



FOR OFFICIAL USE ONLY

Report No: PAD4654

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF
US\$200 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

KHYBER PAKHTUNKHWA RURAL INVESTMENT AND INSTITUTIONAL SUPPORT
PROJECT

AS PHASE I OF THE MULTI-PHASE PROGRAMMATIC APPROACH

KHYBER PAKHTUNKHWA MERGED AREAS DEVELOPMENT PROGRAM

WITH AN OVERALL FINANCING ENVELOPE OF US\$300 MILLION

May 22, 2023

Social Sustainability And Inclusion Global Practice
South Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2023)

Currency Unit =	Pakistani Rupee (PKR)
PKR 283.7=	US\$1

FISCAL YEAR
July 1–June 30

Regional Vice President: **Martin Raiser**

Country Director: **Najy Benhassine**

Regional Director: **John A. Roome**

Practice Manager: **Robin Mearns**

Task Team Leader(s): **Anna Charlotte O'Donnell, Akmal Minallah, Mohammad Farhanullah Sami**

ABBREVIATIONS AND ACRONYMS

ADP	Annual Development Plan
AIP	Accelerated Implementation Plan
CFC	Citizen Facilitation Center
CPF	Country Partnership Framework
C&W	Communication & Works Department
D&S	Design and Supervision
DA	Designated Account
DGLG	Directorate General Local Government
ESMF	Environmental And Social Management Framework
FATA	Federally Administered Tribal Areas
FM	Financial Management
FR	Frontier Region
FY	Fiscal Year
GBV	Gender-based Violence
GCRF	Global Crisis Response Framework
GDP	Gross Domestic Product
GoKP	Government of Khyber Pakhtunkhwa
GoP	Government of Pakistan
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF-EFF	International Monetary Fund- Extended Fund Facility
IPF	Investment Project Financing
IUFR	Interim Unaudited Financial Report
KP	Khyber Pakhtunkhwa
LGE&RDD	Local Government, Elections & Rural Development Department
M&E	Monitoring and Evaluation
MIS	Management Information System
MPA	Multiphase Programmatic Approach
NMA	Newly Merged Areas
NMD	Newly Merged Districts
P&DD	Planning and Development Department
PATS	Pakistan Approach to Total Sanitation
PCMU	Project Coordination Management Unit
PDO	Project Development Objective
PHED	Public Health Engineering Department
PIU	Project Implementation Unit
PPSD	Project Procurement Strategy For Development
PrDO	Program Development Objective
SEA/SH	Sexual Exploitation and Abuse/Sexual Harassment
STEP	Systematic Tracking of Exchanges in Procurement
TDS	Tribal Decade Strategy

UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VC	Village Council
VDP	Village Development Plan
VIP	Village Implementation Plan
WB	World Bank
WBG	World Bank Group





TABLE OF CONTENTS

DATASHEET	i
I. STRATEGIC CONTEXT	7
A. Country Context.....	7
B. Sectoral and Institutional Context.....	9
C. Relevance to Higher Level Objectives.....	13
D. Multiphase Programmatic Approach	14
II. PROJECT DESCRIPTION.....	21
A. Project Development Objective	21
B. Project Components	21
C. Project Beneficiaries	26
D. Rationale for Bank Involvement and Role of Partners	26
E. Lessons Learned and Progress on Learning Agenda	27
III. IMPLEMENTATION ARRANGEMENTS	28
A. Institutional and Implementation Arrangements	28
B. Results Monitoring and Evaluation Arrangements.....	29
C. Sustainability.....	29
IV. PROJECT APPRAISAL SUMMARY	30
A. Technical, Economic, and Financial Analysis	30
B. Fiduciary.....	32
C. Legal Operational Policies.....	33
D. Environmental and Social	34
E. Climate Change and Disaster Screening and Climate Co Benefits.....	35
V. GRIEVANCE REDRESS SERVICES	36
VI. KEY RISKS	37
VII. RESULTS FRAMEWORK AND MONITORING	39
ANNEX 1: Implementation Arrangements and Support Plan.....	46



DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Pakistan	Khyber Pakhtunkhwa Rural Investment and Institutional Support Project	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P176780	Investment Project Financing	Substantial

Financing & Implementation Modalities

<input checked="" type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input checked="" type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input checked="" type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)

Expected Project Approval Date	Expected Project Closing Date	Expected Program Closing Date
13-Jun-2023		30-Jun-2031

Bank/IFC Collaboration

No

MPA Program Development Objective

To increase access to resilient and reliable basic services for households living in the Newly Merged Areas of Khyber Pakhtunkhwa.

MPA Financing Data (US\$, Millions)



MPA Program Financing Envelope	300.00
--------------------------------	--------

Proposed Project Development Objective(s)

The Project Development Objective is to strengthen state capabilities for delivery of basic services and climate resilient infrastructure in the project areas, including for the poor and vulnerable

Components

Component Name	Cost (US\$, millions)
Multisectoral Investments and Improved Service Delivery	90.00
Institutional Development for Merged Areas	55.00
Emergency Flood Response	50.00
Project Management, M&E, and Technical Assistance	5.00
Contingent Emergency Response	0.00

Organizations

Borrower:	Islamic Republic of Pakistan
Implementing Agency:	Agriculture Department Communication and Works Department Irrigation Department Local Government , Elections and Rural Development Department Planning and Development Department Public Health Engineering Department

MPA FINANCING DETAILS (US\$, Millions)

MPA Program Financing Envelope:	300.00
of which Bank Financing (IBRD):	0.00
of which Bank Financing (IDA):	300.00
of which other financing sources:	0.00

PROJECT FINANCING DATA (US\$, Millions)



The World Bank

Khyber Pakhtunkhwa Rural Investment and Institutional Support Project (P176780)

SUMMARY

Total Project Cost	200.00
Total Financing	200.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	200.00
IDA Shorter Maturity Loan (SML)	200.00

IDA Resources (in US\$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
Pakistan	0.00	0.00	200.00	0.00	200.00
National Performance-Based Allocations (PBA)	0.00	0.00	200.00	0.00	200.00
Total	0.00	0.00	200.00	0.00	200.00

Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	16.97	25.01	40.47	40.90	45.69	30.96
Cumulative	16.97	41.98	82.45	123.35	169.04	200.00

**INSTITUTIONAL DATA****Practice Area (Lead)**

Social Sustainability and Inclusion

Contributing Practice Areas

Agriculture and Food, Climate Change, Governance, Water

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Substantial
8. Stakeholders	● Substantial
9. Other	
10. Overall	● Substantial
Overall MPA Program Risk	● Substantial

COMPLIANCE**Policy**

Does the project depart from the CPF in content or in other significant respects?

[] Yes [✓] No

Does the project require any waivers of Bank policies?

[] Yes [✓] No

**Environmental and Social Standards Relevance Given its Context at the Time of Appraisal**

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants**Sections and Description**

The Project Implementing Entity shall vest the overall Project coordination and monitoring responsibilities in its Planning and Development Department, and shall establish by not later than four (4) months after the Effective Date, and thereafter maintain, at all times throughout the Project implementation period, a Project Coordination Management Unit, with the mandate, composition, resources, and terms of reference satisfactory to the Association, which shall: (a) be chaired by a director ("Project Director"); (b) be responsible for the management, coordination and monitoring of day-to-day operations of the Project; and (c) be supported by dedicated staff for, inter alia, financial management, procurement, environmental and social development. Section I.A.2 of the Schedule to the Project Agreement.

Sections and Description

The Project Implementing Entity shall engage, by not later than twelve (12) months after the Effective Date, and



thereafter maintain, at all times throughout the Project implementation period, at least one design and supervision consultant firm, with the mandate, composition, resources, and terms of reference satisfactory to the Association, which shall be designated as the manager of the works contracts and responsible for the construction design and supervision of civil works, including the finalization of needs assessment, coordination with line departments, detailed designs, site-specific environment and social management plans. Section I.A.3 of the Schedule to the Project Agreement.

Sections and Description

The Project Implementing Entity shall engage, by not later than twelve (12) months after the Effective Date, and thereafter maintain, at all times throughout the Project implementation period, a Facilitating Partner, with the mandate, composition, resources, and terms of reference satisfactory to the Association, which shall: (a) be responsible for providing support to the rollout of Part B of the Project; and (b) consists of at least 1 field level engineers and 3 social mobilizers. Section I.A.4 of the Schedule to the Project Agreement.

Conditions

Type	Financing source	Description
Disbursement	IBRD/IDA	<p>Section III.B.1(b) of Schedule 2 to the Financing Agreement:</p> <p>“... no withdrawal shall be made: [...] (b) for Expenditures under Category (3), unless and until all of the following conditions have been met in respect of said expenditures:</p> <p>(i) (A) the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw Financing amounts under Category (8); and (B) the Association has agreed with such determination, accepted said request and notified the Recipient thereof: and</p> <p>(ii) the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association.”</p>



I. STRATEGIC CONTEXT

A. Country Context

1. **Over the past two decades, Pakistan significantly reduced poverty, but human development outcomes have lagged, and severe economic challenges put past gains at risk.** Pakistan made significant progress towards reducing poverty between 2001 and 2018 when the expansion of off-farm economic opportunities and increased inflow of remittances allowed over 47 million Pakistanis to rise out of poverty. However, this rapid poverty reduction has not fully translated into improved socio-economic conditions, as human capital outcomes have remained poor and stagnant, with high levels of stunting at 38 percent and learning poverty at 75 percent. The deterioration of economic conditions, in combination with non-economic shocks such as the COVID 19 pandemic and the devastating floods of 2022, are expected to reduce household incomes and increase their vulnerability to fall below the national poverty line.
2. **Pakistan's economy is currently under severe stress with low foreign reserves, a depreciating currency, and high inflation.** Reflecting a consumption-driven growth model, with limited productivity-enhancing investment and exports, strong economic growth has often come at a cost of economic imbalances and frequent macroeconomic crises. Long-term growth of real gross domestic product (GDP) per capita therefore has been low, averaging only around 2.2 percent annually over 2000-22. With high public consumption, economic growth increased substantively above potential in Fiscal-Year 2022 (FY22) that led to strong pressures on domestic prices, external and fiscal sectors, the exchange rate, and foreign reserves. These imbalances were exacerbated by the catastrophic flooding in 2022, surging world commodity prices, tightening global financing conditions, and domestic political uncertainty. Furthermore, distortive policy measures, including periods of informal exchange rate restrictions and import controls, delayed the International Monetary Fund (IMF) Extended Fund Facility (EFF) program, and contributed to creditworthiness downgrades, lower confidence, high yields and interest payments, and the loss of access to international capital markets.
3. **The 2022 floods have had enormous human and economic impacts.** Pakistan experienced heavy monsoon rains between June and September 2022, severely affecting millions of households, mainly in Sindh and Balochistan. Roughly 33 million people have been affected, and more than 13,000 km of roads were destroyed. The flooding has damaged 2.2 million houses, flooded around 9.4 million acres of crops, and killed an estimated 1.2 million livestock, adversely affecting rural livelihoods. Limited access to input and output markets and temporary disruptions to supply chains have driven up food prices and added to existing price pressures resulting from reduced agricultural yields and the global rise of food prices. Due to significant crop and livestock losses, food shortages have intensified in the fall and winter, with food price inflation increasing to more than 50 percent. With the destruction of infrastructure and disrupted access to schools, medical facilities, and sanitation systems, the floods have negatively impacted health and education outcomes especially for rural areas, potentially affecting long-term human capital accumulation. Preliminary estimates suggest that the national poverty rate may increase by up to 4 percentage points as a direct consequence of the floods, potentially pushing around 9 million people into poverty. The Post-Disaster Needs Assessment (PDNA)¹ estimated that the need for rehabilitation and reconstruction is at US\$16.3 billion, not including much-needed new investments to strengthen Pakistan's

¹ Government of Pakistan. 2022. *Pakistan Floods 2022 Post-Disaster Needs Assessment*. Ministry of Planning Development & Special Initiatives.



resilience to future shocks.

4. The economic impacts of flooding and the reconstruction needs will make it even harder for the Government of Pakistan (GoP) to stay on course with the much-needed economic adjustments to address the country's structural imbalances. Economic growth is expected to slow and remain below potential in the medium-term. Real GDP growth is expected to slow sharply to 0.4 percent in FY23, reflecting corrective tighter fiscal policy, flood impacts, high inflation, high energy prices and import controls. Agricultural output is expected to contract for the first time in more than 20 years due to the floods. Industry output is also expected to shrink with supply chain disruptions, weakened confidence, higher borrowing costs and fuel prices, and heightened uncertainty. The lower activity is expected to spill over to the wholesale and transportation services sectors, weighing on services output growth. Predicated on completion of the IMF program and sound macroeconomic management, output growth is expected to gradually recover in FY24 and FY25 but remain below potential as low foreign reserves and import controls continue to curtail growth. In response to weak labor markets, and quickly rising inflation, the lower middle-income poverty rate is expected to increase to 37.2 percent in FY23.

5. The GoP faces a difficult policy challenge in maintaining progress towards macroeconomic stabilization. The economic outlook depends on timely and full implementation of policy reforms, with very high downside risks. Implementing the macro-stabilization measures and structural reforms underpinned by the IMF-EFF program is necessary for unlocking much-needed external refinancing and new disbursements from regional partners. Maintaining stability and a sustained recovery will require the development, communication, and effective implementation of a bold reform strategy, including: (i) adherence to a flexible market-determined exchange rate and sound fiscal-monetary policies; (ii) increased domestic revenue mobilization; (iii) curtailing and improving the quality of public expenditures; (iv) structural reforms to improve investment, competitiveness, and productivity; and (v) urgent measures to restore the financial viability of the energy sector.

6. The recently published Country Climate Development Report (CCDR)² shows Pakistan's high vulnerability to climate change is a risk multiplier, compounding its human and economic development challenges. The country consistently ranks among the top 10 countries worldwide most affected by climate change.³ Extreme weather events have increased in frequency and intensity, impacting people, ecosystems, and infrastructure. Warming in Pakistan was estimated at 0.57°C over the 20th century, accelerating more recently, with 0.47°C of warming measured between 1961–2007. There is a trend towards increased future annual precipitation under a high emissions pathway by the end of the century, and frequency of intense flood and drought events due to changes in the seasonality, regularity, and extremes of precipitation. The projected increase in tropical storms, coastal rains, glacial melt sea level rise, desertification, droughts, among others, is expected to heighten disaster risk particularly for vulnerable poor and minority groups and amplify the pressure on human health, livelihoods, and ecosystems.

7. Khyber Pakhtunkhwa (KP), Pakistan's third largest province, has seen sharp poverty reduction in recent years, though parts of the province remain vulnerable. KP's poverty rate fell from 73.8 percent in FY02 to 27 percent in FY14, the largest decrease among Pakistan's provinces. However, there has been a recent rise in poverty in the province (29.5 percent in FY19), and nearly half of the 30.5 million inhabitants of KP, as well as three-fourths of the five million inhabitants of the former Federally Administered Tribal Areas (FATA, henceforth Newly Merged Districts or NMD), live in multidimensional

² World Bank Group (2022). Pakistan Country Climate Development Report.

³ Germanwatch, Global Climate Risk Index 2021. <https://www.germanwatch.org/en/19777>



poverty.⁴ Over 30 percent of the population is made up of youth between the ages of 15 and 29, but they face limited opportunities with an unemployment rate of 11 percent.⁵ About 85 percent of the population lives in rural areas, where access to public services is not only poorer, but also worsening: only two-thirds of the rural population has access to improved water sources (as opposed to 94 percent of the urban population) and the share of rural households with access to piped water sources has declined from 40 to 29 percent during 2005–15 due to deteriorating infrastructure.⁶ Malnutrition and poor access to clean water, sanitation, and hygiene contribute to childhood stunting, which affects 40 percent of children under the age of five in KP.⁷

B. Sectoral and Institutional Context

Sectoral Context

8. In 2018, Pakistan passed its 25th Constitutional Amendment, integrating what was FATA into the province of KP. Bordering Afghanistan to the west, the area is approximately 27,200 km², sparsely populated and mountainous, and made up predominantly of Pashtun tribal groups. Until 2018, FATA consisted of seven tribal agencies—Bajaur, Mohmand, Khyber, Kurram, Orakzai, North Waziristan, and South Waziristan—that were directly governed by the federal government through a special set of laws.⁸ Six adjoining tribal areas, namely Peshawar, Kohat, Bannu, Lakki, Marwat, Tank, and Dera Ismail Khan, are known as the Frontier Regions (FRs). The area continues to be in low grade conflict, with occasional skirmishes and attacks. The 2018 merger into the province of KP came alongside a major reforms package, including promises of significant financial aid to the area to address the development discrepancies with the rest of the country. This included an expected increased financial outlay from both the federal and provincial governments for social and economic development support to address post-conflict needs and the longstanding sense of alienation and deprivation of the local population. The merger was positioned to take place over a decade, with the extension of institutional and administrative systems, infrastructure development, socioeconomic support, improved services, and supporting state responsiveness to citizens to fully integrate the former tribal areas into the rest of the province and the country. Nearly four years after the merger, the development needs of the area continue to be high.

