the supervisory board is to ensure that the Anti-Money Laundering (AML) and Combating of Finance Terrorism (CFT) regulations and requirements are properly adhered to by PPOD. Hence, any transaction structure developed by Transaction Advisors for this Project must bear this in mind considering the Government's vision for PPOD to become FATF compliant. The Project is expected to get the full support of the Government as may be required.

Western Union & Money Transfer	- Partnership with Western Union for disbursing payments - Partnership with other fintech players developing networks across rural areas and offering value-added services
Money Order	- Money order services provide a cheap and secure mode for remittance - Especially beneficial for the population living in rural areas where regular banking services are limited. PPOD can leverage local merchants without developing additional infrastructure via partnerships
Postal Order Services and Postal Draft	- Postal Order services are designed to fulfill requirements for small remittances - Secure method for payment which is acceptable to traditional banks - Rates offered on the Postal Draft Service are typically much lower compared to commercial banks and payments are quicker as well
Complementary Products (may be introduced)	- Partnership with Microfinance organizations to offer microfinance products to consumers and SMEs - Digital lending via app - ROSCAs (Committees) and other digital savings products not currently offered.

4. Project Viability Assessment

4.1 Technical Review of Project

A non-exhaustive list of issues to keep in mind for the technical feasibility of the Project include:

1. Review of the proposed technical solution: The RFP issued by PPOD for the hiring of Transaction Advisors envisaged that the Project will be limited to (i) upgradation of infrastructure in postoffices, (ii) overhaul / modernization of the logistics supply chain including fleet, sorting, and delivery mechanism, (iii) product development and improving existing products, and (iv) training and capacity development of staff. However, this should be regarded as a starting point and further review of the scope needs to be undertaken (see below).

2. Scope extension: The scope of work may be extended to include digitization and automation of the entirety of the PPOD network, similar to the success story of the National Database Registration Authority (NADRA)[10]. The scope may be extended to include (i) utilizing data-driven strategies to optimize delivery routes via geo-mapping / utilizing map applications as part of delivery optimization, (ii) digitizing logistics and warehousing of mail and goods, (iii) digitizing collection and sorting of parcels, and (iv) revamping and digitization of financial services offered by PPOD to address the multitude of challenges being faced by end-users and improve financial inclusion of the unbanked population.

3. Other revenue sources: Financial services to banked/unbanked individuals and businesses are already being offered by various fintech providers (‘EasyPaisa’ / ‘JazzCash’ / ‘Tez Financial Services’ / ‘Finja’ etc.). However, PPOD has a much wider physical infrastructure network that can be utilized as part of a future digital infrastructure strategy, which will enable it to offer multiple types of online and offline financial instruments, including savings products and utility bill payments to a wide range of end users. Therefore, the Project could also include the provision of financial services to help strengthen PPOD’s financial services offering.

4. Location based revenue analysis: Data-driven analysis needs to be undertaken to assess which locations or clusters of areas are profitable or have the potential to become profitable as the level of service improves. For those locations which have high fixed costs, but which cannot become profitable due to low population size etc., they may not be included as part of the final transaction. Also, there could be some analysis undertaken to see whether the existing network of offices can be optimized by closing offices, opening new office, expanding/reducing the size of offices, or merging offices, depending on demand, accessibility, and profitability.

5. New location analysis: For locations which do not have existing PPOD offices, smaller shops, or partnerships with merchants / agents to offer partial services can be utilized, so as to not incur any additional cost to PPOD, but achieve benefits through revenue sharing arrangements with the local merchants (e.g., general stores).

6. Challenges with existing workforce: Attempts of privatization have not fared well for some SOEs. PPP arrangements may be perceived as a private party being brought in to take away jobs or causing downsizing, and such perceptions could derail the entire PPP process. Hence, an effective consultation and communication strategy with the existing workforce will need to be implemented. A human resource management plan may need to be developed, covering i) the retraining of existing employees, and ii) the possible use of KPI-based incentive schemes and penalty systems to improve employee performance.

[10] NADRA has registered well over 96 percent of the population and, through the provision of national ID cards, has been ranked amongst the top 50 e-Passport technology suppliers for nine consecutive years (ID World Magazine, between 2005 to 2013). NADRA’s processes are ISO 9001:2000 certified. NADRA has achieved 100% digitization, which includes the development of data centers, the digitization of National Identity Cards for the Pakistani population, and introducing secure smart cards. The scheme has helped maintain accuracy during payment disbursements from the Benazir Income Support Fund. Further, NADRA developed a vaccination database, that allows for sending text messages directly to citizens as soon as their vaccination due date approaches, supporting vaccine verification of citizens. NADRA’s CEOs have been awarded the highest national civilian awards for performance and services rendered to the state.

7. Review of financial services licenses: Review existing products offered by PPOD and the challenges being faced which limits customer acquisition, profitability, and customer retention. Eventually recommend an optimal strategy for securing the necessary licenses (either through SBP or SECP) based on various factors including (i) range of services available, (ii) least time taken, (iii) achievable level of restrictions & compliances and (iv) ability to achieve compliance with FATF requirements.

8. Land availability assessment: Analysis and optimization of existing infrastructure available to PPOD. Land availability assessment to include the need for any land acquisition for associated infrastructure, such as any additional warehouses and buildings for IT infrastructure etc.

