



## EXECUTIVE SUMMARY

# Transforming Karachi into a Livable and Competitive Megacity

*A City Diagnostic and Transformation Strategy*



WORLD BANK GROUP





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## *A City Diagnostic and Transformation Strategy*

Karachi is the largest city in Pakistan with a population of 16 million.<sup>1</sup> It accounts for one-third of Sindh's population, and one-fifth of the country's urban population. However, a highly complex political economy, highly centralized but fragmented governance, land contestation among many government entities, and weak institutional capacity has made it difficult to manage the city's development. Karachi has also been beset with a worsening security situation for the past few decades, although recent improvements in the security environment have led to a reduction in violent crime. Social exclusion of marginalized parts of the population is a challenge that requires immediate attention. These factors have resulted in the rapid decline of the city's quality of life and economic competitiveness from its thriving status after the country's independence.

### Three Pathways for City Diagnostic

The first part of the report provides a diagnosis of Karachi's issues, structured around three pathways focused on key aspects of city management.

**These three pathways for the City Diagnostic are:**

1. **City Growth and Prosperity**, where the report analyzes the city's economy, competitiveness and business environment, and poverty trends.
2. **City Livability**, where the report assesses the city's urban planning; city management, governance and institutional capacity; and municipal service delivery – focusing on 3 sectors, namely i) public transport; ii) water and sanitation; and iii) municipal solid waste.

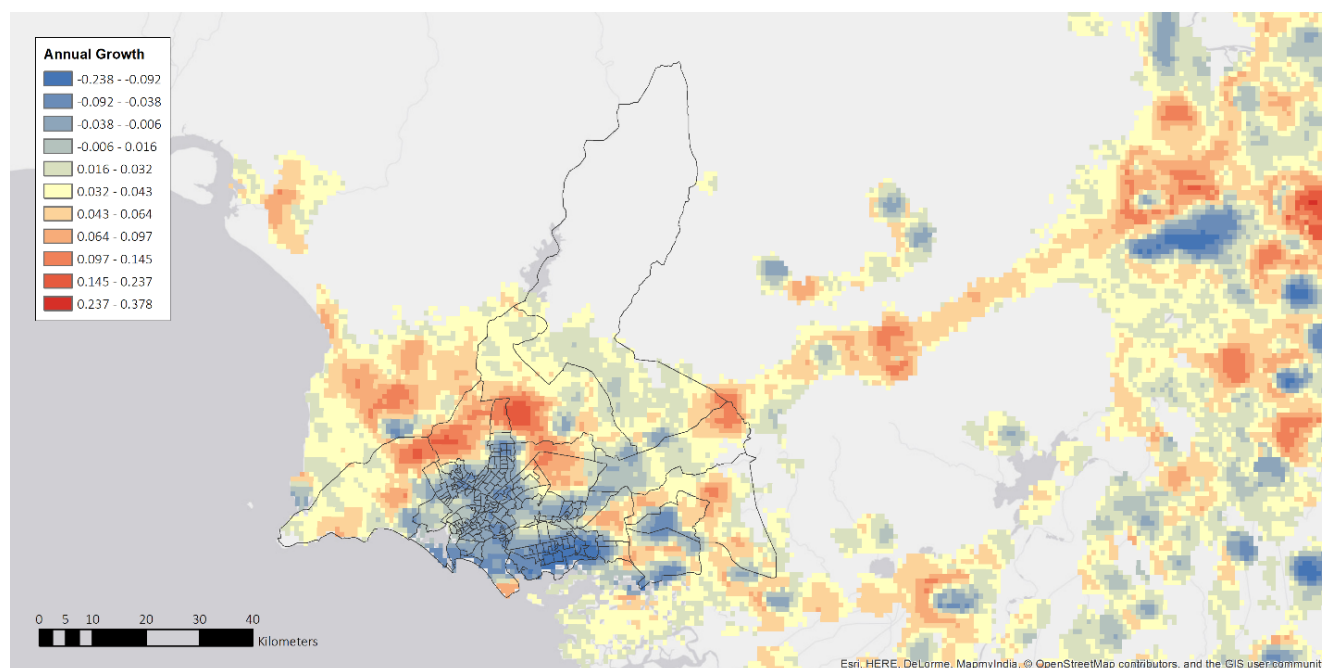
3. **City Sustainability and Inclusiveness**, where the report examines the city's long term risks and resilience looking at the following: i) fiscal management; ii) environmental sustainability and ability to deal with disasters and climate change; and iii) social inclusion.

