

**INSPECTION REQUEST:
KORANGI WASTEWATER MANAGEMENT PROJECT
(LOAN NO. 1539-PAK)**

A. Introduction

1. The Korangi Wastewater Management Project (Pakistan) (RRP: PAK 26424) was approved by the Board on 18 September 1997. The Project will provide a sewage treatment plant and a sewerage network to the Korangi/Landhi area of Karachi for environmental improvement. It will also provide implementation assistance and institutional support to the Karachi Water and Sewerage Board (KWSB) for private sector participation in KWSB operations (RRP–Appendix 1).

2. The Citizens Alliance in Reforms for Efficiency and Equitable Development (CREED) (Letter of 5 November 1997–Appendix 2) requested the Board Inspection Committee (the Committee) for a review of this Project. CREED indicated the following reasons for initiating an inspection request.

- (i) grave problems in design, financing, and implementation arrangements; and
- (ii) failure to undertake serious consultations with beneficiaries and citizens.

B. Procedures Followed by the Committee

3. The Committee considered this request at a formal meeting held on 25 November 1997. The Committee felt that, although CREED had raised issues pertaining to the Project with the Resident Mission in Pakistan and with staff involved in processing the Project, no formal complaint had yet been raised with Management. Therefore, in accordance with Section 37 of the Inspection Committee Procedures approved by the Committee on 9 October 1996, the Committee forwarded this request to Management to be handled in the same manner as an initial complaint.

4. On reviewing the request, Management encountered certain information gaps. Accordingly, per Management's letter of 3 December 1997 (Appendix 3), CREED was asked to provide the information that is necessary to be furnished in accordance with the provisions of the Inspection Policy. Copies of the Inspection Policy and Operations Manual were also sent to CREED.

5. CREED was not satisfied with this response (CREED's letter of 5 January 1998–Appendix 4). In response to Management, CREED indicated that Management was focusing on procedural matters, and highlighted a number of omissions that violated Bank policy, thereby warranting a review. These were:

- (i) lending and relending, and formulation of loan covenants—given the Bank's full knowledge of government strategy and schedule of privatizing the KWSB;
- (ii) processing of loan proposals—requiring adequate debate, dialogue, and participation by all parties concerned;

- (iii) benefit monitoring and evaluation with its emphasis on benchmark information;
- (iv) incorporation of social dimensions—which emphasizes a proactive approach to obtaining consensus among shareholders;
- (v) good governance—with its determination for accountability, participation, and transparency; and
- (vi) economic analysis—requiring vigorous cost-benefit analysis of alternatives.

6. This letter was further reviewed by Management, and a detailed response dated 28 January 1998, with all clarifications was sent to CREED (Appendix 5). Management clarified that there were no specific grounds in CREED's letter that warranted an inspection. Therefore, in the absence of specific objectives, it was found adequate to respond to the broad area of concern unless detailed information were provided.

7. CREED renewed its request with the Committee (CREED's letter of 9 February 1998—Appendix 6), asking for an independent comprehensive review of the Project. CREED also asked for suspension of all loan processing and Project implementation pending such a review.

8. The Committee, in its meeting of 26 February 1998, discussed this request. After detailed discussions, the Committee concluded that CREED was unable to clarify how the request fell within the purview of the Inspection Policy. The Committee also noted that Management's letter of 3 December 1997 had requested CREED to furnish information that was necessary to be furnished under para. 23 of the Inspection Procedures¹ before any request could be considered. CREED had not responded or clarified this specific issue. However, taking a broader view, the Committee decided to again ask CREED to furnish information that is mandated under the Inspection Procedures (Committee's letter to CREED dated 5 March 1998—Appendix 7).

