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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$100 MILLION

TO THE

ISLAMIC REPUBLIC OF PAKISTAN

FOR A

PUNJAB JOBS AND COMPETITIVENESS PROGRAM

MARCH 9, 2016

Trade and Competitiveness Global Practice
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective: January 31, 2016)
Currency Unit = Pakistani Rupee (PR)
PR 104.9= US$1.00

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

ACAs	Anti-Corruption Investigating Agencies
ACE	Anti-Corruption Establishments
AGP	Auditor General of Pakistan
ADB	Asian Development Bank
BETF	Bank-Executed Trust Fund
BOR	Board of Revenue
CDI	Cluster Development Initiative
CPEEP	Cleaner Production and Energy Efficiency Program
CETP	Combined Effluent Treatment Plant
CPS	Country Partnership Strategy
CDWP	Central Development Working Party
DFID	UK Department for International Development
DHA	Defense Housing Authority
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
DoI	Department of Industries, Commerce and Investment
DPC	Development Policy Credit
DVC	District Vigilance Committees
E&S	Environmental and Social
EAD	External Affairs Department
EPA	Environmental Protection Agency
EPD	Environment Protection Department
ERMC	Environmental Research and Monitoring Center
ESSA	Environmental and Social Systems Assessment
EU	European Union
FDI	Foreign Direct Investment
FIA	Federal Investigation Agency
FIEDMC	Faisalabad Industrial Estates Development and Management Company
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GFS	Government Finance Statistics
GIPB	Global Investment Promotion Best Practices
GRM	Grievance Redress Mechanism
GRP	Gross Regional Product
GSP+	(EU) Generalized System of Preferences Plus
ICRU	Investment Climate Reform Unit

ICT	Information and Communication Technologies
IE	Industrial Estate
IFR	Interim Financial Report
IFSA	Integrated Fiduciary Systems Assessment
ILO	International Labor Organization
J&C	Jobs & Competitiveness
NAB	National Accountability Bureau
NCB	National Competitive Bidding
NLTA	Non-Lending Technical Assistance
LDA	Lahore Development Authority
LHC	Lahore High Court
LRIMS	Land Record Information Management System
o/w	Of Which
P&D	Planning & Development Department
PBIT	Punjab Board of Investment and Trade
PBTE	Punjab Board of Technical Education
PC-1s	Project Concept
PDO	Program Development Objective
PDWP	Provincial Development Working Party
PEFA	Public Expenditure and Financial Accountability
PforR	Program for Results
PGS	Punjab Growth Strategy
PIEDMC	Punjab Industrial Estates Development and Management Company
PITB	Punjab Information Technology Board
PPP	Public-Private Partnership
PPMRP	Punjab Public Management Reform Program
PPRA	Punjab Procurement Regulatory Authority
PRMP	Punjab Resource Management Program
PSDF	Punjab Skills Development Fund
PSDP	Punjab Skills Development Project
PSIC	Punjab Small Industries Corporation
PSS	Punjab Spatial Strategy
RMU	Risk Management Unit
SC	Steering Committee
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SOP	Standard Operating Procedure
TA	Technical Assistance
TEPA	Traffic & Transportation Planning Agency
VGF	Viability Gap Fund

Regional Vice President:	Annette Dixon
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PAKISTAN
Punjab Jobs and Competitiveness
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PAD DATA SHEET

Pakistan

Punjab Jobs and Competitiveness

PROGRAM APPRAISAL DOCUMENT

South Asia Region

GTCDR

Basic Information		
Date: March 9, 2016	Sectors:	General industry and trade sector (50%) Public administration – industry and trade (50%)
Country Director: Patchamuthu Illangovan	Themes:	Investment climate, Competitiveness, Jobs Spatial Development, PPPs
Senior Global Practice Director/ Practice Manager: Anabel Gonzalez, Esperanza Lasagabaster		
Program ID: P155963		
Team Leader(s): Vincent Palmade/ Fatima Shah		

Program Implementation Period: 2016–2021 Start Date: March 31, 2016 End Date: June 30, 2021
Expected Financing Effectiveness Date: June 20, 2016
Expected Financing Closing Date: December 31, 2021

Program Financing Data					
[X]	Loan	[ ]	Grant	[ ]	Other
[]	Credit				

For Loans/Credits/Others (US$, million):

Total Program Cost:	280	Total Bank Financing :	100
Total Co-financing:	0	Financing Gap:	0

Financing Source	**Amount**
BORROWER/RECIPIENT	US$180 million
IBRD	US$100 million
Total	US$280 million

Borrower: Islamic Republic of Pakistan			
Responsible Agency: Planning and Development Department, Government of Punjab			
Contact:	Mohammad Jehanzeb Khan	Title:	Chairman, Planning and Development
Telephone No.:	+92-333 433 4777	Email:	chairman@pndpunjab.gov.pk

Expected Disbursements (in US$, million)

Fiscal Year	2017	2018	2019	2020	2021				
Annual	19	20.5	20.5	20.5	19.5				
Cumulative	19	39.5	60	80.5	100				

Program Development Objective(s)

The Program Development Objectives are to improve the investment climate and promote investments and jobs in more inclusive and sustainable industrial estates in Punjab.

Compliance

Policy

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

Overall Risk Rating: Substantial

Description of Legal Covenants

Name	Recurrent	Due Date	Frequency
Hiring of independent third party entity (to verify DLIs)		March 31, 2017	
Carrying out of verification process to verify DLIs	X		Annual
Submission of verification reports to the Bank	X	August 31, starting August 31, 2017	Annual
Compliance with Federal and Provincial environmental and social laws and regulations and indemnity for any Bank loss resulting from the implementation of the Program and follow on investments	X		On-going
Carrying out of Program Action Plan	X		On-going

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Vincent Palmade	Lead Economist	Trade and competitiveness	GTCDR
Fatima Shah	Senior Operations Officer	Urban and spatial development	OPSPQ
Amjad Bashir	Senior Operations Officer	Business environment	GTCSA
Scherezad Latif	Senior Education Specialist	Technical and vocational training	GEDDR
Priyam Saraf	Young Professional	Technical and vocational training	GTCDR
Fuad Malkawi	Senior Urban Development Specialist	Urban and spatial development	GSURR
Wei Zhang	Senior Financial Sector Specialist	Financial arrangements for VGF	GFMDR
Aijaz Ahmad	Senior PPP Specialist	PPP for VGF	GCPDR
Justin Hill	Senior Private Sector Development Specialist	SME	GTCDR
Reshma Aftab	Operations Analyst	Business environment	GTCSA
Saima Zuberi	Operations Officer	Business environment	GTCSA
James Monday	Senior Environment Engineer	Environment	GENDR
Glenn Morgan	Adviser	Environment and social	OPSOR
Salma Omar	Senior Social Development Specialist	Social and gender	GSURR
Akmal Minallah	Senior Financial Management Specialist	Expenditure and IFSA	GGODR
Rehan Hyder	Senior Procurement Specialist	Procurement	GGODR
Chau-Ching Shen	Senior Finance Officer	Disbursements	WFALN
Helene Bertaud	Senior Counsel	Country lawyer	LEGSO
Jose Molina	Lead Financial Officer	Loan terms	FABBK
Shabir Ahmad	Senior program assistant	Project support	SACPK
Shahnaz Meraj	Program Assistant	Project support	SACPK
Isaac Lawson	Program assistant	Project support	GTCD2

Non Bank Staff

Name	**Title**	**City**
David Mason	Consultant, urban planner	Washington, DC
Jean Paul Gauthier	Consultant, Industrial estate expert	London
Asmat Khan	Financial Management Consultant	Islamabad
Sarah Zaidi	Private Sector Specialist	Boston
Azher uddin Khan	Environment Consultant	Lahore
Imran ul-Haq	Social Consultant	Lahore
Saba Gul Khattak	Gender Consultant	Islamabad

I. STRATEGIC CONTEXT

A. Country Context

1. Pakistan is the world's sixth most populous country with 182 million people and a per capita income of US$1,410 in 2015 placing it in the lower middle income country category. Pakistan's Gross Domestic Product (GDP) per capita growth rates have averaged 3 percent since 2010. Since 2013, Pakistan has moved forward with macro-economic reforms, as well as in the energy and growth areas, supported by an International Monetary Fund Program and Development Policy Credits from the World Bank and other international organizations. Nevertheless, the country's rebound from the global financial crisis has been fragile due to volatile macroeconomic, political and security conditions, natural disasters as well as unreliable energy. Pakistan's performance on the Doing Business index has been deteriorating (ranked 138 out of 189 countries in the 2016 report, down from 76 in 2008). Other issues affecting Pakistan's competitiveness include barriers to trade and a skills deficit. As a result, private investments and exports have been stagnating at a low level.

2. Although pro-growth reform actions have been initiated at the Federal level, progress on reforms will depend significantly on a Provincial-level response following the delegation of policy making under the 18th Amendment. Punjab accounts for more than half of Pakistan's GDP and population. The business climate and potential for economic growth in the Province will have a direct impact on national development.

B. Sectoral and Institutional Context

3. The Government of Punjab approved the Punjab Growth Strategy (PGS) in March 2015. The PGS sets a target of doubling Punjab's GDP growth in five years (from 3.5 percent to 7 percent), which will be necessary to absorb the one million people entering the workforce every year. The PGS was developed under the leadership of the Planning & Development Department (P&D) with the support of eminent Pakistani economists and the World Bank through the Jobs and Competitiveness technical assistance (P148338) which was finalized in June 2015. The PGS also leveraged a large body of other recent analytical work – for example, the 2010 "Private Sector Development Strategy for Punjab" (UK Department for International Development - DFID), the 2010 "Industrial Policy, its Spatial Aspects and Cluster Development in Pakistan" (Lahore University of Management Science), the 2010 "The Constraints to Industry in Punjab, Pakistan" and the 2013 "Garments as a Driver of Economic Growth" (International Growth Center). The Program leverages also the results from the upcoming Regional Flagship Report of the World Bank "Make in South Asia", which shows strong growth potential in agribusiness (domestic demand) and that, within South Asia, Pakistan has the most to win from rising labor cost in China. This report shows in particular the significant impact that growth in labor intensive manufacturing and agribusiness will have on women's employment and poverty reduction.

4. The key features of the PGS are as follows:

- To be sustainable, the strategy is private sector and export-led. Private investments are set to increase from US$8 billion in 2013 to US$17.5 billion in 2018, and exports to grow by 15 percent a year, particularly in labor intensive manufacturing given Punjab’s abundant and competitive labor force. The other main sources of growth are agribusiness, mining, Information and Communication Technologies (ICT) and productive urbanization. The strategy is focused on inclusive, regionally balanced and environmentally sound growth.

- The strategy calls for reforms (at both the Federal and Provincial levels) to improve the investment climate as well as increase the quantity and quality of public investments in support of infrastructure and skills development (in partnership with the private sector). The main areas of reforms at the Federal level include security, trade, access to finance and energy policies, while at the Provincial level, it includes policies governing business entry and operations, contract enforcement, property registration, building regulations, agribusiness, irrigation, mining, access to skills, regional economic planning, land use rules, access to industrial land, Public-Private Partnerships (PPPs), property tax, urban water, sales tax and governance.

5. The Jobs and Competitiveness Program-for-Results (J&C PforR or the Program) will support the implementation of the Industrial Development Sector Plan of the PGS (the scope of the J&C PforR is discussed in more detail in the following section).

6. Manufacturing, which accounts for 21 percent of Punjab’s GDP, is identified in the PGS as a major growth driver and employment generator.[1] The priority industries discussed in the PGS are textiles, apparel, leather goods, light engineering, automotive and agribusiness. The industrial structure is tilted toward Small and Medium Enterprises (SMEs) often grouped as clusters – particularly within the “Golden Triangle” (Sialkot, Gujrat and Gujranwala) north of Lahore. Some of these clusters date back more than one hundred years and have achieved global pre-eminence (for example, the sports goods and surgical equipment clusters of Sialkot). Despite this proven potential, manufacturing growth in Punjab is stalled at 1 percent a year. The PGS objective is to reach 10 percent manufacturing growth in five years. The main constraints identified in the PGS are: lack of reliable energy supply, high regulatory compliance costs, inadequate/insufficient industrial land, lack of financing and a growing technology gap. Furthermore, much of manufacturing activity is taking place informally in and around rapidly growing cities where there is insufficient land zoned for industry. This is putting stress on infrastructure and is resulting in a mounting pollution threat because there are no effective combined effluent treatment plants (CETPs) in Punjab. There are also concerns with workers’ safety and child labor following the industrial accident in the Sundar industrial estate in November 2015, as well as regulatory (for example, the Factory Act) and physical constraints (for example, lack of daycare facilities in industrial estates) to women’s employment in industry.

7. The government has adopted the following vision for industrial development:

“*The Government seeks to promote industry and investment in Punjab in order to generate employment, increase per capita income and ensure sustainable growth. This is to be achieved*

[1] Pakistan Urban Sector Assessment (2014): Location quotient analysis (share of employment in a given sector for the province relative to that share for the country) for agriculture is currently less than 1 (0.937), while manufacturing has the highest location quotient for the province (1.224) and has also been growing modestly over time.

through policies and regulations which facilitate private sector investment, increase productivity of firms and lead to the development of internationally-competitive, export-oriented industrial clusters."[2]

C. Relationship to the Country Partnership Strategy and Rationale for Use of PforR Instrument

8. The proposed operation directly supports the World Bank's Country Partnership Strategy (CPS) for Pakistan 2015–19 (Report No. 84645-PK) – in particular the objective of promoting private sector development (CPS Results Area 2). The J&C PforR will promote private sector development by reducing the cost and risk of doing business in Punjab, improving compliance with international labor standards under the Generalized System of Preferences (GSP+) of the European Union (EU), and promoting efficient spatial development and the provision of technical support to industrial clusters. The Program will lead to more and better jobs - especially for women - thus contributing to reducing underemployment and poverty.

9. The PforR instrument was chosen because it allows for improvement of the systems and institutions that will lead to the implementation of a large and critical part of the PGS. Such a broad level of support would not have been feasible through a standard Investment Project Financing. In addition, while a Development Policy Credit (DPC) can only support/reward actions related to policy/institutional and regulatory reforms, the PforR can support a program of critical investments (which can cover both infrastructure and technical assistance) in addition to regulatory and institutional improvements. It also allows for a flexible and scalable disbursement schedule provided results are achieved and verified.

10. There is strong support from the Government of Punjab for the J&C PforR. The support for the Program includes the highest levels of the Government of Punjab and runs deep within the key implementing agencies following extensive consultations which started with the 18 month Jobs and Competitiveness Non Lending Technical Assistance. The PforR is not a new instrument for the Province; it is already being used successfully through the World Bank funded Punjab Public Management Reform Program (PPMRP). PRMP (Punjab Resource Management Program), the unit responsible for coordinating the PPMRP, will also be responsible for coordinating the J&C PforR. It will draw from the staff and procedures established under the PPMRP, which is housed under the Planning and Development Department (P&D).

II. PROGRAM DESCRIPTION

A. Program Scope

11. The J&C PforR will support the implementation of key parts of the Industrial Development Plan of the PGS aimed at re-igniting manufacturing growth in the Province.

12. The J&C PforR focuses on improvements to the business regulatory environment and capacity enhancement of institutions relevant to private sector investment - particularly the Department of Industry (DoI) and its agencies responsible for investment promotion, industrial

[2] Punjab Growth Strategy 2018, p.23.

estates, and support to industrial clusters. It also includes the development of the Punjab Spatial Strategy (PSS) to help prioritize and coordinate public investments in infrastructure. The Program will also improve public support to industrial infrastructure by promoting public private partnerships (PPPs). Public support to industrial clusters will be improved by focusing on the provision of world class knowledge to clusters with high potential following a competitive demand driven process.

13. Table 1 below shows the J&C PforR within the PGS:

Table 1. Program of Expenditure supported by the J&C PforR (US$, million)

Pillars of the PGS	Five year budget Of the PGS Sector Plans	J&C PforR
Industrial Development	1,049	280
Energy	522	0
Skills	227	0
Urban Development	4,901	0
Agriculture	844	0
Livestock/dairy	105	0
Education	499	0
Demography	92	0
Health	1,529	0
Total	**9,768**	**280**

14. The PforR covers all aspects of the Industrial Development Sector Plan except for (i) the direct development of *new* industrial estates (US$405 million, including US$119 million from the Viability Gap Fund/VGF) and (ii) the development of Combined Effluent Treatment Plants (CETPs) within these new estates (US$85 million) – the Program will only support new CETPs in existing estates to address legacy pollution issues. Interventions in new industrial estates were deemed high risk and therefore the PforR will not directly finance them, but will instead support improvements to the *systems* leading to new industrial estates. In addition (iii) US$35 million included in the Sector Plan to facilitate access to finance was also not included in the Program because policies governing access to finance are primarily a Federal matter best supported by World Bank operations at the Federal level.

15. The J&C PforR consists of two results areas: (a) Investment Climate Reforms and (b) Spatial Development. These two results areas are connected and together will help remove the main constraints (discussed in the Strategic Context) to Punjab's industrial competitiveness:

- The first result area on investment climate reforms will improve the regulations and capacity of the Government of Punjab to reduce the cost and risk of doing business, increase workers' safety, reduce child labor and facilitate women's employment as well as attract foreign investors.

- The second result area on spatial development will help prioritize and coordinate public investment projects in support of productive industrial and urban development. In particular, it will promote well-located and well-serviced industrial estates (in particular through the provision of reliable power and CETPs) within and around major industrial growth centers. This will be done through a new private sector-led and competitive approach leveraging Public Private Partnerships (PPPs).

16. As such, and through its focus on industrial estates, the Program will also help alleviate the constraints which are primarily within the realm of the Federal government (security, trade policy, energy and access to finance). In effect, good practice industrial estates provide improved security, improved access to imported goods through bonded warehouses, improved access to energy through dedicated feeder lines or captive power plants as well as considerably reduce the financing needs of SMEs by providing access to "Plug and Play" industrial buildings. Finally, readily available land in well located and serviced industrial estates is essential to attract foreign investors which have a choice of countries.

17. The two result areas are discussed briefly below (see Annex 1 for more details):

Investment Climate Reforms

18. The Program will support reforms to reduce the cost and risks of doing business, improve laws affecting labor, in particular to facilitate women's employment, and promote investments by foreign investors:

- **Reduction in the cost and risks of doing business.** The Program will finance activities designed to improve the administrative interface for business regulations in Punjab, through improved systems for business registration, contract enforcement, issuance of construction permits and property registration. These interventions will also contribute to the national efforts at improving Pakistan's national Doing Business rank and, as such, improve branding of Pakistan-Punjab as an investment destination. Going beyond the Doing Business Indicators, the Program will support the Investment Climate Reform Unit (ICRU) which will tackle more systematically the Provincial stock and flow of business regulations.

- **Compliance with GSP+ labor conventions.** The Program includes a series of activities designed to support the contribution of Punjab to meeting Pakistan's commitments related to GSP+ Labor Conventions. Pakistan was accorded GSP+ status in 2013, which provides duty free access to the European Union (EU) market. The Program will support the reforms of labor laws to complete the legal compliance with the eight ILO (International Labor Organization) Labor Conventions as per Pakistan's GSP+ commitment. These reforms will in particular facilitate employment of women.

- **Improved investment promotion.** The Program will finance activities designed to: improve investment promotion in Punjab. It will reinforce the Punjab Board of Investment and Trade (PBIT) to help attract foreign investors to Punjab. This will entail improved investor targeting and outreach activities. Results will be measured by the number of significant investment announcements (above a threshold of US$5 million) by foreign investors generated and facilitated by PBIT.

Spatial Development

19. The Program will support the upgrading and development of industrial infrastructure through a private sector-led competitive process informed by the Punjab Spatial Strategy. The Program will also facilitate access to world class knowledge to high growth potential industrial clusters:

- **Improved public investment process to support industrial and urban development.** The Program will include a series of activities designed to help prioritize and coordinate large infrastructure investments in Punjab, in support of the PGS. In particular it will support the development of the Punjab Spatial Strategy (PSS), which will assess the potential of Punjab's growth corridors and growth nodes and help prioritize and coordinate investments around them. This strategy will inform large public investments related to connectivity infrastructure, urbanization and the development of industrial estates. The Program will support a panel of experts to validate the PSS and ensure that all industrial zones and 80 percent of large infrastructure investment project proposals (PC-1s reviewed by the Provincial Development Working Party - PDWP) are consistent with it. The panel will also review the pre-feasibility study for a new city that the government is considering financing and provide recommendations on whether or not to proceed with a feasibility study.