9. Review of IT infrastructure: Review of existing IT infrastructure used by PPOD together with an assessment of whether to overhaul and implement new systems or upgrade existing systems with respect to customer management software, app development, mail inventory systems, logistics and delivery systems etc.

In the case that the commercial feasibility study recommends that financial services provision is included as part of the transaction structure, there needs to be a review of the licenses required from SBP and SECP, along with determining the criteria to select a strategic partner / JV among private parties that have sufficient prior experience dealing with AML / CFT issues.

4.2 Environmental & Social Review

Preliminary analysis suggests that this Project will generally be a carbon neutral project from an environmental perspective and is not expected to impact production of greenhouse gases in any material way. There needs to be an assessment about the existing large work force, especially in view of the technical and skilled labor force required under the proposed digital interventions - which may lead to a reduction in the size of the workforce needed, which will of course have social implications.

It is recommended that an Initial Environmental Analysis (IEA) and Initial Social Analysis (ISA) are undertaken to identify potential red flags and key areas of concerns to consider before the final Project scope and structure are defined.

4.3 Commercial & Financial Analysis

The commercial analysis is generally undertaken from the perspective of the government, with a focus on the provision of the best possible product/service at commercially viable terms. One of the methods used to ascertain commercial viability (cost-benefit approach) is through the modelling of the Economic IRR (EIRR). EIRR attempts to assess the incremental benefits of a project to the government and whether society as whole can reap direct and indirect benefits from the project. As such, the EIRR analysis is often prone to subjectivity. For this reason, the government may adopt certain standardized benchmarks for its review of a project and compare the EIRR calculation to the benchmarks. The EIRR for this Project will attempt to quantify various incremental benefits such as:

1. Increased access to services by the general public: As PPOD revamps its existing business and offers new products, there will be improved access to these services.

2. Skilled labor participation: Revamping and future upkeep of technical infrastructure by PPOD will provide opportunities for skilled workforce participation.
3. Benefits to consumers: Various consumer benefits can be realized including (i) easier and affordable access to postal services for elderly, low-income groups, and those in remote locations, and (ii) improved competition, since newer market players must offer other unique value-added services to capture market share.
4. Benefits to businesses: The importance of communication connectivity and current lack of digitization in rural parts of the country, requires an effective postal system in Pakistan, which can bridge this barrier for efficient exchange of information and goods. There are various benefits to businesses as well, including providing opportunities for businesses to access rural locations for goods and services, first and last mile delivery on behalf of other companies (thus reducing neighborhood traffic) and facilitating online shopping and merchandise returns.
5. Use-case during extraordinary circumstances: A key contribution of a national postal service comes during national emergencies, when it can utilize its massive infrastructure and network when power / communication networks are disturbed.[11]

The financial analysis needs to be refined constantly, starting from the pre-feasibility stage that uses rough numbers and timelines, up until the post-bidding stage when negotiations are ongoing with a potential concessionaire. Since this Project has already been advertised as being procured on a PPP basis, it is advisable that the commercial feasibility should examine all the potential sources of revenue available for this Project, and not just the broad level plan indicated in the RFP. The commercial feasibility should also consider traditional returns metrics such as Project NPV and Project IRR, which measure the overall benefits of the Project to both equity and debt investors, and the equity NPV and equity IRR which measure the benefits of the Project to the concessionaire. PPOD has envisioned a revenue sharing arrangement to be provided by the concessionaire. However, this will of course only be viable if the Project cash flows are sufficient to meet investor expectations post revenue sharing.

Currently PPOD has reported weak financial health, with operational expenditures increasing by more than PKR 2.5 Bn in 2019 from 2020, and revenue increasing to a little over PKR 1 Bn, with an annual deficit still more than PKR 10 Bn.[12]

Since this is not a positive indicator for investors, the government may have to provide some form of minimum revenue guarantee, at least for the initial years of Project, until the private sector can fully revamp the operations and improve profitability.

The final feasibility studies need to be of very high quality to accurately inform the key assumptions of the Project. These assumptions include all revenue sources, both existing sources as specified in the RFP, and those additional sources highlighted in section 4.1. Pricing wise, PPOD may also be able to compete with private players once it improves its services, and charge higher prices equivalent to those levied by private sector participants. If PPOD can utilize its network to provide a higher range of quality services, then it may be able to start shifting consumers towards PPOD. The commercial feasibility may consider adding a willingness-to-pay assessment which attempts to highlight this aspect, as well as the competitive landscape.

The commercial feasibility study should also look at examples from other countries which have tried to improve their national postal service, so that they can become a more efficient provider of postal services, as

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[11] In a 2010 study by Urban Institute found that during the 2005 Katrina floods in the United States, "The Postal Service moved quickly to re-establish communications, to reopen lines of commerce, and to deliver government information, relief checks, and medicine to hurricane victims living in makeshift shelters. Its extensive address

[12] https://www.brecorder.com/news/40106099

well as other ancillary services, and discuss those lessons learned that can be applied in the context of PPOD and this Project.

4.4 PPP Structuring Options Review

As PPOD is a state-owned entity, there will be immense challenges to maximizing innovations and dealing with various legacy issues. A key legacy issue for PPOD will undoubtedly be around dealing with workforce challenges and optimizing an HR plan that is acceptable to the existing workforce. Therefore, it is critical that any PPP modality takes this HR issue into consideration.

