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Islamic Republic of Pakistan

Strengthen urban policy and Institutions in Pak

{Strengthen Urban Policy & Institutions; and Streamline Sector Investment for Improved Service C
(P131971).¹}

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¹ This is a Technical Assistance (TA) activity for two years (that is, FY13 - FY15), and has started under the traditional WSP PT codes. This concept note is part of a wider WSP process to migrate to TA code. This initiative is part of the WSP global business area #4 “Targeting the Urban Poor and improving services in small towns” hence, WSP global expertise and learning will contribute to the local knowledge and learning and vice versa.

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THE WORLD BANK GROUP

Strengthen Urban Policy and Institutions and Streamline Sector Investment for Improved Service Delivery in Pakistan

(P131971)

Water and Sanitation Program

1/5/2015

This synthesis report details the process, outputs and intermediate outcomes of the above technical assistance (TA) which was aimed at service delivery improvement in urban water and sanitation, especially to the urban poor, by: (i) supporting the government in establishing efficient, autonomous and responsive utility in Peshawar; (ii) facilitating the provincial/regional governments in formulation of water sector policies; (iii) designing demand based “Pakistan Water Sector Technical Advisory Program” for clients; and (iv) strengthening and aligning the urban (water) reform agenda in three provincial urban units through national urban forum.

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Abbreviations and Acronyms

Abbreviations

ADB	Asian Development Bank
BoD	Board of Directors
CB	Cantonment Board
ESW	Economic Sector Work
FATA	Federally Administered Tribal Areas
GIS	Geographic Information System
GoKP	Government of Khyber Pakhtunkhwa
IT	Information Technology
km	kilometer
KP	Khyber Pakhtunkhwa
LGE&RDD	Local Government, Elections and Rural Development Department
LGO	Local Government Ordinance
MGD	million gallon per day
MoD	Ministry of Defense
MSP	Municipal Services Project
NRW	Non Revenue Water
PBC	Performance Based Contract
P-CDG	Peshawar City District Government
PCNA	Post Crisis Need Assessment
PDA	Peshawar Development Authority
PHED	Public Health Engineering Department
PUF	Pakistan Urban Forum

SAMA	Services and Asset Management Agreement
SECP	Securities and Exchange Commission, Pakistan
TA	Technical Assistance
TAP	Technical Advisory Program
TMA	Town Municipal Administration
TOR	Terms of Reference
UC	Union Council
UPU	Urban Policy Unit
USAID	United States Assistance for International Development
USPMSU	Urban Sector Planning Management Services Unit
WASA	Water and Sanitation Agency
WSP	Water and Sanitation Program
WSSP	Water and Sanitation Services Peshawar

Executive Summary

1. This synthesis report details the process, outputs and intermediate outcomes of the Water and Sanitation Program (WSP) - World Bank Technical Assistance (TA) to **Strengthen Urban Policy & Institutions; and Streamline Sector Investment for Improved Service Delivery, Pakistan (P131971)**.²
2. The TA was aimed at service delivery improvement in urban water and sanitation, especially to the urban poor, by: (i) supporting the government in establishing an efficient, autonomous and responsive utility in Peshawar; (ii) facilitating the provincial/regional governments in formulation of water sector policies; (iii) designing demand based “Pakistan Water Sector Technical Advisory Program” for clients; and (iv) strengthening and aligning the urban (water) reform agenda in three provincial urban units through national urban forums.
3. Peshawar, located in the north-western part of Pakistan, is the largest city and capital of Khyber Pakhtunkhwa province. Due to its strategic location, about 160 kilometer (km) from federal capital Islamabad and 48 km from the historical Khyber Pass leading to Afghanistan, the city has

² This is a Technical Assistance (TA) activity for two years (that is, FY13 - FY15), and has started under the traditional WSP PT codes. This concept note is part of a wider WSP process to migrate to TA code. This initiative is part of the WSP global business area #4 “Targeting the Urban Poor and improving services in small towns” hence, WSP global expertise and learning will contribute to the local knowledge and learning and vice versa.

evolved as a commercial, industrial, social, political and cultural hub of the north-western region of Pakistan.

4. The water and sanitation function in the city was managed by seven institutions four Town Municipal Administrations (TMAs) I, II, III and IV, Peshawar Development Authority (PDA), Public Health Engineering Department (PHED) and Cantonment Board (CB). All four TMAs were provincially aligned to the Local Government, Elections and Rural Development Department (LGE&RDD) but created as body corporate to independently plan, manage and deliver municipal services. LGE&RDD was responsible for provision of human and financial resource (capital and operational) for municipal services to TMAs. PDA was also aligned to LGE&RDD and had other functions (city planning, development, urban roads, building control, and so on) and municipal services in a small part of the city. While PHED was the provincial department for provision of water in rural pockets of the city, CB was responsible for municipal service delivery in the Army garrison. CB is aligned to the Federal government and is administratively controlled by the Federal Ministry of Defense (MoD).
5. Groundwater is the main source of water and it is supplied through a piped network to customers. The city had four waste water treatment plants but none was functional and wastewater was directly discharged into river bodies. Less than 40 percent of the total 600 tons/day waste is collected while the rest makes its way into drains. The final disposal is crude dumping into open lands in the vicinity of the city.
6. Specifically, this TA contributed in achieving the following:
 - a) **Assisted** the Government of Khyber Pakhtunkhwa (GoKP) in establishing Pakistan's first autonomous, corporate governed and professionally managed urban water and sanitation utility in Peshawar. This was successfully *achieved by addressing* the institutional and governance structure of water and sanitation service delivery in Peshawar. The TA facilitated the functional amalgamation of seven fragmented municipal institutions in Peshawar – the provincial capital with a population of 2 million inhabitants – to carve out a citywide utility. The utility “Water and Sanitation Services Peshawar (WSSP)” is operational and delivering water and sanitation (sewerage, drainage and solid waste) functional services in the urban pockets of the city. The TA not only influenced the ongoing United States Assistance for International Development (USAID)-funded US\$67 million Municipal Services Project (MSP) in Peshawar but delivered it in active partnership with USAID. GoKP committed a seed fund of Rs. 1,173 million (US\$1.17 million) for the establishment and operational cost of WSSP to sustain this institutional reform.
 - b) **Formulated** the Federally Administrative Tribal Area (FATA) drinking water policy. The policy, which is the first of this type in FATA, provides a framework for addressing the institutional, administrative, legal, fiscal, technical, social and environmental issues and challenges of drinking water faced by FATA. The policy was developed in consultation with FATA secretariat staff, donors working in FATA, civil society and academia. The policy was approved by the Governor, Khyber Pakhtunkhwa. Similarly, the Drinking Water Policy of Khyber Pakhtunkhwa province was also initiated under the TA and the draft is ready for submission to the provincial cabinet. The policy, once approved, will be a guiding framework for the sector to ensure improved water services to citizens of

