



Technical Assistance Report

Project Number: 38408
December 2005

Technical Assistance Islamic Republic of Pakistan: Preparing the Mega City Sustainable Development Project

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 7 December 2005)

Currency Unit	–	Pakistan rupee/s (PRe/PRs)
PRe1.00	=	\$0.0167
\$1.00	=	PRs59.80

ABBREVIATIONS

ADB	–	Asian Development Bank
CDGK	–	city district government of Karachi
DOF	–	Department of Finance
EA	–	Executing Agency
FIL	–	Financial Intermediation Loans
HRD	–	human resource development
IFI	–	international financial institution
GOS	–	government of Sindh
MTDF	–	Midterm Development Framework
NGO	–	nongovernment organization
PPID	–	Private Participation in Infrastructure Development
SFV	–	specialized financing vehicle
TA	–	technical assistance
TMA	–	town municipal administration

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Multisector
Subsectors	–	Water supply and sanitation, waste management, integrated, multimodal transport
Themes	–	Sustainable economic growth, governance
Subthemes	–	Developing urban areas, public governance

NOTE

In this report, "\$" refers to US dollars.

Vice President	L. Jin, Operations Group 1
Director General	K. Senga, South Asia Department (SARD)
Director	H. Kim, Social Sectors Division, SARD
Team leader	G. Cezayirli, Senior Urban Development Specialist, SARD
Team members	A. Mehta, Financial Management Specialist, Regional and Sustainable Development Department

I. INTRODUCTION

1. In its Midterm Development Framework (MTDF), the Government of Pakistan (Government) underscored the importance of mega cities to national development. The MTDF acknowledged that, in the contemporary age of global competition among the world's cities, Pakistan's development increasingly depends on the potential of its mega cities to attract private investment by offering high-quality public services and good governance. The MTDF reaffirmed the Government's commitment to developing its large cities as competitive, sustainable centers. The Government formed a high-level committee, chaired by the Planning Commission, for coordinated development of mega cities, starting with Karachi as the central plank of its long-term development strategy.

2. Given the immense size of the mega city Karachi, the magnitude of its investment requirements, and the scale of the need for policy reforms, both the Asian Development Bank (ADB) and the Government have recognized that the needs of the mega city cannot be addressed with a one-off approach, but rather require a series of appropriately sequenced interventions. Accordingly, ADB's Country Strategy and Program Update (CSPU) for 2005–2006 included a technical assistance (TA) loan in 2005, to be followed by an investment loan in the 2006. The TA loan, which is currently being processed, aims to establish a foundation for effectively utilizing and sustaining future investments in the mega city through support for long-term capacity building, a facility for project preparation, and a mechanism for sustainable financing of the mega-city infrastructure. The policy dialogue held during the processing of the TA loan, indicated strong commitment from the Government to accelerating reforms for sustainable financing of mega-city infrastructure through establishing a specialized financing vehicle (SFV). ADB has agreed to support the feasibility and design of a financing vehicle under a project preparatory TA that will also prepare a mega-city investment project for possible ADB financing.

3. A fact-finding mission visited Karachi and Islamabad from 6 to 10 September 2005 to formulate the TA¹ for the Mega City Sustainable Development Project. The Mission met representatives of the federal, provincial (Sindh Province), and city district (Karachi) governments and other stakeholders. Based on discussions with stakeholders, a review of related documents, and the experience of earlier ADB assistance in Pakistan, the Mission reached an understanding with the Government on the scope, costs, financing plan, and implementation arrangements of the TA. The preliminary design and monitoring framework is in Appendix 1.

II. ISSUES

4. With 34% of its population living in urban areas, Pakistan is the most urbanized country in South Asia. It has an urban population of 52 million, projected to increase to 63 million in 2010. Karachi, Pakistan's main commercial hub and trade center, is among the 30 largest cities in the world. Its estimated population of 12.5 million is growing at a rate of 4.5% per annum. Karachi accounts for 95% of Pakistan's foreign trade and 30% of Pakistan's industrial production. Almost 90% of the head offices of financial institutions and multinational companies are located in Karachi. The city generates about 20% of the national output, creates more than 30% of value added in large-scale manufacturing, and accounts for 25% of national revenues. More importantly, the city provides jobs for a large population - 40% of national employment in large-scale manufacturing is based in Karachi.

5. However, the potential of the mega city to contribute to the economic and social development of the country has been severely constrained by a deteriorating urban environment and declining livability. Development is taking place haphazardly. Urban infrastructure and services are deficient. While an estimated 82% of households have access to the water supply network, water is available only for a few hours every other day. An estimated 89% of households have toilets, but the sewerage network suffers from poor connectivity and disrepair. Sewerage treatment is inadequate,

¹ The TA first appeared in *ADB Business Opportunities* (internet edition) on 3 October 2005.

with much of the untreated wastewater being discharged into the stormwater drainage system, rivers, or the sea. Only about 60% of the solid waste generated is lifted; of this, no more than 25% makes it to one of the two landfill sites. Large portions of the drainage network are used for waste disposal. There is no mass transit system and the city residents rely almost entirely on the road network with rapidly increasing numbers of vehicles leading to congestion and increasing rates of road accidents. Vehicle-generated air pollution, depletion and pollution of water resources, flooding, and land contamination are among the major environmental problems adversely affecting the health of city residents, especially the poor. About 40% of the city residents live in squatter settlements with limited or no public services (see the poverty and social analysis in Appendix 2). Inadequate urban services drive up costs for businesses and slow urban economic growth. In short, haphazard development and environmental deterioration compromise the key role the mega city should be playing in the development of Pakistan.

6. The poor performance in the provision of infrastructure and services in the mega city of Karachi is largely an outcome of inadequate institutional and financial frameworks. The Government's devolution reforms of 2001, which transferred functional, fiscal, and administrative authority to local governments, ushered in a need for more effective service delivery and better governance at the local level. The city district government of Karachi (CDGK) became the central player in managing the city's affairs, while the town municipal administrations (TMAs) of 18 towns were tasked with core municipal functions. Although the devolution provided good opportunities for improved service delivery, it left many issues to be addressed, including (i) unclear and incomplete allocation of responsibilities between different levels of government, (ii) the inadequate capacity of the city and its towns to fully meet their new responsibilities, and (iii) a fiscal imbalance and limited local revenues.

