Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 28-Aug-2019 | Report No: PIDISDSA27562

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Pakistan	P171659	Governance and Policy Project for Khyber Pakhtunkhwa	P156410
Parent Project Name	**Region**	**Estimated Appraisal Date**	**Estimated Board Date**
Governance and Policy Program for Khyber Pakhtunkhwa (KP)	SOUTH ASIA	02-Sep-2019	30-Sep-2019
Practice Area (Lead)	**Financing Instrument**	**Borrower(s)**	**Implementing Agency**
Governance	Investment Project Financing	Islamic Republic of Pakistan	Planning and Development Department, Khyber Pakhtunkhwa

Proposed Development Objective(s) Parent

The Project Development Objective (PDO) is to strengthen the capacity for Sales Tax on Services collection, and improve public investment management and accountability of public service delivery in the water sector in Khyber Pakhtunkhwa.

Proposed Development Objective(s) Additional Financing

To strengthen the capacity for STS collection and improve public investment management and accountability for public service delivery in Khyber Pakhtunkhwa.

Components

Increasing capacity for revenue mobilization and the public financial management
Improving public investment management and accountability in public services
Providing effective support for the coordination of governance reforms and operational management

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	8.00
Total Financing	8.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	8.00
MDTF for Crisi Affected Areas of NWFP/FATA/Balochistan	8.00

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Pakistan, the sixth most populous country in the world, is at a crossroad. Pakistan's gross domestic product grew at 3.3 percent in FY19, a 2.2 percentage point decline compared to FY 18. 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. Natural disasters and unreliable water and power supply constrain progress. After the onset of another boom and bust cycle, a new IMF program was approved in July 2019 to support the country's strategy for reducing domestic and external imbalances and to tackle structural impediments to growth.[1] Growth is expected to gradually recover as structural reforms take effect and macroeconomic conditions improve. Pakistan will need to protect its poor and those just above the poverty line in the next few years through targeted safety nets. Over the medium to long term, Pakistan needs to invest more and better in human capital, raise more revenue, simplify ease of doing business, expand regional trade and exports, and manage its natural endowments sustainably.

Pakistan is a federation, with responsibilities shared between the federal and four provincial governments. The 18th amendment to the constitution of Pakistan (2010) expanded powers and devolved delivery of key services to the provinces. The federal government retains core or shared responsibility for functions including tertiary education, tax and trade policy regulation, and transmission and distribution of power. The World Bank works with both federal and provincial governments and their entities.

Khyber Pakhtunkhwa (KP) province—Pakistan's third-largest region, by population—has over the past eight years made progress in transitioning out of vulnerability and crises, leading to substantial poverty reduction. KP's incidence of poverty fell from 73.8 percent in FY02 to 27 percent in FY14, the largest decrease in any province in Pakistan. KP is

[1] World Bank. 2019. *Pakistan Development Update— Weathering the storm: Restoring macroeconomic stability*. Washington, DC: World Bank, p. 18.

expanding its digital economy to create jobs for youth by building their skills and is investing in an enabling environment for digital entrepreneurs. However, parts of KP remain vulnerable to crises, and KP's human development outcomes remain low, with 40 percent of the children below the age of five stunted, and 36 percent of children out of school. To address this challenge, KP has prioritized investment in human capital. In FY18, the Government of KP (GoKP) allocated 28 percent of its total budget to education, a larger share than any other province. KP is also highly vulnerable to climate change, as it has been facing extreme precipitation events in the Indus catchment areas, particularly during the annual monsoon season since 2010. Being an upper riparian province in Pakistan, KP received the shortest lead time for early warnings on climate induced hydro-meteorological disasters.

Sectoral and Institutional Context

The GoKP's Public Financial Management (PFM) Reform Strategy for 2017-2020 provides the strategic underpinning for the GoKP's objective of strengthening the province's PFM system in the short to medium term. The strategy underscores the priority of increasing the province's own-source revenues (OSR) and better allocation of existing resources to finance investments in infrastructure and public services, especially education, health, and water supply and sanitation.[2]

Although KP has a high potential for increasing revenue, its OSR remains low—the result of a complex institutional set-up with three different institutions collecting various taxes. The Excise, Taxation, and Narcotics Control Department (ETNCD) collects the Urban Immovable Property Tax (UIPT), the Motor Vehicle Tax, and professional taxes and provincial excise; the Board of Revenue (BoR) collects the taxes on real estate transactions and land and the Agricultural Income Tax; and the KP Revenue Authority (KPRA) collects the General Sales Tax on Services (GSTS). Because of the lack of integration—for example, to facilitate using shared databases on taxpayers to enhance compliance, tackle tax evasion, and reduce the cost of tax collection—KP has not been able to mobilize the full scope of OSR at its disposal. Moreover, the province has not taken advantage of its non-tax revenues by making better use of its natural resources and property assets and optimizing commercial utilization of Government-owned real estate assets. A 2018 analysis of the GSTS indicates that by improving tax compliance from today's estimated 23 percent to 75 percent, KP could triple its tax revenue and reduce its dependence on federal transfers, which accounted for 86 percent of provincial revenue in FY17.

The bifurcation of the budget expenditures into "recurrent" and "development" categories makes it difficult to measure the cost of public service delivery and allocate financing accordingly. The slow implementation of a Treasury Single Account (TSA) hinder cash management, as the practice of depositing Government funds into commercial banks compromises the accuracy of the Government's cash positions. In addition, the GoKP cannot forecast the timing of non-salary expenditures because new expenditure commitments are registered in the NFMIS only at the time of payment. Finally, weaknesses in managing dedicated funds makes it difficult to ensure financial performance and adequate coverage of liabilities, as well as to estimate the risk profile of these funds.