Some of the main PPP options for this Project include the following:[13]

database enabled it to locate hundreds of thousands of displaced persons so that they could be reunited with their families." https://www.urban.org/research/publication/framework-considering-social-value-postal-services

1. Design, Finance, Build, Operate and Transfer (DFBOT): DFBOT is a form of Build-Operate-Transfer (BOT) modality which is most utilized in Pakistan for PPP projects and, as such, both local and foreign parties are already familiar with this modality. Under a DFBOT, the Project is awarded to a concessionaire, with most of the transferable risk of the Project being transferred to the private party, leaving the government responsible only for the retained risks of the Project. The concessionaire may itself be the project operator or may outsource operations to a suitable operator.

   Post-award of the contract, the private party shall be responsible to design, build, finance and operate the Project with minimal supervision from the government. For this Project, there may not be a significant need to develop physical infrastructure, other than the basic maintenance of existing facilities. However, the IT and technology infrastructure will likely require massive investment. Depending on risk and return expectations, there may be some components of revenue sharing in favor of the government and/or alternatively some form of monetary support to the Concessionaire in terms of a minimum revenue guarantee or Viability Gap Funding.

   Considering the poor historical financial performance of PPOD, it should be noted that a revenue sharing arrangement may not be viable. However, this will need to be assessed as part of the detailed feasibility analysis.

   For this Project, if multiple service offerings are to be awarded to the private sector e.g., other than mail delivery, logistics and infrastructure optimization, they are also able to provide financial services (and handle associated AML / CFT compliance matters), then a DFBOT may be a suitable PPP modality for this Project, due to the higher level of risk transfer that may be achieved as a result of the higher return potential for the private sector.

   For this PPP modality, only a very strong and strategic private partner or consortium will be interested, since there are a variety of challenges that will need to be tackled. Hence, the technical evaluation criteria prior to bidder selection will need to be very stringent, and private sector consultations are necessary prior to bidding to gauge the level of investor interest.

   Under a DFBOT, the concessionaire will take over operations of the complete channel of services provided by PPOD and any future sources of innovation / revenues. These revenues will then be used to repay interest and principal payments, operation and maintenance (O&M) costs, return on equity (to the private party), taxes and any other costs necessary over the life of the Project.

2. Design-Build-Operate (DBO): In a Design-Build-Operate (DBO) project, the government shall own and finance the construction of new assets. The private sector designs, builds and operates the assets, but is not responsible for the financing of the project. The project will be structured via an EPC / turnkey construction contract, along with an operating contract, or a hybrid contract which covers both.

[13] There are multiple other forms of PPP modalities not discussed above, such as Build-own-operate (BOO), Buildown-operate-transfer (BOOT) etc. However, they are all closely linked with one or more of the modalities discussed in this chapter. Only the modalities most potentially relevant to this Project have been highlighted in this section.

The operator shall take a partial risk position since the government will be responsible for providing the financing for capital costs. The government will also take on revenue risk during operations, and only pays a standard operating fee to the operator.

From the perspective of the concessionaire, this would be a more desirable structure than a DFBOT for this Project - since a lot of the risks (e.g., revenue risk, employee strike risk) would essentially be transferred to the public sector. Under a DBO, the government will have more flexibility in developing an optimal employee re-alignment plan for the existing workforce (e.g., trainings, severance, restructuring). Various HR strategies can be explored and made part of the staffing options analysis, including separate management contracts for the private sector to manage new hires and a portion of old hires vs. the whole of the existing workforce to remain on an "as is" basis employed by PPOD. Under a DBO, the performance of the operator shall depend on KPIs, which will be part of the PPP / operations agreement.

3. Build-Lease-Transfer (BLT): A BLT or Annuity model is an alternative form of procurement, whereby a private party develops the project on behalf of the public partner and then 'leases' the project back to the public partner for a predetermined concession period. The public partner then pays an availability payment to the private party. These availability payments are calculated as the net cost to the private parties. Unlike the DBO model, these availability payments will also cover financing costs of interest and principal payments (debt payments) and return on equity (to the private party). Other costs include O&M costs, taxes, periodic repairs and maintenance, and any other costs incurred during the project lifecycle. At the end of this period, the contractor transfers the ownership of the project back to the client.

In this modality, the private party bears a lower level of risk, since the demand risk is absorbed by the government, and the private party is entitled to a guaranteed level of return depending on performance. This modality should only be undertaken by the government if traditional BOT / DFBOT options are not viable due to lack of interest of the private sector, or difficulty in determining cash flows (demand and revenues) during the project lifecycle. Further, similar to the DBO modality, the BLT modality will allow relative flexibility for structuring the scope of the transaction, as well as the employee management strategy.

A comparison of key features of the three main modalities is illustrated below using traffic light color coding:

Modality	DFBOT	DBO	BLT	Remark
Raising Financing	🟡	🟢	🟡	Government is responsible to raise financing in DBO model. PPOD will have least level of difficulty to raise financing
Construction & Procurement	🟢	🟢	🟢	Construction and procurement is the responsibility of the Private sector in all cases, no difference in challenge faced
Time to completion / efficiency	🟢	🟢	🟢	DBO governed by strong EPC & O&M to provide equal efficiency
Innovative solution and design	🟢	🟡	🟡	DFBOT is most equipped to provide innovative solutions since majority risk is with private sector
Adequate Project returns	🟡	🟡	🟢	BLT is the safest option to receive adequate returns for concessionaire. DFBOT has the highest risk. DBO has marginal returns
Ease of implementation	🟡	🟢	🟡	No complex concession agreements in DBO
Interest from private sector	🟡	🟢	🟢	DFBOT has highest risks hence least preferred option from

NB: Green implies the least level of difficulty; yellow implies moderate level of difficulty and red implies the highest level of difficulty.