7. It is essential to undertake further reforms if the devolution is to yield the intended benefits for improved mega-city governance and service delivery. Such reforms should include (i) clarification of roles and responsibilities among levels of government, as well as within the CDGK; (ii) addressing the fiscal imbalance within the devolved setup; (iii) resource mobilization at the local level and a supportive foundation for appropriate tariff schedules; (iv) an improved regulatory framework for city planning, management, and service delivery; (v) corporate reforms for infrastructure and service provision within CDGK and its utilities; (vi) improved financial management; and (vii) better preparation and management of bankable projects so that assets are created quickly and revenues from investments accrue without delay. The TA loan being currently processed is aimed at supporting these reforms through its emphasis on building the capacity of city agencies and improving project preparation.

8. It is also increasingly recognized by all levels of government that traditional sources of funds are not sufficient to meet the huge infrastructure needs of the mega city. The CDGK's and TMAs own-source revenues, made up of property taxes, land revenues, entertainment taxes, and service charges, cannot even meet the cost of operation and maintenance of existing infrastructure, let alone new capital investments. Allocations from the provincial and federal governments only scratch the surface of the massive infrastructure needs of the city. The CDGK's midterm development plan estimates that Karachi requires about \$1.165 billion in short-term infrastructure investments. Based on methodology that relates per capita income growth to expanded urban infrastructure needs, estimates suggest that from \$0.5 billion to \$1.0 billion per year is required to maintain an adequate stock of infrastructure in Karachi.

9. The funding gap in meeting the city's infrastructure requirements will need to be met through alternative financing. The State Bank of Pakistan's recently published *Guidelines for Infrastructure Project Financing*² seem to recognize this. These guidelines aim to make it easier for banks and development finance institutions to finance infrastructure. However, existing financial

² State Bank of Pakistan. 2004. *Guidelines for Infrastructure Project Financing*. Karachi.

institutions have limited experience with the types of financing needed for urban infrastructure projects. They are also unwilling to lend money for urban infrastructure projects because of perceived repayment risks. Conversely, neither the CDGK nor TMAs have any direct experience with commercial financing and capacity to operate within the hard budget constraints associated with and required by commercial lending and private financing. Hence, there is a need for a dedicated financing entity³ specializing in urban infrastructure that could prepare Karachi city agencies to access commercial financing, and translate the need for nongovernment financing into actual demand.

10. Experience⁴ with similar financing vehicles, both within and outside the region, suggests that when designed and resourced in an appropriate manner, such vehicles can be important catalysts in commercializing the provision of infrastructure. Through tying funds allocation to commercial principles, an SFV can provide an incentive mechanism for enhancing tariff structures, enforcing financial discipline, improving budgeting, auditing, and disclosure standards, and improving credit worthiness at the CDGK, TMAs, and their utilities. The SFV can also help create a local debt culture by allowing the CDGK and TMAs to gain experience with credit and establish a reliable track record for future borrowings. CDGK and its utilities can then begin to make the transition toward commercial financing of infrastructure and services. In the medium to long term, with enhanced local capacities and a maturing financial market, the SFV can act as an agent to mobilize funds from nongovernment sources, including international finance institutions, domestic and international commercial lenders, and capital markets for mega-city infrastructure and services.

11. Despite its massive investment needs, the mega city has received little assistance from ADB to date. In the past the World Bank has given Karachi assistance in the water supply and power sectors. The Government of Japan recently became active in supporting projects related to water supply, sewerage, transport, and mega-city planning. ADB's only two loan projects⁵ were 20 years ago and 15 years ago. Those projects, which were evaluated as "unsuccessful" and "partially successful", showed that there is a need for (i) greater attention to sustainability, (ii) enhanced project design, (iii) careful consideration of institutional shortcomings, and (iv) greater efforts to address the problem of financial insolvency within Karachi local government bodies. These lessons suggest that piecemeal approaches to urban development are likely to fail. To be of lasting value, capital investments need to be supported by policy, legal, regulatory, and institutional reforms, capacity building, and innovative financing mechanisms that facilitate sustainable provision of high quality infrastructure and services.

12. Mega city development requires a holistic approach that entails (i) long-term, integrated investments in improved urban infrastructure and services; (ii) additional reforms for enhanced mega-city governance and management; and (iii) innovative financing mechanisms for mega-city development. The TA is needed to (i) conduct a feasibility and design analysis of an SFV for the mega city infrastructure and services, and (ii) assess the feasibility of an investment loan for improving and expanding infrastructure and services in the mega city. The TA conforms with ADB's CSPU for 2006–2008 which emphasize good governance, sustainable economic growth, and inclusive development.

³ This was a major finding and proposal of ADB. 2005. *Technical Assistance to the Islamic Republic of Pakistan for Mega City Development*. Manila (TA 4578-PAK, approved in April, for \$150,000).

⁴ Tamil Nadu Urban Development Fund, initially set up as a municipal fund to provide debt finance to Indian municipalities, has (i) been transformed into a fully commercial vehicle attracting commercial and private funds, and (ii) played a major role in building the capacities of municipalities for preparing bankable projects and operating within hard budget constraints.

⁵ ADB. 1986. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Islamic Republic of Pakistan for Karachi Urban Development Project*. Manila (Loan 793-PAK, approved in 1986, for \$55 million); and ADB. 1990. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Islamic Republic of Pakistan for Karachi Sewerage Project*. Manila (Loan 1002-PAK, approved in 1990, for \$34 million).

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

13. The expected impact of the TA is to improve the quality of life for mega city residents, including the poor, in a sustainable manner. The anticipated outcomes are (i) an agreed-upon design and action plan to establish and operationalize an SFV for the mega city, and (ii) an investment loan project for mega-city infrastructure and services development that is suitable for ADB financing. The TA will have two overlapping parts: (i) part A: Specialized Financing Vehicle; and (ii) part B: Mega City Investment Project.

