

INSTITUTIONAL FRAMEWORK ASSESSMENT OF KUKL

FINAL REPORT

February 2016



CONTRIBUTORS TO THE REPORT

Lead Authors:

Madhav Narayan Shrestha (Leader of Consultant Team)

Rajendra Suwal (Consultant)

Research Management and Review:

Hari Prasad Sharma (Water supply Tariff Fixation Commission: WSTFC)

Ram Chandra Devkota (Joint Secretary, Ministry of Urban Development: MOUD)

Tej Raj Bhatta (Project Director: PID, KUKL)

Sunil Kumar Das (Melamchi Water Supply Development Board: MWSDB)

Sanjeev Bikram Rana (Kathmandu Valley Water Supply Management Board: KVWSMB)

Chandra Lal Nakarmi (Acting General Manager, KUKL)

Poorna Das Shrestha (Member, KUKL Management Board)

Ryuji Ogata (Water Policy Advisor, Japan International Cooperation Agency: JICA)

Bidhya Pokhrel (Senior Programme Officer, Japan International Cooperation Agency: JICA)

Published by:

Ministry of Urban Development (MOUD)

Japan International Cooperation Agency (JICA)

Copy Right:

MOUD and JICA

Print and Design:

The Creative Hands

TABLE OF CONTENTS

CONTRIBUTORS TO THE REPORT	I
TABLE OF CONTENTS	II
LIST OF TABLES	IV
LIST OF FIGURES	V
GLOSSARY AND ABBREVIATIONS	VI
EXECUTIVE SUMMARY	VII
CHAPTER 1: INTRODUCTION	1
1.1 Background	1
CHAPTER 2: LEGAL AND INSTITUTIONAL FRAMEWORK	3
2.1 Existing Legal and Institutional Framework	3
2.1.1 Institutional Reform	3
2.1.2 Existing Legal Framework	4
2.1.3 Existing Institutional Framework	5
2.2 Identification and Analysis of Key Issues on Institutional Framework	11
2.2.1 MoUD	11
2.2.2 KVWSMB	12
2.2.3 WSTFC	13
2.2.4 KUKL	15
2.2.5 PID	16
2.3 Existing Actions Plan and its Progress	17
CHAPTER 3: FINANCIAL SITUATION	25
3.1 Existing Financial Flow	25
3.1.1 Financial Flow between KUKL and KVWSMB	25
3.1.2 Financial Flow between KUKL and WSTFC	26
3.2 Identification and Analysis of Key Issues on Financial situation	27
3.2.1 Between KVWSMB and KUKL	27
3.2.2 Between WSTFC and KUKL	27
CHAPTER 4: HUMAN RESOURCE MANAGEMENT	28
4.1 Human Resource Management in institutions	28
4.1.1 MoUD	28
4.1.2 KVWSMB	29
4.1.3 WSTFC	29
4.1.4 KUKL	29
4.1.5 PID	31

4.2	Identification and Analysis of Key Issues on Human Resource Practices in the Institutes involved in WASH Sector in KV	31
4.2.1	Assessment of Human Resource Practice	31
4.2.2	Key Issues	32
CHAPTER 5:	RECOMMENDED MEASURES FOR IMPROVEMENT	37
5.1	Legal Framework	37
5.1.1	MoUD	37
5.1.2	KVWSMB	37
5.1.3	WSTFC	38
5.1.4	KUKL	38
5.2	Institutional Framework	40
5.2.1	MoUD	40
5.2.2	KVWSMB	40
5.2.3	WSTFC	40
5.2.4	KUKL	40
5.2.5	PID	41
5.3	Financial Flow	41
5.3.1	Financial flow between KVWSMB and KUKL	41
5.4	Human Resource Management	41
CHAPTER 6:	RECOMMENDED ACTION PLANS FOR IMPROVEMENT	43
6.1	Short Term Plans	43
6.2	Medium Term Plans	45
CHAPTER 7:	CONCLUSIONS	46
REFERENCES		47

LIST OF TABLES

Table No.	Description	Page No
Table 2.1	KUKL Business Plan	17
Table 2.2	Recommended Action Plan for KUKL	18
Table 2.3	KUKL Improvement Road Map	19
Table 3.1	Capital Investment Program and Fund Received from KVWSMB	26
Table 3.2	License and Lease fee to KVWSMB (NPR)	26
Table 3.3	Fund flow from KUKL to WFTC (NPR)	26
Table 4.1	Staff Distribution at MoUD	28
Table 4.2	Staff Distribution at KVWSMB	29
Table 4.3	Staff Distribution at KUKL as per approved posts	30
Table 6.1	Short Term Plan with Responsible institutions/person	43
Table 6.2	Medium Term Plan with Responsible Institutions/Person	45

LIST OF FIGURES

Figure No.	Description	Page No
Fig. 2.1	Institutional Reform on Water Supply and Sewerage Sector of Kathmandu Valley on 2006	3
Fig. 2.2	Slope Map of Kathmandu Valley	5
Fig. 2.3	Kathmandu Valley and KUKL Service Area	5
Fig. 2.4	Institutional Framework for Water Supply and Sewerage Management in Kathmandu Valley	6
Fig. 2.5	Organizational Structure of MoUD	7
Fig. 2.6	Position of PID	9
Fig. 4.1	Human Resource Status of KUKL	30
Fig. 4.2	Organizational Structure of KVWSMB	33
Fig. 4.3	Organizational Structure of WSTFC	34
Fig. 4.4	Organizational Structure of KUKL	35
Fig. 4.5	Organizational Structure of PID	36

GLOSSARY AND ABBREVIATIONS

ADB	-	Asian Development Bank
BWSMB	-	Bharatpur Water Supply Management Board
BDS	-	Bulk Distribution System
BPR	-	Branch Public Relation
CBP Team	-	Capacity Building and Public-Private Partnership Support Team
CBS	-	Centre Bureau of Statistics
DDC	-	District Development Committee
DNI	-	Distribution Network Improvement
DP	-	Development Partners
DoR	-	Department of Road
EIA	-	Environmental Impact Assessment
EMP	-	Environmental Monitoring Plan
EPRM	-	External Public Relation Management
GON	-	Government of Nepal
GM	-	General Manager
HMGN	-	His Majesty's Government of Nepal
HRP&D	-	Human Resource Planning & Development
HWSMB	-	Hetuada Water Supply Management Board
HRMD	-	Human Resource Management and Development
JICA	-	Japan International Cooperation Agency
IEE	-	Initial Environmental Examination
KMC	-	Kathmandu Municipal Corporation
KUKL	-	Kathmandu Upatyaka Khanepani Limited
KVWSMB	-	Kathmandu Valley Water Supply Management Board
KV	-	Kathmandu Valley
MD	-	Managing Director
MLD	-	Million Liters per day
MoUD	-	Ministry of Urban Development
MoFALD	-	Ministry of Federal Affairs and Local Development
MWSDB	-	Melamchi Water Supply Development Board
MWSP	-	Melamchi Water Supply Project
NGO	-	Non-Government Organization
NWSC	-	Nepal Water Supply Corporation
NRW	-	Non Revenue Water
O&M	-	Operation and Maintenance
PID	-	Project Implementation Directorate
PD	-	Project Director
RWSSFDB	-	Rural Water Supply and Sanitation Fund Development Board
SOP	-	Standard Operating Procedure
TA	-	Technical Assistance
SWOT	-	Strength Weakness Opportunity Threats
VDC	-	Village Development Committee
VRS	-	Voluntarily Retirement Scheme
WASH	-	Water Supply, Sanitation and Hygiene
WSTFC	-	Water Supply Tariff Fixation Commission
WUO	-	Water Utility Operator

Background:

As per the policy of involvement of local governments and private sectors in development of water supply and sewerage system in Kathmandu valley (KV), The Government of Nepal (GoN) reformed public sector organization Nepal Water Supply Corporation (NWSC) separating its function of policy formulation & planning, operations and regulation in 2006. Accordingly, GoN created three institutions; Kathmandu Valley Water Supply Management Board (KVWSMB) established under Water Supply Management Board Act, 2006 as policy maker as well as asset owner, Water Supply Tariff Fixation Commission (WSTFC) enacted by Water Supply Tariff Fixation Commission Act, 2006 as a regulator and Kathmandu Upatyaka Khanepani Limited (KUKL) established under Company Act, 2006 as water utility operator. KUKL is working under operating license and asset lease issued by KVWSMB.

Operation of water supply and sewerage in KV is not in level of satisfactory even though KUKL is an independent public company in this sector. Therefore, there is dire need of improving performance of KUKL. An effective institutional framework is one of the pre-conditions for the successful implementation of water supply and sewerage policies and programs. Many studies have indicated that the lack of a sound institutional framework is responsible for failures in service delivery. Keeping in mind a poor service delivery of KUKL, it was felt that it is necessary to conduct institutional assessment for KUKL so that it can provide better services to the people within its service area as per its mandate. This activity will support to develop an idea for improvement of management and administrative capabilities of KUKL staff and enable KUKL to carry out its activities in an efficient and effective manner in existing as well as future system.

Existing Situation Analysis

MoUD:

Ministry of Urban Development (MoUD) has overall responsibilities country wide on formulation of policy, planning and administration of all water sectors institutions. Several other ministries, departments and agencies are also involved in the management of the water supply, sanitation and hygiene (WASH) sector and related activities. The MoUD is responsible for formulating national level policies and programs and guiding sector activities to meet objectives and targets outlined in National Development Plans. MoUD oversees the activities of the NWSC, a semi-autonomous corporation responsible for water supply and sewerage in major urban centers outside of Kathmandu Valley, the KVWSMB, an autonomous body established under WSMB Act (2006), PID under KUKL and Melamchi Water Supply Project (MWSP), and responsible for water supply and sewerage services in Kathmandu valley. MoUD also oversees Rural Water Supply and Sanitation Fund Development Board (RWSSFDB), an autonomous unit established to support rural WASH projects.

In MoUD, Water Supply and Environmental Division is responsible for water supply and sewerage service in the country. This division is institutionally linked framework with KUKL through KVWSMB. Drinking Water and Sanitation Section in the division is responsible for managing urban WASH in whole country. However only four engineers (one Senior Divisional Engineer and three Assistant Engineers) are allocated for the section though the section need to look after WASH sector in urban water supply including Kathmandu valley. Therefore it seems that the section is overburdened and existing human resource is quite inadequate considering the workload and number of projects in WASH sector in Nepal.

KVWSMB:

Katmandu Valley Water Supply Management Board (KVWSMB) was established under Water Supply Management Board Act, 2006. KVWSMB is a public body responsible for policies and ownership of water

service infrastructures. Board of KVWSMB had taken over from NWSC the ownership of assets of water supply facilities inside Kathmandu valley. KVWSMB is represented by 11 members, which are from GoN, local Government (Kathmandu Metropolitan, Lalitpur Sub-Metropolitan, Bhaktapur Municipality, Madhyepur Thimi Municipality, Kirtipur Municipality), Federation of Nepal Chamber of Commerce and Industries (FNCCI), one representative from three District Development Committee (DDC) within valley, representative of Consumer Association operating in the valley, representative nominated of Water/Sewerage service related NGOs and expert nominated from WASH sector. Assets of KVWSMB transferred from NWSC have given to KUKL on lease accordance with lease agreement between them. KVWSMB has issued license for the operation of water supply and sewerage services to KUKL and receive license fee, lease payments, government transfers and donor funding. KVWSMB is operating the services on water supply through service provider by providing a license to the service provider. The mandate of KVWSMB is stated clearly in WSMB Act, 2006 and KVWSMB cannot function as an operator.

About 12 board meetings are held per year. However, the board members are not quite active as most of them are ex-officio members and there is frequent change in board members within a short span of time. This has an adverse impact on decision making process in the board.

Information flow from KUKL to KVWSMB is quite infrequent. Financial statements are not submitted on time as per contract provision. Despite KUKL failing to pay its license and lease fee and not meeting lease agreement conditions, KVWSMB has not been able to take any action because of absence of alternate service provider.

To improve this situation, KVWSMB has established a Monitoring and Evaluation Committee which includes representatives from both the organizations. This committee meets twice in a month to review the activities of KUKL particularly related with capacity improvement project.

WSTFC:

Water Supply Tariff Fixation Commission (WSTFC) was established as per Water Supply Tariff Fixation Commission Act (2006). WSTFC was, hereby, formed for the protection of the interests of consumers by providing qualitative and reliable water supply and sanitation service to the consumers at a reasonable price, by fixing the tariff of water supply and sanitation service. The Commission members, including the Chief Commissioner are appointed on competitive basis. The main function of the Commission is to determine water tariff based on commercial principles and set scientific criteria. It is an independent regulator of tariffs for water supply and wastewater services throughout Nepal. WSTFC is looking after water tariff of KUKL, NWSC, and Water Supply Management Boards formed by the Act.

KUKL is required to submitting proposal for water tariff fixation to the Commission together with its documentary evidence of cost and expenditure. The Commission evaluates and scrutinizes the proposal, make necessary amendments and approve after a thorough public hearing. Fund is managed from regulatory fee from service provided by the service provider and government transfers if needed.

The WSTFC Act, 2006 has enumerated the criteria to be used and the steps to be followed while fixing the tariff. The Commission more or less adheres to these guidelines but most of the times, the proposals from KUKL does not follow these requirements completely. The capacity for preparation of tariff revision proposal seems poor. Also, KUKL is required to submit proposal to WSTFC every year but KUKL has not done it. Information flow from KUKL is also not regular. For the last two years, WSTFC has not received any financial information from KUKL.

KUKL has not been able to pay levy imposed on it by WSTFC regularly as KUKL is not in a good financial health. In the last two years, KUKL has paid only NPR 50 lakhs to WSTFC. The Commission has a power to penalize service providers for non-payment of its levy but it has so far refrained from taking this harsh step as it feels it may spoil working relationships between the two organizations.

WSTFC has always maintained a positive attitude towards KUKL despite problems of non-payment of levy. It has taken supportive actions for KUKL. For instance, the price of water was increased last year from NPR 55 to NPR 100 per month. KUKL and WSTFC agreed on certain improvement areas as a condition to increase in price but KUKL has not submitted any report so far on the status of those improvement areas.

The Commission does not seem to be organizationally as well as technically capable to provide the services which is mandated to carry out by the act. The Commission is running with only three non-gazette administrative staff and lacks budget for running a full-fledged organization structure as the service providers do not pay their dues in time and not regularly. The Commission has sent a proposal for a functional organization structure with indicative staff requirements to the Government, but it has not been acted upon so far. For WSTFC to function actively, this proposed organization structure needs to be approved by the government.

KUKL:

Kathmandu Upatyaka Khanepani Limited (KUKL) is a public company registered under the Company Act 2063, with objective to undertake and management of the water supply and sewerage system of Kathmandu valley. KUKL has to provide quantitative, qualitative and reliable service to the consumer on their full satisfaction at affordable price. KUKL is responsible for operation and management of water supply and wastewater services in the Kathmandu valley. It operates the water supply and sewerage services under a license and lease agreement with the KVWSMB. KUKL is responsible for maintenance of all assets received on lease from KVWSMB and issues preference share to KVWSMB against the assets transferred to it and not more than 10% dividend to shareholders if KUKL is able to make profit. KUKL also has to pay an annual license fee to KVWSMB.