Each section provides a rapid diagnostic of the issues and a list of possible actions that can be taken in the short and long term.

## Karachi's Declining Economic Performance but Strong Poverty Reduction

Karachi is the country's financial and economic hub, generating up to 12-15 percent of GDP, and is a powerhouse of manufacturing employment in the country. However, the city and its surrounding economic agglomeration is not generating economic productivity gains for the country. Evidence from nighttime lights – a strong proxy for economic activity – shows declining economic activity in the core, central areas of the city and high growth in the periphery, indicating that high value economic activity is moving away from the city core (See Figure below). This stagnation of economic activity in the central areas is problematic for long term economic and social potential. On the positive side, Karachi has seen substantial poverty reduction in the ten years till 2015, with 9% of the city's population living in poverty in 2014-15 compared to 23% in 2004-05. This makes Karachi the least poor district in Sindh province and third least poor in Pakistan.<sup>2</sup> Despite this, there are pockets of high poverty and large variation within Karachi due to its large physical and population size.


Figure. Karachi's pattern of dimming nightlights at the core, with rapid growth in peripheral area (1999 to 2010).



Source: World Bank analysis based on Defense Meteorological Satellite Program–Operational Line Scan System nighttime lights data. Data show annual average growth in night-time light intensity from 1999 to 2010.

## Karachi's Low Livability and Level of Basic Services

Karachi is ranked among the bottom 10 cities in the Global Livability Index. The city is very dense, with more than 20,000 persons per square km. Urban planning, management and service delivery have not kept pace with population growth and the city seems to be headed towards a spatially unsustainable, inefficient, and unlivable form. Public open spaces and cultural heritage sites are under threat from commercial development. Urban green space is shrinking, and is now only four percent of the city's built-up area. All these are accompanied by insufficient basic services.

  
**20,000**  
persons per square kilometer

**Public Transport:** No cohesive transportation policy exists for Karachi, even as a thousand new vehicles are added to the roads each day. Traffic congestion and road safety are both serious concerns. There is no official public transit system per se. An estimate says that 45 citizens compete for every bus seat, compared to 12 in Mumbai. Limited access to transit options impacts women in particular. Karachi's transport problems cannot be resolved by simply investing in more infrastructure and facilities; the solution lies in a comprehensive strategy and efficient institutions.







**Water Supply and Sanitation:** Karachi is experiencing a water and sanitation crisis that stems largely from poor governance. Financing for this sector is typically ad-hoc and aimed at addressing immediate needs, rather than long-term goals. Only 55 percent of water requirements are met daily. Rationing is widespread, and leakages and large scale theft is common. Non-revenue water can be as high as 60%, compared to 30% in Ho Chi Minh City and 17% in Manila. Many households rely on private vendors who sell water from tankers at high prices. Less than 60 percent of the population has access to public sewerage, and almost all raw sewage is discharged untreated into the sea, including hazardous and industrial effluent. Less than half of estimated solid waste is collected and transported to open dump sites, resulting in a major public health hazard.

