

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

Report No.: PIDISDSC15854

Date Prepared/Updated: 03-Nov-2015

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:	11-Jan-2016	Estimated Board Date:	25-Jul-2016
Practice Area (Lead):	Governance	Lending Instrument:	Investment Project Financing
Sector(s):	Sub-national government administration (30%), Public administration- Other social services (25%), Law and justice (25%), Public administration- Financial Sector (20%)		
Theme(s):	Tax policy and administration (40%), Public expenditure, financial management and procurement (30%), Judicial and other dispute resolution mechanisms (30%)		
Borrower(s):	Economic Affairs Division		
Implementing Agency:	Government of Balochistan		
Financing (in USD Million)			
Financing Source			Amount
Borrower			0.00
MDTF for Crisis Affected Areas of NWFP/FATA/ Balochistan			6.00
Financing Gap			14.87
Total Project Cost			20.87
Environmental Category:	C - Not Required		
Concept Review Decision:	Track I - The review did authorize the preparation to continue		
Is this a	No		

Repeater project?	
Other Decision (as needed):	

B. Introduction and Context

Country Context

Balochistan is the poorest of the country's four provinces and one of the country's crisis-affected 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 scattered small settlements around water resources in an overall arid and rugged terrain, and most rural households do not have access to electricity. Balochistan is estimated to have the lowest per capita income and the highest poverty rate of Pakistan's provinces.

Despite its wealth in gas and mineral resources, the economy of Balochistan has grown more slowly and has created less non-farm employment 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 early 1970s – trends that have become more pronounced 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 weak governance have all been factors in the province's economic under-performance. This longstanding disparity in growth rates has led to a wide divergence in standards of living between Balochistan and the rest of the country. As a result, the province has the highest poverty rate in the country – 52 percent compared to the national average of 12.7 percent. Poverty incidence is even higher in rural areas, where almost three quarters of the population is poor (72 percent). Due to underdeveloped manufacturing and service sectors, as well as largely untapped mineral resources, there are also few employment opportunities outside the low-productivity agriculture sector, which still accounts for about a third of the economy but employs about two thirds of the labor force.

Balochistan also has the weakest social indicators among the provinces of Pakistan. In 2010-11, it scored lowest in 12 (out of 13) key indicators for education, literacy, health, water, and sanitation. In particular, it has the lowest infant immunization rate of 53 percent (compared to a national average of 81 percent), and the lowest adult literacy rate of 39 percent (compared to a national average of 57 percent), with only 18 percent for women. Furthermore, almost 45 percent of the population is under the age of 15 years, resulting in a high dependency ratio. At the same time, this youth bulge could act as a driver of economic growth, if young people had access to quality education and the opportunity to acquire appropriate skills.

The security situation in Balochistan has become exceedingly difficult in the past two years due to the escalation of sectarian and extremist violence, and operations by Pakistan's security services against militant groups. Militant attacks have killed hundreds of people and caused significant damage to infrastructure, including gas pipelines. In response, the Government of Balochistan (GoB) has reinforced efforts to improve security, including by increasing public spending on law and order.

Sectoral and Institutional Context

Revenue administration

Following the 18th Amendment to the Constitution of Pakistan in 2010, like other provinces, Balochistan acquired increased competences. More specifically, provinces acquired exclusive

competences in several areas including business regulation, agriculture, education, and health -- as well as additional revenue sources, including the Sales Tax on Services (STS). So far, however, the public administration of Balochistan has not been able to fully exercise these new competences and provide adequate public services due to institutional capacity and fiscal constraints.

The province remains highly dependent on transfers from the divisible pool of federal revenues, which in turn depend on revenue collection at the federal level. In the fiscal year 2013/14, these transfers accounted for 80 percent of the Balochistan's total revenues, with total federal transfers (including federal grants and direct transfers related to oil and gas royalties) accounted for 95 percent. The province's own source revenues (both from tax and non-tax sources) accounted for only 5 percent.