The shareholders of the company owning with respective initial common shares are GoN (30%), Municipalities in the valley (50%) [Kathmandu Metropolitan- 30%, Lalitpur Sub-Metropolitan- 10%, Bhaktapur Kirtipur and Madhyepur Thimi -10%], private sector organization (15%) [FNCCI-3%, Laitpur Chamber of Commerce - 1.5%, Nepal Chamber of Commerce- 9%, Bhaktapur Chamber of Commerce-1.5%], and employee trust to be paid by the government (5%).

KUKL is managed and supervised by a nine Board of Directors. Six are nominated by shareholders (two from GoN, two from Kathmandu Metropolitan, one each from Lalitpur Sub-Metropolitan and private sector) and three independently appointed. Two of the three independent Boards of directors are selected on competitive basis and one is nominated by ADB until its loan is paid back. KUKL Board has two implementing wings. One is PID established for project implementation and another is KUKL for operation of water supply and sewerage system in the valley. Initially the service of KUKL was continued with the NWSC deputed staff. Staffs unwilling to work with KUKL were returned back to NWSC or given opportunity of voluntary retirement with additional benefits.

From 2010 to 2014 KUKL assigned three international water utilities experts called CBP team (Capacity Building and Private Public Partnership Support Team) consist of General Management Advisor, Operational and Technical Management Advisor, and Financial Management Advisor. TOR of the international experts were on three key components providing start-up support for KUKL (operating structure, business processes, financial management and administration), managing the ongoing operations (including prudent use of pilot investment funds and developing) and implementing a capacity development strategy that addresses ownership, knowledge transfer modalities and exit or hand-over plan and indicators. The general management advisor of CBP team was supposed to be posted as the general manager of KUKL. However, before the team assignment, decision was made that general management advisor would be assigned as a vice-general manager of KUKL. It assumed that because of this and some other reasons such as vacancy of many senior management and engineering posts, CBP team, as a consequence, was not able to make adequate output on improvement of the management of KUKL.

KUKL is supposed to operate on a PPP model. But the way it has been established, it does not follow PPP model. The Board of KUKL is represented by all the shareholders and other important stakeholders such as ADB and NGOs involved in water sector. The Chairperson is elected from among the Board members for a year irrespective of percentage of shareholding of the organization the Board member represents. For example, Nepal Chamber of Commerce holds only 9% of the total share but its representative is the Chairperson of the Board at present.

The collective interest to serve the people of Kathmandu valley is not seen in the Board members and hence the interest of the organization is overlooked many a times while taking decision at the Board level. For example, Board has not been able to take a decision on appointing GM for the last 8 months or so although all the required processes for appointing GM on a competitive basis have been completed. It is because of differing views of board members. In the last 7 years, there has been 6 GMs. 20 board meetings were held last year which seems more than required. It is also noteworthy to note that GM has no link with Board at all. He is not a member of the Board. The Board agenda is set by the Company Secretary in consultation with the Chairperson and while setting agenda and taking a decision, GM is seldom consulted. There has been an instance where Board took a decision to promote junior staff to higher level contrary to rules and regulations of the company. The Trade Unions seem more powerful than GM and most decisions are influenced by them. It is obvious thus that the Institutional set up itself is dysfunctional right from the beginning.

Most Board members do not actively participate in decision making process and the decisions are not owned by the members. This is due to the fact that most board members including the present Chairperson are ex-officio members. Also the amount of share invested is not large enough to draw strong and serious attention from the shareholders.

The present structure is adopted by the government with a view to bring in more private sector participation in order to bring more efficient functioning of KUKL. But the existing structure reveals that no private organization has held any equity in the organization. Instead, the Associations of private organizations such as FNCCI and Nepal Chamber of Commerce were found to be the shareholders from the private sectors. These associations, in true sense, are not private organizations but rather a form of NGO.

As elections were not held at the local level for the past 18 years, there are no elected mayors and deputy mayors in the municipalities and hence the mayors represented in the Board are also the officials who have been deputed from civil service. Civil servants, by very nature, are averse to taking risks. But commercially vibrant organizations need to take decisive and risky decisions to benefit the organization in the long run. Therefore, complete restructuring of KUKL board is called for which requires revision of Article of Associations as well as Memorandum of Associations of KUKL.

At the organizational level, decisions are initiated at the branch office which submits its budget estimation along with programs to the head office after consulting senior staff. The head office approves budget and programs as per financial resource available. Generally, the work related to capital investment will be forwarded to KVWSMB for financial support. KVWSMB disburses fund to the respective branch office once their proposals are approved. The head office has less involvement in implementation of these programs. Regular programs are implemented as per the rules and regulations of the organization.

KUKL does not have new fresh staff of its own except few at the junior level. Majority of the staff who were working in NWSC were transferred to KVWSMB and KVWSMB deputed them to KUKL. Salary of staff is thus paid by KUKL but gratuity payment on retirement is made by KVWSMB. At present, qualified and competent staff is getting depleted due to retirement of senior staff and Voluntarily Retirement scheme offered earlier. Although several attempts have been made, the gap is not effectively filled yet. The human resource plan is not prepared. The recruitment and promotion committee is recently formulated. The chairperson of the committee is represented by Kathmandu Municipality. Training of staff is given least priority. Also adequate compensation and equity does not seem to be in practice.

PID:

Project Implementation Directorate (PID) is established under KUKL basically to undertake ADB assisted WASH projects related with Kathmandu valley such as Kathmandu Valley Water Supply and Sanitation Subproject (Subproject -2) of Melamchi Water supply Project. It is a temporary entity and asset creator to KVWSMB. Capital investment programs in water supply and sewerages in KV are being implemented by PID.

Although it is a part of KUKL, it does not have any formal relationship with KUKL except that it is shown as a part of KUKL in organizational structure and two technical managers (distribution and planning) from KUKL are represented in the technical committee of PID. PID is guided and supervised by a project steering committee chaired by secretary of MoUD. PID has a full fledge organization structure separate from KUKL structure and fully manned by competent staff mostly on deputation from the government and KUKL. Decisions are taken at the project steering committee level and implemented by the Directorate. KUKL Board and top management of KUKL are not in the loop on decision making process.

MWSDB:

Melamchi Water Supply Development Board (MWSDB) has been established in 1998 as an implementing agency of Melamchi Water Supply Project (MWSP). Constitutions of the MWSDB comprised as the Chairman (Secretary, Ministry of Urban Development) and members are representatives of Ministry of Finance, Ministry of Water Resources and Mayor of Kathmandu Metropolitan City. Member Secretary is Executive Director, Melamchi Water Supply Development Board.

The functions of the MWSDB are to execute Melamchi Water Supply Project and to decide policy relating to the project.

Financial Flow of KUKL:

The balance sheet of KUKL shows worsening of net worth over a period of time which is due to a large amount of accumulated losses. The financial analysis performed during ADB TA -8036 REG (2013) shows that the financial performance of KUKL is very poor. KUKL cannot increase its supply capability due to the acute shortage of water which will continue unless Melamchi water supply is completed. There is no other alternative except for increasing the price of water.

In detail financial status was analyzed in the study of "Institutional Capacity Assessment for KUKL" which was separately conducted in 2015.

KUKL has to pay lease fee 6% of total collection, and NPR10 million as license renewal cost. The license and lease fee to be paid to KVWSMB for previous three fiscal years are shown in following table.

License and Lease fee to KVWSMB (NPR)

Fiscal Year	License Fee	Lease Fee Part A	Lease Fee Part B	Total Lease fee
2067-68	12,100,000.00	21,652,039.68	41,364,837.55	63,016,877.23
2068-69	14,641,000.00	21,170,727.86	81,275,710.38	102,446,438.24
2069-70	15,958,690.00	20,706,074.49	118,706,511.64	139,412,586.13

Source: Finance Department, KUKL (2015)

KUKL has not paid these fees to KVWSMB because of its bad financial position. Recently, MoUD is working on a strategy to provide operational subsidy as a loan to KUKL, out of this 50% will be paid to KVWSMB as license and lease fees and remaining 50% will be used to cover deficit of KUKL.

Following table shows the fund received so far by WSTFC from KUKL. The amount is not equal to 1% of billing amount of KUKL which is required to be paid by KUKL as per the WSTFC Act. As KUKL is not financially sound, WSTFC is not forcing it to pay as per the act and regulations. KUKL has paid just to support WSTFC’s administrative and staff salary expenses.

Fund Flow from KUKL to WSTFC (NPR)

Fiscal Year	Fees due (NPR)	Amount received from KUKL (NPR.)
2067-68	13,341,182.05	5,413,009.92
2068-69	18,021,302.02	5,292,681.97
2069-70	17,443,363.64	5,176,518.62

The fund for KVWSMB is to come mainly from license and lease fee from KUKL and underground water use. The income from underground water use is very low and KUKL has not paid its fee to KVWSMB so far. KVWSMB also get funding from the government for undertaking capacity improvement project. The budgets for these projects do not get frozen. The unspent budget amount is deposited as Call Account in commercial banks. KVWSMB has around NPR1,060 million in the call accounts at present. The banks were giving around 2% interest on these accounts previously but with the initiatives of new management, they are giving 6% interest. The earning from this is enough for management of KVWSMB. There is a need to look at how KUKL can pay dues to KVWSMB in time and also streamline budget release from KVWSMB to KUKL.

GoN has not allocated any budget so far to the WSTFC on its annual budget. It is, however, empowered to levy fee not in excess of two percent of the tariff to be collected by the service provider from the users and collect the same from the service provider. But service providers are not willing to pay levy to the Commission as they themselves are not in a healthy financial position. This has led to the perennial shortage of fund in the Commission. As such, WSTFC has not been able to have a proper organizational structure with adequate human resources in place.

To improve financial position, KUKL has now directed all its branch offices to cut water connection of big organizations, offices and influential individuals who have not paid tariff for years in the first stage. KUKL has already prepared a list of customers who have dues starting from NPR 10,883 to hundreds of thousands. The consumers, on the other hand, have been burdened with KUKL not fulfilling any of the commitments made while doubling the tariff. The WSTFC had put up nine-point conditions while giving approval for tariff hike. The Chairman of WSTFC stated that the relevance of raising tariff has finished as KUKL has failed to recover dues.

Recommended Measures for Improvement:

MoUD:

Since water is a basic necessity of people, MoUD cannot stay away from its responsibility to provide it to the people of the country and in this case to the people for Kathmandu valley. As such, MoUD cannot delegate its accountability to other institutions. It should be more pro-active to take up issues related with WASH sector in KV and take necessary decisions to address these issues. MoUD has a responsibility to create an environment where all the institutions involved in WASH sector in KV can operate effectively and efficiently. This will also help KUKL improve its performance. For this to happen, there is a need to establish separate unit under Water Supply and Environment Division in MoUD to provide support and guide WASH Planning and policy formulation and implementation in KV. MoUD should establish mechanism to monitor activities of institutions involved in WASH sector in KV. For this, it is suggested that MoUD establish a Coordination Committee either chaired by Secretary or Joint Secretary (looking after WASH sector). Other members will include ED of KVWSMB, GM of KUKL, and PD of PID. Section Chief (KV section in MoUD) will be Member Secretary of the Committee. The mandate for the Committee is to review the progress of activities of these institutions and address issues that are hampering effective undertaking of project activities. It should meet every two months.

KVWSMB:

KVWSMB needs to rationalize composition of its Board members. To make it more responsive and effective to the needs of KV, continuous support from the government is needed. For this, the status of the Board needs to be enhanced by having Secretary, MoUD as its chairperson. The present system of selection of chairperson from among the Board members on a rotation basis should be discontinued as this is found to be not practical and not effective in case of KUKL. Since there are so many municipalities within KV, it is not feasible to have representations from all the municipalities in the Board. Instead it is advisable to have chairpersons of three districts within KV. Executive Director, selected on the basis of competitive selection procedure should be the member secretary of the Board. S/he should be responsible for day to day operation of KVWSMB and s/he should be hired on performance contract basis based on his or her strategic plan presented. The ED implements Plans and policies approved by the Board. The Board monitors ED's performance based on the Performance contract and his or her strategic plan. The revision of composition of Board of Directors is recommended as follows:

1.	Secretary, MoUD	Chairperson	1
2.	Section Chief (looking after KV), MoUD	Member	1
3.	Chairperson DDC from the three districts (KV)	Member	3
4.	Water Sector Expert	Member	1
5.	Representative from Kathmandu Valley Development Authority	Member	1
6.	Representative from Consumer Forum/NGO (Preferably Woman) Working in the field of WS sector	Member	1
7.	Executive Director, KVWSMB	Member Secretary	1
	Total number		9

KVWSMB is primarily responsible for all functions related to providing water and sewerage services in KV i.e. planning, resource mobilization (people's participation, donors with the help from GoN), infrastructure development and operations and maintenance. The Water Supply Management Board Act, 2006, has made a provision that WSMBs established under the Act can either contract out the service provision to other parties or it can act as a service provider itself. WSMB established so far other than KVWSMB has this provision and as such Hetauda Water Supply Management Board and Bharatpur Water Supply Management Boards are providing services by themselves. Kavre Valley Water Supply Management Board too has this provision of providing services by itself.

In line with this, KVWSMB might have option to operate as service provider for the time being and with the provision of automatic inactive this option after two years of completion of Melamchi Water Supply Project. This provision will ensure some fear element among the service providers in KV that in case they did not provide efficient service, KVWSMB may break the contract with them and that it may provide services by itself. For this, revision of the WSMB Act is necessary.

KVWSMB should implement Strategic Plan which has already been prepared. It should develop realistic performance indicators for KUKL and establish monitoring system for KUKL. The monitoring should focus on water quality, services provided and so on as per the contract between the two institutions. It should give continuity to the Monitoring and Evaluation Committee it recently constituted. It can also establish a Consultative Group with both the GMs and Deputy GMs as members to discuss any issues that is of concern to both the institutions.

WSTFC:

As pointed out in earlier chapters, WSTFC has not been able to function as a full-fledged organization. Question has been raised as to whether it is, in fact, necessary at all. Tariff fixation can be done with time based temporary tariff fixation committees formed to review and fix tariff as and when necessary as is the case with electricity tariff fixation in Nepal. Therefore, the operation of the Commission can be withheld for a number of years till it is felt that there will be sufficient workload for it. The team strongly feels that adopting this option is much practical in the present context. In this situation, 3- Members Water Tariff Fixation committee should be formed consisting of experts from three sectors; water supply, finance management and financial regulation. This committee will be formed as and when necessary.

Another option is that WSTFC is to be responsible for tariff fixation for water and sewerage services provided by all the service providers including Water User Committees which are spread across the whole country. For this budgetary provision, GoN can charge service providers certain annual levy up to 1 % of their annual income. This should apply to all service providers irrespective of act or provision under which they have been formed.

KUKL:

The present Board structure of KUKL needs to be changed as it is found to be quite dysfunctional. The Chairperson and the members of the Board should be made responsible for the policy decisions such as plans and programs including infrastructure improvement and O&M programs and resource mobilization for the organization. The Board should be made accountable for the overall performance of KUKL. The practice of selecting the Chairperson among the Board Members on a rotation basis should be discontinued. Let the GM of the organization be Member Secretary of the Board. There should be a clear demarcation on roles and responsibilities of Board Members including the Chairperson and the GM of KUKL by clearly stating in Articles of Association and Memorandum of Association. This needs revision of both Articles of Association and Memorandum of Association.