14. Part A will assess the feasibility and design of an SFV that will (i) in the short term, act as an efficient conduit to channel development funds, including ADB funds, to Karachi's infrastructure and services; (ii) be a catalyst in the transition toward commercial financing of mega city infrastructure and services; and (iii) in the medium to long term, mobilize funds from nongovernment sources to finance the mega city's large-scale infrastructure needs.

15. Part B will support the feasibility assessment of and proposal for an investment project placed into a broader mega city development context, including a medium term mega city infrastructure investment plan and an agenda for policy and institutional reforms. The investment project will address the urban infrastructure and service needs in a programmatic manner, and will leverage reforms for more effective and sustainable service delivery in the mega city. Given the need for an integrated, long-term approach to mega-city development and the need for significant policy and institutional reforms, the ensuing project is expected to adopt the modality of a sector development program or sector loan. The ensuing project will complement and benefit from the TA Loan Project which will support preparing subprojects and building capacity within city agencies. The project will also have synergies with the Private Participation in Infrastructure Development (PPID) Project currently being processed by ADB.

B. Methodology and Key Activities

16. Part A of the TA will undertake a full-scale feasibility assessment and design of an SFV. The work will build on preliminary assessments undertaken by a small-scale TA (footnote 3). Part A will develop design features, the legal structure, a strategic road map, and SFV product and service types. A financial analysis will be carried out to ensure the SFV's viability and sustainability. More specifically, part A will include (i) a full analysis of economic and financial market conditions and trends; (ii) an analysis of the potential SFV market and the quality of potential borrowers and projects; (iii) an evaluation of design features, followed by the selection of an overall SFV design that best meets Karachi's needs; (iv) selection of an existing financial intermediary, government partners and/or private sector partners to work on the detailed design of the SFV; (v) a marketing plan; (vi) an estimate of the financing required to make the SFV operational and viable; (vii) a detailed financial analysis, including identification of risks and uncertainties; (viii) preparation of the business case and business plan; (ix) a strategic road map for SFV; and (x) preparation of the operations manual. Ownership and management structures of the SFV will be carefully designed to ensure professional, autonomous management and strong representation of stakeholders at the board level, which will maximize the vehicle's positive effect on reforms. Due attention will be paid to analyzing the role of the SFV within the current governance framework to ensure that the SFV enhances the devolved structure. The SFV's role in providing technical services for preparing bankable projects will be assessed and the institutional modality of such services will be determined. The TA will also identify necessary time-bound reforms that various levels of government need to undertake in order to establish the SFV.

17. Under part B, the TA will assess the feasibility of a loan combining long-term investments with critically needed reforms. The TA will (i) elaborate the analysis of mega city policies, institutions, governance, and management structures that were undertaken during the processing of the TA loan;

(ii) develop the mega city reform agenda; (iii) develop an updated medium-term mega city infrastructure investment program providing coherent and progressive framework for integrated investments; and (iv) select the first set of high-priority, bankable subprojects, whose feasibility will be completed under the TA. The TA will further assess the use of the multi-tranche financing facility and the requirements for appropriate phasing and grouping of subprojects and reforms. An assessment of the feasibility of channeling loan funds through the newly established SFV will also be made. The TA will assess whether the SFV is eligible to be used as a conduit to channel loan funds to the mega city in accordance with ADB policies on financial intermediation loans (FIL). In the event that the SFV fails to meet the eligibility criteria, the TA will develop measures for the SFV to meet these criteria in accordance with a time-bound action plan acceptable to ADB and the Government. The TA will also assess the eligibility of the proposed subprojects for FIL in accordance with criteria stipulated and defined by ADB's FIL policy.

C. Cost and Financing

18. The total cost of the TA is estimated at \$1.250 million equivalent, comprising \$737,000 in foreign exchange costs and \$513,000 equivalent in local currency costs. The foreign exchange costs and \$263,000 equivalent in local currency, totaling \$1 million, will be financed on a grant basis by ADB's TA funding program. The Government will procure that the government of Sindh (GOS) will provide \$250,000 equivalent to cover the cost of remuneration of counterpart staff, office accommodation and facilities, transportation for counterpart staff, and workshop facilities. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing project. Details of the cost estimates and financing plan are in Appendix 3.

D. Implementation Arrangements

19. The Department of Finance (DOF) of the GOS will be the Executing Agency (EA) for the TA. With the ample capacity, a proper mandate, and a cadre of professional staff able to provide technical and policy guidance, DOF is considered suitable to execute the TA—and especially to guide the design of the SFV. The EA will closely coordinate with the TA loan activities. A TA support unit will be established in the EA. The EA will provide administrative and technical support and logistics for consultants. The TA support unit will have a fulltime director supported by qualified professional staff, including staff members seconded from the CDGK. A high-level TA steering committee comprising representatives of the federal government, relevant GOS departments, and CDGK will be formed. The TA steering committee will provide policy support, oversee TA progress, facilitate cooperation among agencies, and provide inputs into the TA outputs at key stages. Equipment provided under the TA will be turned over to the EA upon completion of the TA.

20. The TA will be undertaken by a team of international and domestic consultants to be engaged as individuals or as a firm in accordance with the ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. In case of firms' engagement, quality-based selection will be used as the failure of the TA will significantly impact on a large mega city population as well as the Government and ADB financing. About 50 person-months of consulting services (25 international and 25 domestic) will be required. The team will comprise international experts (person-months are in parenthesis) in urban development/engineering/team leader (5), strategic infrastructure planning (3), urban governance (2), economics (2), financial analysis/municipal finance (2), urban infrastructure finance and SFV (5), project and corporate finance and private–public partnership (3), and corporate structure, planning, and management of SFVs (3). The domestic consultants will be experts in urban planning, infrastructure finance, project financing and SFV, financial and project economics, corporate structure and management, environment, water and sanitation, transport, social development and urban upgrading. Outline terms of reference for consulting services are in Appendix 4.

