DOCUMENT OF

THE WORLD BANK

FOR OFFICIAL USE ONLY

Report No: 125987-PK

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF

SDR 137.6 MILLION

(US$200 MILLION EQUIVALENT)

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR THE

PUNJAB CITIES PROGRAM

May 4, 2018

Social, Urban, Rural, and Resilience Global Practice
SOUTH ASIA

CURRENCY EQUIVALENTS

(Exchange Rate Effective: March 31, 2018)
Currency Unit = Pakistani Rupee (PKR)
US$ 1 = PKR 115.71
SDR 1 = US$ 1.45

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

APA	Annual Performance Assessment	PAP	Program Action Plan
CFMS	Computerized Financial Management System	PBG	Performance-based grant
CM	Chief Minister	PCP	Punjab Cities Program
CPS	Country Partnership Strategy	PCGIP	Punjab Cities Governance Improvement Project
CTS	Complaint Tracking System	PDO	Program Development Objective
DG	Director General	PEPA	Punjab Environmental Protection Act
DLI	Disbursement-linked indicator	PFC	Provincial Finance Commission
EPA	Environment Protection Authority	PforR	Program-for Results
ESMF	Environmental and Social Management Framework for the Program	PKR	Pakistan Rupee
ESSA	Environment and Social Systems Assessment	PLGA	Punjab Local Government Act
FD	Finance Department	PM	Performance measure
FY	Fiscal year	PMDFC	Punjab Municipal Development Funds Company
GDP	Gross domestic product	PMS	Performance Management System
GoPunjab	Government of Punjab	PMSIP	Punjab Municipal Services Improvement Project
IDA	International Development Association	POM	Program Operations Manual
IDAMP	Integrated Development and Asset Management Planning	PPP	Public-private partnership
IPF	Investment Project Financing	PPRA	Punjab Procurement Regulatory Authority
LG	Local government	QAR	Quality assurance review
LG&CDD	Local Government and Community Development Department	SBD	Standard bidding document
LGB	Local Government Board	SC	Steering Committee
MAC	Minimum access conditions	SOP	Standard Operating Procedure
MC	Municipal Committee	SORT	Systemic Operation Risk-rating Tool

M&E	Monitoring and evaluation	ULG	Urban local government
O&M	Operation and maintenance	US$	United States dollar
OSR	Own-source revenue	WB	World Bank
P&DD	Planning and Development Department		

Acting Regional Vice President:	Ethel Sennhauser
Global Practice Vice President:	Laura Tuck
Country Director:	Patchamuthu Illangovan
Practice Manager:	Catalina Marulanda
Task Team Leader(s):	Shahnaz Arshad

PAKISTAN
Punjab Cities Program

Table of Contents

PAD DATA SHEET

Islamic Republic of Pakistan

Punjab Cities Program

PROGRAM APPRAISAL DOCUMENT

South Asia Region
Urban Practice (GSU12)

Basic Information

Date:	04 May 2018	Sectors:	Sub-National Government (40%); Public Administration – Water, Sanitation and Waste Management (60%)
Country Director:	Patchamuthu Illangovan	Themes:	Institutional Strengthening and Capacity Building (10%); Urban Infrastructure and Service Delivery (60%); Urban Water and Sanitation (30%)
Practice Manager	Catalina Marulanda		
Global Practice Vice President:	Laura Tuck		
Program ID:	P156972		
Team Leader(s):	Shahnaz Arshad		

Program Implementation Period:	Start Date: 25 May 2018	End Date: 31 March 2023
Expected Financing Effectiveness Date:		01 July 2018
Expected Financing Closing Date:		30 September 2023

Program Financing Data

[ ]	Loan	[ ]	Grant	[Other]
[X]	Credit			

For Loans/Credits/Others (US$M):

Total Program Cost:	236	Total Bank Financing:	200
Total Cofinancing:	36	Financing Gap:	0

Financing Source	**Amount** (US$M)

BORROWER/RECIPIENT	36
IDA	200
Total	236

Borrower: Islamic Republic of Pakistan

Responsible Agency: Planning and Development Department, Government of Punjab

Contact:	Mr. Iftikhar Sahoo	Title:	Secretary
Telephone No.:	+92 42 9910109	Email:	secretary@pndpunjab.gov.pk

Expected Disbursements (in USD Million)

Fiscal Year	2018-19	2019-20	2020-21	2021-22	2022-23				
Annual	14	49	54	59	24				
Cumulative	14	63	117	176	200				

Program Development Objective(s)

The Program Development Objective is to strengthen the performance of participating urban local governments in urban management and service delivery.

Compliance

Policy

Does the program depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]

Overall Risk Rating: Substantial

Legal Covenants

Name	Recurrent	Due Date	Frequency
1. Program Fiduciary, Environment, and Social Systems	**Yes**	**Continuous**	**Continuous**

Description of Covenant
The Operation Implementing Entity shall carry out the Program in accordance with the financial management, procurement, environmental and social management systems acceptable to the Association which are designed to ensure that: (a) the Credit proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and (b) the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated as the case may be, all through an informed decision-making process.

Name	Recurrent	Due Date	Frequency
2.Program Operations Manual	**No**	**Within 1 month of effectiveness**	**Continuous**

Description of Covenant
The Operation Implementing Entity shall within one (1) month after the Effective Date, adopt the Program Operations Manual, and thereafter implement the Program in accordance with the Program Operations Manual.

Name	Recurrent	Due Date	Frequency

3.Program Action Plan	**Yes**	**Continuous**	**Continuous**
Description of Covenant The Operation Implementing Entity shall implement the Program Action Plan agreed with the Association, in a manner and substance satisfactory to the Association.			
Name	**Recurrent**	**Due Date**	**Frequency**
4. Program Steering Committee	**Yes**	**Continuous**	**Continuous**
Description of Covenant The Operation Implementing Entity shall maintain throughout the period of Operation implementation, a Steering Committee headed by the Chairman P&D Board, which shall include secretaries of FD, P&DD, LG&CDD, key provincial agencies and stakeholders as agreed with the Association, in order to review and verify APA reports, address crosscutting implementation challenges, review progress reports, and provide policy guidance and direction.			
Name	**Recurrent**	**Due Date**	**Frequency**
5.Performance Based Grants	**Yes**	**Continuous**	**Annual**
Description of Covenant The Operation Implementing Entity shall ensure that annual PBG disbursements intended for MCs, are fully integrated into the Operation Implementing Entity's provincial budget, and released to cities within thirty (30) days of receipt of funds disbursed by the Association.			
Name	**Recurrent**	**Due Date**	**Frequency**
6. Operation Implementation Arrangements	**Yes**	**Continuous**	**Continuous**
Description of Covenant The Operation Implementing Entity, through LG&CDD, shall (a) carry out the Operation with the assistance of LGB and PMDFC; (b) by not later than six (6) months after the Effective Date, and thereafter maintain throughout the period of Operation implementation, engage the services of an independent private firm, with qualification, experience, and terms of reference satisfactory to the Association for the carrying out an Annual Performance Assessment to determine each MC's compliance with MACs and PMs and their eligibility to benefit from the Program; and (c) maintain within the MCs throughout the period of Operation implementation qualified officials with qualifications and experience acceptable, and under terms of reference satisfactory to the Association in provincially-appointed MC positions.			
Name	**Recurrent**	**Due Date**	**Frequency**
7. Safeguards Requirements for the Project	**Yes**	**Continuous**	**Continuous**
Description of Covenant The Operation Implementing Entity shall ensure that the Project is carried out in accordance with the Safeguards Instruments, in a manner and substance satisfactory to the Association.			
Name	**Recurrent**	**Due Date**	**Frequency**
8. Anti-Corruption Guidelines for the Program	**Yes**	**Continuous**	**Continuous**
Description of Covenant The Operation Implementing Entity undertakes to cooperate with the Association and discharge its responsibilities under the Anti-Corruption Guidelines, pursuant to the Anti-Corruption Protocol.			

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Shahnaz Arshad	Senior Urban Specialist	Urban Development	GSU12
Roland White	Lead Urban Specialist	Urban Development	GSU12
Uzma Sadaf	Senior Procurement Specialist	Procurement	GGOPZ
Qurat ul Ain Hadi	Financial Management Specialist	Financial Management	GGDAP
Marcelo Hector Acerbi	Senior Environmental Specialist	Environment Management	GEN06
Suiko Yoshijima	Senior Environmental Specialist	Environment Management	GEN06
Najm-Ul-Sahr Ata-Ullah	Senior Social Development Specialist	Social Management	GSU06

Imran-ul Haq	Senior Social Development Specialist	Social Management	GSU06
Juan Carlos Alvarez	Senior Counsel	Legal	LEGES
Victor Ordonez	Senior Finance Officer	Disbursement	WFACS
Anwar Ali Bhatti	Financial Analyst	Disbursement	SACPK
Suhaib Rasheed	Urban Specialist	Urban Development	GSU12
Sohaib Athar	Young Professional	Urban Development	GSU12
Michelle Chen	Program Assistant	Team support	GSU12
Ghulam Farid	Program Assistant	Team support	SACPK
Shahnaz Meraj	Program Assistant	Team support	SACPK
Non-Bank Staff			
Name	**Title**	**City**	
Rajagopal S. Iyer	Consultant – Quality Assurance	Washington DC	
Hans Olsen	Consultant – Technical	Amsterdam, Netherland	
Jesper Steffensen	Consultant – Technical	Copenhagen, Denmark	
Emmanuel Ssewankambo	Consultant - Institutional Development	Kampala, Uganda	
Asmat Ullah Khan	Consultant - Budget and Expenditure Review	Lahore, Pakistan	
Azher Uddin Khan	Consultant Environment	Lahore, Pakistan	

I. STRATEGIC CONTEXT

A. Country Context

1. **Pakistan, with an estimated population of over 207 million people, is the world's sixth most populous country.** In recent years, it has achieved continued GDP growth and substantially reduced poverty. Provisional official estimates suggest that the GDP grew by 5.8 percent for FY17/18 up from 5.4 percent in FY16/17, and the government's growth target for FY19 is 6.2 percent. Fiscal and external imbalances if not addressed may however erode these gains in the future. The national poverty headcount declined from 64.3 percent in FY02 to 29.5 percent in FY14. Nevertheless, inequality persists and the country continues to rank low on the human development index at 147th out of 188 countries.

2. **Pakistan is the most urbanized large country in South Asia.** Over 1998-2013, the annual urban population growth rate was an estimated 3.1 percent, compared to a national population growth rate of 2.3 percent per year. According to provisional results from the National Population and Housing Census 2017, the urban population growth rate is 2.7 percent per year, compared to the national population growth rate of 2.2 percent. Official statistics underestimate the urban share of the population, as large portions of the population living in settlements that exhibit "urban" characteristics are officially governed as rural. Estimates based on the Agglomeration Index show over 50 percent of the population in Pakistan to be already urban.[1]

3. **The Constitution establishes Pakistan as a federal parliamentary republic, with a two-tier system consisting of a federal government and four provincial governments.** The provinces are administratively divided into Divisions, Districts, and Tehsils (sub districts). While constitutionally these are not envisaged as a distinct third tier of government, the decentralization of political, administrative, and financial responsibility to local governments (LGs) is laid down in the Constitution. The 18th Constitutional Amendment of 2010 transferred responsibility for LGs from the federal to provincial governments. However, authority for most broad-based taxes remains with the federal government, and provinces are heavily dependent on revenue transfers. In 2013 fiscal transfers constituted 83 percent of the overall revenue available to the Punjab provincial government.

B. Sector and Institutional Context

4. **Punjab is Pakistan's most populous province, with an urban population of 40 million.** Urban population growth in the province is primarily driven by migration from rural areas: 60 percent of all recent migrants to Punjab's urban centers came from rural areas.[2] Analysis of nightlights and spatial data shows the emergence of a well-connected system of cities in parts of Punjab along major transportation corridors, with higher economic growth in recent years around

[1] The Agglomeration Index was developed to have a uniform definition of "urban" across different countries to enable international comparison. It measures urban population using three factors: density (population and economic); distance (from the city center); and division (political/geographic). Source: World Development Report 2009, World Bank.

[2] Recent migration is defined as having taken place within four years before 2010-11, as cited in World Bank (2014) "Pakistan Urban Sector Assessment", background paper for South Asia Urbanization Flagship.

this region than in other parts of the country. Districts in this region also rank high on the Economic Potential Index relative to other parts of the country.[3]

5. **Preliminary estimates are that Punjab's cities and towns contribute at least 35 percent to national GDP, 58 percent to Punjab's GDP, and 62 percent to national urban GDP.**[4] From 1999 to 2010, annual GDP growth in Punjab's cities averaged more than 5.5 percent.[5] However, Punjab's cities lag substantially in per capita economic output, recent economic growth, and livability rankings compared to regional peers and comparators in emerging countries.[6]

6. **Mandates for urban governance and service delivery overlap between the provincial government and LGs**. New LG councils and mayors/chairmen assumed office in January 2017 under the Punjab LG Act (PLGA) 2013. Since late 2009, when the term of the last elected councils expired, all urban governance institutions have been administered by civil servants appointed by the provincial government. While the previous LG system of 2001 devolved several functions to LGs, since 2009 the province has centralized many mandates. The government of Punjab (GoPunjab) is currently assessing options for decentralizing service delivery to the Metropolitan/Municipal Corporations and Municipal Committees (MCs), and is creating the enabling legislative and institutional framework. Under the new LG system, the rural-urban divide (which was abolished in 2001) has been reestablished, with a separate hierarchy of LGs for rural and urban areas.[7]

7. **Cities in Punjab are unable to harness their agglomeration potential to become engines of growth**, and they continue to have low economic density and productivity. The following are some of the contributing factors:

(a) ***High and increasing degree of institutional fragmentation with unclear accountability in governance structures.*** Numerous core municipal functions are either *de facto* or *de jure* not under the mandate of MCs – particularly in the largest cities – and are performed by various provincial departments, province-owned companies, agencies, or authorities. This has led to high expenditure on numerous specialized service delivery entities, with weak financial sustainability[8] and diluted accountabilities.[9] The situation is, however, markedly better in secondary cities, where urban governance and service delivery mandates remain largely intact, and reside with MCs.

