Pakistan: North-West Frontier Province
Urban Development Sector Project
ABBREVIATIONS

ADB – Asian Development Bank
EIRR – economic internal rate of return
FIRR – financial internal rate of return
LGERDD – Local Government, Elections, and Rural Development Department
LGO – local government ordinance
NWFP – North-West Frontier Province
PCR – project completion report
PCU – project coordination unit
RRP – report and recommendation of the President
TMA – tehsil municipal administration

NOTE

In this report, "$" refers to US dollars.

Key Words

adb, evaluation, khyber pakhtunkhwa, municipal infrastructure, north–west frontier province, pakistan, sanitation and sewerage, solid waste management, water supply, urban development, urban services, validation report

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I. PROJECT DESCRIPTION

A. Rationale

1. The report and recommendation of the President (RRP)\(^1\) stated that urban centers in the North-West Frontier Province (NWFP)\(^2\) were experiencing rapid growth and rising demand for improved urban services. The prevailing deficiencies in basic infrastructure were inhibiting human development and economic growth and severely constraining the potential for urban areas to play a more significant role in the economic growth of the province. The government’s proposed devolution policy was placing new demands on local governments to improve their financial and institutional capacity and human resource management. Hence, the NWFP Urban Development Sector Project (the project) sought to improve urban infrastructure in up to 24 urban centers within the NWFP. These urban centers had major deficiencies in infrastructure

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\(^1\) ADB, 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Pakistan for the North-West Frontier Province Urban Development Sector Project*.

\(^2\) The NWFP was renamed Khyber Pakhtunkhwa in 2010.
and delivery of services in subsectors given high priority by the provincial government under its Provincial Spatial Development Framework and Strategy. The sector needed investment program. The project also aimed to strengthen the capacity of local governments to provide, operate, and maintain essential urban services in line with the government's devolution program.

B. Expected Impact

2. The project expected to assist the NWFP's Urban Investment Plan, together with the government's poverty reduction initiatives. It also sought to help in greater devolution of power and responsibility to local governments to provide and finance urban infrastructure and municipal services. The project supported participatory approach for urban development. The participatory approaches were needed to be developed together with (i) institutional development and devolution of service delivery, (ii) targeting of low-income communities, (iii) financial equity and cost recovery at the local government level, (iv) partnerships between communities and local governments, (v) priority investments in basic services that will impact on the lives of low-income groups, and (vi) stimulation of demand-driven competition.

C. Objectives or Expected Outcomes

3. The main aim of the project was to support the (i) devolution of responsibility and authority to local governments by expediting the policy reform process in the urban sector, (ii) decentralization of economic growth to reduce province-wide disparities, and (iii) reduction of urban infrastructure deficiencies. The specific objectives were to (i) demonstrate effective interventions in urban service management that could be replicated, (ii) stimulate a progressive shift of responsibilities to urban local governments for the financing and management of urban services, and (iii) improve management and resource mobilization capacities of urban local governments.

D. Components and Outputs

4. The project was designed as a sector project that had two components: (i) urban development, including infrastructure improvements and community development and participation; and (ii) institutional development, including project implementation support, municipal finance capacity building, and incremental administrative support.

5. The urban development component included (i) infrastructure improvement in water supply, sewage and sanitation, drainage, solid waste management, roads and local access; and (ii) community development and participation. The institutional development component included (i) project implementation support, (ii) municipal finance and capacity building, and (iii) incremental administrative support.

E. Provision of Inputs

6. A loan of SDR16.1 million ($20.8 million equivalent) was provided from the Asian Development Bank's (ADB) special funds resources. To support project implementation, a total of 396 person-months of consulting services (36 person-months international and 360 person-months domestic) were provided covering (i) project management support to the project coordination unit (PCU) and project implementation teams, including subproject preparation and appraisal, and capacity building for subproject implementation by local government agencies; and (ii) capacity building for municipal financial management given to the municipal committees
to improve accounting systems and increase local revenues. The Local Government, Elections, and Rural Development Department (LGERDD) was supported by consultants and the municipal committee staff.