21. The TA will be implemented over 9 months from February 2006 to October 2006. The consultants will submit an inception report, including details on the approach, scope, and work

program, within 1 month. An interim report will be submitted within 4 months, containing (i) the feasibility and preliminary design of the SFV; (ii) mega city medium-term infrastructure investment program, and a policy and institutional reform agenda; and (iii) proposals for the priority subprojects. A draft final report, to be submitted within 6 months of the TA commencement will comprise (i) the detailed design of the SFV, including all documentation required to establish the SFV; (ii) analysis of the feasibility of selected bankable subprojects; (iii) an assessment and proposal for channeling the ensuing investment loan through the use of a multi-tranche finance facility; (iv) an analysis of the feasibility of using the SFV as a conduit to channel ADB loan funds to the mega city; (v) necessary safeguard frameworks and plans; and (vi) project costs, financing arrangements, and implementation arrangements. ADB will hold tripartite meetings with the government and consultants at inception, interim, and draft final stages. Workshops will also be held to discuss interim and draft final reports with stakeholders. A final report will be submitted 1 month after the Government and ADB comment on the draft final report.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,000,000 on a grant basis to the Government of Pakistan for preparing the Mega City Sustainable Development Project, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact <ul style="list-style-type: none"> Improved quality of life for urban residents, including the poor, on a sustainable basis. 	<ul style="list-style-type: none"> City environment improved (percentage of city population with access to urban services increased).^a Poverty incidence reduced (percentage of population in katchi abadis [squatters' villages] with access to urban services increased).^a City productivity increased (city's contribution to the national gross domestic product increased).^a 	<ul style="list-style-type: none"> Federal, provincial, and city government statistics. Reports of bilateral and multilateral organizations and NGOs. 	Assumptions <ul style="list-style-type: none"> Government of Pakistan, GOS, CDGK, and TMAs remain committed to sustainable mega-city development. Project implemented effectively. Risk <ul style="list-style-type: none"> Delay in project implementation.
Outcome <ul style="list-style-type: none"> An agreed-upon design of (i) a specialized financing vehicle and (ii) a loan for the Mega City Sustainable Development Program. 	<ul style="list-style-type: none"> Aide Memoire of the ADB appraisal mission confirmed by the Government in 2006. 	<ul style="list-style-type: none"> ADB Mission's Aide Memoire. 	Assumption <ul style="list-style-type: none"> A high-quality project preparatory TA final report, providing good analysis and proposals tailored to the mega city, is prepared on time. Risk <ul style="list-style-type: none"> Lack of consensus within the Government and between the Government and ADB with respect to the mega-city reform agenda and the design and role of the SFV.
Outputs Part A <ul style="list-style-type: none"> Feasibility assessment and design for the SFV, including (i) rationale, mission, and objectives; (ii) ownership, legal and taxation, and managerial structures; (iii) business plan and strategic road map, with details on products and services; (iv) human resource and marketing strategy; (v) operations manual; and (vi) action plan to establish the SFV. 	<ul style="list-style-type: none"> Draft final report containing feasibility assessment and design of SFV submitted to the Government and ADB by August 2006. 	<ul style="list-style-type: none"> ADB document registration ADB review missions 	Assumptions <ul style="list-style-type: none"> Qualified consultants are mobilized in a timely manner. A good, viable design that best meets Karachi's needs is developed. Close consultation with GOS, CDGK, and other stakeholders takes place during project preparation. Sufficient resources and timely inputs are provided to support implementation of the TA by ADB and the Executing Agency. Risk <ul style="list-style-type: none"> Delay in TA implementation.
Part B Outputs <ul style="list-style-type: none"> A proposed project including (i) a mega-city medium-term investment program, (ii) a policy and institutional reform agenda, (iii) first batch of feasible and 	<ul style="list-style-type: none"> Draft final report containing the feasibility and design of a proposed project submitted to Government and ADB by August 2006. 	<ul style="list-style-type: none"> ADB document registration. ADB review missions. 	Assumptions <ul style="list-style-type: none"> Qualified consultants are mobilized in a timely manner. Close consultations with CDGK, GOS, and other stakeholders are undertaken during project

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
bankable subprojects and (iv) costs, financing plan, modes of channeling funds, and implementation arrangements.			preparation. <ul style="list-style-type: none"> ▪ Sufficient resources and timely inputs are provided to support implementation of the TA by ADB and the Executing Agency. Risk <ul style="list-style-type: none"> ▪ Delay in TA implementation.
Activities with Milestones <ol style="list-style-type: none"> 1. Form TA support unit by January 2006; form TA steering committee by January 2006. 2. Recruit and mobilize consultants by 7 February 2006. 3. Develop TA approach, scope, and detailed work program and submit it to ADB by 7 March 2006. 4. Develop and submit to ADB and the Government the rationale, feasibility, and preliminary design of the SFV by mid May 2006. 5. Develop and submit to ADB and the Government a mega city medium-term investment program, policy reform framework, and selection of subprojects by mid May 2006. 6. Hold tripartite meeting and workshop and reach preliminary agreement on the content of interim report by May 2006. 7. Develop and submit to ADB and the Government the detailed design of the SFV and mega city sustainable development project by July 2006. 7. Hold tripartite meeting and workshop and reach preliminary agreement on the content of the draft final report by mid August 2006. 8. Submit final report incorporating comments from ADB and the Government by mid September 2006. 			Inputs <ul style="list-style-type: none"> • ADB—\$1 million from TA Funds resources. • GOS—\$250,000. • International experts (25 person-months). • Domestic experts (25 person-months).

ADB = Asian Development Bank, CDGK = city district government of Karachi, GOS = government of Sindh, NGO = nongovernment organization, TA = technical assistance, TMA = town municipal administration, SFV = specialized financing vehicle.

^a More specific indicators with baseline situation and desired targets will be developed during the TA implementation.

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Contribution of the sector or subsector to reduce poverty in Pakistan:			
<p>The Government of Pakistan has developed a comprehensive poverty reduction strategy for accelerating growth and reducing poverty. The strategy is based on six principles (i) broad-based participation of stakeholders, (ii) a focus on outcomes that can be monitored and that benefit the poor, (iii) recognition of the multi-dimensional nature of poverty, (iv) flexible implementation in fiscal and institutional terms, (v) private–public partnership; and (vi) emphasis on the millennium development goals. The strategy rests on four pillars: (i) achieving high and broad-based economic growth while maintaining macroeconomic stability; (ii) improving governance, consolidating devolution, and ensuring social and economic justice; (iii) investing in human capital; and (iv) bringing the poor and backward regions into the mainstream of development, and making marked progress in reducing existing inequalities. The poverty reduction partnership agreement signed by the Government of Pakistan and ADB reflects the above goals and principles and makes a commitment to reducing poverty by broadening community participation and opportunities for the poor over the next 5 years. The technical assistance (TA) will prepare a mega-city infrastructure and services project which will improve the quality of life and public health for all city residents, including the poor, on a sustainable basis. Through its emphasis on reforms, it will contribute to the Government strategic pillars of good governance and enhanced devolution. The TA will also contribute to sustainable economic growth by designing a specialized financing vehicle that will promote sustainable financing of mega-city development.</p>			

B. Poverty Analysis

Targeting Classification: General intervention

What type of poverty analysis is needed?