Khyber Pakhtunkhwa by prioritizing drinking water, addressing functional clarity among the roles of various stakeholders, and committing resources especially for unserved segments of the society.

- c) **Designed** “Pakistan Water Sector Technical Advisory Program (TAP)” for the water and sanitation sector in Pakistan. TAP is a demand-based TA available to service providers and provincial governments to develop and implement innovative mechanisms for improvements in water supply and sanitation sector performance, including through the use of incentive-based financing instruments. TAP is a follow up of the National Water and Sanitation Sector Study (2013) which was jointly delivered by WSP and operational colleagues as Economic Sector Work (ESW).

- b) **Supported** the Urban Unit of Sindh and Punjab in organizing the second Pakistan Urban Forum (PUF) in Karachi in January 2014. Over 7,000 participants attended the three-day technical sessions and exhibition of the forum. Under the overall theme of "Managed Urbanization," national and international speakers shared their research and practical experience in urban sectors including urban water and service delivery. Under this TA, seven urban water and sanitation sessions were organized in which more than 10 papers were presented and international speakers from South Africa, Uganda, Canada, Spain, Korea, Malaysia, Bangladesh and India shared water and sanitation related challenges and experiences.

Background and Introduction of TA

1. A major bottleneck for improved water and sanitation service delivery in Pakistan was a weak articulation of the urban sector vision and an inefficient structure of service provision.³ The municipal water and sanitation sector in Pakistan is characterized by high access to infrastructure (91 percent access to improved water supplies and 72 percent access to latrines) but extremely low access to quality services (<30 percent safe consumption of water and no one is safe from the risks of unconfined excreta). This is rooted in a context where there is an overt focus on the creation of assets rather than the quality of services from those assets. In spite of the relatively high levels of access to improved infrastructure, the quality of access to services is poor and deplorably low. Like in many other developing countries, the thrust in Pakistan has been on “infrastructure” and not on “services.” The government and development partners have shied away from designing and implementing urban institutional reforms in large cities. “Reform is change of status quo, requires firm political commitment and could take long to deliver,” said a senior official and this could be the reason why urban institutional reform has been on the backburner of past governments.

2. At the aggregate level, Pakistan is on target to achieve the water supply Millennium Development Goal (90 percent vs. expected 91 percent) but off target on sanitation (45 percent vs. expected 52 percent). However, the aggregate numbers mark an underlying trend that shows access in urban areas is declining slightly but is offset by improvements in rural areas. Urbanization, lack of long-term planning, weak municipal institutions, and absence of a sector regulator are some of the factors for the decline of services in urban areas.

³ “Pakistan Water and Sanitation Sector Note”, 2013.

3. The government, being cognizant of the situation, had launched policy and institutional reform initiatives to address bottlenecks. In Pakistan, the provinces and regions/states are custodians of the sector (as per the 1973 Constitution of Pakistan) and are required to legislate on provincial sector policies and implement these through decentralized municipal institutions (local governments). In 2006, the Government of Punjab established a dedicated think tank to work in an advisory capacity on urban issues in Punjab. The “Urban Sector Planning Management Services Unit (USPMSU)” had a mandate to respond to legal, institutional, technical and management needs of line departments and cities just as a government consulting firm does. In 2008, the Government of Sindh replicated the Punjab model and established a “Directorate of Urban Policy and Strategic Planning”. In 2009, the then Ministry of Environment approved the “National Drinking Water Policy Framework”.
4. The focus of the TA has been to support government clients in their articulation of a sector vision through the formulation of provincial water sector policies and improving the institutional and governance framework in urban areas of KP province. Encapsulated in the policy and reform debate were the issues of the structure of urban service delivery institutions, legal provisions and statutes for reforms, inter- and intra-institutional alignment at provincial and city levels, and institutional and governance framework of urban service delivery institutions which were all addressed under this TA. The major part of this TA was focused on urban institutional reforms in Peshawar which was pioneering work in Pakistan in the sector.
5. Peshawar, capital of Khyber Pakhtunkhwa (KP) province, was the only city district among the eight city district governments in the country that did not had a citywide water and sanitation utility. Peshawar had seven municipal institutions working in isolation from each other with duplicate functions, diffused accountability and poor integrated planning that led to deplorable services. The fundamental issue underlying the poor state of services was the institutional arrangements. The number of agencies responsible for water services and erratic state of decision making, coupled with unclear lines of responsibility and accountability, inhibited the state of water and sanitation in the city. The 816 tubewells were pumping 90 million gallons per day (MGD) water into the distribution network while the estimated wastewater flow was around 52 MGD. The city had four wastewater treatment plants (stabilization ponds) but none was operational; wastewater was dumped directly into natural water bodies. In addition, the state of institutional capacity had also deteriorated and this resulted in poor sectoral planning, coordination and participatory schemes. In this situation, the best possible solution was to establish a single citywide water and sanitation utility for Peshawar similar to those in other large cities of the country.
6. In addition, Peshawar sits on the border with Federally Administered Tribal Areas (FATA) and Afghanistan and is on the frontline of war against terror. It has been hosting over 40 percent of 3.5 million Afghan refugees since 1979, and over 300,000 internally displaced persons. As a result, the city has been paralyzed at various times due to massive security attacks. In the period between 2010 and 2014, Peshawar was hit by 370 attacks in which 2,521 people lost their lives and scores were injured – some seriously and with life-long disabilities. This security situation too has taken a toll on the provision of efficient water and sanitation services.
7. In 2010, the Water and Sanitation Program (WSP) exposed select politicians and senior policy makers of Punjab and KP province through a study tour on “Urban Governance and Service

Delivery Structures of Johannesburg, Durban and Pretoria” in South Africa. On return the Government of Khyber Pakhtunkhwa (GoKP) requested WSP for a Technical Assistance (TA) to carry out institutional reform in Peshawar to improve services by incorporating the South African experience and learning. GoKP constituted the “Peshawar Utility Reform Committee” which had senior administrators as members and WSP staff as the only non-government member to work on reform.

