

[This quarterly progress report is submitted to
ADB as part of Program Agreement, Schedule:
Execution of Project; Financial Matters,
Para.33]

SCIP - QUARTERLY PROGRESS REPORT

April – June 2012

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ABBREVIATION

EARF	Environmental Assessment Review Framework
EMP	Environmental Management Plan
FMIS	Financial Management Information System
GAP	Gender Action Plan
IBNET	International Benchmarking Network
IPPMS	Investment Program Performance Monitoring System
ISys	Information System related to Solid Waste Management
IV	Independent Verifier
LAA	Land Acquisition Act 1894
LARF	Land Acquisition and Resettlement Framework
LFS	Landfill Site
NSUSC	North Sindh Urban Service Cooperation
PDWP	Provincial Development Working Party
PFR	Periodic Financing Request
PHED	Public Health Engineering Department
PPTA	Project Preparation Technical Assistance
PSU	Program Support Unit
RSGFP	Rapid Sand Gravity Filtration Plant
SAMA	Services and Asset Management Agreement
SCIP	Sindh Cities Improvement Program
SEPA	Sindh Environmental Protection Agency
SSGFP	Slow Sand Gravity Filtration Plant
SMS	Store Management System
TMA	Town Municipal Administration

1. INTRODUCTION

The report under review is Quarterly Progress (April - June 2012) prepared as part of the compliance of the Other Covenant # 4: *“Sindh shall cause the PSU to prepare quarterly progress reports based on information provided by NSUSC, including progress against reform and service delivery objectives, and implementation progress of the subprojects, and submitted to ADB within thirty (30) days after the close of each quarter. The reports shall discuss progress made during the period of review, changes if any on implementation schedule, problems or difficulties encountered and remedial actions taken, and work to be undertaken in the coming quarter. NSUSC shall also be responsible for providing information as required to the independent verifier. (PA, Schedule: Execution of Project; Financial Matters, para. 33)”*.

This progress report covers the second quarter of 2012 and provides an over-view of the progress so far achieved. It is worthy to mention here that major part of the progress is related to North Sindh Urban Services Corporation as currently this is the only utility in place and operational. PSU has attempted to compile / analyse the information / progress collected in bits and pieces as NSUSC did not share the information / data despite several advices / requests from PSU. This has also resulted in delay in submission of this report.

2. BASIC DATA

ADB Loan Number:	2499-PAK (SF)
Project Title:	Sindh Cities Improvement Program (SCIP)
Borrower	Islamic Republic of Pakistan
Executing Agency	Planning and Development (P&D) Department, Government of Sindh through Program Support Unit (PSU)
Implementing Agency	North Sindh Urban Service Corporation (NSUSC)
Date of Loan Signing	February 06, 2009
Date of Loan Effectiveness	March 06, 2009
Loan Closing Date (Tranche 1)	June 30,2013
Loan Closing Date (Program)	December 31, 2018
Date of Last ADB Review Mission	April , 2012

3. EXECUTIVE SUMMARY

This report discusses about the progress regarding reforms, services delivery objectives and implementation progress of the subprojects. The report also discusses progress made during the period of review, changes if any on implementation schedule, problems or difficulties encountered and remedial actions taken. In addition, an attempt has been made to highlight the work to be undertaken in the coming quarter.

Tranche 1 projects

Success of NSUSC is critical for the success of SCIP program. NSUSC's effort to initiate and complete tranche 1 subprojects has been slow in the reporting period. Though the work on **ICB 03** is in full-swing, NSUSC has not been able to invite tender on **ICB 4 (improvement of DNI Zones)**. Besides, tender to rehabilitate and improve rapid sand gravity filtration plant (RSGFP) has not been invited though PHED agreed to hand over the site in April, 2012. In addition to a **subproject (NCB-5) initiated to install pre-casted 520 skip platforms** at various points in six cities to improve solid waste management services was found to unsustainable and NSUSC was directed in the last quarter of 2011 to stop installation of additional remaining 220 skip platforms. There was neither progress nor discussion on remaining 220 skip platforms in the first quarter of 2012, however, NSUSC has now communicated that the project has been completed – this issue needs to be looked into seriously.

Tranche 2 projects

NSUSC's effort to initiate and complete tranche 1 projects does not stop. NSUSC Management was also tasked to identify subprojects and prepare Periodic Financing Request (PFR) for Tranche 2 funding. 15th July 2012 was fixed as deadline for submission of PFR 2. According to Terms of Reference of SCIP 04, it was responsibility of MMP to assist NSUSC Management to prepare PFR 2; however M/S RCC was engaged to complete the task to meet deadline.

Covenants

The QPR also reviews if the covenants are complied with. Overall compliance of different loan covenants is on track. Some of actions are ongoing in nature and one is not yet due. The performance is satisfactory.

Central Cluster

Overall progress of SCIP 03 consultants is slow especially. SCIP-3 consultant's inability to mobilize team of national consultants has been cause of concern. This has resulted in undue delay to carryout project preparatory work. Besides, SCIP-3 consultant's inability to initiate process to subcontract mapping studies, baseline surveys and solid waste management studies has been a critical factor. However, things have started moving to finalize sub contracts. But the selection / mobilization of national consultants is still a problem to be adequately addressed.

Directorate of Urban Policy and Strategic Planning

Director General posted, PC-II approved by the Honorable Chief Minister Sindh and the recruitment process has been initiated.

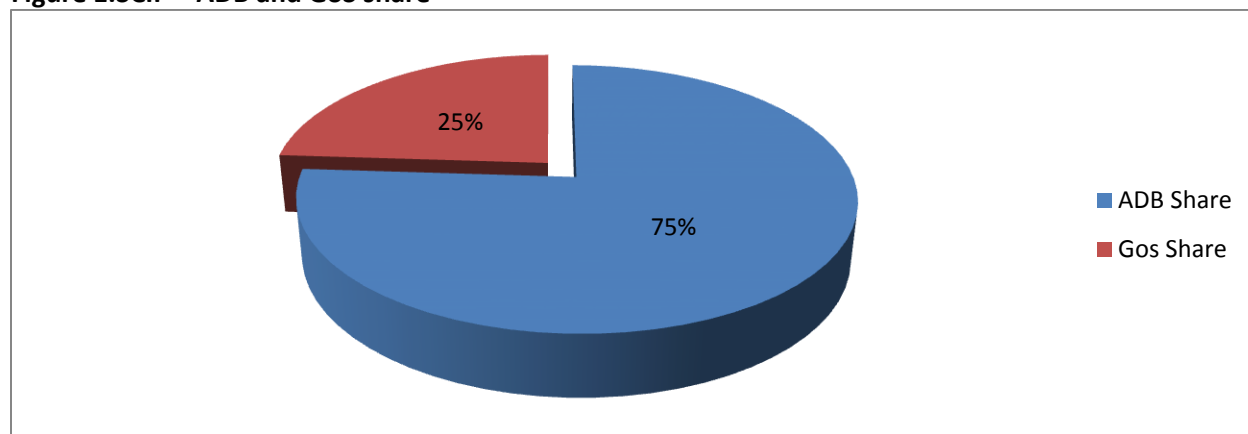
In short, the program is forging ahead despite all odds. Newspapers reports, TMO letters and the reports of Local Support Unit Assistants (LSU Assistant) highlight issues in provision of services to the households in program coverage area. One of the possible ways to address these issues is to develop strong coordination between various units / stakeholders.