9. Poverty rates in the NMD and FRs⁹ are some of the highest in the country.¹⁰ This indicates a structural disadvantage and lack of physical and human capital endowments of households. Pakistan's overall poverty rate is 21.9 percent, with an estimated rural poverty rate of 28.2 and urban poverty rates of 10.9 percent. KP has the second highest poverty rate in the country at 29.5 percent, following Balochistan (42.7 percent) and followed by Sindh (24.1 percent) and finally Punjab (16.2 percent). However, within KP, the estimated poverty rate for the NMD is 47 percent—the highest poverty rates in

⁴ Government of Pakistan. June 2016. *Multidimensional Poverty in Pakistan*. Ministry of Planning Development & Special Initiatives. Multidimensional poverty includes education, health, and standard of living.

⁵ Government of Pakistan. Population Census 2017. Pakistan Bureau of Statistics,

⁶ World Bank. 2018. "When Water Becomes a Hazard. A Diagnostic Report on the State of Water Supply, Sanitation, and Poverty in Pakistan and Its Impact on Child Stunting." WASH Poverty Diagnostic. World Bank, Washington, DC.

⁷ Government of Pakistan. 2019. *National Nutrition Survey 2018*. Nutrition Wing, Ministry of National Health Services, Regulations and Coordination.

⁸ This British-era Frontier Crimes Regulation persisted through the establishment of Pakistan and stipulated self-governance and justice through tribal councils (*jirgas*) and with a special set of rights and due process outside of the country's judicial system.

⁹ Newly Merged Districts refer to the eight new districts established from the seven tribal agencies, and FRs refer to the former Frontier Regions. Newly Merged Areas refers to the NMD and the FRs.

¹⁰ World Bank. 2022. "KP's Newly Merged Districts – A Spatial Analysis of Living Standards, Access to Utilities and Services, and Climate Risks." Pakistan Poverty and Equity Team. *Mimeo*.



the country. Educational outcomes in the NMD are particularly low and strongly gendered, suggesting extreme deprivations in growth and development opportunities for children and youth, especially for girls. For example, in North Waziristan district, the primary education completion rate for boys is 65.4 percent and only 3.4 percent for girls. Overall, the NMDs are among the poorest performing districts in KP and Pakistan in terms of living standards, measured against a diverse set of variables.

Figure 1: Poverty Rates, KP Districts 2019/20

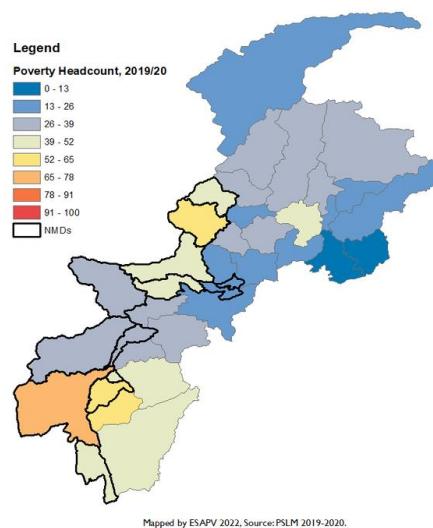
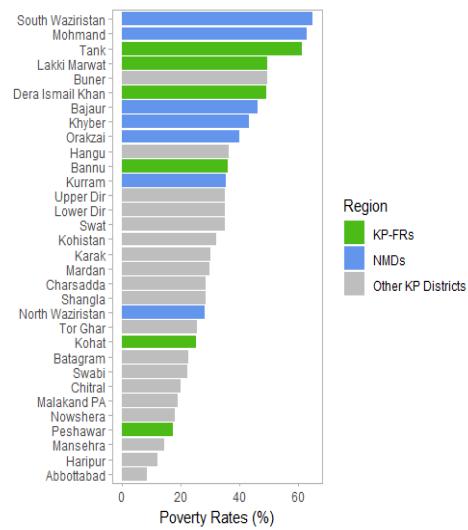


Figure 2: Poverty Rates, KP Districts 2019/20



Note: In 2022, the GoKP bifurcated the South Waziristan district into South Waziristan Upper and South Waziristan Lower; however, data in 2020 reflects the overall poverty rates for the district.

10. Poor infrastructure provision in the NMD contributes to poverty and low human capital outcomes and vulnerability to climate and other shocks, limiting economic prospects and opportunities. Around 97 percent of the population live in rural areas and are heavily dependent on subsistence agriculture and livestock as a source of livelihoods. Most households have small landholdings, and more than half of the cultivated land is rainfed, making it sensitive to climate impacts such as shifting rainfall and precipitation patterns. Poor transportation and connectivity are cited as key factors to food insecurity and significant seasonal hunger in the merged areas, with limited opportunities for market exchanges. Around 85.5 percent of the population of the NMD have access to improved water sources¹¹ and 28 percent have access to improved sanitation, which is well below the KP average of around 68 percent. Open defecation continues to persist, resulting in the contamination of various drinking water sources with fecal matter.¹² There are also high rates of stunting of children under five years of age (at 48 percent),¹³ which has implications for physical and cognitive capacity of children, leading to losses in earnings, human capital, and ultimately economic growth at the national level. At the time of the merger,

¹¹ In addition, an estimated 80 percent of households do not treat their water for drinking/cooking use, resulting in over 60 percent of households' drinking water to be contaminated with E.coli (against a Pakistan wide average of 31 percent) (2016 estimates).

¹² Government of Pakistan. 2019. *National Nutrition Survey 2018: Key Findings*. Nutrition Wing, Ministry of National Health Services, Regulations and Coordination.

¹³ Compare this to 40 percent nationwide. See: Government of Pakistan. 2019. *National Nutrition Survey 2018: Key Findings*. Nutrition Wing, Ministry of National Health Services, Regulations and Coordination.



the NMD had only one health care facility for every 4,200 people and one doctor for every 7,800 people, with some of the lowest socioeconomic development outcomes in the country (see Table 1).

Table 1: Selected Comparative Indicators for NMD, KP, and Pakistan (2018)

Indicator	NMD	KP (excluding NMD)	Pakistan (national average)
Gross national income (per capita) (2018)	US\$2,509	US\$4,328	US\$5,190
Human Development Index	0.216	0.628	0.557
Percent of population below poverty line	47.0%	29.5%	21.9%
Net enrollment rate (primary)	52.1%	59.0%	73.8%
Maternal mortality rate (per 100,000)	395	275	140
Immunization of children	33.9%	40.0%	60.6%
Population with access to improved drinking water	46.7%	91.3%	92.6%
Children stunted (children under 5)	48.3%	40.0%	40.2%

Source: Indicators drawn from World Bank, UNICEF, GoKP documents (2018); poverty rates from 2019.

11. Gender outcomes in KP and especially in the NMD show significant variation, and there is an opportunity to further improve voice, agency, as well as access to and utilization of basic services. A 2020 gender profile of the merged districts summarized five areas where gender discrimination and gender-based constraints for women and girls are pervasive.¹⁴ These include intra-household discrimination, health disparities experienced by women and girls, early marriages, frequent pregnancies, and malnutrition, among others. Project consultations with women from merged areas revealed limited mobility, and lack of voice and agency, especially in public spaces, and very low abilities to influence public investments. Limited access to safe water and sanitation in particular impacts women disproportionately – as women shoulder the burden of collecting water aggravating time poverty. Lack of safe water and sanitation has a negative impact on health and nutrition outcomes for households overall, and especially for women and girls.¹⁵ In this context and given the project's scope and design the intervention will focus primarily (in this first phase) on: (i) ensuring that women are able to effectively voice their priorities in village level planning and secure finance for sub-projects that address these needs; and (ii) strengthening women's access to safe water as this will be an important step to improve health and nutrition outcomes for women. The second phase of the project will build on the safe water and sanitation infrastructure and invest in an outreach and behavior change communication intervention targeting women specifically with information on hygiene, health, and nutrition. In this first phase the project will, in order to improve access by women to services they consider a priority, the project will invest in the following activities: (i) systematically improve women's participation in the planning process, leading to village development plans, thereby enabling them to voice their priorities in terms of service delivery; (ii) support women's structured participation in implementation of sub-projects village level; and (iii) systematically targeting women as beneficiaries in water and sanitation interventions through investments delivered by the line department. This package of interventions is expected to result in: (i) increased number of sub-projects put forward by women that are financed at the VC level; and (ii) increased access to safe water and sanitation by women that will be tracked through the following indicators: *Women's increased access to safe water sources (Percentage)* and *Sub-projects at VC level that finance women's priorities (Percentage)*,

¹⁴ The findings are summarized from: UN-Women. 2020. "Khyber Pakhtunkhwa: Status of Women and Girls in Khyber, Kurram, Orakzai, North Waziristan & South Waziristan. Gender Profile of Merged Districts."

<https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEA/Docs/Publications/2020/11/pk-Gender-Profiles-of-Merged-Districts-of-Khyber-Pakhtunkhwa.pdf>.

¹⁵ Government of Pakistan and ICF. 2020. *2019 Pakistan Maternal Mortality Survey*. National Institute of Population Studies.



given the low levels of voice and agency in public spaces, and the critical gaps in access to safe water sources. The project's Management Information System will track access by women to safe water sources at village level to assess progress annually and adjust implementation modalities as needed.

12. The 2022 floods have placed additional fiscal constraints on the Government of Khyber Pakhtunkhwa (GoKP) to manage the development needs in the merged areas and the province. KP is especially vulnerable to current and future climate change impacts, including frequent and severe weather-related shocks, flash floods, and extreme weather events.¹⁶ A total of 17 of 36 districts in KP were impacted by the floods in 2022, affecting an estimated 4.35 million people, and pushing around 720,000 people into poverty. In addition to the direct impact on monetary poverty, losses to human capital and loss of land productivity could set in motion more durable declines in welfare and will require specific attention. Estimated damages sustained to infrastructure in the province are severe, with significant damages to public infrastructure, including irrigation canals, roads and bridges, power generation equipment and transmission, schools, and water supply and sanitation. The province will require significant funding to address the recovery and reconstruction needs while building resilience to a shifting climate risk context. The dual financial requirements of both addressing recovery from the floods and sustaining the continued investments in the merged areas is significant.

Institutional Context

13. The merger integrated former FATA under the legal system and governmental authority of the GoKP and the GoP. This included extending legal jurisdiction, establishing judicial and court systems, and granting basic rights enshrined in the Constitution to the residents of the NMD for the first time in history. The NMD were also granted political representation through allocated seats in the National and Provincial Assemblies. At the provincial level, the FATA Secretariat, which had been responsible for planning, implementing, and monitoring development activities in the region, was dissolved, and around 52,000 civil servants were integrated in provincial line departments. The role of Political Agent (the chief administrators in tribal areas) was abolished, and districts were fully incorporated into the local government structure of the province; the seven tribal areas were converted into eight districts, 19 sub-districts (*tehsil*), and 653 village and neighborhood councils (VCs/NCs).

14. Recent amendments to the Local Government Act (2019) create an opportunity to strengthen citizen voice and participation in local development. In 2019, the GoKP simplified the local administrative structure and introduced elected officials at the sub-district (*tehsil*) and VC levels. Nine devolved functions continue to be delegated to the local government, including social welfare, agriculture, municipal services, rural development, among others. However, several challenges continue to impact the effectiveness of local governments, including: (i) lack of capacity at the VC and *tehsil* levels; and (ii) poor budget reliability and lack of reliable and timely budget allocations. This is especially true in the NMD, where village and *tehsil* councils were elected for the first time in 2021. However, this also presents an opportunity to strengthen the effective participation of citizens in state-led development processes. Given the relatively new institutions in these areas and continued strong tribal traditions, there is an opportunity to ensure that systems and processes are put in place over the project period to support public investments in a way that reflects local needs.

15. The GoKP initiated an ambitious development plan for the merged areas in a 10-year Tribal Decade Strategy, 2020–2030 (TDS). The TDS is organized into five pillars (see Table 2) and highlights the need to extend state systems for service delivery as a critical pre-requisite for improving development

¹⁶ Government of Khyber Pakhtunkhwa. 2018. *Khyber Pakhtunkhwa Province: Climate Change Financing Framework*.



outcomes and support state responsiveness to citizens. The overall estimated budget requirements to fulfill development needs in the NMD is estimated at PKR1.33 trillion (US\$6.63 billion) over the next decade (2020–30), which is expected to be financed through GoKP expenditures, federal government contributions, and donors and development partners.¹⁷ To date, the GoKP has allocated substantial amounts towards this through its Annual Development Plan (ADP) and an Accelerated Implementation Program (AIP) that focuses specifically on the NMD.¹⁸ As many as 28 sectors are covered under the AIP, with substantial portions of departmental budgets being allocated to priority sectors; in FY19–20, a total amount of PKR 142.171 billion (US\$710.8 million) was approved under the AIP. KP continues to face budgetary constraints in releasing approved expenditures because of the COVID-19 pandemic, economic challenges, and, more recently, the immediate fiscal requirements to address flood recovery. As a result, the development needs continue to be high. The GoKP has initiated broad consultations with development partners for an AIP Phase 2.

Table 2: Estimated Financial Needs for the NMD (2020–30)

No	Pillar	PKR (billion)	US\$ (billion)	%
1	Building Responsive Institutions	266.30	1.33	20
2	Enhancing Human Potential	514.90	2.57	39
3	Expanding Economic Infrastructure	224.00	1.12	17
4	Creating Sustainable Economic Opportunities	217.70	1.09	16
5	Instituting Sustainable Resource Management	102.30	0.51	8
TOTAL		1,325.10	6.63	100

Note: Assumes exchange rate of PKR 200/US\$1.

C. Relevance to Higher Level Objectives

16. **The Program is consistent with the World Bank Group's (WBG) Country Partnership Strategy (CPS) FY15–19 for the Islamic Republic of Pakistan discussed by the Board of Executive Directors on May 1, 2014 (Report No. 84645-PK).** The CPS was extended to FY20 under the corresponding May 2017 Performance and Learning Review (Report No. 113574). The preparation of a new Country Partnership Framework (CPF) was deferred in FY21 due to the COVID-19 crisis and paused due to the recent unprecedented and catastrophic monsoon floods. A new CPF is expected to be delivered for the consideration of the Board of Executive Directors in the second half of FY24. The focus areas and objectives of the CPS remain relevant and are reflected in the ongoing engagement in the country. The program will contribute to CPS Results Area 3 on “Inclusion” and CPS Outcome 3.2: “Reduced Vulnerability for Groups at Risk;” and to Results Area 4 and CPS Outcome 4.1: “Improved Public Resource Management”. The program contributes to the green, resilient, inclusive development (GRID) framework by supporting disaster risk management, climate resilience, and investing in institutional strengthening and capacity building in a fragile context. The project is also aligned with the WB CCAP by boosting financing in support of adaptation and resilience, and the WB Action Plan on Adaptation and Resilience (June 2021) with its focus on social resilience. Finally, the project is aligned with the Pakistan Climate

¹⁷ The total need in merged areas is compounded by historic underinvestment in FATA, where, by some estimates, the relatively low provisions within the National Financing Commission led to underfinancing of development of around US\$5.5 billion over the decade leading up to the merger. In addition, military interventions in the area over 15 years led to further destruction of critical infrastructure and disrupted connectivity and services. The total figures presented therefore represent the estimated requirements for development in these areas.

¹⁸ This targeted program includes Federal Government commitments to provide PKR 100 billion (around US\$4.9 billion) per year over ten years in line with the TDS, although not all of this funding has materialized to date.



Change and Development Report (CCDR) (2022), as it contributes to the policy area of strengthening human capital through improving shock responsiveness.

17. **The Program is also aligned with the WBG Global Crises Response Framework (GCRF), specifically Pillar 1: Responding to Food Insecurity, Pillar 3: Strengthening Resilience, and Pillar 4: Strengthening Policies, Institutions and Investments for Rebuilding Better.** Under the first phase of investments, Component A (US\$90 million) will contribute to Pillar 3 through investments in: (i) agricultural production, including value addition and processing; (ii) climate smart agriculture technologies; (iii) climate-resilient rural road networks; and (iv) improvements to water supply and sanitation services. Component B (US\$55 million), sub-components B1 and B3 (US\$25 million), will contribute to Pillar 4 through investments in: (i) institutional strengthening and capacity building at the lowest tiers of government; and (ii) improved climate awareness resulting in investments in climate resilience, and sub-component B2 (US\$25 million) will contribute to Pillar 3 through investments in local infrastructure. Component C (US\$50 million) supports Pillar 3 through disaster risk management and resilient reconstruction. Finally, Component D (US\$5 million) supports Pillar 4 in strengthening institutions and capacity building for effective delivery.