7. In addition, one or more NWFP-based nongovernment organizations were to be recruited by a government committee, to focus on the process of establishing sustainable government–community partnerships, for the development of effective and lasting channels of communication.

F. Implementation Arrangements

8. The LGERDD was the executing agency. A project steering committee was established and was expected to meet at least twice a year. This committee was chaired by the department secretary of LGERDD, with committee members representing the Departments of Finance, Planning and Development, Works and Services, Physical Planning and Housing, and Public Health Engineering.

9. The PCU, established under the LGERDD, provided technical support and supervisory functions for subproject implementation. It had 12 professional staff, supported by international and domestic consultants. It was headed by a project director from LGERDD and its activities included continuous monitoring of the municipal committee participation criteria, and screening and development of the physical investment program, among others.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

10. The project completion report (PCR)\(^3\) rated the project design partly relevant. The PCR noted that the project was to introduce policy reforms and investment that would (i) support demonstrably effective interventions in urban services management for eventual replication elsewhere in the country, (ii) shift the responsibility of financing and managing urban services progressively to the urban local governments, and (iii) increase the capacity of urban local governments to manage and mobilize resources. Policy reform and investment along these lines would have been relevant, however, the project design failed to make up for the extensive capacity weaknesses and was overambitious.

11. This validation notes that the project design was out of date. The project preparation technical assistance was approved in December 1997, but the appraisal of the project took place after more than 2 years, in June 2000. The loan became effective after another long gap in March 2002 and project inception took place in September 2002. In the meantime, many changes had taken place on the ground, which were not in accordance with the project design. This included the federal government of Pakistan changing the functions and roles of local institutions in 2001 through its local government ordinance (LGO). Project objectives were seemingly consistent with the LGO 2001 based on the decision makers with whom the project was designed and approved. However, by the time project implementation started, these decision makers had moved on. PCR noted that “The urban policy actions agreed on at appraisal were eclipsed by the broader reform agenda introduced under LGO 2001…” (PCR, 2010). 

para. 11). Apparently, the project design was not in line with the 2001 ordinance. For example, as noted in the PCR, policy reforms that shifted responsibility to urban local government were relevant only to the urban areas (17% of the population) and limited to the participating tehsil municipal administration (TMA). The reforms were overshadowed by the local government ordinance (LGO) 2001, which devolved both urban and rural responsibilities to the TMAs. The PCR noted that the project design did not undergo major changes as gaps in capacity were identified in the process of implementation, and were not aligned with the urban sector reforms of the LGO 2001. These are considerable weaknesses. This validation notes the PCR’s view that “The project’s objectives are relevant at completion, but the design is not relevant to ADB’s country partnership strategy (CPS) and program, and the country’s development objectives.” (PCR, para. 12). This validation also rates this project less than relevant.

B. Effectiveness in Achieving Project Outcomes

12. The PCR assessed the project not effective in achieving its intended outcome (objectives) as stated in the Project Framework. It noted that of the 20 subprojects that were awarded, not a single one had been completed by the time ADB decided to close the project despite a request from the government for a 2-year extension. At the time of closing, only 20% of the physical progress and 23% of fund utilization had taken place. This included eight project TMAs provided with better water supply services as tariffs and collection improved. The PCR noted that in seven TMAs, the completed sewerage schemes were poorly maintained, hence, the disposal of sewage and drainage water improved only marginally. The subprojects had, however, reduced flooding in a few towns, improved sanitation, and provided health benefits. Road rehabilitation and widening in five TMAs also made their urban centers more accessible. However, several other policy reforms like service cost recovery and effective maintenance could not be implemented. Nevertheless, the government completed all 20 subprojects by June 2010—2 years after project completion—using its own funds.

13. The project did not increase TMA capacity for municipal management, including revenue generation. Any improvements made in the quality of life of the people could not be sustained as communities were unwilling to pay for services. No system of community participation in municipal services planning, monitoring, and management was established and only marginal, short-term improvements were noted in the municipal services of the participating TMAs. In view of the fact that the government completed the 20 subprojects with its own resources, this validation upgrades the PCR rating and assesses the project less than effective.