4. FINANCIAL POSITION

Source	Amount (\$ Million)	Rs (Billion)	Share
ADB Ordinary Capital Resources	262	19.912*	65.5%
ADB Fund	38	2.888*	9.5%
Government of Sindh	100	7.60*	25%
Total	400	30.40	100%

*1US \$ is equal to Pak Rs 76/ as per PC-I of the Program

Figure 1. SCIP – ADB and GoS share



Source	Amount (\$ Million)	Rs (Billion)	Share
ADB	38.00	3.078*	76%
Government of Sindh	12.00	0.972*	24%
Total	50.00	4.050*	100%

*1US \$ is equal to Pak Rs 81.35 as per RRP of Tranche 1

Figure 3. Utilization of Funds (April 2012 – June 2012)

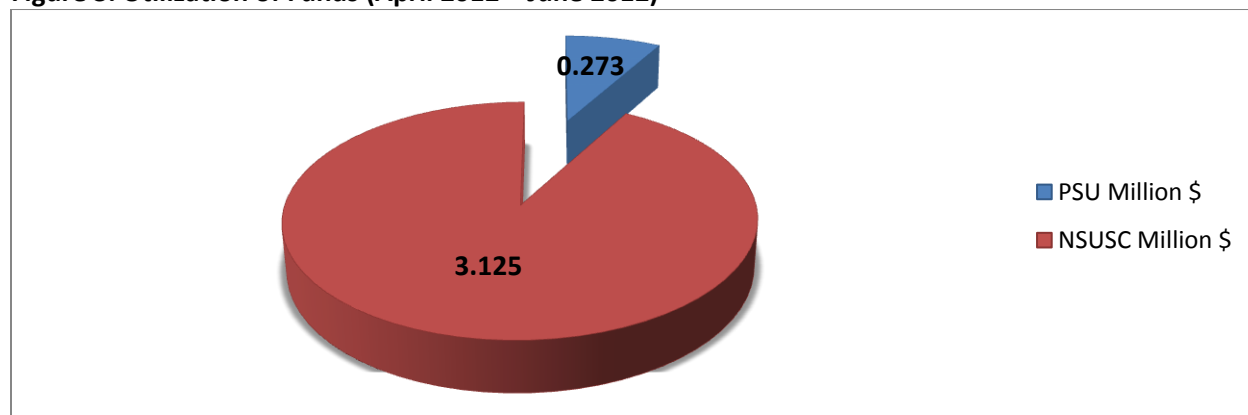


Figure 4.PSU– as of June, 2012

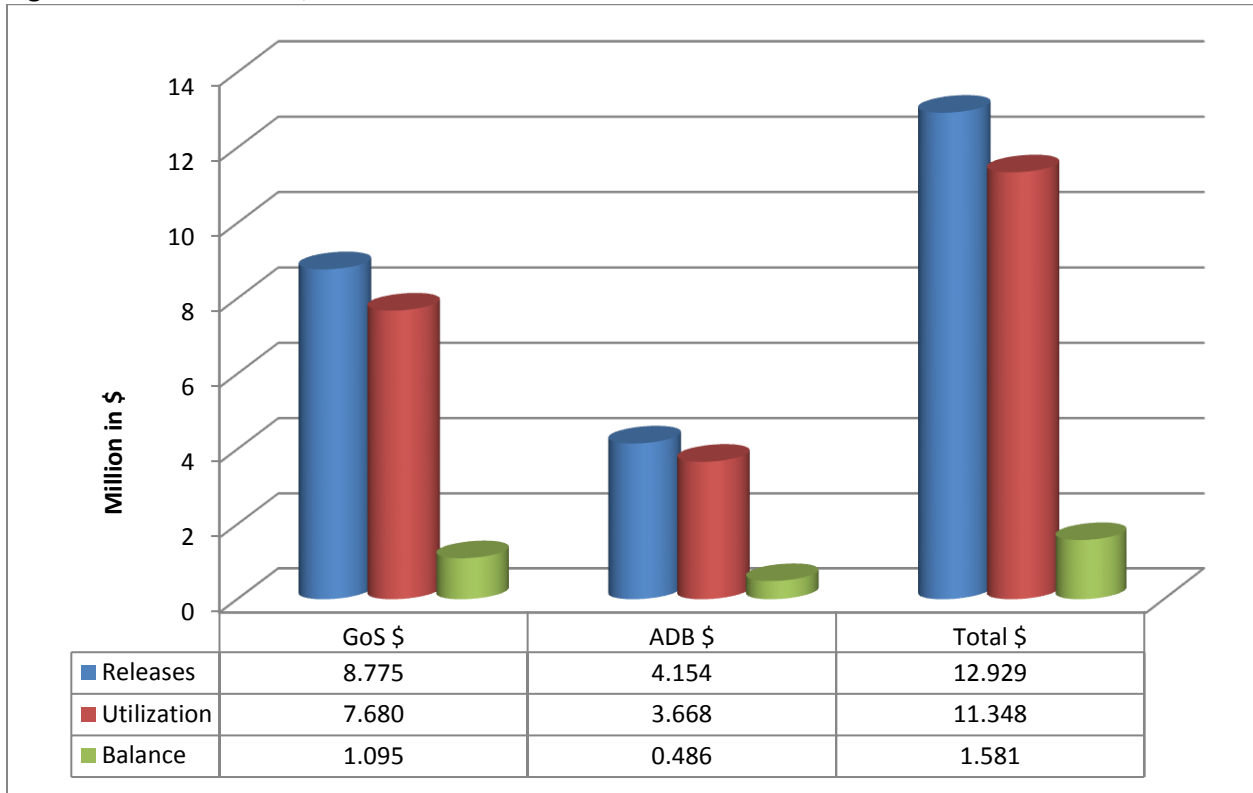


Figure 5.NSUSC – as of June, 2012

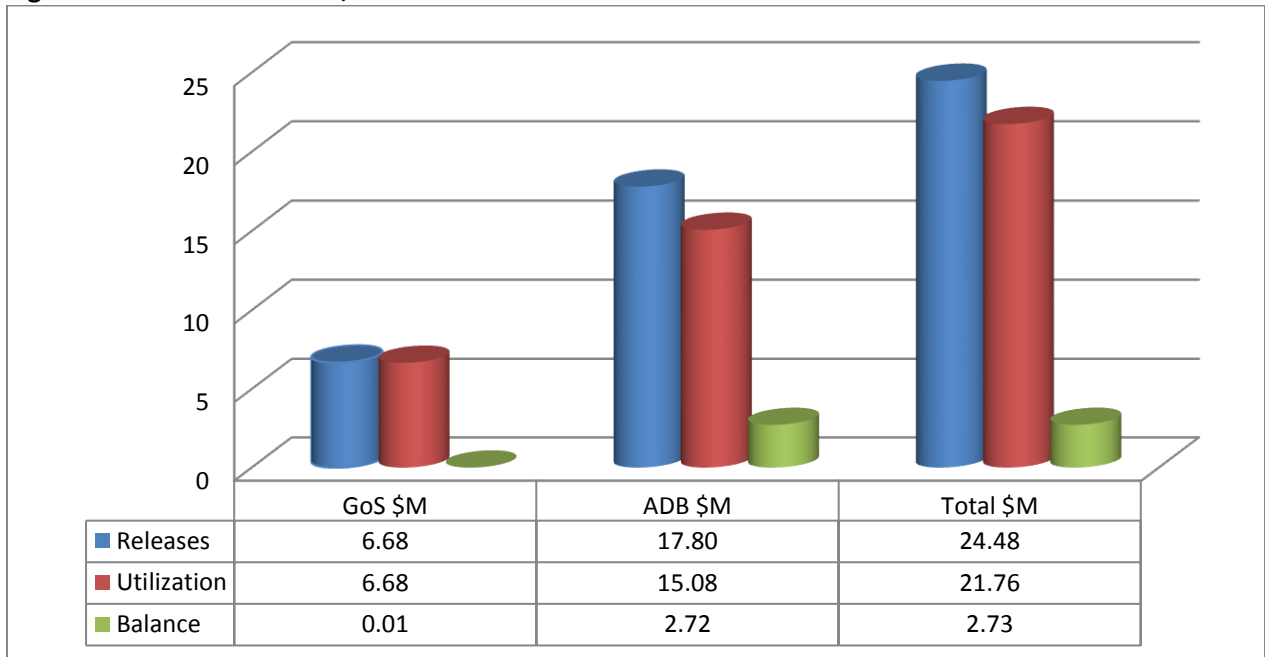


Table 3. Operation & Transition Support Fund (In Million)					
PSU			NSUSC		
	RS	US \$		RS	US \$
Funds Deposited in ESCROW A/c	248.192	2.919	Funds Received from PSU	854.366	10.050
TMA Salaries Deposited in ESCROW A/C	606.362	7.133	Funds Received from ADB	150.209	1.670
NSUSC claimed	854.366	10.050	Utilized	1203.296	14.156
Balance	0.188	0.002	Balance	-198.721	-2.337
*66.330 Million counterpart funds of GoS were utilized to meet salaries shortfall of TMA deputed staff					
*285.441 Million counterpart funds of GoS were utilized to meet the operational shortfall expenses					

5. UPDATE ON CONSULTANCIES, COSTAND DISBURSEMENTS

Subproject (s)	Cost (US\$ in Mln)	Disbursement (US\$ in mln)	Progress Status (April – June 2012)
<u>SCIP-01</u> Independent Verifier, Support for P&D Department	0.299	0.081	<p>As per their ToRs, Independent Verifier has been evaluating NSUSC's financial and operational performance on monthly basis.</p> <p>As an outcome of the series of meetings on issues of (i) mobilization of International Experts on international water and wastewater utility management and international utility finance, and (ii) possibility of hybrid with features of 'indefinite delivery contract' and 'performance based contract', it was decided by the competent forum that input of international experts may be withdrawn from the ToRs of the M/S Anjum Asim Rahman and Shahid, Chartered Accountants (Independent Verifier). Furthermore, it was also decided that the contract agreement with the independent verifier may be extended till December 2013. Accordingly, ADB has been requested to concur the extension of IV's contract with no international input till Dec 30, 2012.</p>

Subproject (s)	Cost (US\$in Mln)	Disbursement (US\$ in mln)	Progress Status (April – June 2012)
			Overall, there was an element of timeliness in submission of MPRs submission. The performance of SCIP-01 Consultants' during the period under review could be termed 'satisfactory'.
<u>SCIP-02</u> Program Management and Implementation Support, Support for North Sindh Urban Services Corporation (NSUSC)	1.794	0.884	The progress of GHK for reporting period is not shared. However, it is to mention here that the contract with GHK is going to expire in July, 2012. GHK has therefore been asked to submit end of assignment (final) report.