**55%**

of daily water needs are met

**60%**

non-net revenue water

## Karachi's High Vulnerability to Disasters and Environmental Pollution

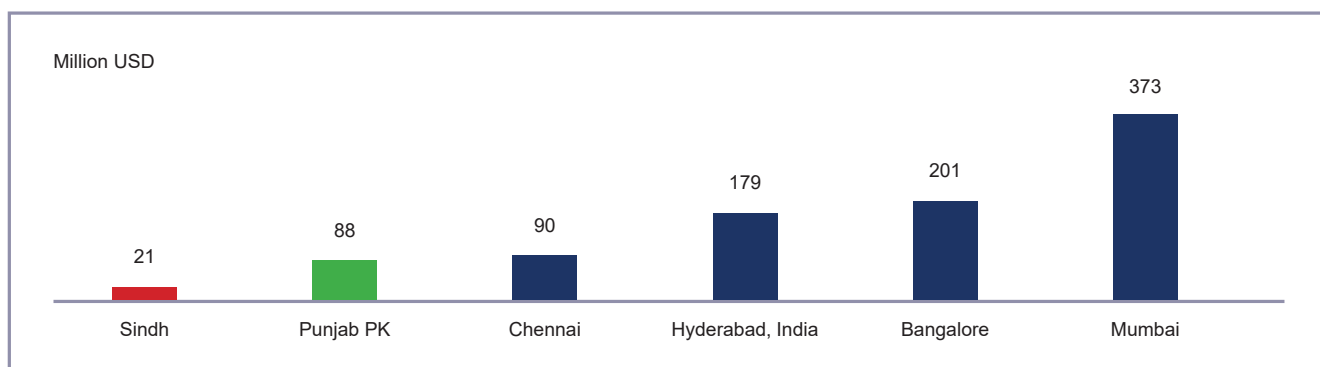
Karachi is at a high risk of natural and man-made disasters and is one of the most disaster-vulnerable districts in Pakistan. Various authorities responsible for disaster response suffer from weak coordination, information gaps, low capacity, and limited planning. Emergency response is hindered by poor land use planning and building control. Regular flooding occurs during the annual monsoon season due to the poorly maintained and clogged drainage system. Air pollution is one of the most severe environmental problems. Environmental pollution has a high cost to public health, up to 7 percent of Sindh province's GDP.

## Financing Requirements for Karachi's Infrastructure and Service Needs

**This report estimates that Karachi needs around US\$9 to 10 billion of financing over a ten-year period to meet its infrastructure and service delivery needs in urban transport, water supply and sanitation and municipal solid waste.** (Full analysis of each sector is available in the complete report.)

However, current infrastructure spending by the public sector is well below these requirements, despite large recent increases. The availability of public financing for Karachi's needs is limited, which substantially increases its opportunity cost. Collections of urban immovable property tax from Karachi (and Sindh) remain dismal compared to potential. Global experience shows that urban property tax is an important source of financing for cities. However, revenue from urban property tax in Sindh – almost all of which comes from Karachi – is extremely low compared to potential. Punjab province collects four times as much in this tax as Sindh every year. In comparison, a single metropolitan city in neighboring India collects many times more in annual property tax than Sindh. Increasing revenue from this tax is essential to finance the infrastructure needs in Karachi.

**Figure. Urban Property Tax collection in Sindh is much lower than in Punjab (Pakistan) and selected Indian cities.**

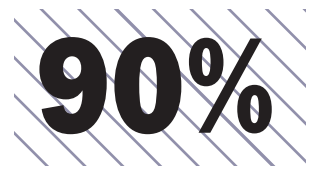


Source: World Bank analysis based on official budget data for FY2015-16.



## Inefficient and Weak City Governance Structure

Unclear roles, overlapping functions, and poor coordination amongst various agencies responsible for city governance and management has worsened the city's problems. Municipal and city development functions are highly fragmented, with roughly 20 agencies across different levels of government – Federal, Provincial and local – performing these functions, leading to lack of coordinated planning and integration at the city level. These agencies also control nearly 90 percent of land in Karachi, but are reluctant to make it available for development. Public investment in infrastructure is reactive and uncoordinated, with a persistent focus on extension over preventive maintenance or rehabilitation. Elected local governments in the city have weak systems and capacity; and are not empowered to deliver many municipal functions. The provincial government retains substantial control over various city services and functions, such as master planning, building control, water and sewerage, solid waste management and development of peri-urban and peripheral lands. Local governments are in an extremely weak financial position, relying almost solely on transfers from the provincial government to meet their budgetary needs, of which a majority is spent on salaries and pensions – leaving precious little for much-needed maintenance or development of infrastructure.



of land is controlled by 18 public agencies, with little coordination.

