



Board of Directors

IN.40-20  
12 February 2020

## Project Readiness Financing Report Punjab Urban Development Projects (Pakistan)

The attached report is circulated for the information of the Board. The President approved the project readiness financing on 28 January 2020.

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# Project Readiness Financing Report

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Project Number: 53128-001  
January 2020

## Islamic Republic of Pakistan: Punjab Urban Development Projects

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 6 December 2019)

Currency unit – Pakistan rupees (PRe/PRs)

PRe1.00 = \$0.0064467633

\$1.00 = PRs155.116600

## ABBREVIATIONS

ADB	–	Asian Development Bank
DED	–	detailed engineering design
EDCM	–	engineering design and construction management
LG&CD	–	Local Government and Community Development
LIBOR	–	London interbank offered rate
MCC	–	metropolitan and municipal corporations and/or committees
PRF	–	project readiness financing

## NOTE

In this report, “\$” refers to United States dollars unless otherwise stated.

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 53128-001	
<b>Project Name</b>	Punjab Urban Development Projects	<b>Department/Division</b>	CWRD/CWUW
<b>Country</b>	Pakistan	<b>Executing Agency</b>	Local Government and Community Development Department, Government of Punjab
<b>Modality</b>	Project Readiness Financing (Loan)		
<b>Borrower</b>	Islamic Republic of Pakistan		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=53128-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=53128-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=53128-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=53128-001-PortAtaGlance</a>		
<b>2. Sector</b>		<b>ADB Financing (\$ million)</b>	
✓ <b>Water and other urban infrastructure and services</b>	Urban sewerage		8.00
	Urban water supply		5.00
<b>Transport</b>	Urban roads and traffic management		2.00
		<b>Total</b>	<b>15.00</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Low
✓ Accelerating progress in gender equality			
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		<b>ADB Financing</b>	
✓ Making cities more livable		Adaptation (\$ million)	1.64
✓ Strengthening governance and institutional capacity			
<b>Sustainable Development Goals</b>		<b>Poverty Targeting</b>	
SDG 3.9		General Intervention on Poverty	✓
SDG 5.5			
SDG 6.3			
SDG 10.2			
SDG 11.2			
SDG 12.4			
SDG 13.a			
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	No Safeguards Categorization available.		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>15.00</b>	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		15.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>1.36</b>	
Government		1.36	
<b>Total</b>		<b>16.36</b>	
<b>Currency of ADB Financing:</b> US Dollar			

## I. PROJECT READINESS FINANCING

### A. Rationale

1. **Country and sector context.** Pakistan has a population of more than 212.2 million people and is the world's sixth most populous country.<sup>1</sup> In 2017, about 36% of the population (75.5 million people) lived in urban areas, while economic activity in cities accounted for 55% of gross domestic product. The country is experiencing rapid urbanization as the rural population migrates to find jobs, contributing to a 74% increase in the population of Pakistan's five largest cities from 1998 to 2017. Pakistan's rapid urban expansion has led to unplanned growth, and corresponding deterioration of infrastructure and services in urban and peri-urban areas. Cities are unable to meet the demand for better living standards, improved public health, and economic opportunities.

2. Urban development challenges are most pronounced in the cities of Punjab province, which account for 53% of Pakistan's urban population and 56% of its gross domestic product.<sup>2</sup> Cities in Punjab face three primary challenges:<sup>3</sup> (i) they lack formal frameworks for planning and allocating both physical space and financial resources, leading to unplanned and inefficient growth; (ii) no central entity is responsible for coordinating infrastructure and service delivery across different jurisdictions, and legislative and regulatory frameworks are often weak or overlap; (iii) poor infrastructure planning and weak enforcement contribute to the rapid degradation of assets and service levels. As a result, most cities in Punjab experience intermittent access to poor quality water, ineffective wastewater and solid waste management, and severe traffic issues because of lack of public transport and poor traffic management. The impacts on vulnerable groups, including women, are disproportionate.<sup>4</sup>