- **Improved support to industrial infrastructure through Public Private Partnerships.** The Program will include a series of activities designed to improve industrial infrastructure in Punjab, including through the provision of CETPs in existing industrial estates, the strengthening of capacities of Environmental Protection Agency (EPA) and the improvement of systems for developing new industrial estates (IEs). This will be done through PPPs in order to move away from the current less than satisfactory public sector led model. The Program will also promote, through the competitive PPP process, the provision of daycare and transport services to facilitate women's employment within industrial estates.

- **New institutional set up to support industrial estates and clusters.** The Program includes a series of activities designed to develop and implement a new institutional set-up to better support existing and new industrial estates and industrial clusters in Punjab:

    - The Program will rationalize and reinforce the public institutions that support industrial estates and clusters (the Punjab Industrial Estates Development and Management Company - PIEDMC, the Faisalabad Industrial Estates Development and Management Company - FIEDMC and the Punjab small Industries Corporation - PSIC). These institutions had followed a public sector driven approach which led to industrial estates not being in the right location, not promoting linkages between small and large firms, and/or not meeting the required social and environmental standards. The Program will promote private industrial zones (through the PPP process discussed above) and stronger supervision mechanisms to help ensure that IEs (both public and private) meet the required labor and environmental standards. To that end, the Program will also reinforce the EPA.

- The provision of technical support to clusters by PSIC in the past proved unsuccessful due to governance, financing, and strategic issues (targeting under-performing – rather than high growth potential – clusters. The Program will support the restructuring of PSIC as well as the deployment of a Cluster Development Initiative (CDI) which will provide world class technical expertise to high growth potential clusters through a demand driven competitive process.

20. Table 2 below shows the Program Expenditure Framework along the two results areas:

Table 2. Five year Program Expenditure Framework (US$, million)

	Total	o/w current expenditures	o/w technical support	o/w equipment	o/w grants to private sector
Investment Climate Reforms					
Reduction in the cost and risk of doing business	66	51	3	12	–
Compliance with GSP+ Labor Conventions	3	2	1	–	–
Improved investment promotion	12	9	1	2	–
Spatial Development					
Improved public investment process to support industrial and urban development	14	9	5	–	–
Support to industrial infrastructure through PPPs	71	5	10	2	54
New institutional set up to support industrial estates and clusters	111	95	14	2	–
Program Implementation	3	2	1	**–**	**–**
Total	**280**	**173**	**35**	**18**	**54**
Percentage	**100%**	**62%**	**13%**	**6%**	**19%**

21. *Beneficiaries.* The proposed operation will provide benefits to several groups. First, entrepreneurs and firms will benefit from reduced time and costs for complying with business regulations and enforcing contracts. This will have a disproportionate positive impact on women-owned/run businesses as women are often less familiar with bureaucratic procedures and more prone to harassment by public officials than are men. Second, the Program will also encourage an increase in women's labor force participation by reforming policies adversely impacting gender equity (for example, the Factory Act which restricts women's employment in manufacturing) and by promoting ancillary support services in industrial estates such as day care and transport facilities. Third, entrepreneurs and workers will both benefit from the support to industrial clusters that the Program will provide – including technological upgrading as well as access to global buyers by increasing social and environmental compliance. Fourth, Government agencies and departments will benefit from improved capacity and systems. The net result would be increased investments and jobs.

22. *Development Partners.* The implementation of the Program will require extensive technical support. The financial resources (estimated at US$35 million) required for this technical support are being secured (through the approval of the PC-1s for the Program) into the budget for the next five years as part of the Program Expenditure Framework. In addition, there is a parallel US$4 million DFID funded Bank Executed Trust Fund (BETF) which will help build the capacity of the agencies responsible for achieving the results – especially the ones related to Investment Climate Reforms and CETPs as well as cluster development through the Cluster Development Initiative (CDI).

23. Table 3 below shows the share of the Program financed by the World Bank (IBRD).

Table 3. Program Financing (US$, million)

Source	Amount	% of Total
Provincial government	**180**	**64**
World Bank (IBRD)	**100**	**36**
Total Program Financing	**280**	**100**

B. Program Development Objective (PDO)

24. The Program Development Objectives are to improve the investment climate and promote investments and jobs in more inclusive and sustainable industrial estates in Punjab.

25. In effect, the investment climate reforms together with the improvements to Punjab's industrial estates that are supported by the Program should lead to increased investments and jobs, in particular for women (i.e. inclusion). The Program supports competitiveness in the industrial estates and the development of PPPs. Reforms and investments also support CETPs to reduce pollution. Overall, the approach to investment promotion and improvement of the investment climate should eventually lead to improved financial and environmental sustainability. As such the Program will contribute to the higher-level objectives of the Punjab Growth Strategy which is to increase growth and job creation.

C. Program Key Results and Disbursement Linked Indicators (DLIs)

26. We discuss in turn below the Program Key Results, the DLIs (also intermediate results) and the key activities financed by the Program which will lead to these intermediate results. Together, these constitute the results chain ("the "theory of change") for the Program (see Annexes 2 and 3 for more details).

27. Four Program Key Results will measure progress along the dimensions of the PDO:

- Aggregate improvement of Punjab's performance for the four selected Doing Business indicators (business registration, contract enforcement, construction permits and property registration). Performance in Doing Business is a globally recognized indicator of the quality of the investment climate.

- Significant progress made by Punjab on GSP+ Labor Conventions as acknowledged by the European Union in its bi-annual evaluation. This indicator will also capture an important dimension of the investment climate (labor market conditions) and is directly linked to a key driver of investment (duty free access to the EU market).

- Number of additional workers in existing industrial estates (of whom women). This indicator is directly linked to the second part of the PDO. The number of women employed will capture progress along the "inclusiveness" dimension.

- New investments by new companies in existing industrial estates (of which FDI). This indicator is also directly linked to the second part of the PDO.

28. Six Disbursement Linked Indicators (DLI), which are also intermediate results for the Program, will measure progress toward achieving the Program Key Results:

- **DLI 1**. Aggregate improvement of Punjab's performance with respect to business registration, contract enforcement, construction permits and property registration as measured in accordance with the Doing Business 2016 methodology. This DLI is also the first Program Key Result.

- **DLI 2**. Steps taken by Punjab to improve its contribution to Pakistan's compliance with the GSP+ Labor Conventions. This DLI is directly linked to the second Program Key Result. It will also contribute to the employment of women (third Program Key Result).

- **DLI 3**. Steps toward improvement of investment promotion, measured in particular through the number of investment announcements by foreign investors[3]. This DLI is directly linked to the third and fourth Program Key Results.

- **DLI 4**. Steps toward developing and implementing the Punjab Spatial Strategy, to prioritize and coordinate public investments. Improved infrastructure is a key dimension of the investment climate and will contribute to make the industrial estates more "economically sustainable".

- **DLI 5**. Steps toward the effective development of industrial infrastructure through PPPs measured in particular through the number of industrial estate and CETP projects presented to the PPP Steering Committee. This DLI is a key intermediate result toward improving the supply of "more inclusive and sustainable industrial estates" which is directly linked to the third and fourth Program Key Results.

- **DLI 6**. Steps toward designing and implementing a new institutional framework to support Industrial Estates and clusters. This DLI is also a key intermediate result toward improving the supply of "more inclusive and sustainable industrial estates".

29. The following activities financed by the Program will be key to achieving the DLIs:

[3] Foreign investor has to be a registered company with a majority of shares owned by persons who are not citizens or whose headquarters are not located in the territory of Pakistan.

- Technical support to the ICRU, Department of Industry (DoI), Lahore High Court (LHC), Law Department, Housing Department and Board of Revenue (BOR) to prepare the reforms needed to improve Punjab's Doing Business performance (DLI1). This will be complemented by equipment investments to streamline/automate regulatory/judiciary processes.

- Technical support to the Labor and Women Development Departments to prepare the reforms needed to improve Punjab's compliance with the GSP+ Labor Conventions (DLI2).

- Technical support to PBIT to generate investment announcements (DLI3).

- Technical support to P&D and line Departments to develop and implement the spatial strategy (DLI4).

- Technical support to the Department of Industry, PIEDMC, FIEDMC and EPA to prepare the IE and CETP PPPs (DLI5). This will be complemented by a grant block allocation to make these PPPs financially sustainable (following a competition).

- Technical support to the Department of Industry and PSIC to improve the institutional set up in support of industrial estates and clusters (DLI6).

D. Key Capacity Building and Systems Strengthening Activities

30. The reinforcement of key public institutions and processes are at the core of the Program and will be critical for supporting its goals. As shown in Table 2 above, an estimated US$35 million of the Program will be allocated to technical support aimed at building capacity and strengthening institutional processes and government systems. In addition, the implementation of the Program will be supported by a parallel US$4 million program of Bank Executed Technical Assistance funded by DFID. The reinforcement of institutions and systems constitutes DLIs and Disbursement Linked Results (DLRs) (see DLIs 1, 3, 4 and 6 in Annex 3) as well as Dated Legal Covenants (see the Program Action Plan in Annex 8). The main capacity building and systems strengthening activities along each result area are presented below:

- **Investment Climate Reforms.** The Program will build the capacity and improve the systems of the ICRU, Department of Industry, Lahore High Court, Lahore Development Authority and Board of Revenue with respect to reducing the cost and risk of doing business. The Program will support the Labor and Women Development Departments in leading reforms and initiatives toward increasing compliance with GSP+ Labor Conventions. The Program will build the capacity of PBIT to enhance its investment promotion, facilitation, aftercare and policy advocacy capabilities.

- **Spatial Development.** The Program will build the capacity of P&D and line departments to develop and implement the Punjab Spatial Strategy. The strategy will provide a framework to ensure that the approval of large infrastructure investments – especially those within and around industrial estates (IEs), major new city expansion projects, and inter-city connectivity – align with local needs and address market demands. The Program will also support improved operations of IEs. It will also build the capacity of the Environment Protection Agency (EPA) with respect to industrial pollution monitoring and enforcement. Finally, it will also build the capacity of the government to help industrial clusters access technical support to improve productivity, access new markets, and improve technological upgrading.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

31. The PRMP (within P&D) will be responsible for coordinating the implementation of the Program, including conducting the procurements on behalf of agencies with weak procurement capacity. PRMP is already coordinating the implementation of the World Bank funded Punjab Public Management Reform Program PforR which is proceeding satisfactorily. PRMP was also leading the preparation of the J&C PforR.

32. The table below details the implementing agencies for each of the results areas.

Table 4. Implementing Agencies for each Result Area

Investment Climate Reforms	Responsible/Sponsoring Department	Procuring agency	Implementing and/or partnering agencies
Business registration	Department of Industry	PRMP	Labor Department, ICRU
Contract enforcement – case management/ADR center	Lahore High Court	Punjab Information Technology Board (PITB)	PITB, ICRU
Contract enforcement – legal reforms	Law Department	PRMP	Services and General Administration Department, ICRU
Construction permits	Housing Department	PRMP	Lahore Development Authority, ICRU
Property registration	Finance Department/BOR	LRMIS	LRMIS, Excise and Taxation Department, ICRU
Compliance with GSP+ Labor Conventions	Labor Department	PRMP	Women Development Department, PBIT
Improved investment promotion	Department of Industry	PBIT/PRMP	PBIT
Spatial Development			
Improved public investment process as per the Spatial Strategy	P&D Department	Urban Unit	Housing and Urban Development, Local Government Department, Transport Department, Department of Industry
Industrial infrastructure supported through PPPs	Department of Industry	PIEDMC/FIEDMC	PPP Cell, Environment Department/EPA, Labor Department, Women Department
Institutional reforms to support industrial estates and clusters	Department of Industry	PRMP/PSIC	PSIC, PIEDMC, FIEDMC
Overall Program Coordination	**P&D Department**	**PRMP**	

33. **Program Steering Committee.** A Steering Committee headed by the Chairman of P&D and with the administrative heads from all the implementing agencies, will be established to oversee progress as reported by PRMP (with the support of ICRU and the Urban Unit). The committee will provide strategic guidance and direction and facilitate coordination across different departments, agencies and levels of government involved. The committee will review and finalize recommendation reports and plans developed as part of the different results areas and DLIs and monitor progress on a quarterly basis.

B. Results Monitoring and Evaluation

34. The Program Key Results and DLIs will be regularly measured and reported. The PRMP, with the support of a competitively recruited firm, will have overall responsibility for coordinating, monitoring and reporting on the Program's results indicators as follows:

- The first Program Key Result and DLI1 will be based on the aggregate Doing Business Performance for Punjab across the four selected indicators indexed to the performance of the top performer in the Doing Business 2016 report using the methodology of that same report. This will ensure that Punjab's performance on this indicator will not depend on the performance of other countries or future changes in the Doing Business methodology.

- The second Key Result is based on the evaluation made every two years by the EU of Punjab's progress along the GSP+ Labor Conventions. The first compliance report, published in January 2016 (http://trade.ec.europa.eu/doclib/docs/2016/january), acknowledged significant progress but also important gaps left to be addressed. The next two reports are expected in 2018 and 2020. The evaluation is carried out by an ILO Committee of Experts based on a detailed scorecard.

- The third and fourth Key Results on employment and investments will be based on information to be provided by PIEDMC and FIEDMC based on surveys of the enterprises operating in their industrial estates.

- DLI2. The Department of Labor will provide the information required to assess the progress made along the reforms of the labor laws.

- DLI3. The significant investment announcements from foreign investors will be monitored by PBIT.

- DLI4. The Punjab Spatial Strategy will be reviewed by the panel of experts jointly chosen by the Government of Punjab and the World Bank. This same panel will review the project concept proposal (PC-1s) of large investment projects (the ones presented to the Provincial Development Working Party (PDWP)) to ensure they are consistent with the Punjab Spatial Strategy.

- DLI5. The PPP Cell will monitor the number of PPP feasibility studies and negotiated PPP contracts presented to the PPP Steering Committee following its quality control.

- DLI6. A Steering Committee led by the Department of Industry comprising all relevant stakeholders will supervise the development and implementation of the institutional reforms to improve public support to industrial estates and clusters.

C. Disbursement Arrangements and Verification Protocols

35. **The disbursements** will take place based on the achievements of the DLIs (see Annex 3 for more details).

36. **Reporting of Program expenditures:** As agreed with the Government of the Province of Punjab, the Program expenditures are a subset of the expenditures budgeted for the Industrial Development Pillar of the PGS. Expenditures will be reported twice a year to the Bank. The reporting will be through six-monthly interim financial reports (IFRs) duly supported by and reconciled with the budget execution reports. The amount of Bank financing disbursed may not exceed the total amount of expenditures under the Program, taking into account contributions from other financing sources. If, by Program completion, the Bank financing disbursed exceeds the total amount of Program expenditures, the borrower will be required to refund the difference to the Bank.

37. A mapping of Program expenditures through the Chart of Accounts codes is given below:

(a) Recurrent Expenditure

Industries Department (LQ4087), Grant in Aid to PSIC (LQ4224), Inspectorate of boilers (LQ4220), Environment Department (LQ4077), Local Government & Community Development (LQ4065), HUD & PHE Department (LQ4076), Lahore Development Authority (LQ4634)

(b) Development Expenditure

PSIC **(**LO12000006, LO12000005, LO12000007, LO13000325, LO13001420, LO14000131, LO13000016, LO14000137, LO14000134, LO14000130, LO15002096, LO12000638, LO15002097, LO15002099, LO15002098, LO15002103), VGF **(**LO15002104), PIEDMC/FIDMC (LO12000084), P&D (LO14000099, LO15002190), PITB (LO12000039)

38. Additional needed expenditures were identified during the technical assessment of the Program and are being added to the budget (see Table 1.3 in Annex 1 for a detailed breakdown).

39. **Verification protocols.** A firm (to be recruited competitively by PRMP) will verify the Program key results and DLIs (see Table 3.2 in Annex 3 for more details).

IV. ASSESSMENT SUMMARY

A. Technical

40. **Program's strategic relevance.** The J&C PforR will support the implementation of the Industrial Development Sector Plan of the Punjab Growth Strategy. As such it will contribute directly to the high-level objectives of the Punjab Growth Strategy, which is to improve growth and job creation, also at the heart of the World Bank Group's CPS for Pakistan.

41. **Technical soundness.** The Punjab Growth Strategy identifies the main growth drivers (labor intensive manufacturing, services and urbanization) and the main constraints standing in the way (security, energy, trade policy, access to finance, cost of doing business, access to well-located and well-serviced industrial land and access to technology/skills). The J&C PforR is designed to address these constraints directly (cost of doing business, access to markets for exporters, quality serviced industrial land and supportive institutions for IEs and clusters). It also contributes indirectly through the spatial strategy by improving the overall system of approvals for large infrastructure investments that better responds to market demand and local needs. The reliance on PPPs for industrial infrastructure will leverage private sector financing and skills through a transparent and demand driven competitive process. Finally, the CDI will facilitate access to world class knowledge to clusters of SMEs.

42. The design of the specific program activities is being inspired by international good practices. DLI1 will be directly informed by the global knowledge accumulated by the Doing Business project over the last twelve years. The design of the ICRU (DLI 1) is being informed by successful reform teams (see the World Bank's Viewpoint #318). DLI2 will be directly informed by ILO's accumulated experience around the world. DLI3 is based on the experience of the best Investment Promotion agencies. DLI4 is inspired by the successful spatial development approach taken by Ireland, Qatar, Australia, Korea and Malaysia. DLI5 is based on global good practices for designing and implementing PPPs (for example, the UK) and promoting private sector participation in industrial zones and CETPs in successful comparable countries to Pakistan (for example, Vietnam). The CDI as part of DLI 6 is informed by successful experiences in Pakistan (for example, the technical support provided to the manufacturers of soccer balls in Sialkot) as well as from international good practices (for example, the EU).

43. **Governance structure and institutional arrangements.** As discussed above in the section on implementation arrangements, the Planning and Development Department (P&D) will be charged with general implementation oversight taking advantage of its leverage over the other government departments through the investment budget process. The Program will also be able to capitalize on PRMP's proven track record of implementing successfully the World Bank funded Punjab Public Reform Management Program PforR.

44. **Expenditure framework.** As discussed in the section on Program scope, the US$100 million J&C PforR will support a US$280 million Program of Expenditures of the Punjab Growth Strategy, extracted from the US$1,049 million Industrial Development Sector Plan.

45. **Economic rationale.** The economic evaluation of the program includes justification of the rationale for public financing of the Program, assessment of the economic impacts of the program, and the value added from the World Bank involvement. The Program is focused on removing the main constraints to industrial development in Punjab and providing public support to industrial estates and clusters through a new private sector-led approach. The rationale for public provision is discussed below along the two result areas of the Program:

- **Investment Climate Reforms.** Support to the government is needed to reduce the cost and risks of doing business through regulatory reforms and streamlining of government processes, leveraging automation and on-line solutions. Similarly, the government will need to complete legal compliance with the GSP+ Labor

Conventions to help secure Pakistan's duty free access to the EU market as well as to promote Punjab to foreign investors.

- **Spatial Development.** The World Bank World Development Report (2009) identifies the critical role location and geography plays in economic growth. Specifically, cities and economic clusters benefit from agglomeration and scale economies due to the dense proximity of markets, labor, capital and key infrastructure (roads, power, water, and so on.). Public support to the provision of infrastructure in support of urban and industrial development is justified because such investments are often large scale and are subject to coordination challenges (for example, access to large tracts of land and combined effluent treatment plant). Public support to the provision of world class knowledge to industrial clusters is justified by the fact that most SMEs are not exposed to it and/or cannot afford it individually (information and coordination failures). It is also justified by the positive externality stemming from the rapid diffusion of this knowledge within clusters through demonstration effects. The Program will support a new private sector led competitive approach for providing these public goods.