4.5 Evaluation of Financing Structure & Government Contribution

As multiple options for structuring under each PPP modality as identified in section 4.4 are possible, each of these will need to be evaluated further in a comprehensive commercial feasibility study and subsequently evaluated to estimate the total requirement for government contribution and the total liability to the exchequer.

The DFBOT modality transfers the highest level of risk to the private sector. However, given the Project's complexity, it is essential to hold consultative sessions with strategic private players to gauge their interest prior to tendering the Project on this basis.

In the lower risk options to the private sector i.e., DBO and BLT, project selection depends on the public sector's ability to raise financing vis a vis the private sector. The feasibility study should determine whether the private or public sector have an advantage in raising financing to determine and finalize the execution structure between DBO and BLT.

Based on the transaction structure finalized, it is usually in the best interests of the government to have a higher debt component in case of BLT / Annuity or DBO structures, since both the overall cost and the timeline of the debt component is lower compared with the equity component. In other structures, where demand risk is with the private party, an optimal funding structure needs to be estimated to ensure that the risk and return metrics of the concessionaire, as well as the banks, are fully met.

5. Market Sounding

5.1 Identifying Market Participants

There are four key categories of market participants that need to be approached by the government to gauge interest in this Project. These can broadly be defined as follows:

1. Strategic Investors

   Given the complexity of this Project and need for specialized private parties, strategic investors will need to be approached for this Project. These should ideally include a mix of internationally experienced players, as well as tech-oriented local players. Key players include commercial banks, local fintech players ('Finja', 'Raast', 'Easypaisa'), telcos, local logistics and e-commerce providers ('leopards', 'Daraz.pk' etc.), as well as key strategic international players such as 'Amazon' and 'Paypal'.

   PPOD has already set up an Amazon facilitation center, and hence further conversations with

'Amazon' are necessary to understand its key challenges and concerns for investment. [13]

2. Operators

While investors are often also the operators of a PPP project, this may not always be the case. If a strategic investor is interested in this Project, but does not have the operating capacity to undertake this Project effectively, then they may alternatively completely or partially outsource day-to-day operations to an experienced international or local operator. Large e-commerce players usually do not have 100% control over operations, e.g., "Daraz.pk" only does 55% of its own last-mile delivery and logistics and outsources to other smaller companies for its delivery and logistics requirements. Hence PPOD should explore options of multiple operators contracted under one lead operator during the PPP lifecycle. Some logistics companies in Pakistan include 'TCS', 'Leopards Courier', 'Cheetay', 'Rider' etc.

3. Private Sector Financiers

This Project is quite unusual from a PPP perspective and will have a number of legacy issues. Therefore, consultative sessions with financiers will be important to highlight project strengths and get feedback on the transaction structure being proposed. Since the Project may not immediately be cash flow positive (as is the case with logistics business, which need to reach economies of scale prior to reaching profitability), financiers will need to be approached to discuss different terms than previously envisioned for PPP projects, such as increasing the grace period beyond the initial construction / development period.

Local tier 1 and tier 2 banks should also be approached to assess their appetite for investment in this space and to understand their key concerns, especially regarding collateral or securities to be provided by the government. Banks with the largest potential ticket size include Habib Bank Limited (HBL), National Bank of Pakistan, Meezan Bank, Bank Alfalah, MCB Bank and United Bank Limited.

4. Multilateral Development Institutions (MDIs) or other Bilateral Agencies

Some of the large MDIs could be approached to assess whether this Project is potentially eligible for any grants, support, or low interest loans. These MDIs / bilateral institutions include the World Bank Group (WBG), Asian Development Bank (ADB) and Islamic Development Bank (IDB). Types of support available are explained in section 8.1 of this document. Those aspects of the Project that could be of interest to development partners include improving financial inclusion for the unbanked and financial inclusion for women.

5.2 Market Feedback on Project Financing Structures

The private sector generally prefers options with the least risk transferred to them, while the public sector ideally wants to transfer as much risk as possible, without compromising the quality and ensuring that the VfM is still positive.

Some of the key metrics to be discussed with stakeholders during the early stages of project definition include, but are not limited to:

1. Required returns to investors, including Project NPV, Project IRR, Equity NPV, Equity IRR and payback periods
2. Security structure & collateralization, and credit enhancement requirements
3. Scope of work, whether to make it comprehensive and inclusive of financial services or to focus purely on improving delivery and logistics business
4. Average ticket size and maturity of debt

[13] https://tribune.com.pk/story/2308680/pakistan-post-sets-up-amazon-facilitation-centre

5. Environmental & Social standards expected by international investors
6. Transaction structures as discussed in section 4.4 of this document, and alternatives to be proposed by private parties
7. Acceptability of the project cost, as well as associated funding required
8. Debt to equity ratios which are acceptable to both local banks and international financiers
9. Capability of the private sector to undertake such a project
10. Acceptable ratios to lenders such as DSCR, PLCR and current ratio 11. Discussion with MDIs to discuss detailed feedback
12. High level risk allocation (see below).