<u>SCIP-03</u> Program Management and Implementation Support, Support for Planning & Development Department.	2.193	0.470	<p>SCIP 3 consultant is tasked to assist PSU/ P&D Department for the establishment of central Sindh Urban Services corporation including identification of towns, infrastructure subprojects, and institutional and technical support to Urban Directorate etc.</p> <p>The progress of SCIP 3 consultants is summarized as under:</p> <p><u>Mapping Studies & Baseline Survey:</u></p> <p>SCIP-3 is responsible to conduct Mapping Studies and Baseline Survey in Central Cluster therefore in 2nd quarter BCE submitted the Request for Proposal (RFP) Submission #1 for ADB's concurrence. After receiving the concurrence from ADB, SCIP # 3 issued the RFP to top ranked firm (M/s NESPAK) on June 18th, 2012 and (M/s MDC) on June 29th, 2012 for submission of technical and financial proposal.</p> <p><u>Solid Waste Management Studies:</u></p> <p>SCIP# 3 has been engaged for the procurement of services of qualified firms to carry out specialized solid waste management studies in towns of central Sindh. The objective of conducting specialized solid waste management studies is to obtain input data for design of Integrated Solid</p>

Subproject (s)	Cost (US\$in Mln)	Disbursement (US\$ in mln)	Progress Status (April – June 2012)
			<p>Waste Management System including treatment and disposal for second cluster towns of SCIP. In this regard SCIP# 3 invites EOIs in 3rd quarter on June 28th 2012 from qualified firms to carry out the Solid Waste Management studies.</p> <p><u>Mobilization of BCE Consultants & Deliverables:</u></p> <p>BCE has mobilized International and National Consultants in 2nd Quarter. As a result of mobilization and field trips of consultants following reports and deliverables are submitted by BCE:</p> <p>Reports submitted by Regional, Economic Planning and Urban Development Advisor-BCE</p> <ul style="list-style-type: none"> • Draft Guidelines for Master Plan Preparation Report • Draft Guidelines for the Preparation of Local Economic Development Strategies Report • Draft Urban MIS-GIS Database System Framework Report • Draft Zoning Guides & Tools Report <p>Reports submitted by Hydro-Geologist-BCE</p> <ul style="list-style-type: none"> • Field Visit Reports – Hydrogeology Sector (03 Nos) • Ground Water Study Report <p>Report submitted by Water Supply Expert</p> <ul style="list-style-type: none"> • Report on Sub-Project Activities Assessment (Water Supply Sector) <p>Mobilization and utilization of persons-month of International and national consultants is slow and delayed on the part of SCIP 3, that is the reason only 50% input persons-months of international consultants has been utilized and 20 % input persons-months of national consultants has been utilized so far till 3rd quarter. SCIP 3 progress lacks in submission of deliverables, most of the deadlines are missed and slipped away. SCIP # 3 needs strict follow-up on deadlines to improve in next quarterly progress.</p>