C. Efficiency of Resource Use in Achieving Outcomes and Outputs

14. The PCR rated the project investment not efficient. The PCR noted the extensive delays in project implementation (e.g., the first civil works contract was delayed by 3.5 years). The midterm review that could have provided an opportunity to improve project design was delayed and took place only in late 2007. Implementation of project, especially the conduct of a midterm review and fielding of some international consultants, was also adversely affected by security conditions in the NWFP. Although performance was persistently poor, all project performance report ratings were rated satisfactory. The continued application of this rating masked the reality and prevented possible corrective actions that could have been taken to address implementation problems.

15. The economic and financial internal rates of return (EIRR and FIRR) for the drainage and sanitation subprojects could not be analyzed as no tariff was being collected for the services provided. For the water supply subprojects, an FIRR of −0.3% was estimated at project completion, compared with 10.6% at appraisal. The lower-than-projected increase in water
tariffs explained the negative FIRR. The EIRR at project completion was 26.7%. No EIRR had been calculated for the water supply subprojects at appraisal.

16. For the road subprojects, an estimated EIRR of 3.8% at completion was calculated, given the savings in vehicle operating costs and productive travel time, versus 17% at appraisal. The EIRR at completion was lower than at appraisal because traffic volume and the productive time saved turned out to be less than anticipated. The bus stand subproject was not evaluated at appraisal; however, the analysis yielded an FIRR of 13.7% and an EIRR of 16.5% for this subproject. Apart from the commercial bus stand, all investments were inefficient because people were either not paying enough for the services or not using them adequately. The validation also rates the project inefficient.

D. Preliminary Assessment of Sustainability

17. The PCR rated the investment made by the project not sustainable. Sustainability was measured in terms of (i) reforms and laws introduced by the provinces to empower the TMAs for effective municipal management; (ii) plans developed to achieve sustainability in financial, municipal, and operational management; and (iii) the continued implementation of these plans.

18. Although the LGO 2001 was advantageous to the project as it substantially empowered the TMAs for effective municipal management, the overall reform agenda was not sustained. Local governments were run by government-appointed administrators and at the time of the PCR’s preparation, no elections had been held in the last 2 years. By merging the urban and rural areas under the TMAs, the LGO 2001 reforms also challenged the sustainability of urban services. TMA resources and capacity were spread thinly as revenues, mostly from the urban areas, had to be shared evenly with the rural areas.

19. The TMAs generally lacked the capacity to translate the powers devolved to them into proper urban development laws and then to implement them and monitor their legal compliance. Most TMAs were unable to carry out and sustain the reforms. Base maps, including structural, investment, and financial management plans were developed for the participating towns under the project, to enable them to generate resources, deliver better urban services, and plan their short-, medium-, and long-term investments effectively. However, none of these plans were adequately implemented. The TMAs had neither the capacity nor the resources to sustain the improvements in service delivery. No reliable information was also gathered on whether the 20 subprojects subsequently completed by the government outside the project were done in a sustainable manner. Considering all these, this validation also rates project sustainability unlikely.

E. Impact

20. The overall impact of the project was rated marginally positive in the PCR. All 20 subprojects were incomplete at loan closure. With the help of the financial and municipal management plans, the TMAs have marginally improved their capacity to plan than they had at appraisal. Similarly, all infrastructure subprojects, though completed after loan closure, have improved sanitation, drainage, urban transport, and water supply in the urban centers, at least in the short term. Nevertheless, the impact in all cases had been much less than anticipated at appraisal.