Initial Feedback received from consultation with some private sector participants such as United Bank Limited (UBL) and National Bank of Pakistan (NBP) for the Project has been mixed. Some areas of concerns include:

Business Streams Bifurcation: This is a key issue that will need to be extensively discussed with strategic investors as well as financiers. One of the stakeholders feels it will be quite challenging to bifurcate the businesses segments and to only undertake the mail order / logistics portion of the business, since this may not be financially lucrative or provide sufficient administrative control. There may also be overlap in the services rendered - hence a strategic party / consortium may be better suited to undertake the whole business. One of the representatives was of the view that the business is too large in size and a single party may not be able to effectively manage mail, logistics, infrastructure upgradation, digitization, and financial services together.

Project Returns: The Project will generate sufficient interest only if the Project returns are achievable and meet investors' requirements. Due to the potential challenges and unique nature of the Project in PPP terms, the potential concessionaire will need to be sufficiently compensated to participate in the bidding process for this Project.

Safeguard private party interest: The commercialization of the Project will need to be confirmed by independent transaction advisors to ensure investors' interests are not compromised during the course of the concession period. Although the concession agreement assigns roles to each party, this may be challenging to ensure when dealing with a very large entity such as PPOD.

6. Risk Assessment

6.1 Roles and Responsibilities of Public and Private Parties

Role	Responsibility		
	Public	Private	Hybrid
Transaction structuring & bidding process	□ □	□	□
Feedback from private parties	□ □	□	□
Land Acquisition (if required)	□ □	□	□
Design, Construction and implementation of infrastructure and digitization of existing infrastructure available with PPOD	□	□ □	□
Overhaul and modernization of fleet, sorting, and logistics delivery system	□	□ □	□
Operations and Maintenance	□	□	□ □
Financing and achievement of Financial close	□	□ □	□
VGF during construction or operations of the project	□ □	□	□
Grants from Multilaterals and Government	□	□	□ □
Provision of financing instruments to financial institutions	□	□	□ □

6.2 Risk Identification and Risk Allocation Matrix

No.	Risk	Description	Allocation			Likelihood
			Public	Private	Hybrid	

1	Land Risk / Site Risk / Right-of-way Risk	Project land will be unavailable, or unable to be used at the required time, or in the manner or the cost anticipated. PPOD already has a network of ~12,000 offices across Pakistan, hence no to very little additional land acquisition is envisioned and hence this risk will be very low.	□□	□	□	Low
2	Design and construction risk	Design, construction, or commissioning (or elements of those processes) be carried out in a way that results in adverse consequences on cost and/or service delivery. There is a significant portion of upgradation requirements of infrastructure and logistics of express and mail delivery systems. Further, upgradation of data centers and digitizing this system would also require a massive overhaul. This risk is expected to be high.	□	□□	□	High
3	Variation risk	Any aspects not envisioned in the initial technical design / commercial feasibility either during the transaction structuring phase by the government, or during the initial bid by private party (based on initial due diligence) may have an adverse impact on the project costs. Depending on whether this variation is required by the government or private party to achieve the desired outcomes as per the bidding documents, this risk may be allocated to either party.	□	□	□□	Moderate to High
4	Time / cost overruns	Any delays in CPs prior to financial close, or delays by the private party in upgradation of physical infrastructure and software may cause delays in project execution timeline and hence increase costs to the private party.	□□	□	□	Moderate to High

5	Relocation of Utilities	This is the risk that during project construction, some utilities need to be relocated due to construction that would overtake the existing installed utilities. Any delays caused by government counterparts for relocation of utilities tends to delay the project. Due to significant existing physical infrastructure of PPOD, this risk is expected to be low.	□	□□	□	Low
6	Financing risk	Private finance may not be available and hence Project will not prove financially robust or in worst case may not close. This is a first of its kind project and state-owned entities will require a lot of deliberation for financiers to be comfortable to undertake this project.	□□	□	□	Moderate to High
7	Interest rate risk	If the borrowing rate changes, whether it is KIBOR for local financing or LIBOR / some other rate in case of foreign financing, this directly impacts the level of returns for the concessionaire. Traditionally in BOT modalities, most or all this risk is borne by the private party. However, if the Project is structured on a BLT basis, all of this risk is taken by the government. If the BOT modality has some sort of interest linked government subsidy paid to the concessionaire in case interest rates increase, then this risk may be shared between public and private sector.	□	□	□□	Moderate to High

8	Demand risk	Depending on the transaction structure, this risk can be parked either completely with the concessionaire with traditional BOT modalities, or completely with public sector in BLT modality. Similarly, in hybrid BOT modalities with government support during operational period, this risk may be shared between both parties Due to multiple streams of revenue, there is a significant potential demand risk and, in many cases, will depend solely on the performance of the concessionaire to compete with other private services for both its postal services and financing services to unbanked. However, being a brownfield project with existing demand / revenues already visible to the private party, there will be a cushion of revenues available already visible to the private party prior to bidding for the Project.	□	□	□□	Moderate to High
9	Change in Law	In case there is a change in law which impacts returns for the concessionaire, traditionally concession agreements give leverage to the concessionaire and the government bears this risk Although the traditional mail order business is unlikely to face stringent regulatory pressure, the financial services business has already suffered some regulatory constraints, considering PPOD is not opening new savings accounts in order to be FATF compliant. Further	□□	□	□	Moderate to High
		imposition of specific government requirements or regulations could be imposed that negatively impact the financial services business of PPOD.				

