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Report No: PAD2894

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US$230 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

COMPETITIVE AND LIVABLE CITY OF KARACHI PROJECT

June 6, 2019

Social, Urban, Rural and Resilience Global Practice
Finance, Competitiveness and Innovation Global Practice
South Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2019)

Currency Unit =	PKR
US$1 =	PKR 141.65

FISCAL YEAR
July 1 – June 30

Regional Vice President:	Hartwig Schafer
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Senior Global Practice Directors:	Ede Jorge Ijjasz-Vasquez; Alfonso Garcia Mora
Practice Managers:	Catalina Marulanda; Nabila Assaf
Task Team Leaders:	Yoonhee Kim; Namoos Zaheer

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan	MC(s)	Minimum Condition(s)
AED	Anti-Encroachment Drive	MOU	Memorandum of Understanding
AFS	Annual Financial Statements	NGO	Non-government organization
AGP	Auditor General of Pakistan	NOC	No-Objection Certificate
APA	Annual Performance Assessment	O&M	Operations and Maintenance
APPM	Accounting Policies and Procedures Manual	OSR	Own-Source Revenue
ARP(s)	Abbreviated Resettlement Plan(s)	OZT	Octroi and Zila Tax
CFMS	Computerized Financial Management System	P&D	Planning and Development
CCIS	Citizen Complaint & Information System	PBG(s)	Performance-based grant(s)
CSO(s)	Civil Society Organization(s)	PCR	Physical cultural resources
CTS	Complaint Tracking System	PDO	Project Development Objective
DA	Designated Account	PIM	Project Implementation Manual
DB	Doing Business	PKR	Pakistan Rupees
DMC	District Municipal Corporation	PM(s)	Performance Measure(s)
E&TD	Excise and Taxation Department	PMU	Project Management Unit
E&S	Environmental and Social	PPP(s)	Public-private partnership(s)
EMF	Environmental Management Framework	PPSD	Project Procurement Strategy for Development
EMP(s)	Environmental Management Plan(s)	PRRP	Project Risk Reduction Procedure
FM	Financial Management	RAP(s)	Resettlement Action Plan(s)
FMIS	Financial Management Information System	RFP	Request for Proposal
FY	Fiscal Year	RPF	Resettlement Policy Framework
GBV	Gender-based violence	SBP	Sindh Business Portal
GIS	Geographical Information System	SEA	Sexual exploitation and abuse
GoS	Government of Sindh	SIA	Social Impact Assessment
GRM	Grievance Redress Mechanism	SID	Sindh Investment Department
GRS	Grievance Redress Service	SMF	Social Management Framework
ICT	Information and Communication Technology	SOP(s)	Standard Operating Procedure(s)
IFC	International Finance Corporation	SoRP	Statement of Receipts and Payments
IBRD	International Bank for Reconstruction and Development	SPPRA	Sindh Public Procurement Regulatory Authority
IMF	International Monetary Fund	STEP	Systematic Tracking of Exchanges in Procurement
IPF	Investment Project Financing	SWM	Solid Waste Management
IT	Information Technology	SSWMB	Sindh Solid Waste Management Board
IFR(s)	Interim Unaudited Financial Report(s)	TA	Technical Assistance
KNIP	Karachi Neighborhood Improvement Project	TOR	Terms of Reference
KMC	Karachi Metropolitan Corporation	UIPT	Urban Immovable Property Tax
LC	Local Council	WB	World Bank
LGD	Local Government Department	WBG	World Bank Group
M&E	Monitoring and Evaluation		

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Pakistan	Competitive and Livable City of Karachi Project	
Project ID	Financing Instrument	Environmental Assessment Category
P161402	Investment Project Financing	B-Partial Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
27-Jun-2019	30-Jun-2024
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

To improve urban management, service delivery and the business environment in Karachi

Components

Component Name	Cost (US$, millions)

Performance-based Grants to Local Councils and Capacity Building	169.40
Modernizing Urban Property Tax Administration and System	40.40
Improvement of City Competitiveness and Business Environment	20.20
Technical Assistance for Solid Waste Management	10.00

Organizations

Borrower:	Islamic Republic of Pakistan
Implementing Agency:	Local Government Department, Government of Sindh Province of Sindh Excise & Taxation Department, Government of Sindh Investment Department, Government of Sindh

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	240.00
Total Financing	240.00
of which IBRD/IDA	230.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	230.00

Non-World Bank Group Financing

Counterpart Funding	10.00
Borrower/Recipient	10.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024
Annual	0.00	12.00	21.00	50.00	70.00	77.00

Cumulative	0.00	12.00	33.00	83.00	153.00	230.00

INSTITUTIONAL DATA

Practice Area (Lead)
Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas
Finance, Competitiveness and Innovation, Governance

Climate Change and Disaster Screening
This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Substantial
9. Other	

10. Overall	● High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✔	
Performance Standards for Private Sector Activities OP/BP 4.03		✔
Natural Habitats OP/BP 4.04		✔
Forests OP/BP 4.36		✔
Pest Management OP 4.09		✔
Physical Cultural Resources OP/BP 4.11	✔	
Indigenous Peoples OP/BP 4.10		✔
Involuntary Resettlement OP/BP 4.12	✔	
Safety of Dams OP/BP 4.37		✔
Projects on International Waterways OP/BP 7.50		✔
Projects in Disputed Areas OP/BP 7.60		✔

Legal Covenants

Sections and Description
Steering Committee: PA, Section I.A.1(a) of the Schedule: Establishment of Project Steering Committee with attribution and composition acceptable to the Bank - within 1 month of Effectiveness, till Project completion

Sections and Description
PMU staff: PA, Section I.A.2(b)(ii)(A) and (B) of the Schedule: Recruitment of a project director, procurement specialist and financial management specialist or accounts officer in each PMU - within 2 months of Effectiveness; and of environmental and social safeguard specialists and monitoring and evaluation specialist - within 3 months of Effectiveness.

Sections and Description
Independent APA entity: PA, Section I.A.2(c) of the Schedule: Recruitment of an independent entity for the carrying out of the Annual Performance Assessment of Local Councils - within 6 months of Effectiveness

Sections and Description
Infrastructure subproject exclusions: PA, Section I.B.1(d) of the Schedule: No proposed Infrastructure subproject shall be eligible for financing: (i) which, in the views of the Bank, would create high risk with significant negative environmental or social impacts that are sensitive, diverse or unprecedented; and (ii) whose Zone of Impact was included in the scope of an involuntary resettlement carried out on or after October 27, 2018, in a manner which, in the views of the Bank, does not comply with the provision of Bank Policy OP/BP 4.12. - throughout Project implementation.

Sections and Description
Monitoring of anti-encroachment drive: PA, Section I.B.1(e) of the Schedule: Project Implementing Entity (i.e. Province of Sindh) shall cause to monitor, map and regularly update the locations and extent of involuntary resettlements carried out on or after October 27, 2018, throughout the period of implementation of the Project.

Sections and Description
Annual Work Plans and Budgets: PA, Section I.E of the Schedule: Annual work plans and budgets to be submitted to the Bank (with evidence of compliance with eligibility mechanism including the APA and screening mechanism and preparation of safeguards instruments related to activities included in the draft work plan, and indication of corresponding sources of financing) for review and approval before being implemented - within 1 month of Effectiveness and then annually, throughout Project implementation.

Sections and Description
Project Implementation Manual (PIM): PA, Section I.F of the Schedule: Project Implementing Entity to adopt Project Implementation Manual (PIM) and ensure that at all time it remains satisfactory to the Bank and Part 1 of Project is implemented in accordance with PIM - within 1 month of Effectiveness, throughout Project implementation.

Conditions

I. STRATEGIC CONTEXT

A. Country Context

1. **Pakistan, the sixth most populous country in the world is at a crossroad.** The economy accelerated with Gross Domestic Product (GDP) growth of 5.8 percent in FY18 and slowed down to 3.5 percent in FY19 as fiscal and external imbalances persisted[1]. Poverty declined from 64.3 percent in 2001 to 24.3 percent in 2015[2], but inequality persists. The country ranks low on the 2018 Human Capital Index, at 134 out of 157 countries. Gender disparities continue, and female labor force participation was only 20.1 percent in 2018[3]. Natural disasters and unreliable water and power supply constrain progress. After the onset of another boom and bust cycle, a new International Monetary Fund (IMF) program was negotiated in May 2019. Growth will pick up as structural reforms take effect and macroeconomic imbalances are addressed. Over the medium to long term, Pakistan needs to invest more, and better in human capital, raise more revenue, simplify doing business procedures, expand regional trade and exports, and manage its natural endowments sustainably, as articulated in Pakistan@100: Shaping the Future[4].

2. **Karachi with an estimated population of 16 million[5], is Pakistan's largest city, economic and financial hub and main port.** It contributes 15 percent of national GDP and the largest share of national tax revenues, industrial employment, manufacturing and high-end services[6]. The city dominates the economic landscape of Sindh, with nearly all of the province's industrial and service economy and the majority of its labor force. It continues to be the engine of economic growth for the country, given its size, location, and industrial and human capital. In recent decades, however, the city's livability and competitiveness have declined. It now ranks 137 out of 140 cities globally for livability. In the recent decades access to basic infrastructure and services have declined. Nearly half its residents live in informal settlements ("*katchi abadis*"), only half the city's water demands are met; public transport has deteriorated; and pollution is severe. Nonetheless, a substantial reduction in violent crime has been achieved through concerted government efforts.

3. **The Karachi City Diagnostic and Transformation Strategy identifies infrastructure gaps of over $9 billion in public infrastructure.** Institutional strengthening and investments aiming to enhance livability, competitiveness and sustainability have emerged as priorities for Karachi. The Karachi Neighborhood Improvement Project (KNIP), currently under implementation, aims to upgrade three neighborhoods and to improve ease of doing business in Karachi to strengthen citizen-state confidence and show early wins. Building on this, additional interventions in urban management and competitiveness, water supply and sewerage, and urban mobility and transport are being considered with support from the World Bank Group (WBG), Asian Development Bank and Asian Infrastructure Investment Bank. Maximizing Financing for Development approaches will be used to crowd in commercial financing as well.

B. Sectoral and Institutional Context

4. **Karachi's livability and competitiveness are impacted by the following constraints:** (a) very low institutional capacity due to institutional fragmentation, nascent systems, and unclear and overlapping responsibilities; (b) poor and declining basic service delivery, as seen in poor quality and coverage of all basic services, with particular

[1] World Bank Group (2018), "Pakistan Development Update 2018 – At a Cross Road".
[2] Redaelli, S. (2018), "From Poverty to Equity – Pakistan at 100." World Bank Group.
[3] World Bank Gender Statistics 2017.
[4] World Bank (2019), "Pakistan at 100 : Shaping the Future".
[5] Population of Karachi Division (containing six Districts of Karachi) as per provisional summary of national Population Census 2017.
[6] World Bank (2018), "Transforming Karachi into a Livable and Competitive Megacity: A City Diagnostic and Transformation Strategy".

constraints in solid waste management (SWM); (c) limited financing for the city and inadequate capital investment due to poor own-source revenue (OSR) generation, very low cost-recovery for services and major constraints to private investment in infrastructure and services; and (d) onerous and opaque business environment constraining private sector investment and operations.

5. **Management and service provision in Karachi are hampered by large financial, technical and institutional challenges faced by local entities**. Municipal functions are divided among the Karachi Metropolitan Corporation (KMC) (for the entire urban area of Karachi) and six District Municipal Corporations (DMCs). Adjoining rural areas are under jurisdiction of a separate entity, namely the District Council. There is no formal coordination mechanism between these local councils (LCs), leading to substantial inefficiencies and challenges in city management and service provision. This fragmentation also affects LCs' mandates on business regulations, thus impeding the business environment. Basic systems for planning and transparency are weak and revenues are inadequate, with a high dependence on fiscal transfers from Government of Sindh (GoS) accounting for more than 80 percent of their revenue[7]. Mandates are limited, with GoS recently "recentralizing" municipal services such as SWM[8]. Investment spending by is also very low due to limited capacity, mandates and revenue. Per capita spending by Karachi LCs on capital infrastructure is well below that in comparator cities, being less than PKR500 (US$3.5) per year for each LC on average[9]; this being only 2 percent of the province's capital spending.

6. **Basic service delivery in Karachi is poor, and SWM in particular has significant adverse impacts on livability and competitiveness.** About 12,000 tons of household waste is produced daily, of which only three-quarters is transported to designated (non-sanitary) disposal sites. Pollution from plastics is of concern: plastics account for about 60 percent of waste found on Karachi's beaches by density[10]. Karachi ranks below low-income country benchmarks in SWM on all parameters except collection rate. Weak SWM has a strong impact on the city through increased and recurrent flooding due to waste dumping in the city's drainage system; and adverse health impacts from environmental degradation such as increased prevalence of water-borne diseases. Waste burning and use of waste fuels by industries are the among the biggest causes of air pollution in the city. The absence of infrastructure along the entire value chain impacts the sector's efficiency. While waste collection rates have improved in the last five years, there is a large backlog of waste. Limited capacity of sector institutions, insufficient public spending in the sector, and jurisdictional and institutional fragmentation, further contribute to poor outcomes. Financial sustainability is fragile due to absence of dedicated resources and relatively high cost paid to private operators for collection (around US$30 per ton) which is borne by GoS. The Sindh Solid Waste Management Board (SSWMB), the entity responsible for this sector, also needs to build capacity to crowd-in private investment more effectively.

7. **Public sector spending is well below what is required to meet the city's infrastructure needs, and there is a weak institutional framework to mobilize private investment to fill this gap**. Existing public spending on capital infrastructure, estimated at US$130-150 million annually, is far below the $9-10 billion needed. This is equivalent to only 0.3 percent of Karachi's share of national GDP, far lower than the national average of 1.25 percent of GDP as public investment in infrastructure. Pakistan's public investment in infrastructure is already the lowest in the region as a share of GDP, compared to India (5 percent), Bangladesh (4 percent) and China (16 percent)[11]. A key reason for perennially low financing is weak sources of stable revenue. Revenue from the Urban Immovable Property Tax (UIPT) is extremely low compared to its potential, at PKR2.5 billion (just under US$18 million) per annum. In comparison,

[7] When summed across all LCs. Corresponding figure is 90 percent for KMC and ranges from 50 to 82 percent for six DMCs.
[8] Water and sewerage is managed by a separate utility which has always been under GoS administrative control.
[9] Data for FY2017/18.
[10] Waste distribution studies of four beaches in Karachi.
[11] Asian Development Bank (2017), "Meeting Asia's Infrastructure Needs".

Punjab province collects four times as much in this tax from its urban areas, while smaller or similar-sized cities in neighboring India, such as Chennai, Hyderabad and Mumbai, collect four to ten times more in equivalent taxes. It is also important to build the city's capacity to increase non-tax revenues by leveraging public assets such as land. Capacity to identify and structure commercially viable projects to crowd-in private investment is also limited. Most local agencies in Karachi lack balance sheets which make them un-bankable.

8. **The business environment in Karachi is hampered by weak and fragmented regulatory governance.** The city's private sector is required to engage with over 20 agencies at different levels of government, each with different processes and requirements to register and operationalize businesses. Regulatory processes are mostly paper-based with minimal automation, and are marred by complexity, non-transparency and discretion. Risk-based oversight is limited, and enforcement is inconsistent. These factors increase opportunities for rent-seeking and regulatory discretion, create uncertainty in the business environment and undermine the ability of newer firms to operate on a level playing field. The impact of regulatory fragmentation on business sentiment is high: 26 percent of firms in Sindh identified business licensing and permits as a major constraint in 2013, up from 20 percent in 2007[12]. The impact of regulatory fragmentation is also reflected in the cost, time and steps entailed in doing business in Karachi. The city accounts for 65 percent weightage in Pakistan's Doing Business (DB) rankings. Currently it takes 10 procedures, 17 days and 7 percent of per capita income to start a business in Karachi, much higher than South Asian averages[13]. GoS has started to respond to private sector demands to facilitate private investment by introducing reforms to streamline regulations and processes which govern investment and business operations in the city. This has led to an improvement in Pakistan's DB ranking which improved 11 positions (from 147 to 136) in 2019, the first significant improvement in 11 years. Despite these improvements, further reforms are needed to improve competitiveness. These reforms will act as a starting point to create a transparent and less discretionary business environment.

9. **Weak systems and fragmentation of land management and service delivery mandates, among over a dozen agencies at different tiers of government, have undermined coordinated and inclusive development and enabled large-scale encroachment of public land in recent decades.** Informal settlements and squatters are widespread, including residential and commercial encroachers on vacant lands, sidewalks, public spaces etc. A major Anti-Encroachment Drive (hereafter referred to as "AED") was initiated in Karachi in October 2018 on the order of the Supreme Court of Pakistan. The Court ordered to vacate public spaces (parks, footpaths, amenity plots, etc.) across the city from unauthorized uses and occupations. The order is currently under implementation by various civic and local agencies, including KMC, who are required to report periodically to the Court on progress. The focus of the AED is on commercial activities encroaching public spaces. Thousands of businesses, street vendors and hawkers[14] have been affected, primarily in the most commercial districts. Acknowledging the adverse impacts of AED on the poor and vulnerable groups, GoS and local agencies like KMC are making efforts to relocate some affected businesses.

10. **The city faces substantial gender gaps**. There is very limited involvement or voice of women in the selection, prioritization and design of municipal services and infrastructure, with the result that the services and infrastructure developed by municipal agencies is not responsive to women's needs. Women councilors comprise one-fifth of the elected body of Karachi LCs but provide very limited input in identification of capital investment and service delivery priorities of LCs. No systematic consultations are held with women in Karachi by any municipal agency to identify and prioritize specific interventions. As a result, access to and use of municipal infrastructure in the city, such as public

[12] World Bank Enterprise Surveys 2013 edition.
[13] World Bank Doing Business Report 2019.
[14] The Bank's Policy on Involuntary Resettlement (OP 4.12) requires provisions to compensate or rehabilitate displaced persons and compensation of loss of livelihood. The design of this project is informed by the implications of the AED and detailed measures have been put in place to avoid and mitigate risks, consistent with Bank policies, and to increase capacity of GoS for more inclusive development.

spaces or community facilities, is much more challenging for women compared to men. This reduces their ability to equally participate in civic and economic life, and results in limitations on mobility, walkability, safety and access, due to a combination of gender-blind infrastructure not designed to address their needs (such as lack of dedicated recreational or community facilities or spaces, adequate lighting, public toilets, sidewalks etc.) and prevailing socio-cultural norms. Finally, the absence of systematic analytical information on women-owned and -managed businesses in Karachi and specific restrictions facing these businesses is a constraint on women's economic empowerment. This hinders identification of interventions to facilitate these businesses and increase participation of women in the economy, especially as entrepreneurs.