---

[3] Sources: World Bank (2014) and analysis of Economic Potential Index by Bank staff in 2016.

[4] Urban GDP share is most likely an underestimation due to the methodology and constraints on data used. Source: World Bank (2014), op. cit. GDP estimates are based on World Development Indicators 2012 and Pakistan Bureau of Statistics' Census of Manufacturing Industries 2005-2006 and Labor Force Surveys from 2009-2011.

[5] Ibid.

[6] Sources: World Bank (2014), op. cit.; McKinsey Global Institute (2012); analysis of Oxford Economics cities database; and Mercer Quality of Living Survey Ranking (2012).

[7] New local government structures for urban areas have been instituted under PLGA 2013: a Metropolitan Corporation in Lahore, Municipal Corporations in the large cities, and MCs in intermediate and small cities.

[8] Over FY15-17, these entities received subsidies of PKR 50 billion (around US$0.5 billion), equivalent to 6 percent of GoPunjab's entire current revenue expenditure and one-quarter of the provincial transfers to LGs.

[9] The accountability of specialized service delivery entities – authorities and companies – to LGs is weak, as either they are directly controlled by the provincial government (authorities), or their contractual payments are centrally managed (companies).

(b) ***Capacities, systems, and finances at MCs remain weak.*** PLGA 2013 substantially increased the number of urban LGs, leading to shortage of staff and the need for new recruitment to address this gap. The new MCs require significant support to effectively manage the transition to new institutional structures and regulations, and to fully operationalize new business processes prescribed under subordinate legislation to PLGA 2013. MCs continue to be heavily reliant on transfers and grants from GoPunjab, with own-source revenue (OSR) accounting for less than half of total receipts. Collections of property tax from urban areas remain low: Punjab's collections as a share of urban GDP are half the average for middle-income countries.[10]

(c) ***Development expenditures are incurred mainly through vertical programs designed and implemented by higher levels of government,*** such as provincial departments, federal ministries/ agencies, or grants given to national and provincial members of parliament, leading to ad hoc and fragmented development. Some one-fifth to one-third of the provincial government's annual capital expenditure is incurred for urban infrastructure and services, and MCs have limited involvement in planning and delivery.

(d) ***Critical municipal services have low coverage and quality.*** Many areas remain unserved, while others suffer from unreliable or low-quality service. Weak investment planning and asset management processes contribute to investment decisions that are neither evidence-based nor responsive to the priority needs of residents, and to inefficient management of service delivery infrastructure.

8. **The strategic dialogue held with the Punjab Chief Minister and his cabinet during the preparation of the operation** focused on the state of cities in Punjab compared to regional and global comparators, and identified actions needed for cities to become engines of growth. Based on available evidence and analytical findings, GoPunjab took a strategic decision that urban LGs in Punjab need to be: (a) given *de facto* and *de jure* authority for municipal service delivery; (b) provided with the requisite technical and financial resources to deliver on their mandates; and (c) made accountable to the provincial government and citizens through effective performance monitoring mechanisms.

9. **In this context, GoPunjab sought Bank support for the urban sector in Punjab.** The proposed operation responds to this request and would support the development of institutional and financial systems with a focus on secondary cities, as they provide the most conducive opportunity to pilot an urban-local-government (ULG)-centric model of improving urban governance and service delivery.

C. Relationship to the CPS and Rationale for Use of Instrument

10. **The proposed Punjab Cities Program (PCP) is aligned with the World Bank Group's Pakistan Country Partnership Strategy (CPS) FY15-20.** It supports the CPS Results Area IV, "Service Delivery," by supporting improvements in governance and service delivery in selected cities of Punjab. It specifically supports CPS Outcome 4.5, "Improved urban management in

[10] Urban property tax collection in all of Punjab was US$88 million in FY15-16, compared to US$90 million in Chennai, US$179 million in Hyderabad (India), US$201 million in Bengaluru, and US$373 million in Mumbai. As a share of urban GDP, Punjab's property tax collection was 0.2 percent in FY15-16 compared to the middle-income-country average of 0.4 percent. Source: Staff calculations based on Punjab and Indian municipal budgets and McKinsey Global Institute (2012).

cities," by strengthening the performance of participating ULGs in urban management and municipal service delivery. The operation is also aligned with the Government's program to add a performance-based element to financing LGs in the cities of Punjab. It also supports the CPS by addressing the IDA18 governance theme in urban areas. Achievement of the Project Development Objective (PDO) will also make a significant contribution to attaining Sustainable Development Goal 11 (sustainable cities and communities).

11. **The operation is expected to contribute to the Bank's overarching goals of ending extreme poverty and promoting shared prosperity** by delivering improved urban infrastructure inclusively and in ways that enhance economic growth and development in the participating cities. The operation also aligns well with the World Bank Group's strategy of identifying and addressing risks associated with disasters and climate change that may hamper achievement of its twin goals.

12. **There is a strong development rationale for public sector support for PCP.**[11] The Bank has experience in supporting the design and implementation of similar operations: the Punjab Municipal Services Improvement Project (PMSIP, 2006-2013) strengthened LG systems and service delivery in the intermediate cities of Punjab; and the ongoing Punjab Cities Governance Improvement Project (PCGIP, 2012-18) supports Punjab's five largest cities in improving systems for investment planning, resource management, and accountability. While some municipal services (solid waste management, parks) are commercially viable, ULGs lack the capacities to undertake public-private partnerships (PPPs) to tap this potential. The operation will assist the provincial and local levels to enhance their capacities and develop the enabling environment to undertake PPPs[12] for city services.

13. **The proposed operation will be financed through a hybrid of Investment Project Financing (IPF) and Program-for-Results (PforR) instruments.** The hybrid operation will be referred to as the "Operation" unless otherwise specified, and the PforR element will be referred to as the "Program."

14. **The larger part of the Operation is financed through the PforR instrument, which has proved to be an effective mechanism for managing conditional grants to LGs and for strengthening institutions and systems for the sustainable delivery of infrastructure and services.** Given the proposed Program's focus on institutional development and policy implementation at the MC level, a PforR modality provides a clear set of incentives to participating MCs by linking Program disbursements to their performance against institutional and service delivery benchmarks. The PforR framework will encourage the MCs to improve their performance in urban governance and to deliver critical infrastructure.

15. **IPF will be used to fund a wide range of institution- and capacity-development interventions at the provincial government level,** as lessons learned from other PforR programs

[11] Justification for public sector financing and features of the Maximizing Finance for Development (MFD) approach are discussed under the economic analysis sections of the Technical Assessment (Annex 4).

[12] A PPP Cell is operating under the Planning and Development Department to support such initiatives. However, these interventions are focused on large infrastructure investments, or on improving industrial infrastructure under the World Bank-funded Punjab Jobs and Competitiveness PforR. They are not directly conducive to the LGs' operational context because of significant differences in scale and risks.

suggest the need for budget predictability for capacity development and Annual Performance Assessments (APAs). Moreover, the IPF modality offers greater discretion and flexibility in meeting the specific development needs of different urban areas and localities, and it will help the Operation to respond if any unforeseen requirements become critical to developing operational capacities and systems in LGs[13] during implementation. The IPF modality also allows a closer working relationship between the provincial government and the World Bank, so that the Bank can better contribute its cross-regional experience and sectoral knowledge to inform the implementation of institution-strengthening interventions in Punjab.

II. PROGRAM DESCRIPTION

A. Government Program

16. **GoPunjab has an ongoing formula-based[14] mechanism of fiscal transfers to urban LGs to support urban governance and municipal service delivery**, through the Provincial Finance Commission (PFC) Award. Currently, the Award does not consider any performance metrics related to achieving urban management or service delivery targets. In the current financial year, GoPunjab will transfer around PKR 25.25 billion to urban LGs[15] as their total PFC share, through monthly releases.

17. **The Government now plans to introduce a program of performance-based grants (PBGs) to urban LGs.** It has requested support from the Bank to design the PBG system and pilot it over the next five years in selected[16] secondary[17] cities under PCP. Drawing on the experience gained and results achieved through the PBG program, the Government intends to scale up the PBG mechanism across all cities in Punjab once PCP closes.

18. **The new program will not affect existing formula-based PFC transfers to the 16 MCs participating in PCP over its duration.** PLGA 2013 allows GoPunjab to transfer grants-in-aid to LGs that are outside, and in addition to, the Provincial Allocable Amount, per recommendations from the PFC based on criteria that include the LGs' performance. The Government will use this provision to pilot the PBGs, which will be implemented as a parallel grant-in-aid outside the PFC transfers.

19. **For the duration of the PCP Operation (2018-2023), the scope and boundaries of the Government program will thus be identical with those of the PforR Program.** Participating

[13] Established and operating as MCs in these cities.

[14] The formula uses the criteria of population, population density, poverty rate, per capita expenditure, access to improved drinking water sources, and baseline expenditure (described as estimated establishment cost for LGs including pension, enhanced by 30%*)*, to compute the respective shares of local governments in Punjab. Source: Punjab Interim Public Finance Commission Award 2017.

[15] These include the Metropolitan Corporation of Lahore, Municipal Corporations in larger cities, and MCs in intermediate and smaller cities. The shares of other entities such as education and health authorities have been excluded here.

[16] The following cities have been selected through analyses of potential for economic productivity and demonstrated performance towards providing livelihoods (see Annex 1): Bahawalnagar, Burewala, Daska, Gojra, Hafizabad, Jaranwala, Jhang, Jhelum, Kamalia, Kamoki, Khanewal, Kot Addu, Muridke, Okara, Vehari, and Wazirabad.

[17] MCs in intermediate cities in Punjab still retain consolidated mandates for planning and municipal service delivery, in contrast to larger cities, where service delivery companies and authorities have assumed many of these functions. MCs therefore provide a better opportunity to test a performance-based financing model.

MCs will be required to contribute 20 percent of financing received through PBGs as counterpart funding; the total contributions from MCs will be US$36[18] million. PCP will pilot the PBG mechanism in the selected cities using IDA financing and counterpart funds for the performance grants to participating MCs.

20. **PBGs at the provincial level will be new; however, basic aspects of performance-based financing were piloted under PMSIP**. ULGs were rewarded with investment financing according to their performance against institutional development targets, and they were required to make a 15 percent contribution to the cost of all infrastructure investments undertaken. Similar governance and urban management improvements have been successfully tested under PCGIP for larger cities.

B. Program Development Objective (PDO) and Key Results

21. **The PDO is to strengthen the performance of participating urban local governments[19] in urban management and service delivery**. The Operation will provide capacity-building and institutional support to 16 secondary cities in Punjab, and will benefit an estimated total population of 4.1 million[20]. The Results Framework is provided in Annex 2.

22. **Proposed PDO results indicators include**:

- Score in the APA for the achievement of institutional performance measures, averaged across all MCs that qualify.
- (Number of) people living in participating cities benefiting from municipal service delivery infrastructure created or rehabilitated under the Program, disaggregated by gender.

C. Program Scope

23. **The PCP PforR (Window 1) will pilot the PBG system, focusing on the ULGs or MCs of the 16 selected secondary cities.** The Program will support building systems in participating MCs for more transparency, accountability, responsiveness to citizens, and provision of improved municipal services, and putting the MCs on a structured path towards fiscal sustainability. In doing so, it will support the transition to the new LG system introduced through PLGA 2013. The Program will support participating MCs in fully complying with PLGA's subordinate legislation and in implementing the rules of business it prescribes, such as Conduct of Business (particularly distribution and dispensation of officers' functions), Budgets (including sections on performance targets and multiyear investment planning), and Accounts (particularly financial reporting requirements). It will do so through two separate but interrelated windows that are outlined below; Annex 1 provides a detailed description of the Operation.

Window 1: Performance-based Grants (IDA allocation of $180 million)

24. **Window 1 will be financed through the Bank's PforR instrument and will support PBGs to 16 MCs in Punjab.** The maximum annual share of each MC will be based on its weighted share from the PFC Award and will incrementally increase over the five years of the Program. Disbursements to Program MCs will be regulated by their performance scores in the APAs through

[18] Equivalent to 20 percent of US$180 million to be disbursed under the PforR Program. See the expenditure framework in Annex 4 for details.

[19] Known, and subsequently referred to, as MCs in the 16 participating cities.

[20] Population estimated from Landscan data for 2015. These estimates will be updated once the Pakistan Bureau of Statistics makes public the detailed results of the National Population and Housing Census.

two disbursement-linked indicators (DLIs), which focus on minimum access conditions (MACs) under DLI 1 and a set of performance measures (PMs) under DLI 2 (see Table 1). This calibrated allocation of PBGs will encourage MCs to seek higher scores in the APA, resulting in higher PBG allocations. The incremental increase—in parallel with the strengthening of the city systems for investment planning, budget allocation, procurement, expenditure management, environmental and social management, and systems and procedures for the operation and maintenance (O&M) of infrastructure and services—will ensure optimal use of funds. It is expected that these increases in the annual grants will begin to be matched by progressive increases in MCs' revenue.

Table 1. Program Disbursement-linked Indicators (DLIs)

DLIs	**Allocated IDA financing (US$ million)**
DLI 1: MCs have achieved minimum access conditions.	45
DLI 2: MCs have achieved performance measures as scored in the Annual Performance Assessment (APA).	135
Total allocation for DLIs	**180**

25. **Achievement of MACs and PMs will enable MCs to access the PBG allocation.** Compliance with MACs will be a precondition to access the PBGs, and failure to satisfy any MAC will disqualify an MC from accessing its PBG for that year. MCs will be assessed against a set of MACs (25% of total PBG envelope) in areas such as the following: (a) investment planning and budgeting; (b) human resources; (c) procurement; (d) financial management and audit; (e) environment and social management; (f) transparency; and (g) signed Participation Agreement. MACs are primarily aimed at ensuring that technical, fiduciary, environmental, and social risks in Program MCs are maintained at an acceptable level. The PMs will build on the foundations laid by MACs and will challenge the MCs to raise their performance to achieve incremental targets. Qualified MCs will be able to access PBGs (75% of total PBG envelope) every year, on the basis of their scores in the APA. PBGs will be allocated to the MCs in proportion to their performance scores, weighted by their shares in the PFC Award formula.