18. **The program also supports the GoKP's strategic priorities and objectives.** Specifically, the program directly supports the TDS and the AIP. The Program will contribute directly to eight Sustainable Development Goals.¹⁹ The first phase of the program also supports the GoKP's Flood Response Plan by making financing through the project available for emergency reconstruction and rehabilitation in the province. This is also consistent with the PDNA (2022) through its support to the implementation of the GoP's 4RF in Khyber Pakhtunkhwa.²⁰ The 4RF provides programmatic priorities, policy framework, institutional arrangements, financing strategy, and implementation arrangements for resilient recovery, rehabilitation, and reconstruction in the aftermath of the 2022 floods. It is a foundation on which the country will build and strengthen long-term resilience to natural hazards and climate change. Specifically, the project contributes to the strategic recovery objectives of (i) *restoring and improving essential services and physical infrastructure in a resilient and sustainable manner*; (ii) *restoring livelihoods and economic opportunities*; and (iii) *ensuring social inclusion and participation*.

D. Multiphase Programmatic Approach

(i) Rationale for Using MPA

19. **Achieving the integration of erstwhile FATA into the province of KP is a complex outcome and is expected to take time to implement.** The GoKP recognizes the longer-term agenda as is laid out in the TDS and the AIP process, which puts in place a framework approach and a set of investments intended to accelerate addressing institutional and service delivery gaps. The 25th Constitutional Amendment provides the legal basis and foundation for the merger, and there is high political commitment towards seeing through its full completion, including putting in place the institutional systems, state capabilities,

¹⁹ These include: SDG 1: No Poverty, as it focuses on poverty reduction investments through critical infrastructure; SDG 2: Zero Hunger, through investments at the community level in boosting agricultural productivity, food security, and malnutrition awareness; SDG 3: Good Health and Well Being and SDG 4: Quality Education, through investments in auxiliary health and education infrastructure, and by strengthening citizen monitoring; SDG 5: Gender Equality, through interventions to enhance women's voice, participation, and leadership; SDG 6: Clean Water and Sanitation, by focusing on investments to improve access to water, sanitation, and hygiene; SDG 7: Affordable and Clean Energy, by investing in energy provision; and SDG 16: Peace, Justice and Strong Institutions by investing in strengthening state responsiveness to citizens.

²⁰ Government of Pakistan. 2022. Resilient Recovery, Rehabilitation, and Reconstruction Framework.

https://www.pc.gov.pk/uploads/downloads/Final_4RF.pdf.



and service delivery mechanisms on par with the rest of the country. This presents a unique opportunity for the World Bank (WB) to help shape and support implementation of the longer-term vision.

20. **The Multiphase Programmatic Approach (MPA) instrument offers an opportunity to support the GoP's and GoKP's long-term commitment towards the merger through a systematic and gradual approach, adjusting the implementation of the program as needed across phases and thereby building effective state systems and service delivery for the households of the newly merged areas.** Compared to a standalone investment project, the MPA offers an advantage given (i) the potential for longer-term engagement across an implementation platform; (ii) the opportunity for integrated and continuous learning through implementation; and (iii) the potential to adjust the scope of activities within the overall agreed program across phases. This approach is preferred for the following reasons:

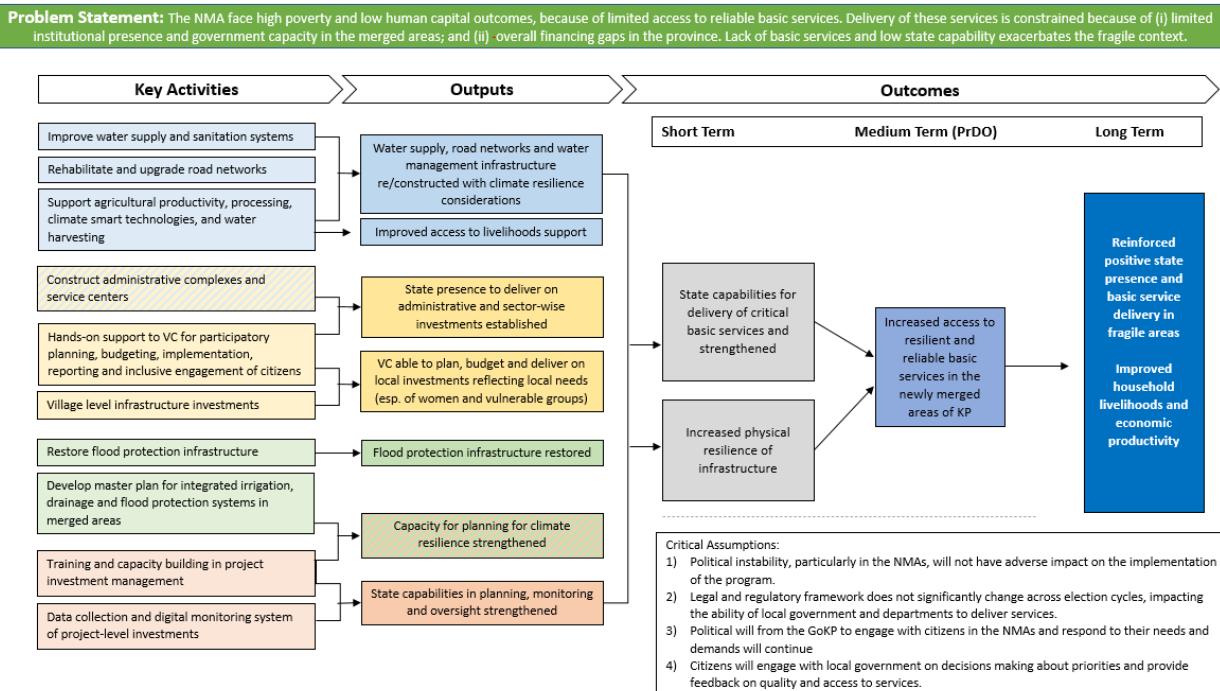
- (a) **The MPA creates a strategic platform to support the implementation of the TDS and puts in place an implementation framework towards the objectives of full integration of the newly merged areas.** The programmatic approach from the Bank provides the GoKP with the required long-term support to plan for the next decade with greater confidence and patience for the gestation period required for newly introduced responsive planning and services delivery approaches to take hold. The approach also offers a framework for additional funds from different sources to support the program objectives and can bring in more sectors to maximize the results over time.
- (b) **The complexity of bringing all sectors and services to the merged areas necessitates a well-sequenced set of interventions over the longer term.** Support to the overall agenda of extending state systems and services to the merged areas necessitates a strategic engagement building on well-sequenced multisectoral interventions, prioritized together with strong citizen engagement, to achieve its longer-term goals. This set of overlapping investment plans will allow for the integration of learning and adapting the approach throughout the Program.
- (c) **The financial continuity offered by the MPA will enable the GoKP to have dedicated and stable resources over the longer term.** Given the political and economic context in Pakistan, the expected increase in outlays for the GoKP to extend systems and services into the merged areas has not materialized. The GoKP is reliant on fiscal transfers from the federal government, which are below expected receipts; this has especially been the case since the passing of the 25th Constitutional Amendment after which KP's share was to increase to effectively implement the merger. As a result, KP relies on donor funding, leading to ad hoc funding and fragmented implementation. Leveraging the MPA will signal longer-term commitment to citizens of the merged areas.
- (d) **The MPA provides a risk mitigation-based approach to implementation.** The MPA enables adaptive management, provides flexibility, and builds institutional capacity to address unforeseen challenges. This is critical in the context of the merged areas, where state systems and some local services are being extended for the first time in history against a backdrop of low-grade conflict and periodic skirmishes and attacks. The design also allows for testing interventions and entry points before rolling them out in the subsequent phase.
- (e) **The MPA's proposed overlapping phases offers continuity in implementation.** This will be instrumental in ensuring a seamless transition from one phase to the next, so as not to lose the technical coherence and the implementation momentum required for implementing a long-term program. In addition, several interventions in the first phase—most notably around capacity building and institutional strengthening—will be brought into the second phase as a foundation for the continued implementation of investments.



(ii) Program Results Chain

21. **The Newly Merged Areas (NMA) Development Program spans eight years and envisages two phases.** The Program Development Objective (PrDO) will be maintained throughout all phases of the Program. The Theory of Change is presented in Figure 3.

Figure 3: Program Theory of Change



(iii) Program Development Objective with Key Program DO Indicators

22. The Program will progressively monitor, measure, and target the MPA Program Development Objective (PrDO) indicators through all program phases, while targets may be adjusted after each phase, depending on lessons learned and progress made.

23. **The PrDO is to increase access to resilient and reliable basic services for households living in the newly merged areas of Khyber Pakhtunkhwa.** In this way, the program aims to improve citizen-centric service delivery in the newly merged districts and frontier regions (FRs) of the province and achieve a reinforced and positive state presence. Improved, resilient, and reliable services are expected to support economic productivity and improve household livelihoods opportunities and strengthen climate resilience.

24. Resilient basic services are defined as those that integrate climate resilient standards into the design and delivery of water supply and sanitation, link roads, and flood protection infrastructure. These vary by sectoral investments and include considerations on flood returns for embankment heights, integration of climate impacts into road designs (e.g., carriageway works, off-carriageway works, drainage),²¹ and the integration of climate modeling into water supply sectoral designs. Improved

²¹ For rural roads, the Khyber Pakhtunkhwa Rural Accessibility Project (KPRAP, P177069) is supporting the Communication and



reliability of public services refers to the continued availability of the basic services. This includes all weather access for roads, flood protection for duration of infrastructure lifetime, and reliable access to water supply against service standards.

25. The PrDO outcome indicators are:

- Households with improved reliability of public services (Number) (target: 250,000).
- Program investments that meet climate resilient standards (Percent) (target: 75 percent).
- Share of respondents in beneficiary communities who agree that their priorities were reflected in the local development planning processes (Percent) (target: 80 percent, by gender).

(iv) Program Framework

Table 3: Program Sequencing and Financing

Phase #	Project ID	Sequential or Simultaneous	Phase's Proposed DO	IPF or PforR	Estimated IBRD Amount (US\$ million)	Estimated IDA Amount (US\$ million)	Estimated Other Amt (US\$ m)	Estimated Approval Date	Estimated Environmental & Social Risk Rating
1	P176780	Sequential with overlapping phases	To strengthen state capabilities for delivery of basic services and climate resilient infrastructure in the project areas, including for the poor and vulnerable	IPF	0.00	200.00	0.00	June 13, 2023	Substantial
2			Same						
Total					0.00	300.00	0.00		
Revised Financing Envelope								US\$0.00	
Board Approved Financing Envelope								US\$300.00	

26. Over an eight-year period, the proposed MPA includes two phases, which focus on key areas that address the most pressing development challenges in the NMA, including emergency reconstruction in the first phase related to damages caused by catastrophic 2022 floods. The proposed Khyber Pakhtunkhwa Rural Investment and Institutional Support Project (KPRIISP) will support the extension of state systems and government services to the NMA to fully integrate these districts into the provincial administrative structure. Across two phases of the MPA, the project will extend state systems, build capacity for and effective delivery of basic services, and strengthen the lowest tier of government. Given that this will be taking place for the first time, the project will integrate a strong learning agenda,

Works Department with updated climate resilient road designs that include activities to address climate impacts. This project will utilize these designs for link roads to integrated service facilities.



both in the flexibility to adapt to the local context and realities through phased rollout across districts, as well as through learning across phases. In the first phase, the priority will be on establishing the state presence, delivering high priority and critical basic services, and building citizen-state relationships at the lowest levels of government. The first phase will begin pilot testing different interventions in livelihoods promotion and engaging citizens at the village level that will inform the scope and potential for scale-up in Phase 2. Drawing on experience and learning in Phase 1, the interventions in Phase 2 will adjust, deepen, and accelerate investments in service delivery gaps, while continuing to strengthen investments in local capacity and citizen responsiveness. This will be complemented by building citizen capacity for service delivery monitoring, especially in the health and education sectors; and interventions in behavioral change in sanitation and nutrition will support stunting reductions in the area. Interventions at the village level in participatory planning will include awareness raising on climate risks, especially related to water and sanitation, nutrition and livelihoods.

27. **The three components that will gradually unfold, increasing their scope from phase to phase are: (i) multisectoral investments and improved service delivery; (ii) institutional development of merged areas; and (iii) project management.** The emergency floods component will address future needs through the support of integrated master planning in the sector, with a view to finance future sectoral investments through Component A. These components and their phases are summarized in Table 4.

Table 4: Investments Across Phases of the MPA

Component	Phase 1: 2023–29	Phase 2: 2026–31	
Component A: Multisectoral Investments and Improved Service Delivery	Extend government presence and HR to NMD. High priority infrastructure investments. Pilot testing livelihoods improvements. Sectoral master plans.	++ Expand/modify/adapt scope of investments based on lessons learned in Phase 1. Select investments against sectoral master plans and	
Component B: Institutional Development of Merged Areas	Hands-on capacity building for planning at the lowest tiers of government. Citizen engagement and accountability. Support for execution of conditional grant. Reporting and monitoring. Pilot testing behavioral change interventions.	++ Behavioral change outreach for nutrition and sanitation. Raising awareness on climate change and facilitating local climate action Citizen monitoring of public services (especially health and education).	PrDO: to increase access to resilient and reliable basic services for households living in the newly merged areas of Khyber Pakhtunkhwa
Component C: Emergency Flood Response	Emergency investments in rehabilitation of flood protection. Master planning for integrated water resources management and flood protection.	None	



Component D: Project Management, Monitoring and Evaluation (M&E) and Technical Assistance	Investing in digital monitoring systems. Building capacity especially of P&DD for planning and monitoring in merged areas.	Institutionalize a digitized monitoring system into P&DD for improved oversight in NMD.	
	Lay Foundations	Learn, Expand, Adjust	

28. **The two proposed phases will overlap to ensure continuity of activities and adaptive management based on lessons learned.** The funding estimate for future phases is based on current discussions and may change based on country funding allocation and availability. The duration of each phase is estimated to be as follows:

- (a) **Phase 1: Six Years (2023–29).** During this phase, the implementation arrangements and strategic priority investments that will lay the effective foundation for service delivery will be put in place. This phase will also pilot test interventions that may be adjusted and scaled in the future phase.
- (b) **Phase 2: Five Years (2026–31).** This phase will adjust, expand, and scale up interventions designed in Phase 1. This will build on lessons from the first phase to inform the approach and areas of intervention and will benefit from the project's first mid-term review to consolidate, document, and discuss the lessons learned with the GoKP for the second phase. Phase 2 will commence once implementation arrangements are well established, project activities are underway, and after assessing learning of the project implementation.

(v) Learning Agenda

29. **The MPA aims to leverage lessons learned in the first phase to better design the second phase.** In Phase 1, the project will support the hands-on institutional capacity building to VCs—the lowest tier of government in KP—and will strengthen outreach to citizens and community participation in the planning and budgeting process, as well as improving awareness on climate change risks. This will be the first time that elected officials in the merged districts will undertake annual planning with strong citizen engagement and would receive a conditional grant for implementation of village level investments. All VCs in the NMD and FRs (711 in total) will be consulted to undertake this kind of participatory planning, inclusive of climate risks. The lessons learned from this first phase will then inform the second phase planning, including the feasibility of continuing such an approach, citizen engagement and outreach, key challenges during the implementation of village level investments, and approaches to ensure that the poor and vulnerable populations are reached. The MIS system will provide continuous inputs from the field that will help to continuously monitor implementation on the ground, and frequent supervision and support services to village councils will also provide critical insights on implementation progress, challenges, and risks. These lessons would also then inform the feasibility of introducing additional community level interventions, including behavioral change campaigns in sanitation and nutrition, climate resilience, and citizen monitoring for health and education services in Phase 2.

30. **The first phase of the MPA will also generate useful insights in climate resilient infrastructure planning and delivery of basic services.** Phase 1 will finance priority investments in critical basic services, such as water supply, sewerage and sanitation, rural roads, irrigation and flood protection, and livelihoods support. In the first phase, investments will also support the development of master planning for an integrated master plan in irrigation, water resources management, and flood protection that will assist the GoKP to identify high priority investments that could be considered under Phase 2. Phase 1 will build the foundations for a strong bottom-up planning process institutionalized at the VC level, which will



identify needs and priorities at the grassroots level. These needs will be factored into the sectoral frameworks to ensure that selected investments also better match local needs.