21. The PCR noted that overall trends in urban areas of the NWFP are positive. Of the households, 52% have piped water supply, against 37% at appraisal. The population using improved water supply services in districts where participating TMAs are located increased from
61% to 74%, compared with the NWFP’s average of 72%. The paved roads in the overall network of roads in the project area have also increased to 79%, compared with an average of 73% for urban areas in the NWFP. Urban poverty in the NWFP at appraisal period (Fiscal Year [FY] 2002) was 34.2% and was reported at 23.6% in FY 2006. The secondary data also show improvement in economic activity, including an increase in urban employment (from 2.4% to 4.3%) and industrial units (from 2.4% to 2.9%) in the last few years. However, as noted in the PCR, it is difficult to ascertain the extent to which these results could be seen as contributed by the project.

The PCR also noted increased coverage of the population with safe drinking water. The water supply, sewerage, and drainage subprojects are expected to reduce waterborne diseases, curtail households’ health-related expenditure, and increase school enrolment, which improved from an average of 42.5% in 2001 to 49.2% in 2008. The drainage subprojects are expected to reduce damage to property and increase the value of land. The impact of the road subprojects includes savings in vehicle operating costs and personal travel time. These positive trends within participating TMAs cannot be attributed directly to the project, although it can be assumed that subprojects started by the project and completed by the government have contributed to these trends. For this reason, this validation rates the project impact moderate.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

23. The performance of the borrower and the LGERDD was rated in the PCR partly satisfactory. The counterpart funds and facilities were provided on time, but many conditions of the loan agreement were not complied with. The devolved local governments had much less capacity than foreseen at appraisal, and the newly elected councillors showed very little ownership of the reforms proposed under the project, as the TMAs had been created earlier and the councillors elected after the project was approved. Most of the participating towns did not fully implement the agreed targets in the financial management and structural plans.

24. Many TMAs could not provide and retain their staff and, thus, abide by the loan agreement. Of the 45 approved positions in the PCU, 25 stayed vacant throughout the project. The turnover ratio among the 12 professional staff positions was 83%. Low salaries and inadequate incentives were mainly the reasons. The implementation consultants were unable to fill the gap or make up for the general lack of institutional capacity in the LGERDD to implement the project. The training and on-the-job guidance provided by the implementation consultants did produce marginal improvements, but these were nullified by the high staff turnover. This validation rates the borrower’s performance less than satisfactory although it should be noted that the rating is very close to being unsatisfactory. Assigning the most critical rating is mitigated by government action of achieving project outputs even after project closure.

B. Performance of the Asian Development Bank

25. ADB’s performance was rated partly satisfactory in the PCR. There were regular review missions and input was provided on policy compliance, safeguards, subproject appraisal, and procurement procedures. As noted, extensive delays in project implementation were known by project review missions but the continued application of a satisfactory performance rating preempted any corrective action to address implementation problems. During implementation, the ADB project officer changed four times, at the cost of efficient project administration and
institutional memory. The project appraisal did not fully take into account the changes that LGO 2001 had brought in the policy and reform environment.

26. Slow progress and security concerns in the NWFP pushed back the midterm review of the project, scheduled for 2004 to 2007. ADB did not agree to the government's request for an extension, and closed the project on schedule in June 2008, leaving all civil work contracts and policy reforms incomplete. ADB performance is rated less than satisfactory. However, as with the borrower's rating, it should be noted that the performance rating is close to unsatisfactory.

C. Others

27. Of the 39 covenants in the loan agreement, the borrower complied with 19 (49%). Of the other covenants, 11 (28%) were only partly complied with, 7 (18%) were not complied with, and 2 (5%) were not applicable. The borrower did not comply with some of the key covenants that involved (i) applying the urban immovable property tax in all TMAs; (ii) establishing a monitoring and evaluation system; (iii) establishing a mechanism in the TMAs for organizing and mobilizing communities for better urban service delivery; and (iv) developing and implementing a coordinated public information, education, and participation program.

28. The PCR noted that noncompliance was mostly due to lack of political will (especially in province-wide policy recommendations, such as the implementation of the urban immovable property tax) or to gaps in capacity and resources.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

29. The project was rated in the PCR unsuccessful and this validation also rates it unsuccessful (see table). Although project interventions were generally relevant, the project design was outdated. The validation rates the project less than effective and inefficient, failing to adequately meet expected project objectives. This validation also notes that the project framework provided few quantitative targets at the component level and this reflected the lack of rigor in the project design.