26. **GoPunjab will engage an independent APA firm[21] to verify Program results and provide the basis for disbursement of funds under the Program to the participating MCs.** To ensure transparency, the APA results will be shared simultaneously with the Bank and GoPunjab. They will be reviewed by GoPunjab's Program Steering Committee and submitted to the Bank for quality assurance. The Bank will make the final decision on whether a DLI has been achieved. The aggregate score of the MCs in the APAs will determine the size of PBGs to be disbursed.

27. **Participating MCs will use PBG funds primarily for financing eligible infrastructure investments.** Priority infrastructure investment needs will be identified through improved development planning processes (integrated development and asset management plans). Program MCs will be required to contribute 20% of costs as counterpart funding from their existing sources (such as PFC transfers or OSR) for all infrastructure investments financed through PBGs. In the first year of implementation (FY18-19), Program MCs will be required to focus on servicing the repair and maintenance needs of municipal infrastructure. In subsequent years, MCs may undertake new infrastructure investments. A list of eligible is available in Annex 1.

[21] Administration of APAs will be financed through Window 2.

Window 2: Institutional Strengthening (IDA allocation of $20 million)

28. **Window 2 will support provincial government agencies** in developing and implementing gender responsive systems for human resource management, grant management, reporting and audit, and MC performance assessment. A comprehensive package of capacity building and technical assistance interventions will also be provided to participating MCs to ensure they have the requisite capacities and systems to deliver their mandates and meet the DLIs. Due to the recent transition under the new LG system, capacities developed over time and particularly under PMSIP, have been eroded. Details of Window 2 activities are available in Annex 1.

29. **Under Window 2, GoPunjab will be supported in three ways:**

(a) The ***Finance Department (FD)*** will be strengthened to better oversee MCs' finances and implement performance grants.

(b) Technical assistance will be provided to the ***Local Government and Community Development Department (LG&CDD)*** to administer and manage APAs; develop an effective LG policy framework; and provide guidance to LGs in such areas as infrastructure design[22] and maintenance specifications and PPPs. *The Local Government Board (LGB)* will be strengthened by developing a human resource management system, population-based staffing standards in LGs, level of service standards, and effective systems to monitor service delivery performance.

(c) The ***Punjab Municipal Development Funds Company (PMDFC)***[23] will be supported in providing a comprehensive package of technical assistance, operational guidelines, on-the-job training, and backstopping support to MCs in the areas of development and asset management planning; financial management and audit; OSR mobilization; procurement and contract management; infrastructure delivery and maintenance; accountability, transparency, and complaint handling; environmental and social management; and monitoring service delivery outcomes. PMDFC's senior resources in Lahore and its midlevel regional teams, as well as a range of consultants, vendors, and training partners, will be employed to develop/upgrade systems and provide classroom training and hands-on support to MC staff.

D. Capacity Building and Institutional Strengthening

30. **Capacity-building and institution-strengthening activities will be undertaken at both provincial and LG levels.** At the provincial level, such activities will include (a) policy review and institutional assessment; (b) development and dissemination of guidance, manuals, templates, and standards; (c) provision of critical skill sets/resources; and (d) deployment of dashboards for monitoring systems.

31. **Window 2 will deliver capacity building and institution strengthening.** PMDFC will be responsible for managing and coordinating these activities. Where necessary and appropriate, PMDFC will outsource activities to consultants or other partner agencies. All such activities will be discussed during the annual program review, included in the Window 1 annual work plan, and covered by the annual procurement plan.

---

[22] Wherever applicable, environment, social, and gender considerations will inform design of investment projects.

[23] PMDFC is a government-sponsored, not-for-profit company limited by guarantee, with a public/private Board of Directors. PMDFC was a key implementing agency for the earlier PMSIP operation, under which it was first established.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

32. **The Operation will be implemented through institutional arrangements at the provincial and LG levels.** The Program will be administered per the Program Operations Manual (POM). The LG&CDD, with assistance from the LGB and PMDFC, will have overall responsibility for Program reporting, administering the APA process (including recruiting and managing a private firm for APAs), monitoring and evaluation (M&E), regulation setting, and coordination with Program MCs. The LGB will be responsible for human resource management; operating and maintaining the performance monitoring dashboards; implementing career learning plans and delivery partnerships for LG cadres; and ensuring that new gender focused staffing standards are implemented in Program MCs.

33. **The FD will be responsible for managing and transferring PBGs to Program MCs.** It houses a PFC unit, which will be supported in engaging expertise and skill sets to manage the PBG mechanism, and to budget and release PBGs. It will oversee MC finances through a Financial Monitoring & Reporting dashboard (linked to the Computerized Financial Management Systems in MCs) to be established under the Operation.

34. **PMDFC, as the lead technical agency, will provide capacity-building support to partner MCs to achieve DLI results;** implement institution-strengthening interventions, including procurement of consultancies for technical assistance, deployment and maintenance support for e-governance and improved fiduciary systems, and training of MC staff on new systems; consolidate information related to service delivery, finances and accounts, expenditure, and complaint resolution, and communicate the compiled information to FD and LG&CDD via reporting dashboards set up at these agencies; backstop and provide technical assistance to Program MCs in investment planning, designing, contracting, and implementing infrastructure investment subprojects, as well as asset management, including environment and social management; provide technical assistance in areas such as service delivery standards and OSR mobilization; manage regular M&E processes and provide consolidated information to LG&CDD on the progress of activities per M&E requirements; assist with Program reporting, including the midyear and annual program reports; and assist with day-to-day coordination of the Program.

35. **PMDFC will establish a central Program Management Team in Lahore, which will have overall responsibility for these tasks.** PMDFC will also constitute three regional teams, each of which will provide support to five or six MCs in areas such as planning, procurement, environment and social management, financial management, and M&E.

36. **An Interdepartmental Steering Committee (SC) under the Chairman of the Planning and Development (P&D) Board** (comprising the Secretaries of P&DD, FD, and LG&CDD) will be responsible for reviewing and verifying APA reports, addressing any cross-cutting implementation challenges, reviewing progress reports, and providing guidance.

37. **At the LG level, each partner MC will be responsible for the achievement of DLI results.** Subproject selection and approval will be at the city council level. Citizens will be involved in identification and prioritization of investments, with specific consultations held with

women to integrate their concerns. Infrastructure investments/works will be procured and managed by MCs. MCs will ensure compliance with the Program Participation Agreement, including financial management, procurement, and environmental and social management requirements.

B. Results Monitoring and Evaluation

38. **Monitoring and reporting will take place at both provincial and LG levels.** PMDFC will coordinate the collection of M&E data and individual reports from partner MCs. Each MC will be responsible for reports on Program implementation, urban governance, urban infrastructure, and services delivered through Program funds. Each MC will facilitate access to key data required for the APA. They will also prepare progress reports twice a year (a midyear and an annual report) containing agreed data, and transmit them to the PMDFC. PMDFC will submit a consolidated progress report to LG&CDD, LGB, FD, and the Bank. Annual reports prepared under the Program will be disseminated on MC websites. M&E specialists in PMDFC's regional teams will provide training and backstopping support to relevant staff at MCs to ensure that the reports are timely, comprehensive, and accurate.

C. Disbursement Arrangements

39. **Disbursements under the Program (Window 1) will be subject to PforR procedures.** These disbursements will be scalable, based on achievement of annual DLI targets. Amounts to be disbursed will be determined according to APA results and the subsequent estimate of annual PBG allocations for participating MCs. After DLIs are verified by the Program Steering Committee and the World Bank, annual grants to Program MCs will be announced by early-May of each year so that the PBGs are fully accounted for in the provincial government and MC budgets for the subsequent year. Disbursements for DLIs 1 and 2 will be made in June each year. GoPunjab will release PBG funds against DLIs 1 and 2 to the respective MCs within 30 days after receiving the funds from the Bank; if it does not, the Bank may withhold further disbursements.

40. **Disbursements under the IPF Window will be based on semiannual interim financial reports,** providing details of expenditures of the preceding semester and cash flow projections for the next two quarters. The initial IDA disbursement will be made against a withdrawal application with a six-month cash flow forecast.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

41. **Strategic relevance.** The Operation is assessed to be strategically relevant, given the importance of well-managed urbanization for economic development and poverty reduction in Punjab, the need for adequate urban institutions, and the shortage of financial resources for delivery of urban infrastructure and services. It will assist the Government in piloting PBGs in selected cities, which will provide valuable experience for the intended mainstreaming of PBGs to other ULGs in subsequent years. The introduction of the performance-based financing model for LGs will also strengthen accountability and provincial oversight of LGs regarding their mandated functions. The Operation will also assist in the full implementation of PLGA 2013 and its subordinate legislation in participating MCs, including the prescribed institutional structures, business processes, and human resources. Finally, the Program will provide additional resources to fill the chronic funding deficit for urban services in the selected cities.

42. **Technical soundness.** A number of key design features contribute to the Program's technical soundness: (a) limiting the number of selected MCs will ensure that available financing is not unduly fragmented; (b) participating MCs have unified urban management and service delivery mandates, which will lead to a stronger incentive structure and accountabilities; (c) the proposed size of grants is appropriate to allow MCs to invest in critical service delivery infrastructure, while MACs and institution-strengthening interventions will assist the MCs to responsibly manage and expend these funds; (d) MCs will only be allowed to invest in eligible infrastructure, which keeps fiduciary, environment, and social management risks within acceptable levels; and (e) the strong separation of roles and funding mechanisms between implementing agencies (MCs and PMDFC) and assessment agents (LG&CDD and independent APA firm), ensures the independence and objectivity of APAs. Strong quality assurance measures will ensure that APAs are robust and transparent.

43. **Institutional arrangements.** The division of responsibilities between provincial and local entities has been based on their respective regulatory mandates; it is consistent with the spirit of the PDO and is conducive to subsequent mainstreaming of the PBGs to other LGs in Punjab. (See Section III A for Institutional and Implementation Arrangements.)

44. **Expenditure framework.** The PforR-financed components of the Operation will be embedded in the budget and expenditure management processes of the province and the LGs. IDA funds will be deposited in the provincial Consolidated Fund and allocated to qualified MCs in the form of PBGs. The PBGs will be reflected in the annual budgets of the MCs, and the Treasury will thus ensure that MCs are informed of these allocations on a timely basis.

45. **Economic evaluation.** The proposed Program allows subnational decision-makers considerable discretion in deciding on the types of infrastructure investments that will be financed by PBGs. PCP will implement strong demand- and evidence-based investment planning processes, which will ensure that subprojects address critical needs of the population, are prioritized through a robust economic analysis, and are also sustained through adequate O&M allocations. The economic internal rates of return for comparable investments in Pakistan over the last 10 years has ranged between 17 and 32 percent. The nonquantifiable benefits of urban infrastructure investments are also considerable. The economic analysis also establishes a strong justification for public sector financing in municipal service delivery, and provides recommendations to promote

public private partnerships that have been duly incorporated in the design of the Operation (see Annex 4).

B. Fiduciary

46. **IPF Window.** Most of the IPF Window activities will be implemented by PMDFC, except for strengthening the FD, which will be implemented by the Department's PFC Unit. Separate designated accounts with National Bank of Pakistan will be opened by PMDFC and the PFC Unit of the FD for technical assistance and institution-strengthening activities. PMDFC has prior experience of implementing Bank-funded projects, and its finance unit is adequately staffed. However, PMDFC's financial statements have not been publicly disclosed as required by the Corporate Governance Rules for Public Sector Companies (2013, updated in 2017).

47. **PMDFC uses an administratively well-defined procurement processes**, and has a procurement unit consisting of a manager and one procurement staff. An additional staff will be hired to assist PMDFC's procurement unit for PCP-linked procurements. FD also has experience with selecting consulting firms and procuring goods. The Bank will conduct procurement sessions for PMDFC and FD based on World Bank Procurement Regulations for IPF Borrowers (July 2016, revised November 2017). The Project Procurement Strategy Document provides details of the procurement market, challenges, outlays, strategy, risks, and mitigation measures.

48. **PforR Window.** Program design includes provisions for maintaining adequate and qualified budgeting and accounting staff, and for rolling out the Computerized Financial Management System (CFMS, developed under PMSIP) to all 16 MCs. The CFMS will produce financial information in the format that is acceptable to the Auditor General of Pakistan (AGP). GoPunjab intends to strengthen the internal control arrangements in the MCs. The AGP will carry out the independent audit for the purposes of the Operation. However, for the first year of the Operation, the MC audit may be carried out by private auditors acceptable to the AGP and the Association[24]. The DG District Audit/private auditors will provide the certified annual audit reports of the 16 MCs by October 30 each year. The audited financial statements of the DLI and IPF Windows should be received by the Bank not later than December 31 of each year.

49. **GoPunjab is currently drafting the Internal Audit Authority Act which will also cover LGs.** The program supports internal audits to strengthen the MCs' internal control arrangement.

50. **Procurement outlays are expected to increase under the Program.** However, procurements will still use the procedures of National Competitive Bidding and Shopping. MCs will also hire consultancy contracts for top supervision.

51. **MCs follow the Punjab Procurement Rules 2014.** The standard operating procedures (SOPs) for procurement developed under PCGIP will be implemented in the Operation, with some fine-tuning for MCs. The Punjab Procurement Regulatory Authority (PPRA) is now notifying standard bidding documents (SBDs) for goods and works. Once adopted, these documents would be used by all implementing entities, including MCs. In the meantime, MCs are using documents used by the provincial Works and Services Department. PMDFC will provide technical advisory

---

[24] The budget for the IPF Window includes provisions for costs of external audits by the private firm.

and backstopping support to clusters of MCs through region-based procurement staff and will also conduct procurement training for MC staff. The Bank is also engaged with PPRA to put in place ongoing training sessions. The fiduciary risk of the PforR program is assessed as Substantial.