Subproject (s)	Cost (US\$in Mln)	Disbursement (US\$ in mln)	Progress Status (April – June 2012)
<u>SCIP-04</u> Consulting service for Mapping, Planning, Feasibility Studies, Detailed Design and Construction Supervision for North Sindh Urban Service Corporation	2.658	0.679	MMP's role to prepare Periodic Finance Request 2 has been reduced. MMP is now responsible for construction supervision and detailed designing of tranche 1 subprojects. Besides MMP is to conduct baseline surveys, based on which IPPMS is to be developed. This task has invariably been overlooked. MMP's overall progress in the reporting period has not adequately been shared with PSU.
<u>SCIP-05:</u> Technical Assistance on Improving Efficiency and Accountability of NSUSC Component <u>A:</u> Technical, Operational, and Organizational Support to NSUSC	From TA Grant		SCIP 5 shared its report. In the reporting period following activities were carried-out: <ul style="list-style-type: none"> - Collation and review of complaints data - Continuation of operations/technical advice and assistance to NSUSC, - Discussion on implementation of Financial Management Information System, - Discussion on implementation on Stores Management System, - Identification and definition of solid waste management mid and long-term strategies, - Ongoing review of landfill locations and land requirements, - Progress review of Larkana Wastewater Improvement Project (Upgrade of disposal station) - Appraisal and report on PHED wastewater construction work in Shikarpur to assess feasibility of operational handover to NSUSC, - Assessment of Sukkur based training opportunities (IBA), - Advice and budgetary costing for the ongoing Performance Improvement Program, - Operational Reporting, - Solid Waste Management Working Papers, - Solid Waste Management KPI's report preparation and submission, - Annual reports preparation and submission,

Subproject (s)	Cost (US\$ in Mln)	Disbursement (US\$ in mln)	Progress Status (April – June 2012)
			<ul style="list-style-type: none"> - Assistance on SWM budget development, - SWM operational improvements, - Preparation of outsourcing Expression of Interest: <ul style="list-style-type: none"> o Energy audit o Billing and revenue collection, o Repair and maintenance of electrical and mechanical items, o Operation and maintenance of disposal stations, - Review of NSUSC financial figures, - Report on transfer of primary collection activities to TMA's - Advice on comparison of activated sludge versus stabilization ponds. <p>SCIP 5's continuous technical, operational and organizational support helps NSUSC Management address day to day issues.</p>
<p>SCIP-06 Technical Assistance on Improving Efficiency and Accountability of NSUSC</p> <p>Component B: Public Awareness and Outreach, Public Monitoring and Customer Relations</p>	<p>From TA Grant 0.506</p>		<p>Sukkur IBA selected for conducting of Citizen Report Card (CRC). The methodology and questionnaires were prepared and shared with NSUSC and PSU. Feedback on tools and questionnaires shared with the Institute. The survey will be conducted in the coming quarter after the Month of Ramzan.</p> <p>No further update from NSUSC.</p>

6. CONTRACT AWARDS OF WORKS, EQUIPMENT AND STUDIES

A number of international and national contracts for works and studies are either completed or in the advanced stage of completion. Some of the major international contracts have been delayed due to termination of SCIP-4 consultancy. Most of these projects were identified at the PPTA stage and are reflected in the Procurement plan of the program. The detailed status of these projects is as under:

Name of the Project	Cost US\$ mn	Expenditures US\$ mn	Status / progress in reported period
<u>ICB-03</u> Bunder Road & Numaish Water Treatment Plants Sukkur, Khaki Shah Slow Sand Filter Treatment plant Khairpur and 13 Disposal Stations at Shikarpur	US\$9.7	2.363	20 percent progress made during the reporting period - overall progress 37 percent upto June 2012. NSUSC Management has not yet come out with plan how anomaly in the EMP cost would be addressed despite direction by PSU and NSUSC BoDs. Overall the performance of contractor could be rated satisfactory during the reporting period.
<u>NCB-04</u> Priority works of waste water management Larkana including improvement of 13 disposal stations, rising mains and provision of diesel generators at 13 disposal stations	3.153	2.43	95 percent work completed. Force / rising main of 2 Disposal Stations have been delayed due to delay in issuance of NOC from Pakistan railway. This issue persists despite all the efforts. If it is not addressed adequately, it entails huge economic and financial cost.
<u>NCB-05</u> Construction of SKIP platform for all six TMAs	0.53	0.36	300 Skip platforms have been completed and installed. NSUSC Management was asked to stop work on remaining 220 skip platforms as the skip platforms and investment thereupon were assessed to be unworkable and unsustainable respectively. However, it is pertinent to mention here that NSUSC Management did not bother to listen to PSU direction and got the remaining 220 skip platforms installed.
<u>Provisional sum- SCIP-4</u> Site investigations of SWM Landfill Sites NCB	0.104	0.024	Khairpur LFS: completed Geo-hydrological study and preliminary design completed; Shikarpur LFS: Geo-hydrological

Name of the Project	Cost US\$ mn	Expenditures US\$ mn	Status / progress in reported period
			study prepared and submitted to NSUSC. No further update from NSUSC

7. TMA DEPUTED STAFF SALARY TRANSFERS TO NSUSC

On account of payment of monthly salaries to the employees of defunct TMAs working in North Sindh Urban Service Corporation, against the regular quarterly salary magnitude of Rs.106.213 million, Finance Department, GoS released an amount of Rs.107.363. The difference between these amounts is caused by payment or arrears or deductions made by the Finance Department, GoS. Overall, during the quarter under review, Finance Department released Rs.1.15 million in addition to regularly salary bill of 106.213 million for the quarter.

In case of Khairpur, an amount of Rs.0.22 million has been deducted; while there is no payment or arrears or deduction for Shikarpur. For Larkana, the payment of arrears amounts to Rs.2.13 million, while deduction was to the tune of Rs.1.792 million. However, overall impact is positive as the magnitude of the payment of arrears cancels out the impact of the deductions. There is a positive impact of Rs.0.338 million.

During the quarter, payment of Rs. 1.308 million made on account of payment of arrears to defunct TMA Rohri. Nonetheless, there is a deduction of Rs. 0.276 million for the defunct TMA New Sukkur. There is no change in the salary for defunct TMA Sukkur City during the quarter under review.