46. **The Program's economic impact.** The expected economic impact is positive. The Industrial Sector Plan's objective of the Punjab Growth Strategy is to re-ignite manufacturing growth in Punjab from 1 percent annual growth to 10 percent after five years. Since manufacturing accounts for 20 percent of Punjab's GDP (US$20 billion), a gradual increase to 10 percent growth over five years, would generate a cumulative additional US$6 billion GDP. Countries with similar characteristics to Pakistan, such as Bangladesh and Vietnam, did achieve and sustain more than 10 percent growth in manufacturing. As discussed earlier, this would require reforms at the Federal level (trade, energy, and security in particular) in addition to the reforms supported by this Program. One of the reasons this Program is supporting industrial estates is the fact that these Federal-level issues can be mitigated within industrial estates. In effect, bonded warehouses within the estates will facilitate access to imported inputs. Captive power plants and/or dedicated feeder lines to the estates will ensure quality supply of energy, while security can be assured within the walls of industrial estates. Thus, the main economic impact from the Program would stem from the complementarities and synergies between its components aimed at the main constraints to industrial development in Punjab. Notwithstanding the synergies between them, each component taken individually should have positive economic impact. It is well established that investment climate reforms (the first component) have positive economic impact by reducing the compliance cost for businesses but also by reducing the risks of doing business (for example, contract enforcement) as well as by increasing productivity through increased investments and competition. With respect to the second component (Spatial Development), public support is needed to help resolve coordination issues related to large infrastructure investments, accessing large tracts of industrial land, CETPS as well as the acquisition of world class knowledge by clusters of SMEs. The Program will help in particular prioritize and coordinate public investments in infrastructure (the Spatial Growth Strategy). It will also promote a much more demand driven, competitive and private sector led approach to providing public support to industrial estates and clusters. The economic rationale/impact of each of the Program's components is discussed in more details in Annex 4.

47. In addition to financing support, the Bank will provide technical assistance during the implementation of the Program (see Annex 9).

B. Integrated Fiduciary Systems Assessment (IFSA)

48. The IFSA assesses the fiduciary risks relating to: (a) procurement; (b) financial management; and (c) governance (including fraud and corruption risks) relevant to the Program in the key coordinating and implementing entities. The conclusion of the IFSA is that, provided the mitigation measures are implemented, the overall fiduciary framework is adequate to support Program implementation and to achieve the desired results.

49. The Program will use country systems (including Financial Management, Procurement and Fraud and Corruption) that allow reasonable fiduciary assurance. At the Program level, the assessment draws on Punjab Public Expenditure and Financial Accountability Assessment (PEFA) carried out in 2012 and various IFSAs carried out for other World Bank funded programs.

50. Punjab Procurement Rules 2014 are generally found by this review and other World Bank reviews to be aligned to good procurement practices. However, Rule 59 d (iv), which allows the Provincial Cabinet to engage in negotiated tendering, has somehow weakened the enforceability of these rules.[4] Success of the project will depend on principle-based application of all fiduciary policies. A detailed assessment of individual entities responsible for implementation of the Program has been carried out which pointed to insufficient capacity in a number of them.

51. The funds for the Program will be appropriated from both the current and development budget. The Government of Punjab has a well-defined budgeting process and reforms are underway to introduce modern practices in financial planning and budgeting. The development budget is aligned to the Punjab Growth Strategy, but the linkage between recurrent and development budget is weak and unpredictability in budget releases will remain a challenge during project implementation. The PEFA 2012 noted higher deviation between budgeted and actual expenditure at the sub-aggregate level which shows that resources are frequently re-allocated as opposed to following the approved budget. The expenditure analysis included a review of budget credibility PEFA indicators in 2014–15 in the two prior years and found that the budget execution trends have not changed. This assessment is also consistent with the findings of the program expenditure framework analysis which highlights weak budget credibility of program expenditures. To mitigate the risk of unpredictable budget allocation, the program budget has been ring fenced through the approval of program specific departmental PC-1s.

52. Because of its experience and strong track record with PforR as well as its reporting to P&D, PRMP has been chosen for the coordination and financial reporting of the Program as well as for conducting the procurements for the implementing entities lacking that capacity. A dedicated J&C PforR unit has been created within PRMP. An Operational Manual delineating roles and responsibilities of PRMP and other entities has also been developed.

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[4] This allowance is not included in the amended version of the 'Overriding Effect of Rules' as stated in Rule 51 of erstwhile Punjab Procurement Rules 2009.

53. The Program Action Plan requires the establishment of an Internal Audit Function in PRMP. This will be established within six months of the commencement of the Program. The Program will be subject to an annual audit by the Auditor General of Pakistan as the Supreme Audit Institution of the country. Audited Program financial statements shall be furnished to the Bank within nine months of the end of each financial year. The Performance Audit Cell in the office of the Auditor General will train the auditors in program and procurement audit in addition to financial audit. Exceptions under Punjab Procurement Rules-2014 should be rule-based.

54. The government departments follow Accounting Policies and Procedures and GFS compliant Chart of Accounts, whereas the entities established under the Companies Ordinance have adopted Accounting and Reporting Standards issued by the International Accounting Standards Board (IASB). Internal Controls are defined by Punjab Financial Rules, Punjab Delegation of Financial Power rules which are comprehensive. A job description for internal auditors exists, and procurement deviations are routinely referred to the Punjab Procurement Regulatory Authority (PPRA). In many of the appraised entities, comprehensive financial management manuals and standard operating procedures for procurement do not exist.

55. For the Industrial Estates and CETP PPPs, the government agency that works as a node as per Section 7 of PPP Act will be the Department of Industry. The node is entrusted with project identification, tendering, supervising the implementation and, if applicable, eventually taking over the project. Based on the fiduciary assessment, the Department of Industry does not have such capacity. The Department of Industry will constitute a PPP team which will receive extensive training and technical support.

56. In Pakistan, there exists an established anti-corruption framework comprising enabling legislation, anti-corruption investigating agencies (ACAs) and a dedicated anti-corruption court system. Enabling anti-corruption legislation dates as far back as 1860. At the federal level, the Federal Investigation Agency (FIA) has its roots in the Special Police Establishment created in 1942 to investigate corruption in the Supplies and Procurement Department of the Government of India. In 1999, the National Accountability Bureau (NAB) was established to investigate major corruption cases; in 2010, the Competition Commission of Pakistan was established as a watchdog to fight anti-competitive practices, including collusion in procurement, in the private sector. All the four provinces have Anti-Corruption Establishments (ACE). Additionally, there are single-mandate and general-mandate ombudsmen both at federal and provincial levels.

57. **Overall fiduciary assessment:** The Overall Fiduciary Risk is assessed to be Substantial because:

- The budget is not predictable. During the last three years, the variance between the actual budget and actual expenditures in the targeted entities has been more than 30 percent.

- There is low government capacity to undertake the complex, highly technical nature of procurement-related activities in the Program.

The main mitigation measures are listed in Table 5 below and discussed in detail in Annex 5. They have also been included as part of the Program Action Plan (Annex 8).

Table 5. Fiduciary Risks and Mitigation Measures

Fiduciary Risk	Mitigation Measures
Highly technical nature of activities requires staff trained in FM and Procurement.	A dedicated team within PRMP comprising a FMS, an Accountant, two Procurement Specialists, and a Contract Administration Specialist.
Unpredictable budget releases and weak linkage between recurrent and development budget.	Secure the financing of key new activities (e.g. technical assistance) through PC-1s for the program.
Weak implementation of accounting and reporting standards and internal controls due to absence of a comprehensive financial management manual and standard operating procedures for procurements. Manual Accounting Systems.	Entities adopt financial management manual and standard operating procedures for procurement and financial management.
Financial Auditors of Auditor General of Pakistan (AGP) require capacity enhancement in Program Audit.	Collaborate with Performance Audit Cell and develop a training module for the auditors of AGP.
Internal Audit does not exist in most of the entities.	Establish Internal Audit Cells.
PRMP will be the central procurement and contract administration agency for selected entities.	A standard operating procedure delineating roles and responsibilities of PRMP and other entities will be developed.

Environmental and Social Effects

58. The Environmental and Social Systems Assessment (ESSA) has been prepared by the World Bank for the proposed J&C PforR. It includes the following information: (a) a summary of environmental and social risks and benefits associated with proposed activities required to achieve the PDO and the DLIs for each Results Area; (b) an assessment of the borrower's environmental and social (E&S) management systems which apply to these activities, their risks and benefits; (c) an evaluation of the borrower performance and track record in implementing their E&S management systems; (d) an assessment of the extent to which the borrower's E&S management systems are consistent with the World Bank's core E&S principles spelled out in the Bank policy on PforR and associated Guidance materials; and (e) a set of recommendations and actions which the borrower has agreed to undertake in order to improve the implementation of applicable systems.

59. The environmental and social risks associated with the planning, construction and operation of industrial estates can be significant. Historically, developers and operators of industrial estates in Punjab have not given high priority to managing or mitigating environmental and social impacts. In many cases air pollution, industrial effluent, and poor management of solid waste from industrial estates have contributed to the deterioration of environmental quality with concomitant effects on human and environmental health as well as industrial and community safety.

60. Existing industrial estates in Punjab present numerous serious legacy environmental and social challenges. Left unattended or ignored, these problems will continue to cause significant environmental and social harm; however, they represent a very significant opportunity to improve the living conditions and reduce exposures to environmental contaminants. Strong evidence shows that both market forces and pressure for improved regulatory compliance are creating opportunities for change.

61. The proposed PforR operation is consistent with the requirements of the Bank policy in that it does not undertake or support activities which are considered to be high risk from an environmental and social perspective. In fact, proposed measures to improve management of industrial estates hold much promise for great advances in the planning, construction and operations of these facilities. Nevertheless, it must be recognized that the environmental and social context of this operation is sensitive and potentially highly visible.

62. The applicable Federal and Provincial Environmental and Social Management systems in Pakistan and Punjab Province – from a legal, regulatory and institutional perspective – are considered to be generally appropriate and comprehensive (with only a few gaps in relation to the principles of ESSA). The scope of the legal and regulatory systems is adequate to address underlying E&S risks. Therefore, no significant changes to the overall structure of these management systems are required or proposed. The systems, on paper, are in many respects consistent with the principles and attributes of a well-functioning system as defined by Bank policy.

63. However, the institutions, processes and procedures at the Provincial level are not supported by adequate human and/or financial capacity to operate the system as designed. Thus, the E&S management system still largely exists only on paper. To begin to address these capacity constraints and to close these important implementation gaps, an incremental step-by-step, risk-based approach is recommended throughout the life of the proposed operation.

64. The preparation of the ESSA has been carried out in a participatory manner involving feedbacks and inputs from a number of key stakeholders working in government, private sector and non-governmental organizations. The World Bank team has used informal interviews and stakeholder dialogue, in combination with more structured formal focus groups and other public meetings, to solicit relevant analytical information and verify judgments made in the course of conducting this review. The World Bank team conducted numerous field visits to industrial estates in Punjab to interact with the private sector, management boards, local and state government, international organizations, and subject matter specialists active in this field.

65. The ESSA was first published on November 25, 2015. The World Bank sponsored a multi-stakeholder workshop in Punjab on December 8, 2015. Participants included a range of stakeholders from government, international organizations, academia, private sector, local government and civil society. The ESSA was subsequently updated to incorporate the comments from the workshop. The final version of the ESSA was published on February 25, 2016.

66. The proposed PforR operation should be used strategically to begin to strengthen Punjab's E&S management systems by using a risk-based approach, starting with: (a) reducing untreated effluent emissions from export led industries in industrial estates by supporting the development of sustainable Combined Effluent Treatment Plants (CETP), (b) providing the human resource and financial means for the EPA to monitor compliance of these estates, and (c) improving the capacity and practices around land acquisition process and labor practices within industrial estates.

67. Those activities which are under the government's control have been taken into account as part of DLI5 related to industrial estate and CETP PPPs, which makes public support to

industrial estates conditional to these improved environmental and social practices. The Program will also promote, through the competitive PPP process, the provision of daycare and transport services to facilitate women's employment.

68. These activities are to be supported by technical support to the EPA, included in a PC-1 estimated at US$4 million. Other TA activities will support the industrial estate companies to adopt and implement a sustainability framework with respect to environment and social issues.

69. The Program will support the development of land acquisition and compensation procedures in relation to IEs. This will include the process for assessing land prices in line with market rates, compensation for assets and livelihoods for land owners, tenants and non-title holders. Recent projects such as the Lahore and Rawalpindi Metro Bus projects provide procedural precedence, and like practices will be incorporated into SOPs for land acquisition for IEs. To improve social sustainability, IEs will also be expected to develop SOPs for social and archaeological screening criteria for site selection.

70. Industrial Estate Development and Management Companies will improve stakeholder and public consultation to make the process more inclusive in accordance with the requirements of the EPA's Guidelines for Public Consultation. These guidelines will be followed for planning and conducting meaningful consultation for each stage of the social assessment. In the enforcement of labor laws, the Department of Labor and the IEs will work in close collaboration. Labor Cells will be established within IEs to liaise closely with the existing District Vigilance Committees (DVCs) on bonded labor. These Labor Cells will also liaise with the District Labor Officer to monitor and help create the conditions for the enforcement of existing labor laws. A system of Grievance Redress Mechanism will also be developed and implemented to deal with public complaints or disputes within an IE.

71. The activities summarized below would considerably strengthen the overall environmental and social management systems in Punjab and set it on a more sustainable path. A number of specific recommendations and actions have been put forth to address E&S risks associated with the program. Chapter 7 of the ESSA provides more detailed descriptions of the scope of these recommendations and provides indicative costs. The main actions have been included as part of the Program Action Plan (see Annex 8), and as such, constitute dated legal covenants.

72. The ESSA recommends undertaking the following measures during the life of the project implementation:

- Establish Social Units to work on social dimensions of Industrial Estates.
- Develop Standard Operating Procedures (SOP) for Land Acquisition and Compensation and for Systematic screening for Physical Cultural Resources in the planning of IEs.
- Improve implementation of stakeholder consultations and outreach during planning and implementation phases of IE development.

- Improve the enforcement of labor and gender related regulatory framework within existing IEs.

- Develop Grievance Redress Mechanisms (GRM) to allow for more effective communications between affected people, communities and managers of IEs.

- Undertake technical studies to address weak Management Information Systems.

- Establish an Environmental Research and Monitoring Center in EPA Punjab.

- Strengthen Human Resource Capacity through comprehensive training.

- Develop and elaborate industry specific pollution standards for Punjab.

- Conduct technical inventories of industrial waste streams.

- Complete technical pre-feasibility studies for landfills and/or other safe disposal sites for hazardous and non-hazardous waste generated at IEs.

- Develop and Implement Sustainability Frameworks for IEs.

- Promote Cleaner Production and Energy Efficiency Program (CPEEP) for SMEs outside of industrial estates.

73. These recommendations have been included as part of the Program Action Plan (see Annex 8). Their implementation will be essential as the EPA will play a key role to ensure proper implementation of the Program as follows:

- It will review the new industrial investments generated as part of DLI3.

- It will be an integral part of the development and implementation of the Punjab Spatial Strategy (DLI4).

- It will be part of the quality control carried out by the PPP Cell on the feasibility studies and negotiated contracts for the Industrial Estates and CETP PPPs before their presentation to the PPP Steering Committee.

74. The Program follows the five principles of the Citizens Engagement Strategic Framework developed by the World Bank. First, it involves extensive stakeholder engagement which started during the preparation of the Punjab Growth Strategy and the development of the ESSA. Second, it is results focused making sure that the results from the consultations are being incorporated as discussed above in the case of the ESSA. Third, fourth and fifth, it seeks to strengthen country systems (this is at the heart of the Program for Results approach), it is context-specific and it is gradual (improved environmental and social practices will be first developed and implemented within industrial estates). Specific tools for citizen engagement include the Grievance Redress Mechanism instituted at the Industrial Estate level and public consultation mechanisms for

establishment and operation of Industrial Estates in the Punjab. The firm in charge of verifying the results will also be monitoring the functioning of these citizen engagement mechanisms.

75. A climate change screening was completed for the Program. Based on the ratings, current/historical risks are low; precipitation, flooding and drought pose the most notable risks to the subsector. However, these are comparatively low and impacts will be mitigated by the improvement in the systems and processes that the program will introduce. Future climate estimates do not provide clear direction on the scale or frequency of these events, so it is difficult to adequately assess what clear impacts will occur on the industrial sector. However, the introduction of CETPs will positively impact climate adaptation and resource efficiency use through the CDI will impact climate mitigation.

76. In addition, specific covenants have been included in the legal agreements in order to mitigate the risk of non-compliance with Pakistan and Punjab's environmental and social laws and regulations in general, and with respect to the permitting, licensing, construction, operation and/or maintenance of any investment, whether during Program implementation or after the Closing Date (December 31, 2021) made following achievement of the DLRs (investment announcement by a foreign investor, developments set out in the spatial strategy or infrastructure PC-1 or Industrial Estates PC-1, Industrial estates submitted to the PPP Steering Committee, and investments made under the new policy framework to support industrial estates and the cluster development initiative) in particular. The legal agreements will include a covenant from Pakistan to hold the Bank harmless from any losses or liability incurred which may arise from any claim by any third party out of: (a) the execution of the Program, or any action taken by Punjab or the entities and authorities involved in the implementation of the Program, or any investment made as part of the Program; or (b) any follow-on investment.

C. World Bank Grievance Redress Services

77. Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to existing Program grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit www.worldbank.org/grs. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

D. Integrated Risk Assessment Summary

Risk	Rating
Technical	Substantial
Fiduciary	Substantial
Environmental and Social	Substantial
Overall Risk	Substantial

E. Risk Rating Explanation

78. The overall risk is considered "substantial". The risk is substantial given the overall complexity of Program design and the required concurrent technical assistance to improve capacity of key implementing agencies. Other activities, such as the Punjab Spatial Strategy will require strong coordination across line departments and levels of government (province, division and district) to ensure that investment priorities and planning are aligned. The actions to mitigate these risks are identified and described in the Integrated Risk Assessment (Annex 7).

F. Program Action Plan

79. Several assessments (technical, fiduciary, environmental and social) have been undertaken to assess the capacity of the Program's executing and implementing agencies and have identified key gaps to be addressed. As discussed above, the Program entails extensive technical support to implementing agencies (see tables 1.1 and 1.3 in Annex 1 for more details). The main actions required to enhance the Program systems and reduce risks are detailed in the Program Action Plan. These are legally covenanted actions and have been grouped according to the area of concern in Annex 8.

80. Important actions during the first year include technical support for capacity building at the Department of Industries (DoI), public companies supporting industrial estates and clusters (PIEDMC, FIEDMC and PSIC), the investment promotion agency (PBIT) and the EPA. The PRMP operational manual for the J&C PforR and staffing, and the ICRU operational manual have been completed. Additionally, a panel of experts has been established within P&D to support the development and implementation of the Punjab Spatial Strategy.

Annex 1: Detailed Program Description

1. The Program Development Objectives are to improve the investment climate and promote investments and jobs in more inclusive and sustainable industrial estates in Punjab. In effect, the investment climate reforms together with the improvements to Punjab's industrial estates that are supported by the Program should lead to increased investments and jobs, in particular for women (i.e. inclusion). The Program supports competitiveness in the industrial estates and the development of PPPs. Reforms and investments also support CETPs to reduce pollution. Overall, the approach to investment promotion and improvement of the investment climate should eventually lead to improved financial and environmental sustainability. As such the Program will contribute to the higher-level objectives of the Punjab Growth Strategy which is to increase growth and job creation.

2. The J&C PforR will support the implementation of the Industrial Development Sector Plan of the Punjab Growth Strategy.

3. The J&C PforR will support a specific US$280 million Program of Expenditures extracted from the US$1,049 million Industrial Development Sector plan. The J&C PforR covers investment climate reforms, investments to upgrade existing industrial estates, including CETPS to deal with existing pollution issues, as well as technical support to improve the systems leading to critical public and industrial infrastructure investments. The Program will also support technical support to industrial clusters. The main parts of the Industrial Development Sector Plan not covered by the Program are funding for new industrial estates (US$405 million, including US$119 million from the Viability Gap Fund/VGF) and funding for CETPs dealing with future pollution (US$85 million). These items were deemed too risky from a Safeguards standpoint for a PforR (the J&C PforR will nevertheless support improvements to the systems leading to new industrial estates). US$36 million to facilitate access to finance were also not included in the Program because policies governing access to finance are primarily a Federal matter best supported by World Bank operations at the Federal level.

4. The Program consists of two results areas: (a) Investment Climate Reforms and (b) Spatial Development. These two results areas are connected and together will help remove the main constraints to Punjab's industrial competitiveness. They are discussed in turn below:

5. **Investment Climate Reforms.** The Program will improve business regulations and government processes to reduce the compliance cost of business regulations, reduce the risks of doing business (improved contract enforcement), promote competition, facilitate women's employment and attract foreign investors.