52. **The laws and institutional mechanisms to combat corruption exist, and systems to combat fraud and corruption are satisfactory.** Arrangements to deal with issues of fraud and corruption will comply with the requirements of the Bank's Anti-Corruption Guidelines on Preventing and Combating Fraud and Corruption in PforR Lending. Key actions recommended by the Fiduciary Systems Assessment have been included in the Program Action Plan (Annex 8).

C. Environmental and Social

53. **Environmental and social management under the Program will be largely based on the existing legal, regulatory, and institutional system in Pakistan and in the Punjab province.** Gaps in the existing institutional systems for environmental and social management need attention, particularly at the city level. MCs are not adequately supported through budgetary allocations and provision of the necessary facilities, equipment, supplies, and adequate or skilled human resources. Laws related to workers including women and other excluded groups for example, are not being effectively implemented. Moreover, MCs do not have documented procedures in place for managing environmental and social risks. The Environment and Social Systems Assessment (ESSA) process provided evidence of GoPunjab's commitment to address these gaps, which will be ensured through MACs and PMs under the Operation. The province has also initiated a process to improve the Environment Protection Authority (EPA) systems, with Bank support. Overall environmental and social risk of the Program is rated as Substantial.

54. **PCP's design incorporates several key measures to address environmental and social risks.** Investments financed through the Program will exclude high-risk subprojects with significant negative environmental and social impacts that are sensitive, diverse, or unprecedented. The Program relies on a positive list to screen out such exclusions. The appraisal of investments will include a rigorous screening for environmental and social risks, and the specifications of the screening process will be strengthened/updated under Window 2. Managing environmental and social risks as prescribed by the ESSA is also a performance measure that will determine accessibility to Program resources. (Annex 6 provides a summary of the Program ESSA.)

55. **PCP's IPF Window (technical assistance component) supports the strengthening of social and environmental risk management systems in the 16 MCs.** It will finance the strengthening of: a) social and environmental management focal points in each MC[25]; b) the creation of environmental and social management systems at the city level; and c) rolling out a training program by PMDFC for city officials. Moreover, environmental and social considerations will be mainstreamed by updating SOPs, O&M manuals, and investment planning strategies with a special focus on gender inclusion.

---

[25] The Municipal Officer (Infrastructure) will be designated the focal person for environment management, and the Municipal Officer (Planning) will be the focal person for social management.

56. **The Bank's Environmental and Social Safeguards will apply to the IPF Window, which has been assigned Category B[26].** The appropriate safeguard instruments for the IPF Window – Terms of Reference for the technical assistance interventions – were prepared by the Government of Punjab[27] and cleared by the Bank before Appraisal.

57. **Climate co-benefits.** PCP will focus on introducing appropriate adaptation and mitigation measures across the eligible menu of infrastructure investments (under DLIs 1 and 2), and some key institution-strengthening interventions (IPF Window) to build resilience to climate impacts. Preliminary climate co-benefits are estimated to be US$ 99.4 million, or 49.7 percent of the IDA allocation. Refer Annex 4 for details.

58. **Gender.** Based on gender analysis, the Operation identifies low female labor force participation and limited involvement of women in development planning as key gender gaps[28]. Specific actions to address them will include development of HRM system for MCs' and PMDFC staff to include gender responsive working conditions such as provision of paid maternity leave, harassment free work environment, separate toilets, safe transport options etc. – in line with relevant provincial Laws as indicated in Punjab Women's Empowerment Package. Moreover, the operation will ensure that at least 80% of infrastructure contracts have gender responsive working conditions for staff and labor. Prioritization and selection of infrastructure investment schemes will ensure women's participation during stakeholder consultations in the development of IDAMPs, to address specific concerns of women. The operation will also ensure that design of subprojects such as urban greenery and public space development incorporate gender responsive features to improve women and girls' access to safe public spaces. These interventions will be monitored through DLIs 1 and 2, the Results Framework, PAP, and supported through the institutional strengthening component.

59. **Citizen Engagement:** The Operation includes robust citizen engagement mechanisms that include a Grievance Redress Mechanism; a Complaint Tracking System (CTS); gender responsive consultations during planning and execution of infrastructure investments; communications/outreach; and citizen's right-to-information measures (Refer Annex 6 for details).

60. **Communities and individuals that believe that they are adversely affected as a result of a Bank-supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the WB's Grievance Redress Service,** which ensures that complaints are promptly reviewed and concerns addressed. Affected communities and individuals may submit a complaint to the WB's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of the WB's noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank Management has been given an opportunity to respond. For information on how to submit

---

[26] The IPF Window of the Operation has been classified as Category B: it will have no direct environment or social impacts because it focuses on technical assistance and institution-strengthening activities. It triggers Operational Policies (OPs) 4.01, 4.04, 4.11 and 4.12. [27] Bank's Interim Guidelines on the Application of Safeguard Policies to TA Activities in Bank-Financed Projects and Trust Funds Administered by the Bank.

[27] Bank's Interim Guidelines on the Application of Safeguard Policies to TA Activities in Bank-Financed Projects and Trust Funds Administered by the Bank.

[28] See Annex 6, Summary for details of Gender Analysis.

complaints to the World Bank's corporate Grievance Redress Service, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

D. Integrated Risk Assessment

61. The overall Risk Rating for the operation is ***Substantial***; the Systematic Operations Risk Rating (SORT) Table is included in Annex 7. Program assessments identified the political and governance, macroeconomic, fiduciary, and environment and social risks as Substantial.

62. **Pakistan's macroeconomic situation warrants continued monitoring.** Pakistan's near-term outlook for economic growth remained broadly favorable. However, continued erosion of macroeconomic resilience may put this outlook at risk, primarily due to fiscal and external imbalances. The World Bank will continue monitoring this risk during implementation. Program interventions are expected to contribute in making Punjab's growth trajectory more sustainable and strengthen the long-term competitiveness of the cities.

63. **Political and governance risks.** Urban governance reforms require multi-stakeholder buy-in and commitment at the provincial and local government levels. To mitigate this, PCP preparation included cross cutting engagement involving political and institutional actors at both levels. Elections for national and provincial legislatures are scheduled for end-2018, and the subsequent political transition may risk slowing implementation. This is mitigated by the Program's design, whereby critical enabling actions required at the provincial level have been completed during preparation.

64. **Fiduciary risk**. The Fiduciary Assessment identified several weaknesses in planning, budgeting, reporting, and audit mechanisms; and key procurement risks as weaknesses in understanding and implementation of procurement rules, weak capacity of officials, lack of compliance/ oversight systems, and potential impacts of delayed releases. The assessment includes specific mitigation actions for these.

65. **Environment and social management risks.** The ESSA identified weak institutional capacity at MCs and inadequate systems for planning and implementation in environment and social management. MCs do not currently have dedicated and trained staff to manage environment and safeguards aspects for infrastructure investments and urban management initiatives. The ESSA provides concrete recommendations to significantly mitigate these risks, which have been incorporated in PCP's design and implementation arrangements.

E. Program Action Plan

66. The Technical, Fiduciary, and Environment and Social Assessments prescribed actions that the Government must undertake to ensure the realization of DLIs and achievement of PDO. The Program Action Plan (PAP) lists key activities/legal dated covenants to ensure, among other things: (a) MCs and provincial departments have essential staff and resources to implement the operation; (b) APAs are undertaken in a timely and credible manner; (c) timely release of funds disbursed to MCs; (d) regular reporting on fiduciary and implementation aspects; (e) annual financial statements audit of Program MCs is conducted regularly; and (f) potential environment and social impacts are screened and mitigated. The complete PAP is available under Annex 8.

Annex 1: Detailed Operation Description

1. **GoPunjab intends to introduce, with World Bank support, a new program of performance-based grants (PBGs) to urban local governments (ULGs).** Currently, GoPunjab makes formula-based[29] fiscal transfers to ULGs through the PFC Award, which does not consider performance metrics (see Table 1.1). PLGA 2013 provides for grant(s)-in-aid from GoPunjab to LGs outside the PFC Award, whereby PFC may recommend such grants based on criteria including the performance of LGs. PCP will use this provision to pilot a PBG program in Punjab.

Table 1.1. PFC Transfers to Urban Local Governments, FY17-18

	PKR million	***US$ million***
Development grants	4,784.2	44.7
General-purpose grants	17,270.7	161.4
Transition grants	3,193.9	29.8
Total	25,248.7	236.0

2. **The cities that will participate in the PBG pilot under PCP are intermediate cities in Punjab with the strongest potential for economic productivity and job opportunities, identified through analyses of key population and economic indicators.** Only cities with urban governance and service delivery mandates solely managed by MCs were deemed eligible for participation in PCP, and cities with ongoing donor-supported operations[30] were excluded from it. The 16 cities selected for inclusion under PCP (Program MCs) are Bahawalnagar, Burewala, Daska, Gojra, Hafizabad, Jaranwala, Jhang, Jhelum, Kamalia, Kamoki, Khanewal, Kot Addu, Muridke, Okara, Vehari, and Wazirabad.

Window 1: Performance-based Grants (US$180 million)[31]

3. **Window 1 will use the PforR instrument to disburse PBGs to the 16 MCs.** The maximum annual share of each MC will be determined according to the respective weighted share from the PFC Award, and will incrementally increase over the five years of the Program. Disbursements to Program MCs will be regulated by their performance scores in the annual performance assessments (APAs). Beginning with the second year, when essential capacities and procedures are in place at the MC level, funds available to the MC will increase significantly; these are expected to be matched by progressive increases in MC revenues.

4. **There are two disbursement-linked indicators (DLIs).** DLI 1 requires meeting minimum access conditions (MACs), and DLI 2 measures achievement against a set of performance measures (PMs). The PBG allocation for the first year will be based on MCs' meeting a reduced number of MACs.[32] Table 1.2 summarizes the DLIs.

5. **Meeting the MACs and achieving the PMs will enable the MCs to access the full PBG allocations.** MACs are primarily aimed at ensuring that technical, fiduciary, environmental, and social risks

[29] The formula uses criteria such as population, population density, poverty rate, per capita expenditure, access to improved drinking water sources, and baseline expenditure to compute respective shares of local governments in Punjab. Source: Punjab Interim Public Finance Commission Award 2017.

[30] The five largest cities of the province are already being supported by the Bank-funded PCGIP, while the next five largest cities are proposed to be supported by the Asian Development Bank's Punjab Intermediate Cities Improvement Project.

[31] A detailed description of Window 1 is available in the Technical Assessment

[32] The first disbursement of PBGs will be based on an assessment of reduced MACs: MACs 1.1, 1.2, 2.1, 4.1, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, and 7.1 (shown in *italics* in Table 1.2).

are maintained at an acceptable level in Program MCs. Failure to fully comply with the MACs will disqualify an MC from accessing its PBG for that year. PMs will build on the foundation laid by the MACs to achieve incremental targets. PBGs would be allocated to the MCs in proportion to their performance scores and PFC shares.

Table 1.2. Program DLIs:
Minimum Access Conditions (MACs) and Performance Measures (PMs)

DLIs	**DLI 1:** MCs have achieved MACs (Allocation: US$45 million)	**DLI 2:** MCs have achieved PMs as scored in the APA (Allocation: US$135 million)
Areas	**MACs**	**PMs**
Investment Planning and Budgeting	1.1 *MC has updated infrastructure maps* 1.2 *MC has an approved Annual Development Plan (ADP)* 1.3 MC Annual Budget Estimates, generated from the CFMS, have been approved by Chairman/Council 1.4 MC has contributed 20% cofinancing for PBGs during the FY	1.1 O&M budgeting and planning done for major infrastructure services *(4 points)* 1.2 Infrastructure maps used as a planning tool *(3 points)* 1.3 Expenditure control of fuel and energy *(3 points)* 1.4 Asset inventory prepared and updated *(4 points)* 1.5 Three-year rolling IDAMP prepared and updated *(6 points)*
Human Resources	2.1 *MC has in place/assigned core locally appointed staff, to operate the systems*	
Own Source Revenues		2.1 Revenue Enhancement Plan prepared *(5 points)* 2.2 Own-source revenues increased *(10 points)*
Procurement	3.1 MC has a Procurement Plan for current FY 3.2 MC has functional procurement committee for relevant level of procurement in place (per PPRA rules)	3.1 Adherence to PPRA rules *(10 points)*
Financial Management and Audit	4.1 *MC has functional Computerized Financial Management System (CFMS)* 4.2 MC cash book is generated using CFMS 4.3 MC has submitted annual financial statements, to the satisfaction of auditors for the previous FY 4.4 MC has no adverse or disclaimed audit opinion for previous FY	4.1 Functionality of the CFMS *(15 points)*
Environment and Social Management	5.1 *MC has designated Environmental and Social management focal persons* 5.2. *MC has developed an environment and social management system with gender considerations, including procedures for preparation, approval, and supervision of investments* 5.3 *MC has developed acceptable capacity to prepare, approve, and supervise management instruments*	5.1 Annual targets set for incremental application of environmental and social screening including gender considerations, assessment, and mitigation processes on all infrastructure investments *(2 points)* 5.2 Eligible investments screened for potential environmental and social safeguard impacts *(3 points)* 5.3 Environmental and Social Assessments, Resettlement Action Plans and other management plans for social and environmental impacts prepared and implemented *(5 points)*
Transparency and Accountability	6.1 *MC has an operational website* 6.2 *MC has functional Complaint Tracking System* 6.3 *MC has functional Performance Management System (PMS)*	6.1 Information available to citizens on MC's website *(6 points)* 6.2 CTS transformed into Grievance Redress Management system for MC *(2 points)* 6.3 MC responds to citizens' requests per Right-to-Information Act *(2 points)*
Operation Specific	7.1 *MC Chairman has signed Program Participation Agreement*	
Urban Infrastructure		7.1 Urban infrastructure targets achieved *(20 points)*[33]

[33] Includes assessment metric related to 'Infrastructure contracts include gender responsive working conditions for workers'.