The payment of arrears and deductions concerns only the quarter under review. Insofar the actual magnitude of the arrears for OZT funds is concerned; it is not confirmed from the Finance Department, GoS. PSU-SCIP, in consultation with NSUSC, intends to take up this issue with the Finance Department, GoS.

Name of TMA	Month of Release	Regular Monthly Salary	Amount of Installment	Total Funds to be released to NSUSC
Khairpur	Apr-12	5.098	-0.22	4.878
	May-12	5.098	0	5.098
	Jun-12	5.098	0	5.098
	Total	15.294	-0.22	15.074
Shikarpur	Apr-12	3.306	0	3.306
	May-12	3.306	0	3.306
	Jun-12	3.306	0	3.306
	Total	9.918	0	9.918
Larkano	Apr-12	6.728	2.13	8.858
	May-12	6.728	-1.792	4.936
	Jun-12	6.728	0	6.728
	Total	20.184	0.338	20.522
Rohri	Apr-12	3.478	0	3.478

	May-12	3.478	0	3.478
	Jun-12	3.914	1.308	5.222
	Total	10.87	1.308	12.178
New Sukkur	Apr-12	3.159	0	3.159
	May-12	3.159	0	3.159
	Jun-12	3.09	-0.276	2.814
	Total	9.408	-0.276	9.132
Sukkur City	Apr-12	13.513	0	13.513
	May-12	13.513	0	13.513
	Jun-12	13.513	0	13.513
	Total	40.539	0	40.539
	Grand Total	106.213	1.15	107.363

8. LANDFILL SITE

Landfill site location	Area	Progress in the reported period
Landfill Site at Khairpur	28.8 acres	Full payment made and possession acquired by the NSUSC
Landfill site Larkana		NSUSC is making efforts to identify new potential site
Landfill site Shikarpur	63.65 acres	The matter is under discussion with DC Shikarpur for want of decisions on re-fixing price for the identified potential LFS.
Landfill site Rohri	100 acres	GoS approved the payments. NSUSC to make the payment to Mines and Mineral Department.

9. COMPLIANCE WITH COVENANTS

As per the loan covenants, the borrower has appointed P&DD as the Project Executing Agency, which has assumed the overall responsibility of the project. NSUSC has also been established in compliance with the covenants for implementation of the specific project components. Furthermore, an independent verifier has also been appointed.

9.1 ENVIRONMENTAL COVENANTS

Project-Specific Covenants	Remarks/Progress
The Borrower shall, and shall cause Sindh to, ensure that the design construction, operation, and implementation of all subproject facilities are carried out in accordance with ADB's Environment Policy (2002), and the Borrower's Environmental Protection Act, 1997. Any adverse environmental impacts arising from the construction, operation, and implementation	Resource and policy structures being put in place. Appropriate mechanisms put in place by safeguards team. <u>IEE / EIA being carried out and followed.</u>

Project-Specific Covenants	Remarks/Progress
<p>of subproject facilities shall be minimized by implementing the environmental mitigation and management measures and other recommendations specified in the EARF and IEE or EIA, as applicable. The subproject assessment shall be conducted in accordance with the EARF, which has been prepared based on the Borrower's environmental requirements and ADB's Environment Policy.</p> <p>2. (LA, Schedule 5, para. 5)</p>	
<p>2. Sindh and NSUSC shall ensure that the environmental management and monitoring plan prepared under the Project shall be strictly implemented. Sindh, NSUSC and ADB shall review the progress in the implementation of the environmental management and monitoring plan covering the subprojects financed under the Loan prior to processing the follow-up loans under the Investment Program. Sindh and NSUSC shall submit to ADB annual monitoring reports on subprojects' environmental performance in accordance with the EARF. Sindh and NSUSC shall also ensure that prior to the issuance of the bidding documents, ADB shall have reviewed and cleared, as applicable, the initial environmental examinations or environmental impact assessments of the subproject including the environmental management plan or their revised versions, and receipt of the Borrower's clearances, approvals or permits for such documents.</p> <p>(PA, Schedule Execution of Project; Financial Matters, para. 21)</p>	<p>Ongoing. Safeguards team formed. NSUSC has environmental Policy, HSE Policy and a mechanism to incorporate environmental compliance in the contracts through EMP and other agreed measures of SEPA and ADB</p>

9.2 FINANCIAL COVENANTS

Project-Specific Covenants	Remarks/Progress
<p>The Borrower shall establish immediately, after the Effective Date, two (2) imprest accounts at the National Bank of Pakistan. The first imprest account shall be for P&DD to cover the eligible expenditures for Parts A(i) and D and the second imprest account shall be for NSUSC to cover the eligible expenditures under Parts A(ii), B, and C. The imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB.</p>	<p>Complied. Imprest account No. 1 (PSU) opened on 2 June 2009.</p> <p>Imprest account No. 2 (NSUSC) opened on 12 Dec 2009</p>

Project-Specific Covenants	Remarks/Progress
<p>The currency of the imprest accounts shall be Dollars. The initial amount to be deposited into the imprest accounts shall not, in aggregate, exceed the lower of (i) the estimated expenditure for the first six (6) months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount. [LA, Schedule 3, paras. 6(a)]</p> <p>The SOE procedure may be used for reimbursement of eligible expenditures. Any individual payment to be reimbursed or liquidated under SOE procedure shall not exceed the equivalent of one hundred thousand Dollars (\$100,000).</p> <p>[LA, Schedule 3, para. 6(b)]</p>	Complied
<p>Conditions of Withdrawals from Loan Account No withdrawals shall be made from the Loan Account until: The TMA in each of Sukkur, New Sukkur, Rohri, Shikarpur, and Larkana shall have entered into a Service and Asset Management Agreement with NSUSC, in the form and substance acceptable to ADB; Sindh, NSUSC and the TMA in each of Sukkur, New Sukkur, Rohri, Shikarpur, and Larkana shall have entered into a Tripartite Operational Support and Capital Investment Grant Agreement, in the form and substance acceptable to ADB; The independent directors of NSUSC shall have been appointed in accordance with the criteria specified in paragraph 12 of the Schedule to the Project Agreement; and The managing director of NSUSC shall have been appointed in accordance with the criteria and process specified in paragraph 11 of the Schedule to the Project Agreement. (LA, Schedule 3, para. 8)</p>	All Conditions have been complied. Withdrawal applications are being submitted by PSU and NSUSC. 1st WA submitted on 9th Dec: 2009
<p>Within three (3) months of the Effective Date, Sindh shall have appointed an escrow agent, acceptable to ADB, to manage the escrow account to be established at the National Bank of Pakistan, for the deposit and disbursement of the Operational Support Funding Proceeds to NSUSC.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 15.)</p>	<p>Independent Verifier clears all claims of reimbursement of NSUSC after necessary verification.</p> <p>Escrow account closed.</p>