6. <u>Aggregate improvement of Punjab's performance with respect to business registration, contract enforcement, construction permits and property registration (DLI 1).</u> The Program will support reforms to reduce the cost and risks of Doing Business. This will entail in particular improvements in the four Doing Business indicators which are (at least partially) under the control of the Province. These are business registration, contract enforcement, construction permits and property registration. The improvements will stem mostly from regulatory simplification, automation and risk-based inspections. The Program will also help the Lahore

High Court improve case management and operationalize the Alternative Dispute Resolution center. Implementation will entail training of government employees and awareness campaigns.

7. The Program will support the operationalization of the ICRU, which, as part of P&D, will be responsible for leading/coordinating the implementation of these reforms which cut across several government departments (see the section on Program Implementation below). The ICRU will develop and manage a business portal, including an on-line registry of business regulations with the aim of reducing regulatory compliance costs (including facilitating tax payments and reducing the number of licenses) beyond the ones related to Doing Business indicators. This will entail the reduction of the number of business licenses (47 percent of the enterprises surveyed in Punjab complained about licenses as compared to 31 percent across Pakistan, 25 percent across South Asia and 15 percent across the world). The ICRU will thus be at the heart of improved regulatory governance in Punjab.

8. The DLI will be based on the improvement of Punjab's aggregate performance in the Doing Business indicators for business registration, contract enforcement, construction permits and property registration. As Punjab contributes one third to the overall performance of Pakistan in the Doing Business Report, this will not only reduce the time and cost of regulatory compliance in important areas of Punjab's business environment, it will also send a strong positive signal to the investor community. Pakistan has slid in the Doing Business rankings from the 76th position (out of 178) in 2008 to the 138th position (out of 189) in the 2016 report.

9. The DLI baseline is 61 (indexed to the Doing Business 2016 frontier set at 100) and the target is 75 by the end of the Program (indexed to the same Doing Business 2016 frontier and using the methodology from the Doing Business 2016 report). The disbursement is US$20 million (US$1.43 million per point improvement for the first thirteen points and US$1.410 million for the fourteenth point of improvement).

10. The agencies responsible for achieving the results are:

- Department of Industry with Department of Labor (Business registration)
- Department of Law with Lahore High Court (Contract enforcement)
- Lahore Development Authority (Construction permits)
- Board of Revenue (Property registration)

11. ICRU will coordinate and monitor progress along these four indicators. It will also coordinate the implementation of other necessary reforms to improve the investment climate in Punjab (diagnostics underway).

12. <u>Steps taken to increase compliance with the GSP+ Labor Conventions (DLI 2).</u> The Program will support the reforms of labor laws to comply with the eight ILO Labor

Conventions[5] which are part of the GSP+ commitment. This will in particular facilitate employment by women (see the seventh and eighth conventions). For example, the program will support changes to regulations to the Factory Act which contains obsolete provisions restricting the employment of women in factories. The Program will also build the policy advocacy capacity of the Women Development Department.

13. The disbursement will be US$13 million. US$4 million for the legal gap analysis between ILO conventions and relevant laws and the introduction of android-based inspection reforms, US$3 million for having draft laws prepared to make them compliant with the eight ILO/GSP+ conventions, US$3 million for having completed extensive stakeholder consultations on the proposed amendments and US$3 million for having approved or, if outside the control of the Executive Branch of the Punjab Government, submitted the revised draft laws to the approval of the relevant fora (up to and including the submission to Punjab's Provincial Assembly).

14. The Department of Labor will be responsible for achieving this result.

15. Steps toward the improvement of investment promotion (DLI 3). The Program will reinforce the Punjab Board of Investment and Trade (PBIT) to help attract foreign investors in Punjab. The Program will also support a strong institutional interface between PBIT and the industrial estate companies as foreign investors are most likely to establish themselves within industrial estates. PBIT will also help generate interest from foreign zone developers and CETP operators in the context of the PPPs which will be supported by the Program (discussed below under DLI 5). The DLI will be the number of significant investment announcements (greater than US$5 million) by foreign investors that had been targeted and engaged by PBIT.

16. The disbursement will be US$12 million: US$3 million for reaching critical implementation milestones and US$9 million for generating/facilitating 45 significant investment announcements from foreign investors (US$200,000 per announcement).

17. The critical implementation milestones will include: (a) the approval by the PBIT Board (chaired by the Chief Minister of Punjab with representatives from the private sector) of PBIT's strategy which will specify the priority industries and countries for targeting foreign investors, the implementation plan, the key performance indicators and targets, (b) the completion of a database of potential foreign investors and (c) one overseas outreach mission targeting sector(s) identified in the strategy and involving substantive discussions with a minimum of 20 potential investors.

18. PBIT (Department of Industry) will be responsible for achieving this result.

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[5] (i) C-29 Convention concerning forced or compulsory labor (1930), (ii) C-105 Convention concerning the abolition of forced labor (1957); (iii) C-87 Convention concerning freedom of association and protection of the right to organize (1948); (iv) C-98 Convention concerning the application of the principles of the right to organize and to bargain collectively (1949); (v) C-138 Convention concerning the minimum age for admission to employment (1973); (vi) C-182 Convention concerning the prohibition of and immediate action for elimination of worst forms of child labor (1999); (vii) C-100 Convention concerning equal remuneration of men and women workers for work of equal value (1951); and (viii) C-111 Convention concerning discrimination in respect of employment and occupation (1958).

19. **Spatial Development.** The Program will help the government prioritize and coordinate public investment projects in support of productive industrial and urban development - in particular, it will promote well-located and well-serviced industrial estates within and around major industrial growth centers. It will also upgrade existing industrial estates – in particular through the provision of CETPs – and provide technical support to industrial clusters. This will be done through a new private sector-led competitive approach (for example, PPPs).

20. Steps toward developing and implementing the Punjab Spatial Strategy (DLI 4). The Program will support the development of the Punjab Spatial Strategy which will assess the potential of Punjab's growth corridors and growth nodes (including identifying the ten cities with the highest growth potential and the constraints standing in the way of their potential). This strategy will inform, prioritize and coordinate in particular public investments related to connectivity infrastructure, urbanization and the development of industrial zones, which should be reflected in the MDTF (Medium-Term Development Framework – a multi-year indicative budget) before approval through the ADP (Annual Development Plan – the annual budget) process. The DLI will be based on the validation of the Punjab Spatial Strategy by a panel of experts jointly chosen by the Government of Punjab and the World Bank, and 80 percent of subsequent large public investment projects (defined as infrastructure projects requiring a PDWP review) will have to be consistent with the Punjab Spatial Strategy. A Chief Strategist will be hired and embedded in P&D to link the preparation and implementation of the PSS to planning and budgeting review procedures in the department in order to ensure compliance. As a parallel activity to the preparation of the PSS, a pre-feasibility study of a new city will be completed and reviewed by the panel of experts, with disbursement contingent upon government actions taken on its recommendations.

21. The DLI will support the steps taken by the government to help ensure infrastructure investments are well informed by spatial economic analysis and are well-coordinated in compliance with the PSS:

- Year 1: Recommendations from the pre-feasibility study for the possible new city (validated by the expert panel) followed by the government (whether or not to move forward with a full feasibility study based on the potential demonstrated in the pre-feasibility study).

- Year 2: Punjab Spatial Strategy validated by the expert panel and approved by Cabinet

- Years 3–5: 80 percent of the value of the infrastructure PC-1s presented to the PDWP and all industrial estates in line with the Punjab Spatial Strategy as determined by the expert panel.

22. The disbursement will be US$30 million (US$6 million for each year).

23. The Department of Planning and Development, with technical support provided by the Urban Unit, will be responsible for achieving this result - together with the Department of Industry regarding industrial infrastructure.

24. Steps toward the effective development of industrial infrastructure through PPPs (DLI 5). There is a growing need for well-located and well serviced industrial zones in Punjab to welcome foreign investors, to help industrial clusters move out of rapidly growing cities, and to provide common facilities to large domestic manufacturers seeking to set up or expand operations. At this stage in its development, public support to industrial zones (including CETPs) is justified by the constraints related to the acquisition of large tracts of land, the need for common facilities, lack of long term financing, and coordination issues related to helping industrial clusters move out of cities. The Program will support industrial estates and CETPs through Public Private Partnerships (PPPs) to transition away from the less than satisfactory public sector led model. In effect, the current system of grant in aids and soft loans has been prone to moral hazard and political interference leading to poor location of industrial zones and lack of a sustainable governance model for CETPs. CETPs are currently not operating in a *single* industrial estate in Punjab. This raises the cost for exporters who still need to meet buyer conditions and need to set up individual ETPs. In the absence of strong enforcement mechanism, it also leads to mounting industrial pollution from many of those producers which are not subject to buyer requirements. The only CETPs that exist in Punjab were mostly funded by the government and donors for the capital costs, with poor governance arrangements and without a sustainable financing model to cover the operational cost. This resulted in these CETPs operating at very low capacity.

25. The Program will support improved industrial estates (including CETPs) through the recently established PPP framework governed by the PPP Act. The PPP model for financing industrial infrastructure projects will ensure a professional, efficient and transparent process of awarding subsidies to Public Private Partnerships through a competitive process. It will also pave the way for increased private sector participation (including from good practice international players) in the industrial estate and CETP businesses.

26. The competitive PPP mode of financing is also an important vehicle not only for increasing the *supply* of industrial estates but also for improving their offer. In establishing rating criteria for PPPs in industrial estates, the Program will support capacity building in the Department of Industry (and PIEDMC/FIEDMC) to promote economic, social, and environmental sustainability (in addition to financial viability that the process already advocates for). These criteria would include market potential of identified sites, facilities and systems to ensure environmental and social compliance (CETPs and labor cells). They will also include enabling conditions to encourage women's labor force participation (e.g. child care facilities and safe transport), linkages with the city (for instance, the best industrial estate at present – Sundar – suffers from the lack of a good access road), linkages between large and small firms (removing the artificial differentiation between industrial estates for large companies vs SMEs), provision of critical infrastructure (e.g. dedicated energy supply) and services (e.g. bonded warehouses and administrative centers). In parallel, the Program will reinforce the monitoring and enforcement capacity of the EPA – with a particular focus on the industrial estates where CETPs are put in place.

27. The DLI will be based on the number of industrial estates and CETP projects presented to the PPP Steering Committee, with at least one CETP operational by Year 5 and with at least three negotiated PPP contracts for new IEs and three negotiated PPP contracts for CETPs presented to the PPP Steering Committee over this period:

- Year 1: One PPP feasibility study for an industrial estate and one for a CETP presented to the PPP Steering Committee following quality control by the PPP Cell – (US$1 million each).

- Years 2 to 5: Three negotiated PPP contracts for Industrial Estates and three for CETPs presented to the PPP Steering Committee following quality control by the PPP Cell – (US$2 million each).

- Year 5: One CETP operational following the PPP process. There are no disbursement budgeted at this stage to preserve the independence of the PPP Steering Committee, but there is an understanding that a disbursement will be budgeted if and when a CETP proposal has been approved by the PPP Steering Committee (through a re-allocation across/within DLIs which can be done as part of a level 2 restructuring of the Program).

28. The disbursement will be at least US$14 million over five years. The Department of Industry with PIEDMC/FIEDMC will be responsible for achieving this result. This would entail the creation of a PPP team led by the Department of Industry.

29. Steps toward designing and implementing a new institutional set up to support industrial estates and clusters (DLI 6). This result area complements the previous one by promoting a more effective institutional set up in support of industrial estates and clusters. In Punjab, industrial estates are almost exclusively operated by public-sector companies – primarily the Punjab Industrial Estate Development and Management Company (PIEDMC) for large industrial estates in all districts other than Faisalabad where the Faisalabad Industrial Estate Development and Management Company (FIEDMC) operates, and the Punjab Small Industries Corporation (PSIC) that operates industrial estates for SMEs. These institutions had followed a public sector driven approach which led to industrial estates not being in the right location, not promoting linkages between small and large firms, and/or not meeting the required social and environmental standards. The provision of technical support to clusters by PSIC in the past proved unsuccessful due to governance, financing, and strategic issues (targeting under-performing – rather than high growth potential – clusters).

30. The Program will support the reform of the public-sector industrial estate companies (PIEDMC, FIEDMC and PSIC) to reorient toward playing a facilitating and supporting role to private sector providers of these services, as opposed to providing these services themselves. This will be done in particular through the PPP process discussed above, which will involve land auctions to the private sector developers as practiced successfully in comparable countries such as Vietnam. The Program will also support a stronger supervision mechanism to help ensure that IEs (both public and private) meet the required labor and environmental standards. The Program will support the restructuring of PSIC as well as the deployment of a Cluster Development Initiative (CDI) which will provide world class technical expertise to high growth potential clusters through a demand driven competitive process.

31. The DLI will entail the following steps:

- Year 1: Approval of key institutional reforms and related implementation plans:

- Rationalized and reinforced public-sector companies to improve the performance of existing industrial estates and facilitate new good practice industrial estates (through PPPs).

- Reinforced supervision of (public and private) industrial estates to ensure they comply with social and environmental laws.

- Restructuring plan for PSIC to markedly improve its performance. The plan will specify the priority customers and service lines, the delivery and business models as well as a detailed implementation plan with key performance indicators and targets. The plan will be based on an in-depth functional and strategic review of PSIC.

- The Cluster Development Initiative which will facilitate access to world class technical support to high potential industrial clusters of firms to help improve their productivity/competitiveness. This initiative will be based on the following principles and criteria: (a) demand driven project selection process, (b) support to firms provided as a public good and/or with contributions from participating firms, (c) technical support procured through international competition, (d) initiative implemented through a competitively recruited world class team reporting to an independent Steering Committee with private sector representation, (e) thorough project monitoring and evaluation and (f) initiative to entail more than US$15 million worth of technical support over a five year period. A pilot technical support project will be launched in Year 1.

- Year 2: Meeting the key implementation milestones as specified in the implementation plans approved the previous year. This will entail in particular:

  - Creation of new legal entities if warranted – for example, new zone authority and creation of section 42 company to support industrial clusters.

  - Development of new operational manuals and standard operating procedures.

  - Hiring and training of key staff.

  - Launch of two technical support projects for industrial clusters.

- Year 3: Launch of two additional technical support projects for industrial clusters.

32. The disbursement will be US$11 million in total - US$4 million for approving the institutional reforms, US$4 million for meeting the implementation milestones of Year 2, and US$3 million for the implementation milestone of Year 3. The Department of Industry will be responsible for achieving this result.

33. The table below shows the Program Expenditure Framework along the two results areas:

Table 1.1. Program Expenditure Framework (US$, million)

Activity	Total	o/w Current Expenditures	o/w Technical Support	o/w Equipment	o/w Grants to Private Sector
Investment Climate Reforms					
Reduction in the cost and risk of doing business	66	51	3	12	–
Compliance with GSP+ Labor Conventions	3	2	1	–	–
Improved investment promotion	12	9	1	2	–
Spatial Development					
Improved public investment process to support industrial and urban development	14	9	5	–	–
Support to industrial infrastructure through PPPs	71	5	10	2	54
New institutional format to support industrial estates and clusters	111	95	14	2	–
Program Implementation	3	2	1	**–**	**–**
Total	**280**	**173**	**35**	**18**	**54**

34. The table below shows the budget items added following the technical assessment:

Table 1.2. Budgeting by Results Area

US$, millions	Already Budgeted	Being Budgeted through PC-1s and grant block allocations	Total
Investment Climate Reforms	39	42	81
Spatial Development	141	55	196
Program Implementation	0	3	3
Total	**180**	**100**	**280**

36. The table below shows the detail of the budget items which were added following the technical assessment as well as the responsible entities and procurement arrangements:

Table 1.3. Breakdown of items being budgeted through PC-1s and grant block allocations

Activity	Responsible/Sponsoring Agency	Procurement Agency	Amount (US$, million)
Investment Climate Reforms			**42**
Business Registration	DoI	PRMP	4
Contract Enforcement	LHC, Law Dpt	PITB	9
Construction Permits	Housing-LDA	LDA	4
Property Registration	Finance-BOR	LRMIS	7
Labor Reforms for ILO/GPS Plus	Labor Dpt	PRMP	1
Facilitation of women's employment	Women Dpt	PRMP	2
ICRU operationalized	P&D	PRMP	5
Improved investment promotion	DoI-PBIT	PBIT/PRMP	10
Spatial Development			**55**
Spatial Strategy and related studies	P&D	Urban Unit	10
P&D reinforced (Chief Strategist and Advisors) for Spatial Strategy	P&D	Urban Unit	1
Line Departments reinforced for Spatial Strategy	P&D	Urban Unit	2
EPA Reinforced	EPD	EPA	4
Industrial infrastructure PPPs (for example, CETPs)	PIEDMC/FIEDMC	PIEDMC/FIEDMC	28
DoI reinforced (zones, PPP)	DoI	PRMP	1
PIEDMC/FIEDMC reinforced	PIEDMC/FIEDMC	PIEDMC/FIEDMC	2
PSIC restructuring	DoI	PRMP	1
Cluster Development Initiative	PSIC	PRMP/PSIC	6
Program Implementation	P&D-PRMP	PRMP	**3**
Total			**100**

37. The PRMP (within P&D) will be responsible for coordinating the implementation of the Program. It is already coordinating the implementation of the Governance PforR, which is proceeding satisfactorily. The ICRU (new unit within P&D) will coordinate the implementation of the three DLIs related to investment climate reforms.

38. A Program Steering Committee headed by the Chairman of P&D, and with representatives from the implementing agencies, will be established. The committee will provide strategic guidance and direction, and facilitate coordination across different departments, agencies and levels of government. The committee will review key recommendations, reports and plans as well as monitor progress on a quarterly basis.

Annex 2: Results Framework Matrix

Program Development Objectives: To improve the investment climate and promote investments and jobs in more inclusive and sustainable industrial estates in Punjab.													
PDO Level Results Indicators	**Core**	**DLI**	**Unit of Measure**	**Baseline December 2015**	**Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**
					YR1	**YR2**	**YR3**	**YR4**	**YR5**			
PDO Indicator 1 and DLI 1: Improvement in aggregate Doing Business performance for Punjab (business registration, contract enforcement, construction permit and property registration)	X	X	Absolute score using the DB16 methodology (100 being the best DB16 performer)	61	61	64	67	70	75	Annual	Doing Business Indicator	Doing Business Project Team (World Bank)
PDO Indicator 2: Progress made by Punjab on GSP+ Labor conventions as reported in the bi-annual EU evaluation			Progress made by Punjab on GSP+ Labor conventions as reported in the bi-annual EU evaluation	Significant progress made by Punjab reported in 2016 EU evaluation	–	Significant progress made by Punjab reported in 2018 EU evaluation	–	Significant progress made by Punjab reported in 2020 EU evaluation	–	Bi-annual	EU evaluation	Secretary of Industry and Commerce, Labor Department
PDO Indicator 3: Increase in number of workers in existing industrial estates (of which women)			Full time workers in existing PIEDMC and FIEDMC estates	82,000 (13,900)	82,000 (13,900)	85,000 (15,000)	95,000 (17,000)	110,000 (22,000)	140,000 (32,000)	Annual (cumulative)	Enterprise survey	PIEDMC/ FIEDMC
PDO Indicator 4: New investments in existing industrial estates (of which percentage of FDI)			US$ million invested in existing PIEDMC and FIEDMC estates	0	25 (20%)	50 (20%)	100 (20%)	200 (20%)	300 (20%)	Annual (cumulative)	Enterprise survey	PIEDMC/ FIEDMC

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

1. There are six Disbursement Linked Indicators for the Program:

- **DLI 1**. Aggregate improvement of Punjab's performance with respect to business registration, contract enforcement, construction permits and property registration
- **DLI 2**. Steps taken to improve compliance with GSP+ Labor Conventions
- **DLI 3**. Steps toward the improvement of investment promotion
- **DLI 4**. Steps toward developing and implementing the Punjab Spatial Strategy to prioritize and coordinate public investments
- **DLI 5**. Steps toward the effective development of industrial infrastructure through public private partnerships
- **DLI 6**. Steps toward designing and implementing a new institutional framework to support industrial estates and clusters

2. The Program Key Results and DLIs will be regularly measured and reported. The PRMP will have overall responsibility for coordinating, monitoring and reporting on the Program's results indicators. It will conduct regular reporting on progress in each of the results areas, including the collection of output milestones for intermediate or disbursement-linked indicators.

