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

Appraisal Stage | Date Prepared/Updated: 02-February-2018 | Report No: 123247

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Pakistan	P156972	Punjab Cities Program	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	February 07, 2018	March 30, 2018	SURR
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Program for Results	Islamic Republic of Pakistan	Government of Punjab	

Proposed Development Objective(s)

The Program Development Objective is *to strengthen the performance of participating urban local governments*[1] *in urban management and service delivery*.

Components

I. IDA Allocation for Performance Grants (PforR)
II. IDA Allocation for Institutional Strengthening (IPF)

Financing (in USD Million)

Financing Source	Amount
IDA	**200.00**

Environmental Assessment Category

B

Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

Yes

Decision

[1] Known, and subsequently referred to, as Municipal Committees in the 16 participating cities.

Other Decision (as needed)

B. Introduction and Context

Country Context

Pakistan, with a population of over 207 million people, is the world's sixth most populous country. Pakistan's GDP growth was 5.3 percent in FY16/17 and is expected to reach 5.8 percent in FY18/19. The national poverty headcount declined from 64.3 percent in FY02 to 29.5 percent in FY14. Nevertheless, inequality persists and the country ranks 147th out of 188 countries on the human development index

Pakistan is the most urbanized large country in South Asia. Over 1998 – 2013, the urban population growth rate was an estimated 3.1 percent per annum, compared to a national population growth rate of 2.3 percent per annum. Per 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.[2]

The Constitution establishes Pakistan as a federal parliamentary republic, with a two-tier system consisting of a federal 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 of the 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.

Sectoral and Institutional Context

Punjab is the most populous province of Pakistan, 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.[3] 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 this region compared to other parts of the country. Districts within this region also rank high on Economic Potential Index relative to other parts of the country.[4]

According to preliminary estimates, 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[5]. From 1999 to 2010, GDP growth in

[2] 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.

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

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

[5] Urban GDP share is most likely an under-estimation 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' (PBS) Census of Manufacturing Industries 2005-2006 and Labor Force Surveys from 2009-2011.

Punjab's cities averaged more than 5.5 percent per annum.[6] However, a major challenge for Punjab's cities is that most of the recent economic growth is in the peripheral areas instead of city cores, with city centers experiencing economic stagnation in the decade of 2000s while areas in the immediate periphery experience economic growth.[7] Punjab's cities lag substantially in terms of per capita economic output, recent economic growth, and livability rankings compared to regional peers and comparators in emerging countries.[8]

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 till now, 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 centralized many mandates. GoPunjab is currently assessing options of 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 re-established with a separate hierarchy of LGs for rural and urban areas[9].

Cities in Punjab are unable to harness their agglomeration potential to become engines of growth, and continue to have low economic density and productivity. Some contributing factors include:

a) **High and increasing degree of institutional fragmentation with unclear accountability** in governance structures in Punjab's cities reduces efficiency in the planning and delivery of city services. Numerous core municipal functions are 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[10] and diluted accountabilities[11]. The situation is however markedly better in secondary cities, where urban governance and service delivery mandates continue to remain largely intact, and reside with MCs.

b) **Capacities, systems, and finances at MCs continue to remain weak.** Under PLGA 2013, the number of urban LGs has **substantially** increased, which has led to shortage of staff, and the need for new recruitment to address this gap. Moreover, the new MCs require significant support to effectively manage the transition to new institutional structures and regulation, and to fully operationalize new business processes prescribed under subordinate legislation to PLGA 2013. In addition, MCs continue to be heavily reliant on transfers and grants from GoPunjab, with Own-source revenues (OSR) accounting for less than half of total receipts. Collections of property tax from urban areas remains low; and Punjab's collections as a share of urban GDP are half the average for middle income countries.[12]

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[6] ibid.

[7] Peter Ellis and Mark Roberts (2016), "Leveraging Urbanization in South Asia: Managing Spatial Transformation for Prosperity and Livability," World Bank.

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

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

[10] Over FYs 2015-17, 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 made to LGs.

[11] Accountability of specialized service delivery entities – authorities and companies – to local governments is weak, as they are either directly controlled by provincial government (authorities), or their contractual payments are centrally managed (companies).