3. **Government's approach.** The Government of Pakistan has issued a new set of development priorities that emphasize providing access to safe water, sanitation, urban transport, and a healthy living environment. Since 2017, the Government of Punjab has taken a proactive role in introducing new solutions to urban development challenges, including deepening private sector engagement in service delivery. For example, all major cities in Punjab have started outsourcing solid waste management services to the private sector, and many have established companies to manage urban parking and parks. More recently, the Punjab Local Government Act, 2019 increased the role of the private sector in delivering municipal services, and introduced a fiscal transfer mechanism for better performance in service delivery. The Government of Punjab is also strengthening policy for planning and coordinating urban management. The Punjab Spatial Strategy, 2047, for example, advocates improved spatial planning across areas (including connectivity, urban, environment, social, and tourism) and seeks to transform urban settlements into smart, competitive, and livable places.<sup>5</sup> The Punjab Growth Strategy, 2023, plays a complementary role and lays a framework for providing safe drinking water and sanitation facilities to Punjab communities in an equitable, efficient, and sustainable manner.<sup>6</sup>

4. The government has requested support from the Asian Development Bank (ADB) to plan investments and design service delivery models for selected cities in Punjab province:

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<sup>1</sup> World Bank. [Databank World Development Indicators](#) (accessed 2 December 2019).

<sup>2</sup> United Nations Development Programme. 2018. Sustainable Urbanization. *Development Advocate Pakistan*. 5 (4). Islamabad.

<sup>3</sup> Asian Development Bank (ADB). 2019. *Supporting the Cities Development Initiative for Asia*. Consultant's report. Manila (TA-8556 REG).

<sup>4</sup> ADB. 2016. *Pakistan Country Gender Assessment—Volume 2 of 2: Sector analyses and case studies*. Manila.

<sup>5</sup> Government of Punjab, Planning and Development Board. 2018. *Punjab Spatial Strategy 2047*. Lahore.

<sup>6</sup> Government of Punjab, Planning and Development Board. 2018. *Punjab Growth Strategy 2023*. Lahore.

Bahawalpur, Dera Ghazi Khan, Multan, Muzaffargarh, Rahim Yar Khan, Rawalpindi, and Sargodha.<sup>7</sup> The project readiness financing (PRF) will complement ADB's assistance to the urban development in Pakistan, including a transaction technical assistance facility designed to support feasibility studies and explore innovations to improve the quality of urban services.<sup>8</sup>

5. **ADB's value addition.** The PRF will finance the preparation of comprehensive spatial master plans for upstream project pipeline development,<sup>9</sup> prepare detailed engineering designs (DEDs), support procurement readiness, and prepare operational business plans for priority investments of the ensuing projects. ADB's value addition will include (i) institutional strengthening for improved urban and spatial planning systems through the identification of integrated smart solutions; (ii) prepare environmental assessments, land acquisition and resettlement plans, spatial plans, gender action plans with a special focus on gender equality, feasibility studies, DEDs, and procurement documents; and (iii) the incorporation of climate-resilient designs for priority investments. The PRF is listed in the country operations business plan, 2020–2022 and is consistent with ADB's Water Operational Plan, 2011–2020; Urban Operational Plan, 2012–2020; and Environmental Operations Directions, 2013–2020.<sup>10</sup> It is closely aligned with ADB's corporate strategy, in particular—five of the seven key operational priorities which are making cities more livable, reducing poverty and inequalities, strengthening governance and institutional capacity, accelerating progress in gender equality, and enhancing environmental sustainability.<sup>11</sup>

## B. Outputs and Activities

6. **Output 1: Spatial planning, detailed engineering design, procurement support, and due diligence for proposed ensuing projects completed.** The PRF will support (i) the development of comprehensive spatial land use plans to design investments in selected cities that take into account disaster and climate change risk; (ii) due diligence, including economic, financial, safeguard, technical, gender, and integrity aspects; and carrying out surveys, studies, and geological and hydrological investigations; (iii) DED preparation; and (iv) advance procurement and actions, including preparing procurement documents and ensuring that land is acquired and compensation is completed before approval of the ensuing projects.