31. Identifying appropriate mechanisms for sustainability of infrastructure constructed under the project will be another critical part of the learning agenda. Under the previous administrative arrangements, residents of FATA were exempt from paying taxes or tariffs on services. Although these systems should formally apply today, there is a recognition that these will need to be gradually rolled out. However, given the history, local context, and potential challenges of affordability, this needs to be undertaken in a way to sensitize households towards payment of services. Nevertheless, the introduction of fees and tariffs will be critical towards the enhanced sustainability of services, particularly in water and sanitation investments. During Phase 1, community engagement and discussions on operation and maintenance, as well as on payment for water services, can be facilitated alongside investments in water supply and sanitation infrastructure. Given the potential limitations on collection of fees and tariffs, physical investments will focus on those that address critical gaps in services and high rates of poverty, have lower per capita costs of investment, but also prioritize gravity-based schemes given lower operation and maintenance costs in the short term. Alongside these investments, community engagement around payment for services will be further taken up.

32. The program includes an M&E platform for third-party verification of results. The Program will continue to bolster the GoKP's oversight and monitoring capabilities for the NMA through digital dashboards and regular data collection, monitoring systems, on-site live camera feeds, and through data visualizations. This is particularly critical given the relative lack of data from the NMA which, in turn, makes strategic planning challenging. Difficulties in accessing the NMA, coupled with periodic security challenges, further underscore the need for regular data to inform the status of implementation. This regular data stream also offers an opportunity for evaluation and assessments on the efficacy of project activities and can offer the required evidence to adjust in implementation approaches, as needed.

33. Phase 1 interventions and key considerations will be consolidated around the first midterm review, expected to be after around Year 3 of implementation, to inform the scope and design of Phase 2. This would be done through broad stakeholder engagement and workshops with all implementing partners to consolidate the lessons learned. In particular, the following areas would be reviewed: (i) overall and good progress of the project activities as assessed in implementation support missions; (ii) continuity of staffing, especially in key positions for project implementation and compliance with Bank standards; (iii) effective and functional grievance redress mechanism in place; (iv) data, inputs, and reports from third-party monitoring showing satisfactory progress and quality of civil works; (v) consistent and good quality implementation support to line departments (e.g., Design and Supervision consultancy services support line department implementation); (vi) satisfactory implementation of environmental and social (E&S) measures and review of E&S risk profile of interventions; (vii) village development plans and implementation plans are developed, successfully identifying village priorities (in an inclusive and transparent manner); (viii) VCs are able to meet conditions to access grants effectively; and (ix) outcomes of citizen surveys show increases in satisfaction. Additional metrics may be added as appropriate and as highlighted through the project's continual learning approach.



II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

34. The project development objective (PDO) is to strengthen state capabilities for delivery of basic services and climate resilient infrastructure in the project areas, including for the poor and vulnerable.

PDO Level Indicators

35. **The following key results are expected from the project:**

- a. Village councils with strengthened capacity for needs-based planning (Number).
- b. Beneficiaries that feel critical public services investments meet their needs (Percentage, by gender).
- c. People with improved access to climate resilient public services (Number).
- d. Beneficiaries of climate resilient flood protection infrastructure (Number).

B. Project Components

36. **Project Approach.** The project is positioned to address two critical priorities for the GoKP. First, it responds to foundational investments in the merged areas as outlined in the GoKP's TDS. This includes strengthening state responsiveness in the merged areas and facilitating citizen-driven service delivery. Second, the project supports a critical priority for the GoKP in responding to and building resilience of KP for climate-related extreme weather events. The project has the following five components:

37. **Component A: Multisectoral Investments and Improved Service Delivery (US\$90 million).** The objective of this component is to extend state systems to the merged areas, by focusing both on investments in infrastructure as well as the missing delivery systems that hinder effective service delivery. The following sub-components are included:

- (a) ***Sub-component A1: Multisectoral Infrastructure Investments in the Merged Areas (US\$55 million).*** This sub-component will finance provision of climate resilient multisectoral infrastructure investments in water supply and sanitation, rural roads, and improved agricultural productivity, processing of agricultural products, kitchen gardening, and livelihoods promotion. Drinking water, sewerage and sanitation investments will focus on closing service gaps in clean drinking water and promoting improved and climate resilient sanitation services in underserved areas (e.g. preventing the contamination of drinking water from sewage following flooding). In the first phase, investments will include those that: (i) have been identified as priority investments in the merged areas master plan (especially areas of water scarcity from climate change); (ii) bring benefit to underserved areas with critical drinking water and sanitation needs; (iii) demonstrate lower per capita costs and prioritize gravity-based systems; and (iv) draw springs or entirely national tributaries of the Indus System. Investments in the agriculture sector will focus on improving agriculture processing and value addition for crops such as olives, fruits, and vegetables, livelihoods resilience and diversification through the introduction of new climate resilient seed varieties and cropping techniques, improving climate-resilient agriculture with investments in water conservation systems such as rainwater harvesting, training and innovation through support to rural services providers, including on climate-smart agricultural practices, and kitchen gardening. These investments will be provided across districts, matching interventions to local agricultural potential, and considering current and future climate risks to support adaptation



of livelihoods to changing conditions. Investments in rural roads will prioritize the rehabilitation of link roads and access to service delivery centers, and the rehabilitation of any additional high priority roads to improve connectivity, economic productivity, and human capital outcomes.²² Rural roads will utilize the department's climate resilient road design, which includes additional activities to be included as a part of civil works to address climate change.²³ Technical review of proposed sub-projects in all sectors will be done by Design and Supervision (D&S) consultants recruited under the project who will confirm the priority sub-projects based on feasibility and technical design validation, with recommendations to the line departments, PDWP/PSC for approval.²⁴ Sub-project implementation will be done through line departments, utilizing field level technical officers and with the support of D&S consultancy services, where relevant. Approval of annual work plans will be done by the Project Steering Committee (PSC). This sub-component supports Pillar 3 of the GCRF.

- (b) ***Sub-component A2: Integrated Service Delivery Facilities (US\$25 million).*** This sub-component will invest in the establishment, refurbishment, or expansion of service delivery centers and facilities at the district and sub-divisional levels, to ensure the extension and presence of administrative and sectoral systems and services in a gender informed and inclusive manner.²⁵ Integrated service centers will incorporate climate resilience through measures to improve resource and energy efficiency, sustainability principles, and green designs into the standardized design of these facilities. This sub-component supports Pillar 4 of the GCRF.
- (c) ***Sub-component A3: Design and Supervision Consultant Services (US\$10 million).*** This sub-component will cover the costs associated with carrying out of feasibility studies, surveys, detailed designs and/or design verifications, environmental and social assessments, preparation of site-specific environment and social plans, and construction supervision and support services pertaining to investments under Components A.1, A.2 and B.3 of the Project. This sub-component supports Pillar 4 of the GCRF.

38. **Component B: Institutional Development of Merged Areas (US\$55 million).** This component will finance investments to bolster state responsiveness to citizens, focusing on lower tiers of government and service delivery. It will include the following sub-components:

- (a) ***Sub-component B1: Institutional Strengthening and Capacity Support to Village Councils (US\$15 million).*** This sub-component focuses on institutional strengthening and capacity building of village councils and communities for participatory planning, budgeting, monitoring, strengthening social accountability systems for improved quality of spending of village councils. Under this sub-component, the project will support the deployment of social mobilizers and engineers to VCs to:
 - (i) support the development of participatory village implementation plans (VIP)²⁶ summarizing

²² Prioritization of any roads beyond link roads will follow a similar approach as laid out in KPRAP and will be funded as a secondary priority.

²³ These additional activities have been identified through the KP Rural Accessibility Project (P177069) and include increasing the resilience of pavement surface, addressing erosion risks and landslides, addressing stability, increasing resistance, enabling protection of the roads from heavy rainfalls and floods, and improving drainage systems.

²⁴ The project will support strengthening of the P&DD's Project Investment Management unit, which will support screening and assessing proposed projects for those that bring high economic returns, social inclusion, and infrastructure efficiency.

²⁵ This will include design elements such as ensuring that citizens are accommodated upon entry and directed to relevant departments and services and integrating gender friendly elements such as separate waiting areas for men and women, toilet facilities for men, women, and differently abled, on-site childcare rooms, separate rest areas for women, among others.

²⁶ Village Councils have recently developed Village Development Plans, and the participatory implementation plan will support



village priorities and feeding into village level planning; (ii) build capacity in oversight and technical support for effective and quality village level investments (financed through sub-component B2); and (iii) strengthen VC capabilities in reporting. The village planning process will ensure the systematic inclusion, participation, and voice of relatively poor groups, women, youth, and other vulnerable populations in identifying needs-based priorities, implementation milestones, and the selection of a strategic priority investment to be funded by the Conditional Grant. The planning process will integrate discussions on climate change through localized data and community perceptions to identify types of investments to improve climate resilience. Sub-projects identified at the village level will integrate women's priorities and prioritize addressing gender deficiencies in access to critical services that will be informed through separate meetings with women, and account for decisions taken by women's committees to ensure their active participation in setting community-level preferences. The sub-component will also support outreach and capacity building of women's committees in VCs to improve alignment with existing decision-making processes and structures at the VC level. Under this sub-component—through social mobilization and outreach at the community level—there will be a focus on behavioral change to increase awareness within the communities on improving food security, nutrition (especially for adolescent girls and young mothers), and raising awareness in terms of the links between sanitation and stunting.²⁷ These facilitation and infrastructure investments will induce behavioral changes in sanitation (ending open defecation) and will benefit women in meaningful ways in terms of privacy and safety. The sanitation intervention would be tailored to meet the needs of women and girls and reduce intrahousehold disparities in access to sanitation.²⁸ Second, institutional strengthening under this sub-component will build the capacity of the VC in the implementation, oversight, and monitoring of village level investments through hands-on support in engineering (e.g., understanding bills of quantities, reviewing bills, training in technical aspects, monitoring construction quality and progress, etc.). Finally, hands-on support will also facilitate learning to new government requirements in reporting. This sub-component supports Pillar 4 of the GCRF.

- (b) **Sub-component B2: Conditional Grants to Village Councils (US\$25 million).** This sub-component supports the provision of Conditional Grants to village councils to finance local infrastructure priorities in line with community preferences and women's priorities.²⁹ VIPs will identify and prioritize village level sub-projects from a positive menu of options, including water supply, small-scale septic tanks, footpaths, boundary walls, rehabilitation and construction of small-scale irrigation canals, community halls/VC offices, and small-scale afforestation. Eligibility criteria for

the VC and community to translate this into concrete priorities, actions, and milestones, as well as identify areas to prioritize for funding for the Village Grant.

²⁷ Recent analysis of the NMD shows a strong correlation between open defecation practices and stunting, as found in World Bank (unpublished) "Status of Water Supply and Sanitation based on existing data: Newly Merged Districts and Frontier Regions," (2022)

²⁸ The focus on sanitation will follow the Pakistan Approach to Total Sanitation (PATS), which advocates that infrastructure investments be provided as a reward once communities graduate to pour-flush latrines on the sanitation ladder. This is based on extensive experience in community-based sanitation approaches in Pakistan, integrating both behavioral change and outreach alongside necessary infrastructure investments to achieve 100 percent open defecation free communities. See: Government of Pakistan. 2011. *Pakistan Approach to Total Sanitation*; Ministry of Environment.

²⁹ As per UN-Women. 2020. "Khyber Pakhtunkhwa: Status of Women and Girls in Khyber, Kurram, Orakzai, North Waziristan & South Waziristan. Gender Profile of Merged Districts." women in the merged districts have limited mobility and social norms dictate strict gender segregation.



the investments will be included in the implementation manual for conditional grants.³⁰ Upon fulfillment of access conditions,³¹ VCs will receive conditional grant financing of an average of US\$35,000 per VC. Grants will be disbursed directly to accounts in the name of the VC, requiring three signatories from the VC. VC will undertake direct implementation of the selected sub-project, through a designated Project Implementation Committee, made up VC members. The project will support VCs through engineering design (integrating climate resilient standards) and construction supervision undertaken by the VC. Citizens will learn to monitor the progress of project implementation through a Social Accountability and Monitoring committee. All sub-projects will be recorded in the project management information system (MIS) and will be geocoded for overall project monitoring purposes. Investments made under this sub-component will improve women's access and utilization of public services. Village level investments financed through the Conditional Grant will complement the infrastructure investments made under Component A (e.g. climate resilient roads, sanitation systems, climate resilient livelihoods), and synergies would be identified through the village planning process. The investments will have a strategic focus on reducing prevalence of stunting (through eligible investments in water supply and sanitation), through reducing food insecurity (through livelihoods investments complemented by investments in nutrition awareness and investments in kitchen gardens), and enhancing climate resilience (through raising climate awareness and integrating climate resilient standards into infrastructure designs at the village level, for example in ensuring adequate drainage and paving for village roads, rainwater harvesting, and green designs for community halls, or ensuring climate resilient provision of water supply systems). This sub-component supports Pillar 3 of the GCRF.

- (c) ***Sub-component B3: Public Administrative Service Facilities (US\$15 million).*** This sub-component will support the establishment or refurbishment of local integrated service delivery centers at the *tehsil* level to facilitate access to and delivery of services. These would build on lessons learned from the Citizen Facilitation Centers (CFCs)³² and will ensure that different tiers of government are fully linked to enable citizen access to services, especially civil and vital records registration services, at the lower tiers of government. The design of buildings will integrate green and sustainable design principles. This sub-component supports Pillar 4 of the GCRF.
39. ***Component C: Emergency Flood Response (US\$50 million).*** The objective of this component is to support the GoKP in the reconstruction and rehabilitation of flood protection infrastructure as well as to improve climate resilience in the NMD and FRs. The component will finance reconstruction and rehabilitation of flood protection infrastructure damaged by the recent floods, utilizing a higher flood return period, improving drainage, raising protection structures, etc. to ensure principles of build-back-better from current and future projected climate-related extreme weather events. Eligible investments

³⁰ Eligibility criteria will specify that construction on new schemes will be excluded from project financing other than those drawing on water sources that are exclusively national tributaries to the Indus system.

³¹ Access conditions will include: election of Village Council, Village Development Plan approved, Village Implementation Plan endorsed, Committees (e.g., Project Implementation Committee, Women's Committee, Youth Committee, Social Audit Committee, etc.), notified, sub-project for grant financing approved.

³² The CFC model has already been tested in the NMDs, with over 40 such facilities currently operational and managed by the federal government; providing cash grants and basic services to displaced populations. The model leverages a single case management system, information dissemination mechanism, mobilization campaign, and grievance management system to optimize delivery of multiple services at one secure and safe location. This reduces costs for the service delivery agencies, beneficiaries, and the government. The project would incorporate lessons learned from this approach in establishing the public administration service centers at the *tehsil* level to streamline and enhance citizen facing services and strengthen state responsiveness.



for rehabilitation under this component would not adversely change the quality or quantity of water flows or adversely affect water use of any other riparians. This component will also finance an integrated water resources management and climate resilience master plan covering the NMD, as well as additional eligible priority and strategic flood protection investments in the NMD³³. Investments identified will incorporate climate resilience into the design of flood protection infrastructure. This component supports Pillar 3 of the GCRF.

40. **Component D: Project Management, M&E, and Technical Assistance (US\$5 million).** This component will support the provision of support for project implementation, coordination, technical assistance and training. It will include: (D1) establishment of a Project Coordination Management Unit (PCMU) under the P&DD to help intensive coordination and monitoring of project activities implemented by line departments and VCs; (D2) M&E, including the development and further strengthening of a digital M&E system and real time updates via a dashboard system to ensure coverage of NMD and FR; and (D3) technical assistance, training, and strategic studies. This component supports Pillar 4 of the GCRF.

41. **Component E: Contingent Emergency Response (US\$0 million).** This component will support provision of immediate response to an Eligible Crisis or Emergency, as needed. Following an eligible crisis or emergency, the Borrower may request the Bank to re-allocate project funds to support emergency response and reconstruction. This component would draw from the uncommitted loan/credit/grant resources under the project from other project components to cover emergency response [and/or from funds originally allocated to the CERC, if applicable].

42. **Project Financing.** The total project costs are estimated to be US\$200 million over six years, which is to be financed through an IDA credit. The project financing is given in Table 5.

Table 5: Project Costs and Financing

Project Component	Total (US\$ million)
A. Multisectoral Investments and Improved Service Delivery	
A1. Multisectoral Infrastructure Investments in MA	55.0
A2. Administrative and service delivery infrastructure	25.0
A3. Design and Supervision Consultants Services	10.0
<i>Sub-total A</i>	<i>90.0</i>
B. Institutional Development of Merged Areas	
B1. Institutional Strengthening for Village Councils	15.0
B2. Conditional Grants to Village Councils	25.0
B3. Public Administrative Service Facilities	15.0
<i>Sub-total B</i>	<i>55.0</i>
C. Emergency Flood Response	
<i>Sub-total C</i>	<i>50.0</i>
D. Project Management, M&E, and Technical Assistance	
D1. Project Management	2.0
D2. M&E	2.5

³³ Terms of Reference for the Master Plan will include an examination of potential riparian issues. eligible sub-projects for financing include those that draw on springs or entirely national tributaries of the Indus System.