[12] Urban property tax collection for entire Punjab was US$88 million in FY15-16, compared to US$90 m in Chennai, 179 m in Hyderabad (India), 201 m in Bangalore, and 373 m in Mumbai. As a share of urban GDP, Punjab's property tax collection was 0.2 percent in FY15-16 compared to middle income country average of 0.4 percent and 1.1 percent for Hyderabad (India). Source: Staff calculations based on Punjab and Indian municipal budgets and

c) **Development expenditures are mainly made 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. Almost one-fifth to one-third of the provincial government's annual capital expenditure is made on urban infrastructure and services, with limited involvement of MCs in its planning and delivery.

d) **Critical municipal services have low coverage and quality.** While large investments are made on municipal service provision by a variety of funding sources, 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 priority needs of residents, and inefficient management of service **delivery** infrastructure created.

A strategic dialogue held with the Punjab CM and his Cabinet during the preparation of the proposed Operation, included a presentation by the Bank team[13] on the state of cities in Punjab compared to regional and global comparators, along with where the opportunities and challenges lay, and what needed to be done to tap Punjab's urban dividend for cities to become engines of economic growth. It was agreed that urban LGs in Punjab need to be: a) empowered with (de-facto and de-jure) authority for municipal service delivery; b) provided with requisite technical and financial resources to deliver on their mandates; and c) made more accountable to the provincial government and citizens through effective performance monitoring mechanisms.

The Government of Punjab sought Bank support for the urban sector in Punjab. Through the proposed Operation, it was agreed that the Bank will support institutional and financial systems development with particular attention on secondary cities, as they provide the most conducive opportunity to pilot a ULG-centric model of improving urban governance and service delivery.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Program Development Objective is *to strengthen the performance of participating urban local governments*[14] *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[15], half of whom are female.

Key Results

The proposed key Program results indicators are:

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

D. Project Description

Government Program

McKinsey Global Institute (2012).

[13] The Bank team was led by the Senior Director of the Social, Urban, Rural and Resilience Global Practice (GSURR) and included the Country Director, Pakistan and Practice Manager, for South Asia Urban Sector.

[14] Known, and subsequently referred to, as Municipal Committees in the 16 participating cities.

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

The Government of Punjab has an ongoing formula-based[16] 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[17] as their total PFC share, through monthly releases.

The Government now plans to introduce a program comprising of Performance-Based Grants (PBG) to urban LGs. It has requested[18] support from the Bank to design the PBG system, and pilot it over the next five years in selected[19] secondary[20] cities under PCP. Based 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.

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 Grant(s)-in-Aid to LGs which are outside, and in addition to, the Provincial Allocable Amount, per recommendations from the Punjab Finance Commission based on criteria that include performance of LGs. The Government's program will make use of this provision to pilot the PBGs, which will be implemented as a parallel grant-in-aid outside the PFC transfers.

For the duration of the PCP Operation (2018-2023), the scope and boundaries of the Government program will thus be identical with the PforR Program. PCP will pilot the PBG mechanism in the selected cities, using IDA financing and counterpart funds for funding the performance grants to participating MCs. Based on the experience gained and results achieved, the Government intends to scale up the PBG mechanism across all cities in Punjab.

While PBGs at the provincial level will be new, basic aspects of performance based financing were piloted under PMSIP. ULGs were rewarded with investment financing based on their performance against institutional development targets. Similar governance and urban management improvements have been successfully tested under PCGIP (for larger cities).

Participating MCs will be required to contribute 20 percent of financing received through PBGs as counterpart funding. The total contributions by MCs will be US$ 36[21] million. This approach was also tested under PMSIP where ULGs were required to make 15 percent contribution to the cost of all infrastructure investments undertaken.

Program Scope

[16] The formula uses 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 respective shares of local governments in Punjab. *Source: Punjab Interim Public Finance Commission Award 2017.*

[17] These include one Metropolitan Corporation in Lahore, Municipal Corporations in larger cities, and Municipal Committees in intermediate and smaller cities. Shares of other entities such as education and health authorities have been excluded here.