11. **Pakistan ranks as the 7th most climate change-affected country in the world, with Karachi particularly at high risk to climate hazards.** Pakistan is exposed and vulnerable to extreme temperature events, extreme precipitation and flooding, sea level rise, cyclone, and tsunami risks, which are expected to increase in frequency, variability and intensity due to climate change. It is projected that the country will experience an increase in annual mean temperature of 3 to 5 degrees Celsius by the end of this century. Warming is occurring more rapidly in the south and coast zones[15], where Sindh and Karachi are highly vulnerable to sea level rise, extreme temperature and recurrent flooding. Karachi experienced deadly heat waves in three of the last four years. Despite being a relatively dry city, it is vulnerable to recurrent rainfall-induced urban flooding during the monsoon season. This is in large part due to its poorly functioning drainage system which is largely blocked by uncollected solid waste, informal settlements and an extensive backlog of maintenance and rehabilitation. Roads have reduced life due to damage by flooding. This project is designed to streamline measures to mitigate and adapt to climate change risks.

12. **This proposed project will seek to address some of the identified critical constraints in Karachi to improve its livability and competitiveness.** It will do so through the following interventions: improving institutional capacity and performance of Karachi LCs and selected agencies such as SSWMB; optimizing allocation of scarce public resources by fostering greater private investment in city infrastructure and services; improving the business and investment environment for private sector; enhancing municipal service delivery in an integrated way involving key institutions; and setting the base for sustainable city financing.

C. Relevance to Higher Level Objectives

13. **The proposed project is aligned with the World Bank's (WB) Country Partnership Strategy (CPS) (FY15-20)[16] and with the twin goals of ending extreme poverty and promoting shared prosperity.** It is also aligned with the 2019 Pakistan at 100 report which highlights the necessary reforms required for Pakistan to become an upper-middle income country by 2047. It supports three outcome areas: Outcome 2.1, "Improved Business Environment for Private Sector", under Result Area 2: "Private Sector Development"; Outcomes 4.5 "Improved urban management in cities" and 4.4 "Adoption of Performance and Transparency Mechanisms in selected institutions", under Result Area 4: "Service Delivery". Under Outcome 4.5 the project directly contributes to the achievement of the results Indicator "Improved systems for city management and accountability in two selected provinces" and directly contributing to

[15] Sources: 1) "Risk Screening Overview of Pakistan. Climate Change Knowledge Portal. World Bank. 2) Asian Development Bank (2017), Climate Change Profile of Pakistan. 3) Global Climate Change Risk Index 2017: "Weather-related loss events from 1996 to 2015".
[16] World Bank Group (2014), Islamic Republic of Pakistan: Country Partnership Strategy, 2015-2020 (Report No. 84645-PK), discussed by the Executive Directors on May 1, 2014, and extended by the Performance and Learning Review (Report No. 113574) distributed to the Executive Directors on an absence-of-objection basis with a closing date of June 15, 2017.

all the indicative milestones. It is also aligned with the Bank's strategy of identifying and addressing risks associated with disasters and climate change which may hamper achievement of its twin goals.

14. **The Karachi City Diagnostic and Transformation Strategy[17] finds that a timely, comprehensive and programmatic phased approach is needed to improve Karachi's competitiveness, livability and sustainability.** The Karachi Platform supports a coordinated and longer-term engagement through interventions in transportation, water, sewerage, competitiveness, livability and fiscal and environmental sustainability. The proposed project contributes to the Sustainable Development Goal 11, "Making cities inclusive, safe, resilient and sustainable". It is also aligned with Track 4 of the Karachi Strategic Development Plan 2020 of GoS, which aims to improve service delivery in water and sanitation, road construction and maintenance, solid waste, built heritage sites, public space development, safety and mobility, and green spaces management with a focus on disadvantaged neighborhoods.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

To improve urban management, service delivery and the business environment in Karachi.

PDO Level Indicators

- Number of People provided with improved urban living conditions (disaggregated by gender)[18];
- Score in the Annual Performance Assessment showing achievement of institutional and capacity improvement of local councils, averaged across all qualifying local councils (maximum of 100);
- Number of business registrations and licenses secured annually through the Sindh Business Portal.

B. Project Components

15. Karachi faces substantial challenges on urban management, service delivery and business environment, which this project cannot alone fully resolve. The project will begin to address these constraints by selectively tackling critical bottlenecks. While the scale and complexity of challenges are significant, it aims to tackle some of these constraints in an incremental and systematic way through selected interventions. Activities under the project will help put the city on a long-term path towards achieving adequate service provision and a competitive business environment. In this context of incremental improvements, the project includes the following four components:

Component 1: Performance-based Grants to Local Councils and Capacity Building (Total cost: US$169.4 million; WB financing: US$160.0 million):

16. This component will finance the provision of performance-based grants (PBGs) to Karachi local councils (LCs)[19] upon achievement of specified institutional strengthening measures, to incentivize LCs to improve management capacity and enhance city competitiveness. LCs will use these grant funds to implement subprojects for infrastructure and services under their mandate, in line with needs of citizens and businesses. To assist LCs in achieving the institutional strengthening measures, and to manage and implement the performance grants system, this component

[17] World Bank (2018).
[18] This is a World Bank Corporate Results Indicator for Urban sector projects and counts the number of people directly benefitting from project-financed improvement in municipal services and infrastructure.
[19] Namely KMC, six DMCs and District Council. This project excludes Union Councils and Union Committees in Karachi, which is the lowest tier of local government in Sindh.

will also finance the provision of technical assistance (TA), and project implementation and management, by the Local Government Department (LGD) of GoS. Subprojects to be implemented by LCs will be selected based on a comprehensive screening and risk reduction procedure described below.

Sub-component 1.1: Performance-based Grants to Local Councils (WB financing: US$140.0 million)

17. **This sub-component will provide annual performance-based grants to LCs to finance their capacity strengthening and capital infrastructure subprojects.** It will provide three types of annual grants to LCs as incentives to incrementally improve their capacity: one capacity building grant to address basic capacity needs and two types of capital infrastructure grants to finance infrastructure subprojects. The criteria to be satisfied to be eligible to receive each grant are intended as incentives for LCs to achieve progressively more advanced institutional capacity measures. These grants will be introduced in a phased manner as LCs capacity grows, with capacity building grants being available from the first year and the capital infrastructure grants available from the second year and increasing thereon. The rationale and structure of these grants is as follows:

a) **Capacity Building grant (WB financing US$10.0 million):** This grant will provide needed resources to LCs to address capacity needs as identified by them. It will finance selected goods, equipment, works, consultancy and non- consultancy services and trainings. LCs will be able to access this grant upon fulfilling simple Access Conditions every year. Further information on this grant is provided in **Annex 2**.

b) **Minimum Conditions Capital Infrastructure grant (WB financing US$40.0 million):** This grant will finance capital infrastructure subprojects of LCs and is an incentive to build basic level of institutional systems in fiduciary and social and environmental management as required by Bank policies. LCs will be able to access this grant upon achieving specified Minimum Conditions (MCs) annually, all of which must be fulfilled for an LC to qualify for any infrastructure grant. MCs grant will be available from the second year of the project. MCs will focus on (a) investment planning and progress reporting; (b) systems for social and environmental management including screening subprojects to avoid major impacts, and social and environmental management plans to mitigate any risks; and (c) basic procurement and financial management (FM) processes, including requirement for non-disclaimed audits; and (d) improving the workplace for women staff. Full list of MCs and additional information is provided in **Annex 2**.

c) **Performance Measures Capital Infrastructure grant (WB financing US$90.0 million):** This grant will also finance infrastructure subprojects and aims to incentivize LCs to achieve more advanced institutional improvement. It will be accessible upon achieving specified Performance Measures (PMs) annually which build on foundations laid by the MCs. PMs focus on improvements in the following areas: (a) investment planning, including incorporating needs identified by women; (b) systems for procurement, FM and expenditure performance; (c) competitiveness and business environment, including streamlined business permitting within the mandate of LCs; (d) OSR improvement; (e) engagement with citizens, especially women, and private sector in investment planning; and (f) access to information and grievance redress systems for citizens and local businesses. This grant will be proportional to the LCs' performance, with LCs being able to receive a larger (or smaller) amount contingent on higher (or lower) performance. The full list of PMs and additional information is provided in **Annex 2**.

18. **An Annual Performance Assessment (APA) will determine the achievement of MCs and PMs.** The APA will be conducted by an independent third party, and its findings of the APA will determine grant allocations for the infrastructure grants for LCs. The capacity building grant will be divided equally among all eligible LCs. Additional details on this component, including eligible expenditures for each type of grants, are provided in **Annex 2**. In general, eligible expenditures include civil works, consulting and non-consulting services, goods and trainings.

19. **LCs will use the capital infrastructure grant funds to implement subprojects (works) for infrastructure and services in their mandate, as per screening criteria and other procedures described below**. LCs will be responsible for design and implementation of subprojects in compliance with the Bank's policies on procurement, FM, anti-corruption and social and environmental safeguards. Selection, design and implementation of each subproject will be based on a set of screening criteria as part of a "Project Risk Reduction Procedure" (PRRP), a multi-level screening process that has been built into project design to avoid project-related risks, especially associated with the ongoing AED, and ensure compliance with the Bank's social safeguards policies, specifically the policy on Involuntary Resettlement (OP 4.12). The screening criteria and other aspects of PRRP are summarized below and provided in details in Annex 2. The PRRP are included in the project's Social Management Framework (SMF) / Resettlement Policy Framework (RPF), and the Environmental Management Framework (EMF).

a) Potential subproject sites (including proposed construction sites and associated zones of impact) located within areas already impacted by the AED on or after October 27, 2018 will not be eligible for financing under the project.
b) For eligible subprojects, the screening mechanism will further be applied to determine the types of subproject-specific safeguard instruments to be prepared and implemented, depending on the nature, scale and scope of the subproject.
c) Once project implementation begins, any unforeseen AED activities which may take place in project-selected sites will have to comply with the provisions of the Bank's safeguards policies as per the SMF/RPF and EMF, for any subproject to proceed.

20. **A Project Implementation Manual (PIM) describes all implementation aspects of this component**, including the full list and verification protocols for MCs and PMs; the annual assessment process; formulae for determining grant shares of respective LCs upon conclusion of APAs every year; criteria for eligibility, screening, selection (as per the PRRP), appraisal and implementation of subprojects, and reference to social and environmental safeguards procedures outlined in the SMF and EMF; subproject procurement and contract management procedures; and other operational details. The PIM, including any subsequent changes therein during project implementation, must be acceptable to the Bank. GoS shall ensure that this component is carried out in accordance with the PIM.

Sub-component 1.2: Technical Assistance and performance grants implementation and management (WB financing: US$20.0 million)

21. This sub-component will provide support to LGD for (a) the coordination, management, administration and monitoring of the performance-based grants program supported under sub-component 1.1, including the provision of capacity building, TA and training to the participating LCs; and (b) the carrying out of studies and capacity building activities to improve service delivery in Karachi, manage the street economy and increase awareness on gender in the workplace. This sub-component will finance consultancy and non-consultancy services, goods, trainings, and incremental operating costs for LGD to conduct following activities: (a) managing centralized capacity-building support to LCs to assist them in achieving the MCs / PMs; (b) administering the APA process through an independent entity; (c) providing assistance to LCs in screening, selection, design and supervision of subprojects as requested by LCs, and in preparation and implementation of environment and social management plans for subprojects if required, consistent with screening procedures and safeguards instruments; (d) training to elected women councilors of LCs on leadership and gender-responsive investment planning; and to LC staff on harassment of women at the workplace, and associated regulations on prevention of harassment; (e) preparatory studies to improve service delivery which may be considered under future projects; (f) TA for a program to formally recognize, regulate and register the street economy and mobile vendors across the city, in line with global models and good practices, including through digital platforms, and additional support for a city-wide approach of addressing resettlement and rehabilitation issues, based on demand; and (g) monitoring and consolidated progress reporting to the Bank for Component 1.

Component 2: Modernizing Urban Property Tax Administration and System (Total cost: US$40.4 million; WB financing: US$40.0 million)

22. This component will support: (a) carrying out an all-Karachi property survey to update the property tax database[20]; (b) developing and upgrading an Information Technology (IT) system to house the property tax database and providing related training; (c) strengthening staff capacity on property tax administration; (d) developing IT systems to facilitate taxpayers billing and payments; (e) reviewing relevant property tax laws and regulations in Sindh; and (f) carrying out taxpayer sensitization and outreach activities. It will finance goods, consultancy and non-consultancy services, trainings, works and incremental operating costs for these activities, with the objective of modernization and improvement of the UIPT system in Karachi. This component will be implemented by the Excise and Taxation Department (E&TD) of GoS. This component is described in detail in **Annex 2**.

23. The all-Karachi property survey will cover an estimated 1.5 to 2 million properties and will include land and properties in areas in the jurisdiction of LCs (i.e. residential, commercial, industrial, institutional, special, etc.)[21]. It will collect information on ownership and lease status of property parcels, including those owned by public agencies, to build a complete database of public sector land assets. This is essential as there are over a dozen land-owning / controlling agencies in Karachi, across three tiers of government, with no consolidated and integrated database on the land ownership / control. This contributes to low transparency and high politicization of the city's land market, increases the influence of informal land developers, and exacerbates spatial inequality and exclusion – all contributing to low competitiveness of the city. Due to the size and complexity of the exercise, the conduct of the survey and completion of the associated Information and Communication Technology (ICT) system and database are expected to be completed towards the later years of the project. Once completed, these activities will set the base for longer-term sustainable revenue increase. Reviews of legislation / regulations related to UIPT will also focus on identifying any facilitation which may be provided to women property owners.

Component 3: Improvement of City Competitiveness and Business Environment (Total cost: US$20.2 million; WB financing: US$20.0 million):

24. This component will support improvements to the business environment in Karachi and build capacity of local-level agencies to crowd-in private investment for the provision of city infrastructure and services through enhanced capacity to develop bankable projects. Activities will complement other components by creating the enabling environment for increased private investment in city infrastructure services and represent a subset of interventions required to improve the city's competitiveness. (See **Annex 2** for details.) It will finance goods, consultancy and non-consultancy services, trainings, works and incremental operating costs for the following sub-components:

25. *Sub-component 3.1: Streamlining and Integrating Business Regulations for City Competitiveness (WB financing: US$17.5 million):* This sub-component will provide support to the Sindh Investment Department (SID) to improve the business environment for private sector investment by streamlining and integrating key regulatory processes, through: (a) the development of a registry of business licenses and permits issued by selected agencies; (b) the mapping and re-engineering of regulatory process; (c) the development of an online portal and associated facilities to automate and integrate regulatory processes of selected agencies; and (d) the carrying out of studies to address constraints to the private financing of infrastructure and to women-run businesses.

[20] The survey will cover area in the jurisdiction of LCs and thus exclude areas under Cantonment Boards and under land-controlling agencies.
[21] The previous property survey for this purpose was conducted in 2001, and there are only about 800,000 properties in the existing database, while estimates show that potential base includes 1.5 to 2 million properties.

a) ***Regulatory reform and simplification:*** This will entail the preparation of a consolidated Register of business licenses, permits and "No-Objection Certificates" (NOCs) applicable for starting and doing business in Karachi at the provincial and local level. The Register will identify redundant licenses / permits / NOCs. This activity also complements the Prime Minister's recent decision to implement a similar regulatory reform program nationally.

b) ***Regulatory process mapping and re-engineering:*** This will be followed by a process mapping of licenses, permits and NOCs issued by ten key regulatory agencies to reengineer existing processes and develop standard operating procedures (SOPs) to streamline these processes and make them transparent and less discretionary[22]. (See **Annex 2** for details.) This will also identify specific regulatory changes to help level the playing field for registration and operations for women-owned businesses in Karachi.

c) ***Design and establishment of Sindh Business Portal (SBP):*** Informed by the above, a Sindh Business Portal (SBP) will be established to act as a single interface between businesses and key regulatory agencies. SID will support the automation of SOPs of selected regulatory agencies and integrate these into the portal. This process will use existing inter-agency coordination mechanisms in place as part of Sindh's DB reforms program under implementation. The SBP will upgrade the recently-launched Bank-financed Sindh Business Registration Portal to enable not only streamlined registration but facilitation of all approvals, licenses and permits for ongoing business operations.

d) ***Analytical work on women-run businesses and feasibility of Karachi Infrastructure Fund:*** SID will conduct studies to gather data and identify constraints facing women-owned and -managed businesses in Karachi in the existing regulatory environment, and to propose improvements to facilitate these businesses and increase women's participation in the formal economy especially as entrepreneurs. Finally, to explore sources of infrastructure finance for the city, a feasibility study will be conducted for a proposed apex financial institution (tentatively named "Karachi Infrastructure Fund") to address key constraints for channeling financing for the city's infrastructure needs. This institution would aim to leverage equity and public sector backing to raise long-term market financing for lending and investment.