30. Policy reform measures were introduced but not implemented, making the physical interventions and long-term provision of services unsustainable. Although there is evidence of marginal short-term improvements in the quality of services, these are not fully attributable to the project. The principal problem appears to be that there was inadequate analysis of stakeholder commitment and capacity in the project design, which would have revealed the lack of commitment and capacity. This is unusual given ADB's previous project and/or sector experience in Pakistan. Opportunities to revise the project to ensure effectiveness, efficiency, and sustainability were missed by ADB's supervision missions during implementation.
Overall Ratings

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<thead>
<tr>
<th>Criteria</th>
<th>PCR</th>
<th>IED Review</th>
<th>Reason for Disagreement and/or Comments</th>
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<tbody>
<tr>
<td>Relevance</td>
<td>Partly relevant</td>
<td>Less than relevant</td>
<td></td>
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<tr>
<td>Effectiveness in achieving outcome</td>
<td>Not effective</td>
<td>Less than effective</td>
<td>Some 20 subprojects were completed even after project closure using government's own funds, bringing marginal improvements.</td>
</tr>
<tr>
<td>Efficiency in achieving outcome and outputs</td>
<td>Not efficient</td>
<td>Inefficient</td>
<td></td>
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<tr>
<td>Preliminary assessment of sustainability</td>
<td>Not sustainable</td>
<td>Unlikely</td>
<td></td>
</tr>
<tr>
<td>Overall Assessment</td>
<td>Unsuccessful</td>
<td>Unsuccessful</td>
<td></td>
</tr>
<tr>
<td>Borrower and executing agency</td>
<td>Partly satisfactory</td>
<td>Less than satisfactory</td>
<td></td>
</tr>
<tr>
<td>Performance of ADB</td>
<td>Partly satisfactory</td>
<td>Less than satisfactory</td>
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<tr>
<td>Impact</td>
<td>Marginally positive</td>
<td>Moderate</td>
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<tr>
<td>Quality of PCR</td>
<td></td>
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<td>Satisfactory</td>
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ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.

Note: From May 2012, IED views the PCR’s rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.

Source: ADB Independent Evaluation Department.

B. Lessons

31. This validation agrees with the lessons listed in the PCR. In addition, this validation also stresses that (i) the project design did not have an adequate analytic base that should have included an assessment of stakeholders and their capacities, and provisions for alignment due to changes introduced by the LGO 2001; (ii) previous project and/or sector experience in Pakistan was not internalized and reflected in the design—the risk of underestimating capacity constraints could have been mitigated with a risk management strategy; (iii) supervision missions must flag projects that are in danger of slippage before it is too late to modify the project; and (iv) project monitoring and evaluation systems require sets of measurable indicators and associated targets so that corrective measures can be implemented in time to achieve the project’s outcome.

C. Recommendations for Follow-Up

32. This validation agreed with the PCR recommendations. Further, it emphasizes that in a project with demonstrable weak implementation capacity, ADB should do more to strengthen relevant institutions by taking proactive measures during implementation, ensure the utilization of a sound monitoring and evaluation system, and should emphatically require that pragmatic implementable covenants within the project period are achieved.
V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

33. The project did not comply with the requirement of setting up a monitoring and evaluation system.

B. Comments on Project Completion Report Quality

34. This validation assesses the quality of the PCR satisfactory. The PCR provided a coherent analysis, with good storyline of why this project was finally rated unsuccessful. Its rating for each criterion reflected good understanding of IED criteria and rating system. It provided adequate evidence and/or information in support of the ratings under various criteria, especially with a large amount of data on financial performance of the TMAs, and it was candid in its assessment.

C. Data Sources for Validation

35. The sources of data for this validation consist of the project's report and recommendation of the President, back-to-office reports and related correspondence, and the ADB PCR.

D. Recommendation for Independent Evaluation Department Follow-up

36. No IED follow-up is required.