8. At the request of FATA and GoKP, this TA also supported the policy formulation process in the region and province, respectively. Two high powered committees were formed both by FATA secretariat and GoKP with members from the relevant departments, development partners and civil society. The FATA Drinking Water Policy was approved by the Governor of the KP province while the final draft of the KP Drinking Water Policy is ready for submission to the cabinet for approval. The objective of both policies is to provide a framework for the sector which prioritizes drinking water over other uses of water, guides sector investment especially the public funds, clarifies the role of stakeholders, advocates for coordination and harmonization, and commits higher allocation for the sector.
9. The World Bank Group has had no dedicated drinking water lending operation in Pakistan since 1996.⁴ Under this TA, WSP and the operations team of the World Bank Group jointly delivered the “Pakistan Water and Sanitation Sector Note” in 2013. The sector note is comprehensive as it covered four provinces, three regions/states and both urban and rural water and sanitation sector. The sector note had in-depth analysis of institutional, governance, technical, fiscal, policy reforms and regulatory aspects of the sector across Pakistan. The three volumes of the sector note - developed in consultation with federal, provincial/regional line departments - also has recommendations for the provinces and regions to improve the sector outlook on the basis of in-depth diagnosis. In order to continue the engagement – with the ultimate objective of designing an operation - WSP and the operation team joined hands to develop the “Pakistan Water Sector Technical Advisory Program – Technical Advisory Program (TAP)’ under this TA. The specific objective of TAP is: i) to assist provincial governments in Pakistan to develop innovative mechanisms to support improvements in water supply and sanitation sector performance, including through the use of incentive-based financing instruments; and ii) to build support for reform and investment in the sector.
10. Under e TA, GoKP also established the “Urban Policy Unit (UPU)” in the province in 2011. The role of UPU is to act as technical support to cities and urban sector line departments in areas of policy planning, research and coordination. The idea of this unit was conceived by the committee which was working on the Peshawar urban utility. Under this TA, GoKP was exposed to both Punjab and Sindh urban units and, on the basis of this learning, the governance structure, mandate, scope of work, and human resources aspects were designed. This TA also supported networking of the three urban units especially on strategic urban water and sanitation issues, lessons and approaches. In January 2014, the urban units of Punjab and Sindh were supported to organize the second Pakistan Urban Forum (PUF) in Karachi. It had seven dedicated sessions on urban water and sanitation from governance to performance contracts and from benchmarking to services to urban poor. The final declaration of the forum duly covered the importance of urban water and sanitation sector.

⁴ “Pakistan Water and Sanitation Sector Note”, 2013.

11. The delivery of this reform TA was not without challenges. It was hampered by the security situation in the province, in general, and in Peshawar, in particular, and the May 2013 general election that resulted in a new government in the province. Many a time, committee meetings were adjourned in the middle due to an attack in Peshawar/KP as most committee members had to change their role from “reform” leader to emergency and “relief” provider/supervisor. Two senior members of the Peshawar utility reform committee – Commissioner Peshawar division and Senior Minister for local Government – also lost their lives in violent attacks and their sudden death hampered the pace of work. The May 2013 general elections resulted in a new coalition government in the province and it took quite a few months to bring the new political leadership on board on the urban utility reform.

Overview of Technical Assistance

12. This TA has sought to improve urban water and sanitation service delivery by: (i) supporting the government in establishing efficient, autonomous and responsive utility in Peshawar; (ii) facilitating the provincial/regional governments in formulation of water sector policies; (iii) designing a demand-based “Pakistan Water Sector Technical Advisory Program” for clients; and (iv) strengthening and aligning the urban (water) reform agenda in three provincial urban units through the national urban forum.

Table 1: Results Framework

Intermediate Outcome(s) *	Indicator(s) *	Project Outputs (Annexures)
Policy/strategy informed	<ul style="list-style-type: none"> - Provincial/regional water policy formulated; - Government process of service delivery informed to focus on reform, performance, professionalism and equity; - Public at large better informed as a result of improved institutions and focus on civic engagements; - Key stakeholders/ development community/partners involved to create synergies; - Bank sector / country strategy informed to advocate for improved service delivery. 	<p>APPROVED FATA DRINKING WATER POLICY DRAFT KP DRINKING WATER POLICY ADVISORY NOTE(S) ON URBAN UTILITY REFORM IN PESHAWAR</p> <p>REFORM COMMUNICATION STRATEGY</p> <p>BLUE PRINT AND DETAILED DESIGN REPORT, USAID</p>
Client capacity increased	<ul style="list-style-type: none"> - An autonomous and effective water utility established in Peshawar - Capacity enhanced of the utility management to improve access from present 77,000 legal connections to 120,000 	<p>ADVISORY NOTES ON INSTITUTIONAL OPTIONS, GOVERNANCE OPTIONS, RECRUITMENT, BRIEFING PAPERS FOR PROVINCIAL CHIEF EXECUTIVE, MINUTES OF MEETINGS AND POWER POINT PRESENTATIONS, SECP INCORPORATION CERTIFICATE, ANALYTICAL REPORTS</p>