It is also pertinent to discuss at present whether KUKL should operate as a private company or should it operate as a public enterprise. Given the socio-economic and political condition of the country and the lack of water availability, it is extremely difficult for KUKL to function purely on commercial principle only. As water services for domestic use are a public good, local government is seen to be in the best position to make accountable decisions related to how service are provided taking into account social aspects of water services.

For these reasons, where local government has the capacity and financial resources to provide services effectively and sustainably, local government is the preferred provider of water services. This is the reason that KUKL had participation from local government as shareholders. However, since there has been no election at the local level for the past 18 years, there is practically no local government. Local government activities are carried out government officers on deputation. There is again frequent transfer of them. This has led to weak capacity of local government. Also there is scarcity of water resources to cater to the ever growing demand in KV. The completion of Melamchi Water Supply Development Project is expected to make available more water for distribution. It will help ease this scarcity of water to a great extent though it may still take few more years for the project to complete as the progress on tunnel construction is not going as planned.

The team, therefore, suggest that till water from Melamchi project is available, KUKL should operate more or less on a public enterprise mode. In fact, looking at the composition of shareholding at presents, it is clear that majority of shareholders are government agencies. The support and subsidy from the government is quite essential for its infrastructure development as well as major O&M activities. To ensure active support from the government, it is necessary to have close institutional linkage with MoUD. Hence, the team suggests restructuring of the Board of KUKL as follows:

1.	Joint Secretary, MoUD	Chairperson	1
2.	Water Sector Expert	Member	1
3.	Representative from Consumer Forums or NGOs involved in water sector (Preferably women)	Member	1
4.	Representatives from Municipalities of KV (Nominations through MuAN)	Member	3
5.	Representatives from FNCCI and Chamber of Commerce of KV	Member	1
6.	Representative from the Employees (from among the Divisional Heads-Technical)	Member	1
7.	General Manager	Member Secretary	1
	Total number		9

Once the Melamchi project is completed, we can reform KUKL structure and try to run it as a private entity. GM for KUKL should be hired immediately for 4 years and there should be performance contract with him/her based on his/her Strategic plan for KUKL. Priority should be given to restructuring of KUKL organization structure along the commercial lines with creation of job descriptions adequate to the tasks. For developing efficient procedures and practices and systems, KUKL should also establish a System Design Committee which will update O&M manual and SOP prepared by CBTA and takes steps to implement them.

It is also necessary that all the employees have target set for them. It is to be reviewed every three months. GM should be given full authority to hire and fire employees. It should also establish a Management committee chaired by GM with all the Divisional heads as members. It oversees day to day operation of the organization. The committee should meet once every week to review progress of activities of each Division. With branch managers, similar meetings should be held every fortnight as operation committee meeting including all divisional heads.

PID:

The activities under PID should be carried out as it is. It should work as a separate project as it has been working now. However, it should be made more responsible to KUKL. It should have direct reporting link with GM of KUKL. The Project Steering Committee will play an advisory and supportive role only. The staff of PID should be mostly from KUKL. This will help maintain organizational memory and will help in taking up O&M activities more efficiently. Only when it is absolutely necessary, staff should be taken on deputation from MoUD or other government agencies or hired on contract. Also information on activities of PID is to be shared with the technical key staffs of KUKL every three months.

1.1 Background

1. Water is precious natural resource which has increasingly become a focus of concern particularly in the rapid urbanized centers. The proportional of urban population to the total population increased in Nepal, from 13.9% in 2001 to 17% in 2011 (CBS 2012). If this trend continues, the urban population is expected to reach 26.7% to the total population in 2021. It has, therefore been felt that there is a strong need to develop a policy to specifically address the water supply and sewerage related challenges confronted in urban area. Government of Nepal (GoN) has initiated a series of policy reform and has committed to Millennium Development Goals. It also developed and adopted a Twenty year vision (1997-2017) which targets to provide 100 % drinking water supply and sewerage coverage by 2017. It has also adopted a policy of local governments (Local Self Governance Act, 1999) and private sector in development of water supply and sewerage system. As a part of efforts to improve water service level and sewerage system in Kathmandu Valley, GoN has been undertaking a series of measures including Melamchi Water Supply Development Project and first phase of 170 MLD from Melamchi river is expected to be completed by 2017. It was realized that there is a need to separate function of policy formulation, planning, operations and regulation in WASH for Kathmandu valley.
2. The population in the valley is increasing rapidly as is clear from the fact that it has reached 2.51 million in 2011 an 57.3 % increase from 2001 (Census Reports, 2011 and 2001). At present the population is estimated to be around three millions of which approximately 2.7 million are living in KUKL service area. This rapid increase in population has placed an increase demand on water supply and proper management of sewerage system. The efficient management of water and sewerage is therefore vital for its sustainable access and use. It calls for development of appropriate policies and institutional framework
3. Kathmandu valley comprises of urban areas of Kathmandu, Lalitpur and Bhaktapur districts. It includes three major rapidly grown cities: Kathmandu, Lalitpur and Bhaktapur and five old municipalities namely Kathmandu Metropolitan city, Lalitpur Sub-metropolitan City, Bhaktapur Municipality, Kirtipur Municipality, Madhyapur Thimi Municipality and recently added 16 municipalities. After new formed municipalities, there is no VDC in Kathmandu valley. Now, Kathmandu district has 11 municipalities, Lalitpur has 4 and Bhaktapur has 6 municipalities.
4. In Ninth and Tenth Five Year Plan (1997), HMGN has set the policy of involvement of local governments and private sectors in development of water supply and sewerage. GoN also felt that because of enormity of issues involved in water supply and sewerage system in Kathmandu valley, issues would not be handled efficiently and effectively by the public sector organization Nepal Water Supply Corporation (NWSC). In line with this, GoN invited expression of interest in 1999 for lease contract of Kathmandu Valley water supply services to private sector. The government approved concept of formation of Kathmandu Valley Water Supply Authority in 2000, and set strategy policy for operation of water supply services by private sector. Following privatization concept to addressing rising water demand of the Kathmandu valley, the government created three institutions. These were: Kathmandu Valley Water Supply Management Board (KVWSMB) established under Water Supply Management Board Act, 2006, Water Supply Tariff Fixation Commission (WSTFC) enacting by Water Supply Tariff Fixation Commission, 2006 and Kathmandu Upatyaka Khanepani Limited (KUKL) established under Company Act, 2006. It was envisaged that KUKL will operate under Public Private Partnership (PPP) modality and that it will undertake and manage water supply and sewerage system in KV previously operated by NWSC. Kathmandu Upatyaka Khanepani Limited (KUKL) as water utility operator is working under operating license issued by Kathmandu Valley Water Supply Management Board

(KVWSMB) and asset lease agreement of 30 years between them. KUKL is to provide quantitative, qualitative and reliable service to its customers at an affordable price within service standard set in the agreement. Thus responsibility of providing of reliable, regular and quality drinking water falls under the ambit of KUKL. The concept of this institutional reform for water supply and sewerage service was focused by giving major role and responsibility to local governments such as municipalities

5. In Kathmandu valley, 72% of households have access to piped water, and 10% have access to other sources. Piped water supply coverage in KUKL is relatively high compared to other developing countries. The numbers of subscribers for water supply are 194,718 for household connections and 1,196 for stand posts (KUKL, 2015). The current demand in the Valley is 350,000m³/d and actual water supply is only 115,000 m³/d in rainy season and 67,000 m³/d in dry season. There is big gap between demand and supply of water supply in the valley and KUKL is managing distribution in whole-to part system by intermittent supply. The most of raw water is collected from surface water source but ground water is in supplementary use in dry season by 40 to 50 % of its total supply amount. Available time of water supply also varies tremendously as in some areas it is few hours supply every day and in many areas, consumers receive water for few hours every 5-7 days. The laboratories for water quality monitoring are also facing problem of manpower shortage and lack of technical capacity as well as equipment as pointed out by Need Assessment Study (JICA, September, 2013).
6. In such a situation, there is, therefore dire need of improving performance of KUKL. Many studies have indicated that "lack of sound institutional framework is the root of cause of many failures in service delivery – and a major cause of failed water and sanitation provision." (WSP, 2002). And hence it is felt that it is necessary to conduct institutional assessment of KUKL so that it can provide better services to the people within its service area as per its mandate. This study will support to develop an idea for improvement of management and administrative capabilities of KUKL staff and enable KUKL to carry out its activities in an efficient and effective manner in existing as well as future system.

2.1 Existing Legal and Institutional Framework

2.1.1 Institutional Reform

- 7 The water supply services of Kathmandu valley have remained poor despite various attempts through many projects during last three decades. It was realized that the poor state of water services in Kathmandu valley was a compounded result of deficiencies in water resources, high demand and less production & supply of water, weak human resource management, weaknesses in system capacity, inadequacies in management efficiency, low tariff and revenue collection, high NRW due to old pipes, highly frustrated & not motivated employees and increasing political interferences after 1990 political change.
- 8 As per water supply and sanitation project agreement made with ADB, the GoN restructured the Nepal Water Supply Corporation (NWSC) into two: outside valley operation system operated under the jurisdiction of NWSC (NWSC1) and inside valley (NWSC2). Water supply and sewerage system of inside the valley (NWSC2) has been disintegrated into three separate entities, each for the role of asset ownership and policy setting (Kathmandu Valley Water Supply Management Board), operation and management of services (Kathmandu Upatyaka Khanepani Limited) and economic regulation of the services (Water Supply Tariff Fixation Commission) as shown in Fig 2.1. Institutional framework reform for the provision of water supply and sewerage facilities in the Kathmandu valley had objectives of, (a) to make it independent of NWSC and (b) to separate three basic functions namely ownership (planning and investment), operation and regulation (fixing tariff) (Fig.2.1). The KVWSMB issued an operating license to KUKL for 30 years on 12 February 2008 and also signed asset lease agreement for 30 years.
- 9 Under the Asset Lease Agreement, KUKL has exclusive use of leased assets for the purpose of providing water services over 30 years and is responsible for maintaining the leased assets in good working condition, preparing capital investment and asset management programs to meet the service standards specified in the license and implementing such investment plan as approved by KVWSMB. As provider of the license, the KVWSMB is also responsible for monitoring whether KUKL complies with the provisions of the operating license and asset lease agreement. In a bid to meet escalating water demand as well as to reduce stress on groundwater resources, the Melamchi Water Supply Project (MWSP) will bring total of 510 MLD water to Kathmandu valley from off-the valley sources. It is expected to be completed in three stages (Stage I: 170 MLD from the Melamchi river, Stage II: 170 MLD from the Yangri River, and Stage III: 170 MLD from the Larke river). The project is inter-basin water transfer type. Water will be transferred from Indrawati basin, a sub-basin of Koshi river basin to the Kathmandu valley, a sub-basin of Bagmati River Basin.

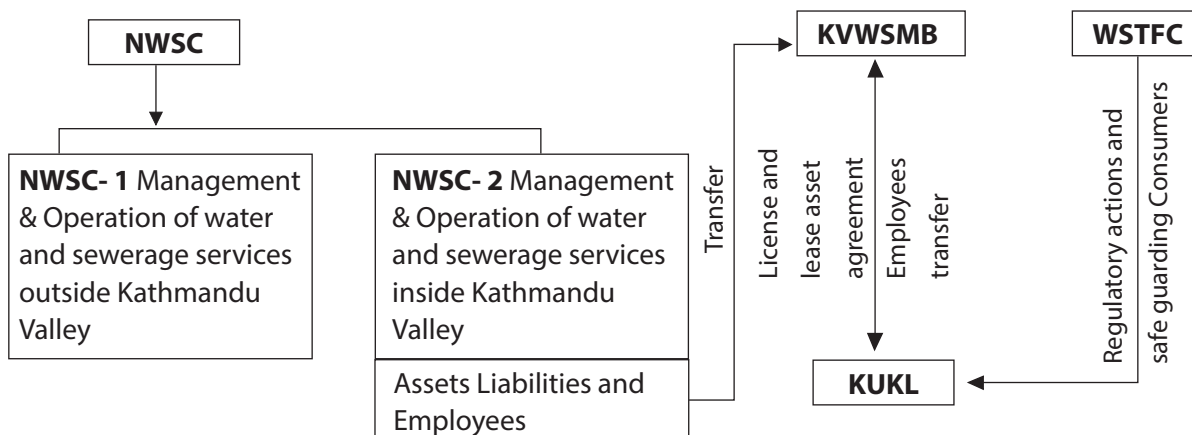


Fig 2.1 Institutional Reformed on Water Supply and Sewerage Sector of Kathmandu valley on 2006

2.1.2 Existing Legal Framework

- 10 Government of Nepal is fully committed to provide safe drinking water and sewerage services for its entire citizen. However, the ever-growing urban population and increasing water demand has exhibited a stress on existing urban water supply and sewerage services. There have been a number of efforts to streamline planning and investment in the sector. Some of the major legal frameworks established are described below.
- 11 *National Drinking Water Quality Standards (2006)* provided details of the national water quality standards to be applied to all new urban systems and complements the Environment Protection Act (1997) which requires Environmental Impact Assessments (EIA) or Initial Environmental Examination (IEE) of all new projects and pollution control for all water resources. KUKL has to follow national standard drinking quality standards maintained for supplied water.
- 12 *Water Supply Management Board Act (2006)* placed emphasis on the involvement of local bodies and institutions in the water supply and wastewater sector development in the urban areas. It has allowed for the establishment of autonomous and independent water supply management boards for a municipality or a group of municipalities for providing water supply and wastewater services. It also allowed for involvement of the private sector in the management and operation and maintenance of the systems. In case of Kathmandu valley, the act has made it mandatory for Kathmandu Valley Water Supply Management Board (KVWSMB) to issue license to a service provider for operation and management of its water supply and wastewater system.
- 13 *Water Supply Tariff Fixation Commission Act (2006)* provided the authority to the Water Supply Tariff Fixation Commission (WSTFC) for economic regulation of water supply and wastewater services and in resolution of consumer complaints. This autonomous corporate body is empowered to fix the tariff for water supply and wastewater services independently at a reasonable price based on level of service and the cost involved in providing the service. WSTFC shall ultimately be responsible for regulation of water supply and wastewater services throughout the country though it has initially started its activities from Kathmandu Valley.
- 14 *National Urban Water Supply and Sanitation Sector Policy (2009)* was formulated to provide overall water supply and sanitation policy support and guidance towards achieving equity in service delivery. The policy emphasizes for demand side management of water supply and promotion of effective and appropriate institutions at local level for implementation, operation and management of water supply and wastewater systems. The policy encourages private sector participation and involvement of users in the decision making process.
- 15 *Government's 3 Year Interim Plan (2007- 2010)* provided the guidance on urban sector priorities highlighting, in particular, the need to address the effects of rapid urbanization on service levels, water quality and scheme maintenance. The plan expressed about need of full integration of sewerage, on-site sanitation and solid waste management in all urban schemes and specifically endorsed cost recovery from consumers.
- 16 *The Nepal Water Supply Corporation Act (2nd Amendment) (2007)*, provided the legal base for transfer of ownership of water supply and wastewater service system of any urban center operated by NWSC to any other appropriate organization as decided by the Government. It also opened the door for NWSC to engage companies to operate and manage its system under management contracts.
- 17 *National Urban Strategy (2015)*: National Urban Strategy proposed minimum water provisioning, water security, safety and sanitation coverage. The strategies include protection and management of fresh water sources; integration of rain water harvesting within the building permit system; institutionalize water recharge provisions in public spaces; strengthen system to produce and deliver safe water; internalize regular monitoring system to assure water quality standard; promote community water storage facilities; facilitate private sector investment in water supply, and augment investment in waste

water treatment systems. The strategy provided desirable conditions with indicators of water and sanitation service to achieve strategies and its activities with responsible agency. The Strategy encouraged the private sector involvement in water sector.