Project-Specific Covenants	Remarks/Progress
<p>Sindh shall ensure that (a) the necessary budgetary resources to fund the TMA staff deputed to NSUSC and other budgetary requirements pursuant to the Service and Asset Management Agreement shall be fulfilled; and (b) these funds shall be channeled into the escrow account referred to in para. 15 of this Schedule.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 18)</p>	<p>Being implemented. <u><i>This will be revised accordingly.</i></u></p> <p><i>On the closure of escrow account as per revised fund flow mechanism, salary of TMAs staff deputed to NSUSC will be deposited into imprest account (local currency) of NSUSC</i></p>
<p>Counterpart Funding. Sindh shall ensure the availability and timely release of counterpart funding for the timely implementation of the subprojects under the Project. The counterpart funds to be provided by Sindh include, but not limited to, in-kind contributions of land, counterpart staff, office space, and vehicles.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 20)</p>	<p>Being implemented.</p>
<p>Sindh shall ensure that the PSU (including its regional offices), Urban Unit, and NSUSC shall maintain separate records and accounts adequate to identify financing resources received and expenditures made under the Loan.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 30)</p>	<p>Being Complied</p>
<p>Each - P&DD and NSUSC - shall (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent external auditors acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of auditors relating thereto (including the auditor's opinion on the use of the proceeds of the Loan and compliance with the financial covenants of the Loan Agreement as well as the use of procedures for the imprest account and SOEs), all in English</p>	<p>Being implemented</p>

Project-Specific Covenants	Remarks/Progress
<p>language. Each of Sindh and NSUSC shall furnish ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(PA, Article II, Section 2.09)</p>	
<p><u>Sector Covenants</u></p>	
<p><u>Project Executing Agency</u></p> <p>The Borrower shall appoint the P&DD as the Project Executing Agency, which shall assume overall responsibility of the Project. The Borrower shall ensure that</p> <p>(a) P&DD shall be responsible for the implementation of Parts A (i) and D, and</p> <p>(b) NSUSC shall be responsible for the implementation of Parts A (ii), B, and C.</p> <p>The Borrower shall, and shall cause Sindh to, ensure timely implementation of the agreed reforms set forth in the action plan for reform and investment, which is part of the urban sector roadmap.</p> <p>(LA, Schedule 5, paras. 1 & 2)</p>	<p>Completed</p> <p>NSUSC incorporated and operating.</p>
<p><u>Project Steering Committee (PSC)</u></p> <p>Sindh shall establish a PSC to provide policy direction and strategic oversight and service as a focal point for inter-agency coordination, chaired by the Additional Chief Secretary, P&DD with the Program Director being the member-secretary. The members will comprise (a) secretary, Local Government Department; (b) additional chief secretary/secretary, Finance Department; (c) secretary, PH&ED; (d) district coordination officers of the participating talukas; (e) one of the taluka nazims of the participating TMAs; (f) head of the urban unit; (g) Program director; (h) managing director, NSUSC; and (i) 3 representatives from civil society, acceptable to ADB. The chair</p>	<p>PSC established in 2008. Six meetings held so far.</p> <p>Civil society members nominated and notified.</p>

Project-Specific Covenants	Remarks/Progress
<p>of the PSC may invite other persons as necessary either to become a member of the PSC or to attend its meetings. The PSC shall meet at least on a quarterly basis.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 2)</p>	
<p><u>Urban Unit</u></p> <p>Sindh, through P&DD, shall establish an Urban Unit, within six (6) months of the Effective Date, to provide strategic urban planning and policy support for urban development in Sindh. Urban Unit shall collaborate with PSU as a "change manager," supporting roll-out of the USC model to new town clusters. The head of the Urban Unit shall be recruited through competitive processes acceptable to ADB and shall be supported by competitively recruited professional and support staff, including specialists in urban policy and economics, regional and urban planning, statistics and mapping, and information technology.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 5)</p>	<p>Formal Notification issued by SGA&C Department on September 23, 2009.</p> <p>CM Sindh approved the Summary including PC-11, Urban Unit renamed as Directorate of Urban Policy and Strategic Planning and notified, the recruitment process have been started. The office space is being identified.</p>
<p><u>North Sindh Urban Services Corporation (NSUSC)</u></p> <p>Sindh shall allow NSUSC to operate as a limited liability company in accordance with</p> <p>The prevailing laws and regulations of the Borrower, including the Companies Ordinance; and</p> <p>Its constitutional documents. Sindh shall provide the necessary resources needed to ensure that</p> <p>NSUSC shall be an effective and sustainable vehicle for the delivery of water supply, wastewater and solid waste management services; and</p> <p>The Project facilities shall continue to be in good condition during and after the completion of the Project and Investment Program.</p> <p>Within six (6) months of the Effective Date, Sindh shall ensure that the participating TMAs shall have deputed their relevant</p>	<p>Incorporated on 11 Nov. 2008.</p> <p>Ongoing.</p> <p>SAMAs signed. Deputation of the relevant staff of participating TMAs too time and has been finally completed in Jan 2011.</p> <p>Complied.</p> <p>Complied.</p> <p>Being Complied</p> <p>Complied</p>

Project-Specific Covenants	Remarks/Progress
<p>staff members to NSUSC, in a manner acceptable to ADB.</p> <p>NSUSC shall ensure that its managing director of NSUSC shall (a) be recruited from the open market and on a competitive basis in a manner acceptable to ADB; and (b) have a minimum of ten (10) years of work experience in managing service delivery and other relevant qualifications to be agreed upon between ADB and Sindh.</p>	<p>Complied</p>
<p>NSUSC shall be responsible for (a) the procurement process, including the award and implementation of contracts related to subprojects under Parts B and C; (b) the preparation of annual plans and budgets for submission to its board; (c) the provision of immediate oversight for environmental and social safeguards related to subprojects under Parts B and C; and (d) the preparation of the periodic financing requests with respect to the subprojects under Parts B and C.</p>	<p>Complied</p>
<p>Within one (1) month of the Effective Date, NSUSC shall have appointed its director of finance and director of operation and services, in a manner acceptable to ADB.</p>	<p>Complied</p>
<p>Within three (3) months of the Effective Date, NSUSC shall have established its safeguards and capital works units, to the satisfaction of ADB.</p>	<p>Complied</p>
<p>Within three (months) of the Effective Date, Sindh shall have appointed an escrow agent, acceptable to ADB, to manage the escrow account to be established at the National Bank of Pakistan, for deposit and disbursement of the Operational Support Funding proceeds to NSUSC.</p>	<p>Complied</p>
<p>Within six (6) months of the Effective Date, NSUSC shall have appointed its technical managers and assistant managers for finance in accordance with the staffing requirement set out in the organogram in Appendix 8 of the RRP.</p>	<p>NSUSC is being followed to appoint its technical managers and ensure that it has been fully staffed</p>
<p>Within twelve (12) months of the Effective Date, NSUSC shall ensure that it has been fully staffed in accordance with the staffing requirement set out in the organogram in Appendix 8 of the RRP.</p>	