	<ul style="list-style-type: none"> connections; Implementation capacity strengthened of the respective service delivery institutions to deliver sustained & improved services; Monitoring & evaluation capacity increased of the respective provincial authorities to monitor results. 	
Knowledge deepened	<ul style="list-style-type: none"> Facilitated exchange programs to best practice with clients and clients/partners; Creation of knowledge products and dissemination. 	<p>CONCEPT NOTES AND NATIONAL AND INTERNATIONAL EXCHANGE VISITS REPORTS,</p> <p>NON-REVENUE WATER (NRW)TOOLKIT</p>
Innovative approaches & solutions generated	<ul style="list-style-type: none"> New innovative approaches developed such as provincial urban think tanks aligning urban water sector. 	<p>2ND PUF PROGRAM</p> <p>URBAN UNIT BRIEF FOR CHIEF MINISTER</p>

Process

- The process for delivering the TA was based on consultations, analytical and research work, establishing partnerships, ensuring ownership up to the level of chief executive of the province, leveraging finances, incorporating global lessons, and capitalizing on the existing opportunities.
- Technical support was extended to provinces and utilities and they were assisted in making informed decisions on urban institutional reforms; formulating robust policies; introducing new concepts of addressing prioritized sector issues; and bringing local and global knowledge. The nature of interventions delivered were informed through national and global exposure visits, learning events, advisory notes, and sector assessments, knowledge products and interactive PowerPoint presentations. Two interventions under this TA (TAP and second PUF) were fully designed and delivered jointly with the World Bank's operations team. The areas of support under this TA were in alignment with the government's overall agenda for the sector in terms of institutional reforms and improved governance.

Intermediate Outcomes

15. Supporting the government in establishing an efficient, autonomous and responsive utility in Peshawar

Water and Sanitation Services Peshawar (WSSP) was designed and established under this TA in Peshawar as a robust institution as all possible bottlenecks (lack of autonomy, political interference, inefficient structure, weak performance incentivize and nonprofessional management) were addressed in the management and governance structure of WSSP. The

rationale was to deliver improved services to customers, especially the urban poor, at an affordable cost through institutional reforms as the existing municipal institutions had failed to meet their objective.

This TA led to the “functional amalgamation” of the fragmented municipal institutions into a citywide autonomous, corporate governed and professionally managed utility. WSSP was incorporated with the Securities and Exchange Commission of Pakistan (SECP) in 2013 and started functioning in 2014. GoKP allocated Rs. 1,173 million (US\$1.17 million) as the seed fund for the company, the Board of Directors (BoD) was formally notified with the terms of references constituted, senior managers were hired and about 4,700 relevant staff were transferred from the existing municipal institutions to WSSP. A Services and Asset Management Agreement (SAMA) was signed between Peshawar City administration and WSSP which operationalized the company.

In 2010, on the request of GoKP – after the South Africa exposure visit – a concept paper was developed to undertake an assessment of the water and sanitation sector in Peshawar and propose reforms particularly focusing on institutional, governance and service delivery aspects. GoKP constituted a high-powered committee with the Chief Minister as patron and Commissioner Peshawar division as its chair. The committee comprised senior government officials from relevant line departments and WSP was the only nongovernment member of the committee. The committees – with support from WSP under this TA – conducted numerous meetings and two large-scale stakeholder workshops (one with government officials of seven institutions and the other with civil society, academia and politicians) and compiled an assessment report with options for the final decision of the Chief Minister.

The committee presented its recommendations to the Chief Minister and Cabinet Ministers. The Chief Minister approved the option of ***“Autonomous yet accountable public limited water and sanitation utility for urban areas of Peshawar established on corporate patterns, governed by an oversight body and run by professional managers”***. The option was based on the premise of “one city – one utility” to address institutional fragmentation, cross jurisdictional issues of water and sanitation, and economies of scale. The clear oversight mechanism of WSSP (to BoD) and professional management on a market-based salary would ensure the culture of efficiency and services which is the hallmark of the corporate sector. On the directive of the Chief Minister, the committee prepared the Terms of Reference (TORs) for the development of a “detailed design of WSSP.” Nine professionals were engaged to work on the legal, institutional and governance, technical, financial, reform communication, human resource (HR) and Geographic Information System (GIS)/Information Technology (IT) aspects of WSSP. The final output was a “blueprint” and “detailed design study – three volumes” in which every sector specialist contributed in his/her area under the above recommendation.

The TA also influenced the design of the ongoing US\$67 million water and sanitation project in Peshawar – Municipal Services Project funded by United States Assistance for International Development (USAID). A USAID representative was made part of the Peshawar utility reform committee and the detailed design study was also financed by the USAID project.

While designing the reforms, the members of the Peshawar utility reform committee were exposed to existing urban services delivery models in Punjab and Sindh provinces of Pakistan, South Africa and Kenya in order to design the reforms based on practical, workable models. Several interactive sessions were also arranged between committee members and senior

experts in the World Bank Group and Asian Development Bank (ADB) who shared their regional and global knowledge on utility reforms.

Working with politicians and senior officials on the “reform agenda” proved to be a challenge given the large-scale peace and security issues in the city. The Chief Minister and his cabinet who provided the go ahead for the major institutional reforms lost in the May 2013 general elections and the new government was engaged from scratch on the reform agenda. A series of presentations was made to the new officials and politicians including the Chief Minister on the status of the sector, actions and decision of the previous government and progress on reforms. The new government, which was elected on the popular slogan of “change and reforms,” not only showed positive signs of commitment but also contributed substantially in the incorporation of WSSP (by introducing changes in the Memorandum and Article of Association of WSSP), the structure of BoD and criterion of hiring of senior management of WSSP.

GoKP is impressed with initial performance of WSSP and has allocated funds to design companies in the remaining six large urban cities of the province.

