

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
APPRAISAL STAGE**

Report No.: PIDISDSA17882

Date Prepared/Updated: 08-Jun-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Pakistan	Project ID:	P156411
		Parent Project ID (if any):	
Project Name:	Governance and Policy Program for Balochistan (P156411)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:	06-May-2016	Estimated Board Date:	31-Oct-2016
Practice Area (Lead):	Governance	Lending Instrument:	Investment Project Financing
Borrower(s):	Economic Affairs Division		
Implementing Agency:	Government of Balochistan		
Financing (in USD Million)			
	Financing Source		Amount
	Borrowing Agency		3.00
	MDTF for Crisi Affected Areas of NWFP/FATA/ Balochistan		16.00
	Total Project Cost		19.00
Environmental Category:	C - Not Required		
Appraisal Review Decision (from Decision Note):			
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

1. Pakistan, the world's sixth most populous country, is a lower-middle-income country with a 2014 per-capita gross national income of US\$1,420. Growth, although on a declining trend, has been pro-poor in Pakistan over the past decade. The economy grew at an average of 7.3 percent between fiscal years 2004 and 2007, slowed down to a 2.9 percent average in between FY2009/2010 and FY2013/14, and made a partial recovery to 4.2 percent in FY14/15. Despite slower GDP growth, poverty declined substantially in the past decade. Real per capita consumption growth of the bottom 40 percent of the population (a measure of shared prosperity) also exceeded that of the top 60 percent in the same period. There are however significant downside risks arising from the global economic slowdown, which may affect Pakistan through lower remittances, reduced demand for exports, and lower FDI inflows.

2. Balochistan is the poorest of the country's four provinces and one of the country's restive regions. Balochistan is sparsely populated, with the largest area of Pakistan's four provinces, constituting approximately 44 percent of the country's total land mass, but only 5 percent of the country's population (around 9 million). Seventy percent of the population resides in rural areas, mostly in small settlements scattered around water resources in an overall arid and rugged terrain with scant access to public services; three quarters of rural dwellers are estimated to be poor. Balochistan is estimated to have the lowest per capita income among Pakistan's provinces. Security remains precarious owing to continued spillovers from Afghanistan as well as frequent incidents of ethnic and sectarian violence, which limit people's mobility and economic activity.

3. Despite its wealth in gas and mineral resources, the economy of Balochistan has grown more slowly than the other provinces. Annual growth rates in Balochistan have lagged the national average for most years and have shown more volatility than other provinces since the mid-1990s. The wide dispersion of a small population over a large and inhospitable terrain, water scarcity, scant infrastructure, underdeveloped human potential, and governance constraints have all been factors in the province's economic underperformance. This longstanding disparity in growth rates has led to a wide divergence in standards of living between Balochistan and the rest of the country.

4. Balochistan also has the lowest social indicators and widest gender disparities among Pakistan's provinces. It has lowest results in twelve (out of 13) Millennium Development Goals for education, literacy, health, water, and sanitation. In particular, it has the lowest infant full immunization rate of 41 percent (76 percent for Pakistan), and the lowest adult literacy rate of 39 percent (national average of 57 percent), with only 18 percent for women. Whereas 59 percent of men have attended school, only 25 percent of women have done so. Net enrolment in primary school stands at 46 percent for boys and only 30 percent for girls.

Sectoral and institutional Context

5. Following the 18th Amendment to the Constitution of Pakistan in 2010, like other provinces, Balochistan acquired increased competences. The 18th Amendment gave provinces exclusive competences in several areas including education and health. The 7th National Finance Commission (NFC) award of 2009 increased provinces' revenues in two ways: First, the 7th NFC award raised the provinces' share of the divisible pool of revenues from 47.5 percent to 57.5 percent. Second, it expanded the provinces' sources of own revenues, most notably by assigning the Sales Tax on Services (STS) to the provincial level.

6. On account of its high poverty rate, low population density, and infrastructure gaps, Balochistan has been the biggest winner from the 7th NFC award. Between the fiscal years 2009/2010 and 2010/2011 alone, the province's budget increased by 95 percent in nominal terms. In the past five years, public spending has increased dramatically. This increase in

financing has enabled the province to ramp up spending on infrastructure and public services in order to narrow the development gap with the rest of the country.