Balochistan's own source tax collection is the lowest among the provinces, accounting for only 2 percent of total revenues in 2013/14. Balochistan was the last province to start collecting the Sales Tax on Services (STS), having temporarily assigned this function to the Federal Board of Revenue due to the lack of capacity of provincial revenue bodies to collect this tax. Until the recent establishment of the Balochistan Revenue Authority (BRA) in July 2015, which will have authority to collect the STS, Balochistan had two tax administration agencies -- the Board of Revenue and the Excise and Taxation Department. The Board of Revenue is responsible mainly for collecting the Agricultural Income Tax (AIT), the land tax, stamp duty as well as other less important taxes, while the main functions of the Excise and Taxation Department include the collection of the Urban Property Tax (UPT), the motor vehicle tax, and tax on the professions. The province has much scope to increase its own source revenues. 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 1.3 percent for Punjab. The STS has been the main source of provincial tax revenue (56 percent of total own source tax revenue in 2013/14), followed by the motor vehicle tax, excise duties, and stamp duty. Preliminary assessments point to a substantial tax gap in KP, especially for the STS on services, the Agricultural Income Tax (AIT), and the urban property tax. Preliminary assessments point to a substantial tax gap in Balochistan, especially for the STS, AIT, and UPT.

Tax revenues could be increased 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 ('nuisance taxes') could help increase the efficiency of tax administration. Improvements in the institutional capacity of revenue collection agencies such as streamlining business processes, digitizing tax registers, strengthening the audit function, and updating tax assessment methodologies could also increase tax collection. For example, AIT revenue, which is currently negligible (around 0.15 percent of the province's tax revenues), could be increased by introducing assessments of farmers' incomes based on their land's yields and crop prices. Such a change in methodology would not require any changes in legislation, but could still prove politically difficult. Balochistan also has scope to increase non-tax revenues, notably royalties from gas and mining, which account for 61 percent of the province's total non-tax own source revenues (2013/14).

Public expenditure management

In the past five years, public spending has increased dramatically. Balochistan has seen the largest increase in budget allocations from the 7th National Finance Commission award (2009), which included poverty rates, infrastructure gaps, and population density in the formula for the distribution of transfers from the divisible pool among the provinces. Between the fiscal years

2009/2010 and 2010/2011 alone, the province's budget increased by 95 percent in nominal terms. This increase in financing has enabled the province to increase spending on infrastructure and public services in order to narrow the development gap with the rest of the country. Balochistan has taken advantage of these additional resources to increase spending on development priorities. The GoB has had modest success in its efforts to rein in current expenditure to make fiscal space for much-needed public investments in priority sectors such as education, transport, and irrigation. Balochistan has been able to use the higher transfers from the divisible pool to increase development expenditure at a slightly faster rate than current expenditure. In nominal terms, between 2009/10 and 2013/14, development expenditure doubled, while current expenditure increased by 92 percent.

Public investment management

Institutional capacity to manage public investments has not kept up with the rapid growth of the development budget. In the past three fiscal years the development budget has been under-executed – by 16 percent in 2013/14 (or 11 percent if projects financed by federal grants and foreign assistance are taken into account). At the same time, the execution of the current budget has seen only small deviations. This indicates that, despite the Government's policy focus on increasing public investment to meet the province's enormous infrastructure needs, the public administration has not been able to fully absorb the additional funds. Analysis by the province's Finance Department indicates that delays in the release of funds by the Treasury, particularly for federally-financed projects, have been an issue in the execution of the development budget. At the same time, development budget execution is complex endeavor that also requires project readiness, efficient procurement, effective contract management, and monitoring of physical progress to ensure project completion. Line departments do not have adequate capacity to conduct reliable feasibility studies and cost-benefit analysis (CBA), which the GoB could use to make evidence-based choices among proposed development projects. The provincial administration has recently started to develop its capacity in public procurement following the adoption of relevant regulations in December 2014. At present, however, contracting authorities' capacity to tender and manage large contracts remains limited.

Moreover, the quality of public investment has often failed to meet the needs of service delivery sectors. Insufficient budget provision for outer years often prevents the timely completion of infrastructure projects and inadequate monitoring of physical progress results in the delivery of facilities that are incomplete or sub-standard. Insufficient provision for operations and maintenance of both new and existing facilities is also a major issue. For example, many schools lack essential features such as blackboards, sanitation, or boundary walls, which deter many families from sending their children, especially girls, to school. As elsewhere in Pakistan, the budget in Balochistan remains divided into two separate parts, the current and the development budget. This practice tends to hinder effective public investment management (PIM) by detaching infrastructure operational and maintenance (O&M) costs, which come under the current budget, from capital investment, which comes under the development budget.

