



Project Readiness Financing Report

Project Number: 55107-001
November 2021

Islamic Republic of Pakistan: Khyber Pakhtunkhwa Cities Improvement Projects – Second Project Readiness Financing

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 20 October 2021)

Currency unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.01
\$1.00	=	PRs172.63

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
BRT	–	bus rapid transit
COVID-19	–	coronavirus disease
KPCIP	–	Khyber Pakhtunkhwa Cities Improvement Project
KPK	–	Khyber Pakhtunkhwa
PAM	–	project administration manual
PRF	–	project readiness financing

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT READINESS FINANCING AT A GLANCE

1. Basic Data		Project Number: 55107-001	
Project Name	Khyber Pakhtunkhwa Cities Improvement Projects - Second Project Readiness Financing	Department/Division	CWRD/CWUW
Country	Pakistan	Executing Agency	Planning & Dev.Dept.,Gov't of Khyber Pakhtunkhwa
Modality	Project Readiness Financing (Loan)		
Borrower	Islamic Republic of Pakistan		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=55107-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=55107-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Urban public transport		9.00
Water and other urban infrastructure and services	Other urban services		6.00
		Total	15.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Low
✓ Making cities more livable			
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Poverty Targeting	
SDG 1.4		General Intervention on Poverty	✓
SDG 3.6			
SDG 9.4			
SDG 10.2			
SDG 11.2			
SDG 12.8			
4. Risk Categorization:	Low		
5. Safeguard Categorization	Not Applicable.		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		15.00	
Cofinancing		0.00	
None		0.00	
Counterpart		2.12	
Government		2.12	
Total		17.12	
Currency of ADB Financing: US Dollar			

I. PROJECT READINESS FINANCING

A. Rationale

1. **Key sector challenges.** The cities in Khyber Pakhtunkhwa (KPK) generate about 70% of the province's wealth and are home to about 20% of the province's population. The province's cities are developing fast, and the urban population has grown by 74% since 1998 at an average annual growth rate of 3%.¹ This has caused an unplanned and uncoordinated urban expansion. Basic urban services such as water supply, wastewater collection and treatment, solid waste management, drainage, and urban transport are inadequate, creating an increasing demand for sustainable urban services to make the cities more livable and climate resilient.

2. The proposed Khyber Pakhtunkhwa Cities Improvement Projects (KPCIPs) – Second Project Readiness Financing (PRF 2) will support the government's efforts to improve the quality of life of urban residents in KPK, by building on the lessons learnt from the long-term engagement of the Asian Development Bank (ADB) in KPK. The Peshawar Sustainable Bus Rapid Transit (BRT) Corridor Project that was started in 2017 and commissioned in August 2020, initiated the transformation of KPK cities through sustainable urban mobility initiatives.² The first KPCIPs PRF that was approved in 2019 focuses on institutional reforms, municipal services, and green growth covering five selected cities and supports the ensuing KPCIP planned for Board approval in 2021.³

3. **Government's approach.** The government proposed the PRF 2 to continue this systematic approach to planning, higher quality of project readiness, and institutional reforms for sustainable project operations. The PRF 2 will build on the success of the first PRF by financing the preparation and detailed designs of a series of sustainable urban mobility, municipal services, and climate resilience projects in KPK, benefiting an additional 4 million people across multiple cities. All subprojects will be tailored to city-specific features and urban environments.

4. **ADB's value addition.** The PRF 2 will ensure quality and project readiness, thereby facilitating the timely and cost-effective achievement of the project outcomes. The PRF 2 will add value and adopt lessons from the first PRF by promoting (i) integration of urban planning, designing of solutions, and operation of services, under a single package to simplify contact management; (ii) use of international standards and technologies in project design and operations; (iii) institutional strengthening and capacity development; (iv) gender inclusiveness; (v) incorporation of low-carbon and disaster- and climate-resilient features, ensuring alignment with the Paris Agreement principles; and (vi) private sector participation.

5. **Strategic relevance.** The proposed PRF 2 is consistent with the strategic pillars and crosscutting themes of ADB's country partnership strategy for Pakistan, 2021–2025.⁴ The PRF

¹ Government of Pakistan, Pakistan Bureau of Statistics. 2017. [Summary Results of 6th Population and Housing Census](#). Islamabad

² ADB. [Pakistan: Peshawar Sustainable Bus Rapid Transit Corridor Project](#); and ADB. [Pakistan: Peshawar Sustainable Bus Rapid Transit Corridor Project - Project Design Advance](#). These two projects include innovations such as plug-in hybrid buses, universal accessibility, gender mainstreaming, bike lanes, and private sector participation. The BRT corridor project is cofinanced by the Agence Française de Développement (AFD).

³ ADB. [Pakistan: Khyber Pakhtunkhwa Cities Improvement Projects - Project Readiness Financing](#); The ensuing KPCIP project finances water and sanitation, and solid waste management in five cities (Abbottabad, Kohat, Mardan, Mingora, and Peshawar).