- DLI 1 is based on the aggregate Doing Business Performance for Punjab for the four selected indicators indexed to the performance of the top performer in the Doing Business 2016 report using the methodology of that same report. This will ensure that Punjab's performance on this indicator will not depend on the performance of other countries or future changes in the Doing Business methodology.
- DLI 2. The Department of Labor will provide the information required to assess the progress made along the reforms of the labor laws.
- DLI 3. Investment announcements by foreign investors will be monitored by PBIT.
- DLI 4. The Punjab Spatial Strategy will be reviewed by the panel of experts jointly chosen by the Government of Punjab and the World Bank. This same panel will review the proposals (PC-1s) of large investment projects (the ones presented to the PDWP) to ensure they are consistent with the Punjab Spatial Strategy.
- DLI 5. The PPP Cell will monitor the number of PPP feasibility studies and negotiated PPP contracts presented to the PPP Steering Committee.
- DLI 6. A Steering Committee led by the Department of Industry comprising all relevant stakeholders will supervise the development and implementation of the institutional reforms to improve public support to industrial estates and clusters.

Table 3.1. Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline December 2015	Indicative timeline for DLI achievement				
				Year or Period 1	Year or Period 2	Year or Period 3	Year or Period 4	Year or Period 5
DLI 1: Aggregate improvement of Punjab's performance with respect to business registration, contract enforcement, construction permits and property registration [6]	–	–	61	61	64	67	70	75
Allocated amount:	20	*20*	–		4.5	4.5	4.5	6.5
DLI 2: Steps taken to improve compliance with GSP+ Labor Conventions[7]	–	–	–	Legal gap analysis and improved labor inspection system	New Labor laws drafted that would ensure compliance with GSP+ conventions	Stakeholder consultation completed, revised draft also compliant with GSP+	New GSP + compliant labor laws presented to the Provincial Assembly.	–
Allocated amount:	13	*13*	–	4	3	3	3	
DLI 3: Steps toward the improvement of investment promotion[8]	–	–	No systematic investor outreach program	Approval of PBIT strategy Investor database Foreign mission	5 investment announcements by leading foreign investors	10 investment announcement s by foreign investors	15 investment announcement s by foreign investors	15 investment announcements by foreign investors
Allocated amount:	12	*12*	–	3	1	2	3	3

[6] The periods for the completion of the DLRs are indicative for DLI #1, and the disbursements will be US$1.43 million per point of improved performance for the first thirteen points and US$1.41 for the fourteenth point, with an aggregated maximum amount for this DLI #1 of US$20 million.
[7] The periods for the completion of the DLRs are indicative for DLI #2.
[8] Investment announcement targets are not cumulative across years

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline December 2015	Indicative timeline for DLI achievement				
				Year or Period 1	Year or Period 2	Year or Period 3	Year or Period 4	Year or Period 5
DLI 4: Steps toward developing and implementing the Punjab Spatial Strategy (PSS)[9]	–	–	No Provincial Spatial Strategy	Recommendations from pre-feasibility study for possible new city followed	PSS (developed with EPA) validated by Panel and approved by Cabinet	80% of the value of infrastructure PC-1s[10] amounts and all IEs in line with PSS	80% of the value of infrastructure PC-1s amounts and all IEs in line with PSS	80% of the value of infrastructure PC-1s amounts and all IEs in line with PSS
Allocated amount:	30	*30*	–	6	6	6	6	6
DLI 5: Steps toward the effective development of industrial infrastructure though PPPs[11]	–	–	No private IEs and no operational CETPs in Punjab	Two feasibility studies presented to the PPP SC (one CETP and one IE)	One project presented to PPP SC (IE)	One project presented to PPP SC (CETP)	Two projects presented to PPP SC (IE or CETP)	Two projects presented to PPP SC (IE or CETP); One CETP operational (amount to be allocated through reallocation upon PPP SC approval)
Allocated Amount	14	*14*	–	2	2	2	4	4 + 0
DLI 6: Steps toward designing and implementing a new institutional framework to support industrial estates and clusters[12]	–	–	–	New IE Policy Framework Restructuring plan for PSIC One CDI project launched	Implementation of IE Policy Framework and PSIC restructuring Two CDI projects launched	Two CDI projects launched	–	–
Allocated Amount	11	*11*	–	3.75	4	3	–	–

[9] The value of infrastructure PC-1s in line with PSS targets are not cumulative across years
[10] Infrastructure projects in support of growth would be included, including industrial estates on-site and off-site infrastructure, industrial infrastructure outside of industrial estates (e.g. CETPs), infrastructure to support agriculture and livestock markets, inter-city connectivity, and urban expansion projects.
[11] PPP targets are not cumulative across years
[12] CDI project launched targets are not cumulative across years

	Total Financing Allocated to DLI	As % of Total Financing Amount	DLI Baseline December 2015	Indicative timeline for DLI achievement				
				Year or Period 1	Year or Period 2	Year or Period 3	Year or Period 4	Year or Period 5
Total Financing Allocated:	100	*100*	–	19[13]	20.5	20.5	20.5	19.5

[13] This amount (as well as the amount of the Total financing allocated to the DLIs) includes US$250,000 for the payment of the Front-end fee of the Loan

Table 3.2. DLI Verification Protocol Table

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
1	Aggregate improvement of Punjab's performance with respect to business registration, contract enforcement, construction permits and property registration	Distance to frontier (%) aggregated for business registration, contract enforcement, construction permits and property registration	Yes	P&D – ICRU	Firm competitively recruited by PRMP	Firm to verify the assessment of the Doing Business team before the publication of the Doing Business Report
2	Steps taken to improve compliance with the GSP+ Labor Conventions	Sequence of a) legal gap analysis completed, b) drafting of new relevant labor laws, c) completion of consultative review and d) submission of revised relevant laws for approval	No	Labor Department	Same firm	Firm to verify completion of each legal review and reform step, review EU evaluation report before its publication
3	Steps toward the improvement of investment promotion	Announcements for investments of at least US$5 million from foreign investors generated and facilitated by PBIT	No	PBIT	Same firm	Firm to collect confirmation from investors
4	Steps toward developing and implementing Punjab Spatial Strategy to prioritize and coordinate public investments	Pre-feasibility study of new city, Spatial Strategy and selected PCI Projects independently reviewed to ensure consistency with Spatial Strategy	No	P&D	Same firm	Firm to verify the PC-1s and the review by the expert panel of the infrastructure projects approved by the PDWP.

#	DLI	Definition/ Description of achievement	Scalability of Disbursements (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
				Data source/agency	Verification Entity	Procedure
5	Steps toward the effective development of industrial infrastructure through PPPs	One IE and one CETP feasibility study presented to the PPP Steering Committee following quality control by the PPP Cell Six PPP projects presented to the PPP Steering Committee following quality control by the PPP Cell One CETP operational by Year 5	No	P&D – PPP Cell	Same firm	Firm to check documentation, interview wining firms and visit the CETP
6	Steps toward designing and implementing a new institutional framework to support industrial estates and clusters	Approval of new institutional setup Operationalization of new institutional setup	No	DoI, PIEDMC, FIEDMC, PSIC	Same firm	Firm to verify approval and enactment of key institutional reforms, of hiring, new operational manuals and of launch of technical support projects for industrial clusters

Table 3.3. Bank Disbursement Table

#	DLI	Bank financing allocated to the DLI (US$ million)	Of which Financing available for advances	Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value
1	Aggregate improvement of Punjab's performance for the four selected Doing Business indicators	20	Yes	December 31, 2021	64	75	US$1.43 million per point rounded to the closest point (capped to US$20 million).
2	Steps taken to improve compliance with the GSP+ Labor Conventions	13	Yes	December 31, 2021	–	–	Pass/fail for every step when achieved
3	Steps toward the improvement of investment promotion	12	Yes	December 31, 2021	Restructuring steps or 1 investment announcement	45 investment announcements	For year 1, a fixed amount is allocated and DLR is subject to Pass/Fail. DLR missed in year 1 cannot be made up in subsequent year, though the allocation may be reallocated or cancelled. For years 2–5, a capped amount is allocated for each year against specific annual target. In case of partial achievement, US$200,000 per investment announcement.

4	Steps toward developing and implementing Punjab Spatial Strategy to prioritize and coordinate public investments	30	Yes	December 31, 2021	Recommendations from pre-feasibility study for possible new city followed (Year 1) Spatial Strategy approved by Cabinet (Year 2) 80 percent consistent (Year 3, 4 and 5)	80 percent consistent (Year 3, 4 and 5)	A capped amount is allocated for each of years 1–5; DLR missed in a given year cannot be made up in subsequent years, though corresponding allocation may be reallocated or cancelled.
5	Steps toward the effective development of industrial infrastructure through PPPs	14	Yes	December 31, 2021	1 project presented to the PPP SC	6 projects presented to the PPP SC	A capped amount is allocated for each of years 1–5. DLRs for years 1–3 are subject to Pass/Fail, and DLR missed in a given year cannot be made up in subsequent years, though corresponding allocation may be reallocated or cancelled. For years 4–5, in case of partial achievement, US$2,000,000 per project presented to the PPP SC following quality control by the PPP Cell. Also for year 5, a contingent DLR is provided - One CETP project in an Existing Industrial Estate previously presented to the PPP SC is operational. No allocation is made for this contingent DLR, until funds become available and restructuring is processed.

6	Steps toward designing and implementing a new institutional framework to support industrial estates and clusters	10.75	Yes	December 31, 2021	Approval of new institutional set up	Operationalizatio n of new institutional set up	Pass/fail - A capped amount is allocated for years 1–3 (no allocation for years 4 and 5). DLR missed in a given year cannot be made up in subsequent years, though corresponding allocation may be reallocated or cancelled.
	TOTAL	99.75[14]	25	–	–	–	–

[14] US$250,000 front-end fee capitalized and deducted from DLI6

Annex 4: Technical Assessment

Strategic Relevance

1. The J&C PforR will support growth and job creation in Punjab by:

(a) Enhancing Punjab's investment climate through:

(i) Improvements in business regulations and contract enforcement.

(ii) Improving labor laws and promoting employment for women – this will also help secure duty free access to the EU market.

(iii) Improvements in investment promotion, facilitation, aftercare and policy advocacy.

(b) Supporting the development of industrial clusters through:

(i) Improved systems for planning of critical infrastructure across the Province (including industrial estates).

(ii) Development of industrial infrastructure through Public Private Partnerships (industrial estates and CETPs).

(iii) Reinforcing the institutions supporting industrial estates and clusters.

2. See the first section "Strategic Context" in the main body of this document for a detailed discussion of the strategic relevance of the J&C PforR.

Technical Soundness

3. The Program's design is based on extensive analytical work carried out during the preparation of the Punjab Growth Strategy with the support of the World Bank's Jobs and Competitiveness (J&C) Non Lending Technical Assistance (NLTA). The Punjab Growth Strategy identifies the main growth drivers (labor intensive manufacturing, agribusiness, services and urbanization) and the main constraints standing in the way (security, energy, trade policy, access to finance, cost of doing business, access to well-located and well-serviced industrial land and access to technology/skills). The J&C PforR is designed to address these constraints directly (cost of doing business, access to markets for exporters, quality serviced industrial land and supportive institutions for IEs and clusters). The design and implementation of the spatial strategy which will help prioritize and coordinate public investments infrastructure will be carried out with the support of world class technical assistance under the supervision of a panel of experts. The PPP mode of financing promoted as part of the Program for industrial infrastructure will leverage private sector financing and skills through a transparent and structured competitive process. Finally, the CDI will help SME clusters access world class knowledge.

4. The technical foundation for each Result Area are discussed below (see Annex 1 for more details):

5. The investment climate reforms are based on analytical work undertaken through the program of technical assistance which has been provided by the World Bank with the support of DFID since January 2014 (J&C NLTA). The Doing Business methodology (DLI 1) is globally recognized and the Government of Punjab will be able to leverage and adapt relevant international good practices with the support of the parallel program of technical assistance provided by the World Bank (the Investment Climate Project funded by DFID). Significant technical work has already been undertaken in the areas of contract enforcement and construction permits. On property registration, the government will leverage the experience of the successful LRIMS project (Land Records Management Information Systems) which will lead this reform effort. The design of the ICRU (also DLI 1) is being informed by successful reform teams (see the World Bank's Viewpoint #318).

6. DLI 2 is based on ILO's global experience and the government will benefit from the support of ILO and the World Bank through the Investment Climate Project.

7. DLI 3 is based on the experience of the best Investment Promotion agencies and the World Bank will continue to provide extensive technical support through the Investment Climate Project.

8. In keeping with the goal of the J&C PforR, the design and implementation of the Punjab Spatial Strategy (DLI4) will help prioritize and coordinate large public infrastructure investments, especially as it relates to industrial estates, urban development, and inter-city transport connectivity. It will infuse a spatial lens and economic discipline to prioritize and coordinate key infrastructure investments. This will reduce the incidence of supply-driven investments in areas where demand is limited while also pooling sectoral allocations around strategic growth nodes. This is in line with global best practice and the World Bank's (2009; 2013) recommendations on supporting spatial development and regional prosperity by linking investments with a spatial economic framework, and builds on analytical work completed as part of the J&C NTLA and the Pakistan Urban Sector Assessment. Global examples of effective deployment of spatial planning frameworks include Korea, Ireland, Qatar, Australia and Malaysia.

9. The development of industrial infrastructure (IEs and CETPs in particular) through PPPs (DLI5) follows a growing worldwide trend. At times, donor institutions play instrumental roles in these funds. For example, the ASEAN Infrastructure Fund (AIF) was established as a limited liability company in 2013 by the Asian Development Bank (ADB) and nine members of ASEAN to finance infrastructure development projects.[15] In Punjab, there is an operational PPP institutional set up including a Viability Gap Fund to support PPPs which has been put in place with the support of ADB and DFID following international good practices. This PPP institutional

[15] Asian Development Bank, "ASEAN Infrastructure Fund: Overview," http://www.adb.org/site/aif/overview
Funds come from regional savings, including foreign exchange reserves from member governments and are co-financed by ADB funds. The ADB serves as administrator and provides technical support to the fund, 90% of which finances publically owned or public-guaranteed projects.

set up will continue to receive extensive technical assistance from ADB and DFID. The World Bank has supported client countries in CETP projects in the context of industrial development, economic zone development and green financing. One such recent and successful project in Vietnam has inspired the J&C PforR (Vietnam Industrial Pollution Management Project – P113151).

10. The public companies in support of industrial estates and clusters (PIEDMC, FIEDMC and PSIC) have had a poor record at providing quality industrial land and services to Punjab's industries and have been crowding out private sector providers. They need to be reoriented toward playing a facilitating and supporting role to private sector providers of these services, as opposed to providing these services themselves (DLI6). As part of this new institutional set up the government will facilitate access to private zone developers through land auctions as it has been the case in other comparable countries like Bangladesh and Vietnam. This will streamline the process for new industrial estate development and ensure that these proposals are consistent with market demands and sustainability criteria as required under DLI 2 (GSP+) and DLI 5 (PPP). The CDI, also part of DLI6, is informed by successful experiences in Pakistan (for example, the technical support provided to the manufacturers of soccer balls in Sialkot) as well as from international good practices (for example, the EU).

Expenditure Framework

11. The Industrial Development Sector Pillar of the Punjab Growth Strategy envisages an expenditure of US$1,049 million over the next five years. For the Bank supported Program, the planned expenditure over the next five years is US$280 million. The Bank funding will be limited to US$100 million. The technical assessment has revealed important missing expenditures, in particular with respect to the provision of the world class technical support which will be required to achieve the Program's results. These funds are being secured through PC-1s (see Table 1.3 in Annex 1). Financial sustainability is not a major concern but largely dependent on the fiscal transfers from the Federal government that constitute nearly 80 percent of the Provincial revenue.

12. Budget credibility though is an area of concern. Program expenditures are often budgeted as block grants without detailed costing and object classification. Furthermore, they have been subject to significant in-year budget adjustments and delayed releases. To countervail this risk, the implementing entities have prepared detailed plans with cost estimates through the PC-1s mentioned above. A detailed review of the expenditure framework can be found in Annex 5.

Results Framework and Monitoring and Evaluation

13. The Program Development Objectives are to improve the investment climate and promote investments and jobs in more inclusive and sustainable industrial estates in Punjab.

14. As such the Program will contribute to the higher-level objectives of the Punjab Growth Strategy which is to increase growth and job creation.

15. We discuss in turn below the Program Key Results, the DLIs (also intermediate results) and the key activities financed by the Program which will lead to these intermediate results.

Together, these constitute the results chain ("the "theory of change") for the Program (see Annexes 2 and 3 for more details).

16. Four Program Key Results will measure progress along the dimensions of the PDO:

- Aggregate improvement of Punjab's performance for the four selected Doing Business indicators (business registration, contract enforcement, construction permits and property registration). Performance in Doing Business is a globally recognized indicator of the quality of the investment climate.

- Significant progress made by Punjab on GSP+ Labor Conventions as acknowledged by the European Union in its bi-annual evaluation. This indicator will also capture an important dimension of the investment climate (labor market conditions) and is directly linked to a key driver of investment (duty free access to the EU market).

- Number of additional workers in existing industrial estates (of whom women). This indicator is directly linked to the second part of the PDO. The number of women employed will capture progress along the "inclusiveness" dimension.

- New investments by new companies in existing industrial estates (of which FDI). This indicator is also directly linked to the second part of the PDO.

17. Six Disbursement Linked Indicators (DLI), which are also intermediate results for the Program, will measure progress toward achieving the Program Key Results:

- **DLI 1**. Aggregate improvement of Punjab's performance with respect to business registration, contract enforcement, construction permits and property registration. This DLI is also the first Program Key Result.

- **DLI 2**. Steps taken by Punjab to improve its contribution to Pakistan's compliance with the GSP+ Labor Conventions. This DLI is directly linked to the second Program Key Result. It will also contribute to the employment of women (third Program Key Result).

- **DLI 3**. Steps toward improvement of investment promotion, measured in particular through the number of investment announcements by foreign investors[16]. This DLI is directly linked to the third and fourth Program Key Results.

- **DLI 4**. Steps toward developing and implementing a spatial strategy for Punjab, to prioritize and coordinate public investments. Improved infrastructure is a key dimension of the investment climate and will contribute to make the industrial estates more "economically sustainable".

[16] Foreign investor has to be a registered company with a majority of shares owned by persons which are not citizens or whose headquarters are not located in the territory of Pakistan.

- **DLI 5**. Steps toward the effective development of industrial infrastructure through public private partnerships measured in particular through the number of industrial estate and CETP projects presented to the PPP Steering Committee. This DLI is a key intermediate result toward improving the supply of "more inclusive and sustainable industrial estates" which is directly linked to the third and fourth Program Key Results.

- **DLI 6**. Steps toward designing and implementing a new institutional framework to support Industrial Estates and clusters. This DLI is also a key intermediate result toward improving the supply of "more inclusive and sustainable industrial estates".

18. The following activities financed by the Program will be key to achieving the DLIs:

- Technical support to the ICRU, Department of Industry, Lahore High Court, Law Department, Housing Department and BOR to prepare the reforms needed to improve Punjab's Doing Business performance (DLI1). This will be complemented by equipment investments to streamline/automate regulatory/judiciary processes.

- Technical support to the Labor and Women Development Departments to prepare the reforms needed to improve Punjab's compliance with the GSP+ Labor Conventions (DLI2).

- Technical support to PBIT to generate investment announcements (DLI3).

- Technical support to P&D and line Departments to develop and implement the spatial strategy (DLI4).

- Technical support to the Department of Industry, PIEDMC, FIEDMC and EPA to prepare the IE and CETP PPPs (DLI5). This will be complemented by a grant block allocation to make these PPPs financially sustainable (following a competition).

- Technical support to the Department of Industry and PSIC to improve the institutional set up in support of industrial estates and clusters (DLI6).

Governance and Institutional Arrangements

19. The Planning and Development Department (P&D) will be charged with general implementation oversight. The PRMP, established under the Punjab Public Reform Management Program (another World Bank funded PforR), will be the main coordinating body. The PRMP is well placed to coordinate this work as it has familiarity with P&D staff, procedures and capacities. PRMP will be supported by the ICRU (to coordinate activities implemented by the Industries Department, BOR, LDA, and the Law Department) for the investment climate reforms results area and the Urban Unit (P&D) for the spatial development results area. The Urban Unit will oversee the development of the spatial strategy and will implement the capacity building necessary for linking this to the Medium and Annual Development Budget planning cycles. To assist P&D, the Program will support a four person panel of experts that will review the proposals and technical studies to ensure appropriate design and methodologies are employed.