7. Balochistan has also taken advantage of the devolution to improve governance and public sector performance. For example, the province has established a Public Procurement Regulatory Authority and adopted regulations that require procurement notices and awards to be published online. The province has also recently established the Balochistan Revenue Authority (BRA) with the mandate to take the collection of the STS over from the FBR starting from fiscal year 2015/16.

8. The province has also taken initiatives to enable citizen engagement and government accountability. Restoring citizens' trust in state institutions is the overarching objective of the Balochistan Development Needs Assessment (BDNA) adopted in 2013. To this end, the GoB has introduced some key initiatives, notably public pre-budget consultations, citizen monitoring of public services, and grievance redress mechanisms.

9. Many of these initiatives have received support from the Governance Support Project (GSP). The project, which has been the main instrument for the Bank's support to governance reforms in Balochistan, has helped the province achieve tangible results in the following areas:

a) Grievance redress: The increased caseload of the Office of the Balochistan Ombudsman indicates growing citizens' trust in the institution: incoming cases increased by 10 percent within two years -- from 1,296 cases in 2012 to 1,421 cases in 2014.

b) Citizen engagement: Public pre-budget consultations in local communities took place for the preparation of the annual budgets for FY2013/14 and FY015/16 for the first time with the participation of women. An impact evaluation of the consultations for FY2014/15 indicates that the consultations influenced budget allocations, with notable increases for education, health, and irrigation. These increases amounted to PKR 880 million (around US\$ 8.7 million), equal to 17 percent of the development budget.

c) Monitoring of public service delivery: The Government started monitoring service delivery facilities in late 2014. The monitoring is overseen by the M&E Cell of the P&DD and is conducted by graduates of local universities. The monitoring currently covers schools, hospitals, and domicile service offices in five of the province's 25 districts and includes data on the condition of the facilities, staff presence, and user feedback. A total of 69,356 citizens (42 percent women) have given feedback on 773 service delivery units. Notable outcomes include the re-opening of three schools in the Quetta district after monitoring reports that they were not functioning. The results of this monitoring are publicly disclosed at www.gsp-pmc.org.pk.

10. Balochistan was also the first province to hold local government elections. The establishment of elected local governments gives local communities a voice to articulate demands for local services and infrastructure. Gradually local governments will also take on responsibility for delivering some services, notably water supply and sanitation, and rural roads.

Public investment and service delivery

11. Balochistan has channeled the increased federal transfers to spending on public services, but results have been modest. Between FY2010/11 and FY2014/15, the province more than doubled spending on education and health. Outcomes, however, have fallen short of expectations. As the Government's White Paper for the FY2014/15 budget notes, the entire available resources were spent on bricks and mortar without any improvement in service delivery. Better targeting of spending to underserved areas could be part of the solution. For example, despite the focus on girls' education since 2013, under the emergency education program of the Government, still 28 percent of schools in Balochistan are for girls.

12. The rapid increase of the public investment budget has strained the implementation capacity of the public administration. Between FY2009/10 and FY2014/15, the development budget tripled in nominal terms, with most of the increase going to priority sectors such as education, roads, and agriculture. In the recent fiscal years since the 18th Amendment devolution, however, the execution of development budget remained a challenge. For instance, 20 percent of the development budget could not be executed in the FY2014/15. This indicates that the public administration has not been able to fully absorb the additional funds.

13. The fragmentation of the Public Sector Development Plan (PSDP) into a large number of under-financed projects complicates public investment management. Over the past five years, the number of projects in the PSDP rose from 812 in FY2010/11 to 2,250 in FY2015/16. During the same period the average allocation per project declined from PKR 32.4 million to PKR 24 million, while the average total cost per project remained stable at around PKR 130 million. As a result, the average financing period for a project rose from four to almost five and a half years. In comparison, the Federal PSDP with the total allocation of PKR 45.4 billion for Balochistan, is executed through 145 projects, in Balochistan.