Approximately 50% of the 12.5 million population of Karachi metropolis live below the poverty line¹. Another 8.5% are living above the poverty line but are vulnerable to shocks. Incidence of poverty varies between 40% and 57% in 18 towns and cantonment areas within the metropolis. Evidence confirms the large disparity in poverty incidence between developed city areas (40%) and katchi abadis, or squatters' villages (89%). However, further analysis shows that the proportion of the population living below the poverty line is 40% in all cantonments, 44% in planned and business oriented areas, and 46% in middle class residential towns. The highest poverty incidences are reported in working class neighborhoods and katchi abadis-dominated towns.

More than 1,000 katchi abadis account for over 40% of the total population of Karachi. A poverty assessment conducted under the small scale technical assistance² indicates that overall 89% of the population in these settlements is living below the poverty line. Based on the per capita income levels and the quintile divisions set by the Government, 54% of these people are at chronic poverty levels, around 35% are transitory poor, and 11% are in the category of transitory vulnerable. The majority of katchi abadis are excluded from social services and have to spend significant amounts of their incomes to purchase water that contributes further impoverishment. It is therefore safe to assume that the entire population living in katchi abadis live below the poverty line. The assessment reveals that urban poverty is characterized by (i) lack of permanent occupation; (ii) insufficient and irregular income; (iii) limited access to education and health care; (iv) deficient basic infrastructure and services such as sanitation and solid-waste collection and disposal; and (v) lack of secure tenure of ownership of productive assets. Conditions are unhygienic; water- and feces-borne diseases are highly prevalent, undermining health and income-earning opportunities. In most cases physical and social exclusion act together, resulting in a perpetual cycle of poverty characterized by poor access to basic infrastructure and services, poor health and living conditions, low productivity, and low incomes of the poor. The assessment indicates that the poor in these katchi abadis cite the lack of basic infrastructure and services and low incomes as the most severe problems. The ensuing project will contribute to poverty reduction (i) indirectly, by creating an environment conducive to economic growth; and (ii) directly, by addressing the basic service needs of the poor living in katchi abadis. The improvement of infrastructure and services will directly improve the living environment and health conditions for an estimated 40% of the city population.

C. Participation Process

Is there a stakeholder analysis? Will be prepared during the TA	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is there a participation strategy? Will be prepared during the TA	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

¹ The poverty line is based on a caloric norm of 2,350 calories per adult per day and minimum nonfood requirements. This approximates PRs748.6 per month per adult in FY 2001 (Government of Pakistan. 2003. *Poverty Reduction Strategy Paper*. Islamabad).

² ADB. 2005. Technical Assistance to the Islamic Republic of Pakistan for the Mega City Development Project. Manila (small-scale technical assistance, TA 4578-PAK).

D. Gender Development**Strategy to maximize impacts on women:**

Given the dominant role of women in household management, women are expected to be the primary recipients of benefits from the ensuing loan for mega-city infrastructure and service improvements. They will especially benefit from improved water supply, sanitation, and solid waste management. Gender analysis and strategy will be part of the feasibility study. The strategy will incorporate measures to promote full participation of women in the ensuing project activities, including in project planning and implementation.

Has an output been prepared? Yes No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Most components of the ensuing project will be carried out in right of ways and Government land, and land acquisition will be minimal. The TA will review and confirm the need for a full or short-term resettlement plan and will prepare the required safeguards, including a resettlement framework, in consultation with stakeholders.	Resettlement framework and short resettlement plans.
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Selection of design options for infrastructure and service improvements under the ensuing project will consider affordability to households. The potential impact of tariffs on the poor will be reviewed and addressed by adopting pro-poor block tariffs and other innovative instruments.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	The ensuing project is not expected to lead to job losses. Construction activities during implementation of the ensuing project are expected to generate employment opportunities.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous People	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>Issues: The 18 participating towns of the mega city vary widely in size and ethnic composition. Ethnic groups are not concentrated in specific areas, but rather are spread throughout the city. An exception is the katchi abadis, a significant number of which are dominated by a certain ethnic group. However, there is no perceived link between poverty and ethnicity.</p> <p>Strategy: The TA will verify if any potential issues exist and prepare an indigenous peoples plan if necessary.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks/ Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	None	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank (ADB) Financing^a			
1. Consultants			
a. International Consultants			
i. Remuneration	500.0	0.0	500.0
ii. Per Diem	132.0	0.0	132.0
b. Domestic Consultants			
i. Remuneration	0.0	125.0	125.0
ii. Per Diem	0.0	64.0	64.0
c. International Travel	25.0	0.0	25.0
2. Equipment ^b	0.0	10.0	10.0
3. Studies, Surveys, and Reports	0.0	8.0	8.0
4. Communications	5.0	0.0	5.0
5. Workshops	0.0	10.0	10.0
6. Local Transport	10.0	0.0	10.0
7. Miscellaneous Administration Costs	0.0	8.0	8.0
8. Contingencies	65.0	38.0	103.0
Subtotal (A)	737.0	263.0	1,000.0
B. Government Financing			
1. Office Accommodations and Facilities	0.0	90.0	90.0
2. Remuneration of Counterpart Staff	0.0	80.0	80.0
3. Local Transportation Assistance	0.0	20.0	20.0
4. Equipment	0.0	10.0	10.0
5. Workshop Facilities	0.0	50.0	50.0
Subtotal (B)	0.0	250.0	250.0
Total	737.0	513.0	1,250.0

^a Financed by ADB's technical assistance funding program.