Financing of public services

Results from the additional spending on public services have also fallen short of expectations. As the Finance Department notes, "the entire available resources were spent on brick and mortar without any improvement in service delivery." Budget allocations alone have proven a weak instrument for improving service delivery outcomes, not only in Pakistan but in all parts of the world. Increased financing does not by itself address management issues such as staff absenteeism, which tend to be important factors eroding quality and discouraging citizens from using public services.

Systematic monitoring and targeting of resource allocations could help Balochistan improve

service delivery. The GoB has recently piloted monitoring of service delivery facilities in the education and health sectors, as well as citizen satisfaction surveys – with support from the ongoing Governance Support Project (GSP). The experience of Punjab province has shown that systematic monitoring can bring about rapid improvements, e.g. in staff attendance and availability of essential inputs such as textbooks and medicines. Another way of improving outcomes (e.g. student enrollment, expansion of health care services) would be by targeting resource allocations (staff, infrastructure development) to under-served areas. For example, despite the GoB's efforts to expand access to education for girls, many communities have no access to a girls' school. Such schools account for only 28 percent of all schools in Balochistan. The province could also improve outcomes and efficiency in service delivery by linking outputs to financing and working with non-governmental service providers. A practical way of linking financing to outputs is by establishing benchmark unit costs for key services (e.g. cost of primary education per student, cost of common medical services) and investment indicators (e.g. cost per kilometer of roads constructed). Once unit costs have been established, the Government can use them both for the financing services within the public sector and also for purchasing services from the private sector and civil society organizations (CSOs). In Pakistan, the private sector already plays an important role in the delivery of some public services, especially education, though in Balochistan private sector contribution to public service provision is less widespread than in other provinces. Partnerships with non-governmental service providers can help expand access to public services in under-served areas and – based on the experience of the education sector in Pakistan -- have the potential to also improve quality.

Government program

In the past two years, the GoB has worked towards increasing transparency and accountability. Restoring citizens' trust in state institutions is the overarching objective of the Balochistan Development Needs Assessment (BDNA) that was adopted in 2013. To this end, the GoB has introduced a number of citizen engagement initiatives intended to restore citizens' trust in state institutions, which is the overarching objective of the Balochistan Development Needs Assessment (BDNA). Such initiatives have included public pre-budget consultations, citizen monitoring of public services, and new grievance redress mechanisms such as the Khuli Katcheri, an onsite open court, which currently operates in at two districts (Loralai and Zhob). Many of the aforementioned reforms have received support from the ongoing 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:

- Increased accountability, as evidenced in the increased caseload of the Office of the Balochistan Ombudsman;
- Increased transparency and citizen engagement, notably through pre-budget consultations for the budgets of FY2013/14 and FY015/16 in local communities, which included women for the first time; and
- Introduction of monitoring of public service delivery, starting with third-party monitoring of schools and hospitals in three districts, and gathering citizen feedback on public service delivery on health, education, and domicile registration services.

Further governance and public sector management reforms are an integral part of the Government's program. Public procurement reform has recently moved forward with the adoption of detailed procurement regulations and the online publication of procurement notices and awards. The establishment of the BRA with the mandate to take the collection of the STS over from the FBR starting from fiscal year 2015/16 is another major reform. Planned reforms intended to empower citizens and improve public services include the adoption of a Right to

Information (RTI) law and establishment of relevant implementation mechanisms, as well as the expansion and systematization of monitoring public service delivery in key sectors.

Relationship to CAS/CPS/CPF

The proposed project will be a critical element of the Bank's focus on crisis-affected regions under the current CPS (2015-2019). The project would also directly contribute to two of the pillars of the current CPS, namely public service delivery and private sector development. The project is expected to improve quality and access to public services through stronger performance monitoring and new service delivery modalities (automation, partnerships with non-governmental service providers). The project's goal of increasing the province's capacity for revenue mobilization will help generate fiscal space for spending on public services and infrastructure. It will also contribute to Pakistan's overall fiscal consolidation effort, which requires improvements in revenue mobilization to reduce the fiscal deficit from 8 percent of GDP in 2012/13 to 3.5–4 percent in 2016/17. The project is also expected to contribute to a better business environment for the private sector through targeted improvements in tax administration and accelerated delivery of administrative services.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

26. The Project Development Objective (PDO) is to strengthen the capacity of the tax administration, improve public investment management, and increase accountability in public service delivery.

