

Pakistan : Khyber Pakhtunkhwa Intermediate Cities Improvement Project

1. Project Information

Project ID:	P000214	Instrument ID:	L0214A
Member:	Pakistan	Region:	Southern Asia
Sector:	Urban	Sub-sector:	Urban integrated development
Instrument type:	<input checked="" type="checkbox"/> Loan:171.70 Euro million <input type="checkbox"/> Guarantee	Lead Co-financier (s):	Asian Development Bank
ES category:	A	Borrowing Entity:	Ministry of Finance, Pakistan
Implementing Entity:	Government of Pakistan		
Project Team Leader:	Ghufran Shafi		
Responsible DG:	Gregory Liu		
Responsible Department:	INF2		
Project Team Members:	Bernardita Saez, Project Counsel; Liu Yang, Alternate Counsel; Shonell Robinson, OSD - Financial Management Specialist; Jingrong He, OSD - Procurement Specialist; Pedro Ferraz, OSD - Environment Specialist; Sabah Iqbal, OSD - Environment Specialist; Susrutha Goonasekera, OSD - Social Development Specialist; Yanyang Shi, Project admin		
Completed Site Visits by AIIB:	Aug, 2022 July 31 - August 3, 2022 Nov, 2022 Inception Mission by ADB (24 Nov - 20 Dec) Nov, 2023 Virtual Mission (13-23 Nov, 2023)		
Planned Site Visits by AIIB:	Apr, 2024 Visit planned in H1-2024		
Current Red Flags Assigned:	0		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	0		
Previous Red Flags Assigned Date:	2023/03		

2. Project Summary and Objectives

The Project objectives are to improve access to reliable and resilient urban services and strengthen institutional capacities of urban service providers, and local governments in selected cities of the Khyber Pakhtunkhwa (KP) province. These objectives will be achieved through three interlinked outputs: (i) climate resilient and gender friendly urban infrastructure and services improved; (ii) institutional capacity and gender inclusiveness of urban service providers, provincial government, and city governments strengthened; and (iii) women's participation in urban governance and access to economic opportunities increased.

3. Key Dates

Approval:	Dec. 16, 2021	Signing:	Apr. 11, 2022
Effective:	May. 11, 2022	Restructured (if any):	
Orig. Closing:	Jun. 30, 2028	Rev. Closing (if any):	

4. Disbursement Summary (EUR million)

Contract Awarded:		Cancellation (if any):	0.00
Disbursed:	23.97	Latest disbursement (amount/date):	3.70/Dec. 21, 2023
Undisbursed:	147.73	Disbursement Ratio (%) ¹ :	13.96

5. Project Implementation Update

The Project made reasonable start after the loan effectiveness by exceeding the contract awards and disbursements target in the first year of implementation (2022-23). However, the momentum has slowed down. As of November 2023, contracts worth of USD227.4 million (about 39% of total) have been awarded. Major contracts for Integrated Solid Waste Management (ISWM) Component, representing about 30% of the total physical works, have not been made yet due to delays in completion of the institutional/business plans and procurement methodologies for these ISWM systems. In addition, because of the design changes to some of the water supply contracts, site possession is not complete for some sites in Abbottabad, Peshawar and Mingora. This is impacting site progress. Non-compliance with the implementation arrangements stipulated in Project Administration Manual (PAM) has also led to delay in progress of civil works (as explained in Section 12. Discussion of Key Issues). These issues were discussed in the recent mission and a time-bound Action Plan to resolve the issues has been agreed with the Project Management Unit (PMU).

Components	Physical Progress	Environmental & Social Compliance	Procurement
Component A. Water Supply and Sanitation Infrastructure	Works have started however the progress is slow. Reported progress is as follows: Abbottabad water supply 1% (target of 2.6%), Kohat sewerage treatment plant 6.5% (target of 12%), Kohat water supply system 2.2% (target of 6.5%), Peshawar water supply 3.3% (target of 9.4%), Mingora water supply (lot-2) 1% (target of 8%). Lot-1 of Mingora water supply, consisting of	E&S documents for each subproject have been prepared and disclosed on ADB website. The requirement of clearance from Environmental Protection Agency (EPA) of KP province for the awarded contracts under this component has been fulfilled by the project. The Site Specific Environmental Management Plans (SSEMPs) and Health and Safety Management Plans (SSHSMs) of awarded contracts under this component are under preparation and clearance by ADB. Implementing Agency (IA) has made significant progress in complying with ADB's social	All the contracts have been awarded except for Mingora lot-1, which is undergoing final evaluation