10	Enforcement	Enforcement of fees and charges from users of PPOD services is not expected to be too difficult. Due to lack of players in unique rural areas, the Postal service has high bargaining power with its customers and hence is able to charge fees that can adequately serve its cash flow requirements.	□□	□	□	Low
11	Political	In case there is a major political event which impacts returns for the concessionaire, traditionally concession agreements give leverage to the concessionaire and the government bears this risk.	□□	□	□	Moderate to High
12	Performance, Operating and Maintenance risk	Obligations as per concession agreement are not being met by the concessionaire such as standards of quality of the service. This risk is expected to be on the high side for this Project since there is an extremely vast network of ~12,000 post offices across the country, an existing workforce of ~50,000 employees and one of the largest infrastructure networks in the country. Hence it is vital for the concessionaire and operator to have a high level of credibility and good experience of conducting logistics and mail delivery projects.	□	□□	□	Moderate to High
13	Force Majeure	Any natural disasters, fires, epidemics / pandemics that impact the Project either during construction or operation stage. Since this risk is uncontrollable, it is usually shared between the public and private party. Adequate insurances must always be undertaken.	□	□	□□	Low to Moderate
14	Existing employee strikes / protests	Universal Post Union (UPU), the employee union of PPOD has already expressed immense dissatisfaction with prior attempts of privatizations with mass protests and strikes. Although a PPP arrangement is not privatization, it may be perceived as a private party take-over and immense pressure will be put on the government to	□	□	□□	High

		stop the PPP process. Hence this risk is two-fold, as this can stop the PPP process altogether or employees may cause immense difficulties during post-award and operations phase for the concessionaire. Hence it is vital for PPOD to hold stakeholder consultative sessions with employee union leaders to provide adequate assurances that employee retention will remain a key part of the transaction structure.				
15	Employee performance	The legacy workforce will not easily adjust to new system based on efficiency and performance. There has been significant pushback against past attempts of privatization by employees, which has always been among the core issues of failures in these attempts. Since this is a PPP modality, multiple options can be explored: 1) A KPI based incentive and penalty system can be introduced to improve employee performance for existing and new employees. 2) A hybrid solution can be deployed, whereby regular staff can either elect to remain employed by PPOD and not become the responsibility of the private party or opt for a new KPI based incentive plan and become part of new operations of the private party. 3) Only the logistics and delivery system to be undertaken by the private party, in which case it can by-pass the legacy issues as all staff will remain with PPOD.	□	□	□□	High

7. Value for Money (VfM) Analysis

7.1 Qualitative VfM Analysis of PPP Procurement

The value for money analysis in a PPP project is sub-divided into qualitative and quantitative VfM, which need to be seen in conjunction with one another. To conduct an effective VfM analysis, the public sector must identify all or as many qualitative issues as possible that could impact the Project.

Some of the key areas required to be assessed are as follows:

1. Project viability as a PPP: Examining how strategic and regulatory issues may affect private participation in terms of project implementation, e.g., are there significant benefits for the government to continue operations and infrastructure over-haul via the public sector or to tender the Project on PPP basis.

2. How a PPP will bring efficiency/innovation, accountability of service or infrastructure provision, operational flexibility, measurable and definable outputs: For PPOD, the private sector can bring financing and investment, bring in expertise of digital infrastructure, superior data-driven business analytics and high-quality logistics / last-mile delivery options. If this can be provided at competitive prices, this can help retain old customers and even bring new customers for PPOD from private competitors.

3. Desirability: Analyzing the benefits and costs of developing the Project as a PPP, considering incentives & risk transfer, and assuming a whole-of-life costing approach. Analysis to determine whether undertaking a complete overhaul of the existing postal network via a PPP mode will lead to lower rates of non-delivery, faster delivery times for post, as well as improved financial services and other incremental benefits.

4. Capacity: Verification of the market interest and public-sector capacity in developing and managing the PPP Project. Various smaller local players and large international players like Amazon should be approached. As a pilot project, PPOD has already set up a facilitation center with Amazon in June 2021[14].

Certain general qualitative factors could materially impact the overall VfM decision making process:

I. Cash flow analysis may indicate that the PPP option is more expensive, but this could be because the revamp in infrastructure requires high CAPEX, but at the same time provides a much more reliable experience to end-users, along with specialized financial services.
II. The PPP proposal is sufficiently unique and beyond the capacity of PPOD due to scale, technology requirements and other factors.
III. The Project will be difficult for the private partner to deliver e.g., issues with the existing workforce will remain a contentious issue and however commercially or financially profitable the PPP option may be, the inclusion of a private party may jeopardize the overall stability and

[14] https://tribune.com.pk/story/2308680/pakistan-post-sets-up-amazon-facilitation-centre

operations of PPOD. The PPP contract may lack flexibility to account for such challenges during the concession period.

