

SECTOR ASSESSMENT (SUMMARY): URBAN WATER SUPPLY

Sector Road Map

1. Sector Performance, Problems, and Opportunities¹

1. This section documents the current urban water supply sector performance, problems, and strategic investment priorities of the Government of Punjab and the Asian Development Bank (ADB) in Punjab.

2. Punjab's cities provide tap water to only 45% of their residents. Sewage for 54% of the population flows in open drains and is discharged untreated into natural water bodies or onto agricultural lands. Municipal solid waste collection covers only 40% of urban households, with no engineered sanitary landfills in most cases. In addition, poor public transport, weak traffic management, and almost nonexistent street activity management constrain urban mobility. Many of these problems are exacerbated by lack of comprehensive urban planning and development control, which results in unsustainable urban sprawl as the de facto form of urban growth. These urban issues result in an unhealthy urban environment, adversely affecting the quality of life of urban residents—their livelihoods, productivity, and economic growth. In addition, cities are affected by the increasing impacts of climate change, and are ill equipped to cope with them. The urgency of tackling these issues provides the rationale for the proposed project.

3. The main constraints and opportunities facing the cities of Sahiwal and Sialkot as they develop in a more sustainable manner can best be captured by analyzing inputs from more than 10 consultation meetings the government and ADB organized in these cities. In addition to feedback related to old and incomplete urban infrastructure, many participants noted the weak institutional capacity of the Municipal Corporations in Sahiwal and Sialkot as the major obstacle to a well-managed, reliable, and high quality urban services. Nearly all the other issues identified by participants were related to institutional weaknesses:

- (i) lack of strategic planning;
- (ii) lack of urban service operation and maintenance;
- (iii) water and power need to provide a continuous service;
- (iv) better management of roads is required to relieve congestion;
- (v) industrial and domestic pollution of waterways; and
- (vi) lack of managing urban spaces (e.g. parks, cultural and sport facility).

4. **Urban strategy.** The Government of Pakistan approved Pakistan Vision 2025² in 2013, which presents a road map and implementation strategy for Pakistan. The government's "Four Es" (agenda of economy, energy, education, and elimination of extremism to achieve inclusive and sustained growth) is based on seven pillars:

- (i) people first: developing social and human capital and empowering women;
- (ii) sustained, indigenous, and inclusive growth;
- (iii) governance—democratic governance: institutional reforms and modernization of the public sector;
- (iv) security: energy, water, and food security;
- (v) private sector and entrepreneurship-led growth;
- (vi) knowledge economy: developing a competitive knowledge economy through value addition; and
- (vii) connectivity: modernizing transport infrastructure and regional connectivity.

¹ ADB. 2016. *Medium Term Integrated Climate Resilient Urban Infrastructure Investment Program and Pre-Feasibility Study*. Manila (TA8556-REG).

² Government of Pakistan, Planning Commission. 2013. *Pakistan 2025: One Nation—One Vision*. Islamabad.

5. Pakistan Vision 2025 highlights that the share of urban population will increase dramatically over the next decades. This trend will lead to increasing factor productivity, contribute to gross domestic product growth, and foster the rise of a new middle class. On the other hand, it will also put tremendous pressure on the Government of Pakistan to cater to organized expansion of settlements and the provision of urban services (e.g., sewerage, transportation, water and sanitation and housing) to increasingly large city populations with the expectation to aspire to better standards of living. In addition, attention has also been paid to curbing urban pollution, waste, and sprawl. During the project preparation, the Government of Pakistan and ADB confirmed that the scope and objectives of the proposed project is consistent with Pakistan Vision 2025.

6. **Municipal management.** The Government of Punjab currently provides key urban services at city level but these services are often unreliable and do not fully meet the service standards customers expect. Improvement of urban services in Punjab is limited by inadequate staff capacity and a weak institutional framework, which offers little incentive to staff and no accountability to customers. Little attention has been paid to day-to-day operational needs or the wider concepts of service provision. A new institutional setup is urgently needed to restore public confidence in key urban services. The project will support the Government of Punjab to establish urban services companies in the cities of Sahiwal and Sialkot. The Government of Punjab will entrust to the above urban services companies the responsibility of municipal services including water, sanitation, and urban public spaces management. These companies will adopt key corporate governance requirements. For instance, the board of directors in the companies will oversee and manage the company's strategic directions, policies, service standards, and operational performance. Corporate decisions and operational performance will be disclosed in public to enhance transparency and accountability to customers. The Government of Punjab will enter into Services and Asset Management Agreements with these companies to transfer government owned urban infrastructure and assets. Once the Agreements become effective, these companies will deliver urban services through managing various service contracts.