9. CREED responded to the Committee through its letter of 22 April 1998 (Appendix 8). In a formal meeting on 20 May 1998, the Committee discussed the matter. The Committee noted that CREED had not provided answers to satisfy the provision under para. 23(e) of the Inspection Procedures, viz., "an explanation of how the sender (or the group the sender represents) has been or is to be directly and materially harmed by the Bank's act or omission, and what rights or interests of the group have been or

¹ Paragraph 23 of the *Inspection Procedures* states:

The Complaint should contain the following information: (a) brief description or identification of the project (a map or diagram may also be provided if relevant); (b) an identification of the sender (or the group the sender represents); (c) brief description or identification of the Bank's operational policies and/or procedures that the sender believes have been violated; (d) a description of the act or omission by the Bank that the sender believes have led or may lead to this violation; (e) an explanation of how the sender (or the group the sender represents) has been or is likely to be directly and materially harmed by the Bank's act or omission, and what rights or interests of the group have been or likely to be adversely affected; and (f) if some of this information cannot be provided, an explanation of why this is so.

likely to be adversely affected.” However, CREED had raised a number of issues relating to the Project, viz., nonparticipation, Project design, benefits to consumers, and cost-benefit analysis.

10. The Committee noted that, under the Inspection Procedures (para. 23) unless CREED fulfilled the requirements needed of a complainant, it did not meet the eligibility criteria to file a request for review or inspection. The Committee also noted that both Management and the Committee has asked CREED for specific responses, but there were no answers except the indication that, as taxpayers, they would be burdened with additional taxes. Therefore, unless there was a definitive basis for determining that the requester was not clearly ineligible to file a request for review or inspection, the Committee could not proceed in the matter. Nonetheless, since CREED had simultaneously raised a number of issues that could be of concern, the Committee once again decided to take a broader view and requested Management to:

- (i) examine the issue of eligibility and provide the Committee with an assessment whether the requestor was eligible to request a review under the Inspection Procedures; and
- (ii) respond to the substantial issues raised by CREED through its response of 22 April 1998 mentioned at para. 9 above.

11. Management responded to the Committee through its letter of 22 June 1998 (Appendix 9). On the issue of eligibility, Management’s response states:

According to the Bank’s Inspection Policy, the alleged aggrieved party should provide to the Bank details on how it has been or is likely to be directly or materially harmed by the Bank’s act or omission, and what rights or interests of the group have been or are likely to be adversely affected (see Inspection Procedures, paragraph 23(e)). CREED has failed to demonstrate how the Bank’s actions at the project preparation phase (feasibility and loan processing) have materially harmed or affected it, apart from stating that funding and operating the Project will be an additional burden on the taxpayers. As far as the Bank staff know, none of the CREED partners live in Korangi or Landhi (the Project area). It should be noted that mere physical presence in the Project area does not satisfy the criteria of direct or material harm which at a minimum would require physical or material financial effect. Further, we are not aware whether CREED has been authorized to represent this case by the residents of the area.

12. With regard the other issues also, Management clarified that the Project did not in any manner fail to ensure that the Bank’s operational policies and procedures had not been followed.

13. The Committee considered the matter at its formal meeting of 29 June 1998. The Committee concluded that, despite several requests, CREED had not responded to the specific queries to prove that it was not ineligible to make the request—either as an affected group or as a group representing the affected persons and having been duly authorized by affected group/groups. The fact that it is not eligible to make the request has been further clarified by Management. The question remained how its status

as a group of taxpayers impacted on its ineligibility. The Committee concluded that this was a much wider issue but not directly relevant to this case, since the Project loan was to be repaid by user fees and not out of general tax revenues. Hence, taxpayers would not be burdened with repaying the Bank loan.

14. The Committee, therefore, unanimously concluded that CREED is clearly ineligible to request for an inspection or review¹. Accordingly, the Committee decided to recommend to the Board that an inspection is not warranted. Moreover, investigations have also revealed that Bank policies and guidelines were not violated during Project formulation and processing.

C. Recommendation

15. In accordance with para. 42 of the Inspection Procedures, the Committee recommends that no inspection or review be authorized.

¹

One Committee member was not present at the meeting. This member has subsequently indicated non-agreement with the Committee on the question of CREED's clear ineligibility to file the request.