26. *Sub-component 3.2: Establishment of PPP node at LGD (WB financing: US$2.5 million):* This sub-component will provide support to LGD for the establishment and operation of a public-private partnership (PPP) node for the origination of PPPs, through: (i) the provision of assistance to local agencies under LGD; and (ii) the carrying out of pre-feasibility studies for potential PPPs in municipal services. This node will serve as a PPP origination arm of all agencies under LGD and will conduct the following activities: (a) provide relevant TA to all local agencies under LGD, including for developing comprehensive asset inventories for capital assets[23] which can be used for creating balance sheets of agencies and identifying assets which may subsequently be leveraged through PPPs; (b) undertake pre-feasibility studies in consultation with PPP Unit in GoS Finance Department for potential PPPs for local agencies. These studies will give early-stage options analyses of potential projects and contain required information for agencies to proceed with preparing detailed project proposals.[24] Activities under this sub-component will help create an enabling framework for private investment in municipal services and infrastructure.

[22] The indicative list of provincial-level agencies to be covered is provided in **Annex 2**. More may be added during implementation if feasible.
[23] This activity complements other components and projects. Asset Inventories at LCs and SSWMB will be developed in Components 1 and 4 while a separate Bank project on Karachi water and sewerage aims to improve financial viability of the city's water utility and will create an asset inventory for that. PPP node at LGD will assist remaining agencies at the local level (such as Karachi Development Authority) to complete asset inventories. This will help establish a comprehensive mapping of the asset base of all municipal services agencies in the city.
[24] The Project's EMF and SMF/RPF will apply to these pre-feasibility studies.

Component 4: Technical Assistance for Solid Waste Management (Total cost: US$10.0 million; WB financing: US$10.0 million):

27. This component will provide TA to, and building capacity of, LGD and SSWMB to improve SWM in Karachi and the performance of SSWMB, through the identification and resolution of critical challenges and the formulation of a long-term strategy for sector development and investment to address identified challenges. It will include a set of TA activities addressing critical identified challenges which will contribute to the formulation of a long-term investment strategy.

28. It will finance goods, consultancy and non-consultancy services, trainings and incremental operating costs to conduct the following activities: (a) TA for policy and regulatory development for SWM sector, including financial and operational sustainability; options for cost recovery, sustainable business models and private financing; and management and characterization of waste, including regulations and systems to reduce plastic waste and manage hazardous waste streams; (b) capacity building of SSWMB including trainings, data management and performance monitoring systems, and improving efficiency of SWM; (c) technical, environmental and social baseline studies for existing SWM facilities and infrastructure and options for development of additional facilities, and options to better integrate the existing informal sector; and (d) social sustainability, public awareness and behavior change activities focusing on community-level engagement and baseline study for community-level job creation in SWM, including steps for the professionalization of the sector. Further details, including sector diagnostics and technical, institutional and capacity gaps, are provided in **Annex 2**.

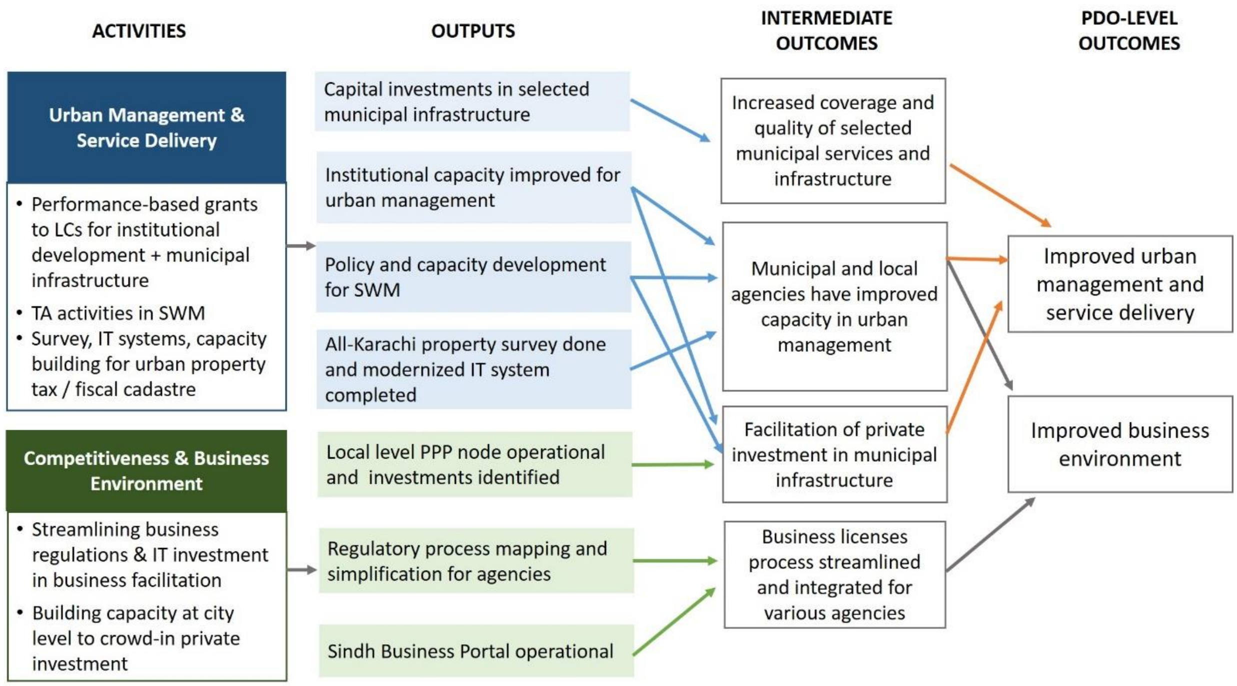
C. Project Beneficiaries

29. The primary direct beneficiaries of infrastructure and services subproject implemented by local councils under Component 1 are expected to be 3.04 million people. Of these, 48 percent are expected to be women, i.e. 1.46 million.[25] Businesses and firms in Karachi ae also expected to be primary direct beneficiaries of project activities. Indirect beneficiaries are expected to be the whole population of the area under the mandate of Karachi's local councils, i.e. 15.18 million people, of which 7.29 million are women. The project will also directly provide institutional strengthening and capacity development to the following institutions: eligible LCs of Karachi i.e. KMC, District Council and 6 DMCs[26], and the following GoS agencies, including: LGD, E&TD, SID and SSWMB.

[25] It is assumed that 20 percent of the population living within the mandate of LCs will be direct beneficiaries of subprojects. Total population living within Karachi LCs' mandate area is 15.18 million (i.e. population of Karachi Division excluding Cantonment areas). Women constitute about 48 percent of this population. Source: Provisional summary of national Population Census 2017.

[26] Excluding Union Councils and Union Committees in Karachi.

D. Results Chain



E. Rationale for Bank Involvement and Role of Partners

30. The Bank is best placed to support the government agenda to transform Karachi into a more livable, inclusive and competitive megacity due to its global experience and best practice and relevant local knowledge in the following relevant areas: integrated development of large cities; institutional strengthening of local government and urban management and service delivery agencies; local economic development and city competitiveness; municipal finance and own-source revenue enhancement; and environmentally sustainable and socially inclusive solid waste management. The Bank has engaged with the city of Karachi and the province of Sindh extensively in the abovementioned areas, both through advisory support and analytics, with its extensive engagement on Doing Business and Investment Climate reforms being a case in point. The Bank's "*Karachi City Diagnostic & Transformation Strategy"* was also widely disseminated and is frequently cited by all levels of government as a guiding document, and the ongoing lending project in Karachi brings familiarity with the city context. It is now aiming to address major challenges and constraints of the city, through a suite of three new lending projects.

F. Lessons Learned and Reflected in the Project Design

31. **This project takes an integrated approach of supporting local capacity for service delivery and private sector development drawing on similar projects**, including in Egypt and Morocco focusing on local economic development and competitiveness. Performance-based grants draw on the Bank's substantial experience in supporting local institutional development through similar projects, including in the region – i.e. projects in Punjab (Pakistan's most populous province)[27], Bangladesh, West Bengal state in India, as well as Tunisia, Egypt, Ethiopia, Kenya, Senegal, Tanzania and Uganda. Lessons incorporated from these projects include the following: syncing the performance assessment cycle with agencies' planning and budgeting calendar; focusing on a critical set of performance measures

[27] Punjab Cities Program (ongoing; P156972) and Punjab Cities Governance Improvement Project (2012-18; P112901).

addressing major constraints; establishing transparent formulae for grant allocation; and having a system of supply and demand-driven capacity building to enable entities to respond to incentives. The design of the competitiveness component draws on analytical and advisory work on Karachi, Sindh and other provinces of Pakistan on investment climate, maximizing financing for development and PPPs; as well as other Bank financing such as the Punjab Jobs and Competitiveness Program (ongoing; P155963).

32. **The following specific lessons have been reviewed and incorporated from previous Bank projects in Karachi and engagements in other megacities with a complex environment**, such as Shanghai (China), Ho Chi Minh City (Vietnam) and Nairobi (Kenya): (a) the importance of engaging and consulting with a wide array of stakeholders, to develop wider ownership of interventions; (b) the need to focus on institutional capacity building of implementing agencies to ensure sustainability of interventions, and linking investment financing to institutional improvements; (c) political economy assessment and implications on project design to minimize effect of competing agendas; (d) dedicated focus on disadvantaged or vulnerable groups, especially women, to reduce specific constraints facing them; and (e) tackling inter-linked constraints through a multisectoral and long-term engagement, based on extensive diagnostics followed by phased financing of increasing sophistication to tackle these constraints.

33. **Commitment from GoS leadership is key to the success of the project.** GoS has already demonstrated its ownership and commitment, not just to the project, but to improving livability, competitiveness, urban management and service delivery in Karachi. All components of the project reflect strong priorities of GoS and complement their own activities in these areas. In addition, the Government of Pakistan, recognizing the importance of Karachi, is also supporting these aspects in the city by financing interventions in mass transit and facilitating medium- and long-term strategic development planning for the city.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

34. **The project's implementation arrangements are based on the respective institutional and jurisdictional mandates of each relevant agency and enable the respective agencies to implement activities described under each component**. An inter-agency Steering Committee will provide overall strategic oversight of the project and review implementation progress on a regular basis. It will be headed by the Planning and Development (P&D) Board with representation from all relevant GoS agencies. LGD will have overall responsibility for Component 1 (performance-based grants to LCs); Component 3.2 (PPP node at LGD) and Component 4 (TA for SWM). LGD will be responsible for coordinating and managing the performance-based grant system and providing centralized TA support to LCs. LCs will implement subprojects and undertake measures to achieve MCs / PMs annually. E&TD and SID will implement Components 2 and 3.1 respectively. LGD will implement activities under Component 4 in close coordination with SSWMB, a statutory body administratively attached to LGD. A Project Management Unit (PMU) in each LGD, E&TD and SID will manage the project's functions on behalf of their departments, including all fiduciary responsibilities. These PMUs will be headed by full-time Project Directors and staffed with necessary technical experts hired from the market or deputed from GoS as necessary. Implementation arrangements are summarized in Table 1 and described in detail in **Annex 1**.

Table 1. Summary of project implementation arrangements

No.	Project Component	Responsible Agency
n/a	**Inter-Agency Steering Committee for strategic oversight and implementation review**	**P&D Board**
1	**Performance-Based Grants to Local Councils and Capacity Building**	
1.1	**Sub-Component 1.1:** Performance-based Grants to Local Councils	LCs with oversight and support of LGD
1.2	**Sub-Component 1.2:** Technical Assistance and performance grants implementation and	LGD

No.	Project Component	Responsible Agency
	management	
2	**Modernizing Urban Property Tax Administration and System**	E&TD
3	**Improvement of City Competitiveness and Business Environment**	
3.1	**Sub-Component 3.1:** Streamlining and Integrating Business Regulations for City Competitiveness	SID
3.2	**Sub-Component 3.2:** Establishment of PPP node at LGD	LGD
4	**Technical Assistance for Solid Waste Management**	LGD

B. Results Monitoring and Evaluation Arrangements

35. **Monitoring and reporting will take place at the provincial and LC levels. LGD will coordinate the collection of monitoring and evaluation (M&E) data and individual reports from LC for Component 1 and submit consolidated progress reports to the Bank.** It will also hire an independent entity to administer the APA process to assess the performance of LCs. LCs will prepare progress reports twice a year containing agreed information on project activities and transmit them to LGD for consolidation. LCs will also facilitate access to key data required for the APA. Annual reports prepared under the project will also be disseminated on websites of LGD and LCs. M&E services procured by LGD will provide training to relevant staff at LCs to ensure that reports are timely, comprehensive and accurate. E&TD and SID will prepare progress reports for Components 2 and 3.1 respectively and submit to the Borrower and Bank. LGD will prepare progress reports for Components 1, 3.2 and 4 and submit to the Borrower and the Bank. LGD will also hire consultancy services for all M&E aspects, including data collection and analysis for reporting on the project results framework (indicators, outputs and outcomes), design and use of modern M&E systems for data and information. **Section VI.** provides the methodology for measuring regular progress for each results indicator of the project. LGD will also play a central role in ensuring that LCs apply and implement the PRRP and its associated procedures and will engage third party monitoring services to monitor subproject implementation (including compliance with PRRP and with safeguards instruments).

C. Sustainability

36. **Measures have been put in place to ensure sustainability for the project's capital investments and institutional strengthening.** Performance-based grants will ensure that LCs are better equipped to plan and execute infrastructure and service delivery beyond the life of this project, as it requires LCs to improve their institutional and technical capacity in urban management prior to receiving grant money. The project will also provide TA to LCs to improve their operations and maintenance (O&M) systems and asset management capacity and develop GIS-based infrastructure maps and medium-term capital investment plans. This will improve O&M planning which has been lacking, with insufficient budget allocations and large maintenance backlogs for municipal infrastructure. OSR capacity of LCs will be improved as follows: in the short-term, by incentivizing improvements in OSR to access capital grants; and in the long-term, through improvement in property tax systems, which will provide a larger and stable stream of revenue for LCs. Finally, support to attract private capital investment in urban services, through selected activities in Components 3 and 4, will complement existing (scarce) public investment.

37. **This project will address present and future climate change risks and impacts**—particularly rainfall, flash floods and extreme temperatures—by introducing climate adaptation and mitigation measures in infrastructure (Component 1) and providing technical inputs to improve performance and efficiency of the SWM system (Component 4). It will also support institution-strengthening interventions to build resilience to climate impacts. The following measures are expected to generate climate co-benefits for Karachi.

Type of Intervention	Adaptation / Mitigation Actions
Investment subprojects under Component 1.1 (WB financing US$140.0 million) (Percentages show indicative total financing for each category of subprojects, as a share of Component 1.1)	
Connectivity & Urban Roads with associated infrastructure (35 percent)	***Mitigation:*** Roads will be constructed / rehabilitated in strategic areas to help reduce traffic congestion, thereby improving fuel economy of vehicles and reducing the city's carbon footprint. Adequate sidewalks will be provided to improve walkability and encourage reduced use of motorized transport. Public lighting along roads, whether new or rehabilitation of existing lighting, will be installed using more energy efficient equipment, either using LED bulbs or solar power, leading to energy efficiency gains, even though it is not required by existing local regulations. ***Adaptation:*** Construction / rehabilitation will take into account climate stressors such as higher temperatures and increased precipitation and climate-smart (resilient) engineering will be applied to the technical design of the road surface, subsurface, and side drainage.
Urban & storm water Drainage (20 percent)	***Adaptation:*** Investments in urban and storm water drainage will improve flood management and reduce flooding risks in the city by increasing the system's draining capacity. The design of infrastructure will incorporate green and climate resilient engineering to promote greater resilience to weather events.
Parks and Public spaces (15 percent)	***Mitigation:*** Parks and public spaces will prioritize afforestation, including greening of areas and tree plantation, contributing to mitigation. Improved public spaces such as pedestrian walkways will promote use of non-motorized transport, thus also lowering greenhouse gas (GHG) emissions. New public lighting in these places will also use more energy-efficient equipment, even though this is not required by existing local regulations. ***Adaptation:*** Prioritization of afforestation will contribute to flood management by capturing precipitation and runoff from heavy rainfall events.
Public facilities: (a) Public buildings, markets and public toilets; (b) Health and education infrastructure and facilities; (c) Fire and disaster management (30 percent)	***Adaptation:*** Construction / rehabilitation / retrofit of new or existing public buildings and facilities (including markets, health and education infrastructure, fire control facilities etc.) will incorporate flood- and seismic-resilient construction standards and weather-resistant materials in their designs, which based on site-specific risks may include design flood elevation (DFE)—based on the anticipated based flood elevation (BFE), impermeable materials, and flood barriers etc. among others. ***Mitigation:*** Construction / rehabilitation / retrofit of new or existing public buildings and facilities will incorporate green technology and energy efficient equipment, such as LED lights, passive heating/cooling systems, and energy efficient materials. These places will be built or retrofitted on designs which enable overall reduction of energy and water consumption and will feature solar panels and rain harvesting if feasible. New buildings, when constructed, will exceed available energy-efficient standards if feasible.
Capacity building, Component 1.2 (WB financing US$20.0 million)	
This component will provide support to LCs to achieve specific MCs or PMs to improve institutional performance, including in the development of systems for social and environmental management, including systems for screening subprojects for potential environmental, social and climate impacts. Sub-component 1.2 will support implementation and management of grants under Component 1.1.	
Technical Assistance for Solid waste management under Component 4 (WB financing US$10.0 million)	
Adaptation and Mitigation: TA activities will help improve the sector's performance in the medium term and outputs of these activities, once implemented, help contribute to improved flood management in the city (since the clogging of drainage system is expected to be reduced due to a higher waste collection rate) and may help contribute to reduction in GHG emissions generated from waste. Relevant TA activities under the project include: technical, environmental, and social baseline studies for existing infrastructure, a strategy and road map for the development of additional transfer and advanced treatment capacity (including climate risk assessment of potential sites); options for waste collection optimization; promotion of community-level engagement; and capacity strengthening of the SSWMB.	