7. **Output 2: Service delivery model, standards, and practices of metropolitan and municipal corporations and/or committees (MCCs) improved.** The PRF will support the institutional and capacity development of MCCs to improve service delivery standards, performance benchmarking, and operational and business plans to ensure the financial and operational sustainability of the ensuing projects. Consultants will be recruited to (i) establish district metering and demand management areas and pressure management systems, reducing nonrevenue water caused by technical losses; (ii) set utility tariffs and improve cost recovery; (iii) support urban water supply, sanitation, solid waste management, and transport sector planning

<sup>7</sup> Most of these cities are in the south of the province, but Rawalpindi is in the north of Punjab. Rawalpindi was selected because of the degraded condition of its infrastructure and poor provision of urban services.

<sup>8</sup> ADB. 2019. *Technical Assistance to the Islamic Republic of Pakistan for Preparing Urban Development Projects*. Manila.

<sup>9</sup> Comprehensive spatial plans are envisaged to be an effective long-term strategy for a city's growth and development, including land use, water, sanitation, drainage, mobility, and solid waste management, among others—integrating social, economic, environmental, and cultural objectives.

<sup>10</sup> ADB. 2019. [Country Operations Business Plan: Pakistan, 2020–2022](#). Manila; ADB. 2011. [Water Operational Plan, 2011–2020](#). Manila; ADB. 2013. [Urban Operational Plan, 2012–2020](#). Manila; ADB. 2013. [Environmental Operational Directions, 2013–2020](#). Manila.

<sup>11</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila; and ADB. 2019. [Strategy 2030 Operational Plan for Priority 4: Making Cities More Livable, 2019–2024](#). Manila.

and oversight, operational performance, and coordination of the MCCs; and (iv) improve urban governance policy and statutory frameworks and the institutional capacity of MCCs.

8. **Output 3: Capacity of executing and implementing agencies improved.** The PRF will finance consultants to augment project management capacity and support the integrated urban planning and management capacity of executing and implementing agencies.

### C. Ensuing Projects

9. The ensuing projects to be supported by the facility are listed in Table 1. These projects are urban water supply and sanitation, urban roads and drainage, and solid waste management investment projects in selected cities where municipal services are lagging. With new legislation and policies in place (para. 3), the involvement of the private sector for improving utility performance and service delivery will be the key feature for the ensuing projects. Future projects to be supported under the facility will be identified during implementation and will be agreed between ADB and the executing agency, using the agreed selection criteria.<sup>12</sup>

**Table 1: List of Ensuing Projects**

Project name	Indicative financing amount (\$ million)	Expected year of approval
Punjab Water Supply and Sanitation Project	150	2020
Punjab Livable Cities Sustainable Development Program (Multitranches Finance Facility tranche 1)	200	2021

Source: Asian Development Bank.

### D. Cost Estimates and Financing Arrangements

10. The PRF is estimated to cost \$16.36 million (Table 2). Detailed cost estimates by expenditure category and by financier are included in the PRF project administration manual.<sup>13</sup>

**Table 2: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Spatial planning, detailed engineering design, and preparatory works	10.50
2. Service delivery model, standards, and practices	2.63
3. Capacity building	1.88
<b>Subtotal (A)</b>	<b>15.00</b>
<b>B. Contingencies<sup>c</sup></b>	<b>0.78</b>
<b>C. Interest During Implementation<sup>d</sup></b>	<b>0.58</b>
<b>Total (A+B)</b>	<b>16.36</b>

<sup>a</sup> The government will finance taxes and duties of \$1.3 million as cash contributions.

<sup>b</sup> In mid-2019 prices as of 30 October 2019.

<sup>c</sup> Contingency is computed at 5%.

<sup>d</sup> Interest during implementation for the ordinary capital resources loan has been computed at the 3-year United States dollar fixed swap rate plus an effective contractual spread of 0.5%.

Sources: Asian Development Bank and Local Government and Community Development Department.

<sup>12</sup> Project Selection Criteria (accessible from the list of linked documents in Appendix 1).

<sup>13</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 1). Climate finance is estimated at \$1.64 million for climate adaptation.

11. The government has requested a regular loan of \$15,000,000 from ADB's ordinary capital resources to help finance project preparation and design activities. The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility (the interest and other charges during implementation to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. The summary financing plan is in Table 3. ADB will finance the expenditures in relation to consultant cost, including pre-implementation and project management support and surveys, and interest during implementation.

**Table 3: Summary Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Ordinary capital resources (regular loan)	15.00	91.7
Government <sup>a</sup>	1.36	8.3
<b>Total</b>	<b>16.36</b>	<b>100.0</b>

<sup>a</sup> Government contribution includes taxes and duties.