[18] The Government of Punjab's letter of Intent dated XX, establishing its commitment to the subsequent scaling up of the PBG program.

[19] The selection of cities was undertaken based on analyses of potential for economic productivity and demonstrated performance towards providing livelihoods (refer Annex-1). The list of selected cities includes: Bahawalnagar, Burewala, Daska, Gojra, Hafizabad, Jaranwala, Jhang, Jhelum, Kamalia, Kamoki, Khanewal, Kot Addu, Muridke, Okara, Vehari, and Wazirabad.

[20] It is important to note that 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. Thus, these cities provide a better opportunity to test a performance based financing model.

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

The Punjab Cities Program PforR (Window-1) will pilot the PBG system focusing on the urban LGs or Municipal Committees (MCs) of the sixteen selected secondary cities. The Program will support building systems in participating MCs for more transparency, accountability, and responsiveness to citizens; putting them on a structured path towards fiscal sustainability; and provision of improved municipal services. In doing so, it will support transition to the new LG system introduced through PLGA 2013. The Program will support participating MCs to fully comply with PLGA's subordinate legislation and implement rules of business prescribed therein, such as Conduct of Business (particularly distribution and dispensation of officers' functions), Budgets (including sections on performance targets and multi-year investment planning), and Accounts (particularly financial reporting requirements). It will do so through two separate, but inter-related, windows that are outlined below; Annex-1 provides a detailed description of the Operation.

Window-1: Performance Based Grants (IDA allocation of $180 million) will be financed through the Bank's Program for Results (PforR) instrument and will support Performance Based Grants (PBGs) to 16 MCs in Punjab. The maximum annual share of each MC will be determined based on its respective weighted shares 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 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 below. This calibrated allocation of PBG would encourage MCs to seek higher scores in the performance assessment, 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 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 in the annual performance assessment.	45
DLI 2: MCs have strengthened institutional and infrastructure investment performance as scored in the annual performance assessment	135
Total Allocation for DLIs	**180**

The Minimum Access Conditions (MACs) and Performance Measures (PMs) together will enable all 16 MCs to access the full Performance Based Grant (PBG) allocation. Compliance with MACs will be a pre-condition 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: 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 are maintained at an acceptable level in Program MCs. The Performance Measures 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, based on scores obtained in the annual performance assessment. PBGs would be allocated to the MCs proportionate to their performance scores (weighted with the APA score).

GoPunjab will engage an independent Annual Performance Assessment[22] (APA) firm to verify Program results in a timely manner to provide the basis for disbursement of funds under the Program to the participating MCs. The APA results will be shared simultaneously with the Bank and GoPunjab to ensure transparency. These will be reviewed by GoPunjab's Program Steering Committee and submitted formally to the Bank for final review. These results will then undergo a quality assurance by the Bank. The Bank retains the right to make the final decision whether a DLI has been achieved or not. The aggregate score of the MCs in the APAs will determine the size of PBGs to be disbursed.

PBG funds will be used by participating MCs primarily for financing eligible infrastructure investments. Priority infrastructure investment needs will be identified by the processes for improved development planning (integrated development and asset management plans) included under PCP. Program MCs will be required to contribute 20% of costs as counterpart funding for all infrastructure investments financed through PBGs from their existing sources (such as PFC transfers and/or own source revenues). In the first year of implementation (FY2018-19), Program MCs will be required to focus on servicing repair and maintenance needs of municipal infrastructure. In subsequent years, MCs may undertake new infrastructure or capital investments. A list of eligible expenditures is indicated in Annex 1.

Window-2: Institutional Strengthening (IDA allocation of $20 million) will support provincial government agencies to develop and implement systems for human resource management, grant management, reporting and audit as well as MC performance assessment. A comprehensive package of capacity building and technical assistance interventions will also be provided to participating MCs to ensure that they have the requisite capacities and systems to perform 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 10.