⁴ ADB. 2020. [Country Partnership Strategy: Pakistan, 2021–2025—Lifting Growth, Building Resilience, Increasing Competitiveness](#). Manila.

2 and the KPK Sustainable Urban Mobility Project 1 are listed in the country operations business plan for Pakistan, 2021–2023.⁵ The PRF 2 and the ensuing projects are aligned with four ADB Strategy 2030 operational priorities: (i) addressing remaining poverty and reducing inequalities; (ii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iii) making cities more livable; and (iv) strengthening governance and institutional capacity.⁶ The coronavirus disease (COVID-19) pandemic has shown that urban public transport and municipal services will be vital for economic recovery and improving livelihood opportunities for the most affected lower income groups.

B. Outputs and Activities

6. **Output 1: Due diligence and detailed engineering designs completed, and procurement activities supported.** The PRF 2 will support the due diligence of ensuing projects by covering the following aspects: technical, economic, financial, environmental and social safeguards, gender, climate change assessments, institutional framework, private sector participation opportunities, and integrity. It will also support financial and procurement capacity assessments to identify risks and formulate mitigating measures. Due diligence will include the review, validation, or upgrading of preexisting⁷ and ongoing studies and due diligence.⁸ The PRF 2 will support the preparation of detailed engineering designs for civil works and goods. This includes support for surveys, studies, geological and hydrological investigations, and other technical assessments necessary for detailed engineering designs. Climate and disasters triggered by natural hazards resilience measures and innovations will be integrated into the designs. The PRF 2 will support procurement, including preparation of bidding documents, in line with the ADB Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

7. **Output 2: Project readiness financing implementation support provided and capacity of executing and implementing agencies improved.** The PRF 2 will finance consulting services to (i) support the executing and implementing agencies in implementing the project, and (ii) strengthen their capacities to sustainably operate the planned investments. Support to implementing agencies will include the following aspects: technical, project management, financial management, procurement, gender, environmental, and social safeguards. The PRF 2 will also conduct capacity development needs assessments and formulate capacity development programs for implementing agencies and government officials.

C. Ensuing Projects

8. The ensuing projects anticipated to be supported by the PRF 2 are as follows:
- (i) **Khyber Pakhtunkhwa Sustainable Urban Mobility Project 1.** (Indicative financing amount \$100 million, expected approval in 2023.) The project will extend and improve the Peshawar Sustainable BRT Corridor Project (footnote

⁵ ADB. 2021. [Country Operations Business Plan: Pakistan, 2021–2023](#). Manila.

⁶ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila. A fifth operational priority (accelerating progress in gender equality) will be supported by the ensuing projects.

⁷ Studies financed by Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility (administered by ADB) and the first KPCIPs PRF.

⁸ ADB. 2019. [Technical Assistance to the Islamic Republic of Pakistan for Preparing Urban Development Projects](#). Manila.

- 2).⁹ The project is listed in the country operations business plan for Pakistan, 2021–2023 (footnote 5).
- (ii) **Khyber Pakhtunkhwa Sustainable Urban Mobility Project 2.** (Indicative financing amount \$200 million, expected approval in 2024–2025.) The project will finance urban mobility projects in Abbottabad, Mingora, and Peshawar.¹⁰
- (iii) **Khyber Pakhtunkhwa Cities Improvement Project 2.** (Indicative financing amount \$200 million, expected approval in 2024–2025.) The project will finance water supply and sanitation, and solid waste management projects in the cities of Abbottabad, Bannu, Dera Ismail Khan, Kohat, Mardan, Mingora, and Peshawar, and selected cities in the Hazara and Malakand regions.¹¹

9. All projects prepared under the PRF 2 will be prioritized and selected based on the agreed selection criteria.¹² The Asian Infrastructure Investment Bank and Agence Française de Développement (AFD) expressed interest in cofinancing the ensuing projects.

D. Cost Estimates and Financing Arrangements

10. The PRF is estimated to cost \$17.12 million (Table 1). Detailed cost estimates by expenditure category and financier are included in the project administration manual (PAM).¹³

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Due diligence, detailed engineering design, and procurement activities	12.38
2. Implementation support and capacity development	2.01
Subtotal (A)	14.39
B. Contingencies^c	1.86
C. Interest During Implementation^d	0.87
Total (A+B+C)	17.12

^a Includes taxes and duties of \$2.12 million. Such amount does not represent an excessive share of the project cost. The government will finance taxes and duties of \$2.12 million through cash contributions.

^b In mid-2021 prices as of June 2021.

^c Contingencies include price contingencies and are computed at about 5% for consulting services.

^d Interest during implementation for the ordinary capital resources loan has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% per year.

Source: Asian Development Bank estimates.

11. The government has requested a regular loan of \$15,000,000 from ADB's ordinary capital resources to help finance project preparation and design activities. The loan will have a

⁹ The project will expand existing BRT services and provide (i) new bus routes, a new bus fleet, and an extension of bus depot; and (ii) parking, universal accessibility, and pedestrian facilities. The feasibility of the project will be developed under ADB technical assistance (footnote 8). Due diligence, and engineering design, will be financed under PRF 2.