6. **An independent annual assessment and the verification of results to trigger disbursement is key to the Program.** LG&CDD will engage an independent firm to carry out APAs, which provide the basis for annual disbursement of Program funds to participating MCs. To ensure transparency, APA results will be shared simultaneously with the Bank and GoPunjab's SC. The SC will verify and endorse APA results and notify the Bank. The Bank will undertake quality assurance of APA results and will make the final decision on whether a DLI has been achieved. The APA cycle (see Table 1.3) will be synchronized with the governments' budgeting cycle, to ensure that allocations are reflected in provincial and LG budgets.

Table 1.3. Schedule for APA Cycle

APA milestones	Year 1 (2018-19)	Year 2 (2019-20)	Year 3 (2020-21)	Year 4 (2021-22)	Year 5 (2022-23)
Assessment of reduced MACs for Year 1 disbursement	July 2018				
Hiring of APA consultants	By October (for Year 2: 2019-20)	By October [a]			
Field assessment	November-December	November-December			
APA Reports to Bank and SC	February 2019	February			
Verification and quality assurance	March	March			
Decision and endorsement by SC	Mid-April	April			
Grant announcement (for subsequent year)	Early-May	Early-May			
Grant allocation	June	June			

[a] In case APA agency is not awarded a multiyear contract.

7. **Participating MCs will use PBG funds primarily for financing eligible infrastructure investments.** Priority infrastructure investment needs will be determined by infrastructure maps and Integrated Development and Asset Management Plans (IDAMPs). Program MCs will contribute 20% of the costs of all infrastructure investments financed through PBGs. In the first year of implementation (FY18-19), Program MCs will be permitted to use PBGs only for servicing the repair and maintenance needs of municipal infrastructure. The MC Council will confirm the list of infrastructure investments to be serviced from PBG funds for a specific year from the priority investments identified through investment planning processes. Eligible investments in infrastructure and service delivery have been identified (see Table 1.4), encompassing MC mandates under PLGA 2013. The prioritization and selection of investments will ensure (a) citizen participation; (b) social inclusion (including gender and disability considerations); (c) climate change and disaster adaptation; and (d) economic viability. Annual Infrastructure Investment Plans, listing all planned expenditures against PBGs, will be duly reflected in MC budgets. These Plans will be subject to Bank review and concurrence.

Table 1.4. Eligible Investments and Expenditures

Functional area	Eligible investments
Waste management (solid and liquid)	• Solid waste: collection equipment, collection bins, transfer stations, collection points. *Construction of new landfills is excluded.* • Liquid waste: construction of wastewater treatment plants with a capacity of less than 50,000 m^3/day, sludge ponds, community septic tanks, vacuum trucks, vacuum handcarts, and others.
Water supply	• Water supply pumps, overhead reservoirs, mains, and distribution networks.
Storm water drainage	• Urban drainage systems; flood control systems.
Connectivity	• Urban roads, pedestrian walkways and bicycle paths, street and security lights, and road signs.
Social and livability infrastructure	• Urban greenery and public spaces.
Fire and disaster management	• Fire control stations and disaster management equipment (firefighting trucks, rehabilitation and/or construction of new firefighting station and facilities).

General
(a) Investments in the first year (FY 18-19) will be restricted to repair and maintenance priorities; in subsequent years, investments may include both rehabilitation and capital investments. (b) Proposed investments must be included in list of priority investments identified from updated infrastructure maps in the first three years (FY18-19, and FY19-20) and from IDAMPs in subsequent years. (c) To avoid the fragmentation of urban investments (and limit procurement effort), investment subprojects are subject to a minimum investment of PKR 50 million (~US$ 500,000) This requirement is subject to the following two exceptions: i. Municipalities shall be permitted to combine a number of related urban infrastructure items in the same geographic area into a single procurement to reach the relevant minimum investment/procurement size for a single area-based development initiative. ii. If the PBG allocation to an MC is less than PKR 50 million (US$500,000), the minimum investment/procurement amount will be correspondingly lowered to the PBG allocation amount. (d) At least 80 percent of the PBG shall be spent on non-movable infrastructure assets.

Window 2. Institutional Strengthening (US$20 million)

8. **Window 2 will address the risks to achieving the PDO identified by the Technical, Fiduciary Systems, and Environmental and Social Systems Assessments.** It will support provincial government agencies—including provincial departments and associated entities—in developing and implementing systems for human resource management, grant management, reporting and audit, and performance assessment of MCs. It will also support the capacity building of MCs to enable them to meet the MACs and PMs.

Table 1.5. Window 2 Interventions

	Result Area	Proposed Systems and Activities
FD	Performance-based Grants and Financial Reporting	•Strengthen FD's PFC Unit to manage budgeting and release of PBGs •Operationalize MC Financial Monitoring & Reporting System (linked to MC CFMS)
LG&CDD	Policy Framework and Guidance	•Manage APAs through procuring and managing APA firm •Establish PPP Unit - develop model contracts, templates, etc. •Update Level of Service standards •Develop population-based staffing standards with gender lens •Update design specifications and standards for municipal infrastructure
LGB	Human Resource Management	•Develop and adopt a gender responsive HR Management System, including gender based provisions such as paid maternity leave and harassment free work environment •Develop and operationalize MC Performance Monitoring Dashboard (linked to Performance Management System in MCs) •Implement career learning plan, training content, and delivery partnerships for staff in Program MCs
PMDFC	Integrated Development and Asset Management Planning	•Update Infrastructure Maps developed under PMSIP •Amend IDAMP instructions approved by P&DD under PCGIP to conform with MC organizational structure and staff mandates •LG&CDD instructions to MCs to adopt approved IDAMP framework and process for municipal infrastructure and services. • Develop asset inventories with age and condition for all municipal assets, per approved IDAMP Framework. • Conduct energy audits for electrical equipment, per approved IDAMP Framework. • Conduct fuel audits for mechanical equipment, per approved IDAMP Framework. • Develop training modules for MC staff. • Train MC staff on developing IDAMPs. • Support development of three-year, rolling IDAMPs for each participating MC. • Support implementation of three-year rolling IDAMPs for each participating MC.
	Budgeting, Financial Management and Audit	•Ensure Computerized Financial Management System (CFMS) developed under PMSIP is fully operational, focusing on basic financial management functions: producing annual budget estimates; cash book, automated voucher data entry system; system-generated checks, annual financial statements, etc. •Assess CFMS to ensure compatibility with FABS (national financial management information system)

	Result Area	Proposed Systems and Activities
		•Rollout additional modules e.g. automated billing system for water and shops; challan-based collection system for major avenues of OSR. •Develop and operationalize modules for Pension and Payroll. •Develop Financial Management Manual for MCs. •Require MCs to assign staff below BPS 14 to operate the system and provide training. •Ensure that DG District Audit can audit CFMS-generated reports submitted by MCs.
	Accountability, Transparency, and Complaint Handling	• Ensure MC websites developed under PMSIP are fully operational and updated. • Develop SOPs and training materials to ensure regular updates. • Ensure that MCs post requisite information on their websites.
		• Ensure Complaint Tracking System (CTS) developed under PMSIP is fully operational. • Develop and implement its upgrade to Grievance Redress Mechanism. • Develop and operationalize CTS/GRM dashboard for MCs and LG&CDD. • Require MCs to assign staff below BPS 14 to operate the system and provide training.
	Monitoring Service Delivery Outcomes	• Ensure Performance Management System (PMS) developed under PMSIP is fully operational. • Add performance indicators and collect requisite data. • Develop and operationalize monitoring application to replace manual reporting forms. • Update existing PMS dashboards per current MC, PMDFC, and LG&CDD structures. • Formulate Service Improvement Plans based on PMS and CTS information. • Require MCs to assign staff below BPS 14 to operate the system and provide training.
	Procurement and Contract Management	• Amend and adopt for MCs procurement SOPs based on PPRA Rules developed under PCGIP. • Update SOPs for contract management developed under PMSIP, including social and environmental management, and develop Manual. • Provide procurement and contract management training to MC staff.
	Own-Source Revenue Mobilization and Administration	• Conduct field surveys for OSR to assess current revenues, leakages, and potential for improvement. • Develop OSR Action Plans for OSR sources with highest potential for revenue enhancement. • Set annual targets for OSR increase. • Develop training modules. • Require MCs to assign staff below BPS 14 and provide training.
	Infrastructure Delivery and Maintenance	• Update O&M protocols and manuals for municipal services developed under PMSIP. • Develop training modules on protocols and manuals, including social and environmental management. • Train relevant MC staff.
	Environmental and Social Management	• Ensure appointment of social and environment management focal persons in each MC. • Mainstream social and environmental considerations in the updating of SOPs, O&M manuals, and investment planning strategies. • Develop SOPs, screening checklists, and mitigation measures based on ESSA recommendations, to put in place documented procedures and processes for the management of environment and social risks. • Develop training modules and train MC staff.

9. **Institutional strengthening of MCs will be coordinated by PMDFC.** PMDFC will use a wide range of technical assistance and institution-strengthening providers, including (a) Senior Program Officers based in Lahore to provide classroom training to MC officials and elected representatives, and provide backstopping support; (b) vendors/consultants to develop/upgrade systems and provide maintenance and troubleshooting support and classroom/hands-on training to MC staff; (c) Regional based Program Officers to provide additional classroom training to locally recruited MC staff, and follow up with hands-on support to MCs; and (d) public and private training institutions as partners, to provide venues and facilities for

orientation and refresher trainings, when needed. PMDFC will also identify better-performing MC staff to provide hands-on support to their peers across MCs as Master Trainers.

10. **The IPF Window will also focus on technical assistance and institution-strengthening support to the FD PFC unit, LG&CDD, and LGB.** The nature of the support to each will be customized to the needs of each institution under the Program, but will mainly include hiring of firms/consultants to train and transfer skills to staff, and development of improved systems.

11. The details of technical assistance and institution-strengthening activities and their modalities, timelines, and costs is available in the Technical Assessment.

Annex 2: Results Framework and Monitoring

Results Areas	PDO/Outcome Indicators[34]	Intermediate Results Indicators	DLI	Unit of Meas.	Baseline (2017/18)	End Target (2022/23)
Results Area 1: Governance, Accountability, and Investment Planning	PDO Indicator 1: Score in the APA for achievement of institutional performance measures,[35] averaged across all MCs that qualify (maximum of 80).		1 & 2	Number	0	60
		IR Indicator 1.1: MCs with the full set of enhanced e-governance systems operationalized. • 1.1.a. Performance Management System (Supplemental) • 1.1.b. Computerized Financial Management System (Supplemental) • 1.1.c. Complaint Tracking System (Supplemental)		Number Number Number Number	8 8 8 8	16 16 16 16
		IR Indicator 1.2: MCs with Infrastructure Maps updated under the Program.		Number	0	10
		IR Indicator 1.3: MCs with IDAMPs developed and adopted, ensuring consultation with women groups.		Number	0	5
		IR Indicator 1.4: MCs with timely audits of annual financial statements with no adverse or disclaimed audit opinion.		Number	0	16
		IR Indicator 1.5: MCs with at least 10% increase in OSRs.		Number	0	5
		IR Indicator 1.6: Annual performance assessment of Program MCs conducted on time.		Text	No APAs conducted	APAs conducted per annual schedule
Results Area 2: Investments for Enhanced Service Delivery and Livability	PDO Indicator 2: People living in targeted cities benefiting from municipal service delivery infrastructure created or rehabilitated under the Program. 2.a. Of which female (Supplemental)		2 2	Number Percentage	0 0	1,000,000 50
		IR Indicator 2.1: Percentage of local infrastructure targets set out in the annual work plans delivered by MCs utilizing Program funds[36].		Percentage	0	80
		IR Indicator 2.2: Percentage of infrastructure contracts with gender responsive working conditions		Percentage	0	80
		IR Indicator 2.3: MCs execute at least 80 percent of their annual O&M budget.		Number	0	10

[34] Further information about these indicators is provided in the Technical Assessment, including frequency, data source, methodology for data collection, responsibility for data collection, and responsibility for data verification.
[35] Institutional Performance Measures include the areas of Investment Planning, Own-Source Revenues, Procurement, Public Financial Management, Accountability, and Environment and Social Management.
[36] Urban greenery and public space designs will be gender responsive

Annex 3: Disbursement-Linked Indicators, Disbursement Arrangements, and Verification Protocols
Disbursement-Linked Indicator Matrix

	Total financing allocated to DLI	***As % of total financing amount***	***DLI baseline***	***Indicative timeline for DLI achievement***				
				Year or Period 1	***Year or Period 2***	***Year or Period 3***	***Year or Period 4***	***Year or Period 5***
DLI 1 MCs have achieved MACs			0	Disbursed on assessment of reduced MACs (2018)	Disbursed based on first APA (2018)	Disbursed based on second APA (2019)	Disbursed based on third APA (2020)	Disbursed based on fourth APA (2021)
Allocated amount	**45**	**25%**		**US$10 million**	**US$10 million**	**US$10 million**	**US$10 million**	**US$5 million**
DLI 2 MCs have achieved PMs as scored in the APA			0		Disbursed based on first APA (2018) 40 (average score)	Disbursed based on second APA (2019) 50 (average score)	Disbursed based on third APA (2020) 60 (average score)	Disbursed based on fourth APA (2021) 70 (average score)
Allocated amount	**135**	**75%**			**US$35 million**	**US$40 million**	**US$45 million**	**US$15 million**
Total financing allocated	**180**			**US$10 million**	**US$45 million**	**US$50 million**	**US$55 million**	**US$20 million**

DLI Verification Protocol Table

#	DLI	Definition/ description of achievement	Scalability of disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification entity	Procedure
1	MCs have achieved MACs	The indicator will be satisfied when the Assessment,[37] using only the minimum conditions, has been completed and disbursements to Program MCs have been determined on this basis.	Yes	MC compliance with Program MACs will be assessed by (a) the LG&CDD for the first assessment of reduced MACs; and (b) independent assessment agency for APAs in subsequent years.	The LG&CDD will undertake the first assessment and verify whether reduced MACs have been achieved. For each APA, draft APA reports will be submitted by the APA firm simultaneously to the SC and the Bank for review. Neither party can modify such reports except for factual errors.	LG&CDD will assess the achievement of reduced MACs (MACs 1.1, 1.2, 2.1, 4.1, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, and 7.1) after effectiveness, and report the number of MCs that have achieved reduced MACs to determine the disbursement amount. The Bank will review assessment results and perform QA. *APA:* LG&CDD will hire a consulting firm annually (or with multi-year contract) to carry out APAs in 2018, 2019, 2020, and 2021. Each APA will determine the number of MCs that have met all MACs. The APA firm will calculate the allocation to each MC according to the formula in the Bank Disbursement Table (below), and will provide the aggregate disbursement amount (along with the full APA Report) simultaneously to the SC and the Bank for review. The SC will review, verify, and approve the results. *QAR/review by the Bank:* The Bank will review the assessment results and make the final decision on whether a DLI has been achieved. For further details, refer to the means of verification for MACs in the Technical Assessment.
2	MCs have achieved PMs as scored in the APA	The indicator will be satisfied when the APA has been completed (based on the MACs and performance indicators) and the allocation (based on the score of all MCs) has been determined. The achievement rate will be determined by the APA results, which have been verified by SC and confirmed by the Bank.	Yes	MC progress against Program PMs assessed by the independent APA firm.	For each APA, draft APA reports will be submitted by the APA firm simultaneously to the SC and the Bank. Neither party can modify such reports except for factual errors.	*APA:* The independent APA firm hired by LG&CDD will conduct the APA. The APA firm will assign scores to each MC against the PMs, calculate the allocation to each MC per the formula in the Bank Disbursement Table (below), and provide the aggregate disbursement amount (along with the full APA Report) simultaneously to the SC and the Bank for review. The SC will review, verify, and approve the results. *QAR/review by the Bank:* The Bank will review the assessment results and will make the final decision on whether a DLI has been achieved. For further details, refer to the means of verification for PMs in the Technical Assessment.