¹ Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

	intake structure, treatment plant and transmission line, has not been awarded yet. Reasons for delays include non-compliance with PAM arrangements, delayed site hand-over, and low capacity of contractors.	safeguard requirement. Presently, only Land Acquisition and Resettlement Plan (LARP) for Charbagh Tehsil of Mingora Water Supply is pending. All other LAR impacts subproject documents have been approved and disclosed on both IA and ADB websites.	
Component B: Integrated Solid Waste Management	The ISWM component in all cities is delayed as no contract has been awarded yet. Initial delays were caused by delay in preparation of operational business and financial plans for the ISWM systems. Subsequently, agreement has not been made yet on the methodology for procurement of goods and works for ISWM packages. Workshops have been planned with the relevant stakeholders to agree on the procurement methodology of ISWM systems. And PMU has been requested in the recent Mission to provide contract award targets for 2024.	E&S safeguards documents for each subproject have been prepared and disclosed on ADB website. Corrective Action Plan (CAP) for ISWM Peshawar has been submitted by PMU for review. All remaining LAR impacts subprojects documents have been approved and disclosed.	Procurement has not started yet. PMU has been requested to provide tendering and contract award targets for 2024.
Component C: Green Urban Infrastructure	Works have started however the progress is slow. Reported progress is as follows: Abbottabad 13% (vs. target of 81%), Kohat 33% (vs. target of 45%), Peshawar 41% (target of 56%), and Mingora 9.5% (target of 100%). Reasons for delays include regulatory approvals, delay in site hand-over, and contractor's low capacity.	E&S documents for each subproject have been prepared and disclosed on ADB website. The requirement of clearance from Environmental Protection Agency (EPA) of KP province for the awarded contracts under this component has been fulfilled by the project. The SSEMPs and SSHSMPs of awarded contracts under this component are under preparation and clearance by ADB.	All the civil works for the Green Infrastructure component has been procured
Project Management	See updates in procurement section	ADB mission had observed that PMU and City Implementation Unit (CIU) level Resettlement experts are on board except that the Peshawar	Project Management and Construction Supervision Consultants (PMSCS) have been engaged under this

		<p>CIU based Social safeguard specialist has resigned. The safeguards unit of PMU is headed by Director Compliance, and the external monitor is on board from January 2023 under the contract of Project Management and Construction Supervision Consultants (PMSCS).</p>	<p>component and PMSCS has mobilized.</p>
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Financial Management:

A general improvement is noted in the FM arrangements of the Project. Both the PMU and Water and Sanitation Services Companies (WSSCs) are now adequately staffed and are now utilizing off-the-shelf accounting software. The software has strengthened their accounting, reporting and internal control function. The Internal Auditor Post is currently vacant but is expected to be filled at the earliest with a competent resource.

The WSSCs are clear on their role in technically verifying the contractor claims, before forwarding to PMU for payment. However, this is not the case for petty expenditures such as fuel charges, repair and maintenance, entertainment, and allowances to WSSCs. Therefore, it was recommended during the Mission that by 31 March 2024, a Service Level Agreement (SLA) / Memorandum of Understanding (MoU) is signed between the WSSCs and PMU providing clarity on the process, timelines, eligible expenditures, ceilings, and responsibilities. This will enable the efficient processing of payments in a timely manner and mitigating against ineligible expenditures.

A deferment of the first Audited Project Financial Statements (APFS) was processed by ADB, as such, the first report will cover the period from the date of project effectiveness to June 30, 2023. This audit is currently in progress and the report is due by December 31, 2023.

The FY 2022 Audited Entity Financial Statements (AEFS) were submitted by two of five WSSCs (Abbottabad and Kohat). The remaining three WSSCs (Mardan, Mingora and Peshawar) have prepared draft financial statements but remain unable to have these approved due to dissolution of their respective Boards as per Government decision. The case for nomination of new Board members is with the Government and should be expedited.

6. Status of the Grievance Redress Mechanism (GRM)

A 3-tiered project GRM is established and functional at the field, city, and PMU levels. ADB mission noted that the GRM is easily accessible, gender inclusive, culturally appropriate, widely publicized, and well-integrated in the project's management system. The mission observed that there is one pending grievance with ADB OSPF for problem solving. The complaint relate to land for an overhead reservoir in Peshawar. It has been referred to project GRM for resolution first at GRM level.

7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)

Remarks:

Project Objective Indicators	Indicator level	Unit of Measure	Cumulative Target Values																				Frequency	Responsibility	Comments	
			Baseline		2021		2022		2023		2024		2025		2026		2027		2028		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target				Actual
Population provided with access to improved safely managed water supply from sources meeting national water quality standards	Project	Number (Females)	2021	247,000 (124,000)	247,000 (124,000)		247,000		247,000		300,000		385,000		525,000		650,000		800,000 (400,000)			800,000 (400,000)		Semi-annual	Project progress reports, WSSC and city government records, and project monitoring reports	
Population served by sewerage network connected to new wastewater treatment plant	Project	Number (Females)	2021	19,880	19,880		19,880		19,880		19,880		60,000		120,000		180,000		180,000 (90,000)			180,000 (90,000)		Semi-annual	Project progress reports, WSSC and city government records, and project monitoring reports	
Households provided with access to improved SWM services	Project	Number	2021	0	0		0		0		0		80,000		160,000		250,000		250,000			250,000		Semi-annual	Project progress reports, WSSC and city government records, and project monitoring reports	

Project Intermediate Indicators	Indicator level	Unit of Measure	Cumulative Target Values																				Frequency	Responsibility	Comments	
			Baseline		2021		2022		2023		2024		2025		2026		2027		2028		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target				Actual
Supply Capacity: Potable water storage and supply capacity increased	Project	cubic meters/day	2021	238,443	238,443		238,443		238,443		250,000		280,000		320,000		360,000		400,000			400,000		Semi-annual	Project progress reports, WSSC	