¹⁰ The Agence Française de Développement (AFD) provided a Mobilize Your City partnership grant of €1.2 million to the cities of Abbottabad, Mingora, and Peshawar for sustainable urban mobility plans, pre-feasibility of priority projects, and capacity development. The services started in July 2021. Feasibility studies will be developed under ADB's technical assistance (footnote 8). Engineering design, due diligence, and safeguards and bidding documents will be financed under PRF 2.

¹¹ Project due diligence, safeguards documentation, engineering design, and bidding documents will be financed under PRF 2. ADB due diligence will be supported under ADB's technical assistance (footnote 8). The project may include additional investments in five cities already included in KPCIP based on planned priorities.

¹² Project Selection Criteria for Ensuing Projects (accessible from the list of linked documents in the Appendix).

¹³ Project Administration Manual (accessible from the list of linked documents in the Appendix).

15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; and such other terms and conditions set forth in the draft loan agreement.¹⁴

12. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to consultant cost, including pre-implementation and project management support and surveys, and interest during implementation.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan) ^a	15.00	88.00
Government ^b	2.12	12.00
Total	17.12	100.00

^a Asian Development Bank financing will not cover taxes and duties.

^b The government's contribution comprises taxes and duties.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

13. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 13). Procurement will follow the ADB Procurement Policy and its associated staff instructions.

Table 3: Implementation Arrangements for Project Readiness Financing

Aspects	Arrangements		
PRF implementation period	December 2021–June 2026		
Estimated PRF completion date	31 December 2026		
Management			
(i) Oversight body	Project steering committee chaired by the additional chief secretary of the P&DD, Government of KPK		
(ii) Executing agency	P&DD, Government of KPK		
(iii) Implementing agencies	KPUMA, TMTD for urban transport projects; LGERDD (PMU) for other municipal services		
Consulting services	QCBS 90:10—urban transport 1	196 person-months	\$2.9 million
	QCBS 90:10—urban transport 2	287 person-months	\$4.4 million
	QCBS 90:10—urban services	648 person-months	\$5.1 million
	Individual experts (multiple)	288 person-months	\$2.0 million
Advance contracting	Advance contracting is proposed for urban transport 1 and individual experts		
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank; KPK = Khyber Pakhtunkhwa; KPUMA = Khyber Pakhtunkhwa Urban Mobility Authority; LGERDD = Local Government, Elections, and Rural Development Department; P&DD = Planning and Development Department; PMU = project management unit; PRF = project readiness financing; QCBS = quality- and cost-based selection; TMTD = Transport and Mass Transit Department.

Source: ADB.

II. DUE DILIGENCE

14. **Technical.** Urban transport planning, conceptual designs, pre-feasibility studies, and initial due diligence are being conducted under the transaction technical assistance facility

¹⁴ Draft Loan and Project Agreements (accessible from the list of linked documents in the Appendix).

(footnote 8) and the Mobilize Your City grant by AFD (footnote 10). The PRF 2 will pursue innovations, use best available technologies, and support gender mainstreaming for all ensuing projects. Climate mitigation and adaptation measures will be incorporated in the project designs after undertaking detailed climate change assessments of the project area and the ensuing investments. Consultants hired under the PRF 2 will assess options for private sector participation in civil works, provision of equipment, and operations of ensuing projects.

15. **Governance.** The Government of KPK's Planning and Development Department, the executing agency, has demonstrated capacity in steering and providing oversight to most ADB-funded investment projects in KPK. The Khyber Pakhtunkhwa Urban Mobility Authority will be the implementing agency for urban transport, and the Local Government, Elections, and Rural Development Department, through its project management unit, will be the implementing agency for other municipal services. The financial management assessment of both implementing agencies was conducted, and the overall pre-mitigation risk is considered *substantial*. Action plans proposed by ADB to strengthen their financial management functions have been agreed by Government of KPK and are included in the PAM (footnote 13) and as a covenant in the draft loan agreement. The individual consultants recruited under the PRF 2 will enhance the project management, financial management, and procurement capacities of both implementing agencies under the oversight of ADB staff.

16. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB's Safeguard Policy Statement (2009). The detailed engineering designs will be prepared with consideration to avoid or minimize impacts, including measures for COVID-19 prevention and control. The safeguard classification for the ensuing projects will be confirmed during the PRF implementation. No adverse impacts from the ensuing projects are expected for indigenous peoples (category C). The PRF will finance the preparation of environment and social safeguards due diligence as well as detailed engineering designs-based environment and social planning instruments in full compliance with ADB's Safeguard Policy Statement.

III. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the loan of \$15,000,000 to the Islamic Republic of Pakistan for the Khyber Pakhtunkhwa Cities Improvement Projects – Second Project Readiness Financing, from the ordinary capital resources of the Asian Development Bank (ADB), in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement, and hereby reports this action to the Board.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55107-001-PRF>

1. Loan Agreement
2. Project Agreement
3. Project Administration Manual
4. Project Selection Criteria for Ensuing Projects