^b Includes cost of two computers and accessories, one printer, and one photocopy machine.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Part A: Specialized Financing Vehicle

1. Phase One: Identification and Preparation of Preliminary Design

1. Phase one will be dedicated to completion of the feasibility and preparation of the preliminary design of the SFV. The tasks will include but not be limited to the following:
- (i) Complete and update the analysis of the economic, financial market, and all other related conditions and trends relevant to the feasibility of the specialized financing vehicle (SFV) commenced in the technical assistance (TA) report.¹
 - (ii) Coordinate with the Private Participation in Infrastructure Development (PPID) Project currently being processed by Asian Development Bank (ADB). Document that the two projects are consistent, complementary, and mutually reinforcing.
 - (iii) Conduct a detailed analysis of the potential market for loan financing, TA, due diligence, loan syndication, monitoring, and financing-coordination services to be provided by SFV, assessing the quality of the likely borrowers and projects.
 - (iv) Building on the SFV report, (a) conduct more detailed analysis of the strengths, weaknesses, key issues and implications of the design features that are available to an SFV for Karachi (and Sindh); (b) assess each design feature in detail with reference to Karachi's conditions, national and international best practices, trends and requirements identified in task (a); and (c) using various indicators and criteria described in the TA report and literature on specialized financial intermediaries, identify the design features that are most important to structuring an SFV for Karachi and performance of the ensuing loan project. Provide comprehensive rationale for SFV, assessing "with and without SFV" situations.
 - (v) In assessing the features and preparing the preliminary design of the SFV, specifically consider the following factors: (a) whether SFV should be a for-profit or non-profit unit; (b) how SFV can best catalyze nongovernment and international financial institution resources and the technical expertise of commercial financial intermediaries and private sector in infrastructure financing; (c) possible strategic alliances/partnerships/equity stakes in SFV with one or more commercial financial intermediaries; (d) ownership structures, including potential public and nongovernment shareholders of the SFV; (e) SFV's role in working with project sponsors to prepare bankable projects; (f) management structure, staffing, HR planning, and operating structure; (g) the long-term business strategy; (h) geographic, sectoral scope, and the financial resources and markets to be accessed by SFV—including private financing using the PPID instruments; (i) potential products, including loans, equity investments, credit enhancements, conduit products (e.g., concessional loans, subsidies from government programs, free or low-cost land which might be targeted at poor neighborhoods); (j) contractual and monitoring and reporting relationships that need to be established between SFV and the Government.
 - (vi) Consider also the following factors in assessing the features and preliminary design of SFV: (a) in case there are too few bankable projects to make SFV viable, what the SFV should do and whether it should spend resources assisting the CDGK in restructuring projects to make them bankable; (b) whether the SFV should play the role of funder or a facilitator of finance; (c) if the SFV is a funder, whether it should set a percentage ceiling on what it will lend for each project (e.g., 30%); this could stimulate the interest of local banks in project finance; and (d) whether and at what stage SFV can borrow in the market, taking into account Pakistan's checkered history with development finance institutions.

¹ ADB. 2005. Technical Assistance to the Islamic Republic of Pakistan for the Mega City Development, Project. Manila (small-scale technical assistance TA 4578-PAK, approved in April 2005 for \$150,000).

- (vii) Within the context of assisting potential projects to become "bankable", prepare a list of issues that need to be addressed by the government. These issues would include required tariff reforms, regulatory structures, and other issues that require government action in order to assuage investor concerns.
- (viii) Based on tasks (i) to (v), prepare a preliminary design for the SFV that is best suited to the needs of Karachi infrastructure development, describing in detail the design features, rationale for design, potential impacts, and potential weaknesses and remedies.
- (ix) Based on the preliminary design, select a relevant partner (and a team of professionals from that partner) to help produce a high quality feasibility and detailed design for the proposed SFV.
- (x) In selecting the team from the partner, tap into local expertise on financial intermediary, infrastructure project financing, investment banking, corporate finance, and related fields in order to ensure that the detailed SFV design benefits from local knowledge.
- (xi) Prepare and submit an interim report containing the preliminary design to ADB and the Government, and conduct a workshop to present the findings at this stage.

2. Phase Two: Completion of Detailed Design and Documentation to Establish SFV

2. Phase two will focus on the detailed design and documentation needed to establish the SFV.
 - (i) Based on the suggested preliminary design, complete the analysis of the urban infrastructure market's demand for commercial loans, TA, monitoring, financial intermediation, financing coordination, syndication, and other services that would be provided by SFV. Demand analysis should include a yearly breakdown of the loans and other transactions expected to be made over a 10-year period, divided by infrastructure sector, major borrowers, and other criteria.
 - (ii) Develop a marketing plan to (a) realize potential market demand and make potential borrowers and project entities aware of the technical and financial services available from the SFV; and (b) build awareness of the need for commercial operating principles in urban infrastructure utilities.
 - (iii) Estimate the initial capital injection needed to establish the start-up capital structure of the SFV; estimate the financial resources that need to be made available to the SFV through a fixed time period (e.g., over the first 10 years); financial resources could come from governments (e.g., seed money to support start-up), the ADB (through loan money, perhaps equity from the Private Sector Operations Department and its partial guarantee facility and other international financial institutions (IFIs), and/or domestic and international capital markets (both loans and equity).
 - (iv) Identify, analyze, and place monetary values on the compensation costs (wages plus benefits) of the professional, technical, support, and other staff and skill requirements of the SFV; evaluate to the extent possible whether these personnel will be available to the SFV once it is established; and assess other administration costs likely to be incurred by the SFV.
 - (v) Estimate the interest rates, on-lending fees, TA, and other fees that should be imposed in order to make the SFV self-sustaining and (if appropriate) profitable to its shareholders; ensure that the market and potential borrowers can accommodate (i.e., are prepared to pay for) those fees and interest rates; make necessary adjustments to payrolls and other costs; and prepare a spreadsheet-based financial model for the SFV incorporating all of the above projected SFV revenues and costs. Prepare sensitivity scenarios for the financial model based on realistic scenarios.
 - (vi) Identify key risks and uncertainties (including risks associated with foreign exchange, credit, non-performing loans, and politics) that could threaten the sustainability and profitability of the SFV, and develop strategies to address them. Assess the possibility of employing a phased strategy to implement the SFV business plan, whereby less complex, less risky services and

products might be launched earlier than complicated, more risky services and products. Present the Government with the findings at this stage and provide ADB with a progress report.