Under Window-2, GoPunjab will be supported in three ways:

a) The *Finance Department (FD)* will be strengthened to better oversee MCs' finances, manage Annual Performance Assessments (APAs) and implement performance grants. Moreover, FD will need to ensure that PBGs are fully and properly integrated into provincial-level budget processes and the annual provincial budget calendar. FD will also be responsible for authorizing timely releases of PBGs to eligible MCs by the provincial treasury. Finally, it will use the computerized financial management system being operationalized in MCs to oversee municipal accounts and financial reports for the 16 Program MCs.

b) Technical assistance and resources will be provided to the *Local Government and Community Development Department (LG&CDD)* to help develop an effective policy framework and guidance in areas such as infrastructure design and maintenance specifications, and public private partnership mechanisms to enhance service delivery by LGs. In addition, the oversight capacity of the department and the *Local Government Board (LGB)* will be strengthened by developing population based staffing standards, level of service standards, and effective systems to monitor service delivery performance.

c) The *Punjab Municipal Development Funds Company (PMDFC)* will provide a comprehensive package of technical assistance and backstopping to MCs, in the areas of: development and asset management planning; budgeting, financial management, and audit; OSR mobilization and administration; procurement and contract

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

management; infrastructure delivery and maintenance; accountability, transparency, and complaint handling; environmental and social management; and, monitoring service delivery outcomes. MCs will be provided operational guidelines, on-the-job training, and backstopping support to address these needs. PMDFC's senior resources in Lahore and mid-level 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.

Capacity Building and Institutional 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) developing and disseminating guidance, manuals, templates and standards; (c) provision of critical skillsets/resources; and (d) deployment of dashboards for monitoring systems.

Window-2 will deliver capacity building and institutional strengthening. PMDFC will be responsible for managing and coordinating these activities. Where necessary and appropriate, PMDFC will out-source 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.

E. Implementation

Institutional and Implementation Arrangements

The Operation will be implemented through institutional arrangements at the provincial and LG levels. The LG&CDD, with assistance from the LGB and PMDFC, will have overall responsibility for Program reporting, monitoring and evaluation (M&E), regulation setting, and coordination with Program MCs. The LGB will be responsible for: human resource management (HRM); operating and maintaining the performance monitoring dashboards; implementing career learning plans and delivery partnerships for LG cadres; and ensuring that adequate environmental and social management; and new staffing standards are implemented in Program MCs.

The Finance Department (FD) will be responsible for implementing and managing the Performance-Based Grant (PBG) mechanism, as well as the transfer of performance grants to Program MCs. It is the Secretariat of the Punjab Finance Commission (PFC) and houses a PFC unit, which will be supported through the Project to engage expertise and skillsets to manage the PBG mechanism, administer the APA process, and budget and release PBGs. It will oversee MC finances through a Financial Monitoring & Reporting dashboard (linked to Computerized Financial Management Systems in MCs) to be established under the Operation.

The Punjab Municipal Development Funds Company (PMDFC)[23] will be the lead technical agency. PMDFC will establish a central Program Management Team in Lahore, which will have overall responsibility for the above tasks. PMDFC will also constitute three regional teams, each of which will provide support to five - six MCs in areas such as Planning, Procurement, Environment and Social Management, Financial Management, and M&E.

An interdepartmental Program Steering Committee will be established under the Chairman P&D, comprising Secretaries of P&D, Finance, and LG&CDD**.** It will be responsible to review and verify APA reports, address any

[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.

crosscutting technical issues and challenges in implementation of the Operation, review progress reports, and provide guidance.

At the LG Level, each partner MC will be responsible for the achievement of DLI Results. Sub-project selection and approval will be at the city council level, and will include the involvement of citizens in the process of identification and prioritization, as well as the established appraisal committees. MCs will also ensure compliance with the Program Participation Agreement, including financial management, procurement, and environmental and social management and regulations.

Infrastructure investments/works will be directly procured and managed by the MCs. Technical assistance and training will be provided by PMDFC to relevant MC staff to build requisite skills and competencies in project planning, scheduling, monitoring, execution, and closing, as well as contract management, and supervision.

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

The proposed PCP will focus on 16 secondary cities in Punjab, which is the second largest province by area and the most populous (with 60% of Pakistan's population) in Pakistan. The 16 cities were selected based on their high potential for economic growth and productivity. They have a population ranging from about 101,000[24] for Kamalia to about 452,000 for Jhang, and include: Jaranwala, Hafizabad, Okara, Kamonki, Daska, Muridke, Wazirabad, Jhang, Kamalia, Jhelum, Muzaffargarh, Burewala, Bahawalnagar, Kot Addu, Vehari, and Khanewal.