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[2] OSR is defined as all ***tax and non-tax revenues collected by the provincial government itself***. This excludes net hydel profit and royalties on oil and gas, which are collected by the federal government and transferred to KP. It also excludes grants from the federal government over and above the province's share of the divisible pool of revenues.

C. Proposed Development Objective(s)

Original PDO

The Project Development Objective (PDO) is to strengthen the capacity for Sales Tax on Services collection, and improve public investment management and accountability of public service delivery in the water sector in Khyber Pakhtunkhwa.

Current PDO

To strengthen the capacity for STS collection and improve public investment management and accountability for public service delivery in Khyber Pakhtunkhwa.

Key Results

1. Increased collection of the Sales Tax on Services (STS)
2. Ongoing Annual Development Plan (ADP) schemes that are geo-tagged (Percentage)
3. Citizens reporting satisfaction with selected notified services (Percentage)

D. Project Description

The revised PDO is as follows: "To strengthen the capacity for Sales Tax on Services (STS) collection and improve public investment management and accountability for public service delivery in Khyber Pakhtunkhwa". The project has three components as follows:

Component 1: Increasing capacity for revenue mobilization and public financial management: Supports strengthening public financial management and revenue collection. Among entities covered are the KP Revenue Authority; KP Public Procurement Authority and Finance Department.

Component 2: Improving public investment management and accountability in public services: Support strengthening of public investment management systems: Among entities covered are Planning and Development Department; Right to Services Commission; Right to Information Commission; and Anti-Corruption Establishment

Component 3: Ensuring Effective Support for the Coordination of Governance Reforms and the Operational Management of the Project: This component supports project management.

E. Implementation

Institutional and Implementation Arrangements

The P&DD of KP will be the lead implementing agency, responsible for the implementation of Components 2 and 3. The FD will be responsible for Component 1. The Operations Support Unit will provide day to day project management support to implementing entities. The OSU will be housed in the P&DD and will be led by a coordinator who will report to the DG of the PCNA Unit. The OSU will support GPP activities with initiatives in the areas of FM, procurement, internal audit, M&E, strategic communications, ICT, and learning and gender, and Public Private Partnership and Governance reforms. An advisor will be hired for each of these functions except internal audit, which will be conducted through a firm. The Governance Specialist will support technical coordination of governance reforms in areas supported by the GPP.

The Project Steering Committee (PSC) will provide high-level guidance and regular oversight of GPP activities. The PSC is led by the Additional Chief Secretary of KP. To ensure timely oversight, the PSC will meet twice a year. The PSC will review implementation progress and provide guidance for moving forward, including on revising the Project Operations Manual.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The Project environmental categorization is C, and does not necessitate preparation of safeguard instruments. Project activities are limited to technical and institutional support aimed at improving Government performance. These activities include no physical works and present no risks related to land acquisition and involuntary resettlement. Given this low risk profile, no World Bank safeguards policy is triggered.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

G. Environmental and Social Safeguards Specialists on the Team

Mishka Zaman, Social Specialist
Rahat Jabeen, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	The project will not finance any infrastructure nor any feasibility studies or other project preparation documents for infrastructure investments. The proposed project is rated as category C for environmental safeguards purposes.

		This policy is not triggered as the proposed project interventions are mainly financing the governance reforms in KPK region and strengthen the capacity of the KP revenue departments. The proposed interventions do not involve any civil works under AF, therefore, it will not have any potential environmental and social risks and impacts. The environmental and social safeguard category of the proposed AF project is assessed as C. The project will finance the purchase of computers and associated peripherals mostly for use by the Geographic Information Systems Lab, KP Revenue Authority and KP Procurement Authority. About 30 desktop and laptop computers will be purchased. Since all newly procured ICT equipment will not be replaced by any old ones therefore, the project will not generate any Electronic Waste.
Performance Standards for Private Sector Activities OP/BP 4.03	No	This OP is not triggered as the activities will be implemented by government sector entities
Natural Habitats OP/BP 4.04	No	This policy is not triggered as the project interventions will not finance any civil works activities, therefore, it is envisaged that the project will not have any impacts on natural habitats.
Forests OP/BP 4.36	No	The project will not finance any activity that will trigger this policy.
Pest Management OP 4.09	No	This OP is not triggered because the proposed project does not finance the purchase of any pesticides.
Physical Cultural Resources OP/BP 4.11	No	There is no civil work proposed in the project hence, no excavation and construction-related activities will be undertaken during implementation. Therefore, this policy is not triggered.
Indigenous Peoples OP/BP 4.10	No	This policy is not triggered as the only recognized Indigenous People of Pakistan, the Kalash, reside in the Chitral Valley which is outside the project's geographical area.
Involuntary Resettlement OP/BP 4.12	No	The project will not be financing any civil works. There will be no land acquisition or involuntary resettlement under the project, nor will it lead to restrictions on land use or impacts on livelihoods from such restrictions/acquisition.
Safety of Dams OP/BP 4.37	No	This policy is not triggered as the project does not involve construction of dams.
Projects on International Waterways OP/BP 7.50	No	This policy is not triggered as the project activities do not include any international waterways.

Projects in Disputed Areas OP/BP 7.60	No	The project activities are not located in any disputed and conflict areas. Hence, this policy is not triggered.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
The activities of the proposed project do not trigger any social or environment safeguard policies. Project activities are limited to technical and institutional support aimed at improving Government performance. These activities include no physical works and present no risks related to land acquisition and involuntary resettlement. Given this low risk profile, no World Bank safeguards policy is triggered.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
None expected

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Not applicable

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.
Not applicable

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Not applicable

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

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?

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Have costs related to safeguard policy measures been included in the project cost?

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

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APPROVAL

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