Sources: Asian Development Bank and Local Government and Community Development Department.

## E. Implementation Arrangements

12. The implementation arrangements are summarized in Table 4 and described in detail in the PRF project administration manual (footnote 13).

**Table 4: Implementation Arrangements for Project Readiness Financing**

<b>Aspects</b>	<b>Arrangements</b>		
PRF implementation period	January 2020–November 2022		
Estimated loan closing date	30 June 2023		
<b>Management</b>			
(i) Oversight body	Project Steering Committee <sup>a</sup>		
(ii) Executing agency	Local Government and Community Development Department		
(iii) Key implementing agency	Project Management Unit		
Consulting services	QCBS 90:10 (EDCM)	861 person-months	\$8.41 million
	QCBS 90:10 (ODBM)	179 person-months	\$2.64 million
	QCBS 90:10 (Urban Transport [Detailed Design])	149 person-months	\$2.35 million
	ICS (implementation services)	111 person-months	\$1.60 million
	Advance contracting	Advance contracting is proposed for consulting services.	
Disbursement	Disbursements under PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, EDCM = engineering design and construction management, ICS = individual consultant selection, ODBM = operational design and business model, PRF = project readiness financing, QCBS = quality- and cost-based selection.

<sup>a</sup> The project steering committee will be chaired by the Chair, Government of Punjab's Planning and Development Board and will comprise the secretaries of the Local Government and Community Development Department; the Finance Department; the Housing, Urban Development and Public Health Engineering Department; the Transport Department; mayors of metropolitan and municipal corporations and/or committees (or equivalent); and managing directors of water and sanitation agencies and solid waste management companies of the respective cities.

Source: Asian Development Bank.

13. Procurement will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). To

expedite the consultant recruitment process, the government has requested assistance from ADB in selecting the consultants. ADB will conduct proposal evaluations and select consultants in close coordination with the government. The Local Government and Community Development (LG&CD) Department will negotiate with the selected consultants and sign the contracts. Individual consultants will support overall project management activities. The engineering design and construction management consulting firm will be recruited under a framework contract arrangement. The first call-off will be for planning, DEDs, procurement document preparation, and procurement support activities. Construction management may be awarded on second call-off subject to satisfactory performance under the first phase and ensuing loan effectiveness. Output-based contracts will be considered to improve economy, efficiency, and value for money.

## II. DUE DILIGENCE

14. **Technical.** Pre-feasibility studies, prepared under the Cities Development Initiative for Asia (footnote 3), assessed opportunities for integrated and climate-resilient approaches for water supply, sewerage, road and drainage, solid waste, and ecosystem services.

15. **Governance.** An assessment of financial management risks of the executing agency (LG&CD Department), concluded that it has the capacity to implement the PRF. However, the overall financial management risk is considered *substantial*, because the public financial management risk at the country level is *substantial* due to weak internal audit functions and external audit. The project level risk is *moderate*, as the LG&CD Department has experience with ADB-financed projects, is familiar with ADB procedures, and will hire qualified financial management staff. The LG&CD Department will also receive support from financial management consultants under the PRF. The LG&CD Department staff is using ADB procurement guidelines for an ongoing project.<sup>14</sup> Without adequately resourced and qualified professional staff the overall pre-mitigation procurement related risk is *high*.<sup>15</sup> Intensive procurement support will be provided through consultants and procurement training. ADB procurement staff will provide oversight.

16. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB's Safeguard Policy Statement (2009). The safeguard classification for the ensuing projects is expected to be *category B or A* for environment and *category A* for involuntary resettlement. No adverse impacts from the ensuing project are expected for indigenous peoples (*category C*).

## III. PRESIDENT'S DECISION

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

<sup>14</sup> ADB. 2017. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Islamic Republic of Pakistan for the Punjab Intermediate Cities Improvement Investment Project](#). Manila.

<sup>15</sup> ADB. 2019. *Project Procurement Risk Assessment*. Consultant's report. Manila (TA 9233-PAK). The assessment followed the ADB. 2018. [Procurement Risk Framework Guidance Note on Procurement](#). Manila.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=53128-001-PRF>

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