16. Facilitating the provincial/regional governments in formulation of water sector policies

The TA supported FATA and KP governments in their policy formulation processes. FATA, under the recently approved 18th Constitutional Amendment is now legally empowered to legislate in some areas including social sectors. Prior to the 18th amendment, FATA had no social sector policy and was managed under the federal policies. The water sector was in disarray due to a lack of institutional and functional clarity, lack of priorities in the sector and absence of a long-term strategic vision. The FATA policy, approved by the Governor, comprehensively covered the sector status, identified sector bottlenecks, prioritized drinking water over other competing uses of water, set the long-term vision, defined the investment needed to improve services, and has addressed institutional and functional clarity of stakeholders. The policy principles translated into actions on the ground will surely help in improving services.

The final draft of KP Drinking Water Policy was also prepared under this TA. The policy captures the state of services in the sector, has set the goals and objectives as a vision for GoKP, identified issues and challenges, and has set priorities and policy principles. The policy strongly advocates a stronger role for community and institutional reforms as an important pillar that will drive the sector in the future.

Both GoKP and FATA secretariats created separate working groups comprising key officials and sector partners, to deliberate on the policy. UNICEF and WSP led the process of policy deliberations through stakeholder consultations and research.

17. Designing demand-based Pakistan Water Sector “Technical Advisory Program TAP”

This TA supported the delivery of a “Pakistan Water and Sanitation Sector Note” as Economic Sector Work (ESW) in 2013. On the request of provincial governments and to sustain the dialog with clients, a TAP was also conceived under this TA. The TAP was jointly designed by WSP and operations unit colleagues of the World Bank Group/Water Global Practice. This demand-based initiative had two major objectives: (i) to assist provincial government(s) and service providers to develop innovative mechanisms to support improvements in sector performance, including

through the use of incentive-based financing instruments; and (ii) to build support for reforms and investments in the sector. These objectives were targeted through the development of well-designed financial instruments and creation of specific knowledge and advocacy products that would create a pipeline of financially viable projects. The TAP was included to complement local insight and core set of knowledge which WSP has created over the last few years in Pakistan with comparative worldwide knowledge from the World Bank's operations group. In particular, the TAP will move "upstream" to create evidence-based advocacy that will build political support for reforms and investment in the sector and will move "downstream" to convert the sector knowledge into financeable opportunities. The funding for implementation of financial options could come from government or donors. The interventions under TAP – open to all four provinces - were identified and prioritized in consultations with clients.

In consultations with stakeholders, a long list of priorities – among the recommendations of the sector note – was developed and Non Revenue Water (NRW) was identified as the priority area needing support in the Punjab utilities. An initial designing phase of a "performance based contracts (PBC) for reduction of NRW" was delivered under this TA. The initial findings of design revealed that the five Water and Sanitation Agencies (WASAs) of Punjab province are losing Rs. 2.5 billion per year (US\$25 million/year) on account of NRW. This information confirmed that the NRW reduction program had a solid business case in Punjab as it will assist in achieving better services and greater financial sustainability. In detailed discussions with senior government officials, the broad features of an implementation strategy with roles and responsibilities and the selection of a WASA as a pilot area was finalized. The next step, a technical study and design of "PBC for the Reduction of NRW" is being delivered under a separate TA (P131985).

18. Strengthening and aligning the urban (water) reform agenda in three provincial urban units through national urban forums

In Pakistan, rapid urbanization and resultant needs for municipal services are putting unprecedented demand on existing service delivery mechanisms, especially in medium and large urban towns. The pace of urban growth exerts tremendous pressure on utilities that have a mandate to deliver service but are often constrained with institutional capacities and financial resources.

This TA supported the provincial governments of Punjab, Sindh and KP to jointly deliberate on urban water sector issues, challenges and opportunities. The three urban units were the key beneficiaries to learn from each other and global experiences during the second (PUF) which was supported under this TA. The "Karachi Deceleration" of the second PUF captures the needs of the urban water sector as recommendations for provincial governments. The declaration covered the water and sanitation sector under urban governance and services and urged stakeholders to "carry out institutional reforms in urban water & sanitation sector ranging from corporatization to performance grants, and from improving accountability to professional management."

The TA also supported GoKP in establishing the KP "Urban Policy Unit (UPU)" which was added as an additional item in the TORs of the utility reform committee. The UPU became an active member of the committee and assumed the role of secretariat to coordinate and follow up the decisions. It used its staff to collect data from various relevant departments and committee

members analyzed the data. The UPU also provided support to USAID consultants (coordination between consultants and departments, data collection and follow up). UPU developed its business program to focus on other urban areas apart from water.

Outputs

(i) Supporting the government in establishing an efficient, autonomous and responsive utility in Peshawar

19. The urban reform in KP aimed to introduce a paradigm shift in the institutional and governance structure of sector institutions. The TA identified the underlying reasons for poor performance of existing institutions and proposed recommendations with a range of options. This facilitated the policy makers who made an informed decision after taking into account the political, administrative, financial and services aspects related to this big bang reform. The objective of the reform, as prescribed in the TOR of the committee, was to improve the service delivery in urban Peshawar and the committee was tasked to prescribe the model based on analytical work, research, national and global practices and local opportunities and constraints.

The TA outputs on these initiatives are:

- ✓ Committee report on the Peshawar utility [Output A]
- ✓ Power-point presentation and Minutes of Chief Minister Meeting [Outputs B, C]
- ✓ Advisory note on Recruitment and on BoD of the Peshawar utility [Outputs D, E]
- ✓ Blueprint and Detailed Design Report on the Peshawar utility [Output F, G]

(a) Committee report on the urban water and sanitation utility for Peshawar

ANNEXURE (OUTPUT) A: COMMITTEE REPORT ON PESHAWAR UTILITY

The committee notified by GoKP was initially given four TORs⁵ to deliberate and present its findings along with recommendations to the Chief Minister of the province. The TORs were:

⁵ “Recommendations on urban framework” was added later as an additional TOR.