[37] The first assessment will be undertaken by LG&CDD and will only focus on a reduced set of MACs (MACs 1.1, 1.2, 2.1, 4.1, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, and 7.1). This will be followed by four rounds of APAs by an independent assessment agency contracted by the department.

Bank Disbursement Table

DLIs/ results	Financing allocated	Deadline for achievement	Min. value to trigger disbursements	Max. values expected	Determination of financing amount to be disbursed against achieved and verified DLI values
DLI 1: MCs have achieved MACs[38]	45	By Program completion	1	16	1. The formula for determining total disbursement from IDA to the Government will be: *[Total Annual Disbursement under DLI 1] = [(Target Disbursement Amount under DLI 1 for a Given Year) X (Number of eligible MCs)] / 16* The target disbursement amounts for DLI 1 in each FY are given below. a) Assessment of reduced MACs: US$10,000,000 for FY18-19. b) APA 1, 2, 3: US$10,000,000 each year c) APA 4: US$5,000,000 for FY22-23. 2. The formula for disbursement from GoPunjab to each eligible MC will be: *[Disbursement to an eligible MC] = [(PFC Award Share[39] for the eligible MC) X (Total Annual Disbursement from IDA against DLI 1)] / [Sum of PFC Award Shares of all eligible MCs]*. 3. Disbursement from IDA will be made provided that previous disbursement from IDA to the Government has been released to MCs within 30 days of receipt of funds.
DLI 2: MCs have achieved PMs as scored in the APA	135	By Program completion	1	100	1. There will be no disbursement against DLI 2 for FY18-19. In subsequent years, disbursement from IDA to the Government will be based on MC scores against PMs subject to their compliance with MACs (see DLI 1 above). 2. Target scores and target disbursement for each assessment are: FY19-20, APA 1, 40 points; US$35,000,000; FY19-20 APA 2, 50 points, US$40,000,000; FY19-20, APA 3, 60 points; US$45,000,000; FY19-20, APA 4, 70 points, US$15,000,000. 3. After each APA, the average score[40] will determine disbursements as follows: a) If score equal to target for FY, full allocation b) If score below target for FY, pro-rata reduction c) If score above target for FY, pro-rata increase 4. The formula for determining total disbursement from the Bank to the Government will be: *[Total Annual Disbursement under DLI 2] = [(Target Disbursement Amount under DLI 2 for a Given Year) X (Sum of Performance Scores against PMs of all eligible MCs)] / [(Target Score for the given year) X 16]* 5. The formula for disbursement from GoPunjab to each eligible MC will be: *[Disbursement against DLI 2 to an eligible MC] = [(PFC Share for the eligible MC) X (Eligible MC's Performance Score against PMs in the APA) X (Total Annual Disbursement from IDA against DLI 2)] / [(Sum of PFC Shares of all eligible MCs) X (Sum of the Performance Scores against PMs of all eligible MCs]*. 6. Disbursement from IDA will be made provided that previous disbursement from IDA to the Governments has been released to MCs within 30 days of receipt of funds.

[38] MCs will be required to achieve a reduced set of MACs (MACs 1.1, 1.2, 2.1, 4.1, 5.1, 5.2, 5.3, 6.1, 6.2, 6.3, and 7.1) for the first assessment, and to be eligible for the first disbursement against DLI 1; all subsequent APAs will require each MC to achieve all MACs to be eligible for disbursement against DLI 1 and DLI 2.
[39] "Inter Se Shares of Local Governments" will be used as provided in the Punjab Finance Commission Award, which is effective at the time of distribution.
[40] AverageAverages core against PMs of the 16 MCs will be calculated as: *Average Score = [Sum of the scores of all eligible MCs from APA against PMs] / 16.*

Annex 4: Technical Assessment Summary

Strategic Relevance

1. **PCP fits well with GoPunjab's policy on supporting LGs** through a two-pronged approach of strengthening their institutional systems and providing financial resources. PCP follows recommendations from PMSIP's Implementation Completion Report and builds on the experience of providing capacity-building support and discretionary grants. Under PCP, the PBG model will be piloted in 16 MCs, which will enable GoPunjab to gain insights and subsequently scale the approach up to all MCs in the province.

2. **Investments in urban infrastructure and services in Punjab have not kept pace with the cities' growing demographic and economic importance.** Deteriorating municipal infrastructure adversely affects cities' ability to effectively contribute to growth. PCP is strategically designed to ensure efficiency and efficacy in the entire cycle of LG functioning, including investment planning, budgeting, procurement, accounting, reporting and audits, and accountability and transparency. The design is based on the successes of similar tested approaches of strengthening MCs through capacity-building support, financial incentives for improved performance, and robust performance assessments.

3. **PBGs will increase discretionary funds available to MCs compared to current levels.** The average annual allocation of US$9-10 per capita will be a significant increase to the 2017/18 per capita OSR and development budgets of US$7.7 (average for 16 MCs) and US$1.7 respectively. Experience from PMSIP confirms that an increase in discretionary development funding, when coupled with capacity building, delivers positive results.

4. **MCs will be required to use Program funds primarily to finance municipal infrastructure investments.** Compliance with the investment menu is a MAC, with noncompliance resulting in sanctions in the following year. MCs will be required to use investment planning tools (being developed with the help of PMDFC) for asset management systems, capital investment plans, annual plans, and budgets. Proper planning and budgeting will also be promoted through the annual assessments.

Technical Soundness

5. **Some key design principles that PCP will focus on for technical soundness** use enhanced government systems to strengthen capacity at both provincial and MC levels; focus on MCs as the main agencies for implementing Program activities; provide strong performance incentives, linking funds with achieving/maintaining MACs and PMs; use a robust performance assessment system; support capacity-building to address gaps identified by APAs; provide the highest annual allocation in the middle of the Program to ensure time for implementation; strengthen the longer-term sustainability of investments by increasing focus on improved municipal revenue mobilization; and support provision of backstopping support and guidance from a specialized technical agency.

6. **Independent annual assessment,** which has proved to be an effective tool in PforRs globally, will be the main instrument under PCP for assessing progress and results.

7. **The Program aims to improve MC infrastructure investment performance.** MCs will use PBGs to fund priority infrastructure investments drawn from their multiyear rolling development and asset management plans. PCP will ensure that available funds deliver high returns as the size of grant allocations to each MC will be based on the quality of its public financial management, investment planning, and procurement.

8. **The DLIs target institutional and service improvements,** as the Program will create value through both institutional development and infrastructure investments. The PMs focus on system and

process outputs, rather than service delivery metrics. They are comprehensive, but are designed to minimize the complexity of the assessment.

9. **The expected outcomes of the institutional strengthening of MCs are the following:** (a) MC staff will be equipped with skills and knowledge to perform their functions; (b) MC performance will improve, as evidenced by continuously meeting the conditions for accessing development and institution-strengthening grants, as well as improvement in the scores attained during the APA; (c) all resources at the MC level (local revenues and transfers) will be properly used and accounted for; and (d) MC capacity will be strengthened to provide municipal infrastructure and services in response to community demand, in an effective and timely manner and within cost estimates. The interaction between the APA and institution-strengthening interventions under the IPF component will further contribute to results.

10. **The Program's expenditure framework of IDA and MC contributions is shown in Table 4.1.** Program funds will be transferred to Provincial Account 1, and onward to each MC's account for development transfers. MAC 4 requires MCs to maintain cash books and generate financial statements using the CFMS, whereby MCs will maintain updated records of PBG allocations and expenditures. CFMS-based financial records will be regularly monitored by FD using the Financial Monitoring and Reporting System, and MCs will submit twice-yearly Budget Execution Reports to the Bank.

Table 4.1. Detailed Program Expenditure Framework (US$ million)

Expenditure area	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	Total
Grants for compliance with MACs (DLI 1)	10	10	10	10	5	45
Grants allocated against Performance Measures for ID and investments (DLI 2)		35	40	45	15	135
Subtotal PforR (IDA)	**10**	**45**	**50**	**55**	**20**	**180**
MC's contribution to subprojects	**2**	**9**	**10**	**11**	**4**	**36**
PMDFC - Capacity building and institutional development support for MCs	3.4	2.8	2.8	2.8	2.8	14.6
Technical assistance and institution-strengthening support for provincial government; and APA contract	0.8	0.7	0.7	0.7	0.7	3.6
Subtotal for IPF (IDA)	**4.2**	**3.5**	**3.5**	**3.5**	**3.5**	**18.2**
IPF Contingency Funds						**1.8**
Grand total	**16.2**	**57.5**	**63.5**	**69.5**	**27.5**	**236**

Economic Evaluation

11. **A review of economic evaluations of similar performance-based urban programs in other countries** indicates that the economic benefits are substantial. Quantifiable benefits include the net positive economic and social returns from investments in service delivery. Less tangible, yet more critical, are the economic benefits derived from strengthening city governance, institutional, and management systems

12. **Economic appraisal of investments.** A substantial share of Program funds (US$180 million) will be used by partner MCs in infrastructure and service delivery investments, which will be appraised at the feasibility stage for their economic viability. Economic appraisal of Bank-financed investments in municipal service delivery in the Punjab and Sindh provinces that have been completed or are under preparation indicates acceptable economic rates of return: 13 percent and 24 percent for water supply investments, and 15 percent and 20 percent for roads/drainage investments.

13. **The economic benefits of institutional development and systems strengthening of MCs** include the following: improved cost-effectiveness; better targeting of public expenditure; improved investment subproject prioritization, design, and selection through improved investment planning and citizen engagement; and improved investment subproject implementation through strengthened financial

management and procurement systems, resulting in efficiency gains. Such benefits are validated by evidence from institutional development and systems-strengthening activities under PMSIP, and the ongoing Punjab Cities Governance Improvement Project (PCGIP), as well as by a similar Bank operation in West Bengal (India).

14. **Private sector development**. The design of the operation is based on the Maximizing Finance for Development (MFD) approach, and to the extent possible and appropriate, the Program will promote private participation. Under PLGA 2013, MCs are not allowed to borrow from private/commercial entities without approval from GoPunjab. Moreover, in the current operating context, MCs do not have the requisite systems to mobilize private/commercial financing. However, several design elements of the Operation aim to promote greater involvement from the private sector in municipal service delivery. At the provincial level, the LG&CDD will be supported in establishing a PPP Unit that will provide guidance and technical assistance to MCs, and in developing model contracts and templates to facilitate the partnerships. Some Program MCs, such as MC Okara, have already piloted informal partnerships with private vendors for primary door-to-door solid waste collection in areas that are inaccessible to larger municipal vehicles. As under PMSIP, a number of institutional development and capacity-building activities supporting MC systems will be contracted to private firms. The capacity of local civil works contractors is also likely to be enhanced, as happened under PMSIP.

15. **Climate Co-benefits.** Pakistan is ranked seventh among the world's countries that are most affected by climate change, with the fifth-highest total losses of all countries attributed to climate change over the 1996-2015 period[41]. Climate change is expected to exacerbate extreme weather events in Punjab, increasing the vulnerability of people, assets, and infrastructure to climate-induced disasters. Because of climate change, while mean rainfall in Pakistan has decreased by 10-15 percent since 1960, it has increased in Northern Pakistan over the same period. Also, the number of heavy rainfall events has increased since 2010, and the nine heaviest rains recorded in 24 hours were in 2010. It is predicted that the proportion of rainfall falling in heavy events during the dry season (January-June) will increase because of climate change, leading to increased risk of flooding. Since 2010 extreme events, such as cloudbursts over the catchment areas of the Indus and its tributaries, have frequently occurred during the annual monsoon season. From the 2010 floods, Punjab suffered US$2.5 billion in damages and losses. Moreover, extreme temperature events have also been reported in Punjab, particularly in the southern region of the province, resulting in fatalities from dehydration and heatstroke.

16. **Among the participating cities**, Kot Addu and Wazirabad are moderately exposed to river floods, and access routes to Jhang, Gojra, Kamalia, Vehari, Burewala, and Bahawalnagar risk being affected from river floods. Under heavy rainfall events, all Program cities are vulnerable to urban flooding, which affects housing, livelihoods, infrastructure, transport, and communications. These risks are exacerbated by inadequate drainage infrastructure, land-use issues, and unsafe disposal of solid waste in drainage channels.