Key Results (From PCN)

- a) Increased collection of the Sales Tax on Services (STS);
- b) Increased execution of the development (public investment) budget measured by regular monitoring of physical progress of projects;
- c) Improved citizen engagement through increased access to grievance redress institutions; and
- d) Improved skills of public officials (gender disaggregated).

D. Concept Description

Grant amount and project duration: The financing of the proposed project is estimated at US\$20.8 million of which \$6 million has already been made available under the Round II MDTF. The Government of Balochistan has requested for the full US\$ 20.8 million, leaving a financing gap of US\$ 14.8 million which is expected to be bridged in the outer years as more contributions come to the MDTF. Project activities will be designed so that they can be scaled up, should additional financing become available during the implementation of the project. The financing will be provided by the Round II MDTF for an implementation period of five years, which corresponds with the duration of the MDTF.

Grant instrument: The proposed instrument is Investment Project Financing (IPF) and will incorporate a results-based financing modality to provide incentives for results. Lessons learned from the implementation of the MDTF and previous experiences with this instrument in Pakistan, such as the Sindh Education Sector Project (P107300), the Sindh Public Sector Management Reform Project (P145617) as well as similar results-based IPF projects designed in Punjab province, have been incorporated into the project design. The project will include disbursement of US\$4 million which will be linked to achievement of two performance indicators (Disbursement-linked indicators, or 'DLIs'). Tentative DLIs have been included in Table 1. This

approach, which has been used in other operations in Pakistan, contributes to the timely achievement of project objectives and familiarizes government departments with performance orientation. It is proposed that financing based on the achievement of DLIs apply retroactively for achievements made during fiscal year 2014/15.

Project components: The proposed project will comprise the following four components:

Component 1 – Increasing capacity for revenue mobilization (US\$5 million): 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. The component will finance the following activities:

- Subcomponent 1.1 – Revenue assessment: An assessment of the province's revenue potential followed by technical assistance for developing a tax revenue mobilization plan;
- Subcomponent 1.2 – Tax policy capacity: Technical assistance for establishing a tax policy unit in the Finance Department; and
- Subcomponent 1.3 – STS administration: Diagnostics, technical assistance, and training for STS administration in the following areas: (i) expanding the number of registered taxpayers and tax filers; (ii) improving capacity for revenue forecasts; (iii) developing staffing and training plans, as well as performance and integrity management systems for tax officials for the newly established BRA; (v) developing capacity in tax assessment techniques -- including through business intelligence and third party linkages, audit of large taxpayers, legal disputes, and dispute resolution; (vi) piloting ICT-based solutions for taxpayer facilitation; (vii) taxpayer awareness campaigns to promote voluntary compliance.

3. Component 2 – Strengthening public investment management (US\$6 million – of which US\$4 million under IPF modality and US\$2 million in results-based financing for DLI 1): The objective of this component is to improve the quality of public investment and increase the execution of the development budget. The component will finance the following activities:

- Subcomponent 2.1 – PIM assessment: An assessment of current government capacity with reference to the eight “must-have” features of a well-functioning public investment system and development of a PIM action plan to address the main weaknesses identified by the assessment;
- Subcomponent 2.2 – PIM reforms: Technical assistance and training for implementing the PIM action plan, which would cover the following areas: (i) improving processes and tools for the identification, preparation (including project costing, budgeting of recurrent costs, and feasibility studies) and appraisal of capital projects (including economic analysis and identification of financing options); (ii) periodic self-assessments of PIM systems within line departments, and design of measures to increase the productivity of public investments; (iii) raising and managing debt financing for public investments on infrastructure; (iv) improving the execution of capital projects, including procurement, contract management, monitoring of progress, and verification of facilities as ‘fit for purpose’; (v) technical assistance for ongoing monitoring and reporting on the status of facilities; and (vi) developing the legal and regulatory framework for Public-Private Partnerships (PPPs); and
- Subcomponent 2.3 – Asset management: Technical assistance for developing and implementing a strategic plan for the productive utilization of public assets – with a focus on natural resources in a priority sector, probably the mining sector. The strategic plan would be based on analysis of the revenue potential and economic benefits of possible investments, and aim to mobilize investment financing from government, the private sector, and the international development community.