2.1.3 Existing Institutional Framework

18 The Kathmandu valley is a roughly circular bowl shaped intramontane basin surrounded by the spur of Lesser Himalayas. and lies between 27° 32' N to 27° 49' N and 85° 11' E to 85° 32' E. Bagmati river is the main river originates from north hill and flows towards south-west forming a typical centripetal drainage system with major nine tributaries, and passes through Chovar gorge, which is the only outlet of the valley. The rainfall occurs about 80% of the total annual rainfall during the months of June to September. The average annual rainfall in the basin is 1600 mm. The valley basin is 30 km long in the east-west and about 25 km long in north-south direction. About 55 % of the area is occupied by the valley floor, 35% of foothill and the remaining 10% are mountainous areas. In the valley, the forest (mountainous) area is about 30% of the total area having slope range from 20 to 30%, and remaining area (70%) is having average slope of 0 to 4% as shown in Fig.2.2. The service area of KUKL includes 21 Municipalities as shown in Fig 2.3 .

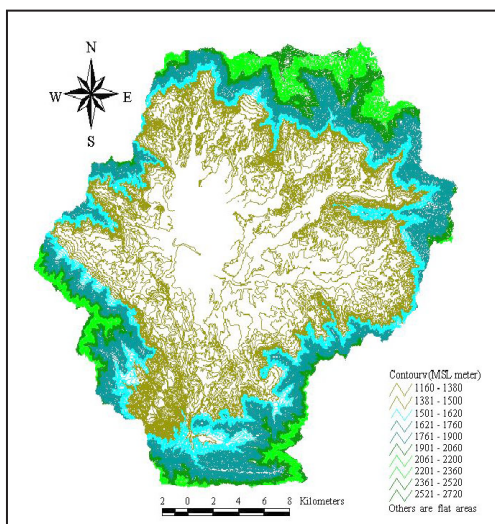


Fig.2.2. Slope Map of Kathmandu Valley
(M N Shrestha, 2002)

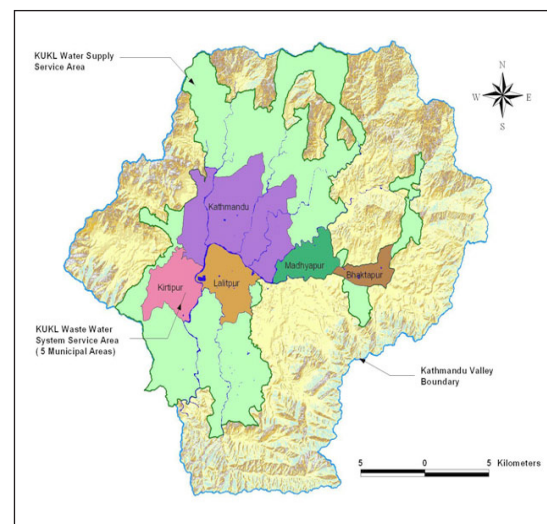


Fig 2.3. Kathmandu Valley and KUKL service area
(Source: KUKL 2011 Third Anniversary Report, 2066/67)

19 Existing institutional frameworks for management of WASH in Kathmandu valley consists of MoUD as a government body issuing rule and regulation for supply of potable water and sewerage management to the valley people. MoUD manages bilateral loan or grant for KUKL through KVWSMB. WSMB acts as owner of assets used in operation of water supply and sewerage system by KUKL as operator. WSTFC acts as regulator of water tariff. KUKL consists of two separate functional bodies; KUKL as operation and management of water supply and sewerage system within the valley, whereas KUKL/PID is responsible for execution of ADB Melamchi Sub-project-II. Existing institutional framework is shown in Fig.2.4.

2.1.3.1 Ministry of Urban Development (MoUD)

20 In 2013, the Government of Nepal established the Ministry of Urban Development. MoUD has overall responsibilities country wide on formulation of policy, planning and administration of all water sectors institutions. Several other ministries, departments and agencies are also involved in the management of the water supply, sanitation and hygiene (WASH) sector and related activities. The MoUD is responsible for formulating national level policies and programs and guiding sector activities to meet objectives and targets outlined in National Development Plans. MoUD oversees the activities of the NWSC, a semi-autonomous corporation responsible for water supply and sewerage in major urban centers outside of Kathmandu valley, the KVWSMB, an autonomous body established under WSMB Act (2006), PID under KUKL and Melamchi Water Supply Project (MWSP), which is inter-basin water transfer project to

Kathmandu valley, and responsible for water supply and sewerage services in Kathmandu valley. MoUD also oversees RWSSFDB, an autonomous unit established to support rural WASH projects.

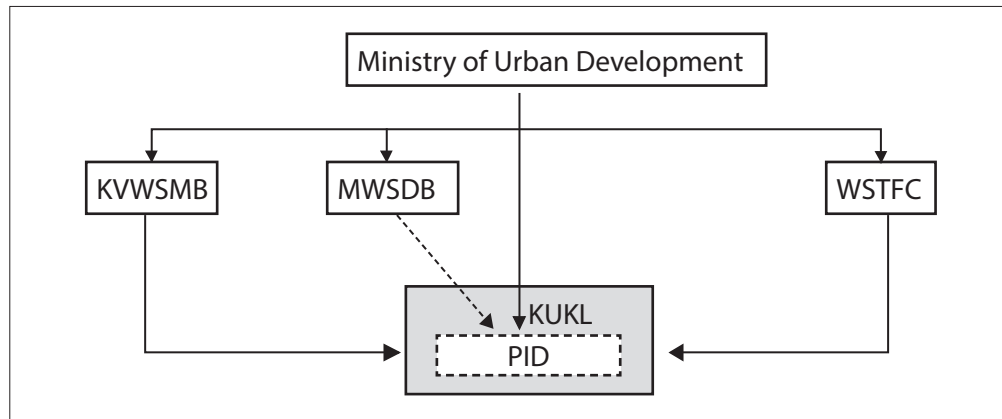


Fig.2.4. Institutional Frameworks for Water Supply and Sewerage Management in Kathmandu Valley

- 21 The organization chart of MoUD is shown in Fig.2.5. Water Supply and Environmental Division as shown in shaded portion in Fig.2.5 is responsible for water supply and sewerage service in the country. This division is institutionally linked framework with KUKL through KVWSMB.

2.1.3.2 Kathmandu Valley Water Supply Management Board (KVWSMB)

- 22 The KVWSMB has been established under Water Supply Management Board Act, 2006. KVWSMB is a public body responsible for policies and ownership of water service infrastructures. KVWSMB had taken over from NWSC the ownership of assets of water supply facilities inside the valley. KVWSMB is represented by 11 members, which are from GoN, local Government (Kathmandu Metropolitan, Lalitpur Sub-Metropolitan, Bhaktapur Municipality, Madhyepur Thimi Municipality, Kirtipur Municipality), Federation of Nepal Chamber of Commerce and Industries (FNCCI), one representative from three District Development Committee (DDC) within the valley, representative of Consumer Association operating in the valley, representative nominated of Water/Sewerage service related NGOs and expert nominated from water supply & sewerage sector. Assets of KVWSMB transferred from NWSC have given to KUKL on lease accordance with lease agreement between them. KVWSMB has issued license for the operation of water supply and sewerage services to KUKL and receive license fee, lease payments, government transfers and donor funding. KVWSMB is operating the services through service provider by providing a license to the service provider.

2.1.3.3 Water Supply Tariff Fixation Commission (WSTFC)

- 23 Water Supply Tariff Fixation Commission (WSTFC) was established as per Water Supply Tariff Fixation Commission Act (2006). WSTFC was, hereby, formed for the protection of the interests of consumers by providing qualitative and reliable water supply and sanitation service to the consumers at a reasonable price, by fixing the tariff of water supply and sanitation service. The Commission members, including the Chief Commissioner are appointed on competitive basis. The main function of the Commission is to determine water tariff based on commercial principles and set scientific criteria. It is an independent regulator of tariffs for water supply and wastewater services throughout Nepal. WSTFC is looking after water tariff of KUKL, NWSC, and Water Boards formed by Act.

- 24 KUKL, thus, will require submitting proposal for water tariff fixation to the Commission together with its documentary evidence of cost and expenditure. The Commission evaluates and scrutinizes the proposal, make necessary amendments and approve after a thorough public hearing. Fund is managed from regulatory fee from service provided by the service provider and government transfers if needed.

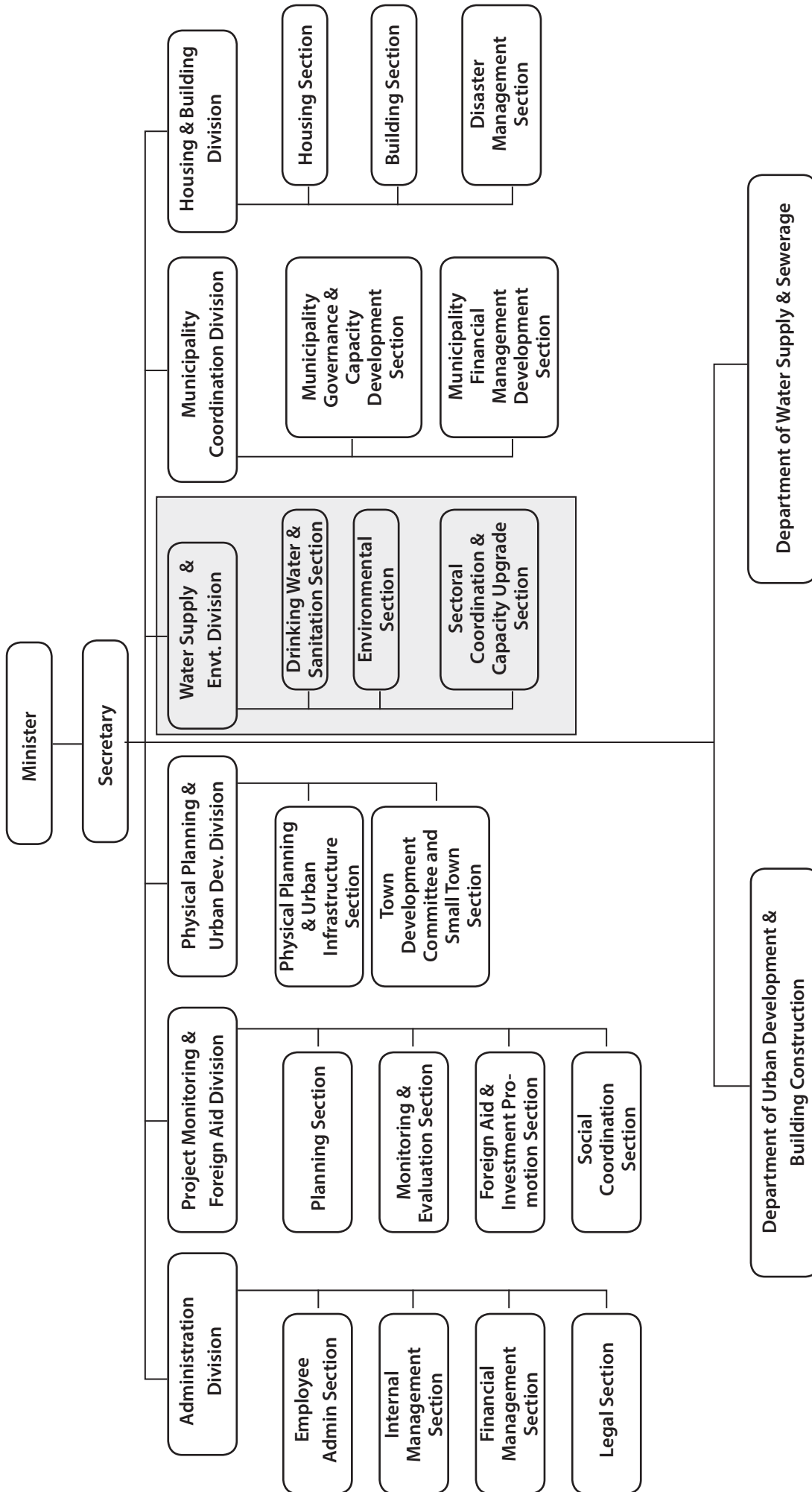


Fig. 2.5 Organization Structure of MoUD

2.1.3.4 Kathmandu Upatyaka Khanepani Limited (KUKL)

- 25 KUKL is a public company registered under the Company Act 2063, with objective to undertake and management of the water supply and sewerage system of the valley operated by NWSC and provides quantitative, qualitative and reliable service to the consumer on their full satisfaction at affordable price. KUKL is responsible for operation and management of water and wastewater services in the Valley. It operates the water supply and sewerage services under a license and lease agreement with the KVWSMB. KUKL is responsible for maintenance of all assets received on lease from KVWSMB. The company will issue preference share to KVWSMB against the assets transferred to it and not more than 10% dividend to shareholders if company is able to make profit. The company has to pay an annual license fee to KVWSMB. The shareholders of the company owning with respective initial common shares are GoN (30%), Municipalities in the valley (50%) [Kathmandu Metropolitan- 30%, Lalitpur Sub-Metropolitan- 10%, Bhaktapur Kirtipur and Madhyepur Thimi -10%], private sector organization (15%) [FNCCI-3%, Laitpur Chamber of Commerce - 1.5%, Nepal Chamber of Commerce- 9%, Bhaktapur Chamber of Commerce-1.5%], and employee trust to be paid by the government (5%). The KUKL is managed and supervised by a nine Board of Directors. Six are nominated by shareholders (two from GoN, two from Kathmandu Metropolitan, one each from Lalitpur Sub-Metropolitan and private sector) and three independently appointed. Two of the three independent boards of directors are selected on competitive basis and one is nominated by ADB until its loan is paid back. KUKL Board has two implementing wings as shown in Fig.2.6, one is PID established for project implementation and other is KUKL for operation of water supply and sewerage system in the valley. Initially the service of KUKL was continued with the NWSC deputed staff and staffs unwilling to work with KUKL were returned back to NWSC or given opportunity of voluntary retirement with additional benefits.
- 26 From 2010 to 2014, KUKL assigned three international water utilities experts called CBP team (Capacity Building and Private Public Partnership Support Team) consist of General Management Advisor, Operational and Technical Management Advisor, and Financial Management Advisor. TOR of the international experts were on three key components providing start-up support for KUKL (operating structure, business processes, financial management and administration), managing the ongoing operations (including prudent use of pilot investment funds and developing) and implementing a capacity development strategy that addresses ownership, knowledge transfer modalities and exit or hand-over plan and indicators. The general management advisor of CBP team was supposed to be posted as the general manager of KUKL. However, before the team assignment, decision was made that general management advisor would be assigned as a vice-general manager of KUKL. It assumed that because of this and some other reasons such as vacancy of many senior management and engineering posts, CBP team, as a consequence, was not able to make adequate outputs on improvement of the management of KUKL.