2. Government's Sector Strategy

7. The Government of Punjab prioritizes infrastructure development as one of the key priorities on urban sector development. In addition, the Government focuses on the following three areas:

- (i) **Urban reforms.** Ensuring the legal and regulatory frameworks are appropriate, in place, and functioning, including the implementation of performance standards for many agencies involved in urban planning, development, and service provision.
- (ii) **Improved urban governance.** Rationalizing roles and responsibilities across different levels; improving fiscal management, including increased own-source revenue sources; improving transparency and stakeholder participation; improving asset management; and building institutional capacities.
- (iii) **Enhanced service delivery.** Clarifying roles and establishing autonomous agencies charged with effective service delivery, expanding and improving all urban services, implementing 3-year rolling budgets with improved asset management, and accepting and responding to citizen and user inputs.

3. ADB Sector Experience and Assistance Program

8. ADB has approved 19 urban sector loans³ in Pakistan since 1976. Most of the 19 projects were implemented in the provinces of Punjab and Sindh (eight and nine projects, respectively).

³ These loans are classified as either water and other municipal services or multisector project in ADB's Country Assistance Program Evaluation (CAPE) for Pakistan.

ADB has approved only two projects in Khyber Pakhtunkhwa province, while no urban projects have been approved in other provinces/administrative boundaries (e.g. Balochistan and Islamabad).

9. The proposed project draws lessons learned from ADB's and other developing partners' past urban sector projects in Pakistan, which include (i) linking infrastructure development with robust institutional strengthening and reforms supported by capacity development, (ii) adopting an integrated urban development and planning approach at an early stage of project design, (iii) avoiding complex implementation arrangements, (iv) having fewer subprojects and locations for ease of project implementation, (v) working with cities that have a strong political-will to reform and a critical mass of champions to lead reforms, and (vi) establishing clear performance benchmarks and service standards for effective outsourcing. A project preparatory technical assistance supported the needed institutional reforms with a formation of an urban service company in each city.⁴ The project will also address the need for a strategic approach to tariffs and cost recovery: prepaid water meters will be piloted as an innovative approach along with awareness building activities about dividends of clean drinking water and sanitation services to improve the population's willingness to pay for the services. Nonrevenue water will be reduced through upgrading or replacing infrastructure, and enhancing operation and maintenance capacity to locate and rectify system leakages. Cost recovery tariffs for different service standards will be introduced with targeted subsidies where required, to ensure long term sustainability of services.

4. ADB's Sector Strategy

10. ADB's Strategy 2020⁵ presents ADB's long-term strategic framework for 2008–2020 to achieve a more relevant and innovative approach in shaping the future of Asia and the Pacific. It identifies five drivers of change that all apply directly to urban development in Pakistan and Punjab, and are captured in the proposed project: (i) private sector development and private sector operations; (ii) governance and capacity development; (iii) gender equity and mainstreaming; (iv) knowledge solutions; and (v) partnerships. Strategy 2020 also refocuses operations into five core areas of specialization, reflecting member country needs, ADB's strengths, and partners' areas of interest.⁶ These manifest themselves most strongly in urban areas as they are increasingly recognized as the engines of national economic and social growth: (i) infrastructure; (ii) environment, including climate change; (iii) regional cooperation and integration; (iv) financial sector development; and (v) education.

11. At the urban level, ADB investment support is guided by the Urban Operational Plan,⁷ which recognizes cities as the key to social and economic growth and stresses the need to achieve a more integrated "3E" approach to urban investment: environmental (green), equitable (inclusive), and economic (competitive). ADB has concentrated investments on infrastructure, but not always with a holistic and integrated understanding of the overall strategic context. The Urban Operational Plan aims to reorient this approach with a more integrated approach to creating livable and sustainable cities, including the involvement of a wider range of public and private partners, and leveraging ADB's resources to attract a wider range of funds. In order to align the project scope and approaches with the Strategy 2020 and the Urban Operational Plan, the Urban Sector Group has participated in the preparation of the project.

12. ADB initially considered preparing the project covering five intermediate cities with one multitranche financing facility. However, in consultation with the Government of Punjab, it has

⁴ ADB. 2014. *Technical Assistance to Pakistan for Punjab Intermediate Cities Improvement Investment Program*. Manila.

⁵ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

⁶ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁷ ADB. 2013. *Urban Operational Plan 2012-2020*. Manila.

decided to prepare two separate projects conservatively using a stand-alone project lending modality. The proposed (first) project will cover medium-sized industrial (Sialkot) and small agricultural (Sahiwal) intermediate cities, spanning the northern and southern parts of Punjab. The total population of the two cities is over 1.40 million out of the 3.42 million people living in the five intermediate cities. Lessons learned from the first project may provide important insights for the preparation of the second phase, which will cover three other intermediate cities.

PROBLEM TREE: PUNJAB INTERMEDIATE CITIES IMPROVEMENT PROJECT