7.2 Quantitative VfM Analysis of PPP Procurement

For the most useful quantitative VfM analysis, it is best to wait for a high-quality commercial feasibility study and financial model to be completed. The purpose of conducting a quantitative assessment is to calculate the cost difference between undertaking this Project through traditional procurement or through PPP and see which procurement method provides the least cost to the government. This considers the complete life-cycle cost of the Project, not only including any initial up-front costs, but also costs that the government is expected to bear throughout the project life cycle. The difference between these two methods will indicate which option provides the most cost-effective solution to the government.

7.3 Fiscal Affordability

Fiscal affordability is the assessment of the affordability of the Project from the government's perspective, based on the extent and nature of fiscal support and its quantification. This includes a thorough Fiscal Commitments & Contingent Liabilities (FCCL) analysis, which can only be effectively undertaken after development of a quality commercial feasibility study and associated financial model.

Based on the analysis to be undertaken in detailed feasibility studies as defined in section 4, PPOD and its advisors should try to ensure an optimal transaction structure which assesses all options to minimize government support. These may include changing various factors such as the length of the concession period, project scope and allowing new sources of revenues to be generated by the private partner. As an example, the RFP in its current state focuses on the Post and Mail business only. However, the provision of financial services could easily be undertaken by a strong consortium / Joint Venture to ensure the highest return potential from the Project and hence reduce the fiscal burden on the government.

State post and logistics companies in other parts of the world have generally not seen PPP transactions, but rather have gone for privatization which have often seen success in terms of improvement of services, as well as increasing shareholder returns.[15] However, since a privatization is at this time not a viable solution in the Pakistan context, PPP options need to be analyzed.

Regardless of the procurement mode selected for the upgradation of the network, some best practice lessons should be incorporated from success stories such as Royal Mail in the UK. A review of one or more success stories needs to be undertaken and lessons learned reflected in the detailed commercial feasibility report.

When assessing the actual quantitative elements of government support, key factors for consideration include:

1. The forecasted annual amount paid to the private party (if any), must fall within the budget, and ideally the budget should be a function of the forecasted government support. This amount could be in various forms, such as minimum revenue guarantee arrangements, availability payments or

subsidy during construction / operation. In the case of PPOD, if a portion of the existing employees are to be kept as the responsibility of the government, then in that case their salaries / associated expenses need to be covered by the government.

[15] https://www.uni-europa.org/wp-content/uploads/2019/10/Report-postal_EN.pdf

2. In case of a termination event or triggering of a guarantee arrangement, the expected payout should fall within the assumed range for government budgetary limits. Both direct and contingent liabilities must be well within these limits and approved by the government during the structuring phase.
3. The government and its advisors must plan to ensure minimal fiscal risks emerge from the Project by ensuring a clear risk mitigation strategy. Some of these risks are detailed in section 6.2 of this document.

8 Way Forward

8.1 Potential for MDI support / Bi-Lateral Support

MDI support could be extended in the form of sovereign lending to PPOD, in case of structures where financing is to be raised by the government. In such cases, financing with long tenors and easier repayment structures can be extended which are not available to the private sector. Key areas where MDI support for this Project could be extended are financial inclusion, especially for women, as well as employee upskilling and restructuring.

Other blended financing options can also be explored, e.g., long-term low interest rate loans by MDIs, in conjunction with traditional financing channels to reduce the overall impact of interest payments of the Project. This will allow a reduced cash flow burden to the private party in case of a DFBOT modality.

MDIs can also be utilized for loans or guarantees for credit enhancement in case of private sector participation – payment security mechanism, partial credit guarantee, etc.

8.2 Conclusion and Next Steps

It is recommended that a detailed feasibility study be carried out to determine whether the Project can actually be effectively implemented on a PPP basis. It needs to be assessed that due to the overlap of some digital financial services with PPOD's mail order services (e.g., pension payments, insurance products), whether the scope of the PPP modality should be exclusively for revamping infrastructure, logistics and mail delivery business, or if financial services are also to be included as part of the overall solution. The latter should only be included, if the private partner is sufficiently strategic, with prior experience with SBP regulations.

Some of the key issues that need to be reviewed as part of such a study include:

1. Review of the legislative and regulatory framework and license requirements for AML / CFT best practices adoption
2. Stakeholder consultative sessions, especially with strategic investors
3. Appointment of Transaction Advisors (already in process)
4. Develop employee engagement and management plan
5. Initial due diligence including demand studies and options analysis, including project scope extension (e.g., to cover the provision of financial services) and geographical analysis
6. Initiate commercial studies as required
7. Undertake an Environmental and Social Impact Assessment 8. Development of business model and transaction structure

9. Implementation of approved transaction on PPP mode.

Annex

Annex-I

Reference Outline for Areas Requiring Consideration / Assessment

The detailed analysis is proposed to be conducted in three phases:

- Initial Due Diligence & Options Analysis
- Transaction Preparation
- Transaction Implementation

- Initial Due Diligence & Options Analysis

Analysis of similar global initiatives and a comprehensive due diligence of PPOD from legal, accounting, operational and human resource perspectives leading to the appropriate transaction structure. The purpose of the due diligence will be to identify key issues/ broad-based gaps in these areas.