2.1.3.5 Project Implementation Directorate (PID)

- 27 A Project Implementation Directorate (PID) has been established under KUKL Board to manage and implement ADB assisted projects as shown in Fig.2.6. Main objectives of PID are
- i. to plan and implement infrastructure development and augmentation regarding water conveyance, operation and management system of Kathmandu valley for equitable distribution of water received from Melamchi Water Supply Project and ensure availability of potable water to Valley denizens
 - ii. to plan and implement infrastructure development regarding wastewater management system of Kathmandu valley for overall improvement of environment of Kathmandu valley including improvement of water quality of rivers

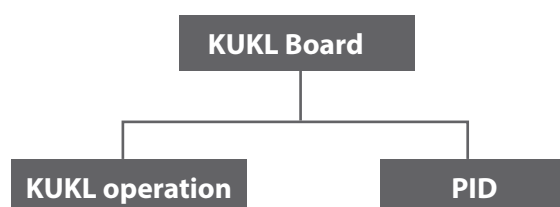


Fig. 2.6 Position of PID

28 There are three ongoing ADB projects for KV implementing by PID, namely Kathmandu Valley Water Supply & Sanitation Project (Phase I, 2010-2013-ADB loan #1820, US\$ 48.08 million), Kathmandu Valley Water Supply Improvement Project (Phase II 2012-2016-ADB Loan# 2776, US\$ 130 million) and Kathmandu Valley Waste Water Management Project (2013-2018-ADB Loan #3000, US\$ 137 million). Kathmandu Valley Water Supply & Sanitation Project focused in immediate improvement works and has four major activities ; a) capacity building of KUKL, b) Improving equitable supply of water, c) repair and rehabilitation of existing water treatment systems, and d) supporting long term supply system. Kathmandu Valley Water Supply Improvement Project focused on medium term Bulk Distribution System (BDS) and Distribution Network System (DNS) improvement work and includes four major activities; a) improvement of reservoir capacities, b) improvement of BDS, c) distribution network improvement and d) improvement of wastewater management system through sewerage network improvement. Kathmandu Valley Waste Water Management Project focused on long term water supply and sewerage system improvement works and has five major activities; a) water sources development and treatment, b) BDS development, c) improvement of reservoir capacity, d) DNI and e) improvement of wastewater management system. Under these activities, major works are neighborhood sewerage network improvement (260km), expansion of collector & interceptor sewer (130km), wastewater treatment capacity improvement and energy generation (five WWTP-54.9mld/21840kWh) , institutional support and capacity building and rehabilitation of existing combined sewer(166km).

29 At Government level, a Project Steering Committee (PSC) is established chaired by Secretary MoUD to oversee project implementation and to ensure cooperation of concerned agencies, and accomplishment of policy frameworks and reform measures. The PSC include two joint secretaries from MoUD; representatives from Ministry of Finance, National Planning Commission and other line Ministries and Departments; Kathmandu Metropolitan Corporation; Mayor Lalitpur sub-metropolitan; Mayor Bhaktapur Municipality; Mayor Kirtipur Municipality; Mayor Madhepur Thimi Municipality; and Chief District Officers Bhaktapur, Kathmandu, Kirtipur and Lalitpur The Project Director, PID is Member Secretary.

2.1.3.6 Melamchi Water Supply Development Board (MWSDB)

30 Melamchi Water Supply Development Board (MWSDB) has been established in November 9, 1998 (2055/7/23 BS) as an implementing agency of Melamchi Water Supply Project (MWSP). Constitutions of the MWSDB comprised the following designations:

- Chairman- **The Secretary**, Ministry of Urban Development
- Members- **Representative** (Gazetted First Class Officer), Ministry of Finance
- Representative** (Gazetted First Class Officer), Ministry of Water Resource (This member is replaced by the Chairman/representative from Hyolmo Sindhu Melamchi SUP Implementation Committee as amended by the Government of Nepal on 27 April 2010)
- Mayor**, Kathmandu Metropolitan City
- Member Secretary** – Executive Director, Melamchi Water Supply Development Board

31 The Board may, if it deems necessary, invite any national or international experts of advisor in the meeting of the Board as an observer.

- 32 The functions, duties and rights of the MWSMB are as follow:
- i. To execute Melamchi Water Supply Project to make available drinking water for the public, domestic industry, environmental or other use
 - ii. To decide policy relating to the project
 - iii. To approve the detail estimate relating to the project
 - iv. To call national and international level competitive bid to execute the project and to approve it in a prescribed manner
 - v. To inspect the functions of the project whether they are performed appropriate or not and to give directions to the concerned person for correction. If it deemed necessary during inspection
 - vi. To appoint consultant and employees as required to the Board
 - vii. To approve annual program and budget of the Board
 - viii. To submit annual report and audit report of the Board to the Government of Nepal
 - ix. To carry our other functions as prescribed by the government of Nepal
- 33 The Management Structure of MWSDB refers all management units established to support different activities of the Melamchi Water Supply Project (MWSP). The central office (Board's Office) is headed by the Executive Director (Member Secretary of the Board) with two major units, project management unit (PMU) and Project Implementation Unit (PIU) each headed by the Deputy Executive Director. Under PMU, at the central office, there are again five major divisions i.e. Administration, Procurement, Finance and Accounts, Engineering and Legal. Most of the managerial services pertinent to administration, procurement, finance and engineering are performed from the central office (Kathmandu). Also, the legal division provides counseling on different legal issues relating to project implementation, compensation, re-settlement and tendering related activities. Further, PMU coordinates to line agencies and other government bodies which need different services and support while implementing the project. All activities pertinent to communicate with Donors, Experts and Specialist etc. are also a major task of PMU. PIU on the other hand mainly refers to the management of Melamchi Camp site Office located at the Melamchi Pool Bazar of Sindhupalchowk district and is responsible for the implementation of construction activities carried by MWSDB. This site office is focused to serve different project related services and support from the field level. This office provides all sorts of administrative and managerial services to Contractors who performs different construction work at the project site. PIU also facilitate all local bodies to executive various project related services implemented under Social Upliftment Program (SUP). In case of difficulties and emergencies PIU can coordinate/report to PMU for further support to facilitate the project activities at the project site.
- 34 Melamchi Water Supply Development Board (MWSDB) consists of a highly dedicated, experienced and professional team of staffs serving in different positions. Many experts in the areas of water supply, sewerage, environment and sanitation management are also deputed from different ministries and departments of the government of Nepal such as the Department of Water Supply and Sewerage (DWSS), Ministry of Urban Development (MoUD), Kathmandu Upatyaka Khanepani Limited (KUKL), Ministry of General Administration, etc. There are 68 numbers of staff position; however, six technical positions are vacant. In addition, there are several staffs who are working on a contract basis in different phases of the project implementation. Whenever the MWSMB deemed necessity in any stage to the project work, it will hire required national and international experts as per the need.
- 35 Ministry of Urban Development (MoUD) is the executing agency for the Project and an autonomous Melamchi Water Supply Development Board, formulated for Project implementation, is the implementing agency. The Melamchi Water Supply Project (MWSP) under MWSDB is considered to be the most viable long-term alternative to ease the chronic water shortage situation within the Kathmandu valley. The Project is designed to divert about 170 MLD of fresh water to Kathmandu valley from the Melamchi river in Sindhupalchowk district. Augmenting this supply by adding about a further 170 MLD each from the Yangri and Larke rivers, which lie in the upstream proximity of Melamchi are

also being investigated as future supply sources. The major donor of the project, Asian Development Bank (ADB) approved a Loan 1820-NEP (SF) on 21st December, 2000 and it was effective from 28th November, 2001. After six years of project implementation, Government of Nepal and the project's funding partners, felt necessity to change the scopes of project implementation arrangement by splitting the MWSP into the following two distinct sub-projects in 2007; (i) the Melamchi river Water Diversion Subproject (Sub-Project -1) covering all project activities in Melamchi valley including constructions of Water Diversion Tunnel (WDT) and Water Treatment Plant (WTP) at Sundarimal and (ii) Kathmandu Valley Water Supply and Sanitation Subproject (Subproject -2) comprising water distribution activities in Kathmandu valley. EMP implementation requirements as per EIA and EMP of MWSP, 2000 and 2001 have been covered both of these sub-projects.

- 36 PID is handling Kathmandu Valley Water Supply and Sanitation sub project 2 which comprises of DNI, Bulk Distribution System and other water distribution activities in the valley. MWSMB/MWSP activities are not directly linked with KUKL. All facilities and infrastructure build under the project will be handover to KVWSMB and finally KUKL will have to operate those systems. Very few non-technical staffs of KUKL/KVWSMB are deputed in MWSMB. More and more involvement of KUKL technical personnel is thus essential.

2.2 Identification and Analysis of Key Issues on Institutional Framework

- 37 An institutional framework is the one of the pre-conditions for the successful implementation of water supply and sewerage policies and programs. Many studies have indicated that the lack of a sound institutional framework is responsible for failures in service delivery. Keeping in mind poor service delivery of KUKL, it was felt that there is a need for assessing existing institutions framework for KV and pinpoint key issues that need to be addressed in order to make KUKL function more efficiently.
- 38 As MWSDP is expected to be completed by 2017, GoN with the support from ADB and other development partners (DPs) embarked on a series of institutional reform in the WASH sector in KV. The responsibilities for all activities from planning and development up to water delivery at the customer end and sewerage management are shared by the MoUD, WSTFC, KVWSMB, KUKL and PID. Institutional frameworks are already described at earlier sections. Assessment of those institutional frameworks related to KUKL is necessary to pinpoint the causes of poor service delivery of KUKL.
- 39 Key issues observed in the institutions which play important role in operation of KUKL are analyzed. Key institutions considered for analysis of issues are WSFTC, KVWSMB KUKL, MoUD and PID.

2.2.1 MoUD

- 40 As mentioned earlier, MoUD is responsible for formulation of policy, planning and administration of all water sector institutions. It also oversees activities of institutions related with operation and improvement of water supply and sewerage in KV which are KVWSMB, PID under KUKL and MWSDP. The overseeing task is carried out by Water Supply and Environment Division (refer Fig. 2.5) under which there is a Drinking Water & Sanitation Section. There is no separate Division or section to look after WASH sector in urban centre like KV. The Division is overburdened and the existing human resource seems inadequate considering the workload due to a number of projects in WASH sector as well as Environment sector.
- 41 The Ministry is supposed to take a lead role as mandated in taking initiatives in formulation of policies, plans and programs related to KV are initiated by ADB in consultation with the Ministry.

- 42 In the context of KV, creation of a three institutions: KVWSMB, WSTFC and KUKL were aimed at promoting private sector participation as it has the potential to eliminate or at least ameliorate the deficiencies of public water management systems. However, the present institutional framework has not helped bring private sector participation. In the absence of competition, market mechanism is unlikely to enhance the efficiency of water systems. The present framework does not support creation of competition among service providers. The Ministry feels that there is a need to review the policies, plans and programs adopted including Institutional frameworks to make them more functional and deliver the intended results.
- 43 The Ministry also feels that the share amount deposited by the respective shareholders is less as KUKL has to handle Thousands of millions of Rupees worth projects. MoUD expresses a need of revisit on Acts and regulation related to KUKL.

2.2.2 KVWSMB

- 44 The mandate of KVWSMB is stated clearly in WSMB act, 2006. However, it seems to be a weak mandate as it has not covered all service areas of KV. For example, Pepsi cola areas are left out in the Act. The Act came into existence when there were only 5 municipalities in KV and as such KVWSMB is mandated to operate within these 5 municipalities. Now the government has announced 16 more municipalities in KV. There are many WASH projects run under the DWSS. They need to be accommodated in the service requirements of KVWSMB. This has to be considered and possible only through MoUD.
- 45 The act also does not make clear how to manage and regulate water tankers and bottle water plants. Although KVWSMB has the mandate to manage ground water, it is not yet have full mandate to fix tariff of groundwater and as such it has not been able to manage and regulate this sector effectively. As per WSMB act, 2006 KVWSMB cannot function as an operator although Water Supply Management Board Act, 2006 clearly provided such a provision.
- 46 The roles and responsibilities between KVWSMB and KUKL are well spelt out in the lease agreement between the two. It has focused more on service delivery, quality of service and maintenance of assets leased to KUKL. The agreement was drafted keeping in view the possibility of appointment of a foreign company – Seven Trend as a service provider. It spelt out in detail the responsibilities of service provider but not very clear on what actions KVWSMB can take if KUKL does not fulfill its commitments. The agreement does mention that it can withdraw operating license from KUKL if KVWSMB is not satisfied with it and operate by itself for 6 months. WSMB act, 2006 however, debars it from undertaking operation responsibility as pointed out earlier.
- 47 KVWSMB is mandated with the responsibility of developing policy, programs and projects for water resource development and sewerage management of KV. But it does not seem to be seriously involved in this activity. Most of the policies, programs and projects are developed as a part of MWSDP. It means DPs particularly ADB advice in formulating WASH development plans. The KVWSMB prepares annual development plan and M & E plan for KV.
- 48 The Board Members are appointed in time. The Board has recently appointed executive director (ED) based on competition. As Member-Secretary, ED is responsible for agenda setting. About 12 meetings are held per year. Newly formed municipalities are now seeking representation on the Board. Board Members are not quite active as most of them are ex-officio members and there is frequent change in Board members within a short span of time. This has an adverse impact on decision making process in the Board.
- 49 Most of the work undertaken by KVWSMB is as per capacity improvement project prepared by ADB and it is to take over Melamchi Water Supply System once it is completed. Hence, there should be a strong link between KVWSMB and MWSDP.

- 50 Municipalities fall under the supervision of Ministry of Federal Affairs and Local Development (MoFALD) whereas institutions undertaking water supply and sewerage in urban areas including KVWSMB fall under MoUD. This somehow creates coordination and accountability problem.
- 51 Information flow from KUKL to KVWSMB is quite infrequent. Financial statements are not submitted on time as per contract provision. Despite KUKL failing to pay its license and lease fee and not meeting lease agreement conditions, KVWSMB has not been able to take any action because of absence of alternate service provider.
- 52 To improve this situation, KVWSMB has established a Monitoring and Evaluation Committee which includes representatives from both the organizations. This committee meets twice in a month to review the activities of KUKL particularly related with capacity improvement project. Besides this Committee, KVWSMB is to establish another committee which will again consist of representatives from both the organizations. The Committee will be entrusted with the task of checking field works undertaken by KUKL on a random basis every trimester and reporting with recommendations so that fund flow will be smooth and efficient.
- 53 At present, relationship between KVWSMB and MoUD is functional but there is scope for improvement in this relationship with MoUD trusting KVWSMB more. KVWSMB has provided enabling support to KUKL from time to time. It also provided fund for capacity development of KUKL staff and also for O&M activities. But still, more collaborative relationship between the two organizations to be through a series of consultative committees for carrying out capacity improvement project activities as well as improving KUKL performance.