- (vii) Prepare and finalize the business case (detailing the vision, mission, rationale, concept, approach, major benefits, beneficiaries, ownership, corporate and managerial structure, and legal and taxation status and the licenses to be secured from the Government, business plan, and long-term strategy for SFV. The business case should also review the proposed role and responsibilities of the SFV from the perspective of the city government functions (a) to ensure clear segregation of duties, (b) to reduce the likelihood of overlap, and (c) to ensure that accountability of local government to deliver services not obviated. The business plan should include a full set of financial projections.
- (viii) The business plan and long-term strategy should suggest a phased approach for launching the SFV, e.g., (a) develop SFV capabilities and market credibility through on-lending of ADB and other IFI funds to urban infrastructure projects; (b) provide other financial products and forms of debt and in time equity financing; (c) in the long run, tap national and international capital markets; (d) in the longer term, conduct innovative transactions, e.g., public–private partnerships, fully private projects, or funding of commercially operating state enterprises.
- (ix) Prepare the human resource development (HRD) and capacity building strategy for SFV, with details on the professional, technical, and support skills needed by SFV, its recruitment policies and strategies, training and other HRD measures, and wage and other compensation packages needed to recruit and retain qualified personnel at all levels of the organization. Capacity building should include building understanding of (a) the requirements and procedures of ADB and other IFIs (financial, social, poverty, environmental, etc.); (b) special financing requirements of urban infrastructure projects; (c) factors required to prepare infrastructure projects to meet bankable standards; (d) marketing skills to make SFV products and services attractive to local governments, utilities, and potential borrowers on commercial lending terms; and (e) post-transaction monitoring and evaluation requirements.
- (x) Prepare a detailed operations manual for SFV management and staff (SFV shareholders and directors). The manual should be designed to guide the procedures of the SFV during its initial period of 1 or 2 years, and should be updated every 2 years. The manual should outline (a) the vision, mission, and purpose of SFV; (b) what SFV does—its financial products and services, sources of funds (now and in the near future), investment financing operations, TA and client training, eligible recipients and sectors, eligible uses of funds, etc.; (c) how SFV operates (including marketing, project identification and pre-screening, project appraisal, credit assessment methods, post-transaction monitoring and evaluation, other lending policies and procedures, public awareness, and project procurement, if relevant); (d) how SFV prices its financial products and services; (e) how it is managed and how decisions are made; (f) conflict of interest rules and a code of conduct for directors and staff; and (g) how the SFV addresses the social, poverty, environmental, economic, and other objectives that are important to ADB and other IFIs and bilateral donors—and that are increasingly important to the domestic and international investors that could provide debt and equity financing to the SFV.
- (xi) The project selection system should include measures to ensure that selected projects are consistent with the infrastructure subsector strategies, road maps, and master plans of CDGK.
- (xii) Prepare with counterpart staff from both parties the draft memorandum of understanding between SFV and the government agency identified for oversight of the proposed SFV, including: (a) the roles, responsibilities, and obligations of each party; and (b) SFV's objectives and functions, and the criteria and indicators to be used to measure objectives achievement (including feedback from clients, investors, and the general public). Establish with counterpart staff from both parties the reporting systems and the monitoring and evaluation framework for measuring SFV's progress in achieving its objectives. Describe the roles, responsibilities,

functions, and reporting requirements of existing regulators in banking, securities, companies, competition, consumer protection law, and other areas. Ensure that the monitoring and evaluation framework established for SFV is consistent with and supportive of existing regulatory regimes.

- (xiii) Determine the necessary steps to be taken by Government and other parties to establish the SFV.
- (xiv) Submit a draft final report containing the detailed design of SFV, and organize a workshop to present and discuss the SFV with the Government, ADB, and other stakeholders. Finalize the report, incorporating Government and ADB comments.
- (xv) Assist the SFV partner and potential staff in providing advice and TA for preparation of detailed feasibility studies for selected high-priority projects that could be implemented as soon as the SFV is approved and commences lending operations. Assist the SFV in its early stages with technical and policy advice, technology and information transfer, and informal and formal capacity-building activities.

B. Part B: Mega City Sustainable Development Project

1. Phase One

3. **Mega City Infrastructure and Services Investment Program.** The tasks for preparing the mega city infrastructure investment program will include but not be limited to the following:

- (i) Building on the work done under the TA (footnote 1) provide an assessment of urban environmental conditions, deficiencies in urban infrastructure and services, and the impact of these deficiencies on the city population and economy.
- (ii) Review the Japan Bank for International Cooperation's (JBIC) revitalization scenario, former city master plans, and the city master plan currently being prepared by CDGK. Elicit the views of various stakeholders on the city's likely growth trends and needs. Supplement these as necessary with quick surveys. Assess the growth trends of the city for the next 10 years, including the size, profile, and spatial distribution of the population, economic prospects, and the city's spatial growth trends.
- (iii) Review all available past and present infrastructure sector master plans and the CDGK's medium-term city development framework. Hold discussions with GOS officials and CDGK's elected and appointed executive officials and technical staff to supplement the assessments on infrastructure trends, plans, and requirements for the next 10 years.
- (iv) Assess the requirements for improving and expanding mega city infrastructure and services (concentrating on water supply, sewerage, drainage, solid waste management, urban transport and roads, low-income area upgrading, and other services prioritized by stakeholders). Make separate assessments for (a) improving existing infrastructure, and (b) capital investments for new infrastructure.
- (v) Consult with stakeholders to verify the consensus on infrastructure requirements. Assess the financing needs for the next 10 years. Assess possible sources of financing (Government, utility, ADB, other IFIs, commercial and private financing, etc.). Develop a progressive mega city urban infrastructure and services program for the next 10 years. The investment program should provide a coherent, integrated framework for investments to be made in tranches, but should be flexible enough to accommodate changes in the way the city perceives its priorities.