TOR 1: Review of the current situation, analysis and gap identification and options for proposed utility. The research and analytical work revealed that:

- Peshawar City District Government (P-CDG) was the only city in Pakistan that did not have a citywide water and sanitation entity unlike CDGs of Lahore, Faisalabad, Multan, Gujranwala and Rawalpindi (in Punjab province), Karachi (in Sindh province) and Quetta (in Balochistan province);
- None of the entities was delivering 24x7 services and recovering 100 percent cost of operation. Heavy subsidy was provided by the provincial government to sustain the operation;
- The level of services is two to four hours/day, revenue recovery was in the range of 25 percent except Peshawar Development Authority (PDA) which had over 90 percent recovery and the complaint handling system is poor in all seven;
- Lack of coordination, nonexistence of integrated planning at the city level, duplicate mandate, cross boundary issues, and defused accountability were identified as the root causes of poor services in Peshawar; and
- Peshawar had 819 tubewells for a population of 1.7 million managed by seven institutions while Lahore had only 419 tubewells for 7 million population managed by one utility. ***It was evident that the thrust in Peshawar had been on “infrastructure creation” rather than “integration and service delivery.”***

Table 2: ---- WSS Institutions by their Administrative Departments and Jurisdiction Areas

S.No.	Institution	Admin. Department	Provincial/ Federal	Jurisdiction
1	TMA-I	LGE&RD	Provincial	City
2	TMA-II	LGE&RD	Provincial	City and Peri-urban areas
3	TMA-III	LGE&RD	Provincial	University town and adjoining area
4	TMA-IV	LGE&RD	Provincial	Peri-urban areas on Peshawar-Kohat road
5	PDA	LGE&RD	Provincial	Hayatabad township
6	PHED	PHED	Federal	Peri-urban areas of the city
7	CB	MoD		Cantonment Area (Saddar)

TMA: Tehsil Municipal Administration, **PDA:** Peshawar Development Authority, **PHED:** Public Health Engineering Department, **LGE&RD:** Local Government, Election and Rural Development, **MoD:** Ministry of Defence

The committee analyzed the situation in detail and proposed recommendations with options. It also deliberated in detail on the pros and cons of all options including political sensitivity and implications.

TOR 2: Recommend the mandate of the new institution while clearly identifying the geographical boundaries and its institutional, vertical and horizontal alignment with other entities. The research, interactions and exposure of committee members with other utilities of Pakistan and sessions with the World Bank Group and ADB sector experts helped in the preparation of the following scenarios and recommendations:

- Apart from inadequate water and sewerage services, the major problem that impacts the city is poor solid waste management. Only 30-40 percent of the solid waste is disposed through crude dumping around the city while the rest makes its way into drains and other natural water bodies;

- The committee studied the institutional mandate of service providers in large cities of Punjab and Karachi and found that water and sewerage, drainage and solid waste functions were performed by three separate institutions within the city. Solid waste was the function of the Solid Waste Directorate and its sweepers were keeping the streets/roads clean by dumping the waste into drains which were managed by another entity – the Town Municipal Administration (TMA). The TMA staff was keeping the drains functional by pushing the solid waste into the sewers (manhole) which were the responsibility of the WASAs.

Analyzing the lessons from other cities, keeping in the view the size of Peshawar and existing opportunities (USAID Municipal Services Project (MSP) project), the committee recommended that all functions of water (bulk and retail) and sanitation (sewerage, drainage, solid waste management and hygiene) be entrusted to the new Peshawar utility to meet the larger objective of integration. The new utility shall be the only public municipality to deliver water and sanitation to the urban population of the city. As a result of integration, the present service providers (except the Cantonment Board (CB)) will cease to perform in water and sanitation services in urban Peshawar and will transfer assets and staff to the new utility. The existing institutions, however, will continue with other services (maintenance of parks, slaughter houses, internal roads, traffic, sign boards) in urban areas and water and sanitations in rural pockets of Peshawar.

Table 3: Proposed Options on the Mandate of the New Utility

Option-1	Option-2	Option-3	Option-4
<ul style="list-style-type: none"> • Water • Bulk Supply <ul style="list-style-type: none"> • Source Development • Transmission • Selling to existing entities 	<ul style="list-style-type: none"> • Water • Bulk & Retail <ul style="list-style-type: none"> • Distribution • Customers' orientation • Revenue collection • other related functions 	<ul style="list-style-type: none"> • Water <ul style="list-style-type: none"> • Bulk • Retail • Sanitation <ul style="list-style-type: none"> • Sewerage • Drainage • Solid waste management 	<ul style="list-style-type: none"> • Water <ul style="list-style-type: none"> • Bulk • Retail • Sanitation <ul style="list-style-type: none"> • Sewerage only

The committee analyzed population growth, trends in urbanization and availability of space to redefine the boundaries of urban Peshawar in terms of operational boundaries of WSSP. The committee proposed that the WSSP geographical jurisdiction should be as the actual built up area of the city, along with a margin of the peri-urban area to cater to urbanization over the next 20 years. Based on available data, trends and projected growth patterns, it was recommended that 33 (existing rural) Union Councils (UCs) (basic administrative tier in a district) be notified as urban to take the tally of urban UCs to 92.

TOR 3: Propose statutory arrangements for the new institution and identify amendments needed in existing laws. After reviewing the existing statutes, rules of business and Local Government Ordinance (LGO), the committee proposed that existing statutes provide space for the creation of a citywide utility without amending any existing laws. The corporate company may be incorporated under the Companies' Ordinance 1984 of SECP.

TOR 4: Propose HR requirements including qualifications, skills, experience and performance evaluation mechanisms of staff. The committee compiled the HR data of 4,740 staff of existing institutions such as vacancies and designations, qualifications, skill sets, experience and length

of services. It was revealed that there was more than enough junior skilled staff (operators, valve man, plumbers, sweepers, sanitary inspectors) but very few who had experience and qualification to work on the middle and senior management position in the proposed utility.

(b) PowerPoint presentation to the Chief Minister and minutes of the meeting

[ANNEXURE \(OUTPUT\) B: POWER POINT PRESENTATION TO CHIEF MINISTER](#)

[ANNEXURE \(OUTPUT\) C: MINUTES OF MEETING CHAIRED BY THE CHIEF MINISTER](#)

In a marathon meeting on April 26, 2011, the committee briefed the Chief Minister of the KP province, cabinet ministers of the provincial government, Chief Secretary and administrative secretaries about the findings, recommendations and options as per prescribed TORs of the committee. After deliberations on recommendations and options, the meeting concluded with the following decisions: an autonomous utility will be carved from amongst the present institutions; a detailed design study with inputs from national and international sector experts be completed on critical aspects of new utility; and the existing committee will continue to supervise the output of the experts and ensure quality control.