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

38. **Technical Appraisal:** In addition to drawing from global experience, project design is informed by a series of assessments. Design of Component 1 (performance-based grants) is based on a fiscal and institutional assessment of

LCs. The capital grants will provide a substantial injection of funds to LCs and act as a strong incentive. They will double LCs' existing capital budgets (the increase ranges from 73 to 205 percent across LCs, in the third year of the project), equivalent to an additional PKR260 per capita on average (US$1.8). The incremental increase in grants in parallel with improvement in institutional capacity will lead to more efficient use of funds. LCs have the technical capacity to absorb larger capital outlays than their existing budgets, due to substantial idle engineering capacity which have implemented much larger capital investments in the past than their existing budgets. Component 2 (property tax improvement) draws on extensive analytical work on Karachi's property tax system and sustained dialogue with GoS. Component 3 is directly anchored in analytical work and ongoing dialogue at the federal and GoS levels, including through the development of the Sindh Growth Strategy (2017), Karachi's investment climate under an IFC advisory program, and dialogue on Maximizing Finance for Development. Component 4 is informed by a sector diagnosis for SWM which identified critical issues and ways to address them.

39. **Economic Appraisal:** A review of economic evaluations of similar performance-based programs indicates that net benefits of investment sub-projects are large. A substantial share of funds (US$140 million) will finance capital subprojects which will be evaluated by each LC at design stage for economic viability. The project allows LCs considerable discretion in deciding the types of subprojects to be implemented and will introduce demand-driven and evidence-based capital investment planning at LCs, ensuring that proposed subprojects address priority needs and are selected through technical and economic consideration[28]. Economic appraisals of similar Bank-financed subprojects in urban infrastructure in Pakistan indicate positive economic rates of return: 13 to 29 percent for water supply; 15 to 23 percent for municipal roads; 32 percent for streetlights; and 20 to 25 percent for street pavement, drainage and public spaces. Quantifiable benefits of these sub-projects include increase in income of businesses via longer operating hours and improved safety and access for customers (street lighting); increase in property and land values and reduction in health impacts due to poor sanitation (street pavement and drainage); and reduction in vehicle operating costs and travel time for commuters (municipal roads).

40. **Economic benefits of systems improvement, institutional development, property tax survey and competitiveness enhancing measures:** Economic benefits of systems improvement and institutional development activities are expected to be large. Improved systems of LCs will increase cost-effectiveness, targeting and efficiency of public capital expenditure; and improved prioritization and selection of infrastructure spending. These benefits are validated from similar Bank-financed projects in Punjab (Pakistan). Improvement and modernization of the urban property tax system is also expected to yield net positive benefits by sustainably increasing recurrent revenues for the city. The property tax database currently has about 800,000 property parcels for Karachi and will be updated after a gap of twenty years. It is expected to increase to an estimated 1.5 to 2 million properties. This component is expected to yield a positive Net Present Value of US$13 million at a discount rate of 10 percent and an internal rate of return of 17.1 percent.[29] Assuming the same valuations, tax rates, exemptions and collection effort, the survey will substantially increase annual revenue from this tax by increasing the number of property parcels in this tax net. A recently-completed similar survey in Sukkur (third largest city of Sindh) resulted in a three-fold increase in the number of properties in the database. The modernized system will also assist in increasing the collection rates by improving taxpayer services.

[28] Economic analysis of subprojects will be done through cost-benefit analysis (with determination of an acceptable economic internal rate of return) or, where it is not feasible due to the nature of the subproject or data constraints, cost-effectiveness analysis comparing the costs and scope of the subproject to similar projects. The methodology will be described in the PIM if needed.

[29] Based on the following assumptions: 15 year period; 40 percent increase in the number of properties in the database in years 5 and 6 each; 2.5 percent annual increase in properties in the database without the project; regular maintenance cost of $2.0 million per year for entire period, midlife major rehabilitation cost; and average revenue per property and all other tax policy factors unchanged.

41. **Establishing the SBP will help improve the business environment in Karachi and lead to significant economic gains at the city and province level and financial gains at the firm level.** These gains will be realized through improved efficiency and enhanced transparency. The SBP will allow various GoS agencies to process a greater number of applications due to improved business processes and encourage a higher number of firms to register with relevant authorities due to enhanced regulatory transparency and predictability, thereby encouraging formality and investment. A one percentage point increase in "regulatory quality" (as measured by the Doing Business Distance to Frontier Score) is associated with an increase in annual Foreign Direct Investment inflows of US$250–500 million on average, with this relationship being even higher for developing countries. An improvement in the business environment will also lead to an increase in firm level productivity through reduced regulatory compliance cost. Firms in states in India with a poor investment climate were found to have 40 percent lower productivity than those in states with a better investment climate. A similar improvement in Karachi will have a cascading impact, not only on firm profit margins, but also on overall economic growth and job creation.

B. Fiduciary

(i) Financial Management

42. **The designed FM arrangements provide reasonable assurance on the use of Bank proceeds for their intended purposes and comply with the Bank's requirements.** Government budgeting processes will apply. Three segregated Designated Accounts (DAs) in US Dollars will be established, one each by LGD, E&TD and SID for receipt of funds from the Bank. Such disbursements will be report-based, where advance equivalent to six months forecast will be provided to implementing agencies in the respective DA. Funds under Component 1.1 will be transferred from PMU-LGD to eligible LCs upon achievement of MCs/PMs. LCs will use these funds only on eligible activities from the menu of expenses laid out in the PIM. Separate books of accounts will be maintained on cash of basis of accounting to record receipts and payments under the project for the respective components. Implementing agencies will submit bi-annual financing reports to the Borrower and the Bank in the form of Interim Unaudited Financial Reports (IFRs) within 45 days of the close of semester. LCs will submit Statement of Receipts and Payments (SoRPs) to LGD within 25 days of the close of each semester. LGD will consolidate expenditures of LCs in its IFRs for onward reporting to the Bank. The project's annual financial statements will be consolidated by PMU-LGD (for all components) and audited by Auditor General of Pakistan (AGP). AGP being the supreme audit institution of the country is acceptable to the Bank as external auditor for project. Audited financial statements will be submitted to the Bank within six months of the close of the financial year. FM arrangements are described in detail in **Annex 1**. Retroactive financing is available up to US$46.0 million for eligible expenditures incurred, as per criteria in **Annex 1**.

(ii) Procurement

43. All procurement under the project will follow the requirements set forth or referred to in the Bank's "*Procurement Regulations for Borrowers under Investment Project Financing (IPF)*". A procurement capacity and risk assessment has been done for all implementing agencies. Under sub-component 1.1, LCs will procure contracts for civil works (subprojects), consultancy and non-consultancy services, goods and trainings. LCs have had meager capital budgets over last three years and hence limited procurement of civil works. Some LCs, however, have adequate capacity and staff has done major procurements some years ago. The nature of procurements by LCs is expected to be similar to those prior to the project, though the size is expected to increase. The size of each contract will still remain small and these shall be good candidates for framework contracting. International competition is not likely. Major areas needing attention are planning and prioritization of subprojects, hands-on procurement experience, and contract management. At the GoS level, LGD will conduct procurements of consultancies and goods under Component 1.1, with two large consultancies contracts (i.e. conduct of APA of LCs, and support for social and environmental safeguard management for LCs) and several small contracts. Procurement of goods is within the threshold of shopping. E&TD and SID shall be doing a large ICT contracts for property tax and business portal for

Components 2 and 3 respectively, as well as contracts for smaller consultancies and some goods. A Project Procurement Strategy for Development (PPSD) has been prepared which covers implementing agency capacity, market assessment, risks and mitigation measures, and includes a procurement plan for all components. Formalized procurement training is in place in Sindh through mandatory certification requirements for all relevant staff. Implementing agencies' procurement staff will be required to obtain this certification on priority basis.

C. Safeguards

(i) Environmental Safeguards

44. **The project design avoids investments with substantial environmental risks and includes measures to address and mitigate remaining environmental risks.** Capital investment subprojects under Component 1.1 will involve civil works. Potential adverse environmental impacts from these works will be construction-related, temporary, will not be widespread and can be avoided by design changes and modifications, or via conventional and effective mitigation measures. High-risk subprojects with significant negative environmental or social impacts that are sensitive, diverse, or unprecedented will not be eligible for financing under the project. To screen for these exclusions, the project will rely on a list of eligible subprojects (See **Annex 2**). The project triggers the Bank's policies on Environmental Assessment (OP 4.01) and Physical Cultural Resources (PCR) (OP 4.11). Since the nature, degree of impact, exact location and specific design of subprojects to be undertaken by LCs are not known at appraisal stage, a framework approach to environmental management has been adopted. An EMF has been prepared by LGD to meet the requirements of local environmental regulations and the Bank safeguards policies and procedures, consistent with OP 4.01. The EMF has been cleared by the Bank and publicly disclosed on the websites of LGD and the Bank on May 13, 2019, and its executive summary in local language (Urdu) has also been disclosed on the LGD website.

45. **Adverse impacts will be avoided through environment impact screening of each proposed subproject, and where needed, design and implementation of Environmental Management Plans (EMPs).** The EMF includes all necessary guidelines for addressing environmental issues, including a screening mechanism to determine potential environmental impacts of proposed subprojects. It also includes guidelines for addressing issues pertaining to PCR, screening procedures to determine potential impacts on PCR and requires the preparation and adoption of measures to avoid or mitigate any impacts on PCR. Consistent with the Bank's policy on PCR and local legislation, the EMF also includes provisions for managing chance finds of PCR. Subproject EMPs will be cleared by the Bank before subprojects are implemented. Implementing agencies will also be responsible for getting necessary environmental clearance. Subproject-specific EMPs and all applicable safeguards instruments with estimated costs and environmental clauses will be incorporated in the procurement documents (bidding documents) of civil works. Environmental complaints will be integrated into a project-level Grievance Redress Mechanism (GRM) which will be developed.

(ii) Social Safeguards

46. **The project avoids areas with substantial social risks and includes measures to address and mitigate remaining social risks.** Subprojects under Component 1 will be designed through an inclusive process of consultation and are intended to have positive effects on target communities by improving urban living conditions. As most subprojects will be in dense and congested urban settings, they are likely to have some temporary negative livelihood impacts on businesses and individuals (such as markets, transporters, mobile vendors etc.) during construction due to restricted access, temporary relocation etc. The Bank's OP 4.12 on "Involuntary Resettlement" has therefore been triggered. A SMF has been developed since the exact locations of subprojects are not determined and will be identified by the process of investment planning by LCs. To avoid risks associated with the ongoing AED, a multi-level PRRP will be used to ensure exclusion from the project of any subprojects in sites affected by the AED, through use of a screening criteria/mechanism. The PRRP, including the screening criteria and additional proactive measures, are described in **Annex 2** (see Box 1) and the project's SMF. The project also includes measures to strengthen LCs' capacity for social safeguards to conduct more inclusive development.

47. **The SMF includes an RPF to address any involuntary resettlement in accordance with Bank policies**. The project does not require large-scale land acquisition and resettlement. All land acquisition and resettlement carried out under the project, which will be of a small to modest scale, will be in accordance with the Bank's OP 4.12. No land acquisition will be financed from Bank funds and, if needed, land will be acquired using counterpart funds in a manner consistent with the Bank's policies and the SMF.

48. **The SMF also includes management frameworks for gender, vulnerability, stakeholder engagement and labor impacts during construction (including gender-based violence (GBV) and sexual exploitation and abuse (SEA)) and GRM.** The SMF will inform the preparation and implementation of site-specific Social Impact Assessments (SIAs) / Social Management Plans (SMPs) and (if required) Resettlement Action Plans (RAPs) / Abbreviated Resettlement Plans (ARP) for subprojects. Project civil works will also entail the involvement of labor, but no large-scale influx of labor is anticipated due to the project. This will be further assessed during preparation of the subproject-specific documents and a management plan for labor will be prepared if needed. The SMF emphasizes compliance with Pakistan's labor laws and the Bank's "*Guidance Note on Managing the Risks of Adverse Impacts on Communities from Temporary Project Induced Labor Influx"* (in the event of labor influx induced by project civil works). No child or bonded labor will be engaged for civil works. The SMF and any SIAs / SMPs prepared during implementation will also provide measures to avoid and or mitigate the risk of GBV and SEA. The SMF/RPF has been cleared by the Bank and publicly disclosed on the websites of LGD and the Bank on May 13, 2019, and its executive summary in local language (Urdu) has also been disclosed on the LGD website.

49. **The project aims to institutionalize GRM in LCs.** There are gaps in the existing systems for complaints management at LCs. These gaps will be addressed under the project through a two-tier approach to GRM. Firstly, the project will have a separate project-specific GRM for any grievances related to subprojects implemented by LCs and compliance with the project's EMF and SMF in their implementation, in line with the Bank's requirements and as per the guidelines in the EMF and SMF. This GRM will be set up at the start of project implementation, before subprojects are executed. This will respond to queries, receive suggestions and address grievances about any irregularities in the application of the EMF and SMF. Second, under PMs as part of performance grants, LCs will be incentivized to develop GRM / citizen complaint referral systems for all services provided by LCs to their citizens. This will be wider in scope than project-financed interventions and will also incrementally expand LCs' capacity to respond to all grievances of their citizens, including those related to AED. KMC's existing system will be strengthened and similar systems will be established in other LCs. These LC-wide GRMs, once operational, can also be integrated with the project-specific GRM for subprojects, enabling it to receive all relevant grievances. The GRM systems may also consider receiving grievances which are not related to the project or the LC and refer them to other relevant agencies. This is based on the similar recent experience of the ongoing KNIP which is piloting this approach, under its GRM, to receive grievances not related to the project and referring them to relevant agencies.

50. **Promoting Citizen Engagement:** Citizens will be involved in the prioritization of capital investment planning by LCs through consultations and participatory planning on a semi-annual basis. To receive capital grants, LCs will be incentivized to have systematic consultations with citizens through open meetings at a disaggregated community level including one at the start of the annual budget process, and to identify, design and implement municipal services and subprojects based on the outcome of these consultations reflecting identified priorities. Subsequent surveys of participants in these open meetings will assess how well their priorities were reflected in the selection of subprojects by LCs. LCs will also be incentivized to develop grievance redress and complaint referral systems, available for all citizens living in their jurisdiction to enable them to register grievances on service delivery performance. Finally, LCs will also be incentivized to improve access to information for all citizens, by developing and regularly updating websites containing, among others, information on annual development plans and links to the grievance systems.

Grievance Redress Service

51. **World Bank's Grievance Redress Service (GRS):** Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

D. Gender

52. **The project will address the identified gender gaps and constraints for women (see paragraph 10) in the following manner:** First, all eight LCs will be incentivized to institutionalize regular and separate consultations with women during the process of capital investment planning to identify, design and implement specific municipal services and infrastructure that address their needs. LCs will receive larger grants if they show evidence of higher expenditure in infrastructure responding to women's needs[30]. Thus, LCs will be able to take proactive measures to ensure women have a meaningful voice in selection of municipal services. Training will be provided to elected women councilors of LCs on leadership, citizen engagement and investment planning, to enable them to lead and facilitate the consultation sessions with women and aggregate input from women citizens for capital investment planning. Second, LCs will be incentivized to establish citizen grievance redress mechanisms with separate facilities for women to lodge grievances on municipal services (See **Annex 2**). These measures will improve Voice and Agency for women, in alignment with pillar 4 of the Bank's Gender strategy.

53. Third, Component 3 will identify specific regulatory changes to help level the playing field for business registration and operations for women-owned businesses in Karachi and, to help address some analytical gaps on women's economic empowerment, new data will be gathered on women-owned and -managed businesses in Karachi and their specific constraints. This will inform the design of interventions to facilitate these businesses and women entrepreneurship. Fourth, LCs will be required to facilitate a more inclusive space for women at the workplace. As a minimum condition to access infrastructure grants under Component 1, LCs will be required to operationalize a code of conduct in their organization for protection of women against harassment at the workplace, as required by national legislation. Trainings will be provided to LC staff on harassment of women at the workplace and the code of conduct established. LCs will be incentivized, through funding allocation under the capacity building grant, to provide separate, equipped, functioning toilets for their women staff at LC offices. The project will also aim to employ 50 percent women staff in PMUs. Finally, a review of existing regulations on urban property tax in Sindh (to be done in Component 2) will propose policy measures on how women property owners can be facilitated.

54. **The GBV Risk Assessment Tool developed by the Bank categorizes this project as 'low risk'.** Capacities of implementing agencies will be improved on addressing GBV risks in the project. The project GRM will be gender-sensitive and will have a protocol for handling GBV complaints. Procurement bidding documents for civil works will clearly define GBV requirements and expectations, and civil works contractors will develop a Code of Conduct, noting

[30] See list of PMs in **Annex 2** for further details.

acceptable norms of behavior and sanctions for any GBV incidents. This Code will be signed by employees working on subproject sites. Training also will be conducted for subproject workers and the local community.

55. **The following two results indicators will help monitor the project's progress on gender aspects:** (a) percentage of project-financed capital expenditure by LCs on infrastructure and services which directly address constraints and needs identified by women; and (b) percentage of women in subproject areas who consider that their views have been taken into account in subproject designs by LCs.

V. KEY RISKS

56. Overall risk of this project is rated as **High**. Political and governance risk and risks related institutional capacity for implementation and sustainability are rated as High. The following risks are rated as **Substantial:** macroeconomic; sector strategies and policies; fiduciary; environmental and social safeguards; and stakeholders.

57. **Political and governance risk is high.** The project will be implemented in a complex political context with multiple actors at all tiers of government. This is also reflected in fragmented systems for land management, business regulations and political influence in land, as observed in the conduct of, and response to, the ongoing AED. These risks will be managed by continuing the extensive, regular and collaborative engagement of the Bank with stakeholders in Karachi, including *inter alia*, regular interactions with GoS and Karachi LCs at the political level and relevant regulatory agencies which govern the regulatory landscape, all of whom have shown strong ownership of Bank-financed projects in Karachi. The project also provides policy and regulatory support through a series of TA programs. This project's components distribute functions and responsibilities between provincial and local tiers, coupled with appropriate mechanisms for collaboration. The project will benefit from ongoing and continued high-level coordination between GoS and the Bank for the portfolio of projects in Karachi and Sindh.