14. Fragmentation also compromises project quality. First, it strains the capacity of Line Departments to provide the information that the GoB needs for evidenced-based selection of projects. Second, it results in low implementation readiness, which is an important cause of under-execution and delays. The fragmentation also results in diseconomies of scale, which increase transaction and financial costs, especially in procurement. The province has started to develop its capacity in procurement following the adoption of relevant regulations in December 2014. In this regard, during FY 15/16 the government has been making efforts to improve the capacity for procurement. At present, however, contracting authorities' capacity to tender and manage contracts remains limited.

Revenue mobilization

15. Going forward, the Government is interested in expanding its own source revenues to finance planned investments in infrastructure and public services. For example, the province plans to build some 750 new schools, and upgrade 900 existing schools as well as a third of all Basic Health Units over the next five years. So far however the province has been highly dependent on federal transfers, which accounted for 95 percent of Balochistan's total revenues (including federal grants and transfers related to oil and gas royalties). The province's own source revenues (both from tax and non-tax sources) accounted for the remaining 5 percent.

16. Balochistan's own source tax collection is the lowest among the provinces, accounting for only 2 percent of total revenues in 2014/15. In fiscal year 2013/14, total provincial tax revenues accounted for just under 0.2 percent of Balochistan's estimated GDP, which is the lowest tax to GDP ratio among Pakistan's provinces – compared to 0.5 percent for KP, 0.8 percent for Sindh, and 0.7 percent for Punjab.

17. The province has much scope to increase its own source revenues, especially from the Sales Tax on Services (STS). This tax is payable by firms in the service sector based on the volume of their sales. In FY14/15, the STS tax base consisted of 91 firms, which rose to 158 firms in FY15/16. Balochistan was the last province to start collecting the STS, having temporarily assigned this function to the Federal Board of Revenue (FBR) due to the lack of provincial capacity. The Balochistan Revenue Authority, which has now the mandate to collect the STS, was established in July 2015. The STS offers significant growth potential in Balochistan, as indicated by the growth of STS revenues in the other provinces since they took on the collection function from the FBR. For example, in KP, which started collecting the STS in FY2013/14, STS receipts

accounted for 53 percent of own source tax revenues in FY2014/15.

18. Similar STS performance may be expected in Balochistan by closing gaps in the tax policy framework and improving tax administration. In terms of tax policy, reducing the scope of exemptions has the potential to broaden the tax base, while abolishing taxes with low revenue potential (such as nuisance taxes) could help increase the efficiency of tax administration. Improvements in institutional capacity for STS collection such as streamlining business processes, digitizing tax registers, strengthening the audit function, and updating tax assessment methodologies etc.

Government program

19. Further public sector management reforms are an integral part of the Government's program. Reforms envisaged in the Balochistan Comprehensive Development Strategy (2015-2020) include the following: (i) strengthening public financial management and introducing results-oriented budgeting to improve planning and service delivery; (ii) improving public procurement; (iii) expanding the use of ICT in business processes and access to information with a focus on tax administration; (iv) strengthening M&E in public services through ICT-enabled reporting of real-time data and external evaluations; and (v) developing the capacity of public officials in core functions.

20. The Strategy also has a strong focus on mobilizing financing for priority investments. The Government is therefore interested in increasing own source revenue collection by improving the tax administration. It is also interested in developing capacity for negotiating concessions and other forms of Public-Private Partnerships (PPP). In this regard, the Government is prioritizing investments with a high potential to drive economic growth and contribute to the provincial budget, notably in the energy and minerals sectors. Finally, the Government is interested in improving PSEs governance to generate more revenues and manage fiscal risks.

C. Proposed Development Objective(s)

Development Objective(s)

The Project Development Objective (PDO) is to strengthen the capacity for Sales Tax on Services collection, and improve accountability in public financial management and public service delivery in the education and irrigation sectors in Balochistan.

Key Results

The key results of the GPP will be measured by the following PDO indicators:

- a) PDO indicator #1: Increased collection of the Sales Tax on Services (STS);
- b) PDO indicator #2: Increased average size of education and irrigation sector projects included in the PSDP;
- c) PDO indicator #3: Increased number of investment projects in the education sector and irrigation sectors that have been geo-mapped and published online;
- d) PDO #4: Increase in the cases related to education resolved by the Office of Balochistan Ombudsman; and
- e) PDO indicator #5: Increased number of officials with certification in financial management, internal audit, procurement, project management, and M&E.