17. **PCP will focus on introducing appropriate adaptation and mitigation measures** across the eligible menu of infrastructure investments (under DLIs 1 and 2) and some key institution-strengthening interventions (IPF Window) to build resilience to climate impacts. Therefore, interventions and investments financed by the Operation, described below, are expected to generate significant climate co-benefits. Total climate co-benefits are estimated to be US$ 99.4 million, or 49.7 percent of the IDA allocation.

(a) **Mitigation co-benefits.** The following investments will contribute to energy efficiency and afforestation in participating cities:

---

[41] Global Climate Change Risk Index 2017: Who suffers most from extreme weather events? Weather-related loss events from 1996 to 2015.

i. ***Energy efficiency improvements in the utility sector and public services*****,** ***energy efficiency of the vehicle fleet*****,** ***and energy audits*****.** Comprehensive energy and fuel audits of municipal infrastructure, equipment, and vehicles will be undertaken and are expected to result in efficiency improvements[42] through rehabilitation or replacement of assets/equipment/vehicles, capacity building of staff, and optimal energy use plans.

ii. ***Construction/rehabilitation of urban roads*** will improve fuel economy and lead to increased energy savings for road users, thus reducing the overall carbon footprint.

iii. ***Investments in non-motorized transport infrastructure*** like pedestrian walkways and bicycle paths will contribute to modal change in urban mobility.

iv. ***Afforestation*** investments in urban parks and greenspaces will contribute to afforestation. Urban road designs will support afforestation along roads, where possible.

v. ***Street lighting***. Energy audits will also recommend measures such as replacing lighting equipment with LED bulbs for streetlights, leading to energy efficiency gains.

(b) **Adaptation co-benefits.** The following investments will strengthen resilience to urban flooding and heatwaves, which are expected to increase in the future:

i. ***Water supply and wastewater networks*** in cities located in floodplains (e.g., Kot Addu) will be supported with technical assistance in identifying safer locations and/or in introducing features such as raised wellheads. Moreover, investments in reliable water supply to consumers will mitigate the risk of heatstroke or dehydration among residents.

ii. ***Urban drainage/flood control systems*** will be designed to respond to the current and future challenges of climate change by mitigating urban flooding risks. Similarly, investments in *safe disposal of solid waste* will check unsafe disposal in drainage channels that results in frequent blockages and thus flooding.

iii. ***Urban parks and green spaces*** will contribute to limiting run-off from heavy precipitation events in urban built-up areas.

iv. ***Urban roads*** designs will take into account climate stressors such as higher temperatures, increased precipitation, and flooding, and climate-smart engineering will be applied to the road surface, subsurface, and side drainage.

[42] Energy audits of water supply and wastewater disposal infrastructure in the five cities under PCGIP identified energy saving opportunities worth around US$8.5 million per year, equivalent to around 13 megawatts or 10 percent of electric power consumption by water utilities in these cities. For example, total annual electricity consumption to operate tube wells and disposal pumps in Lahore city was around 223 million kWh in 2013-14. This energy, in billing terms, amounted to US$29 million (@ PKR 13/kWh). The total investment needed for the efficiency enhancement for 353 identified pumps was US$3.2 million, with annual saving of US$3.9 million. The pumping system efficiency improvement will result in a 13% reduction in energy consumption.

Annex 5: Fiduciary Systems Assessment Summary

1. **The Fiduciary Systems Assessment was prepared using the Program-for-Results Fiduciary Systems Assessment Guidance Note**. According to these guidelines, for a hybrid operation that uses both PforR and IPF, the Policy and Directives apply to the PforR component of the operation, and OP 10.00 applies to the IPF Window.

A. Planning and Budgeting

2. **GoPunjab will disburse PBGs through the Program funds to the 16 selected MCs based on the achievement of DLIs.** Bank funds will be transferred to Provincial Account 1 in June each year. Based on the scores earned, funds will be transferred to a separate account for development funds already maintained by the MCs. A separate budget code will be created in the FD budget to transfer the funds to MCs. The underlying risk associated with using the PBG systems is FD's lack of experience in using the PBG mechanism; this risk is mitigated by hiring a third party for the APA. For the IPF Window, separate annual planning and budgeting will be carried out by PMDFC and the FD PFC unit, with a breakdown of activities and estimated fund utilization. A separate project ID will be created in the LG (PMDFC) and FD for the allocation of funds.

3. **Procurement Profile of the Program.** Under the Program, MCs will procure contracts for works, goods, and supervision consultancies. The largest contract awarded over the past three years was of PKR 99.98 million (about US$1 million) for a solid waste management scheme in Khanewal. The nature of Program procurements is expected to be similar to those prior to the Program, although the costs are expected to increase. However, contract costs will remain much lower than the Operations Procurement Review Committee threshold. Implementation experience from PMSIP with similar-sized ULGs provides reassurance that MCs' technical and procurement capacity would be adequate, when coupled with capacity building provided under the IPF Window. A sufficient number of potential bidders is available in Punjab, and the PAP prescribes measures to adequately disseminate the increased sizes of procurement activities to attract a larger number of bidders and ensure robust competition. Historically there have not been many procurement complaints.

4. **Procurement Planning.** The provincial Procurement Rules stipulate adequate procurement planning. However, the planning process is impeded by uncertain budget releases, the need to prioritize activities given the available resources, and the necessity to complete an activity within a fiscal year. The program SOPs will establish a planning process with adequate linkages to an overall priority plan and multiyear IDAMPs.

B. Budget Execution, Treasury Management, and Funds Flow

5. **Funds flow for PBG is described in paragraph 2.** The smooth implementation of Program activities will largely depend on timely releases of funds by the FD; therefore, the Operation Agreement includes a covenant in this regard. Moreover, each disbursement to the provincial government will be subject to the timely release of earlier disbursements to MCs. The Program funding structure includes MC contributions toward capital investments, and OSR improvements.

6. **Funds for the IPF Window** will be transferred from the World Bank to the State Bank of Pakistan. A separate FC revolving fund account will be opened at the National Bank of Pakistan for PMDFC and the FD PFC unit.

7. **Accounting and Financial Reporting.** The Program design provides for maintaining adequate qualified budgeting and accounting staff and rolling out the CFMS to all 16 MCs. PMDFC is providing regular training to Municipal Officers, Finance and Local Fund Audit Staff in MCs on the use of CFMS and LG accounting rules; however, frequent LG staff turnover remains a risk. Moreover, some MCs are not

fully equipped with infrastructure that maintains segregation of duties while using automated systems. These risks will be mitigated by developing training manuals and online tutorials for new staff, as well as by providing adequate hardware to MCs through the Operation. The MCs will share twice-yearly Budget Execution Reports generated from the CFMS, showing expenditure allocated and utilized from the PBGs received. The MCs will produce annual financial statements from the system as prescribed by the Auditor General of Pakistan.

8. **Procurement Processes and Procedures.** Punjab Procurement Rules 2014 acknowledge the principles of fairness, transparency, value for money, opportunity, economy, and efficiency; stipulate general competition as the default method of procurement; and provide for pre-disclosed evaluation criteria, limitation on post-bid negotiations, disclosure of contract award information, and complaint redress. Bidding opportunities are advertised on the PPRA website and national newspapers, as well as on the MC website wherever available. The draft SBDs are in the process of notification. MC staff and potential bidders will be provided training on SBDs. PMDFC will conduct Program-specific training, and MC staff will also be encouraged to take up training at PPRA.

9. **Procurement SOPs prepared for the municipal level under the ongoing Bank-funded PCGIP, based on PPRA Rules**, will be relevant to the MCs after customization and fine-tuning to reflect recent amendments in LG legislation. These SOPs will streamline processes for procurement planning, processing, approvals, and contract management with service standards. Generally, payments are made on time, subject to availability of budget.

10. **Contract Administration.** A major issue is that bid documents do not have a contract attached, and the bidders are not fully aware of their contractual rights and obligations. The draft SBDs to be notified by PPRA include contract formats. This would be a new concept for Program MCs, and PMDFC will provide adequate training to MC staff.

C. Internal Controls

11. **Control and Integrity.** In general, there is a well-defined delegation of powers, and authorities are documented; however, a procurement disclosure protocol needs to be developed. The SOPs provide a detailed mechanism for developing redress committees, which Program MCs will be required to implement.

12. **Procurement Capacity.** MCs vary in their capacity for procurement and contract management. The implementation of SOPs and staff training will be critical in providing adequate operational competencies, leading to timely planning and decision making, particularly for contract management.

13. **Financial Management Capacity.** PMDFC's finance unit is sufficiently staffed and is headed by an adequately qualified General Manager, Finance. However, a staff needs to be identified in FD's PFC unit to carry out FM responsibilities. At the MCs, the Operation design includes maintaining adequate and qualified budgeting and accounting staff, and rolling out the CFMS to the 16 MCs.

14. **Internal Controls and Internal Audit.** PCP's design allows satisfactory arrangements to monitor, evaluate, and validate Program results through a credible verification process. The LG Accounts Rules 2017 provide adequate internal controls (including budgetary controls, segregation of duties between budget and accounting staff, delegation of authority, maintaining books of account, and periodic reconciliation) to ensure the financial sanctity of transactions. The Program DLIs will further strengthen internal controls through IDAMP and system-generated invoices for revenue collection. GoPunjab plans to establish an Internal Audit Authority for the internal audit function in MCs. PCP will support the strengthening of internal control arrangements in Program MCs.

15. **For the IPF Window**, the designated account in each implementing agency will be operated by dual signatories. The DAs will be maintained and operated under the Revolving Fund Accounting Procedure, issued by the Finance Division of the Federal Ministry of Finance. The implementing agencies will prepare monthly reconciliations with the Accountant General's office and ensure that expenditure is recorded in the country system.

16. **Fraud and Corruption.** PCP will be implemented in accordance with the provisions of the Anti-Corruption Guidelines applicable to PforR operations. An established anticorruption framework exists in Punjab, comprising enabling legislation, anticorruption investigating agencies, and a dedicated anticorruption court system. The Province has an Anti-Corruption Establishment. In addition, there are single-mandate and general-mandate ombudsmen at both federal and provincial levels.

D. Audits

17. **The external audit of MCs may be outsourced to a reputable private audit firm for the initial years of the Program on terms agreed with the Bank[43].** Once fully capacitated, DG District Audit will take over this function from the private audit firm. The DG District Audit/private auditors will provide the certified annual audit reports of the 16 MCs by October 30 each year.

18. **The PFC Unit under FD will be subject to financial and compliance audit by the Auditor General of Pakistan.** PMDFC will be separately audited by private auditors acceptable to the Bank. A separate Program audit will not be required as all development expenditure in the MCs, PMDFC, and the FD's PFC unit will be covered under these arrangements.

19. **The Bank will require receipt of annual financial statements** (for both the PforR and IPF Windows), not later than December 31 each year.

E. Fiduciary Risks.

20. **The Program design includes measures to manage the fiduciary risks identified by the Fiduciary Assessment.** The residual fiduciary risk for the Operation has been assessed as Substantial. The PAP contains risk mitigation measures to increase capacity and improve systems and procedures. The conclusion of the assessment is that the public financial management system, complemented by the program-specific mitigation measures, is adequate to support the Operation. Implementation of the risk mitigation measures to address identified risk will reduce the risk to Moderate. The Fiduciary Systems Assessment provides details of risks identified, mitigation measures, type of action (i.e., DLI, PAP, technical assistance under the IPF Window), and residual risk.

[43] The budget for the IPF Window includes provisions for the costs of external audits by the private firm.

Annex 6: Environmental and Social Systems Assessment Summary

1. **PCP has been designed to have several positive social and environmental effects**, as it includes provisions related to improved service delivery, transparency and accountability, infrastructure planning and implementation processes, livability, social and environmental impact and risk management, citizens' engagement, and gender participation.

Social and Environmental Effects

2. **The environmental and social management under the Program will be largely based on existing legal, regulatory, and institutional systems in Pakistan and Punjab.** Gaps in the existing institutional systems for environmental and social management need further attention, particularly at the city level. The MCs are not adequately supported through budgetary allocations and the provision of necessary facilities, equipment, and supplies, or adequate and skilled human resources. The MCs also do not necessarily have documented procedures and processes in place to manage the environmental and social risks. The ESSA has shown evidence of GoPunjab's commitment to address most of these gaps—work that the Program will support through the MACs and PMs. Moreover, the province has initiated a process to improve the EPA systems with Bank support. The overall environmental and social risk of the Program is rated Substantial.

3. **The Operation supports the strengthening of social and environmental risk management systems in all 16 MCs.** The IPF Component will finance the strengthening of social and environmental management focal points in each MC; the creation of environmental and social management systems at the city level, including the development of management instruments; and PMDFC training of MC officials. The IPF will also support the mainstreaming of environmental and social aspects when updating SOPs, O&M manuals, and investment plans.

4. **The Program design includes measures to address environmental and social risks.** Investments financed by the Program will exclude high-risk subprojects with significant negative environmental and social impacts that are sensitive, diverse, or unprecedented. To screen for these exclusions, the Program will rely on a positive list. The appraisal of investments will include a rigorous subproject screening for environmental and social risks, to be updated with the support of the IPF activities. MC performance in managing environmental and social risks, as contained in the ESSA, is a PM that will determine access to additional PBG funds.

5. **PCP includes substantial measures to respond to the needs of vulnerable groups (women, disabled, the elderly, and so on).** Laborers, particularly women workers, are especially vulnerable during implementation of infrastructure subprojects, and may face issues like reduced wages, unsafe transportation, lack of child care and toilet facilities, and sexual harassment in the workplace. Contract laborers, both men and women, face issues of lower wages and harsh working conditions. The trend of engaging child labor at low wages is also a major social risk. In addition, cultural and patriarchal norms restrict women's participation in public or economic activities. Furthermore, a lack of focus on social concerns such as security and crime perpetuates reduced mobility, particularly for women, and may lead to creating zones of deprivation and enhancing inequity within cities.