Committee recommendation for the improvement of services in Peshawar:

a) Reform and capacitate (seven) existing institutions;

b) Carve out a new citywide utility in Peshawar:

- b-i) an authority like in other large cities of Pakistan
- b-ii) a private limited company under the Local Government Department
- b-iii) a public limited autonomous corporate company; and
- **“Autonomous yet accountable water and sanitation utility for urban areas of Peshawar established on corporate patterns, governed by an oversight body and run by professional managers.”**

Chief Minister Khyber Pakhtunkhwa vision

(c) Advisory notes on recruitment and BoD of the utility:

[ANNEXURE \(OUTPUT\) D: ADVISORY NOTE ON RECRUITMENT](#)

[ANNEXURE \(OUTPUT\) E: ADVISORY NOTE ON BOD](#)

Under this TA, several advisory notes and briefing papers on recruitment of the senior management of the company were prepared. These included: job descriptions of CEO, Manager HR, Manager HR and Administration, and Manager Finance; application form for CEO and other senior managers; marking criterion for the interview committee based on skills, qualification and experience; and design of advertisement for senior positions.

It was proposed to hire the professional staff through an open recruitment policy, that is, advertising in the press rather than appointing them through executive orders and on market

salary with clear TORs. One of the reasons for recommending the market-based salary was to attract experienced and qualified staff for senior positions which is a rare commodity in Peshawar in the wake of deteriorated security conditions, unrest and law and order situation.

A successful effort was made by the TA to ensure that the BoD of the utility had more private/professional members than ex-officio members. Several options with compositions of public and private BoD members were discussed and, finally, a BoD was approved that had 11 private/professional members and only four ex-officio members. Detailed TORs of the BoD were also drafted, debated and approved by the competent forum.

(d) Detailed design report of the water and sanitation utility

ANNEXURE (OUTPUT) F: BLUE PRINT AND DETAILED DESIGN REPORT

On the directive of the Chief Minister, detailed TORs were developed for hiring experts who developed the blue print and detailed design study of WSSP. The following experts were hired by USIAD whose output was supervised by the committee under this TA: institutional and governance; financial; technical; legal; HR; IT; and communication.

The major findings, recommendations and detailed course of action by some key experts are covered below:

The report suggested that it was urgently necessary that water and sanitation services in Peshawar undergo the process of “aggregation and corporatization”. It recommended that the Peshawar utility be designed as a decentralized, yet integrated, organization with key functions of planning, design, construction and policy matters at the Head Office, while operations would be decentralized to the zonal level (four zones). The services of water supply, solid waste management, and sewerage & drainage were to be maintained at the local level, remaining closer to the customers.

The utility’s head office would be responsible for all recruitments, master planning, financial planning, design & construction of facilities, major procurements of machinery & equipment, promotions and inter-zonal transfers. Each zone would have clearly defined boundaries, preferably through well-known major arterial roads. Each zonal office would be fully responsible for the quality of services, complaint redressal, minor repairs, operation of machinery and vehicles, and revenue collection. Each zone would have at least one peripheral customer care center, in addition to the one at the zonal office.

The HR for the proposed company has two streams. The 4,000 or so employees from the existing service providers would be transferred to the company on deputation, without any layoffs. They will be offered deputation allowance and adjusted on suitable positions based on experience. However, since there was hardly any managerial or professional staff available, it would be necessary for them to be hired from the market, on market based salaries.

On the financial side, it was assessed that even the current services by TMAs, PDA and CB are being subsidized, to the extent of around Rs. 600 million/year (US\$6 million/year). It was proposed that the company would continue to need this level of subsidy for at least three years, albeit on a declining scale. The company would be covering the balance through improved

revenue collection and reducing the gaps, that is, efficiency gains. All capital expenditure shall be subsidized directly by GoKP, both for the establishment of the company and the rehabilitation/expansion of the network.

There shall be no increase in tariff for at least three years. However, gradually all illegal connections would be legalized and a fee for solid waste management shall be levied in tandem with the improvement in services.

GoKP also notified WSSP as a parent counterpart of MSP to address the “institutional home” issue of MSP which was identified as a major concern in MSP project documents. GoKP also stated that WSSP will take over the new infrastructure (tubewells, distribution networks and rehabilitated wastewater treatment plants) and machinery under MSP for delivering quality services to the citizens of Peshawar.

GoKP has recently approved a scheme to conduct a feasibility study of replicating WSSP such as the institutional arrangement in other large cities of the Province.

(ii) Facilitating the provincial/regional governments in formulation of water policies

[ANNEXURE \(OUTPUT\) G: FATA WATER POLICY](#)

[ANNEXURE \(OUTPUT\) H: KP WATER POLICY](#)

- 18) This policy is a joint output of UNICEF and WSP. The first draft of the FATA Drinking Water Policy was drafted under this TA while UNICEF, having an advantage of being present in FATA secretariat, provided all local support to take it to the final stage.

FATA has been governed by an administrative set-up that is different from the rest of Pakistan. The normal laws of the land are not applicable in most parts of FATA and the writ of the government is enforced through the offices of the Political Agents and traditional community structures. Since long, the interest of decision makers has been limited to maintaining the status quo in FATA. Failure of the decision makers to evolve a sustainable framework of development, and a vision to harness the potential of various segments of society for the development of the region has further exacerbated the already marginalized and impoverished citizens of the region.