Project-Specific Covenants	Remarks/Progress
(PA, Schedule: Execution of Project; Financial Matters, paras. 6 to 16)	
<p><u>Taluka Municipal Administration</u></p> <p>Sindh shall ensure that the participating TMAs shall be adequately staffed.</p> <p>Sindh shall ensure that (a) the necessary budgetary resources to fund the TMA staff deputed to NSUSC and other budgetary requirements pursuant to the Service and Asset Management Agreement shall be fulfilled; and (b) these funds shall be channeled into the escrow account referred to in paragraph 15 of this Schedule.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, paras. 17-18)</p>	<p>Local Government Department is regularly being followed to ensure full staffing of 6 TMAs</p> <p>Being implemented</p>
<p><u>Subproject Selection Process</u></p> <p>Sindh and NSUSC shall ensure that all subprojects are selected in accordance with the agreed criteria set out in Schedule 4 to the FFA and other applicable requirements and guidelines for subproject implementation. Both Sindh and NSUSC shall monitor the implementation of subprojects until their completion.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 19)</p>	<p>Being complied.</p>
<p><u>Social Covenants</u></p>	
<p><u>Land Acquisition and Resettlement.</u></p> <p>The Borrower shall, and shall cause Sindh to, ensure that (a) all land and rights-of-way required for any subproject under the Project are made available in a timely manner, including the requirement for allocation in the annual budget for the financing of land acquisition and related resettlement costs under the Project; (b) upon completion of the detailed design and detailed measurement survey, the resettlement plans under the Project will be prepared in full consultation with the</p>	<p>Ongoing / Being complied</p>

Project-Specific Covenants	Remarks/Progress
<p>affected people and in accordance with the Land Acquisition and Resettlement Framework (LARF) agreed upon between Sindh and ADB and will be promptly disclosed to the affected people; (c) reports on the implementation of the resettlement plan shall be submitted to ADB on a periodic basis; and (d) the entire involuntary resettlement activities under the Project shall be carried out in accordance with the LARF and resettlement plans agreed upon between Sindh and ADB, the relevant national and local policies on resettlement and rehabilitation, and ADB's Involuntary Resettlement Policy (1995).</p> <p>(LA, Schedule 5, para. 4)</p>	
<p>Prior to issuance of notice for mobilization for civil works activities under a subproject, Sindh shall ensure that (a) the Land Acquisition and Resettlement Plan (LARP) has been disclosed to the affected people and submitted to ADB for review and approval; (b) the negotiations on the resettlements with the affected people have been completed; and (c) the affected people have been satisfactorily compensated for their loss through cash payment or land replacement or other forms of agreed entitlement.</p> <p>In the event of any changes to the agreed LARPs, including on the agreed compensation to the affected people, Sindh shall inform ADB and update the LARPs accordingly, and submit the updated resettlement plans to ADB for review and approval.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, paras. 22 and 23)</p>	<p>Being complied</p> <p>Being complied</p>
<p><u>Gender and Child Labor</u></p> <p>The Borrower shall, and shall cause Sindh to, implement the Gender Action Plan prepared under the Investment Program to encourage gender-balanced consultation and participation in the Project planning and implementation, including the representation of qualified women in the board of directors of NSUSC.(LA, Schedule 5, para. 6)</p>	<p>Being Complied.</p> <p>BoD, NSUSC has female representation.</p>

Project-Specific Covenants	Remarks/Progress
<p>Sindh and NSUSC shall monitor the impact of the subproject on women during implementation of each subproject, including where relevant, with gender-disaggregated data collected pursuant to the monitoring and evaluation system referred to in the IPPMS and the Gender Action Plan.</p> <p>Sindh and NSUSC shall ensure that (a) there is no differential payment between men and women for work of equal value; and (b) civil works contractors do not employ child labor in the construction and maintenance activities in accordance with the relevant laws and regulations of the Borrower.(PA, Schedule: Execution of Project; Financial Matters, paras. 24 and 25)</p>	<p><u>IPPMS prepared by SCIP 03 Consultant</u></p> <p>NSUSC has been advised to follow the covenant in letter and spirit while implementing projects.</p>

9.3 OTHER COVENANT

Project-Specific Covenants	Remarks/Progress
<p>1. <u>Established, Staffed, and Operating PMU/PIU</u></p> <p>Program Support Unit (PSU).</p> <p>Sindh shall establish a PSU to support the implementation of the Project, headed by the Program Director, to be recruited by P&DD through competitive process acceptable to ADB. He shall be supported by competitively recruited professional and support staff, including specialists in municipal services engineering, municipal finance, program implementation, monitoring and evaluation, finance and accounting, urban development and information technology. The Program Director shall ensure that the Project implementation is consistent with its environmental and social safeguard frameworks. (PA, Schedule: Execution of Project; Financial Matters, paras. 3-4)</p> <p>Sindh shall submit a Project completion report to ADB within three (3) months of the completion of the Project, containing</p>	<p>Complied.</p> <p>PSU established in May 2008.</p> <p>Not yet due.</p>

Project-Specific Covenants	Remarks/Progress
<p>detailed evaluation of the Project covering design, costs, contractors' and consultants' performance, social, environmental and economic impact, economic rate of return and other details as may be requested by ADB.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 29)</p> <p>Program Performance Monitoring System.</p> <p>Sindh shall cause the PSU to establish, within three (3) months of the Effective Date, the IPPMS in form and substance acceptable to ADB, which shall incorporate a set of performance monitoring indicators relating to outputs and outcomes, including service delivery performance, physical implementation, institutional reform and capacity-development milestones. The PSU shall establish baseline data for each of the selected indicators and conduct annual surveys with the assistance of consultants, and update ADB on the progress against each indicator.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 32)</p> <p>Sindh shall cause the PSU to prepare quarterly progress reports based on information provided by NSUSC, including progress against reform and service delivery objectives, and implementation progress of the subprojects, and submitted to ADB within thirty (30) days after the close of each quarter. The reports shall discuss progress made during the period of review, changes if any on implementation schedule, problems or difficulties encountered and remedial actions taken, and work to be undertaken in the coming quarter. NSUSC shall also be responsible for providing information as required to the independent verifier.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 33)</p>	<p><u>Program Support Unit consultants (SCIP-3) has drafted Monitoring and Evaluation (IPPMS) framework and also initiated the process to conduct baseline surveys to collect data.</u></p> <p><u>NSUSC has also been advised to expedite to carryout baseline surveys in the eight cities of North in line with Monitoring and Evaluation Framework. MMP is undertake the surveys.</u></p> <p>Being complied</p>