## The Way Forward: What will it take to transform Karachi into a livable and competitive megacity?

In addition to large-scale public and private financing, Karachi needs difficult reforms in improving urban governance, institutional capacity and coordination to become a more economically productive and livable city. The second part of the report supplements sector-specific issues and recommendations by providing the way forward based on four key pillars that will be important for city's transformation. **These four pillars for city transformation are:**

1. **Building inclusive, coordinated and accountable service delivery institutions:** Create strong coordination mechanisms among various public land owning and service delivery agencies. Improve the ability of these agencies to plan, finance and manage development programs. Empower local governments to take the lead in city management.
2. **Greening Karachi for sustainability and resilience:** Invest in environmentally-sustainable infrastructure gaps and safeguard funds for its maintenance. Create mechanism to protect vulnerable groups from the negative impacts of economic growth and climate change. Build a resilient and sustainable environment with an emphasis on livability and regeneration.
3. **Leveraging on Karachi's economic, social and environmental assets:** Involve private sector in infrastructure provision by creating an enabling environment via policy reforms. Create incentives for more efficient performance of service delivery agencies. Improve the ease of doing business and encourage public-private partnerships. Reduce delays and discretionary power for key business transactions under city and provincial authorities. Improve cost recovery and revenue collection for basic services while safeguarding vulnerable groups such as the poor. Leverage the city's land assets (such as state-owned land in prime locations) to finance critical infrastructure.
4. **Creating a smart Karachi through policies and use of smart tools and technologies:** Innovate with smart policies to better manage city services, improve economic competitiveness, and facilitate engagement with citizens. Interventions should also focus on improving the ease of doing business to help enable economic growth and job creation.







## Pathways for City Diagnostic

- City Growth and Prosperity
- City Livability
- City Sustainability and Inclusiveness

## Pathways for City Transformation

- Building inclusive, coordinated, and accountable service delivery institutions
- Greening Karachi for sustainability and resilience
- Leveraging Karachi's economic, social, and environmental assets
- Creating a smart Karachi through policies and use of smart tools and technologies

## Recommendations /Tracks

- Create a shared vision for a livable, inclusive, and sustainable Karachi
- Improve institutional governance and performance of city entities
- Leverage public and private financing to meet Karachi's infrastructure needs

The report underlines the structural nature of the city's problems and recommends a comprehensive, programmatic and phased approach to strategically tackle these challenges. **The four pillars of city transformation are accompanied by a set of actionable short and long term recommendations to transform Karachi. These recommendations can be categorized into three tracks:**

**Track 1: Create a shared vision for a livable, inclusive and sustainable Karachi** with a joint commitment across federal, provincial and local governments that involves all key stakeholders such as civil society, private sector and vulnerable groups such as women, the poor and youth.

**Track 2: Improve institutional governance and performance of city entities** with strong coordination mechanisms among public land owning and service delivery agencies. Interventions should focus on reforms for accountability, strengthening contractual agreements between province-controlled municipal service agencies and the local governments; and strengthening of coordination between agencies across different levels of government.

**Track 3: Leverage public and private financing to meet Karachi's infrastructure needs.** Spending on infrastructure by the public sector in Karachi is well below required levels despite large recent increases. The solution is to leverage significant and diverse sources of financing — both public and private.







**In the short and medium term**, policymakers in Karachi will need to focus on improving the use and efficiency of the following fiscal instruments to mobilize higher financing:

- i. urban property tax;
- ii. enhanced conditional fiscal transfers to local governments; and
- iii. management contracts with private sector for municipal service delivery in the city.

**In the long term**, policymakers must leverage more advanced sources of financing by creating an enabling environment via policy reforms and innovations. These include the following:

- i. explicit performance-based grants for local governments;
- ii. instruments for land value capture – to share in the benefits of increases in private land/ property values due to infrastructure improvements, especially around planned mass transit stations;
- iii. issuing sub-national or municipal bonds or enhancing credit/ loan options by accessing guarantees – such as those issued by sovereign entities or multilateral organizations, to obtain private/ institutional financing; and
- iv. designing innovative public-private partnerships, special purpose vehicles and infrastructure funds to invest in Karachi's needs.

A full list of recommendations and proposed policy reforms for each sector and theme is available in the complete report.





## Notes

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<sup>1</sup>Population of Karachi Division (6 districts), as per Population Census 2017 (Pakistan Bureau of Statistics, Government of Pakistan). Various unofficial sources estimate the city's population to be higher.

<sup>2</sup>"District" here covers the entire Karachi administrative Division which includes 6 administrative districts. Data sources and methodology for all estimates are provided in the main report.

## Images

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