4. **Mega City Sustainable Development Policy Framework.** The tasks related to preparation of the mega city development policy framework will include but not be limited to the following:

- (i) Building on the work done during the processing of the TA loan, assess the legal, regulatory, and institutional impediments to effective city planning and enforcement in the mega city.

Assess issues related to land management and administration that impact mega city development. Determine reforms required for effective mega city planning.

- (ii) Assess the legal, regulatory, institutional, and financial constraints to sustainable provision, operation, and maintenance of infrastructure and services in the mega city.
- (iii) Assess the devolution policy in relation to mega city governance, planning, management, and service delivery; and identify the shortcomings in terms of (a) institutional set up, distribution of responsibilities among levels of government, and coordination mechanisms; (b) fiscal balance, own-source revenues, and intergovernmental fiscal transfers related to new mandates; (c) the organizational set up of the CDGK and town municipal administrations (TMAs), coordination mechanisms between CDGK and TMAs, and administrative and human resources policies and strategies; and (d) the financial management systems of CDGK and TMAs.
- (iv) In coordination with, but without duplicating, PPID, assess the provincial- and city-level regulatory and institutional constraints to private participation in urban infrastructure provision.
- (v) Recommend a mega city sustainable development policy and institutional reform matrix, including regulatory, legal, institutional, and organizational reforms for (a) improved city planning and land management, (b) environmental management, (c) infrastructure and service provision, (d) improved fiscal balance and local revenue mobilization, (e) improved tariff structures and rates, (f) financial management, (g) corporatization of utilities and commercialization of urban infrastructure and services, and (h) removing barriers to channeling and mobilizing funds for mega city infrastructure through SFV.

5. **Assistant Modality.** The tasks related to the assessment of the modality of the loan will include but not be limited to the following:

- (i) Assess the assistant modality for the proposed loan and justify the proposed modality.
- (ii) Assess the use of a multi-tranche financing facility and the requirements for appropriate phasing and grouping of subprojects and reforms; identify triggers for releasing each tranche in case a sector-development-program modality is chosen.
- (iii) Assess the feasibility of channeling loan funds through SFV. Assess the eligibility of SFV to be used as a conduit for channeling loan funds to the mega city in accordance with ADB policies on financial intermediary lending. In the event that the SFV fails to meet the criteria, develop measures for SFV to meet the criteria in accordance with a time-bound action plan acceptable to ADB and the Government.
- (iv) Develop terms of reference for undertaking feasibility and design for the chosen assistant modality.

2. Phase Two: Mega City Loan Preparation

6. **Overall Feasibility and Design.** The tasks related to feasibility assessment and design of the ensuing loan project will include but not be limited to the following:

- (i) Undertake feasibility assessment and design as per ADB's requirements for the chosen assistant modality. Confirm the selection of a first set of high-priority, bankable subprojects in cooperation with SFV consultants, and undertake detailed feasibility assessments following ADB guidelines in case a sector loan or sector-development-program modality is chosen.
- (ii) In case the lending is through the SFV, assess the eligibility of the proposed subprojects for financial intermediary lending according to criteria stipulated by ADB's policy on financial intermediation loans.
- (iii) Assess the environment, involuntary resettlement, and indigenous peoples impacts, determine the safeguard requirements, and develop safeguard planning documents (including resettlement frameworks and resettlement plans) in accordance with ADB's Environment, Involuntary Resettlement and Indigenous Peoples Policies, Operations Manuals F1, F2, and

F3, Environmental Assessment Guidelines (2003), and Handbook on Resettlement (1998). Develop a gender strategy to promote full participation of women in the project and ensure equal treatment of women and men under the Project.

- (iv) Develop cost estimates and financing plan in accordance with ADB. Develop implementation arrangements and justify that proposed agencies are competent to execute and implement the loan. Assess financial management capacities of the executing and implementing agencies.
7. **Economic and Financial Analysis.** The tasks related to economic and financial analysis of the proposed project will include but not be limited to the following:
- (i) Depending on the selected assistant modality, undertake relevant economic analysis in accordance with ADB's *Guidelines for the Economic Analysis of Projects* and the requirements of relevant publications from ADB's Economic Research Department.
 - (ii) In case a sector loan or sector-development-program modality with a sector loan component is selected, prepare an economic analysis for the investment program for the mega city that should include but not be limited to (a) the economic rationale for government involvement; (b) setting goals for the plan; (c) identifying how to achieve the goals at least cost, including specifying simple and economically sound criteria for selecting subprojects; (d) reviewing associated economic policies, including tariff policy; (e) identifying economic risks; (f) the government's capacity and commitment to execute the plan; (g) coordination of foreign aid in Karachi; (h) fiscal impacts; and (i) the loan conditions.
 - (iii) In case a sector loan or sector-development-program modality with a sector loan component is selected, develop economic selection criteria that are sound and simplified in order to ensure that economic analysis is efficient and feasible. Assess available expertise in the Government to apply the criteria for future subprojects, and assess training requirements, if any. Provide terms of reference for future consulting or TA in economic analysis, if needed.
 - (iv) In case a sector-development-program modality (or pure program loan) is chosen, undertake economic analysis in accordance with ADB Economic Research Department's publication *Economic Analysis of Policy Based Operations*.
 - (vi) In the case of project loan, prepare the domestic feasibility studies and ensure that the economic analysis of subprojects follow ADB's *Guidelines for the Economic Analysis of Projects* and other relevant publications from ADB's Economic Research Department.
 - (vii) For the financial feasibility assessments of subprojects, follow ADB's *Guidelines for Financial Governance and Management of Investment Projects* (2001), including (a) estimates of financial internal rate of return with sensitivity analysis; (b) estimates of project-related subsidies in accordance with ADB's *Criteria for Subsidies*; (c) assessments of distributive justice by looking at the affordability of new tariff at new consumption level among different socioeconomic groups; and (d) assessments of the financial sustainability of the subprojects and, if sustainability is felt to be at risk, recommendations on appropriate mitigating measures.
 - (viii) For the financial management assessment of the executing and implementing agencies, follow ADB's *Guidelines for Financial Governance and Management of Investment Projects*—including a review of corporate planning and budgetary controls, financial management accounting and reporting, internal control and auditing systems, and data processing.