D. Project Description

Grant amount and project duration: Project financing is estimated at US\$16million of which US

\$6 million has already been made available under the second phase of the MDTF. The project will have an implementation period of four years, which corresponds with the duration of the MDTF (2016-2020). The Government of Balochistan has agreed to provide parallel financing equal to at least 20 percent of grant proceeds (around US\$3 million). This parallel financing under the province's PSDP will contribute to the project's objectives (STS collection and PFM systems, PIM in the education and irrigation sectors, financing of accountability institutions) and support the sustainability of project results beyond its completion.

Grant instrument: The proposed instrument is Investment Project Financing (IPF).

30. The proposed project will comprise the following four components:

Component 1: Increasing effectiveness for sales tax collection

The objective of this component is to develop institutional capacity for increased collection of own source revenues with a focus on the administration of the STS, which is estimated to have the highest revenue potential, as also evidenced in the other three provinces. The component will finance capacity building activities including the following:

- a) An assessment of the province's revenue potential followed by technical assistance for developing a strategic tax revenue mobilization plan;
- b) Technical assistance for establishing a tax policy unit in the Finance Department; and
- c) Diagnostics, technical assistance, and training for STS administration in the following areas: (i) expanding STS tax base; (ii) revenue forecasting; (iii) human resource development in the BRA; (v) tax assessment techniques, including tax audit; (vi) taxpayer facilitation; and (vii) taxpayer awareness campaign.

Component 2: Strengthening accountability in public financial management. This component will finance technical assistance and training for the Finance Department (FD) in developing and implementing a PFM reform strategy based on the findings of the ongoing PEFA assessment. Activities likely to be prioritized under the strategy are expected to strengthen financial control and accountability mechanisms including the following:

- a) Establishing the internal audit function at the FD, which will focus on the largest-spending sectors, education and irrigation;
- b) Strengthening accountability mechanisms outside government, notably by developing the capacity of the Public Accounts Committee of the Provincial Assembly to scrutinize public expenditure;
- c) Technical assistance for establishing a debt management unit in the Finance Department;
- d) Expanding pre-budget consultations and post-budget expenditure dissemination for citizens, which were first introduced with the support of the GSP;
- e) Developing FD capacity to manage fiscal liabilities and monitor the financial performance of State-Owned Enterprises; and
- f) Technical assistance and training for establishing Board of Investment.

Component 3: Improving public investment management and accountability in public services
Subcomponent 3.1 -- Strengthening public investment management. The objective of this subcomponent is to improve the quality and increase transparency in public investment in the education and irrigation sectors. The subcomponent will finance the following activities:

- a) An assessment of current government capacity with reference to the World Bank framework for public investment management (PIM) and development of a PIM action plan targeting the main issues identified by the assessment;

b) Technical assistance and training for implementing the PIM action plan, which would cover the following areas: (i) processes and tools for the identification, preparation and appraisal of capital projects; (ii) self-assessments of PIM systems within education and irrigation sectors sector; (iii) execution of capital projects, including procurement, contract management, progress monitoring, and completion verification; and

c) Technical assistance and training for establishing a Board of Investment and for developing a policy framework for Public-Private Partnerships (PPPs).

Subcomponent 3.2 -- Improving efficiency and accountability in public services. The objective of this subcomponent is to help the Government strengthen accountability to promote better access and quality to public services in the education and irrigation sectors. The subcomponent will finance the following activities:

a) Technical assistance and training to build government capacity for using monitoring and evaluation (M&E), including systematic analysis of citizen feedback and engagement of citizens in monitoring service delivery to improve education services ➤(in partnership with research institutes;

b) Technical assistance and training for strengthening grievance redress mechanisms and expanding outreach to citizens for the: (i) Office of the Balochistan Ombudsman (ii) the Anti➤(Corruption Establishment; (iii) the Public Procurement Regulatory Authority (PPRA); and (iv) the youth and civil society organizations (CSOs) to build their capacity and engage them in raising awareness of grievance redress mechanisms, and assisting citizens ➤(especially women -- in accessing them;

c) Technical assistance developing certification courses and training in core skills for public officials. Training will focus on financial management, procurement, project management, monitoring and evaluation, and leadership development. This support will focus on the education and irrigation sectors, the FD, and the P&DD.