FATA came into international limelight post 9/11 and after clearing many areas of FATA from insurgents in 2001-09, the Government of Pakistan and donors started supporting FATA in a *peace building strategy* through a framework of Post Crisis Need Assessment (PCNA) in 2011. The goal of PCNA is to produce a helpful, pragmatic, coherent and sequenced peace building strategy for the government of Pakistan (FATA and KP) that delivers an agreed vision within 10 years. The FATA Drinking Water Policy directly supports the third pillar of the PCNA (*ensure the delivery of basic services*). The policy aims at improved water services based on equity, affordability and directly contributing to peace-building in the region.

The policy was finalized through consultative sessions and inputs from government representatives of FATA line departments, local politicians and development partners. In 2014, the policy was presented to the Governor of KP province, who is also head of FATA administration, and he approved the 2014 FATA Drinking Water Policy with immediate effect.

The KP policy was also initiated under this TA. GoKP constituted a technical committee comprising representative of line departments, development partners (WSP and UNICEF), academia and civil society.

The policy is in line with the national drinking water framework, 2011, PCNA and KP development strategy. The committee sought inputs on various aspects of policy from stakeholders and finalized it in consultative sessions. The final draft of the policy is ready for submission to the cabinet for approval.

(iii) Designing demand-based Pakistan Water Sector Technical Advisory Program – TAP

ANNEXURE (OUTPUT) I: NRW INFO KIT

19) Under this TA, TAP’s first activity, “PBC for reduction of NRW in Punjab WASAs,” was conceived and partly designed. The activity was prioritized by stakeholders (four provincial governments and service providers) delivering services in urban and rural areas of Pakistan. The five WASAs of Punjab identified NRW as a priority area. A comprehensive concept of “PBC to reduce NRW in Punjab WASAs” with a component of exposure to regional best practices was developed under the TA. A toolkit capturing the principles and approaches, design details of successful implementation of NRW initiatives in East Asia and status of NRW in Punjab WASAs was developed under the TA with input from local and international experts. The toolkit was designed and distributed to participants of the NRW workshop in Lahore in November 2014.

Table 4: Punjab Water and Sanitation Agencies Data

Description	Unit	Faisalabad	Gujranwala	Lahore	Multan	Rawalpindi
Population	million	3.1	1.7	6.2	1.8	1.3
Population Served	million	1.55	0.54	5.5	1.2	1.17
Population Growth Rate	%	3.58	3	2.36	2.79	3
Water Supply						
Annual Production	million m ³	87.1	91.77	655	35.51	97.74
Total Length of Water Mains	km	1,487	372	5,400	1,280	1,250
Metered Customers	%	1	0	5 ⁶	0	0
Water Service Connections						
Industrial	No	80	65	211	73	5 (bulk connections)
Commercial	No	2,583	1,245	39,187	2,892	8,864
Residential	No	114,260	24,781	586,891	58,371	104,302
Total	No	116,923	26,091	626,289	61,336	113,717

⁶ L-WASA switched to metered tariff for all connections (including nonmetered) in 2013 after approval of the Government of Punjab.

Service						
Area Coverage	%	65	35	89	65	90
Average Supply Time	Hrs/day	7	12	14-16	6	2-4
Average Pressure	M	6	Not provided	0-15 (average=5)	25	2
Performance Indicator						
NRW (best estimate)	%SIV (Intermittent)	30.24 (30-06-2014)	40 (10-11-2014)	34 (Nov-Dec 2012)	22 (Oct 2012)	30 (10-11-2104)
Efficiency						
Average Production Cost	Unit Rs./m ³	6.7	0.109	6.7	4.14	5.79
Billing Efficiency	%	-	25	-	31	100
Collection Efficiency	%	98	40	98	89	75
Staff Productivity	per 1000 connections	4	5	4	6	8

The data collected from the WASAs on NRW revealed that WASAs were losing Rs. 2.5 billion/year on account of the electricity bill for pumping water which does not bring any revenue. The information collected from the five WASAs is reflected in Table 5.

Table 5: Losses due to NRW in Five Provinces

Description	Unit	Faisalabad	Gujranwala	Lahore	Multan	Rawalpindi
Annual Production	Million m ³	51	92	680	36	91
NRW (best estimate)	%SIV (Intermittent)	30	40	40	22	30
NRW	Million m ³	15	37	272	8	27
Total NRW= 359 Mm³ / year						
Cost of electricity= 359*7Rs= Rs.2.5 billion/year (US\$2.5 million /year)						

The next step under this initiative is to carry out a technical study and design bid documents for “PBC for reduction of NRW in Faisalabad WASA.” This activity will be financed under a separate TA (Capacity Building of Urban Utilities P13198).

(iv) Strengthening and aligning the urban (water) reform agenda in three provincial units through the national urban forum

ANNEXURE (OUTPUT) J: PROGRAM OF 2ND PUF

20) The TA supported the three provincial urban units (Punjab, Sindh and KP) to establish a network to discuss and deliberate on urban water and sanitation issues. The TA supported the second PUF in January 2014 in Karachi which has dedicated plenary and technical sessions on urban water service delivery, institutional management and services to urban poor. On second day,

the ‘Pakistan Water and Sanitation Sector Note’ was launched in a plenary session. The network of three urban units is already deliberating on planning of the third PUF to be held in Peshawar in 2016.

The KP UPU, which was conceived by the committee during its deliberation on the design of WSSP, was also supported under this TA. The KP Urban Unit has been lending TA to WSSP since its establishment in areas such as asset inventory, HR capacity and GIS.

Other demand-based strategic outputs

20. As a part of WSP’s flexibility to respond to the demands of the sector (within the overall mandate and Business Plan), this TA delivered strategic outputs on the demand of clients and partners including the operation unit of the World Bank Group. Some of the strategic outputs are described below:

- National Conference on Urban Water and Sanitation: Status Paper on Urban Water and Sanitation Services in Pakistan was developed and presented in the national conference on Urban Water in Sanitation. The conference was jointly organized by ADB and Planning Commission [Output M].
- Vision 2025: Inputs on “Urban Water and Sanitation Chapter” of Pakistan vision 2025 were provided to the Planning Commission division, Government of Pakistan [Output N].

Both the outputs were delivered jointly with operation colleagues of the World Bank Group.