20. A Program Steering Committee headed by the Chairman of P&D, and with representatives from all the implementing agencies, will be established to oversee progress as reported by PRMP. The committee will provide strategic guidance and direction and facilitate coordination across different departments, agencies and levels of government involved. The committee will review and finalize recommendation reports and plans developed as part of the different results areas and monitor progress on a quarterly basis.

Technical Risks and Improvements

21. The government has a strong commitment to accomplishing the goals of the Industrial Development Sector Plan. Achieving Program goals will require regulatory and institutional reforms which have been set as DLIs in their own rights (DLIs 1, 2 and 6). The technical assessment has also revealed the need for about US$35 million of technical support for the key implementing agencies (see Table 1.3 in Annex 1). Also, the most important outputs from this technical support have been included in the Program Action Plan as dated legal covenants (see Annex 8).

22. The section below reviews the primary technical risks related to achieving each of the DLIs and details the activities that will be undertaken to reduce these risks.

23. **Aggregate improvement of Punjab's performance in Doing Business (DLI 1).** The main risks are related to opposition to reforms from vested interests as well as difficulties to coordinate reforms spanning several government departments. The main activities to reduce these risks include the development of a high level public private dialogue platform as well as the creation of the ICRU which will coordinate and lead the reform process. Furthermore, improving Pakistan-Punjab's stand in the global Doing Business rankings provides a powerful instrument for public and private sector leaders to "push" reforms through. Finally, the reliance on technology and proven technical solutions limits the scope for sustained opposition and backtracking as discussed in more details below for each of the four selected Doing Business indicators.

24. Business registration. The Program will support the development of the online Punjab Business Portal that will consolidate the required registration for Social Security, the Excise and Tax Office and the Registrar of Firms and provide applicants a single point of entry to obtain multiple approvals. This will parallel the World Bank's support for these reforms at the Federal level in designing the Virtual One Stop Shop (VOSS), which has already reduced the time to register businesses by two days.

25. Contract enforcement. This indicator will be improved through automated case management as well as through time limits for arbitration and adjudication of cases in the Lahore High Court. In parallel, the Program will provide technical support to courts to identify cases that can be resolved through alternative channels as stipulated in Section 89-A of the Civil Procedure Code. It will also provide training for mediators, support mediation centers and promote an awareness campaign for alternative dispute resolution channels which will reduce the overall litigation case load and by extension reducing the incidence of delays.

26. Property registration. Property registration currently is based on a paper record system and the process does not distinguish between different types of property or different levels of application complexity. It also involves multiple agencies and requires an applicant to make a number of visits. The Program will support the Board of Revenue in installing automated review systems. It will also complement the Bank funded ongoing LRIMS project which is digitizing the land registration and records systems across the Province.

27. Construction permits. Construction permitting activities also lack automation and suffer from an excess of procedures that do not distinguish between application types. The Program will support the LDA complete a process mapping exercise to identify key constraints and provide recommendations to streamline and automate processes for review and approval. This will serve as a pilot for application to other permitting entities including Cantonment boards and Tehsil Municipal Administrations, thus expanding the impact of the reform across the Province.

28. **Labor reforms to improve compliance with GSP+ Labor Conventions (DLI 2).** Labor reforms are notoriously difficult. Like in the case of Doing Business reforms, the Program will rely on a powerful external motivation to reform – this time related to securing duty free access to the EU market as part of the GSP+ commitments. The design of the DLI entails the need for extensive technical support and stakeholder consultations. The Program will support the Labor and Women Development Departments in recruiting a team of prominent legal experts to identifying legal gaps and assist in drafting appropriate legislation to be complemented by an improved labor inspection system. This process has already started with the support of the ILO.

29. **Improved Investment Promotion (DLI 3).** PBIT, Punjab's investment promotion agency, lacks the basic systems and data required for effective investor targeting. The other challenge is that it lacks qualified personnel and a clear strategy. US$10 million has been allocated to PBIT to overcome these challenges. The DLI includes key institutional strengthening milestones such as a detailed strategy and implementation plan with operational performance targets as well as an investor database. The Program will support the development of an improved website providing information to foreign investors. This will be further enhanced with overseas outreach missions – a pilot/model first mission will be carried out and will include substantive discussion with at least 20 potential investors. PBIT will also develop and launch an aftercare program for strategically important investors currently in the Province along with a mechanism for addressing current investor grievances in coordination with the relevant Departments.

30. **Development and implementation of the Punjab Spatial Strategy (DLI 4).** The development and use of the Punjab Spatial Strategy to support economic growth and investment decisions is a key priority for P&D which is also well-placed to implement it due to its position as the chief development authority of the Province. The strategy will be developed by an international consulting firm and will include an implementation strategy which will be carried out by the Urban Unit. The Urban Unit has prior experience with large procurements and has the requisite level of technical expertise to carry out the implementation plan. In order to further reduce the risk of costly public investment decisions, the Government of Punjab has set up a panel of reputable local and international experts which will review the development and implementation of the Punjab Spatial Strategy. We discuss below how some of the specific risks will be addressed.

31. Lack of capacity of PDWP to review PC-1s. While the PDWP is comprised of sector specialists, it does not have a background in spatial planning. In addition to the panel of experts, a Chief Strategist will be hired and embedded in the P&D finance department and will be charged with linking the budgeting process with the implementation plan of the spatial strategy. This would include revising PC-1 proposals before their submission to the PDWP.

32. This criteria-based formulation will improve the transparency of the budgeting process by providing clear and rational justifications for particular public investments. The Program will also build the capacity of line departments and local governments to integrate the spatial strategy into their plans.

33. Risks of low return investments in a new city. The proposed development of a new city would require substantial public investment and must thus be evaluated very carefully. To that end a pre-feasibility study is being launched to assess its viability. The first year of DLI 4 will disburse against actions taken following the recommendations of the pre-feasibility study which will be reviewed by the panel of experts.

34. **Development of industrial infrastructure through PPPs (DLI 5).** As discussed in detail in Annex 1, PIEDMC and FIEDMC lack the capacity to develop world class industrial estates and do not have experience with PPPs, especially related to CETPs. In order to reduce this risk, a significant program of technical support will be deployed to build their capacity to promote private sector led world class industrial estates.

35. The existing PPP framework is in place and suitable for application to the Program to provide support for proposal development and review from IE companies. The PPP Act has spelled out the operations procedure of the PPP project selection, evaluation and financing mechanism. The Program will also reinforce the capacity of the PPP Cell in P&D and the Risk Management Unit (RMU) in the Finance Department to verify the justification for public finance and related risks. The Project Development Fund (PDF) is made available to projects approved for feasibility study, appraisal and implementation support to enhance the quality of the project.

36. The Program will provide the financial and technical resources required to carry out investor roadshows to initiate and cultivate private sector interest in PPP proposals ahead of the competitive bidding. It will also provide technical support to the negotiations with the winning bidder. The Program will also ensure that public support is conditional to compliance with labor and environmental standards.

37. Risks of undue PPP renegotiations. Projects that are procured with poor project scoping, preparation studies and evaluation by the government and weak tendering process with weak selection criteria may be vulnerable to undue renegotiation post signing of PPP agreements, sometimes leading to additional payment commitments and reduced value for money. Renegotiation may be linked to aggressive bids with the intention of winning the award, and then later under non-competitive conditions renegotiate bilaterally with the government better terms.

38. Given its implications on value for money and the benefits of PPPs over traditional procurement, there is a need to be prepared and prevent and deal with the issue. In order to avoid unnecessary ill-intentioned renegotiations: (a) the issue of renegotiations must be addressed ex

ante and guidance provided on how to deal with it and within what parameters; as well as approach, criteria, process, jurisdiction and institutional arrangements, (b) upstream project scoping and evaluation must be done in a robust manner, (c) project tendering must ensure that a well-structured and well managed process that is driven by well thought out selection criteria, (d) key contractual clauses and risk allocation must be reflected properly, and (e) there is proper contract monitoring and management post signing. As a rule when governments are confronted with requests for renegotiation, the sacred character of the original contract/bid must be respected.

39. The Program will tap the existing Viability Gap Fund in case a government subsidy is required for the financial viability of the PPP projects. This government subsidy will be minimized through the competitive selection of the private party, which will also need to meet the required social and environmental standards.

40. Weak monitoring and enforcement capacity of EPA on CETPs. In general the legal and regulatory framework through which the EPA operates is adequate and in line with global standards. However, the EPA has little experience with regard to regulating CETPs and environmental activities on industrial estates. In order to address this, the Program will support a comprehensive technical support program for the EPA and IE companies that will (a) improve their capacity to assess and monitor environmental quality issues on IEs (water, solid waste, air, energy efficiency, and so on) and (b) install operational and planning manuals to improve social, labor and environmental standards. Such plans would also include proposals on financial viability and governance structure to ensure sustainability of the CETPs and new IEs (see Annex 6 for a detailed discussion).

41. **New institutional framework to support industrial estates and clusters (DLI 6).** As mentioned above, the public companies in support of industrial estates and clusters (PIEDMC, FIEDMC and PSIC) have had a poor record at providing quality industrial land and services to Punjab's industries and have been crowding out private sector providers. They need to be reoriented toward playing a facilitating and supporting role to private sector providers of these services, as opposed to providing these services themselves. This may entail consolidating the existing companies and creating an authority mandated to ensure that public and private industrial estates comply with social and environmental standards. The risk is thus institutional resistance to mergers and changes in mandates. To overcome this risk, the Program will require, as part of DLI 6, the involvement of the highest Provincial Authorities in the decision making process.

42. PSIC lacks the capacity to provide in-demand training and technology support for industrial clusters. The Program will address this in two ways; (a) a restructuring of PSIC including a clear strategic plan, business model and operations manual and (b) a Cluster Development Initiative that will channel world class technical support to high potential industrial clusters to improve their productivity. The CDI will support the development of cluster proposals and include clear criteria for accessing technical support, and proposals will be competitively reviewed and technical support teams will report to an independent Steering Committee that will monitor performance and quality.

Economic Justification

43. Rationale for Public Provision. The World Bank Doing Business Report (2015) provides a clear rationale for supporting business environment reforms. First, business regulations are entirely within the purview of government control. Second, the report shows that reducing the costs and steps necessary to obtain, for example registration, is associated with a higher number of registered businesses. The incentives to register and expand businesses increases demand for investment and employment as well as competition leading also to higher productivity, providing a catalyst for growth. The World Bank World Development Report (2009) also identifies the critical role location and geography plays in economic growth. Specifically, cities and economic clusters benefit from agglomeration and scale economies thanks to the dense proximity of markets, labor, capital and key infrastructure (roads, power, water, etc.). Areas where such inputs are lacking will lag behind in economic growth. Often the large scale and limited returns on these investments discourage private investment. However, governments can ensure that public investments are properly coordinated within and across cities and existing growth corridors in order to support private investment and sustain economic growth. Public support to industrial estates can be justified with respect to facilitating the acquisition of large tracts of land, coordination of infrastructure investments and economic agents as well as provision of long term financing. Public support to CETPs can be justified due to the negative externalities associated with pollution. Public support to SME Clusters through the Cluster Development Initiative can be justified by demonstration effects and rapid diffusions of the information/knowledge through the clusters.

44. The Program's Economic Impact. The expected economic impact is positive. The Industrial Sector Plan's objective is to re-ignite manufacturing growth in Punjab from 1 percent annual growth to 10 percent after five years. Since manufacturing accounts for 20 percent of Punjab's GDP (US$20 billion), a gradual increase to 10 percent growth over five years, would generate a cumulative additional US$6 billion additional GDP. Countries with similar characteristics than Pakistan such as Bangladesh and Vietnam did achieve and sustain more than 10 percent growth in manufacturing. As discussed earlier, this would require, in the case of Punjab reforms at the Federal level (trade, energy and security in particular) in addition to the reforms supported by this Program. As also discussed earlier, one of the reasons this Program is featuring support to industrial estates so preeminently is the fact that some of these Federal level issues can be mitigated within industrial estates – that is, difficulties exporters have to import can be smoothed through bonded warehouses within the estates, energy can be supplied reliably through captive power plants and/or dedicated feeder lines, and security can be assured within the walls of industrial estates. Thus, the main economic impact from the Program would stem from the synergies between its components which are complementary and which, put together, are aimed at the main constraints to industrial development in Punjab.

45. Notwithstanding these synergies between them, each component taken individually should have positive economic impact. In effect and with respect to the first component (Investment Climate Reforms), it is well established that investment climate reforms will have positive economic impact by reducing the compliance cost for businesses but also by reducing the risks of doing business (for example, contract enforcement) as well as increasing productivity through increased investments and competition (lower barriers to entry). With respect to the second component (Spatial Development), the Program will achieve positive economic impact

by better informing public investments (the Spatial Growth Strategy) as well as by promoting a much more demand driven and private sector led approach to public support to industrial estates and clusters where governments have a role to play in resolving coordination issues (for example, access to large tracts of land) as well as in promoting the diffusion of knowledge across clusters as a quasi-public good. The economic rationale/impact of each of the Program's results area is discussed below (except for the US$3 million allocated to PRMP):

- The US$66 million invested in reducing the costs and risks of doing business would pay for itself over ten years with only a 0.1 percent cost reduction for businesses. Other (major) positive impact would include increased investments (due to lower risks) as well as higher productivity due to more competition.

- The US$3 million invested in completing the GSP+ legal compliance will help secure duty free access to the EU. A study by the apparel exporter association (PRGMEA) assesses the benefits of GSP+ at US$600 million of additional exports for Pakistan (half coming from Punjab). This investment would thus pay for itself in one year if it contributes to reducing the risk of losing GSP+ status by 0.5 percentage point. Additional (major) benefits include improved working conditions and increased women's employment.

- The US$12 million invested in investment promotion would pay for itself if it contributes to increase foreign direct investment to Punjab by 1 percent over a five year period (Punjab receives about US$200 million in foreign investments every year). The Program's objective is to generate more than US$200 million in foreign investments over five years (see DLI 3).

- The US$14 million invested to help ensure public investments are consistent with the Punjab Spatial Strategy should improve the economic return on the more than US$6 billion of public investments for urban development/connectivity. A one percentage point increase in the return of these investments would generate US$60 million of value, more than four times the amount invested in this activity.

- The US$71 million invested in the upgrading of public industrial estates, including CETPs and social infrastructure, is justified by the prospect of attracting leading foreign investors which require readily available, well sited and well serviced industrial land where they can demonstrate that they comply with increasingly stringent environmental and social standards imposed by global buyers. Discussions are under way regarding a possible US$1 billion investment from the largest Chinese textiles company in the FIEDMC estate in Faisalabad and leading domestic investors are committed to PIEDMC's Apparel Park which should host 230,000 workers over 1600 acres not far from Lahore. The support to better working conditions, especially for women, is justified not only for welfare reasons but also because, as shown by the IFC "Better Work Study", it is also good for competitiveness/productivity. The public support to sustainable CETPs is further justified given the societal benefits in the form of foregone medical treatment, the value of avoided lost earnings for individuals made ill as a result of pollution, the gains from reduced mortality, as well as the avoided cost of reduction in agricultural productivity and lost value of land. The amount of public subsidies to industrial estates and CETPs will be minimized through competition as part of the PPP process that the Program will leverage and reinforce. The US$4 million support to EPA is justified due to the public goods aspect of the pollution monitoring and enforcement activities.

- The US$111 million in support of industrial clusters is expected to have a positive economic impact through the restructuring of PSIC which should ensure a higher return on the large budget allocation made to PSIC. The current economic return on this allocation is questionable at best. The Program will support in particular a much more demand driven and private sector-led approach to the support of industrial clusters by focusing on the provision of world class knowledge to high potential clusters through a competitive process. This will help the many industrial clusters of Punjab (dominated by family owned SMEs with limited access to world class knowledge) to improve operations/management, adopt new technologies, link with lead firms, meet higher quality standards, develop new products and access new markets. These services are expected to enhance firms' productivity leading to economic growth through improved competitiveness/exports, profits, wages and/or taxes. The 30 percent economic rate of return is based on a 2 percent increase in sales and 1 percent increase in gross margin. These assumptions are very conservative in comparison to the impact evaluations of similar cluster development programs – such recent programs in Chile, Mexico, Colombia, Peru, and Sri Lanka that provided TA, support for technology adoption and cluster formations, and credit to SMEs, among other services increased sales 5–20 percent (Acevedo and Tan 2010). An impact evaluation on Peru's Program found that the profitability of the firms increased 21–26 percent. Earlier studies also showed positive impact, albeit with a wide variation - impact evaluations on programs developed and implemented between 1990 and 2007 in Bangladesh, Chile, Mexico, Argentina, Brazil and Turkey showed positive sales growth between 0 and 40 percent and productivity increases between 11 and 14 percent.

The Bank brings technical support in addition to financing support to the implementation of the Program. The Program for Results instrument also brings additional incentives to achieving the intended results of the Program.

Annex 5: Fiduciary Systems Assessment

Background

1. The overall objective of the FSA is to ascertain whether the Program's fiduciary systems provide reasonable assurance that the financing proceeds will be used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability and whether the systems are reasonable to achieve the Program results. The Program procurement systems were assessed as to the degree to which the planning, solicitation, evaluation, contract award and contract administration arrangements and practices provide reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures. The Program's financial management systems were assessed as to the degree to which the relevant planning, budgeting, accounting, internal controls, fund flow, financial reporting and auditing arrangements provide reasonable assurance on the appropriate use of Program funds and safeguarding of assets. The accountability institutions, instructions and structures were assessed to examine the role and effectiveness of the government.

2. The FSA comprises an assessment of the fiduciary systems relating to: (a) procurement; (b) financial management; and (c) governance (including fraud and corruption risks) relevant to the Program. The FSA provides a reference that can be used to monitor fiduciary systems performance during the Program implementation and identify actions, as needed, to enhance those systems. The conclusion of the FSA is that, subject to the implementation of the Program Action Plan to mitigate the identified risks, the overall fiduciary framework is adequate to support Program implementation and to achieve the desired results. The Program envisages use of country systems. The Program-level risk is assessed on the basis of review of Punjab PEFA 2012, and analysis of budget credibility indicators of PEFA on the basis of the latest three years of available financial statements, findings of similar assessments completed by the Bank in Punjab and analysis of the expenditure framework.

3. The Punjab Resource Management Program (PRMP) will be the coordinating agency for this program, which is performing similar roles for the ongoing Punjab Public Management Reform Program (P132234). The coordinating agency is conversant with the Bank's fiduciary requirements for a PforR and the fiduciary performance of the ongoing PforR is rated Moderately Satisfactory. Implementing entities include a few autonomous bodies and state owned enterprises which have their own accounting and procurement systems. In view of the involvement of the following implementing entities in procurements and financial management of the program, an FSA was carried out for FIEDMC, PIEDMC, DoI, PSIC, Urban Unit, EPA, ICRU, LDA and PBIT. FSA for PITB was undertaken as part of the Punjab Public Management Reform Program.

4. The procurements are nested in the legal structure of Punjab Procurement Rules 2004 which were initially enunciated in 2009 and were later amended in 2014. These rules are generally found by this review and other World Bank reviews to be aligned to good procurement practices. These rules provide broad-based policy guidelines for procuring goods, works and services. However Rule 59 d (iv) which allows Provincial Cabinet to engage in negotiated tendering may have weakened the enforceability of these rules because it is not included in the

amended version of the ‘Overriding Effect of Rules’ as stated in Rule 51 of erstwhile Punjab Procurement Rules 2009 have somehow weakened the enforceability of these rules.

Budgeting and Planning

5. The budgeting of the Program expenditures will constitute part of the Government of Punjab (GoPb) budgeting process. The funds for the Program will be appropriated from both the current and development Provincial budgets. The Government of Punjab has a well-defined budgeting process and reforms are underway to introduce modern practices in financial planning and budgeting. The Annual Development Budget for the financial year 2015–16 is largely aligned to the Punjab Growth Strategy, however funds are not allocated to some of the critical elements of the program – these gaps are being filled through additional departmental PC-1s and block allocations (see Table 1.3 in Annex 1).

6. DoI, EPA, ICRU, LDA, PBIT, PITB, BOR and PRMP follow the Budget Call Circular and Annual Development Program guidelines issued by the Finance Department and Planning and Development Department respectively. PRMP exists on the basis of a PC-1 which expires in 2018 and will need to be extended at least for the Program’s period (end of 2021). PSIC, FIEDMC, PIEDMC and Urban Unit receive budget support.