D3. Training, TA and Strategic Studies	0.5
<i>Sub-total D</i>	5.0
E. Contingent Emergency Response	
<i>Sub-total E</i>	
TOTAL COST	200.0

C. Project Beneficiaries

43. **Project Beneficiaries.** The project is expected to directly benefit around 4.5–5.5 million people living in the eight merged districts and the six FRs (the newly merged areas)³⁴ through local area development investments, institutional capacity building, and village investments in all VCs.

D. Rationale for Bank Involvement and Role of Partners

44. **The WB is well positioned to support the GoKP in its two strategic priority areas: supporting the merger and improving development outcomes for the merged areas; and to respond to urgent priorities from the recent floods.** The WB has been a key partner to the GoKP and the GoP in development of erstwhile FATA through the Post Crisis Needs Assessment, and as subsequent administrator of the Multi-Donor Trust Fund for KP, FATA, and Balochistan. Through this, the WB administered US\$283.6 million, including US\$45 million in FATA-specific investments. The WB leverages extensive global experience in area-based development, interventions in fragile and conflict-affected contexts, supporting and strengthening local government systems, and community engagement. The Bank is a development partner for the province, and the proposed project will leverage ongoing operations, including the KP-Spending Effectively for Enhanced Development (P175727) project and the MDTF funded Governance and Policy Project for Khyber Pakhtunkhwa (P171659) and FATA Governance Policy Project (P56412) that focus on strengthening the capacity of the provincial government for improved public service delivery and public investment management, as well as the Pakistan Community Support Project (P151075) that brings community development to the merged districts. The project also complements the KP Rural Accessibility Project (P177069), which will finance the rehabilitation of around 544 km of roads in the NMD,³⁵ and the Khyber Pakhtunkhwa Irrigated-Agriculture Improvement Project (P163562), which covers investments in the agriculture sector and on-farm water management including in the NMD, and the Khyber Pass Economic Corridor Project (P159577) which expands economic activity and promotes private sector development along the Khyber Pass corridor.

45. **The project complements Bank and development partner support for the NMD.** Building on the TDS, the GoKP has put forward an AIP, of which the second phase is under preparation. The AIP process is being supported by the United Nations Development Programme (UNDP) and forms the foundation for coordinated donor and development partner support to address needs in the NMD. Under this, several development partners will support investments in governance systems, including the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), the European Union, the Japan International Cooperation Agency, UNDP, and the United States Agency for International Development (USAID). These investments focus on improvements in governance policies, support to Local Government reform especially in the merged areas, and strengthening frontline service delivery, especially in health and

³⁴ These include the districts of Bajaur, Khyber, Kurram, Mohmand, North Waziristan, South Waziristan Upper and South Waziristan Lower, and Orakzai, and the frontier regions (FRs) of Bannu, DI Khan, Kohat, Lakki Marwat, Peshawar, and Tank.

³⁵ This includes planned investments of 90.5 km in Bajaur, 100km in Khyber, 65 km in Kurram, 55 km in Mohmand, 73 km in North Waziristan, 60km in Orakzai, and 100 km in South Waziristan (PC-1 for KPRAP).



education. Several donors have active or upcoming programs in infrastructure, including USAID, the Asian Development Bank (water resources management) and a variety of UN agencies, including the World Food Programme (irrigation channel rehabilitation), the Food and Agriculture Organization of the United Nations (community cash grants and agricultural support, climate change), the United Nations Children's Fund (basic social services), UN Women (gender), and the International Labour Organization (inclusive growth). The project approach will continue to complement these investments through a flexible framework that allows for investments in priority areas not currently covered in other programs.

E. Lessons Learned and Progress on Learning Agenda

46. Lessons learned and reflected in the project design include:

- **People-centered, climate science-informed, and demand-driven local development.** The project draws on extensive global experience in community and local development through WB financed programs. These programs all make use of a variety of participatory tools and techniques to develop community-based understandings of the community resources, climate and other shocks and stressors, needs, priorities, and relative levels of well-being. These processes have been utilized for programs for cost-effective investments in local infrastructure, strengthening last mile service delivery, improving targeting systems, and putting in place local accountability and oversight mechanisms, as well as strengthening climate resilience of and through investments. Impact evaluations of programs utilizing community-based processes have: pointed to infrastructure being delivered at lower costs and higher quality when compared with other methods; highlighted greater community satisfaction with project investments; and delivered interventions that often best meet local needs.³⁶ The experience from the Pakistan Community Support Project (P151075) implementing people-centered and demand-driven local development in the merged areas demonstrates the potential for effectively facilitating cooperation among tribal communities for community infrastructure schemes, including payment of operation and maintenance. These lessons have informed the use of a set of participatory tools and processes to ensure that inclusive community planning forms the foundation for infrastructure and service delivery through investments made under Component B of the project.
- **Strengthening state capabilities.** The project draws on the WB's extensive experience supporting client countries in strengthening state capabilities, especially at the lowest levels of government. These programs focus on improvements to the capacities of local governments in executing their core functions and in citizen engagement, leveraging digital technologies for improved administrative efficiencies, and integrating incentives and awards to enhance performance. The project will adopt a simplified approach adapted from the key principles of these programs to inform the approach to VC support, thereby strengthening capacity and, by improving bottom-up and deliberative processes, strengthening inputs to planning, budgeting, monitoring, and oversight for local investments. The project also draws on extensive global experience focused on strengthening citizen engagement and participation between citizens and the state, with a focus on fostering trust and accountability for improving frontline service delivery.
- **Community-based water and sanitation interventions for poverty and stunting reduction.** The WB has extensive experience working on water supply and sanitation improvements in Pakistan through behavior change campaigns and utilizing village infrastructure as performance rewards

³⁶ World Bank. 2012. "What Have Been the Impacts of World Bank Community-Driven Development Programs? CDD Impact Evaluation Review and Operational and Research Implications." Social Development Department, World Bank.



to communities. This contributes to multiple benefits at the household level, including improved health and hygiene, better groundwater quality, fecal sludge management, and reduced stunting. The link between stunting and poor water quality is well documented in Pakistan,³⁷ where evidence of fecal waste and E. coli contamination is shown to contribute to Pakistan's high stunting rates.³⁸ Solutions to address this lie in household treatment of water for cooking/drinking, safe management of fecal waste, and awareness and behavior change related to water and sanitation practices. The project will draw on recent policy insights and evidence related to poverty, stunting, and water and sanitation, and will integrate community-led sanitation practices as outlined in the Pakistan Approach to Total Sanitation for project interventions.

- **Digital enabled services.** The GoKP and GoP have been rapidly expanding access to digital technologies and digital services. The GoKP has endorsed its own province-wide Digital Policy (2018–23), one pillar of which is to support the expansion of digital governance. The project will build on the Bank's experiences in digital governance in two key areas. First, it would build on the experiences of the CFCs established in the province and especially in the NMD to act as a one-stop-shop for services and benefits. Specifically, it would integrate the concept into the design of facilities with a view to potentially extend these systems further to the VC level. Second, the project will further strengthen the use of data for public transparency and integrate data systems for improved evidence-based decision-making by further supporting a village profile data system and making data public and part of public deliberations.
- **Flood recovery, reconstruction, build-back-better, and strengthening climate resilience.** The project draws on the extensive Bank and global experiences in recovery and reconstruction from floods and other climate related disasters. This includes: (i) the need for rapid response towards reconstruction and rehabilitation following a period of relief interventions; (ii) integrating opportunities for building back better to support future resilience to natural hazards and climate-related weather events; and (iii) supporting the institutionalization, awareness raising, and strengthening of monitoring systems for improved early warning and response systems. The project draws especially on the first two lessons by leveraging the platform of engagement with the P&DD to coordinate an early recovery and response; it also supports opportunities to strengthen climate resilience into the design of local infrastructure investments by identifying potential flood protection investments.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

47. **The P&DD will play a critical role in monitoring and oversight of project activities through its PCMU.** The PCMU will be supported by technical and specialist staff and would help in intensive monitoring and coordination for the P&DD and the PSC and resolve any inter departmental issues. The

³⁷ World Bank. 2018 "When Water Becomes a Hazard: A Diagnostic Report on the State of Water Supply, Sanitation, and Poverty in Pakistan and its Impact on Child Stunting," WASH Poverty Diagnostic Series; World Bank, Washington DC.

³⁸ Fecally-transmitted infections (FTIs) diminish the benefits of the food once digested due to: (i) reducing the ability of the body to absorb nutrients because of frequent infections that damage the small intestine; (ii) causing the body to produce antibodies for defense, diverting nutritional energy and proteins from growth; and (iii) causing illnesses, including Hepatitis A, B, and E and typhoid fever. See: Kamal, Kar. 2010. "A Hands-on Training Guide for Workshops for Community Led Total Sanitation." Water Supply and Sanitation Collaborative Council, Geneva.



P&DD will also be supported through an M&E consultancy to establish digital dashboards, monitor project implementation in real time, and integrate remote monitoring.

48. **Project activities would be implemented by the respective line departments, which would be responsible for procurement, contract signing, management, and financial management for all activities and for delivering results against the agreed activity outcomes.** Line departments include: Agriculture Department, Communication & Works Department, Irrigation Department, the Directorate General, Local Government, under the Local Government, Elections and Rural Development Department, and Public Health Engineering Department. Each line department will have a dedicated team, a focal person for the project, procurement and financial management staff, and environment and social staff. Line departments will also be supported by D&S consultancies that will be responsible for finalizing any needs assessments, coordination with line departments, detailed designs, or design reviews (in case the designs are already prepared), climate risk assessments, site-specific E&S management plans, construction supervision, and contract management support

49. **Village Council Institutional Support.** The Local Government Department (LGD) will recruit a Consultant (Firm) to assist in the Institutional Strengthening and Systems Building for newly elected VC/NC in the merged areas. The Consultants would provide hands on support to VC/NC to engage citizens through participatory planning, develop budgets and implementation plans, build overall development governance capacity, strengthen oversight and reporting systems, and improve citizen monitoring of public services provision. The Consultants would also provide engineering oversight for design and supervision of selected schemes.

50. **M&E Consultants.** P&DD will recruit M&E Consultants who will be responsible for establishing a digital monitoring dashboard for all project activities implemented by the departments. M&E consultants will also have a specific focus on providing certification and oversight over activities in the agriculture department. Further details of project implementation arrangements can be found in Annex 1.

B. Results Monitoring and Evaluation Arrangements

51. **The project will finance the establishment of a robust M&E system.** An independent M&E consultancy will be recruited by the PCMU which will be responsible for third-party monitoring as well as for collecting regular data to monitor results for all sub-projects. M&E consultants will develop a data driven monitoring system and digital dashboards to track relevant indicators and monitor progress in closing key infrastructure and service gaps for the merged districts. This data architecture will include Geographic Information System mapping of all project investments. Integrated data and dashboard systems would be made publicly available to increase availability and accessibility of information.

C. Sustainability

52. **Overall sustainability.** The overall sustainability of the investments will come through the continued use of administrative facilities and operations and maintenance of the investments. The GoKP has longstanding experience in investing in essential and strategic infrastructure through its technical line departments and through its administrative and service delivery structures and systems for field level delivery. Given the level of infrastructure needs in the NMA, additional requirements may further stretch the capacities of these technical departments to deliver on the core infrastructure, and the project would support the GoKP in the recruitment of a D&S Consultant to support the infrastructure investments. After construction, the relevant infrastructure would be turned over to the relevant line departments for continued operation and maintenance. At the village level, community groups, with support from local skilled laborers, would help with small repairs and minor maintenance, where relevant. Additional support



to community groups under the project during the community mobilization process would aim to strengthen their capacity to ensure the sustainability of different infrastructure investments.

53. **Construction quality.** The sustainability of infrastructure is closely related to the quality of works. The project will aim to improve the quality (including the climate resilience) of construction through: (i) the recruitment of an independent D&S consultancy to provide services in construction supervision; (ii) engagement of local communities in social audits and strengthening citizen monitoring tools and systems through newly established village and *tehsil* councils; and (iii) leveraging digital tools and systems (such as on-site cameras to track progress and monitor construction) as well as updated data systems and dashboard visualization to track overall infrastructure and service delivery gaps in the NMD. These measures will serve to create greater oversight during the construction process and improve the quality of works financed under the project.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic, and Financial Analysis

54. **The GoKP, through its line departments, has experience in the construction and delivery of field level services and has recently established presence in the merged areas in line with institutional systems in the settled districts.** Line departments have experience in the implementation of water supply and sanitation systems, agriculture and livelihoods support, roads construction, development of complexes and missing facilities, irrigation infrastructure, and village-level infrastructure through their technical departments and field-level implementation staff. In the merged areas, the gaps in water supply and sanitation are particularly high, and the PHED has developed an assessment of the merged areas, mapping current systems and projected needs over the next 20 years. This has formed the basis of a master plan that is guiding investments in the merged districts. Similarly, the C&W Department has prepared an assessment of all required facilities, as well as having mapped out required upgradation and rehabilitation of road networks. The agriculture sector investments propose an integrated approach to improve livelihoods and job generation through investments in value addition, processing, technical training, diversification, and training, thereby addressing gaps in income and seasonal poverty. Irrigation investments will both look to improve resilience to floods and address catchment area development for improved reliability of water resources for agriculture. In all sectors, the total requirement is well above the financing provided under the project, and the project will support the design services to support the GoKP to leverage additional financing to address the development gaps.

55. **Support to human capital and economic development.** Investments in the four sectors identified—namely water supply and sanitation, rural roads, agriculture, and irrigation—will support the local population by providing clean drinking water and sanitation services, leading to improved human capital outcomes through reduced waterborne illnesses and reductions in stunting. Investments in water resources management, livelihoods support, and rural roads will support the local population with improved access to markets and improved incomes, thereby addressing food insecurity and seasonal poverty prevalent in the region. During implementation, several challenges may emerge. First, given the mountainous terrain, the cost of provision for infrastructure may be high, especially to sparsely populated areas. This will require careful assessments and planning to identify appropriate solutions, especially to build in operations and maintenance options. This will be integrated into the detailed designs of selected schemes for financing. Second, village-level investments through VCs will be undertaken for the first time in the merged areas, with VCs elected for the first time in 2021 and 2022. This will require additional hands-on support in citizen engagement, capacity and institution building, and engineering to ensure that



these village-level schemes are adequately executed to strengthen citizen–state relationships. Third, appropriate supervision of civil works and ensuring quality control will be challenging, especially for the more remote sites, or those impacted by periodic conflict. The capacity of departments will be supported through additional construction supervision consultancy services and will also introduce digital and IT-based supervision systems to enhance the capacity and capability of field-based supervision. Finally, the role of the P&DD will be strengthened to provide independent M&E of project activities through the deployment of an independent M&E team that will continue to monitor field-level implementation and will report directly to the P&DD on the progress on project activities.

56. The project is expected to contribute to supporting state responsiveness to citizens in the merged areas. An assessment of the Local Government Act (2019) identified several entry points to further strengthen citizen engagement and grassroots development, which is of relevance in the merged districts. In particular, the LG Act points to the potential for identifying development needs leveraging greater community participation. With this in mind, the project will focus on financing the implementation of village-level tools and processes to strengthen this entry point, with a particular view to improve the participation of women, youth, and other vulnerable groups in local deliberative processes to inform development interventions. These participatory and inclusive processes will also work towards building process legitimacy, cohesion, and understanding amongst the residents of the villages that have become part of a VC area. Second, the LG Act (2019) positions the VC to monitor the performance of service providers, including education, health, agriculture, water and sanitation, and revenue, offering an opportunity to systematize service scorecards. Third, the LG Act identifies the need to collect and update basic data at the village level, and the project will both utilize and leverage social analysis tools and finance the integration of a village profile data system to provide dynamic reporting on basic indicators for villages, both for planning purposes and for community monitoring. Overall, the project would look to finance systems, processes, and tools that strengthen citizen–state interactions, especially at the grassroots level, to ensure strengthening of citizen engagement and participation of women and youth.

57. Reconstruction of critical infrastructure damaged by floods offers an opportunity to strengthen resilience. The project will finance several investments targeting improved resilience to floods, as well as rehabilitation works for flood protection in the merged areas. The D&S consultancy will design improvements to strengthen climate resilience to infrastructure investments. investments in accordance with climate resilient building standards that will ensure the resilience of infrastructure investments to current and future projected impacts of climate change.

Economic Analysis

58. Public investments funded through this project will aid post-flood economic recovery. With a fiscal multiplier of 0.7161, the combined project investment for Phase 1 and 2 of US\$300 million will increase production by approximately US\$236 million in 10 years.³⁹ Assuming an average economic life of 25 years for the infrastructure funded through this project, the total output impact of these public investments will likely be higher over the assets' productive lifetime.