2.2.3 WSTFC

- 54 The mandate of the commission is clearly stated in WSTFC Act, 2006. It is to fix tariff of services provided by service providers particularly from the ones established under Water Supply Management Board Act, 2006. It was not specific about its authority to fix tariff for the services provided by Water User Committees (WUC) which are operating all over the country in plenty. There are two types of WUCs; one formed independently and not having any type of connection with GoN/DWSS and other one is established to support GoN/DWSS scheme or projects. GoN/DWSS provides technical supports to the WUCs, but not regulating the water tariff. As per Act, WFTC is established to regulate the tariff of water and sewerage service provided service provider (As per Act, Service provider means any person, user groups or body corporate that provides the service by collecting tariff), but the Commission has not initiated this task so far.
- 55 The mandate makes it clear that WSTFC will monitor the quality of water supply and sewerage services provided which in fact should not be its mandate as there are other organizations such as Nepal Quality and Measurement Department, and KVWSMB of GoN to take of this function. Rather the Commission should concentrate on fixing tariff which is fair, equitable and economical for all the stakeholders.
- 56 The act has a provision which states that the Commission shall not fix the tariff in a manner that it differs by more than 20% of the rate of tariff proposed by the applicant. This means the Commission cannot modify either increase or decrease on proposed tariff by service providers by more than 20 %. This in a way hinders effective functioning of the Commission. It is also a constraint to the Commission that it cannot act on its own on the proposals for the tariff revision that is being submitted by the service providers. If Service providers do not submit proposals on time, the Commission cannot do anything about it.
- 57 The Commission is having regular meetings. Agenda for discussion is sent to the members one week in advance most of the times. The decisions are taken on a consensual basis. All the members of the Commission sign on the minutes of the meetings.

- 58 The WSTFC Act, 2006 has enumerated the criteria to be used and the steps to be followed while fixing the tariff. The Commission more or less adheres to these guidelines but most of the times, the proposals from KUKL does not follow these requirements completely. The capacity for preparation of tariff revision proposal seems poor. Also, KUKL is required to submit proposal to WSTFC every year but KUKL has not done it. Information flow from KUKL is also not regular. For the last two years, WSTFC has not received any financial information from KUKL.
- 59 KUKL has not been able to pay levy imposed on it by WSTFC regularly as it is not in a good financial health. In the last two year, KUKL has paid only NPR 50 lakhs to WSTFC. The Commission has a power to penalize Service providers for non-payment of its levy but it has so far refrained from taking this harsh step as it feels it may spoil working relationships between the two organizations.
- 60 Building positive attitude towards WSTFC is very essential as at present KUKL feels WSTFC is in fact a burden on it and its usefulness is internalized. KUKL feels that as it is the service provider, authority to fix tariff should be given to KUKL itself. However, WSTFC can monitor and regulate the tariff fixation criteria and process and its relations with the customers.
- 61 WSTFC has always maintained a positive attitude towards KUKL despite problems of non-payment of levy. It has taken supportive actions for KUKL. For instance, the price of water was increased last year from NPR 55 to NPR 100 per month. KUKL and WSTFC agreed on certain improvement areas as a condition to increase in price but KUKL has not submitted any report so far on the status of those improvement areas.
- 62 The key conclusions are summarized thus:
- 63 The Commission does not seem to be organizationally as well as technically capable to provide the services it is mandated to carry out by the act. First, the Commission is running with only three non-gazette administrative staff. The Commission lacks budget for running a full-fledged organization structure as the service providers do not pay their dues in time and also not regularly. The Commission has sent a proposal for a functional organization structure with indicative staff requirements to the Government, but it has not been acted upon so far. For WSTFC to function actively, this proposed organization structure needs to be approved by the government. However, in case of water services provided by the Water User Committees or Associations, the tariff fixation is carried out by the Committees themselves with the approval from Annual General Assembly. General Assemblies themselves are acting as regulators also.
- 64 The tariff review is set for every year. If this has to be followed for all the Water Boards on operation, this may increase work load of WSTFC considerably because public consultations and discussion of questions and requests for additional information are time consuming. Generally tariff review is done once in three to four years in water sector except in special circumstances.
- 65 The problems stem from inadequate technical expertise of WSTFC due to lack of professionally qualified staff. WSTFC has not been able to function effectively as it does not have fully functional organization structure at present because of lack of budget for its operation and manning.
- 66 The funding for WSTFC is inadequate. Section 16 of WSTFC Act, 2006 gives commission the power to levy a fee from the service providers not exceeding 2% of tariff to be collected by the service providers from the users. There are not many service providers applying for tariff fixation from the Commission and also KUKL and NWSC are not paying their dues regularly.
- 67 The time for tariff fixation is taking longer than is stipulated by the Act because of lack of human resource at WSTFC. But in case of water providers run by Water User's Committees or other NGOs, there was no such problem

2.2.4 KUKL

- 68 The mandate of KUKL is made clear through its Memorandum of Associations and Articles of Association. It is operating as a Service Provider providing drinking water and sewerage services to the people of KV through license and lease agreement with KVWSMB for 30 years. In the lease agreement, certain urban areas were left out, but with 16 newly formed municipalities, there is urgent need to include them in its scope of operation. These municipalities have already requested for technical as well as financial support.
- 69 KUKL is supposed to operate on a PPP model. But the way it has been established, it does not follow PPP model. The Board of KUKL is represented by all the shareholders and other important stakeholders such as ADB and NGOs involved in water sector. The Chairperson is elected from among the Board members for a year irrespective of percentage of shareholding of the organization the Board member represents. For example, Nepal Chamber of Commerce holds only 9% of the total share but its representative is the Chairperson of the Board at present. The collective interest to serve the people of KV is not seen in the Board Members and hence the interest of the organization is overlooked many a times while taking decision at the Board level. For example, Board has not been able to take a decision on appointing GM for the last 8 months or so although all the required processes for appointing GM on a competitive basis have been completed. It is because of differing views of board members. In the last 7 years, there has been 6 GMs. 20 board meetings were held last year which seems more than required. It is also noteworthy to note that General Manager has no link with Board at all. He is not a member of the Board. The Board agenda is set by the Company Secretary in consultation with the Chairperson and while setting agenda and taking a decision, GM is seldom consulted. There has been an instance where Board took a decision to promote junior staff to higher level contrary to rules and regulations of the company. The Trade Unions seem more powerful than GM and most decisions are influenced by them. It is obvious thus that the Institutional set up itself is dysfunctional right from the beginning.
- 70 Most Board members do not actively participate in decision making process and the decisions are not owned by the members. This is due to the fact that most board members including the present Chairperson are ex-officio members. Also the amount of share invested is not large enough to draw strong and serious attention from the shareholders.
- 71 The present structure is adopted by the government with a view to bring in more private sector participation in order to bring more efficient functioning of KUKL. But the existing structure reveals that no private organization has held any equity in the organization. Instead, the Associations of private organizations such as FNCCI and Nepal Chamber of Commerce were found to be the shareholders from the private sectors. These associations, in true sense, are not private organizations but rather a form of NGO.
- 72 As elections were not held at the local level for the past 18 years, there are no elected Mayors and eputy Mayors in the municipalities and hence the Mayors represented in the Board are also the officials who have been deputed from Civil Service. Civil Servants, by very nature, are averse to taking risks. But commercially vibrant organizations need to take decisive and risky decisions to benefit the organization in the long run. Therefore, complete restructuring of KUKL board is called for which requires revision of Article of Associations as well as Memorandum of Associations of KUKL.
- 73 At the organizational level, decisions are initiated at the branch office which submits its budget estimation along with programs to the head office after consulting senior staff. The head office approves budget and programs as per financial resource available. Generally, the work related to capital investment will be forwarded to KVWSMB for financial support. KVWSMB disburses fund to the respective branch office once their proposals are approved. The Head office has less involvement in implementation of these programs. Regular programs are implemented as per the rules and regulations of the organization.

- 74 KUKL does not have strategic plan as such. But it prepares three types of plan: immediate, short term and long term. Immediate and short plans are implemented by KUKL and long term plan is executed by PID which is theoretically a part of KUKL but in operation, quite independent. In future this anomaly has to be avoided. KUKL do provide job descriptions/TOR to all staff stating their clear roles and responsibilities but this is not strictly enforced. Many consultants were hired to work on designing proper work procedures, coordinating and accounting systems and so on for effective performance of KUKL. With the help of ADB, CBP team came out with a series of recommendations but none of them were implemented because of lack of seriousness on the part of the Board and top management.
- 75 KUKL does not have new fresh staff of its own except few at the junior level. Majority of the staff who were working in NWSC were transferred to KVWSMB and KVWSMB deputed them to KUKL. Salary of staff is thus paid by KUKL but gratuity payment on retirement is made by KVWSMB. At present, qualified and competent staff is getting depleted due to retirement of senior staff and Voluntarily Retirement scheme (VRS) offered earlier. Although several attempts have been made, the gap is not effectively filled yet. The Human Resource Plan is not prepared. The Recruitment and Promotion Committee is recently formulated. The Chairperson of the Committee is represented by Kathmandu Municipality. Training of staff is given least priority. Also adequate compensation and equity does not seem to be in practice.
- 76 At present, KUKL does not have direct link with MoUD as it is established under Company Act, 2006. Its relationship with WSTFC is also limited to its obligation to pay levy to WSTFC for its service in fixing tariff for KUKL. However, it cannot directly approach WSTFC for tariff fixation. For this it has to go through KVWSMB which seems not appropriate. Also as had been mentioned earlier, Capital Investment Programs in water supply and sewerages in KV are being implemented by PID. PID is a part of KUKL. Its programs and budgets are to be approved by KUKL Board earlier but now it is no longer required which is against basic principle of management.

2.2.5 PID

- 77 PID is established under KUKL basically to undertake ADB assisted WASH projects related with KV such as Kathmandu valley Water Supply and Sanitation Subproject (Subproject -2) of Melamchi Water supply Project. It is a temporary entity and asset creator to KVWSMB. For effective implementation, PID is empowered to make prompt decision in procurement and implementation, completely separated from KUKL's day to day management and run by the Project Budget having its own accounting and auditing mechanism and separate financial and personnel rules.
- 78 Although it is a part of KUKL, it does not have any formal relationship with KUKL except that it is shown as a part of KUKL in organizational structure and two technical managers (distribution and planning) from KUKL are represented in the Technical Committee of PID. The Directorate is guided and supervised by a Project Steering Committee chaired by Secretary of MoUD. The Directorate has a full fledged organization structure separate from KUKL structure and fully manned by competent staff mostly on deputation from the government and KUKL. Decisions are taken at the Project Steering Committee level and implemented by the Directorate. KUKL Board and top management of KUKL are not in the loop on decision making process.

2.3 Existing Actions Plan and its Progress

79 KUKL had set the goal according to their Business Plan (2012- 2016) and its progress is described in Table 2.1.

Table 2.1: KUKL Business Plan for 2012-2016

S.N	Description of actions plans	Progress Achieved till date
1	Ensure a continuously increasing supply of drinking water whilst meeting the best quality standards and delivery of services in terms of customer expectations and regulatory conformity.	Improvement in water supply and its quality standard is observed
2	Seek to achieve a significant increase in the level of control over production and distribution processes and improvements in sewerage collection for improved level of water and wastewater services	Not significant increases found
3	Seek to expand the existing, and provide additional sewerage and sewage treatment facilities so as to make a significant contribution to the improvement of the environmental conditions in the valley	New sewer lines are laid t some places but treatment facilities are not improved
4	Endeavor to raise the level of cash resources available in order to enable the core business to operate effectively through regular tariff increases, improvements in the billing process, and achieving higher levels of collection of customer debts.	No improvement
5	Seek to achieve optimum performance from staff resources through providing training in the skills required to operate and manage a modern utility and utilizing the most appropriate systems, processes, procedures and practices available	In-house trainings conducted but there is need of trainings
6	Improve relations with customers by applying policies and strategies that ensure consumer satisfaction and meet company objectives.	Not started actions

80 A Third Country learning team comprising of key persons responsible for WASH from MoUD, KVWSMB, KUKL and JICA Water Policy Advisor had visited PPSWA (Phnom Penh Water Supply Authority), Cambodia on 2-7 June 2014 and the visit was organized by JICA. The team had prepared Recommended Action Plan for KUKL. Updates on the action plan are shown in Table 2.2.

81 Professionals, managers, administrators, KUKL's Board members, and researchers attending one day workshop in 2015 had suggested for improvement of KUKL service. Action plan termed as KUKL Improvement Road Map as shown in Table 2.3 has been set with five sectors improvement such as institutional improvement, human resource development, financial improvement, operational and financial improvement and institutional restructuring. The Road Map for institutional restructuring consists of out sourcing of services by KUKL, restructuring of KUKL Board and alternate operator. GoN, MoUD, WSTFC, KVWSMB and ADB are supposed to support for the improvement of KUKL.

Table 2.2 Recommended Action Plan for KUKL

S.N	Descriptions	Activities	Time Frame	Responsible	Progress till date
1	Update Staff Regulation and Job Description	Reward and Punishment system will be included and implemented strictly (Customized version of PPWSA document will be taken as a reference document)	3 months	Admin Department KUKL	Reward system is implemented.
2	Update KUKL Vision and Roadmap	Rewrite its vision and roadmap with the help of local consultants and the PPWSA to improve KUKL's hardware and software capacity	3 months	GM KUKL	Water Policy Adviser, JICA is taking care of these actions.
3	Amendment of tariff structure by KUKL	1. Administrative cost of a lump sum amount will be levied. 2. Tariff will be based on the actual cost Industrial and commercial tariff will be distinguished and applied (KUKL will be supported by the PPWSA).	9 months	Finance Department KUKL	Under progress
4	NRW reduction using DMA approach	1. One pilot project will be started in one of the areas of Kathmandu using DMA approach 2. Target to achieve NRW reduction from 40 % to 15 %	1 Year	Technical and Finance Departments of KUKL	The Pilot project is implementing in Pharping and Ministry quarter area, targeting of reduction of NRW.
5	Development of Internal training system	1. Establishment of an in house training unit with the help of PPWSA and detail training plan will be developed training for all basic to higher skills & In house to academic (with the help of JICA a detail comprehensive training plan will be developed and implemented under the Technical Cooperation)	1 to 5 Years	GM KUKL	Staffs for training unit are to be recruited. In house trainings are conducted with the help of JICA
6	Development of Key Performance Indicators (KPIs)	1. With the help of PPWSA, KUKL will develop and adopt some KPIs 2. KVWSMB will finalized the KPIs	3 months	KUKL/ KVWSMB	Not implemented.