58. **Institutional Capacity for Implementation and Sustainability risk is high.** This is the first time the Bank is working with Karachi LCs, SSWMB, LGD and SID and these agencies will need to become familiar with Bank policies and procedures. Certain activities of the project also break new ground outside the traditional focus of LCs and other implementing agencies. Sustained availability of sufficient skilled staff at implementing agencies will be critical. Risk mitigation measures include procurement of professional consultancy services to support various components and activities, training of staff and improvement of LC systems through performance measures and conditions, and an inter-agency steering committee to oversee implementation.

59. **Macroeconomic risks are substantial.** These risks mostly stem from the recent deterioration in the macro-fiscal situation in Pakistan. The early effects are being felt through continued depreciation of the currency and hike in energy tariffs. This in the medium term will increase inflationary impacts and reduce spending power that can impact domestic demand. This will be mitigated through the economic reform program recently negotiated with the IMF. The fiscal impact will lead to delayed release of capital and recurrent budgets for project implementation and this will be mitigated by ensuring that GoS prioritizes project expenditures in its annual budget and development plans. The major infrastructure expenditure will take place during the second half of the project's life.

60. **Sector Strategies and Policies risk is Substantial:** Karachi's urban management faces coordination challenges and low technical and financial capacity of LCs, which have basic systems for planning, implementation, transparency and accountability are weak. They have limited authority and mandates, with GoS in the recent past taking over (or "recentralizing") a number of municipal service delivery functions under its control. Uncoordinated and overlapping functions between the two tiers can negatively impact project implementation. This is also true for the business regulatory landscape which is fragmented across multiple agencies at different levels of government. This project will help improve basic systems at LCs in an incremental manner, helping address some of these risks and substantially improve their capacity. It will also aim to promote integrated development planning in the city by using

LGD – which controls a number of the “recentralized” functional agencies – as the main PMU for a set of TA activities, including on centralized capacity building, SWM and enabling private investment in service delivery. The project will also leverage existing inter-agency coordination mechanisms, such as the working group constituted by the Chief Minister of Sindh and chaired by Chairperson P&D Board to monitor progress on DB reforms, to ensure coordination.

61. **Fiduciary risks are substantial.**

a) ***Financial management (FM):*** FM risk is rated as **Substantial**. Staff have limited capacity and lack familiarity with applicable rules and regulations which leads to sub-optimal FM performance at LCs. The capacity of internal audit function is weak and is limited to transactional compliance. Budgetary controls are weak which leads to allocation inefficiencies, and standardized chart of accounts are not used for accounting and financial reporting. The risks will be mitigated through the FM implementation plan to capacitate LCs on FM aspects.

b) ***Procurement:*** Procurement risk is rated as **Moderate**. Procurement outlays of LCs are expected to be small. There has been limited procurement expenditure by LCs in recent years which rendered them relatively inactive in planning, contracting, supervision and contract management, however the staff is technically qualified and understands procurement processes. Moreover, Sindh has established a procurement regulatory framework with law, rules, regulations and bidding documents, as well as a functional mandatory procurement certification program for all procurement staff. Sindh Public Procurement Regulatory Authority’s (SPPRA) Public Procurement Management System keeps a record of all bidding processes from planning till completion. In general implementing entities are familiar with procurement processes. Staff in LGD has experience of having done major projects with civil works, goods and consultancies, while E&TD has recently procured IT contracts for property tax and SID has experience of some consultancies. Implementing agencies will hire market-based contract management and procurement specialists along with technical staff as required for implementation.

62. Environmental and Social Risks are substantial. These risks will be addressed through compliance with the project EMF and SMF/RPF and preparation and implementation of subproject-specific social and environmental safeguard instruments.

a) ***Social safeguards:*** There are risks associated with the ongoing judiciary-led AED, which is not consistent with Bank policies, specifically the Policy on Involuntary Resettlement (OP 4.12), as there are no provisions to compensate or rehabilitate displaced persons, nor for compensation of loss of livelihood. Lack of documentation on areas that have been subject to AED activities may result in unknowingly selecting subproject sites that have been subject to AED. The extent of coverage of AED activities may result in difficulties in finding eligible subproject sites. To mitigate this risk, criteria have been built into project design, agreed with GoS, and included in the legal agreements. AED affected areas will be excluded from project financing. The PRRP contains a robust process (included in the SMF/RPF) designed to screen proposed subprojects and exclude those not meeting the screening criteria; and to build capacity of LCs for monitoring and management of remaining risks. (See **Annex 2**)

b) ***Environmental Safeguards:*** The potential physical environmental impacts are not likely to be signifcant or widespread, however, the capacity of LCs to apply the EMF is low. Subproject activities are not expected to cause any long term or irreversible environmental impacts and as such the potential environmental impacts will be manageable. The project has been designed to avoid potentially high environmental risks through investment eligibility criteria built into the EMF. To mitigate any remaining environmental risk, the project will strengthen social and environmental risk management systems in LCs through extensive TA and capacity building. Performance of LCs in managing social and environmental risks, through the creation of social and environmental management systems, is a minimum condition which will determine their access to any funds for capital infrastructure.

63. **Stakeholders risk is substantial:** Karachi has a variety of ethnic, religious and social groups. As the geographic scope of the project is large, many citizen groups will be directly or indirectly impacted and are considered as stakeholders. There are also a number of active non-government organizations (NGOs) and civil society organizations (CSOs) which will be interested in the project, especially the implementation of subprojects. At the local level an array of formal and informal organizations may vie for influence on project decisions impacting their interests. The following mitigating actions are to be undertaken. First, a process of citizen engagement has been embedded in the performance-based grants whereby LCs will regularly consult stakeholders, including and especially women, on subprojects proposed for financing. Second, systems for grievance redress and citizen complaints are being introduced or strengthened at LCs to give citizens avenues to share concerns. Third, local NGOs/CSOs will be regularly consulted and engaged during the project. Finally, project activities will be regularly disseminated. This will be supplemented by a communication program for the Bank’s Karachi platform projects.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Pakistan
Competitive and Livable City of Karachi Project

Project Development Objectives(s)

To improve urban management, service delivery and the business environment in Karachi

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
To improve urban management and service delivery in Karachi				
People provided with improved urban living conditions (CRI, Number)		0.00	1,518,000.00	3,036,000.00
People provided with improved urban living conditions - Female (RMS requirement) (CRI, Number)		0.00	728,500.00	1,457,000.00
Score in the Annual Performance Assessment showing achievement of institutional and capacity improvement of local councils, averaged across all qualifying local councils (maximum of 100) (Number)		0.00	40.00	60.00
To improve the business environment in Karachi				
Number of business registrations and licenses secured annually through the Sindh Business Portal (Number)		28,000.00	35,000.00	42,000.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
Performance-based Grants to Local Councils				
Percentage of Annual Development Plan of previous FY executed by local councils (average execution rate of capital budget) (Percentage)		30.00	40.00	60.00
Number of local councils with updated Infrastructure Maps and Asset Inventories (Number)		0.00	2.00	5.00
Number of local councils with audits of annual financial statements with no adverse or disclaimed audit opinion (Number)		0.00	2.00	5.00
Percentage of project-financed capital expenditure by local councils on infrastructure and services which directly address constraints and needs identified by women (Percentage)		0.00	5.00	10.00
Percentage of women in subproject areas who consider that their views have been taken into account in subproject designs by local councils (Percentage)		0.00	40.00	60.00
Number of local councils with functional Citizens complaint and Grievance redress and referral systems in regular use by citizens. (Number)		1.00	3.00	5.00
Percentage of people participating in citizen consultation meetings who consider that their views were taken into account in subproject selection and designs by local councils (Percentage)		0.00	40.00	60.00
Modernizing Urban Property Tax Administration and System				

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
Number of Karachi Districts where comprehensive property survey for Property Tax completed (Number)		0.00	2.00	6.00
ICT system established and operational for Urban Immovable Property Tax (Yes/No)		No		Yes
Property Tax bills being generated online and accessible to taxpayers in Karachi Districts (Yes/No)		No		Yes
Improving City Competitiveness and Business Environment				
Number of GoS agencies integrated into the Sindh Business Portal (Number)		0.00	2.00	6.00
Number of GoS agencies for which business process mapping has been completed (Number)		0.00	5.00	10.00
Percentage of businesses expressing satisfaction with the Sindh Business Portal (Percentage)		0.00	40.00	70.00
PPP node established and operational at GoS Local Govt Dept (Yes/No)		No		Yes
Technical Assistance for Solid Waste Management				
Installation and operationalization of comprehensive M&E and performance management system (Yes/No)		No		Yes
Percentage of solid waste collection contracts in full compliance with agreed collection targets (Percentage)		0.00	25.00	50.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
People provided with improved urban living conditions		Annual	Population Census 2017 at disaggregated level	WB Corporate Results Indicator for Urban projects. See Guidance Note on Indicators for definition of "Improved living conditions". # of people living or working in or around areas of Karachi improved by various subprojects = area population (at appropriate level of disaggregation as required) where subprojects completed. Areas improved via multiple subprojects counted once.	LGD via LCs
People provided with improved urban living conditions - Female (RMS requirement)		Same as parent indicator	Same as parent indicator	Same as parent indicator. Women are ~48 percent of population in each Karachi District. Thus, women beneficiaries = parent indicator beneficiary population X 0.48	Same as parent indicator

Score in the Annual Performance Assessment showing achievement of institutional and capacity improvement of local councils, averaged across all qualifying local councils (maximum of 100)	Same as indicator name	Annual	APA	Refer to Annex 1 for APA methodology. Maximum score of 100. Averaged across all LCs that qualify.	LGD via APA firm
Number of business registrations and licenses secured annually through the Sindh Business Portal	Same as indicator name.	Annual	Backend data from SBP	45 percent increase is expected by project close and will be realized starting year 3. Will increase over time as more agencies are integrated.	SID

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Percentage of Annual Development Plan of previous FY executed by local councils (average execution rate of capital budget)	percent of ADP of the preceding FY, including project-financed subprojects, which has been expended, showing ADP execution rate	Annual	LC Budget books	ADP execution rate of each LC to be aggregated on weighted-average basis to calculate composite rate.	LGD
Number of local councils with updated Infrastructure Maps and Asset Inventories	Same as indicator name.	Annual	LC Progress reports	LCs have Infrastructure Maps (GIS-based maps showing coverage of	LGD

				mandated services) and asset inventories (database of immovable assets with various information)	
Number of local councils with audits of annual financial statements with no adverse or disclaimed audit opinion	Same as indicator name.	Annual	Audit report	Auditor (firm or public sector) to share LC annual audit reports with LGD and Bank	LGD
Percentage of project-financed capital expenditure by local councils on infrastructure and services which directly address constraints and needs identified by women	Defined as parks or other recreational facilities for women or with dedicated timings for women; streetlighting and public lighting; daycare / childcare centers; public toilets for women; community and sports facilities for women; or any other infrastructure and service as identified by women during consultations; and as aggregated / compiled by women councilors.	Annual	LC progress report	Share of project funds spent by each LC on subprojects which meet the defined criteria, in previous FY. Each LC's percentage to be aggregated on weighted-average basis to calculate composite percentage.	LGD
Percentage of women in subproject areas who consider that their views have been taken into account in subproject designs by local councils	Measures percent of women respondents at consultation sessions who consider that their views were taken into account in the design of subprojects	Annual	Short surveys, polls or use of apps to collect responses	percent of women respondents responding positively to survey question. Target values may be recalibrated after	LGD

			from participants in consultations	baseline measurement has been conducted	
Number of local councils with functional Citizens complaint and Grievance redress and referral systems in regular use by citizens.	Same as indicator name.	Annual	LC Progress Reports	Citizens complaint and Grievance redress and referral system functional, and can receive input from more than one source (phone, website, physical office etc.). Complaints are properly registered, responded to, and forwarded to relevant agency.	LGD via APA firm
Percentage of people participating in citizen consultation meetings who consider that their views were taken into account in subproject selection and designs by local councils	Same as indicator name	Annual	LC progress reports	Percent of people responding positively to survey question. Will track citizens who participated in consultations one year after, to gather their feedback. Target values may be recalibrated after baseline measurement has been conducted	LGD

Number of Karachi Districts where comprehensive property survey for Property Tax completed	Same as indicator name.	Annual	UIPT database / ICT system	Counting # of Districts fully covered by UIPT survey and data updated in ICT system (fiscal cadaster)	E&TD
ICT system established and operational for Urban Immovable Property Tax	Same as indicator name.	Annual	UIPT database / ICT system	Technical assessment showing UIPT database / ICT system fully established and operational	E&TD
Property Tax bills being generated online and accessible to taxpayers in Karachi Districts	Same as indicator name.	Annual	UIPT database / ICT system and E&TD website	Technical assessment showing UIPT bills (property tax challans) generated and available to taxpayers online	E&TD
Number of GoS agencies integrated into the Sindh Business Portal	Same as indicator name.	Annual	SBP backend data	Count of # of GoS agencies whose license / permit processes are integrated into SBP	SID
Number of GoS agencies for which business process mapping has been completed	Same as indicator name.	Annual	Process mapping reports	Count of # of GoS agencies for which business process mapping report is available	SID
Percentage of businesses expressing satisfaction with the Sindh Business Portal		Annual, once SBP has been	Survey of users	Randomized survey of representative sample of all business securing	SID

		operationalized		licenses / permits from SBP	
PPP node established and operational at GoS Local Govt Dept	Same as indicator name.	End of project	LGD progress report	LGD progress report which shows PPP node is operational	LGD
Installation and operationalization of comprehensive M&E and performance management system	To measure improvement in data management and systems at SSWMB	Annual	SSWMB progress report	Assessment showing system is operational and based on best practice standards	LGD via SSWMB
Percentage of solid waste collection contracts in full compliance with agreed collection targets	To measure improved waste collection performance.	Annual	SSWMB progress report	Assessment showing percentage of contracts in full compliance with established protocols	LGD via SSWMB

ANNEX 1: Implementation Arrangements and Support Plan

Project Institutional and Implementation Arrangements

1. **Inter-agency Steering Committee:** An inter-departmental Steering Committee will be notified by GoS for this project, to provide overall strategic oversight of the project and review implementation progress on a regular basis. It will be chaired by the Chairperson P&D Board or his nominee/representative and will have high-level representation from all relevant agencies of the project. This Committee will facilitate inter-agency coordination to ensure adherence to project objectives; resolve inter-agency disputes related to the project, if any; provide policy, regulatory and institutional recommendations related to the project; and help facilitate timely availability of GoS share of project financing, if any, and timely approvals for project-related matters pertaining to agencies included in the committee, where relevant.

2. **LGD will have overall responsibility for Component 1 (performance-based grants to LCs); Component 3.2 (PPP node at LGD) and Component 4 (TA for SWM)**. LGD will be responsible for coordinating and managing the performance-based grant system and providing centralized TA support to LCs. It will administer the APA process, ensure timely flow of grant funds to eligible LCs, conduct monitoring and consolidated progress reporting for all components under its purview. LGD will directly implement various TA activities to assist LCs in achieving the performance conditions, and to assist LCs in implementation of all aspects of the performance-based grants, including capital investment subproject. LGD will also implement activities under Component 4 on behalf of, and in close coordination with, SSWMB. SSWMB is a statutory body with its own Board but is administratively attached to LGD. SSWMB will provide technical inputs to all procurements and outputs under Component 4 and benefit from all activities and outputs. A Project Management Unit (PMU) will manage these functions on behalf of LGD. It will be headed by a Project Director and staffed with necessary technical experts hired from the market. The project may also use experts deputed by GoS, potentially through a Shared Services Unit, to support in the following areas: technical, FM, procurement and contract management, and environmental and social safeguards management. GoS shall ensure that the PMU is maintained and staffed throughout the project for these components.

3. **LCs will implement subprojects under the Performance-based grants (Sub-component 1.1)** and undertake all measures to achieve the MCs and PMs annually. They will do so through their own staff and hiring / deputation of any additional required staff, especially for technical, environmental and social safeguards, FM and procurement functions. LCs will also rely substantially on LGD for technical support.

4. **E&TD and SID will implement Components 2 and 3.1 respectively**. PMUs at E&TD and SID will manage these functions on behalf of their Departments, including all fiduciary responsibilities. These PMUs will be headed by full-time Project Directors and staffed with necessary technical experts hired from the market or deputed from GoS as necessary, especially in the following areas: technical (information technology, property tax systems, business facilitation, inter-agency coordination), FM and procurement. GoS shall ensure that these Departments have adequate required staff throughout project implementation.

Financial Management and Disbursement

5. **FM Staffing:** A Finance Manager for PMU-LGD will be hired / engaged to manage FM arrangements for Components 1, 3.2 and 4. He/she will be supported by an Accounts Assistant. For Components 2 and 3.1, an Accounts Officer, once each for E&TD and SID, will be hired. All hiring will be in accordance with TOR of the respective positions acceptable to the Bank. Finance teams at LCs will be responsible for FM arrangements of PBG funds, received through achievement of MCs/PMs. Accounts and Finance functions are led by Senior Accounts Officer and Budget Officer, with key positions of deputy accounts and budget officers to support day-to-day budgeting and accounting/reporting

tasks. There are well-defined job responsibilities for the key positions in the Finance and Accounts sections of LCs. LGD-PMU's Finance Manager will provide capacity to LCs in achieving the MC/PMs.

6. **Budgeting and Planning:** FM staff will be responsible for the budgeting and planning for their respective project components in coordination with technical staff at all implementing agencies. The project PC-1 prepared by GoS provides estimates for all components. Based on PC-1, project's budget will be reflected in the province's Annual Development Plan (ADP). All implementing agencies will prepare an annual budget for project operations (for their respective components) in accordance with the GoS budget rules and regulations and submit to P&D Department for inclusion in the ADP. A unique Cost Centre Number / DDO Code will be assigned by Finance Department in the Budget Book for each agency to record the expenditures against the allocation. All implementing agencies will prepare an annual work plan and a cash plan that will provide quarterly break up of planned activities and associated costs. Technical staff at agencies will provide details of planned activities and their associated costs to respective FM staff. LCs will prepare their annual budgets in accordance with Sindh Councils (Budget) Rules, 2017. The budget is prepared by the Budget and Accounts section of LCs and presented to the Council by the Chairperson for approval. PBG funds will be included in the annual budget of the Councils on the Receipts side under the head "transfers from Government"; and on the Expenditure side under the development head.