Punjab has the lowest poverty rates in Pakistan and the highest Human Development Index at 0.670. However, there is inequity in the level of socioeconomic development between north and south Punjab, with the quality and availability of basic services and infrastructure significantly lower in the latter. While Punjab is the most industrialized province of Pakistan, agriculture continues to be the largest sector in the province’s economy. Several cities selected under PCP are famous for their industrial products like Hafizabad for rice, cotton looms and agriculture machinery; Wazirabad for cutlery and surgical goods; and Kamoke for tile industry etc.

These cities face numerous environmental and social issues such as contaminated drinking water supplies; poundage of wastewater at the points where sanitation networks are broken; absence of wastewater treatment plants; low solid waste collection and safe disposal; urban sprawl on prime agriculture lands of the province; public health issues mostly related to water borne diseases; inequitable access (for example on the basis of income and locality) to basic services; lack of transparency and accountability; and low level of public satisfaction with basic service delivery. Most of the municipal services infrastructure needs revamping and there is also a need for new infrastructure. The proposed program includes the provisions to improve these aspects.

G. Environmental and Social Safeguards Specialists on the Team

Marcelo Acerbi, Senior Environmental Specialist, GEN06
Suiko Yoshijima, Senior Environmental Specialist, GEN06
Azher Uddin Khan, Consultant, GEN06
Najm-ul-Sahr Ata-ullah, Senior Social Development Specialist, GSU06
Imran-ul-Haq, Senior Social Development Specialist, GSU06

[24] Based on LandScan 2015 estimates, as results from the National Population and Housing Census 2017 are not yet available.

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	YES	The updating of O&M manuals, procurement documents, and asset management plans needs to incorporate adequate environmental and social management principles, procedures, and requirements.
Natural Habitats OP/BP 4.04	YES	The updating of O&M manuals, procurement documents, and asset management plans needs to consider the importance of potential natural habitats immediately adjacent to participating cities.
Forests OP/BP 4.36	NO	TA activities do not involve forests. The operation's target areas correspond to densely populated urban areas of Punjab province.
Pest Management OP 4.09	NO	TA activities do not involve pest management.
Physical Cultural Resources (PCR) OP/BP 4.11	YES	Updating of O&M manuals, procurement documents, and asset management plans needs to consider the importance of physical cultural resources in urban areas in the participating cities.
Indigenous Peoples OP/BP 4.10	NO	Indigenous peoples are not found in Punjab; therefore, this OP is not triggered.
Involuntary Resettlement OP/BP 4.12	YES	Updating of O&M manuals, procurement documents, and asset management plans needs to incorporate principles, procedures, and requirements of OP 4.12.
Safety of Dams OP/BP 4.37	NO	TA activities do not involve dams.
Projects on International Waterways OP/BP 7.50	NO	TA activities do not involve international waterways.
Projects in Disputed Areas OP/BP 7.60	NO	TA activities do not involve disputed areas.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

This ISDS is being prepared for the TA to be delivered as part of the PCP. The TA/IPF Window (2) of the Operation has been classified as Category B, and will include, amongst others, the following activities

- Type 1 - Strengthening client capacity (mostly training and systems design): Computerized Financial Management System9CFMS), Performance Management System (PMS), Complaint Tracking System (CTS)/Grievance Redress Mechanism (GRM), MC Websites, Project Management, Procurement, Environmental and Social Management, Strengthening Local Government Board, and Strengthening PFC Unit at Punjab Finance Department; and
- Type 2- Preparing technical activities directly in support of systems improvements/implementation: Operation and Maintenance (O&M) of municipal infrastructure, Contract Management, Improving Own Source Revenues, Integrated Development and Asset Management Plan, and Strengthening Local Government and Community Development Department.