Table 2.3 KUKL Improvement Road Map

S.N	Activities	Measures to be taken	Time Frame	Responsible Institute/s	Progress till date
A. Institutional Development					
1	Prepare organizational structure according to present company culture, considering the operation of Melamchi Water.	a. Hiring related experience expert, b. Finalize organization structure soon	2015/1/1 to 2015/6/30	KUKL Board	a) No progress b) No progress
2	Re-structuring of KUKL Board	a. Representation should be in proportion to the share amount. b. Higher level with managerial and engineering experts should be represented in the Board. c. Secretary should Chair the Board.	Done	MoUD / KUKL Board	Done
3	Recruitment of Higher Posts	GM, AGMs and Branch Managers should be recruited by free competition	2015/1/1 to 2015/3/30	MoUD/KUKL Board	No progress
4	Immediate vacant post according to organizational structure to be fulfilled. Employee Recruitment is difficult (CIAA Investigation)	Recruitment of Employee to be outsourced to the trusted organization	2015/1/1 to 2015/6/30	KUKL Board / Trusted Org.	No progress
5	Problems of co-ordination with PID. PID seems rather separate from its parent organization, KUKL	a. Strong coordination between PID & KUKL is required. b. All the rehabilitation & expansion related problems of the KUKL should be taken by PID.	Continue	MoUD / KUKL Board / PID	On the progress
6	Install Computer Billing and Accounting System(CBAAS)	a. Procure Computer Hardware. b. Install Software and , train staffs for implementation	2015/1/1 to 2015/12/29	PID / KUKL	This work has been kept in ADB Additional Financing to Loan 2776-NEP:The loan is going to sign soon
7	Efficient & Timely Revenue Collection	Prepare mobile software / Banking software for efficient revenue collection & implement	2015/1/1 to 2015/12/29	PID / KUKL	This work has been kept in ADB Additional Financing to Loan 2776-NEP:The loan is going to sign soon.
8	Implementation of 31 deliverables of the CBP Team	Local experts are to be recruited for at least 3 yrs for implementation of the deliverables	2015/1/1 to 2017/12/29	PID / KUKL	No progress
9	Skill Development Training for KUKL Staffs	Trainings on Water Quality, Procurement and contract management, pump and plant operation, Computer, GIS, SCADA operation and others for 400 staffs are to be conducted (according CBP)	Continue	PID / KUKL	This work has been kept in ADB Additional Financing to Loan 2776-NEP:The loan is going to sign soon.
10	Increase efficiency in Tariff collection	All customers are to be located and brought in database using GIS Meter reading with GPS to be implemented.	2015/1/1 to 2015/12/29	PID / KUKL	This work has been kept in ADB Additional Financing to Loan 2776-NEP:The loan is going to sign soon

11	NRW reduction and DMA	Water source areas outside of Distribution Network Improvement areas are to be converted in DMA areas with installation of necessary bulk meters	2015/1/1 to 2015/12/29	PID / KUKL	Planning is on progress for DMA
12	Consumer Education & Mobilization of Consumer Committees	Educational campaign, interaction, meeting for proper & safe use of water & sewer facilities and timely payment of water bills, site visit programs for consumers, etc. are to be frequently organized	Continue	PID / KUKL	Continued
13	Strengthening GIS, IT Units	a. Necessary software, computers are to be provided. b. Training to the staffs are to be provided	2015/1/1 to 2015/12/30	PID / KUKL	Providing institutional support to KUKL and some will be in ADB-Additional Financing to Loan 2776-NEP.
14	Office automation with computers, photocopy machines, high speed internet	Procurement of photocopy, Laptops, Overhead projector, CC TV, Generator, E-Attendance Software, E-Attendance Devices, internet connection in head office & branches, central laboratory, electromechanical section, etc.	2015/1/1 to 2015/12/30	PID / KUKL	Providing institutional support to KUKL and some will be in ADB-Additional Financing to Loan 2776-NEP.
15	Exposure visits for capacity building of staffs	Exposure visits to water utilities of different countries of KUKL Staffs to new technologies (operation maintenance system, Management system etc.) is to be improved.	Continue	PID / KUKL	Continued and on progress
16	Feasibility study of rain water harvesting and dam construction in various intake sites.	Study has to be carried out for crisis/alternative water management.	2015/1/1 to 2015/12/29	KVWSDB / KUKL	Partial progress
17	Energy Audit and Installation of Solar Energy at water treatment plants and tube wells.	Optimal use of electric energy and installation of alternate energy has to be urgently implemented for regular production and supply of water	2015/1/1 to 2017/12/29	KVWSDB / KUKL	No progress
18	Prepare detail drawings & layout of all intakes, transmission, distribution line in DMA showing branches, valve locations, individual connection points details etc.	a. Hire Consultants with a capacity of handling GIS and b. Prepare detail actual layout for future operation	2015/1/1 to 2016/6/30	PID / KUKL	On progress (KVWSMB)
19	Difficulties to cope the post Melamchi situation on the operation and maintenance of the systems by Present KUKL Organization	a. Recommend to form a study team (as a steering committee) to finalize a ToR to appoint a consultant. The study team will then recommend the institutional rearrangement of KUKL based on the recommendation made by the consultant and discussion with concerned stakeholders.	2015/1/1 to 2015/6/30	MoUD / WSTFC / KVWSMB	On progress
20	Service area of Kathmandu Valley Water Supply Management Board's (KVWSMB) to be expanded to whole Kathmandu valley	Act of Kathmandu Valley Water Supply Management Board (KVWSMB) to be revised & reacted.	2015/1/1 to 2016/12/29	MoUD / KVWSMB	Concept developed

S.N	Activities	Measures to be taken	Time Frame	Responsible Institute/s	Progress till date
21	Performance Based Contract lease agreement of KUKL should be reviewed	The terms of the lease agreement should be different for before and after Melamchi situation. The lease agreement with KUKL should be reviewed.	2015/1/1 to 2016/12/29	MoUD / KVWSMB	No progress
22	KUKL, Bagmati Sewer Project, Municipalities, DOR are laying sewer pipe without coordination. It is huge problem in design, supervision and maintenance	KUKL should be the umbrella agency in the valley for the sewer system management. All the agencies should coordinate with KUKL to implement sewer system.	2015/1/1 to 2016/12/29	MoUD / KVDA / Municipalities / KUKL	Initiation is started and on progress
23	Haphazard sewer line construction by different agencies is going	Immediate Sewer Master Plan to be Prepared and followed by all concerned agencies.	2015/1/1 to 2016/12/29	Bagmati Sewer/ PID / KUKL Board	Initiation is started and on progress
B. Human Resource Development					
1	Leadership of KUKL for fixed period	Performance based contract for at least 4 years of GM and top management (technical, finance, and admin)	2015/1/1 to 2015/6/30	KUKL Board	On the progress but not completed
2	Delay in decision making	All authority given to GM	Immediate	KUKL Board	Authorities related to Procurement Act are given, but not all authorities.
3	Trade Union influenced in decision	Election of Staff Union	2015/1/1 to 2015/6/30	KUKL Trade Union	No Progress
4	Security of Employee's Share in the Company	Representation of staff as a Trustee (shareholder) to KUKL AGM	2015/1/1 to 2016/12/29	KUKL Board / Trade Union	No Progress
5	improve the quality of services in KUKL	Establishment of Quality Circle (QC) team at branch level in all branches to improve quality of services	2015/1/1 to 2015/6/30	KUKL	No Progress
6	Branch-wise orientation on QC circle	Train employees to join & work in quality circle, Monetary reward will be given after the improvement	2015/1/1 to 2015/6/30	Expert to be hired	No progress
7	Higher Posts are vacant in the KUKL, due to the delay in fulfillment	Adopt a procedure for promotion after 2-year experience at the existing level & 50% post to be fulfilled by outside competition	2015/1/1 to 2015/12/29	KUKL Board	No progress
8	After 2 year all the senior post officials of KUKL will retire & all the higher post will be Vacant	Number of technical staff to be increased to fulfill the required position (additional 26 Engineer and 52 Sub-engineer will be immediately hired)	2015/1/1 to 2015/12/29	KUKL Board , KUKL GM	No progress
9	DNI is underway with separating DMA to monitor & minimize NRW	Restructuring of KUKL branch based on the DMA	2015/1/1 to 2016/12/29	KUKL Board	No progress
10	To Provide efficient services to customer, few services to be outsourced by the KUKL	Engage licensed personnel (Plumber, Pump Operator, Plant Operator) on performance based contract basis	2015/1/1 to 2015/6/30	KUKL Board , KUKL GM	No progress
11	Benchmarking (KPI) of KUKL and yearly monitoring	To access the standard of services to customer	2015/1/1 to 2015/6/30	SEIU/KVWSMB	

C. Financial Improvement						
1	Insufficient Budget for the payment of Lease, License fee for the tariff fixation commission	Amend the conditions of lease agreement before Melamchi	2015/1/1 to 2017/12/29	KVWSMB / KUKL	On process	
2	Billed amount of 1196 public stand post is not paid by GoN as agreed	Government should pay the tariff of public stand post as agreed	2015/1/1 to 2015/12/29	GoN / MoUD	No progress	
3	Unable to collect the billed water tariff efficiently	KUKL should improve the efficiency of collection	2015/1/1 to 2015/12/29	KUKL Finance	No improve in collection	
4	Due tariff is a burden to KUKL. KUKL is paying tax to GoN on the unknown tariff.	Due tariff to be identified. Measures to setup & way to clarify the due tariff to be approved by the board and clearance to be achieved.	2015/1/1 to 2015/12/29	KUKL Board / KUKL Finance	No progress	
5	Improve Customer Relation in KUKL	Improve the customer services, new connections within 3 days, complain readdress promptly within 24 hours	Continue	KUKL / Branch Offices	Partially improved	
6	Inadequate performance monitoring and Management	Regularly benchmark performance of water supply service delivery	Continue	KVWSMB / WSTFC / KUKL	On process	
7	Poor customer relations and public awareness. Insufficient stakeholders' involvement and participation in water supply services.	Form Water User's Committee in DMA. Conduct consumer education & frequent meeting with them.	2015/1/1 to 2015/6/30	KUKL / Branch Offices	Partially progress	
D. Operational and Financial Improvements						
1	Additional Amount of water to the Kathmandu valley to be managed.	Some extra ground water tube-wells to be drilled if Melamchi Water Supply Project to be completed in the schedule.	2015/1/1 to 2017/3/30	MoUD / MWSDDB	On progress	
2	Additional Amount of water (Water Augmentation) before Melamchi in the Kathmandu valley to be produced.	Immediate completion of Tube-wells contracted by PID to be completed & Joined to the KUKL service	2015/1/1 to 2016/12/29	MoUD / PID	On progress	
3	Maintenance of old Intakes & Diversion weirs.	Budget for the Rehabilitation & repair to be provided to KUKL through KVWSMB	PID package	KVWSDB / KUKL	Continued	
4	Maintenance of Treatment plants & reservoirs	Some of the plants Included in PID maintenance program (Small package)	2015/1/1 to 2015/12/29	KVWSDB / KUKL	Continued	
5	Put Flow Meters in all DMA to detect water losses to reduce NRW	Budget for the Flow Meter and small works for DMA to be provided to KUKL through KVWSMB	2015/1/1 to 2015/12/29	KVWSDB / KUKL	Waiting for DMA to be completed	
6	Maintenance Laboratory & Replacing of water quality testing equipments	Maintenance of Laboratory Included in PID maintenance program (Small package)	PID package	PID / KUKL	Building is already built, other work will be carried under ADB- Additional Financing	
7	Out of 31 water supply pumping stations and well only 20 stations are not functioning.	Out of 31 water supply pumping stations and well only 11 stations are functioning. Budget for the repair of Pumping Stations to be provided to KUKL through KVWSMB	2015/1/1 to 2015/12/29	KVWSDB / KUKL	KUKL has not given plan for that. Work will be carried by ADB- Additional Financing	

S.N	Activities	Measures to be taken	Time Frame	Responsible Institute/s	Progress till date
8	Replacement of old meters more than 12 years old.	Around 160,000 meters are installed in the Valley. Around 48000 meters are outside the ring roads & should be replaced.	2015/1/1 to 2016/12/29	KVWSDB / KUKL	ADB Additional Financing to Loan 2776-NEP. The loan is going to sign soon
9	Placement of new meters in Non-metered Connections.	Around 15,000 meters to be installed	2015/1/1 to 2016/6/30	KVWSDB / KUKL	ADB Additional Financing to Loan 2776-NEP. The loan is going to sign soon
10	Replacement of Cluster pipes of individual connections	Cluster removal to be carried out	2015/1/1 to 2017/12/29	KVWSDB / KUKL	ADB Additional Financing to Loan 2776-NEP. The loan is going to sign soon
11	There are direct supply from transmission in Sundarjal to Mahankal Chaur area, Budanilkatha to Bansbari Area and Bisnumati to Balaju Area.	Construction of Reservoir & Distribution lines, where direct supply has been given (transmission areas). KVWSMB should allocate budget.	2015/1/1 to 2017/12/29	KVWSDB / KUKL	No progress
12	Ammonia present in the ground water of Kathmandu valley. Water is supplied directly from the well to the consumer's house.	Restate the ammonia reducing bacteria production center to treat ground water with excess of ammonia. Construct Water treatment Plants	2015/1/1 to 2017/12/29	KVWSDB / KUKL / PID	ADB Additional Financing to Loan 2776-NEP. The loan is going to sign soon
13	There are 71 Ground Tube-wells, supplying water to the valley. Around 71 Ground Water Wells only 50% are functioning well others to be repaired	Budget for the Rehabilitation & repair of Ground Water Tube-wells to be provided to KUKL through KVWSMB	2015/1/1 to 2016/12/29	KVWSDB / KUKL	ADB Additional Financing to Loan 2776-NEP. The loan is going to sign soon
14	Lack of spare parts for machines, equipment and pumps	Budget for the spare parts to be provided to KUKL through KVWSMB.	PID package	PID / KUKL	On progress (some will be implemented through ADB Additional Financing to Loan 2776-NEP)
15	Lack of pipe, fittings and special for repair	There is small procurement package in PID	PID package	PID / KUKL	On progress (some will be implemented through ADB Additional Financing to Loan 2776-NEP)
16	Road widening activity damaged distribution lines	Extra fund to be provided to KUKL for relocation and repair of damaged distribution lines by concerned authority.	Continue	GoN / DoR / MoUD / KVWSMB / KUKL	On progress (some will be implemented through ADB Additional Financing to Loan 2776-NEP)
17	Constraints of Financial Resources for service up grade.	Water tariff should meet the KUKL's operation cost. Asset improvement and service up grade should be financed by KVWSMB	2015/1/1 to 2015/12/29	WSTFC / KVWSMB / KUKL	On progress (some will be implemented through ADB Additional Financing to Loan 2776-NEP)
E. Institutional Restructuring					
1	Out Sourcing of services by KUKL				
	1. Regular maintenance service	Outsourcing of service may improve efficiency	2015/1/1 to 2016/12/29	KUKL Board	No progress
	2. Driving & office cleaning, Gardening, etc	Outsourcing of service may improve efficiency	2015/1/1 to 2016/12/29	KUKL Board	Partial progress
	3. Revenue collection & debt collection services	Outsourcing of service may improve efficiency	2015/1/1 to 2016/12/29	KUKL Board	Policy and program are approved- partial progress
	4. Office automation, internet facility & computer billing	Outsourcing of service may improve efficiency	2015/1/1 to 2016/12/29	KUKL Board	No progress

2	Restructuring of KUKL Board					
	1. Board Chairman	Proposed to Chair by Secretary of MoUD changing the KUKL Regulations	2015/1/1 to 2015/6/30	MoUD / KUKL Board	Proposed	
	2. Driving & office cleaning, Gardening, etc	Amendment in the Regulation of KUKL to be done	Initiated	KUKL Shareholders	Amendment done	
3	Think Other Operator	If KUKL cannot deliver services after certain Improvement then next operator to be hired	2018/1/1 to 2018/12/29	MoUD/ADB	No progress	

- 82 Improving internal governance is essential to provide effective service delivery. This requires service providers to be financially self-reliant by operation as business like institution. This is true for KUKL. And the detail analysis of financial management in KUKL is called for. Also it is essential to conduct financial analysis of asset owner KVWSMB as both these institutes are bound to each other. There is a high level of mutual dependency. This chapter will focus more on fund flow among institutions created for effective and efficient delivery of WASH services in KV which are mentioned again as follows:
- a. WSTFC: Regulator
 - b. KVWSMB: Asset Owner and
 - c. KUKL: Water Utility Operator (WUO)
- 83 While creating these institutions, provisions are made that KUKL has to pay license as well as lease of asset fees to KVWSMB. So there is a fund flow from KUKL to KVWSMB. Also since KVWSMB is an asset owner, most of the activities of asset creation in KV i.e development projects are taken by or through it. Some of these activities have been entrusted to KUKL. As a result there is a fund flow from KVWSMB to KUKL. Similarly, as mentioned earlier, WSTFC Act makes provision of levy from operators for providing tariff fixing services to them. KUKL therefore needs to pay levy to WSTFC in an annual basis.