Review of Similar Global and Regional Initiatives

Several countries have already fully liberalized the postal market and their post offices, such as New Zealand, Sweden, Finland, Argentina, Columbia, Estonia, Peru, Russia, and the United Kingdom. Several countries in the world have also incorporated the private sector into their post offices, such as Germany, The Netherlands, Singapore. The review should analyze:

- Rationale behind these reforms
- Steps taken for the reforms
- Structure adopted for the reforms (e.g., privatization, PPP, hybrid)
- Outcome of the reforms
- Key lessons learned
- Recommendations for PPOD

Legal and Regulatory Due Diligence

The objective of the Legal and Regulatory Due Diligence will be a review of all legal matters relevant to PPOD. Significant areas that will be covered as part of the Legal and Regulatory Due Diligence are summarized below:

- Review legal status of PPOD and the postal regulatory framework (postal law, existence of a postal regulator, universal service provision, tariffs, and licensing policy for the postal sector).
- Review of P3A Act and its linkages with other laws including the PC Ordinance 2000.
- Review legal status of provision of financial services by the Post Office.
- Recommend an enabling framework to offer financial services with private sector participation through a public private partnership including possible competition issues.
- Determination of all statutes and regulations to which PPOD is subject and confirm, to the extent practicable, that PPOD complies therewith. Also review legislation, rules and regulations relating to the financial services sector of Pakistan.
- Identify all regulatory and executive approvals required for the Project.
- Review of material legislation affecting PPOD workforce.
- Review of issues in relation to rights of potential investors in assuming control.
- Review of any current, pending or threatened lawsuits or litigation or regulatory actions by or against PPOD.
- Review of material contracts and their impact on the Project.
- Review of procedures established by the management relating to regulatory compliance.
- Review of reports of any audits or proceedings conducted by government/ regulatory authorities.
- Analysis of all government grants as to amounts, repayment of principal and/or interest obligations, any conditions, or undertakings in favor of the government as to the use to which funds must be put, or events which may trigger a repayment obligation and any rights of ownership in any asset produced as a result of the project funded by any grant.

Accounting Due Diligence

The objective of Accounting Due Diligence would include:

- Understand existing process of PPOD for identifying, capturing, and reporting transactions relating to the financial services segment.

- Identify, as far as possible and with assistance from PPOD, the income, expenses, assets, and liabilities of PPOD, including relating to the financial services segment and understand the nature of these items.
- Review financing arrangements such as credit lines, guarantees, pledges etc., if any.
- Obtain and review list of all real properties, leased or owned, with description of use.
- Obtain and review list of physical assets.
- Review the results of the most recent physical verification of properties and physical assets of the financial services segment of PPOD carried out by the Department or some other third party.
- Obtain details regarding proposed capital expenditure programs, if any.
- Review of employee related expenses (including employee retirement benefits) of the financial services segment of PPOD.
- Review of grants/ subsidies received from Government / Others relating only to the financial services segment of PPOD.

Human Resources Optimization

The objective of the Human Resource optimization activity is to identify human resource issues pertinent to the transaction. The broad areas that would be covered during this exercise would include:

- Understand the organizational structure and culture of PPOD.
- Analyze, based on information provided by PPOD, the number of employees and related costs.
- Understand the employee remuneration/compensation arrangements including any retirement benefit obligations.
- Obtain and analyze copies of relevant personnel policies, where considered appropriate.
- Obtain and analyze an employee list prepared by PPOD, setting out names, job titles, addresses, age (where available), core / non-core skills, salary, and length of service.
- Review management, employment, incentive, deferred compensation, and bonus agreements, if any. Review employee health and welfare plans, whether insured or uninsured.

Operational Due Diligence

The objective of this activity will be to undertake a comprehensive review of all operational and other related issues pertinent to the proposed transaction design. The analysis will focus on:

- Advising the government and therefore help clarifying its objectives since this will have an impact on the recommended option:

  - Provide more secured and wider range of products and services o Provide cheaper services to the customers,
  - Open up the large network for the private sector for commercial exploitation on a ‘lease’ model

- What has worked in other countries?
- Indicative list of key issues from a private sector perspective.
- Universe of Transaction Options based on global best practice.
- Review of planning process and performance measurement criteria.
- Investments needed to meet expected future requirements and or expansion in business.
- Assessment of potential for cost savings through redesign of business processes and organizational structure.
- Identifying non-core, non-essential, unprofitable, and under-performing assets and activities.
- A preliminary assessment of prospects of growth through modernization and diversification.

Transaction Options

Evaluate options from an accounting, legal, operational, and other relevant perspective along with recommendations on the course of actions in each of the areas covered during the due diligence:

- Transaction Preparation

In the second stage, the Transaction Advisor will develop and recommend the most optimal transaction structure for the Project. The terms of reference in the second stage would include Environment, Social & Economic Review, Assessment of Investor Interest, Risk Allocation Government vs. Private, Financial Modeling and Transaction Structure Report.

- Transaction Implementation

In the third stage, the Transaction Advisor will assist in finalizing and implementing all Transaction structuring and legal/contractual issues which have been decided upon during the previous phase. In addition, the advisor will assist the implementing agency in marketing the transaction, pre-qualifying investors, supporting due diligence by the bidders, preparing, and finalizing the contractual documentations, preparing financial model, implementing the bidding process, and assisting with the closing of the Transactions.

Marketing
PPOD to respond positively to enquiries from potential investors to maintain investors' interest and give them appropriate expectations about the timing and structure of the transaction. Once a transaction structure had been selected, the focus on marketing would increase. We would look to conduct the following activities:

- Develop a marketing plan including an initial list of potential investors;
- Contacting target investors to assess their interest; and
- Refining the list of potential investors.