Funds Flow Arrangements

7. Component 1.1: Performance-based Grants:

a) **Pre-requisites:** (i) LCs will open or designate a separate bank account (Current) in National Bank of Pakistan for receipt of PBGs. In case an existing bank account is designated, no other deposits will be made in such account other than PBGs; (ii) PBGs will be reflected in budgets of LCs on Receipts and Expenditure sides.

b) **Disbursement by the Bank to PMU-LGD:** Advances by the Bank will be made to PMU-LGD's Designated Account (DA) based on a 12-months cash forecast submitted by PMU-LGD (on annual basis). The cash forecast will include amount of funds to be transferred to LCs (implementing partners) based on the achievement of MCs/PMs (eligibility criteria to receive funds from PMU-LGD to LCs), duly verified by the APA; PBG allocations determined in accordance with formulae provided in PIM, and supporting documentation provided by LCs on previous advances (via SoRPs). These transfers of funds will be treated as an 'Advance to the corresponding Designated Account' and will be shown as such ('Advance') to PMU-LGD.

c) **Transfer of Funds to LCs (Implementing Partners):** Based on the achievement of MCs/PMs, the respective share of each LC will be determined in accordance with formulae given in PIM. Such share will be transferred by PMU-LGD (annually) to the respective LCs as PBGs and will be recorded in PMU books of accounts and IFRs as transfer of PBGs.

d) **Execution of Activities by LCs and Expenditure Reporting to PMU-LGD:** LCs will incur expenditure on the eligible activities cleared by the Bank in accordance with the procedures / processes laid out in PIM. At the end of each semester, LCs will prepare SoRPs for Use of Funds by PBG for the semester ended and will submit to PMU-LGD.

e) **Consolidation of SOEs and Preparation of Semester IFRs:** Upon receipt of SoRPs by PMU-LGD, expenditure of LCs will be consolidated and adjusted by PMU-LGD against the 'PBG transfers to LCs' which was earlier recorded in books of accounts and IFRs. The IFRs will report expenditure for the semester, which will also include expenditure of LCs incurred from PBGs.

f) **Submission of IFRs to the Bank and Documentation of Expenditure:** The Bank will review the IFRs, which will also include Use of PBG Funds by LCs (PBGs expenditure) and will document such expenditures against the Advance to the Designated Account (Accounting treatment for the Bank). The template for IFRs and SoRPs will be prepared accordingly.

8. **Component 1.2, 2, 3 and 4*:*** Three segregated Designated Accounts (DAs), one each for LGD, E&TD and SID, in US Dollars will be established at National Bank of Pakistan for receipt of funds from the Bank. The DAs will be opened and operated by the respective Departments / agencies in accordance with the provisions of "Revised Accounting Procedure for Revolving Fund Account (Foreign Aid Assignment Account)" dated August 2, 2013 issued by the Finance Division. Disbursements will be report-based where advance equivalent to six months forecast will be provided to DA and subsequent bi-annual IFRs will be the basis of documentation of the expenditures. Subsequent IFRs will also provide forecast for the following six months, on the basis of which the amount of funds to be disbursed will be determined. Disbursement arrangements for the project are summarized in Table 2.

Table 2. Disbursement Arrangements for project components

Disbursement Categories	WB financing (US$ Mn)	Percent of Expenditure to be Financed (inclusive of taxes)	Disbursement Cycle
(1) Works, Goods, Consulting Services, Non-Consulting Services, Training and Workshops related to Component 1.1	140.0	100 percent of subprojects planned and executed in accordance with procedures laid out in PIM	Annual: Transfers from PMU-LGD to LCs
(2) Goods, Consulting Services, Non-Consulting Services, Works, Incremental Operating Costs, Training and Workshops related to Components 1.2, 2, 3 and 4	89.425	100 percent	Bi-annual: Advance to the respective Designated Accounts equivalent to 6 months forecast.
(3) Front-end Fee	0.575	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions	
TOTAL	**230.0**		

9. **Retroactive financing** is available up to US$46.0 million (20 percent of the amount of Bank financing) for eligible expenditures incurred by implementing agencies prior to the date of signing of the Loan Agreement and on or after January 1, 2019. All expenditures for which retroactive financing is sought will be submitted to the Bank to verify their eligibility as per project objectives and relevant guidelines, including all applicable Bank procurement guidelines.

10. **Internal controls*:*** Internal Controls for LCs are envisaged in the Sindh Local Government Act (SLGA), 2013 which prescribes guidance on funds management, budget execution, accounting and reporting. It vests executive powers in the Mayor / Chairperson for the conduct of LC's business. The payments are also subject to pre-audit by Director Local Fund Audit[31], and payments are not processed unless pre-audited. For Component 1.1, procedures described in SLGA 2013 will be followed, to be complemented by PIM. Activities will be planned and executed in accordance with the screening and implementation procedures laid out in PIM. For Components 1.2, 2, 3 and 4, GoS' relevant internal controls are enshrined in General Financial Rules and the Accounting Policies and Procedures Manual (APPM). These include budget checks; well-defined and segregated scheme of assignments; delegation of financial power rules delineates the categories of officers and expenditure-sanctioning competencies; and custody

[31] As representative of Finance Department with the mandate of pre-audit of LCs' payments.

of assets. Being the Principal Accounting Officer, Secretaries of GoS Departments or their authorized representatives (e.g. Project Directors) by way of delegation of powers are responsible to sanction and approve payments. Expenditure will be incurred by implementing agencies in accordance with these internal controls. To ensure segregation of duties, preparation of books of accounts, and financial reports will be the responsibility of FM staff and Project Directors will be approving the financial reports for onward submission to the Bank. There is no functional internal audit function within LGD, SID and E&TD. There are internal audit positions in LCs, however their function is limited to ensuring compliance of contract award as per procurement rules.

Accounting and Reporting

11. For Components 1.2, 2, 3 and 4: Separate books of accounts will be maintained by the respective department / agency. Payment vouchers will be prepared for each transaction and the relevant accounting codes, disbursement category and project component will be mentioned on the payment vouchers. FM staff will work with the Accountant General Sindh to include the transactions of the project in National Financial Management Information System (FMIS). Following manual registers (in Excel) will be maintained: (a) Cash Book (also in hard form complying with government rules); (b) Assets register, including details of assets procured from Bank funds, unique identification number, location of the asset and custodian of the asset; and (c) Invoice Register, including dates of invoices / bill receipt and dates of payments to suppliers and contractor. This will be used to monitor payment processing time.

12. For Component 1.1: Accounts Section of LCs will be responsible for recording PBGs' receipts and expenditure in the books of accounts of LCs under the budget heads segregated for PBGs. The Cash Book of the LCs will be modified to include PBGs receipt and payments and will be maintained on regular basis by the Senior Accounts Officer of the respective LC.

13. Biannual and annual financial reports will be prepared as follows:

a) ***Biannual reports:*** For Components 1.2, 2, 3 and 4: FM staff for each component will prepare and furnish to the Bank within 45 days of the close of each calendar semester IFRs that will report receipts and payments during the semester, variance analysis against the planned targets, and reconciliation of project's accounting records with Client Connection. For Component 1.1: Accounts sections of the LCs will prepare SoRPs to include receipts and expenditure of PBGs. SoRPs will be approved by the LC Chairperson and submitted to PMU-LGD within 25 days of the close of each semester. The format and content of the IFRs and SoRPs will be shared with all implementing agencies.

b) ***Annual report:*** FM staff at PMU-LGD will consolidate financial reports of all implementing agencies and prepare project-level annual financial statements (AFS) in accordance with Cash Basis International Public Sector Accounting Standards. FM staff at SID and E&TD will share financial reports with PMU-LGD for consolidation. Financial statements will cover a period of one financial year and will be submitted to the auditors within two months of the close of financial year.

14. **Auditing:** The Office of the Auditor General of Pakistan (AGP) will conduct annual audit of the project, which is acceptable to the Bank. The Directorate General Audit (Sindh), as representative of AGP, will carry out the audit of the project in accordance with the TOR that have been agreed between the Bank and AGP. The audit will cover both the implementing agencies and include physical verification of assets procured from the loan proceeds. For each financial year closing on June 30, acceptable audited financial statements for the overall project (combined) will be submitted to the Bank by December 31, i.e. within six months of the close of the financial year.

Procurement

15. Procurement arrangements, procedures, risks and mitigation measures are detailed in the PPSD and provided in Section III and IV of this document. Major procurement activites of the project are summarized in Table 3.

Table 3. Summary of major procurement activities of project

Sr. No.	Procurement Activity	Estimated Cost US$ Mn	Risk Category	WB oversight	Procurement Approach	Selection method	Evaluation selection method
A. Local Councils							
1	Civil Works	130.0 (across LC over 4 years; each contract less than US$1 mn)	Moderate / Low	Post	Shopping, NCB, (framework shall be decided after year 1 planning exercise)	RFB post qualification	Lowest evaluated cost
B. LGD PMU							
1	Consultancy to conduct APA of LCs	1.2	Substantial	Prior	International Request for Proposal (RFP)	QCBS	Highest ranked
2	Social and Environment Safeguards consultancy	4.9	Moderate	Prior	International RFP	QCBS	Highest ranked
3	Baseline study for existing landfill sites and additional capacity; technical, economic, environmental and social studies of SWM	2.0	Moderate	Prior	International RFP	QCBS	Highest ranked
4	Study for mapping and optimization of SWM collection system; waste characterization; upgradation of existing M&E system at SSWMB	2.1	Moderate	Prior	International RFP	QCBS	Highest ranked
5	Review of informal sector recycling practices; and mainstreaming and professionalization of SWM sector.	1.5	Substantial	Prior	International RFP	QCBS	Highest ranked
C. E&TD PMU							
1	Disaster recovery site	5.1	Substantial	Prior	IT ICB	RFB single stage one envelope	Lowest evaluated responsive
2	Consultancy for software development	5.0	Moderate	Prior	International RFP	QCBS	Highest ranked
3	Property survey	14.0 5-7 packages	Moderate	Post	National non-consultancy RFB	Single stage one envelope	Lowest evaluated responsive
4	IT hardware	10.0 2-3 packages	Substantial	Prior	ICB Goods	RFB single stage one envelope	Lowest evaluated responsive
D. SID PMU							
1	Consultancy for business process mapping	5.3	Substantial	Prior	International RFP	QCBS	Highest ranked
2	Establishment and operation of Sindh Business Portal	6.0	Substantial	Prior	International RFP	QCBS	Highest ranked

Strategy and approach for implementation support

16. Bank implementation support will follow a risk-based approach and address the main risks identified in the risk elements of the Systematic Operations Risk Rating Tool (SORT) which are rated either High or Substantial. The focus of implementation support will be risk management and mitigation measures for these risk elements which are highlighted in the Key Risks section of this document. During implementation, the Bank will pay special attention to ensure compliance with Bank fiduciary and safeguard policies. The implementation support plan also reflects the planned implementation schedule, lessons learned from similar projects and specific needs identified by various assessments. It will focus on: (a) strengthening capacity of implementing agencies at the beginning of the project, and especially safeguards capacity of LGD and LCs; and (b) regular provision of implementation support through Bank missions and on-demand / concurrent support covering technical and other aspects. It will be regularly reviewed as required.

Implementation Support Plan and Resource Requirements

17. Implementation support will consist of formal implementation support missions; additional technical missions during the first 18 months of project implementation; regular technical meetings (including virtual meetings) and field visits by the Bank between missions; and regular reporting and monitoring of FM, procurement and environmental and social safeguards. Formal missions will be carried out three times during the first year, and every six months in subsequent years. Several Bank team members are based in Islamabad and will be able to provide ongoing and continued on-demand implementation support. Local consultants based in Karachi will also provide additional coordination and support to implementing agencies during the first year of implementation. The volume of support is expected to be particularly high in the first three years of implementation.

ANNEX 2: Additional Details for Project Components

Component 1: Performance-based Grants to Local Councils and Capacity Building

Sub-component 1.1: Performance-based Grants to Local Councils

1. The rationale and structure of the three types of grants is summarized in Table 4.

Table 4. Summary of types of grants to LCs, WB financing and activities for each grant type

Sr #	Type of Grant	Conditions for Access	WB financing	Phasing	Types of activities
1	Minimum Conditions Capital Infrastructure grant	Achievement of MCs every year	US$40.0 Mn	Starting from Second year of project	Subprojects (works) for infrastructure and services in LCs' mandate), subject to conditions and restrictions as described in Project documents
2	Performance Measures Capital Infrastructure grant	Achievement of PMs every year	US$90.0 Mn	Starting from Third year of project	
3	Capacity Building grant	Achievement of Access Conditions every year	US$10.0 Mn	Starting from First year of project	Consultancy and non-consultancy services, goods, trainings, works for basic capacity needs of LCs and for design of subprojects
	Total Sub-Component 1.1		US$140.0 Mn		

2. **Grant allocation formula and funds transfer system:** The Capacity Building grant will be divided equally among all eligible LCs every year. The Capital Infrastructure Grants will be allocated to LCs in proportion to each LC's performance scores, as determined by the Annual Performance Assessment (APA), and weighted by their shares in the total allocation. These shares for respective LCs will be on the basis of the formula outlined in the PIM, and is on the basis of the following principles, as per their existing shares of Octroi & Zila Tax (OZT): metropolitan-level LC (KMC) share being 30 percent and other LCs' (District Council and six DMCs) share being 70 percent and divided amongst them as per their existing OZT shares, which are outlined in the PIM. (OZT is the regular monthly fiscal transfers from GoS to all Sindh LCs.) The Bank will disburse funds to LGD for this sub-component upon LGD's confirmation of completion of the APA and determination of grant amounts for LCs. LGD will further transfer funds to eligible LCs as per their respective determined shares, in accordance with criteria and formulae outlined in the PIM. Expected annual amounts for different types of grants is provided in Table 5.

Table 5. Estimated total amount of different types of grants during life of project (US$ Mn)

Sr #	Grant Type	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total	Percentage allocation
1	Capital Infrastructure Grant for compliance with MCs	-	7.0	11.0	11.0	11.0	40.0	29 percent
2	Capital Infrastructure Grant for achieving PMs	-	-	30.0	30.0	30.0	90.0	64 percent
3	Capacity Building Grant	2.0	2.0	2.0	2.0	2.0	10.0	7 percent
	Total	**2.0**	**9.0**	**43.0**	**43.0**	**43.0**	**140.0**	100 percent

Notes: 1) Grants to LCs will be made at the start of the FY based upon the APA and determined grant allocations. Expenditures by LCs will be incurred during the FY and will be reported to LGD. 2) Amounts indicated for Infrastructure Grants for achieving PMs assumes that LCs will meet the target Performance Score, averaged across all eligible LCs, for that FY. The actual PM grant amount will be calibrated using the difference between the average Performance Score of eligible LCs and the target Score for that FY, as per methodology described in PIM.

3. **APA process:** The achievement of MCs and PMs annually will be determined by an APA to be conducted by

an independent third party. The findings of the APA will be shared with the Bank. The APA will form the basis of resultant allocation of grant funds to LCs. The aggregate score of LCs in the APAs will determine the size of the capital infrastructure grant to be disbursed. Each APA will assess performance of LCs as at the end of the previous FY or at the time of assessment for each MC/PM as per approach described in the PIM. In the first year of the project a set of reduced MCs will be assessed and the APA cycle for that year will be shortened. (The indicative list of first year reduced MCs is provided in this Annex.). The findings of the APA will determine the annual grant allocations for the two capital infrastructure grants for each eligible LC. The APA cycle will be synchronized with the GoS and LCs annual budget cycle to ensure that allocations are reflected in provincial and LC annual budgets in time. Each APA cycle will be completed within an FY. All disbursements from the Bank to LGD for this component, and transfer of grant funds from LGD to LCs, will be made at the start of each FY, based upon the APA and announced grant allocations. Expenditures by LCs will be incurred during the FY and will be reported to LGD. The last disbursement for grants under this sub-component will be made at the start of the last year of the project, allowing LCs one year to complete subprojects before the project closing date. Table 6 provides the schedule / milestones for the APA process.

Table 6. Milestones for APA, Grant Allocations and Disbursements / Transfers

Milestones	Timeline
Year-1 Capacity Building grants provided to LCs	Beginning from start of Year 1 (FY2019/20), on completion of Access Conditions of this grant, and disbursing every year
Year-1 Assessment of Reduced MCs to determine amount and shares of Capital Infrastructure Grant for Year-2	By May 2020
Hiring of independent third-party APA consultancy	By August 2020 (for APA starting from Year 2 and onward)
Field Assessment of APA (APA will assess performance of LCs)	November of each year
APA reports completed	December of each year
Announcement of Capital Infrastructure Grant allocations for each eligible LC (for next FY), on basis of APA results	By end of March of each year
Disbursement of funds for Capital Infrastructure Grant from Bank to GoS (LGD), and transfer of grants from LGD to each eligible LC	In July of each year (for use in the same FY)

Minimum Conditions and Performance Measures for the Capital Infrastructure Grants

4. Indicative list of MCs is provided in Table 7. All MCs must be fulfilled each year by an LC to qualify for either of the two Capital Infrastructure grants. The list of MCs is subject to change during implementation in agreement with the Bank, and the PIM will contain the final list during implementation and their associated verification procedures.