59. Economic benefit streams. The project will generate substantial economic benefits from different benefit streams to society and contribute to the economic recovery of the 2022 floods that caused US\$935 million in damages and US\$658 million in losses in KP.⁴⁰ Building administrative facilities and service

³⁹ Fiscal multipliers are based on: Haya, Muhammad Azmat, and Hafsa Qadeer. 2016. "Size and Impact of Fiscal Multipliers." *Pakistan Economic and Social Review*. <https://www.jstor.org/stable/10.2307/26616707>.

⁴⁰ Pakistan Floods 2022: Post-Disaster Needs Assessment. The Government of Pakistan, Asian Development Bank, European Union, United Nations Development Programme, World Bank. October 2022



delivery systems in the newly merged areas will drastically reduce the cost of accessing services for beneficiaries. Sub-projects in the water and sanitation sector will improve water reliability and quality, reduce technical leakages, save time accessing water (especially for women), and produce health benefits. Rural roads will decrease the travel time for users and transport goods and services. In addition, congestion, vehicle operating costs, and accidents will likely reduce. The sub-projects in the irrigation sector will help increase farmer income by improving yields and stimulating economic development. Flood-related spending will expedite the recovery of infrastructure needed to catch up to pre-flooding output levels.

60. Economic benefits will be derived from investments in public infrastructure. Multisectoral infrastructure investments will focus on four sectors, namely water and sanitation, rural roads, agriculture, and irrigation. In developing countries, the benefit-to-cost ratios for water and sanitation are reported to be as high as 7 to 1.⁴¹ Confirming such proportions of benefits, a 2022 WB-funded project in Punjab estimated that the benefit-cost ratios of rural sustainable water supply and sanitation range from 6.9 to 7.9.⁴² In the agriculture sectors, a 2019 WB-funded irrigated agriculture improvement project in KP estimated an overall economic rate of return (EIRR) of 28 percent at a 12 percent discount rate and a cost-benefit ratio of 1.8 for agriculture sector interventions.⁴³ An analysis of rural roads utilizing similar cost and benefit streams as a recently approved road project estimated an economic rate of return of between 13 percent and 21 percent, depending on cost overruns and demand estimates.⁴⁴

61. Economic benefits would factor into the sub-project selection process. Sub-projects must at least produce positive net present values at Pakistan's economic opportunity cost of 12 percent. Higher economic rates of return will be expected from selected projects to maximize the overall use of funds. The project will establish a simplified appraisal process aligned with the central government's public investment management systems to strengthen pre-selection, selection, and feasibility appraisals, including economic analysis, to select projects that have the highest net benefits. General risks to the project's economic viability arise from any cost or time overruns for the different sub-projects, which will affect unit costs, lowering the project's incremental economic impact and rates of return. Proactive risk assessment and mitigation will be required to address cash flow and input-costs related risks.

B. Fiduciary

62. Financial management assessment. The financial management (FM) risk for the project has been assessed as Substantial. An FM assessment was conducted of the P&DD for the project in accordance with OP/BP 10.00 and the Bank Guidance for FM in WB IPF OPS5.05-DIR.147 dated September 7, 2021, to ensure that the FM arrangements are sound enough to ensure that WB funds are utilized for intended purpose.

63. Several implementing agencies have been involved in implementing Bank financed projects, including the C&W Department and the Agriculture Department. The Irrigation Department and PHED have implemented development projects similar to the nature and complexity of the proposed activities financed through other international financial institutions. The P&DD has also implemented some development projects and provides significant monitoring and coordination for foreign funded projects. The Local Government, Elections & Rural Development Department (LGE&RDD) has experience

⁴¹ OECD. 2011. *Benefits of Investing in Water and Sanitation: An OECD Perspective*. OECD Publishing.

⁴² The Punjab Rural Sustainable Water Supply and Sanitation Project (P169071).

⁴³ The Punjab Rural Sustainable Water Supply and Sanitation Project (P169071).

⁴⁴ KP Rural Accessibility Project (P177069)



implementing development projects that are similar in scope, although it has not directly handled these projects and has more limited experience working with international financial institutions. Directorate General, Local Government, of the LGE&RDD (DGLG) will oversee the implementation of VC grants, where the maintenance of records for payments to the community and payment to the community bank accounts (especially to mitigate risks of unauthorized withdrawals) needs strengthening. DGLG will be supported with additional staff in FM and field-level consultancies to build capacity in financial reporting and fiduciary systems. A DA will be set up in each line department (P&DD, LGE&RDD, Agriculture Department, Irrigation Department, C&W, PHED) for the project. The conditional grant transfers to VCs will be from the LGE&RDD DA to the bank accounts registered in the VC/NC name.

64. **The project FM will mainly rely on country systems.** The GoP's budgeting process will apply. The project is already reflected in the provincial government's ADP as a multisectoral initiative.

65. **Flow of Funds.** Disbursements will be based on a biannual cash forecast provided in the biannual interim unaudited financial reports (IUFRs). The project will maintain Segregated DAs within each line department and at P&DD created under the Revolving Fund Assignment Account Rules 2013 issued by Ministry of Finance. The project will submit IUFRs within 45 days of the end of six months. The project's audited financial statement must be submitted to the WB no later than six months (December 31) after the fiscal year end.

66. **Procurement under the project shall be carried out in accordance with the WB's Procurement Regulations for IPF Borrowers.** All the procurement activities under this project will follow the World Bank Procurement Regulations for IPF Borrowers (Procurement in Investment Project Financing, Goods, Works, Non-Consulting and Consulting Services—Fourth Edition, November 2020). Some of the procurement activities may follow the provincial procurement procedures (national competition) subject to conditions specified in the procurement plan agreed and approved by the Bank. The project will be subject to the World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016, Anti-Corruption Guidelines).

67. **A Project Procurement Strategy for Development (PPSD) was developed by the implementing agencies and will be consolidated by the P&DD.** The PPSD and Procurement Plan shall be updated during the project implementation period as needed, subject to agreement with the WB. The conditional grants for VCs and some of the agriculture livelihood related community interventions will be implemented through community driven development procurement approach that will be managed by the VC/communities with the support from the implementation partner (consulting firm) or through line departments.

68. **Oversight and Monitoring.** The Bank team will conduct annual (or ad hoc as needed) procurement post review in addition to prior review as agreed and required in the procurement plan and regular implementation support missions. The procurement activities are also subject to auditing by the respective audit bodies of the government and other agencies where required as per the applicable laws and regulations.

C. Legal Operational Policies



	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

69. **OP 7.50.** Since the project is located on the Indus River system shared by Afghanistan, China, India, and Pakistan, OP 7.50 on “Projects on International Waterways” (the Policy) applies to the Project. The project involves activities in the irrigation and water supply sectors where the following activities will be undertaken rehabilitation and enhancements to existing flood infrastructure, master plans and feasibility studies for water resources management in the project areas. Consistent with the exception under paragraph 7 (a) of the Policy, these activities will not involve works and activities that would exceed the original scheme, and the nature of works envisaged under the project will not adversely affect the quality or quantity of water flows to other riparian. Where the Project invests in new water supply infrastructure, investments will draw exclusively from water sources that originate and stay within the boundaries of Pakistan as the lowest downstream riparian in accordance with the exception under paragraph 7 (c). Furthermore, the project will include in the terms of reference for master plans and feasibility studies the examination of potential riparian issues as required under the exception spelled out in paragraph 7 (b). The Project therefore falls within the exception to the notification requirements of OP 7.50. The exception to the notification requirement was approved by the RVP on April 26, 2023.

D. Environmental and Social

70. Overall, the Project will have positive E&S benefits through improved climate resilient infrastructure, provision of basic services, and flood rehabilitation. Given this is an MPA, E&S risks will be reviewed and revised for Phase 2 as implementation progresses, and Board approval will be sought if E&S risks for subsequent phase/s are High or Substantial.

71. **The environmental risks for the project are rated as moderate while the social risks are rated as substantial, giving an overall E&S risk rating of Substantial.** The environmental risks are mainly associated with civil works which include small to medium-scale multiple investments whose impacts are anticipated to be reversible, localized, and temporary in nature and can be easily mitigated through appropriate E&S instruments. These impacts may include localized air and noise pollution, limited vegetation clearance, soil erosion and sedimentation during civil works, wastewater in case of poor septic tank designs, water pollution in case of waste run off into waterways, and community health and safety risks due to investments expected to be located in rural or suburban areas. Social risks are mainly related to potential social exclusion and access, especially of vulnerable and disadvantaged groups, safety and security of project staff in the NMD, and the capacity of implementing departments in working through a participatory paradigm. Land in the NMDs is mostly communally owned, and project districts have not undergone land settlement. Though there is a moderate risk of small-scale land acquisition and removal of informal settlers from public lands, land issues will need careful handling given the potential for disputes, which can cause social unrest and delays. A Resettlement Policy Framework (RPF) has been prepared to guide these processes in accordance with Environmental and Social Standards (ESS) 5. The project does not include major civil works, hence there will not be large-scale labor influx. The sexual exploitation and abuse/sexual harassment (SEA/SH) Risk Screening Tool rates the SEA/SH risk of the project as low but given gender gaps and extremely limited access to response services, the risk for SEA/SH is proposed as moderate.



72. The project districts are predominantly rural and sub-project locations are planned in and around village areas. The size and complexity of the schemes will be determined based on risks identified against Environment and Social Screening Checklist prepared as part of Environment and Social Management Framework (ESMF). The screening criteria excludes sites located in critical habitats (including protected areas or other sensitive habitats) and will ensure selection of sub-projects with low and moderate risks. The ESMF will include guidance on exclusion of projects in critical habitats, including legally protected areas and projects with significant impact on critical habitat and natural habitats. A chance find procedure is included in the ESMF to guide handling of previously unknown cultural heritage encountered during project activities. Environment and Social Management Plans will be prepared for moderate risk sub-projects and E&S screening and monitoring checklists with mitigation measures will be prepared for low risk sub-projects. The institutional arrangements incorporate adequate E&S staff at each tier of implementation and budget for preparation of E&S instruments and capacity-building measures.

73. The Borrower has prepared and disclosed a Preliminary ESMF (with RPF as a substantial chapter), a draft Labor Management Procedures (LMP), and a preliminary Stakeholder Engagement Plan (SEP) on December 13, 2022. These will be updated with required data and feedback from consultations in flood-affected districts, as per timelines stipulated in the Environment and Social Commitment Plan (ESCP), and re-disclosed.

74. The current E&S instruments are applicable to MPA Phase 1 only and will be revisited for MPA Phase 2 after assessing the experience of MPA Phase 1 implementation and risk profile of investments in MPA Phase 2.

E. Climate Change and Disaster Screening and Climate Co Benefits

75. **Climate Change and Disaster Screening.** An in-depth screening of the proposed project for climate change and disaster risks was conducted using the World Bank Climate and Disaster Risk Screening. The screening assessed the current and future exposure of the project location to relevant climate and geophysical hazards, including precipitation and flooding, earthquakes, landslides, and extreme temperatures in some areas, and builds on a detailed climate assessment.

76. **Climate Co-Benefits.** The project will address the identified climate change risks in the following ways: (i) infrastructure and service center facilities will incorporate climate resilient standards and would utilize green and energy efficient standards, and resource efficiency measures (e.g. rainwater harvesting, grey water recycling, etc); (ii) flood-related investments will incorporate climate resilience into designs; and (iii) investments financed at the VC level would incorporate resilience and encourage adaptation and mitigation to climate risks. Table 6 summarizes these interventions in further detail.

Table 6: Actions Taken to Address Climate Risks

Type of Works	Action Taken to Address Climate Risks	Expected Effects	Estimated Project Financing (US\$ millions)
Sectoral infrastructure investments	Water supply, sanitation, and sewerage development alongside behavior change to improve water quality and health outcomes and awareness of climate WASH linkages.	Better water quality and water use efficiency.	30.0
	Improving water conservation through rainwater harvesting and grey water recycling.	Address challenges of climate-induced water shortages.	15.0



Type of Works	Action Taken to Address Climate Risks	Expected Effects	Estimated Project Financing (US\$ millions)
	Improving resilience in roads designs to protect against climate change risks and climatic events.	Reducing climate impacts to connectivity networks and improving resilience.	15.0
Service delivery facilities	Utilizing structural design principles to address heat impacts and reduce reliance on cooling systems (e.g., green roof, reflective surfaces to reduce temperatures around buildings, ventilation).	Lower climate footprint of designated facilities.	35.0
	Ensure water use efficiency in public buildings through designs to maximize rainwater harvesting and recharge groundwater, use of grey water recycling.	Improved efficiency of water use to ensure continued water availability.	
	Integrate energy efficiency into the designs of buildings, utilizing solar power, efficient energy principles, low-cost heating, and designing buildings to maximize natural light, cooling, and minimize energy usage.	Limiting use of emission producing energy sources and improving energy efficiency.	
Flood related reconstruction and rehabilitation investments	Investments in flood protection and resilient standards in irrigation infrastructure.	Reducing climate-induced flood risks and improving resilience.	45.0
	Improving resilience in infrastructure designs utilizing build back better principles.	Reducing climate-related risks to public infrastructure.	
VC investments	Information and awareness raising of climate stresses incorporated into community/village planning.	Improved awareness and behavior change to act against climate stresses (droughts, floods).	25.0
	Investments in water conservation and climate resilient water supply, and improving designs for village roads to address climate variability (droughts and floods).	Combat increasing climate-induced variability in droughts and floods.	
	Community-level afforestation and conservation of protected areas.	Supporting climate change management.	
TOTAL			165.0

V. GRIEVANCE REDRESS SERVICES

77. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The



AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

VI. KEY RISKS

78. **The overall risk rating of the project is rated as Substantial.** Risk categories have been rated based on residual risks, considering the efficacy of the risk management measures included in the project. The risk ratings of the project are given below.

79. **Political and Governance risk is Substantial.** The GoKP and the GoP demonstrate a strong political commitment to the project, given the need to accelerate development in the project areas. While the project interventions are expected to remain a priority, they are being rolled out against a backdrop of regional security challenges, political uncertainty due to nation-wide protests arising from escalating tensions between political parties, and upcoming general elections. The project investments represent a political priority that has, to date, sustained across election cycles. The project aims to address some of these risks by anchoring the project coordination with the P&DD and by prioritizing investments to support a positive state presence, engaging a broad spectrum of citizens through localized investments to improve citizen-state relationships in the project areas. The project will further mitigate risks through frequent monitoring and oversight of the evolving security situation and by retaining an adaptive and flexible implementation approach.

80. **Macroeconomic risk is High.** The GoP is facing a difficult macroeconomic situation, exacerbated by the 2022 floods that have put pressure on support to relief and recovery, while maintaining progress towards macroeconomic stabilization and critical structural reforms. Significant risks include potential worsening of external conditions, further natural disasters, and a slowdown or reversals in policy adjustment in the run-up to elections. Realization of these risks may lead to macroeconomic instability, with major impacts on economic activities, prices, and household incomes, thereby impeding achievement of project results. Risks are partly mitigated by the WB support to structural policy reforms in the fiscal and power sector areas, as well as the ongoing IMF-EFF program, which supports sound economic management practices and continued progress on critical structural reforms. At the project level, it is expected that the GoKP will continue to prioritize allocation of government financing to the newly merged areas, given the high political priorities of the program.

81. **Sector Strategies and Policies risk is Substantial.** This multisectoral project will require strong coordination among sectoral line departments, which can be challenging. To mitigate this risk, project activities will be in line with the rules of business of the province, following the authorities, functions, and capabilities of different implementing agencies and following sectoral policies. All sectoral line departments will nominate focal points/project directors to oversee their activities, and the P&DD will be strengthened with a PCMU that will be responsible for intensive monitoring of project progress and coordination of project activities.

82. **Technical Design risk is Substantial.** Within each of the line departments, there is good technical capacity for the design of infrastructure investments. At the VC level there is little to no capacity within



newly elected bodies for implementation of small-scale works. The technical design risks will be mitigated through the project support consultancy services to improve technical designs—particularly to improve these in line with climate resilient standards—and to ensure that VCs have adequate technical and capacity building support to plan and implement village-level sub-projects. The complexity of the implementation arrangements is a further risk, with the inclusion of five different line departments in the program. This risk will be mitigated through enhancing the role of the P&DD in close monitoring of project progress, with the support of an M&E consultancy, and the establishment of a digital dashboard to regularly monitor progress. The P&DD will also be supported to undertake regular coordination of the line departments.

83. Institutional Capacity for Implementation and Sustainability risks is Substantial. Within each of the line departments there is adequate capacity to implement the types of activities designated to their PIU. Overall presence and capacity for delivery remains relatively weaker in the project areas. The project will further support strengthening the institutional, technical, operational, and financial capacities of entities involved. Implementation of civil works will be supported under the project through D&S consultant services to minimize delays at the field level and for continuous monitoring and oversight of infrastructure projects. VCs will be supported through an institutional strengthening and engineering support and supervision consultancy that will work at the VC/NC level, ensure planning, budgeting and implementation of sub-projects are undertaken in an inclusive manner and with good quality standards.