Project-Specific Covenants	Remarks/Progress
<p><u>Fielding of Consultants</u></p> <p>Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the following methods of procurement: (a) International Competitive Bidding, (b) National Competitive Bidding, and (c) Shopping. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.</p> <p>(LA, Schedule 4, para. 3)</p>	<p>Being complied</p>
<p><u>National Competitive Bidding.</u></p> <p>The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines.</p> <p>(LA, Schedule 4, para. 5)</p>	<p>Being complied</p>
<p>The Borrower shall not award any Works contracts under the Loan in the amount of one million Dollars (\$1,000,000) or above until: (i) the board of directors of NSUSC shall have approved the business plan of NSUSC; (ii) the independent verifier, which will assess NSUSC and TMA compliance with the Service and Asset Management Agreements, and the Tripartite Operational Support and Capital Investment Grant Agreement, shall have been recruited; and (iii) an escrow account shall have been established and funded.[LA, Schedule 4, para. 6 (a)]</p>	<p>Being complied</p>
<p>The Borrower shall not award any Works contracts in Khairpur until the TMA in Khairpur shall have become a shareholder in NSUSC.[LA, Schedule 4, para. 6(b)]</p>	<p>Complied. Khairpur is shareholder as of Qtr 2, 2009</p>

Project-Specific Covenants	Remarks/Progress
<p>The Borrower shall not award any Works contracts in Khairpur in the amount of one million Dollars (\$1,000,000) or above until the TMA in Khairpur shall have (i) entered into a Service and Asset Management Agreement with NSUSC, in the form and substance acceptable to ADB; and (ii) entered into the Tripartite Operational Support and Capital Investment Grant Agreement, in the form and substances acceptable to ADB.[LA, Schedule 4, para. 6(c)]</p>	<p>Complied</p>
<p>Except as ADB may otherwise agree, the Borrower shall apply quality-and cost-based selection for selecting and engaging consulting services. (LA, Schedule 4, para. 7)</p>	<p>Complied</p>
<p>The Borrower shall apply the following methods for selecting and engaging the specified consulting services, in accordance with the procedures set forth in the Procurement Plan: Consultants' Qualifications Selection for studies and training in (a) urban service provision monitoring, (b) urban planning, (c) urban sector reforms, (d) utility operations, (e) services planning, (f) utility reforms, and (g) corporate governance. (LA, Schedule 4, para. 8)</p>	<p>Being complied</p>
<p>The Borrower shall recruit the individual consultants for (a) urban development, (b) municipal planning and services engineering, (c) public finance, (d) information technology, (e) local government liaising, (f) urban policy and economics, (g) monitoring and evaluation, and (h) mapping and geographic information system, in accordance with procedures acceptable to ADB for recruiting individual consultants. (LA, Schedule 4, para. 9)</p>	<p>Complied</p>
<p><u>Industrial and Intellectual Property Right</u> (a) the Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software</p>	<p>Being complied</p>

Project-Specific Covenants	Remarks/Progress
<p>and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party. (b) the Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.</p> <p>(LA, Schedule 4, para. 10)</p> <p>The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.</p> <p>(LA, Schedule 4, para. 11)</p>	<p>Being complied</p>
<p>All contracts procured under international competitive bidding procedure and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.</p> <p>(LA, Schedule 4, para. 12)</p>	<p>Being complied</p>

Project-Specific Covenants	Remarks/Progress
<p><u>Anti-Corruption</u></p> <p>The Borrower shall, and shall cause Sindh to, comply with ADB's Anticorruption Policy (1998, as amended to date). The Borrower shall, and shall cause Sindh to, agree (a) that relevant provisions of ADB's Anticorruption Policy are included in all bidding documents for the Project; (b) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; and (c) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In particular, the Borrower shall, and shall cause Sindh to, (a) conduct periodic inspection on the contractors' activities related to fund withdrawals and settlements; and (b) ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of Sindh, all contractors, suppliers, consultants and other service providers as they relate to the Project.</p> <p>(LA, Schedule 5, para. 7)</p>	<p>Being complied</p>
<p><u>Governance</u></p> <p>Sindh shall disclose basic information concerning activities and progress of the Project, as appropriate, including procurement-related information, financial statements, and physical progress and that the disclosure shall be done through websites and the bulletin boards at the offices of the participating TMAs, the regional office(s) of the PSU and NSUSC customer service units at town-level.</p> <p>Sindh shall ensure that the procurement-related information to be disclosed shall include the lists of participating bidders, names of winning bidders, basic details of the bidding procedures adopted, contract values, and lists of goods and services to be procured.</p>	<p>Ongoing.</p> <p>Website launched and operational.</p> <p><i>Being complied</i></p>

Project-Specific Covenants	Remarks/Progress
(PA, Schedule: Execution of Project; Financial Matters, paras. 26 & 27)	
<p><u>Project Review, Accounts and Audits.</u></p> <p>ADB, Sindh and NSUSC shall conduct a quarterly review of the implementation of the Project to discuss progress and any key changes to implementation arrangements or remedial measures required to be undertaken.</p> <p>Within eighteen (18) months of the Effective Date, ADB, Sindh and NSUSC shall conduct mid-term review to examine the summary of contracts awards and disbursement, implementation progress against service delivery performance, reform, institutional development and capacity building milestones. The mid-term review shall also identify problems or weaknesses in implementation arrangements, and agree on any changes needed.</p> <p>(PA, Schedule: Execution of Project; Financial Matters, para. 28)</p>	<p>NSUSC has been advised to send periodic progress reports in time. PSU provides regular consultation to NSUSC in smooth operationalization of Corporation.</p> <p>That is undertaken as and when required.</p>

10. ISSUES AND CHALLENGES:

Providing services to households in participating towns is still a big challenge for NSUSC despite injecting huge resources in the shape of equipment and infrastructure. The most daunting challenge for PSU / NSUSC is to assess infrastructure improvement investment in a systematic manner. Systematic collection, presentation and analysis of data in the absence of IPPMs have been a stumbling block to assess the fruits of capital investment undertaken to improve / rehab water, waste water and solid waste management services. Besides, NSUSC’s laxity to share the information / data in time (available with NSUSC Management in whatever form) limits PSU ability to present progress in a befitting manner at provincial , national and even international forums.

10. NEXT QUARTER PLAN

PSU

- 6th PSC meeting would conducted
- PFR 2 would be reviewed / approved by GoS

- SCIP-3 consultants would subcontract work to carry-out baseline surveys , mapping studies and solid waste management studies in Central Cluster towns;

NSUSC:

- 50% work on ICB -3 would be completed
- Tender for DNI Zones would be invited
- Tender for RSGFP would be invited
- CRC field survey would be completed
- MMP would initiate baseline survey in the eight cities of NSUSC.
- PFR would be prepared and submitted for review and approval by GoS