TA activities under the first subset (Type 1) will not have potential adverse environmental and social implications or risks that could potentially lead to indirect environmental and social impacts. TA activities will, as a good practice, mainstream safeguards policies core principles to ensure the adoption of social and environmental sustainability measures in the preparation and delivery of these activities. The second subset of activities (Type 2) will be screened for their potential social and environmental impacts because these activities may potentially lead to recommendations with some environmental and social management implications. Terms of Reference for these activities will be reviewed by the Bank before Appraisal to ensure that core principles of safeguards policies are duly incorporated.

Result Areas 1 and 2 of the Program will operationalize recommendations of the ESSA prepared for the PforR linked to this TA project. The TA will target two main areas that will strengthen environmental and social management capacity at the local level significantly:

a) Institutional strengthening: The ESSA has assessed that the institutional capacity of MCs is low and it needs substantial strengthening. Successful implementation of activities designed to achieve DLI-1 will proportionately contribute in sound environmental and social management of target cities. Specifically, the proposed appointment of environmental and social safeguards professionals along with training and technical assistance from PMDFC is expected to deliver the required capacity for environmental and social friendly municipal operations, and environmental and social management of new infrastructure projects. In addition, environment and social safeguards requirement will be integrated within the Operation design and implementation arrangements e.g. budgetary allocations for implementation of environment and social management; MC staff trained for environment and social management, public consultation, citizen engagement, transparency, and accountability, land and labor issues, safeguard procedures; ESMF customizing and updating; and so on.

b) Institutional and Infrastructure Performance Improvement: This result area targets improvement in operational planning, own source revenue, procurement, public financial management, accountability and transparency, and environment and social management. Improvement in these fundamental operational parameters of cities will also result in better environmental and social management of the cities.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

Some activities under Type-2 TA such as updating of O&M protocols and manuals, development of contract management manual, and development of OSR improvement action plans would have long term E&S impacts. While the majority will lead to long term benefits by ensuring sustainability and improved O&M of municipal services, there are potential risks of negative impacts if these are not properly designed or implemented with consideration of environmental and social aspects.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The TA activities do not involve the preparation of environmental and social impact assessments.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Borrower has low capacity to manage environment and social impacts. An ESSA has been prepared under the PforR Window to address this gap. Windows 1 & 2 will ensure that there is capacity building of city governments to manage the environmental and social risks associated with the Operation.

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

The key Program stakeholders include the Local Government and Community Development Department (LG&CDD), Local Government Board (LGB), Punjab Municipal Development Fund Company (PMDFC), participating Municipal Committees (MCs), and the citizens. These stakeholders were consulted during the preparation of the ESSA for the PforR component. The Public Consultation Framework prepared for PMSIP will be updated by PMDFC for PCP with its scope extending beyond conducting consultations for infrastructure projects, to cover the issues related to accountability, transparency, taxes etc. The ESSA for the PforR component of the Operation will be disclosed locally by the implementing agencies, and by the World Bank.

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

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
N.A	N.A	N.A

"In country" Disclosure

Pakistan
N.A

Comments

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank	Date of submission for disclosure
N.A	N.A

"In country" Disclosure

Pakistan

N.A

Comments

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

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

No. TA component including the updating of O&M manuals, procurement documents, and asset management plans needs to incorporate adequate environmental and social management principles, procedures, and requirements. Terms of References for such activities will be reviewed by the Bank before Appraisal to ensure that core principles of safeguards policies are duly incorporated.

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?

TA component including the updating of O&M manuals, procurement documents, and asset management plans needs to consider the importance of physical cultural property in urban areas corresponding to the participating cities. Terms of References for such activities will be reviewed by the Bank before appraisal to ensure that core principles of safeguards policies are duly incorporated.

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?

No. TA component including the updating of O&M manuals, procurement documents, and asset management plans needs to incorporate principles, procedures, and requirements of OP 4.12. Terms of References for such activities will be reviewed by the Bank before appraisal to ensure that core principles of safeguards policies are duly incorporated.

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Is physical displacement/relocation expected?

N.A.

Is economic displacement expected? (loss of assets or access to assets that leads to loss of income sources or other means of livelihoods)

The World Bank Policy on Disclosure of Information

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

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Natural Habitats OP/BP 4.04

All Safeguard Policies

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

Yes

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

Yes

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

Yes

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

Yes

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