84. Fiduciary risk is Substantial. The project will be implemented across various departments with FM arrangements managed by established PIUs. Capacity issues exist at the government and department levels, resulting in substantial risks. To mitigate the FM risks, the project will have dedicated FM staff hired in the PCMU to support all PIUs. Where needed, additional staff may be recruited in PIUs to ensure fiduciary compliance.

85. Environmental and Social risk is Substantial. Overall, the project will have positive E&S benefits through improved climate resilient infrastructure and basic services for roads, water supply, sanitation and solid waste management systems and will respond to flood damage in KP. At the lowest tiers of government, processes for participatory planning introduced through the project will ensure inclusion of women, youth, the poor and other vulnerable groups to influence village-level investments. Investments are largely local in nature, with limited impacts on environment. Risks are mainly related to social exclusion and access, especially of vulnerable and disadvantaged groups, concerns about land acquisition, safety and security of project workers, the high prevalence of GBV, limited access to SEA/SH service providers, and the capacity of implementing departments in working through a participatory paradigm. An ESMF for the project will guide the screening and selection of sub-projects, and support to the line departments with additional D&S consultancy services will ensure that E&S impacts of the project will be identified and appropriately mitigated.

86. Stakeholders risk is Substantial. Residents of the NMD and FRs are in support of the merger, as evidenced through several baseline studies and surveys conducted by the GoKP and development partners. However, some conservative and traditional leaders may feel as though the merger has further weakened the social fabric and traditional structures. In addition, newly elected VCs have been introduced for the first time in history, bringing new localized power structures. The project approach and the use of an MPA and a longer-term horizon for program investments addresses this risk by rolling out support to VCs in a way to learn by doing, taking the time to hear from a variety of community stakeholders, and to ensure convergence and agreement on village investments. This adaptive implementation strategy aims to address stakeholder risks at the lowest levels.

**VII. RESULTS FRAMEWORK AND MONITORING****Results Framework****COUNTRY:** Pakistan**Khyber Pakhtunkhwa Rural Investment and Institutional Support Project****Project Development Objective(s)**

The Project Development Objective is to strengthen state capabilities for delivery of basic services and climate resilient infrastructure in the project areas, including for the poor and vulnerable

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Strengthen state capabilities to deliver critical public services				
Village Councils with strengthened capacity for needs-based planning (Number)		0.00	200.00	711.00
Beneficiaries that feel critical public service investments meet their needs (percentage, by gender) (Percentage)		0.00	50.00	85.00
Improve climate resilient public infrastructure				
People with improved access to climate resilient public services (Number)		0.00	58,000.00	200,000.00
Beneficiaries of climate resilient flood protection infrastructure (Number)		0.00	100,000.00	100,000.00



Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Multi-sectoral Investments and Improved Service Delivery to Merged Areas				
People provided with access to improved water sources (Number)		0.00	20,000.00	75,000.00
Women's increased access to safe water sources (Percentage)		0.00	25.00	50.00
Rural roads rehabilitated to climate resilient standards (Kilometers)		0.00	30.00	75.00
Land area developed under climate smart agriculture interventions (Hectare(Ha))		0.00	10,000.00	20,000.00
District administrative centers established and functional (Number)		0.00	4.00	8.00
Institutional Development for Merged Areas				
VC/NC with approved participatory village plans (Number)		0.00	200.00	711.00
Village Councils with established women's committees (Percentage)		0.00	25.00	50.00
Sub-projects at VC level that finance women's priorities (Percentage)		0.00	25.00	50.00
Beneficiary households of village investments that are categorized as poor and vulnerable (Percentage)		0.00	20.00	35.00
Administrative service centers established and operational at sub-district level (Number)		0.00	9.00	18.00
Emergency Flood Response				
Integrated water resources management and flood protection master plan completed (Yes/No)		No		Yes
Flood protection investments reflecting climate resilient designs (Number)		0.00	1.00	3.00



Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Project Management, M&E, Technical Assistance				
Digital system/dashboard developed to track physical progress and priority results in project areas (Text)		No formal monitoring system exists		Province-level dashboard will provide a snapshot of key performance indicators on all financial and physical data of VCs
Three-tier Grievance Redressal Mechanism established for project areas (Text) (Text)		No functional project specific GRM in place		GRM operational including at the lowest tier of administration.

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Village Councils with strengthened capacity for needs-based planning	Improvement in planning capacities that integrate community needs into VC plans. Total VCs in project area: 711	Annual	Project MIS	MIS from LG PIU	LG PIU
Beneficiaries that feel critical public service investments meet their needs (percentage, by gender)	Beneficiary survey to capture whether investments meet their stated needs (by gender)	Annual	Beneficiary surveys	M&E Consultants, line department PIU	PCMU, Line Department PIU
People with improved access to climate resilient public services	Increase in the number of people that directly benefit from public services integrating climate resilient standards (by sector, by gender, total)	Annual	M&E system; D&S Consultant reports	Surveys, questionnaires	Line Department PIUs, compiled by PCMU/M&E consultants



Beneficiaries of climate resilient flood protection infrastructure	Number of households benefiting from flood resilient infrastructure investments financed through the project investments	Annual	Project MIS and DNA report baseline	Annual monitoring reports	Irrigation Dept PIU
--------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------	--------	-------------------------------------	---------------------------	---------------------

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
People provided with access to improved water sources	Cumulative number of people who benefited from improved water supply services financed under the operation	Annual	D&S consultant reports, M&E reports	PHED PIU, D&S consultants, field level verification and M&E Consultant checks	PHED, PCMU
Women's increased access to safe water sources	Safe water sources defined as in close proximity to the household or through piped water connections to the household. This indicator measures the percentage increase in women's access to safe water as a result of improved water supply services that have been constructed through operations supported by the World Bank. Numerator: number of women benefitting from	Annual	D&S Consultant reports, M&E reports	PHED PIU, D&S consultants, field level verification, and M&E consultant checks	PHED, PCMU



	improved water sources in sub-project areas/ Denominator: number of women in sub-project areas				
Rural roads rehabilitated to climate resilient standards	Roads upgraded under the WB operation that meet climate resilient standards	Annual	C&W, D&S Consultant reports, M&E Consultants	D&S Consultant supervision reports; M&E Consultants to validate	C&W; PCMU
Land area developed under climate smart agriculture interventions	Area that has been improved through agriculture investments utilizing integrated and sustainable framework.	Annual	Agriculture Department	Field level staff, surveys, M&E consultant verification	Agriculture Department, PCMU
District administrative centers established and functional	Number of district complexes constructed, fully staffed and operational	Annual data reporting	C&W, PCMU	C&W field level staff	C&W
VC/NC with approved participatory village plans	Approved village development plan that is based on participatory planning inputs	Annual	DG LG PIU, M&E consultant verification	Project MIS	Implementing agency (PIU under DG LG of LGE&RDD)
Village Councils with established women's committees	Numerator: Number of VCs with established women's committees, Denominator: Number of VCs in project areas	Annual	LG PIU MIS	Project MIS	LG PIU
Sub-projects at VC level that finance women's priorities	Numerator: Number of VIPs that include women's priorities/ Denominator: Number of	Annual	PMU	Project MIS	Implementing Agency (PIU and District teams, LGE&RD)



	VIPs developed and financed under the project				
Beneficiary households of village investments that are categorized as poor and vulnerable	Measurement of targeting for village investments. Beneficiaries are all direct beneficiaries of a village level investment. Numerator: direct beneficiary households that are categorized as poor or vulnerable; Denominator: Total direct beneficiary households of village investments	Annual	Project MIS at LG Department PIU;	Category of poor and vulnerable households are identified in village participatory planning process; measured against direct beneficiary households by social mobilizers and cross verified by M&E Consultants	LGD and Institutional Strengthening Firm; PCMU through M&E Consultants
Administrative service centers established and operational at sub-district level	Sub-district administrative complexes that are established, staffed and offer citizen services	quarterly	PMU	Collect citizen satisfaction data from service centers	
Integrated water resources management and flood protection master plan completed	Integrated climate resilient water resources management and flood protection masterplan completed for merged areas	Once	Irrigation Department	Verification of completion of report	Irrigation Dept; PCMU
Flood protection investments reflecting climate resilient designs	Number of flood protection investments in merged areas that integrate climate resilient standards	Annual	D&S consultant reports; M&E Consultant reports	Irrigation Dept. D&S consultants; M&E Consultants	Irrigation Department; PCMU
Digital system/dashboard developed to track physical progress and priority results	Development/strengthening of web-based integrated	Annual	Project MIS	Annual monitoring reports	P&DD PCMU



in project areas	system/dashboard to track physical progress and priority results in project areas.				
Three-tier Grievance Redressal Mechanism established for project areas (Text)	To meet corporate requirements on Citizen Engagement for IPF financed projects, this indicator will measure establishment of a three-tier Grievance Redressal Mechanism for project areas. This will include monitoring of back-end architecture and resources allocated for functionality.	Annual	M&E Consultants	Annual reports	PCMU M&E Consultants

**ANNEX 1: Implementation Arrangements and Support Plan****COUNTRY: Pakistan****Khyber Pakhtunkhwa Rural Investment and Institutional Support Project****Overview**

1. **Key objective.** The PDO is to strengthen state capabilities for delivery of basic services and climate resilient infrastructure in the project areas, including for the poor and vulnerable. Investments will particularly focus on extending the provision of critical public services and state systems to an historically underserved area of the province and will simultaneously support recovery and resilience to floods and climate-related weather events in the province. Project interventions target the eight NMDs and six FRs (taken together the Newly Merged Areas, or NMA), where the development gap is largest.

Project Implementation Structure

2. **Implementing Agencies.** The P&DD would play a key role in coordinating, oversight, and monitoring of the project activities, and implementation of project activities would be carried out by a dedicated team nominated within line departments, namely Communication and Works, Public Health Engineering, Irrigation, and Agriculture Departments, as well as the Directorate General Local Government under the Local Government, Elections and Rural Development Department. The table below provides a summary overview of the roles and responsibilities of the project stakeholders as well as of indicative financing allocations across two phases of the program,

Table A1.1: Roles and Responsibilities of Key Line Departments

Department	Key Role	Project Activities	Financing Allocation (US\$ millions)		
			Phase 1	Phase 2	Total
Agriculture Department	Livelihoods promotion and income generation in the merged areas.	Support to value addition and processing, diversification, improvements in productivity, marketing, training, and farmer support.	18.0	12.0	30.0
Communication and Works Department	Construction of complexes and link roads.	D&S consultancy Construction of district and <i>tehsil</i> -level administrative complexes, connecting roads and/or other high priority roads	65.0	35.0	100.0
Irrigation Department	Flood rehabilitation and response. Irrigation schemes in the merged areas.	Master planning for merged areas. Flood rehabilitation investments/selected schemes in merged areas	30.0	0.0	30.0
DG, Local Government,	Strengthen capacity of VCs and citizen	Institutional strengthening of village councils	39.0	4.0	43.0



LGE&RDD	engagement and delivery of village-level public investments.	Strengthening MIS and reporting for VC/NC Conditional grants for village development			
Planning & Development Department	Project coordination, monitoring, evaluation studies, support to PSC.	M&E (consultancy). Consolidated project services (e.g., support to line agencies in procurement, FM, E&S).	3.0	1.0	4.0
Public Health Engineering Department	Water supply and sanitation services to merged areas.	D&S consultancy services. Execution of water supply and sanitation schemes.	45.0	48.0	96.0
TOTAL			200.0	100.0	300.0

3. **Planning and Development Department.** The P&DD will play a critical role in monitoring and oversight of project activities through its PCMU. The PCMU would be established with a dedicated Project Coordinator/Director for the project, along with technical staff such as a procurement specialist, FM specialist, social specialist, environmental specialist, M&E specialists, and technical officers. The unit would help in intensive monitoring and coordination for the P&DD and the PSC and resolve any inter departmental issues. The P&DD would be supported through an M&E consultancy to establish digital dashboards and monitor project implementation in real time, as well as through district coordinators.

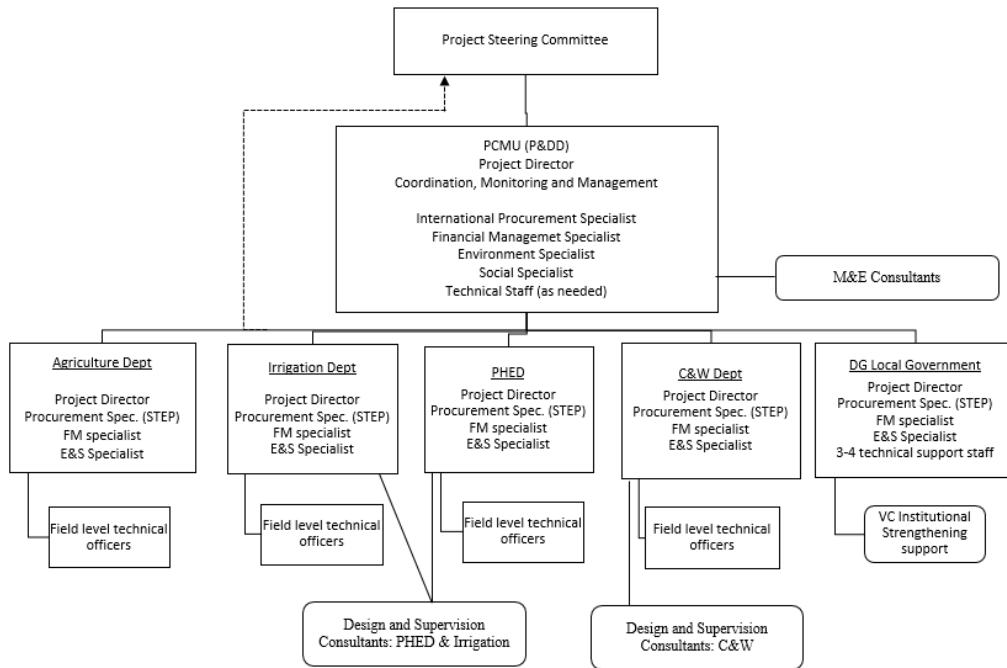
4. **Line Departments: (C&W, PHED, DGLG, Irrigation Department; Agriculture Department).** Project activities would be implemented by the respective line departments, which would be responsible for procurement, contract signing, management, and FM for all activities to be implemented by them and for delivering results against the agreed activity outcomes. Each line department would have a dedicated team, a focal person for the project (Project Director), procurement and FM staff, as well as E&S staff. The number of such staff would depend on the activities and stage of the project. Dedicated staff would be supported by the department field staff to execute field-level activities. Each department would have a World Bank Procurement Account (STEP) and a Segregated Designated Account⁴⁵ to manage project activities.

5. **Village Councils.** VCs are the lowest tier of elected government in the GoKP. They are responsible for overseeing and ensuring the preparation of Village Development Plans, and Village Implementation Plans, which utilize participatory and inclusive development tools to determine an implementation and prioritization plan for VC funding (including the conditional grant), identify assets and existing support systems, needs, conduct well-being analysis, and survey gaps in frontline service delivery, etc. Based on the implementation plan, the VC would be responsible for the preparation of relevant planning documents (Village Council Project Proforma) for village-level investments identified and prioritized through the community led process. VCs would be responsible to support data collection and monitoring at the village level and to facilitate citizens in accessing services.

⁴⁵ A segregated DA will be opened for receipt and utilization of IDA/IBRD loan. The DA will be operated in accordance with the provisions of "Revised Accounting Procedure for Revolving Fund Account (Foreign Aid Assignment Account)" dated August 2, 2013, issued by the Finance Division.

***Advisory and Technical Support***

6. **Design and Supervision Consultants (D&S).** Two D&S Consultants will be recruited under the project. The D&S Consultant team (Administrative Facilities) will be mobilized to support C&W in the design and construction supervision for missing administrative facilities and link roads. The D&S Consultant (Infrastructure) will: support the PHED and Irrigation Departments in the design, or design review and validation, of water supply, sewerage, and sanitation and of flood protection schemes, as well as the preparation of associated E&S assessments and management plans; support the preparation of procurement documents and the procurement of works, goods, and services; and support construction supervision and project management according to international contracting practices.
7. **Village Council Institutional Support.** The DGLG will recruit a Consultant (Firm) to assist in the institutional strengthening and systems building for newly elected VCs/NCs in the merged areas. The Consultants would provide hands-on support to VC/NC to engage citizens through participatory planning, develop budgets and implementation plans, strengthen oversight and reporting systems, and improve citizen facing public services.
8. **M&E Consultants.** The P&DD will recruit M&E Consultants who will be responsible for establishing a digital monitoring dashboard for project activities. M&E consultants will also provide certification and oversight over activities in the agriculture department.
9. Project implementation arrangements are depicted in Figure A1.1.