7. Variation between Original Budget Allocation and actual expenditure, especially for the development budget allocation, is abnormally high. The variation is due to in year reallocation of resources from one project to another. Low budget utilization rate, if continued, will have negative impact on program implementation. To mitigate this risk, the government is fencing funds for the program under departmental PC-1s. It should also ensure that the funds already budgeted under the PGS will not be re-appropriated to other programs or projects. It is imperative for the Program’s success that the implementing agencies finalize and obtain approved implementation/budget plans for the Program with detailed costing and timelines and annual budget allocations for the Program made in accordance with the implementation plans.

Funds Flow and Disbursement Arrangements

8. Annually, PRMP will submit to the Bank a Withdrawal Application duly signed by a representative of the Finance Department and the PMU Program Director. The application will include IFRs for program expenditures and DLI results reports for disbursement and the documentation of Program expenditures. Bank funds will be disbursed to the Punjab Provincial Consolidated Fund Account No. 1 (Non-Food) Account. Bank disbursements will take place after Program expenditures have been compiled and DLI targets for the year have been verified. An advance of US$25 million will be provided upon effectiveness of the program spread across the result areas – should the results associated with the DLIs not be achieved by the end of the PforR, these funds would need to be reimbursed to the Bank.

9. For each year, the amount eligible for disbursement under the program will be the product of the total number of DLIs achieved and the unitary DLI amount as detailed in Annex 3. Where achievement of a DLI cannot be verified, an amount equivalent to the unitary DLI amount will be withheld. This amount will be paid at any later date when achievement can be verified.

10. Fund transfers from the government to the implementing entities will follow the normal existing procedures either through a lapsable Special Drawing Account (SDA) or Assignment Account for which the implementing entities have cheque-issuing authority or processed through the Accountant General office as necessary. At present, the implementing entities (PRMP, PIEDMC, FIEDMC and PSIC) operate lapsable Assignment Accounts for which they have cheque-issuing authority. Payments of DoI, EPA, LDA, PBIT, PITB and BOR are processed through the Accountant General office.

11. The Government of Punjab transacts its business through a single treasury account. The Finance Department provides reliable information on commitment ceilings to the spending units through periodic releases of funds. However, spending units can not initiate the procurement process until funds are released. This sometimes results in non-utilization of budget amounts if the procurement process could not be completed before the close of the financial year.

Fiduciary Staffing and Capacity

12. Staffing requirements for each of the entities depend on the role which the entity is expected to play during the life of the program. PRMP shall be responsible for project management and financial reporting of the program. It will also manage procurements on behalf of DoI, Labor Department, ICRU, PPP Cell and PSIC under the Program for which a week procurement capacity has been assessed. Therefore suitable staffing of PRMP is critical for seamless implementation of the program and as such has been included in the Program Action Plan. Besides PRMP the following implementing entities (PITB, LDA, BOR, PBIT, Urban Unit, PIEDMC, FIEDMC and EPA) will also be involved in procurements. These agencies have sufficient sanctioned positions to manage the expected workload, but there are a few vacant positions to be filled. The situation of PSIC is unique, it has 45 persons in the Accounts and Finance Section but none of them is a professional accountant. Despite overstaffing, the management requires professional accountants. This will require reassessment of organizational status of PSIC as part of its planned restructuring under DLI 6.

Accounting and Reporting

13. Accounting across the implementing entities relates to the recording of the financial transactions pertaining to purchase and disposal of fixed assets, services and supplies, payroll, advances to employees and suppliers, day to day operational expenses, taxation, payments to contractors under development works and petty cash transactions.

14. A range of accounting policies and systems are used in each of the entities. PITB, LDA, BOR, PBIT, PRMP and EPA have adopted the Auditor General of Pakistan (AGP) approved Accounting Policies and Procedures Manuals and Government Finance Statistics (GFS) compliant Chart of Accounts and prepare their books of accounts using cash basis of accounting. Whereas Urban Unit, PSIC, FIEDMC and PIEDMC have adopted Accounting and Reporting Standards issued by international accounting standards and directives of the Companies Ordinance of 1984 and prepare their books of accounts using accruals basis of accounting. Both of these practices comply with international best practices. There is wide variation in terms of use of financial management information systems. PITB, LDA, BOR, PBIT and EPA use manual systems internally but the payments are authorized by the Accountant General Punjab which has

a Government Financial Management Information System (GFMIS). Therefore budget execution reports of these entities can be generated on real time basis. By contrast, PRMP is operated through an Assignment Account for which they have cheque issuing authority and the transactions are not authorized and entered into the system by AG Punjab. Urban Unit uses SAP Financials for Trial Balance, payroll and fixed assets, whereas PSIC has manual accounting system, FIEDMC is using Sidat Hyder Financials Software for trial balance and similarly PIEDMC is using Oracle Financials for trial balance. These software programs are widely used and can generate real time financial reports when required.

15. PRMP, as the coordinating agency, will be responsible for preparation and submission to the World Bank Program-level consolidated bi-annual interim financial reports (IFRs) which shall include Budget Execution Reports and Program-level Annual Financial Statements. The Program-level reporting will be complex for which close coordination will be required between PRMP and the implementing entities involved in procurements and financial management themselves.

Internal Controls

16. Internal Controls are defined in Punjab Financial Rules, government chart of accounts, and Delegation of Financial Power Rules 2006, which are comprehensive. Written job descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff are available.

17. PRMP, PITB, LDA, BOR, PBIT and EPA follow the internal control system as specified in Punjab General Financial Rules, Punjab Delegation of Power Rules and Esta Code. While Urban Unit, PIEDMC and FIEDMC has developed their own rules and guidelines approved by the Board of Directors. The financial rules adopted by the entities are comprehensive and will adequately cater to the program requirements.

18. **Internal Audit:** In six entities (PRMP, PITB, LDA, BOR, PBIT and EPA) involved in program related procurements, the Internal Audit function does not exist while in some cases it was limited to pre-audit. The PAP for ongoing Punjab Public Management Reform Program (P132234) required establishment of an Internal Audit Function at PRMP. Despite this, the internal audit function in PRMP remains absent. Since Internal Audit is a critical component of the control environment, establishment of a program-level Internal Audit housed in PRMP within six months of the commencement of the program has been included in the PAP.

19. **Procurement Oversight:** Key procurement deviations are discussed with PPRA. Apart from PSIC, the entities run a full-cycle National Competitive Bidding for procurement of goods and works and also engage consultants on an annual basis. However most of them follow a pre-qualification process despite the conditions stated in Rule 16 of PPR (2014). For a routine, small value and non-complex procurement this could potentially be a barrier to a wholesome competition and an unnecessary drain on resources. PIEDMC and FIEDMC have extensive exposure to large value and volume procurements. Based on the quality of documentation, notwithstanding the absence of a fully professionalized procurement function, the procurement cycle management was determined to be adequate.

20. **Advertisement, Pre-bid/proposal Conference and Bid/Proposal Submission:** Bids/proposals are consistently advertised in national daily newspapers and uploaded on PPRA websites and are easily accessible to potential bidders. The publications are in conformity with principles of the Bank's Guidelines. Timely and non-ambiguous clarifications to bidding/proposal documents are provided to all potential bidders in pre-bid meetings or pre-proposal conferences. Most bidders attend in meetings in person or as an alternative they send emails or facsimiles for response. The bid documents are made available to all interested bidders without prescribing any preconditions. However, bidding documents are provided at certain time slots with a cutoff date for availability of bidding documents; a practice which is not fully consistent with procurement rules. The number of bids received is reasonable when compared to the number of bidding document purchased/number of pre-qualified bids. Likewise, share of the bid sold and bid received is also reasonable and within expectation. The entity does not accept bids on any day earlier than bid submission. Bidding documents also contain acceptable instructions to bidders, and criteria on (pre-) qualification, shortlisting, and evaluation.

21. The presence of a board member in evaluation committee of PIEDMC is not an optimum corporate governance practice. The members may have some relevant skills, but the inclusion of an area specialist would strengthen the process. Evaluations are well documented, and contracts broadly consistent with the procurement guidelines and awarded on a timely basis. Works and goods contracts are awarded within 65 days while consultants are engaged within 90 days. Complaints are rare though necessary redress is provided through provisions of PPR-2014. The complaint management system appears to be lacking a formal structure and needs some support for improvement. Adequate mechanisms are in place for procurement and/or contract monitoring. The supplies and payments generally follow the time periods agreed in contract agreement. There was no evidence of downgrading specifications, or compromise on delivery schedule or excessive changes in scope or price. Invoices from vendors are generally paid within 15–30 days in accordance with the contractual terms.

22. **Capacity to undertake Industrial Estates (including CETPs) supported through criteria-based PPPs/VGF**: As per the Industrial Sector Plan following CETPs have been identified for potential foreign funding:

Table 5.1. Planned CETPs

PIEDMC CETPs	Area Reserved	Estimated Cost (Rupees)	Effluent Flow Rate
Sundar Industrial Estate (SIE) Lahore	19.3 acres	1.82 billion	22.9 Cusec
Quaid e Azam Industrial Estate Lahore	9 acres 9 kanals	3.02 billion	24.5 Cusec
Multan Industrial Estate Phase I & II	12 acres	2.56 billion	12.4 cusec at Disposal Station 3.3 Cusec at MIE Phase-I drain

23. The CETPs that will be supported by the J&C PforR will help reduce existing pollution issues – the J&C PforR will not finance CETPs that will deal with expected future industrial pollution issues.

24. For the Industrial Estates and CETP PPPs the government agency that works as a node as per Section 7 of PPP Act will be the Department of Industry. The node is entrusted with project identification, tendering, supervising the implementation and; if applicable, eventually taking over the project. Based on the fiduciary assessment, the Department of Industry does not have such capacity. It will thus be necessary to build its capacity through the creation of an administratively and financially empowered unit. It would also be imperative to shortlist the most relevant contract type for the long list of 10 contract types as provided in the PPP Act. This would be crucial in assessing and agreeing on various mitigation measures at the level of the PPP node through a process of reverse engineering.

25. **Fraud and Corruption**: In Punjab, there exists an established anti-corruption framework comprising enabling legislation, anti-corruption investigating agencies (ACAs) and a dedicated anti-corruption court system. Enabling anti-corruption legislation dates as far back as 1860. At the federal level, the Federal Investigation Agency (FIA) has its roots in the Special Police Establishment created in 1942 to investigate corruption in the Supplies and Procurement Department of the Government of India. In 1999, the National Accountability Bureau (NAB) was established to investigate major corruption cases; in 2010, the Competition Commission of Pakistan was established as a watchdog to fight anti-competitive practices including collusion in procurement in the private sector. All the four provinces have Anti-Corruption Establishments (ACE). Additionally, there are single-mandate and general-mandate ombudsmen both at federal and provincial level.

26. Several other institutions also aim to check corruption and poor administration. The Chief Minister's Inspection Team holds and conducts inquiries into major public spending on behalf of the Chief Minister. The Chief Minister Complaint Cell also receives complaints on corruption and other issues from the general public and redresses the grievances of the public. Complaint Cells are also established at various levels of the Provincial Government, which redress complaints of corruption from the public.

27. Proactive feedback is also being sought from service beneficiaries to check petty cases of corruption in Punjab. The Freedom of Information law is passed by the cabinet. The establishment of an independent Information Commission will also help fight corruption. The Commission will deliver decisions instructing the government, courts, universities, police, and departments on how to share information of public interest. The free media in recent years has become an effective watchdog against corruption.

28. In addition, the Program will be implemented in accordance with the provisions of the Anti-Corruption Guidelines applicable to PforR operations. The modalities for implementing those include the following:

(a) The office of the Secretary of the Planning and Development Department will be the Punjab Government's focal office for the purposes of the application of these guidelines. It will also aggregate Program-related procurement corruption complaints by monitoring administrative inquiries and by maintaining liaison with ACE.

(b) Under the Program the Punjab government will undertake investigations- criminal and administrative - of all material and credible allegations of fraud and corruption, and keep the Bank abreast of their progress and findings and make public the conclusions.

(c) The Punjab government will provide the Bank with reports annually or more frequently as warranted, reporting allegations of fraud and corruption under the Program received and registered. It will also report on as well as related investigations and, as needed, the actions taken. Reciprocally, if the Bank finds evidence of corrupt practices, the Bank will, to the extent consistent with Bank policy, refer the case to the Punjab government for investigation under the relevant criminal and civil laws.

(d) If the Bank determines to conduct an administrative review into allegations or other indications of fraud and corruption in connection with the Program, conducted alone, together or in parallel with the government investigation, the Punjab government will cooperate fully with representatives of the Bank and take all appropriate measures to ensure the full cooperation of relevant persons and entities subject to the government jurisdiction in such investigation, including, in each case, allowing the Bank to meet with relevant persons and to inspect all of their relevant accounts, records and other documents and have them audited by or on behalf of the Bank. If the Bank finds evidence of corrupt practices, the Bank will refer the case to the Punjab government for investigation under the relevant criminal and civil laws. The Bank may, however, debar private individuals and firms on its own.

(e) The Bank's right to investigate or conduct review does not extend to criminal investigations, which is the exclusive jurisdiction of the Punjab government.

(f) The Punjab government will ensure that any person or entity debarred or suspended by the Bank is not awarded a contract under or otherwise allowed to participate in, the Program during the period of such debarment or suspension.

(g) The bidding documents will serve as bidders' source of information regarding the applicability of the Anti-Corruption Guidelines to the Program. Compliance will be verified through the Program's annual audits.

Program External Audit

29. The Bank encourages use of country systems and therefore most of the World Bank funded projects are audited by the Supreme Audit Institution of Pakistan. The current auditing arrangements at the implementing entities are summarized as follows: PRMP, PITB, LDA, BOR, PBIT and EPA, Urban Unit, PIEDMC, FIEDMC.

30. PRMP, PITB, LDA, BOR, PBIT and EPA are audited by the Auditor General of Pakistan (AGP) as the supreme audit institution of the country, whereas Urban Unit, PSIC, PIEDMC and

FIEDMC are audited by private sector Chartered Accountants firms. The private sector auditors are hired by the Board audit committees which are responsible for review of the audit reports before being approved by the Board. The audit reports of the entities for the last three years were reviewed as part of the assessment and it was found that unqualified opinions were issued to the entities concerned. It was also found that there were no significant unresolved audit issues or that have been reported to the Pakistan Audit Council. A significant audit backlog was observed for PSIC with the last audit performed was for the financial year 2009–10 compared to other entities the audited financial statements were issued within a year of the close of the financial year.

31. For each financial year, Program-level consolidated financial statements will be prepared and audited by the Auditor General of Pakistan (AGP) as the supreme audit institution of the country. Since the audit of Urban Unit, PSIC, FIEDMC and PIEDMC are already carried out by established Chartered Accountants firms it is recommended that the World Bank relies on those audited financial statements while auditing the program-level consolidated financial statements. The Program will be subject to annual audit by the Auditor General of Pakistan as the supreme audit institution of the country. Audited Program financial statements shall be furnished to the Bank within nine months of the end of each financial year. The Performance Audit Cell in the office of the Auditor General should train the auditors in program and procurement audit in addition to financial audit. Exceptions under PPR-2014 should be rule based.

32. Table 5.2 below summarizes the identified issues and proposed mitigation actions

Table 5.2. Risks Mitigation Plan

Area	Performance Indicator	Baseline	Monitoring Benchmark
a) Financial Management			
Planning and Budgeting	Implementation/budget plans for the Program with detailed costing and timelines developed by the implementing entities.	No plan available.	Implementation/budget plan approved by the relevant authority.
	Annual budget allocations for the Program made in accordance with the implementation plan.	No budget for the Program in financial year 2015–16.	Allocation for the Program activities in the annual budget from financial year 2016–17 onwards.
Funds Flow	Funds committed for the Program activities in annual budget released to the implementing entities in time.	–	Quarterly Budget Execution Reports.
Financial management capacity	Financial management and procurement capacity enhanced to ensure seamless implementation of program activities. This includes filling of vacant positions in FIEDMC, PIEDMC. One financial management specialist and accountant, two procurement specialists and one contract administration specialist with information technology background for PRMP. Rationalization of skill set in PSIC.	Staff strengthening in PRMP, filling vacant positions at FIEDMC, and PIEDMC and rationalization of staff in PSIC.	Staffing plan is included in the Program Action Plan.

Area	Performance Indicator	Baseline	Monitoring Benchmark
Accounting and Reporting	Process of preparing Program-level financial reports and entities to be included in the reports to be finalized.	Segregated financial reporting at individual implementing entities.	As indicated in the Program Action Plan. Program-level financial reporting arrangements with the Bank. Periodic Program-level financial reports prepared and reviewed by the management.
Internal Controls	PIEDMC and FIEDMC to compile detailed Financial Management Manuals for efficient operations. Establishing an effective program-level internal audit function at PRMP.	Lose leaf SOP's exists - not detailed. No Internal Audit function.	As indicated in the Program Action Plan. Plan to establish program-level Internal Audit Function at PRMP to be agreed with the Bank as indicated in the Program Action Plan.
Program Audit	Program external audits carried out in a timely manner and clear audit back log.	Program auditing arrangements does not exist and PSIC has audit backlog since 2010–11.	Program-level audit arrangements finalized and audited financial statements available within one year of the close of financial year.
b) Procurement Management			
Regulatory	Only principle-based exceptions from Rule 51 are resorted to discussion with Bank.	–	PRMP reports.
Procurement expertise	Entities lack in house capacity to customize the bidding documents.	–	Support in training and capacity building.
Corporate	In PIEDMC, a member of the Board of Directors is also a member of the evaluation committee.	–	Member of the Board should not be the member of evaluation committee.
Oversight	Procurements by all participating entities should be consistent with stipulated values under PforR.	–	All entities to endorse copy of their Procurement Plan being submitted by participating entities to PPRA.
Oversight	Complaint Management System is consistently implemented.	Most entities have a compliance centered system in place.	Procurement compliant management system provides reasonable assurance to private sector.
c) Fraud and Corruption			
Complaints redressal	Secretary P&D to establish a program-level complaint registration and follow up system.	–	Relevant process to be established.

Annex 6: Summary Environmental and Social Systems Assessment

1. The Environmental and Social Systems Assessment (ESSA) has been prepared by the World Bank for the proposed Punjab Jobs and Competitiveness Project and is included as a separate document. It includes the following information: (a) a summary of environmental and social risks and benefits associated with proposed activities required to achieve the PDO and the DLIs for each Results Area; (b) an assessment of the borrower's environmental and social (E&S) management systems which apply to these activities, their risks and benefits; (c) an evaluation of the borrower performance and track record in implementing their E&S management systems; (d) an assessment of the extent to which the borrower's E&S management systems are consistent with the World Bank's core E&S principles spelled out in Bank Policy and associated Guidance materials; and (e) a set of recommendations and actions which the borrower should undertake in order to improve the implementation of applicable systems.

2. This section summarizes the key findings of the assessment, including an evaluation of the technical risks, the suitability of the legal and institutional framework for Program systems, and the capacity for implementation of pertinent laws and regulations. It also summarizes the consultative process undertaken in the formulation of the assessment. Finally, the section includes a list of proposed activities to be carried out as part of the Program Action Plan. A summary table including technical and development activities is included at the end of this section.

Environmental and Social Effects

3. The environmental and social risks associated with the planning, construction and operation of industrial estates can be significant. Historically, developers and operators of industrial estates in Punjab have not given high priority to managing or mitigating environmental and social impacts. In many cases air pollution, industrial effluent, and poor management of solid waste from industrial estates have contributed to the deterioration of environmental quality with concomitant effects on human and environmental health as well as industrial and community safety.

4. Existing industrial estates in Punjab present numerous serious legacy environmental and social challenges. Left unattended or ignored, these problems will continue to cause significant environmental and social harm; however, they represent a very significant opportunity to improve the living conditions and reduce exposures to environmental contaminants. Strong evidence exists that shows that both market forces and pressure for improved regulatory compliance are creating opportunities for change.

5. The proposed PforR operation is consistent with the requirements of Bank Policy in that it does not undertake or support activities which are considered to be high risk from an environmental and social perspective. In fact, proposed measures to improve management of industrial estates hold much promise for great advances in the planning, construction and operations of these facilities. Nevertheless, it must be recognized that the environmental and social context of this operation is sensitive and potentially highly visible.

Assessment of Borrower Systems

6. The applicable Federal and Provincial Environmental and Social Management systems in Pakistan and Punjab Province – from a legal, regulatory and institutional perspective – are considered to be generally appropriate and comprehensive (with only a few gaps in relation to the principles of ESSA). The scope of the legal and regulatory systems are adequate to address underlying E&S risks, therefore, no significant changes to the overall structure of these management systems are required or proposed. The systems, on paper, are in many respects consistent with the principles and attributes of a well-functioning system as defined by Bank Policy.