Table 7. Indicative List of Minimum Conditions for Capital Infrastructure grant to LCs

Thematic Area	Minimum Condition
MC 1 Participation in project	Year 1 and onwards • MC 1.1. LC agrees to participate in project and adhere to its provisions, by signing Memorandum of Understanding (MOU) / Grant Participation Agreement with LGD; and MOU / Agreement approved by LC Council
MC 2 Planning and Budgeting	Year 1 and onwards • MC 2.1. Annual Development Plan (ADP) for ongoing FY prepared by LC as per standard template including scheme-wise details, and including allocation for project financing, and approved by LC Council in timely manner
MC 3 Environment and Social Management	Year 1 and onwards • MC 3.1. Designated focal person(s) for Environmental and Social Safeguards management in place at LC. Year 2 and onwards

Thematic Area	Minimum Condition
	• MC 3.2. All eligible subprojects are screened by LC for potential social and environmental safeguard impacts in accordance with the project EMF and SMF/RPF; and environment and social safeguards implemented by LC for all eligible subprojects in accordance with procedures outlined in the project EMF and SMF/RPF.[32]
MC 4 Financial Management	<u>Year 1 and onwards</u> • MC 4.1. LC has maintained Cash Book for previous FY with complete recording of all payment and receipt transactions <u>Year 2 and onwards</u> • MC 4.2. LC uses a designated bank account for all project-related receipts and payments • MC 4.3. LC has prepared and submitted Annual Financial Statements for previous FY for audit purposes, as prescribed in PIM, within one month of close of FY.
MC 5 Financial Audit	<u>Year 2 and onwards</u> • MC 5.1. Audit Report of LC financial statements for previous FY is neither adverse nor disclaimed.
MC 6 Procurement	<u>Year 1 and onwards</u> • MC 6.1. LC has functional procurement committees notified as per SPPRA rules <u>Year 2 and onwards</u> • MC 6.2. LC has an approved Procurement Plan for current FY
MC 7 Addressing constraints for Women	<u>Year 1 and onwards</u> • MC 7.1. Inquiry Committee is operational at LC to enquire into workplace harassment complaints as prescribed by law (namely "Protection Against Harassment of Women at the Workplace Act" of 2010), comprising three officials and at least one woman. <u>Year 2 and onwards</u> • MC 7.2. Code of Conduct for protection against harassment at workplace is published and displayed in each LC office as per provisions of Section 2 of the Act.
MC 8 Progress Reporting	<u>Year 2 and onwards</u> • MC 8.1. Annual progress report on the project shared with LC Council and LGD on prescribed format.

5. Indicative list of PMs is provided in Table 8. The scoring totals to 100 points for each year for each LC, and will be measured by the APA, as described in this Annex. The list of PMs is subject to change during implementation in agreement with the Bank, and the PIM will contain the final list during implementation and their associated verification procedures.

Table 8. Indicative List of Performance Measures for Capital Infrastructure grant to LCs (Total Points = 100)

Thematic Area	Performance Measure (Total Points = 100)
PM 1 Investment Planning and Budgeting (max 17 points)	1. GIS-based Infrastructure maps developed for services within LC mandate, and updated yearly*: 3 points* 2. Asset Inventory developed for all movable and immovable assets of LC, and updated yearly: *3 points, from date of installation of asset inventory* 3. Feedback from citizen and business consultations consolidated and reflected in current ADP: *2 points* *4.* Three-year rolling Capital Investment Plan prepared / updated by LC for the current FY, including cost estimates for operations and maintenance, and reflected in current ADP: *3 points, as specified in PIM* 5. Execution rate of ADP of previous FY, including project-financed schemes: *Max 6 points, based on bands of ten percentage points, from 40-49 percent to 90-100 percent*

[32] This includes, inter alia, environmental and social safeguard policy and procedures, stakeholder engagement, Grievance Redress Mechanism, safeguard monitoring system, and development and implementation of any required social and environmental management plans for subprojects in compliance with EMF and SMF/RPF.

Thematic Area	Performance Measure (Total Points = 100)
PM 2 Own-source revenue (OSR) improvement (max 15 points)	*1.* Variance between OSR budgeted estimate and actual collection for previous FY *(Max 3 points, based on percent negative variation between budgeted and actual OSR)*[33] 2. LC has prepared an OSR improvement plan which is subsequently updated annually *(Max 4 points)* 3. LC has achieved year-on-year increase in actual OSR in previous FY[34]. *(Max 8 points, based on percentage increase bands)*
PM 3 Competitiveness and Business Environment (max 10 points)	1. Reduction in time taken by LC to provide "No-Objection Certificate" (NOC) for "road cutting" / Right Of Way for utility connections to premises: *Max 5 points, based on percentage or absolute reduction in time taken, as measured on sample basis.* 2. Improving selected business facing mandates. *(Max 5 points)* a. **For KMC:** Computerized inventory / database developed and updated of KMC-owned commercial property and land assets, and lease / rent of each commercial unit. *(Max 5 points)* b. **For DMCs and District Council:** Streamlined procedures for obtaining Trade License / Permit. *(Max 5 points, based on percentage increase bands)*
PM 4 Financial Management (max 12 points)	1. LC is maintaining its books of accounts using uniform Chart of Accounts for LCs as notified by GoS: *3 points from year of notification* 2. LC has adopted and is using a Computerized Financial Management System (CFMS) procured by GoS. *(Max 9 points from year of CFMS development / notification by GoS, based on sub-steps)*: a. Up to date Cash Book being maintained and generated using uniform chart of accounts: *5 points* b. HR data is maintained in system and payroll is processed through CFMS: *4 points*
PM 5 Procurement (max 10 points)	1. Adherence to applicable procurement rules (SPPRA/ Bank) by LC through complying with procurement SOPs in all procurements, as measured by sample-based procurement audits *(Max 10 points from year of development of SOPs by GoS, broken into various sub-steps & procedures as per SOP)*
PM 6 Citizen and business engagement (max 10 points)	**1. Citizen consultation and engagement *(max 8 points)*** a. ***KMC*** has held semi-annual open meetings ("*khuli katcheries*") in each District, including one before start of annual budget process, separately for men and women, to seek feedback on development priorities of citizens and potential beneficiaries. *(Max 8 points, based on # of meetings)* *b.* ***DMCs and District Council*** have held the same, semi-annually, in each zone, separately for men and women. *(Max 8 points, based on # of meetings)* **2. Business consultation forum *(2 points)*** a. LC has established Local Business Consultation forum with representation of local private sector, and held semi-annual meetings, including one before start of annual budget process, to seek feedback on development priorities.
PM 7 Addressing women's constraints (max 10 points)	*1.* Percentage of project-financed capital expenditure by LC in previous FY on infrastructure and services which directly address constraints and needs identified by women[35]. *(Max 10 points, based on percentage bands, capped at 10 percent)*
PM 8 Access to Information for citizens and businesses (max 6 points)	1. Detailed and updated information available on LC website (max 6 points, based on specific information available) a. Information will include the following, with more points for more information available: approved ADP; approved procurement plan and subprojects list; procurement-related information required by SPPRA; project EMF and SMF; environmental and social management plans (if prepared); information on business regulations and inspections; minutes of open meetings; link to citizen complaint referral system.

[33] Only self-collected OSR will be included in this. This excludes Urban Immovable Property Tax and Property Transfer Tax.
[34] Only self-collected OSR will be included in this. This excludes Urban Immovable Property Tax and Property Transfer Tax.
[35] In this project context, these include parks or other recreational facilities for women or with dedicated timings for women; streetlighting and public lighting; daycare/childcare centers; public toilets for women; community and sports facilities for women; or any other infrastructure identified by women during systematic consultations; and aggregated / compiled by LC women councilors.

Thematic Area	Performance Measure (Total Points = 100)
PM 9 Grievance Redress mechanisms for citizens and businesses (max 10 points)	1. Citizens complaint and Grievance referral system operational at LCs and in regular use: *(Max 10 points, from year when system specifications are prescribed by GoS, with incrementally increasing points for more features and use of system by LC)* a. ***For KMC***, Existing citizens complaint system transformed to "Citizens complaint and Grievance referral system" with upgrades; and can receive input from multiple sources (e.g. phone, website and physical office). System is adequately staffed including separate desk for women. Complaints are properly registered and forwarded to relevant agency. b. ***For DMCs and District Council***, "Citizens complaint and Grievance referral system" established; and can can receive input from multiple sources (e.g. phone, website and physical office). System is adequately staffed including separate desk for women. Complaints are properly registered and forwarded to relevant agency.

<u>Access Conditions for the Capacity Building grant:</u>

6. LCs must meet the following Access Conditions each year to qualify for the Capacity Building grant: (a) signed MOU / Grant Participation Agreement with LGD, and approved by Council resolution (same condition as for Capital Infrastructure grant); and (b) LC has developed a capacity needs analysis and budgeted capacity building plan (to be financed by this grant) and submitted to GoS and the Bank for no-objection.

<u>Eligible Expenditures and Subprojects for performance-based grants</u>

7. **Eligible expenditures (subprojects) for Capital Infrastructure grants:** LCs will use the capital infrastructure grants to execute infrastructure and services subprojects within their mandate, as per the screening criteria, PRRP and other procedures described in the PIM, SMF/RPF and EMF. All subprojects will be selected, screened, approved, designed and implemented in accordance with the laid-out procedures. An indicative list of eligible expenses (capital investment subprojects) for the infrastructure grants is provided in Table 9. LCs will submit Annual Work Plans to LGD listing all planned expenditures and subprojects against grant funds for the following year of implementation, which LGD will compile and submit to the Bank. LGD will also submit required social and environmental safeguard instruments for each proposed subproject, as per procedure outlined in the EMF and SMF/RPF. These shall be reviewed and cleared by the Bank before subproject implementation.

Table 9. Eligible expenditures / subprojects for Infrastructure grants to LCs

Functional area	Indicative permissible capital investments
Local Roads and associated infrastructure	• Repair, maintenance, improvement, rehabilitation and construction of roads, streets, signalized intersections etc. under respective jurisdictions of LCs • Repair, maintenance, rehabilitation, construction etc. of sidewalks and walkways, bicycle paths, pedestrian bridges and crossings etc. • Repair, maintenance, replacement, installation etc. of Street lighting, road signage etc. – including energy-efficient lighting (with LED bulbs and/or solar-power)
Drainage	• Repair, maintenance, improvement, rehabilitation and construction of small-scale secondary and tertiary drainage systems and associated wastewater systems under jurisdictions of LCs (primarily including repair and improvement of existing infrastructure) • Covering of exposed street level drainage and sewerage channels • Selected machinery and equipment
Parks and Public Spaces	• Maintenance, improvement, rehabilitation, construction and operation of parks, playgrounds, greenery, recreational facilities, public and open spaces, lighting, street furniture, landscaping, tree plantation – including dedicated facilities and areas for women • Large public spaces, such as large parks, will be excluded as per criteria defined in PIM, EMF and SMF.
Public Buildings, Markets and public toilets	• Improved facilities for shops, mobile vendors etc. in LC-run markets • Repair, maintenance, improvement, rehabilitation, construction and operation of Public toilets, including dedicated facilities and areas for women

Functional area	Indicative permissible capital investments
	• Repair, maintenance, improvement, rehabilitation, construction and operation of buildings and facilities of LCs, community centers, sports facilities, including dedicated facilities and areas for women • Purchase of and hiring of selected related equipment for use in such facilities
Health and Education Facilities	For DMCs and District Council: • Repair, maintenance, improvement and rehabilitation of existing primary health facilities and education buildings operated by LCs (all facilities / buildings to incorporate disaster-resilient construction standards and energy efficient designs). • Purchase and hiring of selected related equipment and items
Fire and Disaster Management	Primarily for KMC: • Repair, maintenance, improvement and rehabilitation of fire control stations and facilities (all facilities / buildings to incorporate disaster-resilient construction standards and energy efficient designs). • Purchase and hiring of selected equipment for emergency response / disaster management
Ineligible expenditures	Purchase of new vehicles (except for specific approved purposes such as under "drainage"), Salaries of staff, Utilities bills, fuel for vehicles, and others as described in PIM.

8. **Eligible expenditures for Capacity Building grant:** The Capacity Building grant can be used by LCs to fill identified capacity gaps, specifically for the following expenses: (a) consultancy and non-consultancy services, including for design, supervision and monitoring of subprojects; (b) office furniture and equipment (including IT equipment and networks); (c) small-scale office rehabilitation, including and especially for providing separate, equipped, functioning toilets for women staff; (d) local training of elected councilors and staff; and (e) consultancy and non-consultancy services needed to achieve specific MCs and PMs. Ineligible items for this grant include: purchase of vehicles; new office buildings and major office construction; payment of salaries of LC staff; and scholarships and foreign study tours. LCs will submit to LGD an annual plan listing their planned expenditures under this grant. Eligible expenses can be modified in the PIM during project implementation, subject to Bank review.

Project Risk Reduction Procedure (PRRP) for capital infrastructure subprojects

9. Selection, design and implementation of each capital infrastructure subproject will be based on a set of screening criteria as part of the PRRP, a multi-level screening process that has been built into project design to avoid project-related social risks, especially associated with the ongoing AED, and ensure compliance with the Bank's social safeguards policies, specifically the policy on Involuntary Resettlement (OP 4.12). Only subprojects located in areas that have not been impacted by the AED will be eligible for financing under this project. If the subproject is determined eligible, screening mechanism will further determine the types of subproject-specific safeguard instruments to be prepared and implemented, depending on the nature, scale and scope of the subproject. Selection, design and implementation of all subprojects is subject to full compliance with the project's SMF/RPF and EMF, which describe the screening criteria and PRRP in further detail. PRRP is described in **Box 1**.

Box 1. Subproject Screening Criteria and Project Risk Reduction Procedure

This PRRP includes a set of screening criteria for the selection, design and implementation of infrastructure and services subprojects to be financed by Capital Infrastructure Grants to LCs. These screening criteria are summarized below as a step-wise process and are described in detail in the project's SMF/RPF:

1. Each proposed subproject will first be screened to determine if it is located in an area affected by AED. Potential subproject sites located within areas impacted by the AED on and after October 27, 2018 will not be eligible for financing under the project. Subprojects will be screened from October 27, 2018 onwards for any AED activities. Subproject sites include construction sites and associated zones of impact. The procedure for determining the size of impacts of subprojects is described in the SMF as well as the EMF. Only subprojects whose construction sites plus associated zones of impact are located in areas that have not been impacted by the AED will be eligible for financing. Zones of impact for different typologies of subprojects will be determined, on a case by case basis, following procedures outlined in the project SMF / RPF.

2. If the subproject is determined eligible for financing, the screening mechanism will determine the types of subproject-specific social and environmental safeguard instruments to be prepared and implemented, depending on the nature, scale and scope of the subproject.
3. Subprojects will limit land acquisition to the extent as possible, and no subprojects will have large environmental or social impacts. All land acquisition and resettlement that may need to be carried out to meet the objectives of the subprojects will be of a modest scale and will be done in accordance with the Bank's OP 4.12.
4. Eligible subprojects will be relatively small-scale, aimed at addressing localized municipal infrastructure and service gaps in Karachi. Eligible physical subprojects can be grouped into the following three broad categories: 1) public buildings and structures such as health and education facilities, public toilets, fire control stations, community facilities and other buildings operated by LCs; 2) non-linear public spaces, such as public parks and public markets; and 3) linear local road and drainage, and associated infrastructure and facilities such as streetlighting, sidewalks etc.
5. All subprojects proposed for financing will be reviewed and approved by the Bank for safeguards requirements (including a review of compliance with the screening criteria) before LCs can commence any civil works on the subproject.

Once the project is under implementation, if unforeseen AED-related activities are to be carried out in areas that have been selected for financing under the project, GoS will comply with provisions of applicable safeguards policies of the Bank, as specified in the relevant social and environmental safeguards instruments.

In addition to the screening mechanism and the Bank’s prior review requirements described above, the following measures are included in the PRRP to promote effective implementation of subprojects in accordance with the Bank policy on Involuntary Resettlement (OP 4.12).

1. A built-in time-lag of at least one year before implementation of any eligible subproject can begin, during which the project will be able to develop and verify information on the progress of the AED and its physical footprint, and also allow extensive capacity building for LCs to manage social and environmental risks. Capital Infrastructure Grants will only be available from the second year of the project, after Minimum Conditions are met by the LCs. Only in the third year a full allocation will be given to participating LCs for capital infrastructure grants, based on assessment of Performance Measures.
2. As a condition to access funding for capital investments, participating LCs are required to have the capacity for adequate and effective social safeguards management. Without meeting the Minimum Condition (which will be assessed, in time, by an independent auditing agency under the review of the Bank safeguards team), the participating LCs will not be able to access funds for capital investment.
3. Public disclosure and dissemination of information about subproject sites proposed for financing, to allow any potentially affected persons to submit grievances.
4. Coordination mechanism at GoS level for monitoring and updating the implementation of AED carried out by different agencies.
5. A communication campaign designed on the basis of an agreed stakeholder engagement strategy, to raise awareness of the scope and impacts of the project.
6. A third-party monitoring system, through a local NGO/CSO reporting to the Bank, will confirm that subproject sites being proposed have not been subjected to AED activities, and will monitor subproject implementation (including compliance with PRRP and safeguards instruments).
7. A multi-level GRM for the project and for all services provided by LCs to address potential grievances of affected population under the project.
8. Extensive TA and capacity building for GoS and LCs on social and environmental safeguards management, investment planning, citizen engagement and access to information, including a set of MCs and PMs in these areas – including MC on social and environmental safeguards, without which LCs will not receive any infrastructure grant.
9. TA to formally recognize, regulate and register the street economy and mobile vendors across the city, including digital platform for registration of mobile vendors, as well as additional support for a city-wide approach of addressing resettlement and rehabilitation issues based on GoS’s demand.

Finally, legal covenants are included into the legal agreements related to the compliance with safeguards instrument, and in particular, with the CRRP screening mechanism and monitoring of AED.

10. **Summary of responsibilities of participating LCs:** The responsibilities of participating LCs under this project are summarized as follows: (a) improve institutional capacity and achieve MCs/PMs to access capital infrastructure grants; (b) use the capital infrastructure grants to implement subprojects in compliance with parameters outlined in project documents and in compliance with Bank’s policies; and (c) use the capacity building grant to address self-identified basic capacity needs and develop internal systems.