Component 3 – Increasing efficiency and accountability in public services (US\$6.5 million – of

which US\$4.5 million under IPF modality and US\$2 million in results-based financing for DLI 2): The objective of this component is to help the Government improve operational efficiency of public spending on service delivery and strengthen accountability to promote better access and quality to public services. This would be done through three following thematic subcomponents:

- Subcomponent 3.1 - Performance monitoring: The subcomponent will finance technical and training in the following areas: (i) using cost-effective instruments for the systematic collection, analysis, and publication of performance information (including citizens' feedback) of selected public services; and (ii) building government capacity for using monitoring and evaluation (M&E), including impact evaluation, to improve the management of public services – in partnership with academic and research institutes.

- Subcomponent 3.2 - Efficiency of resource allocation: The subcomponent will aim to increase efficiency in the financing of public services. In particular it will support the following activities: (i) technical assistance and training for strengthening the linkage of resources to outputs and controlling unit costs; and (ii) technical assistance for ensuring cost-effectiveness and quality in engaging non-governmental providers in public service delivery.

- Subcomponent 3.3 – Transparency and grievance redress mechanisms: The subcomponent will finance the following activities: (i) technical assistance for preparing a Right to Information Act (RTI) as well as institutional arrangements, and procedures for its implementation; (ii) technical assistance and training to increase the effectiveness of grievance redress mechanisms and expand outreach to citizens for the Office of the Balochistan Ombudsman, the Anti—Corruption Establishment, and the institution to be set up for implementing the RTI law; (iii) training for support to civil society organizations (CSOs) engaged in raising awareness of grievance redress mechanisms, including requests for information under the RTI law, and assisting citizens in accessing them.

Component 4 – Ensuring effective support for the coordination of governance reforms and the operational management of the MDTF portfolio (US\$3.3 million): The objective of this component is to create sustainable capacity in the Government of Balochistan to prepare and implement externally-financed development programs and projects. Based on the recommendation of a recent independent evaluation of the Implementation Support Units (ISUs) of the GSP, it is proposed to divide the functions that ISUs were charged with under the GSP between two units -- one responsible for the coordination of policy reforms with technical support provided by donor projects; and another responsible for project implementation support for all MDTF pillars. It will do so through three subcomponents:

- Subcomponent 4.1 -- Coordination support for governance reforms: This subcomponent will finance a small Governance Reform Support Unit (GRSU) to be housed in the Department of Planning and Development (P&DD). The unit will coordinate and monitor governance reforms in the areas supported by the GPP and other donor projects to ensure timely project support for the reforms. The GRSU will comprise two advisers that will report to the Secretary P&DD. They will be responsible for coordinating technical support and monitoring BDNA implementation in the following areas: governance and social development/civil society engagement reforms; and public service delivery.

- Subcomponent 4.2 -- Implementation support for the MDTF portfolio: This subcomponent will finance a Portfolio Management Unit (PMU) that would report to the Secretary P&DD. This unit will provide implementation support for all projects under the three pillars/programs of the MDTF. Specifically, the unit will perform the following functions: procurement and contract management, financial management, monitoring and evaluation, program communications, and gender mainstreaming in projects.

- Subcomponent 4.3 -- Skills development for public officials: The subcomponent will

finance training and other learning activities, both national and international, including knowledge sharing with other provinces and countries, for government officials of Line Departments and other Public Sector Entities (LD & PSEs) that participate in the programs financed by the MDTF. Training will focus on the following competences: project preparation, procurement, project management, monitoring and evaluation, and managerial/leadership skills. Courses will be delivered in collaboration with the Pakistan Provincial Services Academy, in collaboration with other national and international academia.

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project activities will be located in Balochistan, Pakistan.

B. Borrower's Institutional Capacity for Safeguard Policies

No safeguards policies apply, as the project does not involve infrastructure.

C. Environmental and Social Safeguards Specialists on the Team

Salma Omar (GSURR)

D. 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	

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

11-Jan-2016

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

Not applicable

III. Contact point

World Bank

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V. Approval

Task Team Leader(s):	Name: Sher Shah Khan, Clelia Kalliopi Helena Rontoyanni	
Approved By		
Safeguards Advisor:	Name: Zia Al Jalaly (SA)	Date: 16-Nov-2015
Practice Manager/ Manager:	Name: Alexandre Arrobbio (PMGR)	Date: 16-Nov-2015
Country Director:	Name: Anthony Cholst (CD)	Date: 09-Dec-2015

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.