6. **Labor laws have been enacted in Pakistan and adopted by GoPunjab** on, for example, working conditions and payment, minimum wage, social security registration, safety at work, child labor, bonded labor, contract labor, and female workers. However, the implementation of these provisions remains weak. Social and environmental management professionals appointed in MCs and PMDFC will be required to support (a) development of screening procedures and preparation of environmental and social assessments and management plans, (b) preparation of socially inclusive investment decisions and plans, standards, and manuals; (c) conduct of surveys related to social and environmental aspects; (d) attention to land-related

issues; (e) managing labor- and gender-related issues; (f) maintaining effective liaison with the Labor and Women Development Departments; (g) implementation of social management measures related to vulnerable and marginalized people; (h) functioning of CTS/GRM; (i) implementation of a public communication strategy and stakeholder consultation process; and (j) engaging with technical teams to improve O&M. The ESSA has recommended mitigation measures that have been incorporated in the PAP.

7. **The Program has developed and mainstreamed key recommendations to strengthen environmental and social management at the local level.** Detailed recommendations are included in the PAP. The implementation of recommendations through institution-strengthening activities will be financed under the IPF Window, and infrastructure investments will be made under the PforR Window. For the IPF Window, Bank Environmental and Social Safeguards will be applied (Category B),[44] whereas for the PforR Window an ESSA has been prepared. PforR funds will be disbursed only if the existing legal and institutional systems are complete and capable of meeting adequate social and environmental standards. Investments under the PforR will commence after the successful implementation of DLI 1 in Year 1, and acceptable performance for project planning and execution under DLI 2 in Year 1 and Year 2. Planning and design of infrastructure subprojects will start in Year 2, and most of their implementation will be undertaken in the subsequent years.

ESSA Recommendations Mainstreamed in the Program Design

(a) ***Mainstreaming environmental considerations in institutional strengthening,*** delivered through DLI 1 and 2, including provisions for PPP financing modalities and procedures for hiring third parties to collect service charges from users, and for monitoring environment and social compliance.

(b) ***Capacity building for operation and maintenance.*** The O&M manuals for municipal services developed under PMSIP will be updated for MCs to ensure that environmental and social management aspects are included, and that requisite training is provided to MC officials.

(c) ***Support to prepare environmental management instruments.*** All investments will go through an environmental and social assessment process. When existing infrastructure is repaired and replaced, Initial Environmental Examination/Environmental Impact Assessment approvals are not required under the Punjab Environmental Protection Act (PEPA) 2012; the Program will update and apply the Environmental and Social Management Framework (ESMF) developed under PMSIP to cover assessments of investments under the Program.

(d) ***Efforts to reduce pollution.*** While solid waste and sanitation are identified as key issues in the cities, measures to minimize generation of solid waste and wastewater will also be emphasized, and solutions for their disposal considered.

(e) ***Institutional coordination.*** PCP implementation arrangements are designed with clear mandates for each institution, and with inter-institutional coordination mechanisms. PMDFC and MCs will coordinate with Punjab EPA and its district offices for sustainable operations of environmental infrastructure, per Punjab Environmental Quality Standards requirements.

(f) ***Integrated infrastructure solutions.*** Given the environmental profile of cities and the PEPA 2012 requirement to implement complete infrastructure solutions, subprojects will need to be designed with complete solutions, regardless of the source of funding. For example, rehabilitation or extension of the existing sanitation network will be considered incomplete if the eligible wastewater treatment

---

[44] The TA window of the operation has been classified as Category B as it will finance, among others, the following activities: Complaint Tracking System (CTS)/Grievance Redress Mechanism (GRM); investment plans; training in and updating of O&M protocols for urban infrastructure; contract and project management; preparation of environmental and social management instruments; and setting up of a PPP Unit and development of model contracts, terms and conditions, templates, and partnership frameworks for PPPs in municipal service delivery (including social and environmental management). The IPF will have no direct environmental or social impacts because it focuses on building the capacity of local institutions. Technical assistance activities will mainstream the core principles of safeguards policies to ensure the adoption of social and environmental sustainability measures in the preparation and delivery of the activities and to avoid negative indirect impacts.

systems are not included in the engineering designs of the subprojects. However, Program funds will be used only for subprojects that meet the Operation's eligibility criteria.

(g) ***Institutional strengthening and capacity building*** and MACs will target key areas to significantly strengthen the environmental and social management capacity of MCs. MCs will be required to assign environmental management to the Municipal Officer (Infrastructure) and social management to the Municipal Officer (Planning). PMDFC will assist them in performing the function as an interim measure, while transferring basic skills to the assigned MC staff. Creation of requisite capacities will also be ensured through the Program Participation Agreement.

(h) ***Updating and enhancing of complaint tracking*** to an overall GRM for MCs will be supported. Under the GRM, coverage of complaints would be enhanced to include transparency, accountability, exclusion of marginalized groups from development priorities, and labor issues. The GRM will be more gender-responsive, with clearly defined timelines for redress.

ESSA Recommendations Included in the PAP

(a) ***Support to prepare environmental management instruments,*** in particular the update and application of the ESMF already developed under PMSIP.

(b) ***Environmental data generation and environmental monitoring.*** The automated systems will include environmental performance indicators for analysis and strategic use. With the support of PMDFC, MCs will conduct studies on sustainability of underground aquifers for water supply subprojects, and implement environmental monitoring systems for operation of infrastructure developed.

(c) ***Strengthen LG&CDD environmental and social management*** to ensure due oversight, including designated environmental and social focal points with capacity to supervise and report on these aspects.

(d) ***Development of SOPs for improved infrastructure planning and implementation*** will include:

  i. *Physical Cultural Resources, Archeological Screening, and Chance Find Procedures* covering physical cultural resource and archeological screening for subprojects.

  ii. *Health, Safety, and Environment* covering occupational, construction, and community aspects related to health, safety, and the environment.

(e) ***Improved enforcement of labor and gender-related laws.*** The social management professionals at PMDFC and MCs will collaborate with the Departments of Labor and Women Development on working conditions for vulnerable workers (such as women) to ensure enforcement of applicable laws.

(f) ***Stakeholder consultation.*** PMDFC and MCs will ensure that stakeholder consultation processes are inclusive at each stage of investment planning and implementation. The Public Consultation Framework prepared for PMSIP will be updated and adopted for PCP. The scope of consultations will address social needs related to accountability, transparency, tariff increase, and inclusion of voice for the marginalized and vulnerable. A representative willingness-to-pay survey will be undertaken during the preparation of the revenue enhancement plans and strategies.

8. **Citizen Engagement.** The Operation includes robust citizen engagement mechanisms: a Grievance Redress Mechanism; a Complaint Tracking System (CTS); gender responsive consultations during planning and execution of infrastructure investments; communications/ outreach; and citizen's right-to-information measures. Results from these interventions are captured as follows:

(a) Intermediate Results (IR) Indicator 1.1 and MAC 6.2 ensure that the CTS is fully operational.

(b) IR Indicator 1.3 on implementing IDAMPs, which involves effective community consultations for identifying priority service delivery needs.

(c) Beneficiary Feedback indicators listed under results area "Accountability and Transparency" in MACs and PMs ensure essential systems (MACs) and provide incentives for upgrading systems (PMs).

(d) MACs 5.1, 5.2, and 5.3 ensure that staffing, procedures, and functioning systems are in place for environment and social management, including effective consultations, particularly for execution of infrastructure works.

Annex 7: Systematic Operations Risk Rating (SORT)

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

Annex 8: Program Action Plan

Issue/risk description	Action/completion	Timeframe	Responsible party	Instrument
Provincial level				
16 Municipal Committees (MCs) are sensitized to the IPF and performance-based grant (PBG) system	PMDFC will conduct workshops to sensitize and inform all Program MCs about PCP, MACs, PMs, PBGs, and the IPF Window. MCs will fully operationalize systems developed under PMSIP. No disbursement will be made to any defaulting MC against the achievement of reduced MACs.	Within one month after effectiveness Before the assessment of reduced MACs	LG&CDD/PMDFC MCs	DLI/MACs MACs
Release of funds from the Provincial Consolidated Fund to implementing agencies is delayed because of budgetary constraints of GoPunjab	FD will ensure that PBG disbursements to MCs are fully integrated into the provincial budget and released to cities within 30 days of disbursement by the Bank. Failing this, further Program disbursements will be suspended.	Annual	FD	Legal Covenant
MCs reporting on the use of grant funds	MCs will report on grant funds utilization through required biannual and annual reporting processes, using customized Chart of Accounts for new conditional grants in budget, and expenditure recording second year onwards.[45] The APA will report on implementation status and compliance with environmental and social management and investments.	After the beginning of FY18/19 MC budget cycle	LG&CDD and FD	Annual Reports and APA
Timeliness of independent annual assessment	LG&CDD will procure an independent private firm for APA (annually or on multiyear contract), and ensure adherence to PBG disbursement cycle.	Annually	LG&CDD	Legal Covenant
Potential environmental and social impacts of infrastructure projects are identified, mitigated, and monitored	MCs will seek guidance on environmental and social management system as described in the POM, which is consistent with provincial systems and principles. Appointment of Environmental Specialists and Social Development Specialists for each PMDFC team (Lahore-based team plus three regional teams). Technical staff in MCs trained on O&M Manuals as part of sensitization conducted by the LG&CDD/ PMDFC.	Within one month after effectiveness Within three months after effectiveness Before first grant disbursement	LG&CDD and PMDFC PMDFC LG&CDD and PMDFC	POM POM POM
Vacant positions of provincially appointed MC officials compromise implementation capacity	LG&CDD/LGB will appoint qualified officials to fill vacancies in provincially appointed MC positions. Tenure of provincially appointed officials will be maintained by LG&CDD/LGB for at least 3 years, except for exceptional cases.	Ongoing Ongoing	LGB and LG&CDD LGB and LG&CDD	Legal Covenant PAP

[45] The POM includes provision for reporting mechanisms for Year 1.

Issue/risk description	Action/completion	Timeframe	Responsible party	Instrument
No certification/financial statement audit is carried out by DG District Audit, or annual audit is delayed	DG District Audit, Punjab will ensure that the audits of the financial statements of the 16 MCs are conducted, and reports shared with the Bank not later than October 30 each year. A private audit firm may be used in the initial years, if DG District Audit does not have requisite capacity. Program disbursements will be suspended if the audit reports are not delivered on time.	Annual	DG District Audit/Private Firm	MAC and PAP
Municipal Committee level				
Insufficient capacity at MCs to implement program	MCs will maintain focal persons for finance, planning, internal audit, accounting, procurement, and complaint handling throughout implementation.	Over Program implementation	MCs	MAC
Insufficient reporting on Program activities	MCs will provide bi-annual and annual reports on financial and Program implementation, safeguard management, grievance redress, and other relevant information.	Over Program implementation	MCs and PMDFC	MAC and PM
Potential environmental and social impacts of infrastructure projects are identified, mitigated, and monitored	MCs will appoint focal persons for Environment and Social Management.	Over Program implementation	MCs	MAC
	MCs will adopt and implement the updated Environmental and Social Management Framework (ESMF).	Before subproject implementation	PMDFC and MCs	ESSA
	MCs will update and implement the following already developed under PMSIP: (a) Communication Strategy (b) Public Consultation Framework	Over Program implementation	PMDFC and MCs	ESSA
	MCs will develop, notify, and implement SOPs for Physical Cultural Resources and Health, Safety, and Environment.	Over Program implementation	PMDFC and MCs	ESSA
	MCs will improve enforcement of labour and gender-related laws	Over Program implementation	PMDFC and MCs	ESSA
	MCs will ensure generation and monitoring of environmental data, and coordination with relevant agencies	Over Program implementation	PMDFC and MCs	Updated ESMF
	Institutional strengthening of LG&CDD/LGB	Before first grant disbursement	PMDFC	Updated ESMF

Annex 9: Implementation Support Plan

Strategy and Approach for Implementation Support

1. The implementation support plan for the Operation has been developed to address the risks identified by Program assessments and summarized in the SORT table (see Annex 7). The Plan will be regularly reviewed and revised as required. The Bank will provide necessary and continuous implementation support in the following areas:

(a) Reviewing implementation progress toward achieving Program results to meet DLI disbursement requirements;
(b) Monitoring implementation of the PAP;
(c) Monitoring changes in Program risks and compliance with the provisions of legal covenants; and
(d) Providing hands-on institutional capacity building as may be required.

Implementation Support Plan and Resource Requirements

2. In the first year, implementation support requirements are expected to be high, to ensure that adequate investment planning, resource management, accountability, fiduciary, environment and social management, and performance management systems are established in Program MCs and provincial implementing agencies.

3. Regular implementation support missions will cover technical, institutional, environmental and social, M&E, and fiduciary aspects. Full implementation support missions will be carried out three times during the first year and every six months in subsequent years. Table 9.1 provides an implementation support plan for the first year of the project and for the following years.

Table 9.1. Implementation Support Plan

Time	Focus	Role	Number of staff weeks per year
First 12 months	Task Team Leadership	Task Team Leader	20
	Technical - Urban Institutional Development	Institutional Development Specialist	4
	Technical - Municipal Service Delivery	Urban Development Specialist	4
	Operational – Environmental Management	Environmental Specialist	6
	Operational – Social Management	Social Specialist	6
	Operational – Procurement	Procurement Specialist	4
	Operational – Financial Management	FM Specialist	6
12-54 months	Task Team Leadership	Task Team Leader	25
	Technical - Urban Institutional Development	Technical - Urban Institutional Development	2
	Technical - Municipal Service Delivery	Technical - Municipal Service Delivery	6
	Operational – Environmental Management	Operational – Environmental Management	6
	Operational – Social Management	Operational – Social Management	6
	Operational – Procurement	Operational – Procurement	6
	Operational – Financial Management	Operational – Financial Management	6
	Monitoring and Evaluation	M&E Specialist	4