Component 4: Ensuring effective support for the coordination of governance reforms and the operational management of the GPP. The objective of this component is to support the Government to coordinate governance reforms and implement the GPP-financed activities. The component will finance the following activities:

a) Coordination support for governance reforms: This activity will finance a small Governance Reform Support Unit (GRSU) to be housed in the Department of Planning and Development (P&DD) that will coordinate technical support and monitor BDNA implementation in governance reforms and citizen engagement; and

b) Implementation support for the GPP: This activity will finance an Operations Support Unit (OSU). Chief Foreign Aid, P&DD will be the main focal point for the Coordinator with P & DD. The OSU will support procurement and contract management, financial management, internal audit, monitoring and evaluation, strategic communications, gender, ICT, and organization of learning activities.

Component Name

Increasing effectiveness for sales tax collection

Comments (optional)

Component Name

Strengthening accountability in public financial management

Comments (optional)**Component Name**

Improving public investment management and accountability in public services

Comments (optional)**Component Name**

Ensuring effective support for the coordination of governance reforms and the operational management of the GPP

Comments (optional)**E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)****F. Environmental and Social Safeguards Specialists****II. Implementation****Institutional and Implementation Arrangements**

21. The Project Steering Committee (PSC) will provide high-level guidance for and regular oversight of GPP activities. The PSC is led by the Additional Chief Secretary of Balochistan. To ensure regular oversight by the PSC, review meetings will be held by the P & DD at least twice a year. In addition, the minutes of the progress review meetings, which are normally held quarterly by the Secretary P & DD, will be shared with the Bank. The PSC will review implementation progress and provide guidance for moving forward.

22. Implementation support for the GPP will be provided by two units – an Operations Support Unit (OSU) and a Governance Reforms Support Unit (GRSU). Based on the recommendation of an evaluation of the Implementation Support Unit (ISU) of the GSP, it is proposed to divide the functions of the ISU under the GSP between two units, as follows:

a) Governance Reform Support Unit (GRSU): This Unit will be housed in the Department of Planning and Development (P&DD). The unit will coordinate and monitor governance reforms supported by the GPP and other donor projects to ensure timely project support for the governance reforms identified in Balochistan. The GRSU will comprise two advisors that will report to the Secretary P&DD.

b) Operations Support Unit (OSU): This Unit will be led by a Coordinator who will report to the Chief Foreign Aid, P&DD. As under the GSP, the Government of Balochistan will continue to house the OSU (part of the previously ISU) in the P&DD. The OSU will manage cross-cutting support to all GPP activities: financial management; procurement; internal audit (firm); M&E; strategic communications; ICT; gender; and learning activities.

23. In view of the limited technical capacity of government departments, the project envisages

enhanced implementation support by the Bank. This would involve frequent implementation support missions to advise the beneficiary departments in planning and implementing project activities and ensure that any problems are resolved in a timely manner. In addition, the Bank team will integrate knowledge sharing of other countries' practices and experience in the implementation support by engaging external or Bank experts in specialized areas such as sales tax administration, and public investment management.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

<p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>The activities of the proposed project do not trigger any social or environmental safeguard policies. The environmental and social risks are however rated as significant on account of the risk of disruption of economic and social activities that could be triggered by natural disasters (floods, earthquakes), which are relatively frequent in Balochistan, or by a deterioration in the security situation. These risk drivers are beyond the control of the project</p>
<p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p>
<p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p>
<p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p>

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

B. Disclosure Requirements

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes []	No []	NA [×]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes []	No []	NA [×]
All Safeguard Policies			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes []	No []	NA [×]
Have costs related to safeguard policy measures been included in the project cost?	Yes []	No []	NA [×]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes []	No []	NA [×]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes []	No []	NA [×]

V. Contact point

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VI. For more information contact:

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VII. Approval

Task Team Leader(s):	Name: Sher Shah Khan, Clelia Kalliopi Helena Rontoyanni	
<i>Approved By</i>		
Practice Manager/ Manager:	Name: Alexandre Arrobbio (PMGR)	Date: 24-Oct-2016
Country Director:	Name: Anthony Cholst (CD)	Date: 06-Dec-2016