Sub-component 1.2: Technical Assistance and performance grants implementation and management

11. **This sub-component will strengthen the institutional capacity of LGD to coordinate, manage and implement the performance-based grant system and to provide centralized capacity building support to all participating LCs.** It will finance consultancy and non-consultancy services, goods, trainings, and incremental operating costs for LGD to conduct the following activities: (a) administering and coordinating centralized TA and capacity-building support to LCs to assist them in achieving the MCs and PMs, especially support for the development of required systems at LCs; (b) administering the APA process through an independent entity in a timely and satisfactory manner; (c) ensuring timely flow of grant funds to LCs as per their respective determined shares; (d) providing assistance to LCs in screening, selection, design and supervision of subprojects as requested by LCs, and in the preparation and implementation of environment and social management plans for subprojects if required, including measures to address risks associated with the ongoing AED; and (e) monitoring and consolidated progress reporting to the Bank on Component 1. This sub-component will also finance any preparatory works and studies which may be considered under future Bank lending projects.

12. ***Development and approval of systems and centralized capacity-building support for LCs:*** LGD will develop and notify various systems required by LCs to achieve MCs and PMs, and these will be adopted by LCs. These include the following: (a) systems for social and environmental management, including for screening subprojects at LC-level for environmental and social impacts, and preparation and implementation of environment and social management plans if required; (b) computerized financial management system to be introduced in LCs, along with systems and capacity building for preparation of financial statements by LCs; and successful compliance with external financial audit requirements; (c) good practice procurement SOPs for LCs as per existing SPPRA rules; (d) systems for improved capital investment planning and budgeting, including computerized GIS-based asset inventories for moveable and immovable assets of LCs; processes for medium-term capital investment planning; (e) systems for streamlined business permitting and within the mandate of LCs; (f) notifications and approvals of LC proposals for revisions of various fees and rates; (g) guidance, specifications and training of LCs on citizen engagement and consultation with stakeholders, including women and private sector, to inform capital investment planning; (h) guidance and specifications for systems for access to information (i.e. LC websites) and grievance redress (i.e. citizen complaint redressal and referral). LGD will also provide the following trainings to LCs: (a) training of elected women councilors of LCs on leadership and gender-responsive investment planning; and (b) training of LC staff on harassment of women at the workplace, and associated regulations on prevention. All relevant guidance, specifications and notifications issued by LGD regarding the above will be included in the PIM. All other activities (consultancy and non-consultancy services, purchase of goods etc.) needed to achieve specific MCs and PMs will be undertaken by LCs directly through the capacity building grant.

Component 2: Modernizing Urban Property Tax Administration and System

13. **The main factors behind very low revenue from property tax are:** outdated tax base, with the previous survey of city properties conducted almost two decades ago; completely manual and outdated system of tax administration with all functions; outdated property valuations on which basis tax is assessed, with last valuations last updated more than a decade ago; and substantial exemptions for various types of properties.

14. **This component will support the implementation of reforms for UIPT in Karachi**, including possible phased devolution of UIPT collection to LCs in the medium to long term. GoS has developed a roadmap for improvements in UIPT and phased devolution to LCs to improve efficiency, transparency and incentives for this tax. This roadmap has a two-phase approach to put in place a modern tax administration and increase revenues. In the first phase, the following activities will be conducted: (a) comprehensive survey of all properties in Karachi Division to update the property tax database ("fiscal cadaster"); (b) development development and upgradation of modern IT systems to

house the survey and fiscal cadaster information; (c) associated training and capacity building of relevant officials from E&TD (and LCs if required) to run and operate these systems; (d) taxpayer sensitization and outreach efforts including development of IT systems to facilitate taxpayers, including internet-based information, billing and payments; and (e) reviews of relevant legislation or regulations on all aspects of UIPT, including tax policy and institutional structure for this tax. Reviews will also focus on identifying any facilitation which may be provided to women property owners. This project will support the implementation of the first phase of this roadmap and set the base for the second phase. Table 10 provides estimated costs of component activities. In the second phase, legislative and major policy reforms will be undertaken, including updating of outdated property valuations.

Table 10. Estimated costs of activities for Component 2

Sr #	Project activities	Total US$ Mn
1	Mass property survey of Karachi and Improved Property Tax IT system	28.5
2	Establishment of ICT data center and new equipment for field operations	9.0
3	Others	2.9
	Total Component Cost	40.4

15. **Conduct of pre-survey preparatory activities:** This sub-component will finance the following two activities which are required to be conducted before the property survey and IT system, and will be used as inputs to the procurement of the Survey and Property Tax IT System: (a) review / inventory of property data and information housed at other government agencies, to determine if this data can be used to identify properties and to complement or supplement data collected via property survey; and (b) technical review of the property tax system developed in Sukkur (the third largest city in Sindh) under an ongoing property survey, to determine if bidders will be allowed to propose adjusting the IT system/application versus offering their own solution.

16. **Conduct of property survey and development of improved Property Tax ICT system:** The previous property survey of Karachi was conducted in 2001; mass property surveys are relatively infrequent and only apply when evidence suggests that the coverage of the tax base is poor. The Karachi Property Survey will involve a survey of an estimated 1.5 to 2 million properties/land parcels. Conducting a survey of the scale in a city like Karachi will require significant logistics and coordination of property inspectors. The survey will be organized on a concurrent basis for the 6 Districts rather than sequentially, to ensure that the city-wide survey is completed around the same time. Data collected via the survey will be validated and input into the IT system in a timely manner to limit the need for revisits. A list of property attributes will be developed to be recorded by property during the survey. The TOR and Request for Proposal (RFP) will specify the list of property attributes to be recorded during the survey. In addition, particularly for high value commercial properties, additional data include floor plans will be collected. The survey will include all buildings within the jurisdiction of DMCs (i.e. residential, commercial, industrial, government, institutional, special, etc.), and will also collect information on ownership and lease status of property parcels, including those owned by public sector agencies, to build a complete database of public sector land assets.

17. **Capacity building and training of staff on ICT system:** Staff in E&TD and LCs will have important roles in maintaining the UIPT system within their jurisdiction. Hands-on capacity building of staff will include the following: inspection and measurement of buildings, valuation methods and principles, recording survey data and maintaining it in the new property tax application, GIS training and dealing with public in administering objections and appeals; and study tours to modern property tax administration systems.

18. **Development and upgradation of UIPT ICT data center and equipment for ICT field operations:** This includes activities to fit-up primary and disaster recovery data centers, strengthen the ICT operating environment and safeguard it from external and internal risks. It also includes necessary ICT equipment to provide field and

headquarters staff with access to the new system. Specific activities include: development of ICT strategy and architecture; evaluation of needs for the fit-up of the data centers' infrastructure; procurement of servers and network equipment to support the IT system in the data centers; establishing a Wide Area Network; procurement of necessary ICT equipment upgrades in headquarters and field offices; advising on establishing the necessary inter-links and procedures for automated data exchange between agencies; creation of disaster recovery and contingency plans to reflect new technologies and risks; provision of consulting support to supplement current ICT team; and training for ICT staff in software and hardware use.

19. **Review of existing property tax policies and regulations:** Valuation for property tax is regulated by the Sindh UIPT Act of 1958. UIPT is levied on lands and buildings declared as Rating Areas by GoS. The law will be reviewed to recommend best practice in administration, valuation, billing, collection and enforcement and current policies on exemptions and reliefs will be reviewed. The Act provides for UIPT assessment based on a property's Annual Rental Value. Valuation Tables were updated in 2001, and revised tables prepared in 2016 have not been approved. A review of the valuation regime will be conducted, as a number of gaps have been identified therein. This sub-component will also finance reviews of UIPT regulations including changes to the Sindh UIPT Act or its subsequent rules; review of various institutional options for UIPT such as establishing a new Municipal Revenue Board or a municipal revenue division in Sindh Revenue Board; and study of options for any facilitation which may be provided to women property owners.

20. **Project implementation and taxpayer services:** This sub-component will finance the operations of a PMU at E&TD, including services, goods and incremental operating costs; the development of IT systems to facilitate taxpayers, including internet-based information, billing and payments; and activities for taxpayer sensitization and outreach.

Component 3: Improvement of City Competitiveness and Business Environment

21. The component is oriented towards improving the business environment of Karachi, as opposed to other activities, owing to complementarities between the activities in this and other components of the project. The regulatory environment under which the private sector operates has a direct bearing on the other aspects of the investment climate, such as public infrastructure and public service delivery. A more transparent, integrated, and streamlined regulatory environment, therefore, would improve city competitiveness through two channels. It will(a) increase the utility of public infrastructure and services which would be improved though the other components of this project; and (b) increase the impact of public service delivery improvements on corresponding private sector investment and competitiveness.

22. The design of this component has benefitted substantially from analytics prepared by the WBG on the business environment, investment climate and other elements of competitiveness. This includes WBG's technical inputs into the GoS' "Sindh Growth Strategy" (technical note on business enabling regulation and practice), an advisory project on investment climate, as well as lessons learned from the ongoing Bank-financed KNIP and the Punjab Jobs and Competitiveness Program, both of which include competitiveness components. The proposed activities are also in sync with the Bank's other planned initiatives aimed at boosting national and city competitiveness, including "Maximizing Finance for Development" and on trade facilitation.

Sub-Component 3.1: Streamlining and Integrating Business Regulations for City Competitiveness

23. The consolidated registry of business licenses, permits, and NOCs will be prepared for all regulatory agencies and departments with a mandate over registering and regulating a business in the city of Karachi. The more granular business process re-engineering will be carried out for the ten most critical of these regulatory agencies. These ten agencies have been selected based on the number of touch points with private sector along with the number and

frequency of the licenses / permits / NOCs issued by these agencies, on the basis of consultations with private sector[36]. The term “Business Process Reengineering” is used to describe the entire exercise of mapping, analyzing and resigning processes, and implementing regulatory / institutional reforms within and between agencies to achieve improvements in regulatory performance. For this component, Business Process Re-engineering will entail the following activities: (a) Mapping and documenting the processes to understand the sequence of work (workflow); (b) Redesigning new business models and processes (e.g. streamlining approval processes); (c) Clarifying and assigning process ownership to enhance managerial accountability; and (d) Regularly monitoring and evaluating to continuously improve performance measures (e.g. cost, time, quality of services).

24. These re-engineered business processes at the selected agencies will automated where possible and integrated into the Sindh Business Portal. Successful implementation of proposed activities will require collaboration between the recently-established SID and relevant regulatory agencies during the integration phase. For this institutional collaboration the project will leverage the existing coordination mechanisms developed for the Sindh’s Doing Business Reform Program, including a working group constituted by the Chief Minister of Sindh and chaired by the Chairperson P&D Board. This mechanism will to monitor progress, oversee implementation and ensure that relevant agencies adopt the re-engineered and automated processes prior to being integrated into the SBP. The ten regulatory agencies in the scope of this component, and the licenses / permits issued by each are listed in Table 11.

Table 11. Regulatory agencies at provincial level for business licenses / permits / NOCs and number of permits issued

Sr #	GoS agency	Licenses / Permits / NOCs Issued	# of Registrations and Licenses for FY2017/18[37]
1	Excise & Taxation Dept.	professional tax registration; urban immovable property tax; motor vehicle registration; excise duty	9,640
2	Labor Dept.	registration and supervision of shops and commercial establishment; registration and supervision of factories; registration of trade unions	2,317
3	Sindh Environment Protection Agency	NOC for projects: environmental checklist, initial environmental examination; and environmental impact assessment	207
4	Industries Dept.	business registration - license for operation of charitable societies; registration of partnership firms; registration of new boilers (registration of assets); approval for import of new boiler (NOC); inspection	4,085
5	Food Authority	registration of any business dealing with food (business registration); registration of food products (product registration)	400
6	Education and Literary Dept.	registration of private educational institutions - higher secondary schools; secondary schools; "O" & "A" Level; pre-primary, primary, elementary and middle schools	1,122
7	Sindh Healthcare Commission	licensing (homeopathic clinic, poly clinic, cat i hospitals, cat ii. hospitals, labs, x-ray centers etc.); healthcare service provider registration	3,449
8	Agriculture Dept.	pesticide and fertilizer distributors and dealers; market committee license - category A (mills & factories); category B (whole seller) and category C (retailer)	2,432
9	Sindh Building Control Authority	construction permit; occupancy permit; qualification of professional (architect, professional engineer, proof engineer etc.); qualification / entitlement of firms (geo-technical laboratory & material testing lab)	4,761
10	Sindh Employees Social Security Institution	employer registration; education cess	539

[36] More agencies may be added during implementation if the project progresses at faster pace than anticipated.
[37] These numbers will serve as indicative baseline.

Component 4: TA for Solid Waste Management

25. The solid waste management sector in Karachi is divided into three operational segments managing a total of 11,000 tons of household waste each day – 2,000 tons more than New Delhi, India. The SWM sector's infrastructure consists of two dumpsites (Gond Pass and Jam Chakro) and ten transfer locations. The capacity of the existing infrastructure and setup is insufficient to properly serve Karachi and over time alternative solutions will have to be identified to enable the city to manage solid waste.

26. **Collection:** The introduction of private operators for primary waste collection in 4 out of 6 districts has resulted in visible improvements and will be expanded to the two remaining districts of the city. Major steps are still to be taken on collection point management, uncollected construction and debris waste, illegal dumping and relationship with the informal recycling sector. The current situation has a major adverse impact on health, drainage and degradation of the urban environment. Oversight of private operators is limited, and enforcement is inconsistent. The outsourcing to private sector could be further improved by strengthening the capacity of the SSWMB to effectively oversee the delivery on contracts, including improving oversight of the existing performance contracts with private collectors, introduction of IT systems for performance management, etc.

27. **Transfer capacity:** Existing waste transfer capacity is below requirements and does not allow for full coverage, resulting in massive waste dumping across the city. The situation at existing transfer stations poses significant health and safety risks. Transfer stations are operating in a suboptimal manner, as they are poorly designed, and their operation impedes efficiency of the entire value chain. The sites impact the urban environment and social acceptability of waste management activities. Review of capacity, use and operations of transfer stations will help identify efficiency gains and opportunities for improvement.

28. **Treatment and landfills:** The existing landfills have long reached their maximum capacity and have transformed into dumpsites. The sites do not meet environmental standards and have significant environmental impacts. Operational aspects need to improve. In the immediate term, it will be important to initiate closure and reclamation of both sites and concurrently develop additional treatment capacity. As a first step, comprehensive baseline studies for the existing sites will be required to understand the nature of the risks and challenges associated with the two sites.

29. **Policy framework:** Pakistan has developed a comprehensive legal corpus at the national and provincial level and most of the regulatory material is directly relevant and applicable to the waste sector. The legislation, however, falls short of the following key elements: (a) technical prescriptions for the design of SWM facilities (collection points, garbage transfer stations (GTS), sanitary landfills, etc.); (b) financial tools specific to the management of waste in general; (c) waste master planning; (d) waste minimization and diversion policies; and (e) overall surveillance and enforcement. There are opportunities for relative quick wins through TA to address some of these shortfalls.

30. **Community engagement in the sector is minimal.** Behavior change programs are needed to raise awareness targeting 'hotspots' such as areas near drainage systems or unauthorized dumps. The waste sector plays a significant role in the city's economy and represents a major source of income for migrant populations, minorities and marginalized groups. Professionalization is an opportunity for the sector to increase capacity and employment for community. The sector is estimated to employ 15,000 people in the city in waste collection only, and approximately 100,000 in the recycling industry, with a concentration of minorities and informal labor. There is a need to better understand the organization of informal sector, identify opportunities for professionalization to leverage job opportunities and revenue generation, and improve communication about waste management.

31. **Data and information gaps:** Limited information exists on existing operations, knowledge of waste composition, and location-specific information on environmental and social implications of current SWM systems.

There is an urgent need to develop a comprehensive set of baseline data and regularly update it. This will not only improve operational efficiency but also ensure the mapping of hotspots and help devise mitigation measures to reduce negative impacts of SWM operations.

32. **Institutional issues:** While the responsibility for SWM was formally assigned to SSWMB in 2014, financing and staffing needs are not fully met, with SSWMB receiving only half of its budgeted financing for operations. Financial sustainability of the sector is fragile, due to absence of dedicated financial resources and the relatively high cost paid to private operators for waste collection (at around US$30 per ton) which is financed fully by transfers from GoS.

33. **Sector diagnostic work during project preparation finds that despite the need for capital investments in infrastructure improvement in SWM, the sector is not yet mature for large-scale capital investment.** Various institutional, regulatory and capacity gaps and technical issues are required to be addressed first. This project provides targeted TA to address some of these gaps and to provide the basis for a longer-term strategy for SWM sector improvement.

34. This component will finance activities grouped in the following thematic areas:

a) **Upstream policy and regulatory development for SWM:** (i) review of existing sector regulations and financial sustainability; identification of cost recovery mechanisms; (ii) development of policies and regulations to help reduce waste leakage especially including plastic waste, and help manage hazardous waste streams; and (iii) identifying options for private financing at critical points in the waste supply chain, to crowd-in private investment in the SWM sector more effectively and strategically, which will be pivotal to achieve sector improvement.

b) **Institutional capacity strengthening of SSWMB:** (i) acquisition of technology for improved service management; (ii) upgrading of existing M&E and data management and performance management systems; (iii) trainings (formal and on-the-job training) for contract management and for introduction of performance-based contracts for SWM; and (iv) study for the development of a SWM master plan for the Karachi region.

c) **Development of sector strategy to improve efficiency and effectiveness:** (i) economic, environmental and social study of the waste sector in Karachi; (ii) waste characterization, including identification of medical, construction, agriculture and industrial waste; (iii) technical, environmental, and social baseline studies for existing solid waste management infrastructure, including landfill sites and the transfer capacity locations; (iv) preparation of strategy and roadmap for the development of additional transfer and advanced treatment capacity; (v) mapping of the existing solid waste collection system and collection optimization studies including route optimization; and (vi) study of the informal waste sector, including sorting and recycling practices. This will also include an assessment of the number and working conditions of women employed in the SWM sector, both formally and informally and across the value chain.

d) **Social sustainability and public awareness:** (i) activities to promote increased community level engagement, public awareness and undertake behavior change campaigns, including implementation of strategy for to engage and mobilize women at the community level, and undertaking a review of regulations for public handling of waste; and (ii) baseline study for community-level job creation in the SWM sector, including identification of steps for the professionalization of the waste sector.