Figure A1.1: Project Implementation Arrangements



Financial Management

10. The Bank carried out an FM assessment of the project implementing agencies to determine whether their FM systems have the capacity to produce timely, relevant, and reliable financial information on project activities. The assessment also aimed to determine if the accounting systems for project expenditures and underlying internal controls are adequate to meet fiduciary objectives, allow the Bank to monitor compliance with agreed implementation procedures, and appraise progress towards project objectives. Based on the assessment, the following actions are recommended for project implementation.

11. **Financial Management Staffing.** The P&DD will hire from market a dedicated Senior Financial Management Specialist for project and the position will be based in the PCMU. The proposed position will play dual rule: (i) manage FM of P&DD component; and (ii) provide support/handholding to FM teams in other departments, including guidance on financial planning, budgeting, records management, and financial reporting. Terms of references, qualifications, and experience of the Senior Finance Specialist in the PCMU shall be discussed and agreed with the WB, and responsibilities of the position will also be incorporated in the project's operations manual. The implementing agencies will ensure the designation of procurement and financial management related human resources in their departments that already have experience with donor funded projects. However, keeping in view frequent transfers of government officials within the government departments, it was discussed that, if there is a need for designated FM and procurement staff to be recruited from the market to support the concerned department, the project would support these incremental costs, subject to agreement between the concerned department and the WB.

12. **Planning and Budgeting.** The PCMU and PIUs shall follow the budget calendar established for planning and budgeting by the provincial government. The PCMU will coordinate across the PIUs to ensure each implementing agency has adequate annual budget for the project that is incorporated in the provincial ADP, based on the planned activities under the project. The FM specialists shall prepare monthly reports making budget vs actual expenditure analysis and PCMU will consolidate the variance for the PSC for discussion and remedial step, as and when required.

13. **Accounting.** Each implementing agency will maintain project books of accounts on cash basis supported with appropriate records and procedures to track commitments and to safeguard assets. Separate books of accounts (that is, cash book, ledgers, bank reconciliations, cheque register, invoice register, commitment register, fixed asset register, and inventory/stock register) will be maintained at all levels of project implementation till closing. The project shall use an alternate suitable accountable software for accounting and financial reporting if it is not possible to get access to Financial Accounting and Budgeting System (FABS) already deployed in the province.

14. **Internal controls.** The PCMU and PIUs are subject to numerous internal controls stipulated in the provincial Rules of Business, Delegation of Financial Powers Rules, Procedures for the Assignment Account and Revolving Fund Account, KP Public Procurement Regulatory Authority Rules, Accounting Policies and Procedures, etc. Recent external audit reports have highlighted significant gaps in internal controls within provincial governments. The FM unit therefore needs to pay special attention to the enforcement of internal controls, i.e., monthly bank reconciliation, maintenance of fixed asset register, payments through checks only, segregation of duties (assigning responsibility for approval, payment, recording, etc., to different officials, use of sequentially number purchased orders etc., monthly analysis of budget vs actual



spend). Monthly random inspections of project activities would also strengthen compliance with established controls.

15. **Financial reporting, disbursements, and flow of funds.** Each implementing agency will submit semiannual IUFRs to the WB via client connection. The P&DD will consolidate the annual financial statements for audit. Each implementing agency will maintain a DA as per the Revolving Fund Assignment Account Rules 2013, issued by Ministry of Finance, operated by two authorized signatories ensuring adequate segregation of duties. Each implementing agency will prepare six-monthly cash flow forecasts for the project based on the work plan and submit the withdrawal application and cash forecasts together with the cash request to the WB after the effectiveness of the project. Subsequent withdrawal applications will be submitted semiannually with IUFRs accompanied by a cash forecast for the next six months. The project cost will cover taxes and duties. Transfers of the VC grants shall be made by LGE&RDD in the VC's bank accounts. VCs that do not have existing bank accounts will set up new banks account to receive the grants.

16. **Internal audit.** The provincial government adopted an Internal Audit Policy in 2017 and a centralized Provincial Internal Audit Cell was established in Finance Department that reports to the finance secretary. An internal audit office is also operational in the P&DD under this policy which focuses on "compliance" aspects. The FM unit should leverage the P&DD's internal audit arrangements for compliance review from time to time.

17. **External Audit.** The project's financial statements will be audited annually by the Auditor General of Pakistan in accordance with International Public Sector Accounting Standards. For each financial year closing on June 30, acceptable project audited financial statements together with the Management Letter will be submitted to the WB within six months (that is, December 31).

Procurement:

18. **Procurement activities will be carried out following the World Bank's Procurement Regulations for IPF Borrowers** (Procurement in Investment Project Financing, Goods, Works, Non-Consulting and Consulting Services -- Fourth Edition, November 2020). Some procurement activities may follow the provincial procurement procedures (national competition) subject to conditions specified in the procurement plan agreed and approved by the Bank. The project will be subject to the WB's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016, Anti-Corruption Guidelines).

19. **A Project Procurement Strategy for Development (PPSD) has been developed by the GoKP with inputs from implementing agencies.** The PPSD establishes the best procurement arrangements that will ensure value for money while efficiently achieving the PDO and identifies risks and related mitigation measures. Presently, it is estimated that almost all civil works procurement packages (except for the one irrigation package) are below US\$10 million and therefore the Bank's small works SPD will be used with RFB open competition. For the D&S consultants QCBS method will be used. A procurement plan covering the **first 18 months** of the project implementation period has been prepared that includes details of each activity and agreed procurement approach. Both the PPSD and Procurement Plan may be updated during implementation, as needed, subject to agreement with the World Bank. The PCMU and line departments PIUs will use the WB's online procurement management system, Systematic Tracking of Exchanges in Procurement (STEP) for activities approval prior to initiation of the procurement activities.



20. **The World Bank carried out a procurement risk assessment of the implementing agencies.** The Bank team assessed the procurement risks of the project agencies and has identified certain actions for efficient procurement management such as: (i) the procurement staff of the PCMU in P&DD and the PIUs being formed in line departments may not have previous experience with implementing procurement under the World Bank financed projects therefore they will require procurement resources for implementation of the procurement activities under the project; and (ii) based on the procurements identified, the dedicated procurement expert and other support officers for supporting and conducting the project procurements and contract management will be deployed and the procurement capacity maybe enhanced by deployment of the additional support from the market on need basis. And the small procurements under the village councils and agriculture livelihood support schemes will be supported by a institutional strengthening firm as well as support from the respective PIUs on need basis besides close monitoring from the P&DD PCMU.

21. The initial assessment of the involved implementing agencies identified the risk as “**Substantial**” and this will be regularly reviewed and updated during the implementation. The procurement approach is summarized below:

- (a) Open competitive bidding with national and international market approach shall be the principal method of procurement.
- (b) Most project procurement falls in the category of the small goods and small civil works procurements.
- (c) Most of the individual procurement activities are considered as moderate risk, with a few as substantial to high risk based on their nature, value, and market analysis. However, sufficient prospective suppliers, contractors and service providers are available in market.
- (d) QCBS method will be used for all consultancy contracts estimated above USD 300,000. That mainly includes Design and Supervision Consultant (D&SC) M&E and the institutional strengthening firm maybe hired through QCBS or using RFB for non-consulting services based on the finalized TORs. Other small consultancy assignments under the project will use CQS procurement method.
- (e) Civil Works component will follow the small package approach and the procurement document for small works will be used under national competitive approach and as provided in the draft procurement plan.
- (f) The PCMU and PIUs will have adequate administrative authority for contract award decisions in accordance with the recommendations made by the procurement/ bid evaluation committees/consultant selection committees.

12. Table A1.2 lists the key procurement risks identified and the agreed mitigation measures that will help in managing project procurement effectively.

Table A1.2: Procurement Risks and Mitigation

Risk Description	Mitigation Measure	Risk Owner
Efficiency of decision making.	<ul style="list-style-type: none">• Full time Project Directors in each implementing entity to be appointed who will have lead responsibility for decision making regarding procurement and contract award decision.	Government of KPK PCMU and line departments



	<ul style="list-style-type: none">Make sure procurement expert is available in the respective PIUs and if there's a need the capacity will further be enhanced through individual consultants/ staff.	
Realistic cost estimates	<ul style="list-style-type: none">Make sure that the Cost estimates already prepared are updated and the new to be prepared by Consulting Firm are based on latest market rates after adjustment for inflation.Review and update will be required by the PIUs at the time of inviting bids.	PIUs
Awareness of Bank's Procurement Framework and Standard Procurement Documents	<ul style="list-style-type: none">Training to relevant P&DD, Line Departments, PCMU, and PIUs Staff	World Bank
Scattered Civil Works and difficult supervision and monitoring	<ul style="list-style-type: none">Recruitment of design, and construction firm to support the PIUs.Implementing agencies field formations to support the efficient implementation and coordinationPreference to the local human resource for the community level staffing	PCMU and PIUs
Security situation	<ul style="list-style-type: none">Ensure local authorities are informed of the work being done specifically in the remote areas so that they may provide adequate protection.	PCMU and PIUs
Delays in contract awards	<ul style="list-style-type: none">Ensure evaluation committee members are appropriately skilled and trained to apply the evaluation criteria.For specialized procurement, if a subject specialist is not available in the PCMU, a qualified person will be co-opted from other department(s) PIUs.Ensure that relevant technical, procurement, and financial teams have reviewed the draft procurement documents before issuing the Request for Bids/Request for Proposals.Ensure that terms of bid/proposals are consistently reflected in the contract agreement, with minimal variations.Simplified procurement mechanism for community based small infrastructure schemes.Keep records of all negotiations and agreements.Timely update the STEP roadmap and upload the bid opening records immediately/same day on STEP.	PCMU and PIUs
Transparency/fraud and corruption	<ul style="list-style-type: none">Ensure implementation of fraud and corruption provisions both at procurement and contract implementation stages.Hold regular procurement clinics where red flags should be discussed.	PCMU and PIUs
Cost and time overruns and contract administration	<ul style="list-style-type: none">Prepare a proper contract management plan for each contract.Ensure efficient communication with the supervision firm(s).Provide adequate provisions in the contract for price adjustments, if justified.Ensure good contract administration and performance	PCMU and PIUs



	<p>management.</p> <ul style="list-style-type: none">• Hold regular inspections/meetings and ensure timely alerts to mitigate overruns.• Ensure that all staff know the responsibilities and contract conditions.• Ensure efficient and diligent record keeping and documentation.• Ensure all contract amendments, including cost and time extensions, are issued in writing and on time.• Confirm instructions in writing.• Conduct regular monitoring and updating of contractor's/service provider's/consultant's work programs/schedules.	
Availability of skilled project implementation staff at all levels, including consultants	<ul style="list-style-type: none">• Ensure that key project staff at all levels and supervision consultants are available.• Performance of key staff and supervision consultants are assessed on an annual basis.	PCMU and PIUs
Maintaining procurement records	<ul style="list-style-type: none">• Ensure that all record related to procurement activities are up to date in STEP including any variations, payments related data and completion record except for the CDD small procurements.• For Village Council Grants and CDD procurements, the complete procurement record shall be developed as per agreed protocols and must be available for any review.	PCMU and PIUs

22. **Oversight and Monitoring.** The Bank team will conduct annual (or ad hoc as needed) procurement post review in addition to prior review as agreed and required in the procurement plan and regular implementation support missions. The procurement activities are also subject to auditing by the respective audit bodies of the government and other agencies where required as per the applicable laws and regulations.

Strategy and Approach for Implementation Support

23. **The project will utilize a framework approach to allow for flexibility during implementation, in recognition of a fluid situation on the ground.** This is designed to accommodate potential changes in the current low-grade conflict. The framework approach to implementation will also support learning as new systems are being extended to the project areas. Investments will be identified to prioritize strategic and priority sub-projects during implementation. The process for identification of the investments will follow a clear process and criteria and will utilize digital tools and platforms to maximize systems of transparency and public disclosure. The processes for different investments would follow the following principles:

- (i) **Community participation and prioritization of village investments.** In the first year of project implementation, significant social mobilization and technical and engineering support to communities and VCs will result in the development of a multi-year VIP that translates VC development plans into concrete priorities, milestones, and community engagement. This also forms the foundation to prioritize sub-projects for the conditional grant. Social accountability mechanisms will be introduced to strengthen accountability and transparency in implementation. Selection of sub-projects in the villages will be against a positive menu of options. Once identified, VCs, with the support of project field-level teams, will prepare project proformas for review and



approval by the PMU. Approval of projects will be a pre-requisite for the disbursement of the conditional grants to villages. Social mobilization will also support complementary approaches in behavioral change and community-level engagements in food security, nutrition, and awareness and information on safe sanitation practices to address high rates of child stunting. These different interventions would be customized and adapted to different village contexts during implementation.

- (ii) **Multisectoral infrastructure investments.** In the first phase, the project will draw on sectoral investments that are in line with master planning (where applicable) with review and endorsement by the PSC. Specifically, sub-project selection will follow the following principles:

- a. **Water Supply and Sanitation** will follow the sectoral masterplan, which has already been prepared for the newly merged areas, to identify potential investments that: (i) prioritize gravity-based systems and have the potential to introduce metered systems; (ii) offer the lowest per capita costs; (iii) provide greatest benefit to underserved areas; and (iv) do not draw on international waterways. The PHED has prepared a long list of projects that designed. D&S Consultants will review the designs to make a final recommendation for endorsement under the project.
- b. **Rural Roads** will prioritize as a first order basis ensuring that service centers and administrative facilities are linked through upgraded and climate resilient road infrastructure. A D&S Consultant will support in the review and prioritization of these investments for endorsement under the project.
- c. **Irrigation Department** interventions will focus as a first order priority on the identification of 1–2 high priority flood recovery investments that will be endorsed by the PSC. Second, the Irrigation Department will be supported to undertake a masterplan of the newly merged areas, with the prioritization of 2–3 high priority subprojects for integrated water resources management and flood protection. Sub-projects that impact international waterways will not be considered for financing under the project. All designs will ensure improved and climate resilient standards.
- d. **Agriculture** sector investments utilize an integrated and sustainable agriculture sector development framework to guide the selection of interventions, which will include: (i) creation of service providers for value addition, processing, and farm mechanization; (ii) development of rainwater harvesting; (iii) promotion of climate smart agriculture technologies; (iv) support for on-farm water management; and (v) research and development on high-value and regenerative agriculture. These interventions will be equitably distributed across districts and matched to agricultural ground realities and potential for improved livelihoods opportunities.

24. **The project will leverage digital tools for implementation oversight, monitoring, and evaluation.** The project will establish a robust M&E system that will have digitized dashboards for real-time monitoring of project investments in the project areas. This system will build on and adapt the WB supported Geo-Enabling Initiative for Monitoring and Supervision (GEMS), an open-source platform for remote supervision, and real-time monitoring.

Implementation Support Plan and Resource Requirements

25. The project will be supervised jointly by WB staff, the P&DD, and line departments at least three



times a year during the first two years. Annual implementation reviews will be carried out jointly by the GoKP, P&DD, line departments, and the Bank. A Mid-Term Review will be carried out in 2026 to evaluate progress and make necessary adjustments. Within six months of the closing of the project, the P&DD, with inputs from line departments, will prepare an Implementation Completion Report for submission to the WB and GoKP.

Table A1.3: Primary Focus of Implementation Support

Time	Focus	Skills Needed	Resource Estimate
<i>First 12 months</i>	<ul style="list-style-type: none">Selection of all consultants (D&S, VC support, M&E)Training and mobilization of consultants, PCMU, and PIU staff	<ul style="list-style-type: none">SafeguardsFMProcurement	WB team (Task Team Leaders, safeguards, fiduciary) engages with P&DD PCMU, PIUs to advance implementation
<i>12–24 months</i>	<ul style="list-style-type: none">Design/design review for priority schemesMobilization of field staff and community outreach for development of village development plansProcurementProject implementationMonitoring and supervision	<ul style="list-style-type: none">Technical (social, governance, engineering)SafeguardsFMProcurementM&E	Full team supervision three times a year
<i>24–36 months</i>	<ul style="list-style-type: none">Construction for infrastructureRoll out of conditional village grantProcurementProject implementationMonitoring and supervisionMid-term review	<ul style="list-style-type: none">Technical (social, governance, engineering)SafeguardsFMProcurementM&E	Full team supervision three times a year
<i>36–60 months</i>	<ul style="list-style-type: none">Selection and Implementation of sub-projects under multisectoral investmentsContinued community development interventionsDraft Implementation Completion Report	<ul style="list-style-type: none">Technical (social, governance, engineering)SafeguardsFMProcurementM&E	Full team supervision twice a year