7. However, the institutions, processes and procedures at the Provincial level are not supported by adequate human and/or financial capacity to operate the system as designed. Thus, the E&S management system still largely exists only on paper. To begin to address these capacity constraints and to close these important implementation gaps, an incremental step by step, risk-based approach is recommended throughout the life of the proposed operation.

Stakeholder Consultations

8. The preparation of the ESSA has been carried out in a participatory manner involving feedbacks and inputs from a number of key stakeholders working in government, private sector and non-governmental organizations. The World Bank team has used informal interviews and stakeholder dialogue, in combination with more formal and structured focus group and other public meetings, to solicit information relevant to the analysis and verify judgments made in the course of conducting this review. The World Bank team conducted numerous field visits to industrial estates in Punjab to interact with private sector, management boards, local and state government, international organizations, and subject matter specialists active in this field.

9. The ESSA was first published on November 25, 2015. The World Bank sponsored a multi-stakeholder workshop in Lahore on December 8, 2015. Participants included a range of stakeholders from government, international organizations, academia, private sector, local government and civil society. The ESSA has reflected concerns raised by incorporating suggestions both within the text of ESSA itself as well as in the more substantive recommendation and proposed actions. The final version of the ESSA was published on February 25, 2016.

Recommendations and Proposed Actions

10. The proposed PforR operation can be used strategically to begin to strengthen Punjab's E&S management systems by using a risk-based approach, starting with (a) reducing untreated effluent emissions from export led industries in industrial estates by the introduction of 2 Combined Effluent Treatment Plants (CETP), (b) by providing the human resource and financial means for EPA to do compliance monitoring of these estates and (c) by improving the capacity and practices around land acquisition process and labor practices within industrial estates.

11. These activities have been concretized as part of the DLI related to industrial estates (Spatial Development Result Area), which makes public support to industrial estates conditional to these improved environmental and social practices. As such, this requirement will have the

full force of legal covenants and will be the basis for funds disbursement under this proposed operation. The critical step of reinforcing the capacity of the EPA and the Industrial Estate Companies will constitute DLRs toward achieving the DLI related to industrial estates.

12. These activities are to be supported by technical support activities, included in PC-1 budgeted at US$4 million. Other technical support activities (budgeted for another US$3 million) will support broader capacity building activities, such as: (a) addressing solid waste management issues and other sources of pollution and resource use in the industrial estates, and (b) developing and adopting a sustainable framework for the industries.

13. With respect to social measures, the PforR will support the development of land acquisition and compensation procedures in relation to IEs. This will include the process for assessing land prices in line with market rates, compensation for assets and livelihoods for land owners, tenants and non-title holders. Recent projects such as the Lahore and Rawalpindi Metro Bus projects provide procedural precedence and like practices will be incorporated into the standard operating procedures for land acquisition for IEs. To improve social sustainability, IEs will also be expected to develop standard operating procedures for social and archaeological screening criteria for site selection.

14. Industrial Estate Development and Management Companies will improve stakeholder and public consultation to make the process more inclusive in accordance with the requirements of the EPA's Guidelines for Public Consultation. These guidelines will be followed for planning and conducting meaningful consultation for each stage of the social assessment. In the enforcement of labor laws, the Department of Labor and the IEs will work in close collaboration. A Labor Cell will be established within the Social Unit (at Company level) and IEs to liaise closely with the existing District Vigilance Committees (DVCs) on bonded labor. This Labor Cell will also liaise with the District Labor Officer to monitor and help create the conditions for the enforcement of existing labor laws. A system of Grievance Redress Mechanism will also be developed and implemented to deal with public complaints or disputes within an IE.

15. If the activities summarized below are successfully implemented, the overall environmental and social management systems in Punjab will be considerably strengthened and set on a more sustainable path. Based on the team's assessment, a number of specific recommendations and actions have been put forth to address E&S risks associated with the Program. Chapter 7 of the ESSA provides more detailed descriptions of the scope of these recommendations and provides indicative costs.

Social Aspects

16. The ESSA recommends undertaking the following social measures during the life of the project implementation:

- Establish Social and Labor Units to work on social dimensions of Industrial Estates.
- Develop Standard Operating Procedures (SOP) for Land Acquisition and Compensation and for Systematic screening for Physical Cultural Resources in the planning of IEs.

- Improve implementation of stakeholder consultations and outreach during planning and implementation phases of IE development.

- Improve the enforcement of labor and gender related regulatory framework within existing IEs.

- Develop, notify and implement standard operating procedures related to health, safety and environment as well as improve implementation of bylaws.

- Develop effective Grievance Redress Mechanisms (GRM) to allow for more effective communications between affected people, communities and managers of IEs.

Environmental Aspects

17. The ESSA recommends that the following actions be undertaken with respect to improving environmental management capacity:

- Undertake technical studies to address weak Management Information Systems.

- Establish an Environmental Research and Monitoring Center in EPA Punjab at Lahore (ERMC).

- Strengthen Human Resource Capacity through comprehensive training.

- Develop and elaborate industry specific pollution standards for Punjab.

- Conduct technical inventories of industrial waste streams.

- Complete technical pre-feasibility studies for landfills and/or other safe disposal sites for hazardous and non-hazardous waste generated at IEs.

- Develop and Implement Sustainability Frameworks for IEs.

- Promote Cleaner Production and Energy Efficiency Program (CPEEP) for SMEs outside of industrial estates.

Table 5.3. Technical Support and Development Activities

Activity	Implementing Agencies	Timeline for Completing Activity	Activity Cost (US$ million)	Baseline (October. 2015)	2020 Targets
Preparation studies and bidding documents for modernized management information system.	EPA	2016–2017	0.25	Inadequate rudimentary system.	Output-based – completed bidding documents for purchase of equipment and specialized training for information technology staff at EPA.
Establish Environmental Research and Monitoring Center (ERMC) in EPA Punjab at Lahore, fully equipped certified laboratory and systems for compliance monitoring of environmental licenses.	EPA	2016–2018	2.2	Partially functional laboratory that needs complete revamp.	Office space and structure made available by EPA, qualified staff hired, old laboratory equipment upgraded and new procured. ERMC laboratory fully functional with system of testing referrals. Three diagnostic studies on strategic issues completed. Established capability to test, analyze and develop database of emissions data for industrial estates with CETPs and key polluting industries, starting with tanneries.
Human resource capacity assessment, development of training curriculum and completion of training for identified technical staff at all levels	EPA	2016–2018	0.25	2015 capacity assessment.	Trained and certified staff, with capacity to operate the ERMC, and perform three other key functions of the EPA.
Preparation of Industry specific Environmental Quality Standards for Punjab.	EPA	2016–2017	0.25	None	Adoption of Standards.

Activity	**Implementing Agencies**	**Timeline for Completing Activity**	**Activity Cost (US$ million)**	**Baseline (October. 2015)**	**2020 Targets**
Public Sector Environmental Training and Dissemination Project.	PRMP	2016–2020	0.15	Understanding of PEPA 2012, its requirements and environmental issues is low among all levels of government departments.	About 1,000 officials of Punjab government sensitized, mobilized, and trained on environmental legislation and issues. At least the training shall reach to three tiers of departments.
Inventory of industrial solid and hazardous waste for the major cities of Punjab.	EPA	2016–2018	0.20	Rudimentary information available.	Study leads to further steps of feasibility and project development.
Pre-feasibility study of sanitary landfills for the major cities of Punjab.	EMC	2016–2018	0.15	Some scanty studies and works available.	Study leads to further steps of feasibility and project development.
Pre-feasibility study of industrial hazardous management and safe disposal facilities.	EMC	2017–2019	0.15	Scanty data available.	Study leads to further steps of feasibility and project development.
SUB-TOTAL FOR [17]ABOVE ACTIVITIES	–	–	**US$3.6 million**	–	–
Development, adoption, and implementation of sustainability frameworks for industrial estates.	Department of Industry, PIDMC, FIEDMC, PSIC	2017–2020	1.50	Generic Sustainability Framework of all industrial estates, Sustainability Framework of Sundar Industrial Estate, and Quaid-e-Azam industrial estates available for replication and	All industrial estates develop sustainability framework, 8 major industrial estates successful in implementing them, 10% decrease in water consumption, 10% decrease in energy consumption and carbon emissions, zero emissions of heavy metals, 30% solid waste reused and recycled, and improved

[17] Total EPA PC1 activities = .US$3.15m

Activity	Implementing Agencies	Timeline for Completing Activity	Activity Cost (US$ million)	Baseline (October. 2015)	2020 Targets
				implementation.	occupation, health and safety performance of industries and estates.
Cleaner Production and Energy Efficiency Program (CPEEP) for SMEs located outside industrial estates.	PSIC/CDI	2017–2020	1.50	Well tested knowledge, technologies, solutions exist in Pakistan for large and medium leather, textile, sugar, and paper industries.	In total 2,000 SMEs engaged and mobilized by the project for CPEEP solutions. SMEs reduce 5% of energy and carbon emissions, 10% water and resources consumption. Improvement in occupational, health, and safety performance.
SUB-TOTAL	–	–	**US$3.0 Million**	–	–
Development Cost for CETPs					
Three CETPs	Department of Industry/IE Companies	Year 2016 to Year 2023	50.00	Primary treatment for Kasur Tannery Cluster is operational with partial success and only 1% of industrial wastewater is treated	One CETP operational and two under construction as PPPs in existing industrial estates (see DLI 5)
SUB-TOTAL	–	–	**US$50.0 Million**	–	–
TOTAL	–	–	**US$55.9 Million**	–	–

18. These recommendations have been included as part of the Program Action Plan (see Annex 8). Their implementation will be essential as the EPA will play a key role to ensure proper implementation of the Program as follows:

- It will review the new industrial investments generated as part of DLI 3
- It will review the development and implementation of the Punjab Spatial Strategy (DLI 4)

- It will be part of the quality control carried out by the PPP Cell on the feasibility studies and negotiated contracts for the Industrial Estates and CETP PPPs before their presentation to the PPP Steering Committee (DLI 5).

19. A climate change screening was completed for the Program. Based on the ratings, current/historical risks are low; precipitation, flooding and drought pose the most notable risks to the subsector. However, these are comparatively low and impacts will be mitigated by the improvement in the systems and processes that the program will introduce. Future climate estimates do not provide clear direction on the scale or frequency of these events, so it is difficult to adequately assess what clear impacts will occur on the industrial sector. However, the introduction of CETPs will positively impact climate adaptation and resource efficiency use through the CDI will impact climate mitigation.

20. These recommendations follow the five principles of the Citizens Engagement Strategic Framework developed by the World Bank. First, it involves extensive stakeholder engagement which started during the preparation of the Punjab Growth Strategy and the development of the ESSA. Second, it is results focused making sure that the results from the consultations are being incorporated as discussed above in the case of the ESSA. Third, fourth and fifth, it seeks to strengthen country systems (this is at the heart of the Program for Results approach), it is context-specific and it is gradual (improved environmental and social practices will be first developed and implemented within industrial estates). Specific tools for citizen engagement include the Grievance Redress Mechanism instituted at the Industrial Estate level and public consultation mechanisms for establishment and operation of Industrial Estates in the Punjab. The firm in charge of verifying the results will also be monitoring the functioning of these citizen engagement mechanisms.

Annex 7: Integrated Risk Assessment

Note: L – Low; M – Moderate; S – Substantial; H – High

<table>
<tr><td colspan="5">1. PROGRAM RISKS</td></tr>
<tr><td>1.1 Technical Risk</td><td>Rating:</td><td colspan="3">Substantial</td></tr>
<tr><td rowspan="2">Description :
There is a technical risk stemming from program complexity with several implementing agencies involved and with capacity to be built up.</td><td colspan="4">Risk Management:
A major part of the PforR’s focus is to upgrade systems and build capacity as reflected in the DLIs. The Program entails extensive technical support to implementing agencies coordinated by a strong PRMP. The main activities are in the Program Action Plan as dated legal covenants. Progress will be monitored on a regular basis and the World Bank will provide implementation support through the US$4 million Investment Climate Project.</td></tr>
<tr><td>Resp: Client</td><td>Stage: Preparation</td><td>Recurrent</td><td>Status: In progress</td></tr>
<tr><td>1.2 Fiduciary Risk</td><td>Rating:</td><td colspan="3">Substantial</td></tr>
<tr><td rowspan="2">Description :
(a) Procurement delays due to variable procurement capacity can impact achievement of program objectives; (b) Program-level financial reporting and auditing arrangements need to be strengthened, as required to comply with standards; (c) Program budget may be re-appropriated as implementation plans with detailed costing have not been prepared and resultantly significant program expenditure has been budgeted as block grants.</td><td colspan="4">Risk Management :
(a) Procurement staffing and capacity building plan agreed with the Bank; (b) Program financial reporting and auditing arrangements agreed with the Bank (c) Implementing entities have prepared implementation plans with costing and the government is allocating budget as per the implementation plans with detailed classification (PC-1s).</td></tr>
<tr><td>Resp: Client</td><td>Stage: Preparation</td><td>Due Date : March 15, 2016</td><td>Status: Almost completed</td></tr>
<tr><td>1.3 Environmental and Social Risk</td><td>Rating:</td><td colspan="3">Substantial</td></tr>
<tr><td rowspan="2">Description :
1) Land acquisition for new IEs could impact existing households and businesses.
2) Current IEs do not have well-developed environmental management and reporting systems.
3) IEs have limited capacity to undertake the building, operation and maintenance of CETPs.</td><td colspan="4">Risk Management :
1) The Program will promote improved land acquisition process through the PPP process
2) The Program will provide support to IE companies to develop and implement environmental management and reporting systems in line with international standards.
3) The Program will promote the development and management of CETPs by world class private operators through PPPs.</td></tr>
<tr><td>Resp: World Bank</td><td>Stage: Preparation</td><td>Recurrent</td><td>Status: In progress</td></tr>
<tr><td colspan="5">2. OVERALL RISK RATING</td></tr>
<tr><td colspan="2"></td><td colspan="3">Substantial</td></tr>
</table>

Annex 8: Program Action Plan

1. This annex lists the key activities (legal dated covenants) that the government must undertake to support the realization of DLIs and improvements to related systems to achieve the PDO. These activities are all budgeted as part of the PC-1s that the government has prepared for supplementary allocation to the budget based on the gaps identified in the program expenditure review.

Action Description	DLI	Due Date	Responsible Party	Completion Measurement
Reinforcement of PRMP, starting with designation of project heads.	ALL	January 29, 2016	PRMP	Notification (completed).
Program Steering Committee set up to review progress on a quarterly basis.	ALL	First meeting: Sept 1, 2016	P&D (PRMP)	Minutes of meetings and supporting documents.
Development of Program Manual for activities related to PforR, including verification protocols.	ALL	February 12, 2016	P&D (PRMP)	Operational manual. (completed)
Internal and audit function in PRMP established.	ALL	December 31, 2016	P&D (PRMP)	Hiring of staff.
Staffing and operational manual of ICRU.	1	January 29, 2016	P&D	Hiring of staff. (completed)
Reinforcement of labor department to undertake labor reforms.	2	May 31, 2016	Labor Department	Issuance of contract for study.
Reform and reinforcement of PBIT.	3	December 31, 2016	DoI	Investor targeting system in place.
Establishment of the expert panel for the Punjab Spatial Strategy.	4	February 12, 2016	P&D	Terms of reference, notification, first review of terms of reference (completed).
Public disclosure of assessment of the panel of experts assessing the economic viability of proposed new sites for new city based on the pre-feasibility study.	4	Jan 1, 2017	P&D	Expression of interest, terms of reference, request for proposals, contract award, assessment of panel and decision taken by P&D, published.
Development of operating procedures and regulatory framework for enforcement of the spatial strategy.	4	Jan 1, 2018	P&D	Law/ regulation implemented.
Updates to the Medium Term Development Framework based on outcomes of the Punjab Spatial Strategy.	4	Jun 30, 2018	P&D	Updated Medium Term Development

				Framework.
Capacity building for line departments to submit sectoral plans for the Annual Development Plan consistent with the Punjab Spatial strategy.	4	Jun 30, 2019	P&D (UU)	Approvals in Annual Development Plan as per Punjab Spatial Strategy.
Reinforcement of capacity of DoI/PIEDMC/FIEDMC to build PPP pipeline and ensure compliance with higher labor and environmental standards.	5	December 31, 2016	DoI	Advisors on board and roadshow held.
Creation of Steering Committee to lead the institutional reforms to improve public support to industrial estates and clusters.	6	May 31, 2016	DoI	Notification.
PRMP to hire an FMS, two procurement and one contract management specialist, whereas PIEDMC and FIEDMC to fill their vacant positions of Manager Finance and Tax and Assistant Manager in the FM departments. PSIC to hire professional accountants and to rationalize existing staff in the finance department. The entities shall appoint and train the fiduciary management staff as identified above, with qualifications and on terms and conditions satisfactory to the Bank.	ALL	January 1, 2017	PRMP, PIEDMC, FIEDMC, PSIC	Existing vacant positions as well as identified new positions filled. PSIC staff rationalized and professional accountants hired. New staff hired trained.
PSIC to clear its audit backlog since 2010–11 by outsourcing it to a chartered accounts firm under multiyear audit engagement letter.	6	June 30, 2017	PSIC	Audit completed and audit reports presented to the Performance Audit Cell.
Establish an effective internal audit function at PRMP. Internal audit to carry out financial management, procurements, fixed assets and performance audit at the Program level and reports to the Program Steering Committee on a quarterly basis.	ALL	January 1, 2017	PRMP, P&D	Plan to establish Internal Audit Function agreed with the Bank. Staff hiring completed and IA function established. Program-level internal audit carried out and reports submitted to Program SC.
Complaint Management System is consistently implemented.	ALL	January 1, 2017	PRMP	Implementation of Complaint

				Management System.
Establishment of Social Units in PIEDMC/FIEDMC.	2	January 1, 2017	IE companies	
Capacity building and establishment of Environmental Monitoring center and management information system for EPA.	5	January 1, 2017	EPA	
Implementation of the Recommendations of Section 7 (Recommendations and Proposed Actions) of ESSA.	2 and 5	June 30, 2019	EPA, Labor and Women Development Departments, IE companies	Environmental and Social Reporting and supervisions' reports.

Annex 9: Implementation Support Plan

1. This annex describes how the Bank and other development partners will support implementation of the Program, with particular emphasis on: (a) reviewing implementation progress (including that of the Program Action Plan) and achievement of Program results and DLIs; (b) providing support on resolving emerging Program implementation issues and on building institutional capacity; (c) monitoring the adequacy of systems performance, and monitoring compliance with legal agreements; and (d) supporting the government in monitoring changes in risks.

2. The PforR will require considerable support from the World Bank team during implementation particularly in strengthening the capacity of implementing agencies to plan for program activities and coordinate implementation across several departments and agencies. In addition to the Bank Budget allocation for supervision, a US$4 million DFID trust fund will support the implementation of the Program.

Table 9.1. Main Focus of Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
Year 1	Support to implementing agencies to finalize program plans and begin implementation.	Technical skills in Program areas and client engagement skills.	Monthly discussions with the client to review plans and progress; 3 main missions.	Available to meet with Bank staff to discuss plans and progress.
Year 2–5	Quarterly reports and discussions with implementing partners to review progress and advise on course correction.	Technical skills in Program areas and client engagement skills.	Quarterly progress review meetings; 3 main annual missions.	Available to meet with Bank staff to discuss plans and provide data to assess and monitor progress.
Other	Independent results verification.	Independent specialists specific to relevant results areas.	Quarterly progress review and missions.	Participating as observers.

3. During the first year, the following skills mix and level of support is anticipated from the Bank team (a similar level of effort is anticipated on an annual basis):

Table 9.2. Task Team Skills Mix Requirements for Implementation Support

Skills Needed	Number of Staff Weeks	Number of Trips
Team lead	16	4
Doing Business methodology	1	–
Business registration specialist	4	2

Skills Needed	Number of Staff Weeks	Number of Trips
Contract enforcement specialist	4	2
Construction permit specialist	4	2
Property registration specialist	4	2
Labor Law and Gender Specialist	4	2
IPA specialist	4	2
Spatial planning specialist	10	4
PPP specialist	4	2
Industrial estates specialist	4	2
Cluster expert	8	3
FM specialist	4	2
Procurement specialist	4	2
Environmental specialist	8	2
Social specialist	2	2
M&E specialist	4	2