3.1 Existing Financial Flow

3.1.1 Financial Flow between KUKL and KVWSMB

- 84 The balance sheet of KUKL shows worsening of net worth over a period of time which is due to a large amount of accumulated losses. The financial analysis performed during ADB TA -8036 REG (2013) shows that the financial performance of KUKL is very poor. It cannot increase its supply capability due to the acute shortage of water which will continue unless Melamchi water supply is completed. There is no other alternative except for increasing the price of water. In detail financial status was analyzed in the study of "Institutional Capacity Assessment for KUKL".
- 85 Capital investment program prepared by KUKL and fund flow from KVWSMB is shown in Table 3.1 It shows that the approved budget has not been fully spent. According to financial personnel from KUKL, the reasons behind unspent the approved budget are as a) Budget is not approved on time (most of the time approved after 6 months after fiscal year begins), b) Budget is released only after work completion, and c) Works are not completed on time due to other unavoidable and unforeseen obstacles.
- 86 Earlier the budgets are used to release directly to the branches undertaking development works not to the Central Office. The central office used to get information only and they have indicated in the balance sheet. But this condition is not found now and financial flow is improved after new leadership in KVWSMB. Percentage of budget received is quite low around 34% in FY 2067-68 and 31.5% in FY 2068-69. However, this has substantially improved in Fiscal year 2069-70 (74.5%) due to leadership change in KVWSMB. KUKL staff feels that if approved budget are released on quarterly basis, fund flow would improve even more.

Table 3.1 Capital Investment Program and Fund received from KVWSMB

Fiscal Year	Approved Budget	Received from KVWSMB	Received %
2067-68	193,000,000.00	65,557,000.00	34
2068-69	102,000,000.00	32,213,000.00	31.5
2069-70	112,000,000.00	83,426,922.23	74.5

Source: Finance Department, KUKL (2015)

87 KUKL has to pay lease fee 6% of total collection, and NPR 10 million as license renewal cost. The license and lease fee to be paid to KVWSMB for previous three fiscal years are shown in Table.3.2.

Table 3.2 License and Lease fee to KVWSMB (NPR)

Fiscal Year	License Fee	Lease Fee Part A	Lease Fee Part B	Total Lease fee
2067-68	12,100,000.00	21,652,039.68	41,364,837.55	63,016,877.23
2068-69	14,641,000.00	21,170,727.86	81,275,710.38	102,446,438.24
2069-70	15,958,690.00	20,706,074.49	118,706,511.64	139,412,586.13

Source: Finance Department, KUKL (2015)

88 KUKL has not paid these fees to KVWSMB because of its bad financial position. Recently, MoUD is working on a strategy to provide operational subsidy as a loan to KUKL, out of this 50% will be paid to KVWSMB as license and lease fees and remaining 50% will be used to cover deficit of KUKL.

3.1.2 Financial Flow between KUKL and WSTFC

89 Table 3.3 shows the fund received so far from KUKL by WSTFC. The amount is not equal to 1% of billing amount of KUKL which is required to be paid by KUKL as per the WSTFC Act. As KUKL is not financially sound, WSTFC is not forcing it to pay as per the act and regulations. KUKL has paid just to support WSTFC's administrative and staff salary expenses.

Table 3.3 Fund Flow from KUKL to WSTFC (NPR)

Fiscal Year	Fees due (NPR)	Amount received from KUKL (NPR.)
2067-68	13,341,182.05	5,413,009.92
2068-69	18,021,302.02	5,292,681.97
2069-70	17,443,363.64	5,176,518.62

3.2 Identification and Analysis of Key Issues on Financial situation

3.2.1 *Between KVWSMB and KUKL*

90 The fund for KVWSMB is to come mainly from license and lease fee from KUKL and underground water use. The income from underground water use is very low and KUKL has not paid its fee to KVWSMB so far. KVWSMB also get funding from the government for undertaking CAPACITY IMPROVEMENT PROJECT. The budgets for these projects do not get frozen. The unspent budget amount is deposited as Call Account in commercial banks. KVWSMB has around NPR1,060 million in the Call Accounts at present. The Banks were giving around 2% interest on these accounts previously but with the initiatives of new management, they are giving 6% interest. The earning from this is enough for management of KVWSMB. There is a need to look at how KUKL can pay dues to KVWSMB in time and also streamline budget release from KVWSMB to KUKL.

3.2.2 *Between WSTFC and KUKL*

91 GoN has not allocated any budget so far to the WSTFC on its annual budget. It is, however, empowered to levy fee not in excess of two percent of the tariff to be collected by the service provider from the users and collect the same from the service provider. But Service providers are not willing to pay levy to the Commission as they themselves are not in a healthy financial position. This has led to the perennial shortage of fund in the Commission. As such, WSTFC has not been able to have a proper organizational structure with adequate human resources in place.

92 Also in principle, this provision of levy fee does not seem to be appropriate as there is a possibility of conflict of interest between the Commission and the service provider seeking tariff revision.

93 To improve financial position, KUKL has now directed all its branch offices to cut water connection of big organizations, offices and influential individuals who have not paid tariff for years in the first stage. KUKL has already prepared a list of customers who have dues starting from NPR10,883 to hundreds of thousands. The consumers, on the other hand, have been burdened with KUKL not fulfilling any of the commitments made while doubling the tariff. The WSTFC had put up nine-point conditions while giving approval for tariff hike. The Chairman of WSTFC stated that the relevance of raising tariff has finished as KUKL has failed to recover dues.

94 WSTFC had consented to raise tariff after KUKL agreed to ensure proportional distribution within six months, control leakage, update distribution schedule on its website, guarantee quality of water distributed from treatment plants and others. As per WFTC claimed that none of these commitments have been fulfilled and KUKL has yet to respond to letters sent about the issue. WSTFC has also been urging KUKL to update data of the taps that are currently being used and those that are not used.

95 KUKL had proposed to raise tariff in July 2013 and WSTFC had agreed to raise 82 percent. WSTFC has been claiming that it has to raise tariff due to the poor financial condition of KUKL.

4.1 Human Resource Management in institutions

96 While assessing institutional framework, it is important to consider the role of human resource management (HRM) practices in the institutes as there is growing evidence from research and experiences that they can lead to improved performance in both private as well as public sector organizations. It is, in fact, obvious that no institution can function properly without adequate and qualified staff. Therefore, an attempt is made here to present an overview of Human Resources in terms of existence of HR Plan, staff productivity and human resource capacity and knowledge enhancing policies and programs in the these institutes. It is to be mentioned here that this assessment is quite general in nature based on our observations, interviews with stakeholders and study of available documents only. But nevertheless, it is expected that it will present fair picture of existing HR practices in the institutes under consideration.

4.1.1 MoUD

97 The organization structure of MoUD is presented in Fig. 2.5 in previous chapter. The structure indicates that there are six divisions including Water Supply and Environment Division. This Division has been assigned the responsibility for undertaking the tasks of formulating plan and policies and also overseeing implementation of WASH system in the country including that of KV. This Division has three sections namely Drinking Water Supply and Sanitation Section, Environment Section and Sector Coordination and Capacity Upgrade Section. Drinking Water and Sanitation Section is responsible for managing urban WASH of the whole country. The workload to the Division and the section is enormous. There is no separate cell or unit within this section to look after issues related with KV. The Drinking Water and Sanitation section is again manned by one senior engineer and three officers (Engineers) (Refer Table 4.1 presented below) which seems quite inadequate.

Table.4.1 Staff Distribution at MoUD

Staff Level/Staff Group	Administrative	Technical	Total	Remarks
Officer Level	20	26	46	4 Engineer's post vacant
Non Officer Level	54	x	54	2 Non Officer post vacant
Total	74	26	100	
Drinking WASH sanitation section	x	4	4	All officers

Source: MoUD Website, July, 2015

98 Although the staff seems quite competent as all of them are engineers, it is not clear what kind of HRD policies MoUD follows to upgrade them. As it is a part of the overall government structure, there is no separate HRP and HRDP for the section or division. As such national strategy for capacity enhancement of these institutions is called for. MoUD should prepare this. At present, MoUD claims to have an Urban Development Training Centre (UDTC) at Pokhara under it to take up training and development programs for its staff and staff of institutions under it. But from legal point of view, UDTC is a part of Local Development Training Academy whose link ministry is MOFALD.

4.1.2 KVWSMB

99 Although in existence about to 10 years, KVWSMB does not have proper organization structure as yet. But recently, organization structure as shown in Fig.4.1, is being designed and adopted based on Organization and Management analysis and work load matching with upcoming Melamchi Water Supply Distribution System which is presented in Table 4.2

Table.4.2 Staff Distribution at KVWSMB

Staff Level/Staff Group	Administrative	Technical	Total	Remarks
Officer	7	17	44	
Non Officer	23	6	29	
Total	30	23	53	

Source: KVWSMB, 2015

100 The above table illustrates that there are altogether 53 staff in the organization, out of which 23 staff are technical. At the officer level, proportion of technical staff to administrative staff is much higher which stood at 242 per cent. This indicates that the present structural design is good as KVWSMB is mostly concerned with technical tasks. However, it is too early to evaluate it in terms of staff's adequacy and productivity.

101 Also HRD plan is being prepared and implemented now. For this, Recruitment and Promotion Committee has been constituted recently. Strategic Plan is also being prepared and is in the process of implementation. Its overall achievement in FY 2070/71 was only 53% of the financial target and 48% of the physical target. (Annual Progress Report, MoUD, 2071) which was not satisfactory. No activities related with training and development for its staff and also staff of KUKL took place in the past. One can conclude, therefore that although HR Management System is almost nonexistent earlier, KVWSMB is taking corrective measures in HRM and moving in the right direction.

4.1.3 WSTFC

102 The Commission has one full time Chairperson and two part time members at present. They are appointed on the basis of a Committee headed by the member of National Planning Commission responsible for the sector. There is only four full time staff working in the Commission. As WSTFC is set up for fixing tariff of services provided by all Service providers in the country, the scope of the Commission is enormous but the existing structure is limited and not appropriate. It does not still have a full-fledged organization structure despite having been in existence for about 10 years. Hence, evaluating its HRM policy and its practices including Human resource development is not possible. The Commission has sent proposal for approval of the organization structure and its human resource needs to its link Ministry but it has not been approved so far. WSTFC too has not pursued it as it lacks resources of its own. The proposed organization structure is shown in Fig 4.2.

4.1.4 KUKL

103 The organization structure of KUKL is shown in Fig 4.3. For under-taking human resource management function in KUKL, Human Resource Development Section is established under the Administration Division which is again a part of Administration and Finance Department of the organization. This means KUKL has not given much importance to Human Resource function which in fact is one of the most critical functions of any organization. In the hierarchy, it comes at the fourth place. In the society where hierarchy matters, it is quite difficult for Human Resource Development Section to function effectively. The Section has not been able to come out with any HRP and human resource development

activities. In a way this function is very weak in the organization. Most of the staff has come on deputation from KVWSMB and they have not been provided with any kind of training and orientation programs to make them aware of the mandate of KUKL and new working culture required for running KUKL efficiently and provide satisfactory services. Therefore, KUKL staffs still imbibed the same organizational culture which they had acquired while working at NWSC.

104 In the absence of full-fledged GM and Deputy General Manager, the organization is in a way at a standstill at present. Many capable and competent employees had left the organization by adopting VRS program offered to them. No attempt has been made to fill the vacuum thus created. The Recruitment and Promotion Committee has formed recently and it was delayed due to non-cooperation from the KUKL Board. KVWSMB has offered, ADB funded Capacity Building programs but it was said to be a total failure. Similarly, ADB provided capacity building technical assistance to KUKL. The team prepared a series of operational manuals but they were hardly implemented. KUKL feels that the reports produced were not practical and that they are not based on reality. Through our interviews with stakeholders, we came to the conclusion that there was never a serious attempt to make the work of the technical assistance successful because of high political interference through trade unions and lack of commitment from senior staffs. Situation is getting worse as KUKL Board has not been able to appoint GM so far despite all the formalities for appointment through competitive bidding had been completed.

105 The staff distribution is presented in Table 4.3. It is interesting to note here that for a highly technical institution like KUKL; around 60% of the staff belongs to the administrative service. Also out of the approved 1,205 posts (refer Annex 7); nearly 33% of the posts are vacant. But in reality, these are not vacant at all. In the 160 vacant technical posts, management has appointed 202 persons on the contractual or daily wage basis. All these appointees are in the non officer grade. There were appointments in the administrative group too on the basis of contractual or daily basis. This is done mainly because of political pressure. Currently, there are 1110 staffs are working in KUKL, among which 73% are permanent, 22% daily waged and contractual 5% (Fig 4.4.)

Table.4.3 Staff Distribution of KUKL as per the approved posts

Staff Level/Staff Group	Administrative	Technical	Total	Vacant Posts	Remarks
Officer	94	85	179	Administrative: 29 Technical: 34	
Non Officer	624	402	1026	Administrative: 202 Technical: 126	
Total	718	487	1205	Administrative: 231 Technical: 160	

Source: KVWSMB, 2015

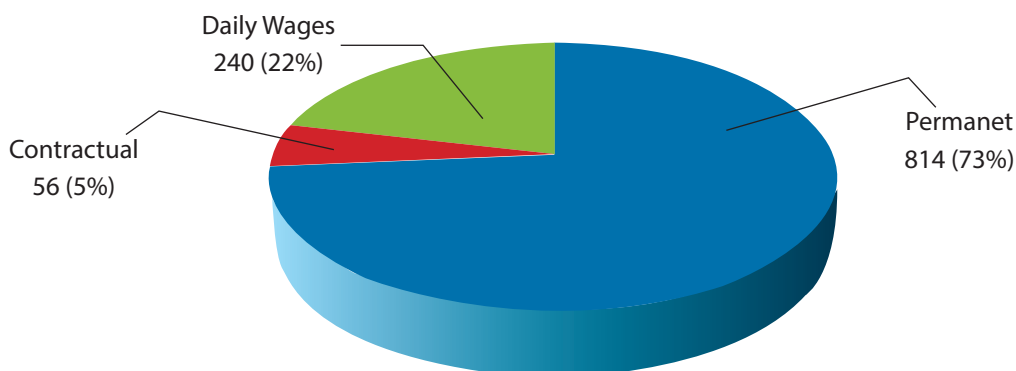


Fig 4.1 Human Resource status of KUKL

106 This clearly indicates sad state of human resource management system in KUKL. Training and Development activities are not a part of regular budget. Regular human resource audit is not carried out. As pointed out earlier, annual performance evaluation is carried out but it is not linked to the real performance of employees. It therefore turns out to be merely a ritual exercise only. The very purpose of establishment of KUKL under Company Act is thus not achieved.

4.1.5 PID

107 PID is established as a part of KUKL but to make it more functional, it was separated from KUKL in its operation. Project Steering Committee chaired by the Secretary of MoUD provides guidance to the organization and monitors its activities. Most of the staff here is working on deputation from GoN. The Chief Executive Officer of PID is the Project Director who is a government officer of Joint Secretary Level. He is supported by senior officers, KUKL staff and consultants. PID is coordinating all activities under the Project and responsible for overall project implementation, technical monitoring, and supervision. PID has to report to KUKL Board of Directors. But it does not seem to be reporting to the Board at present. Total number of staff at PID right now is 92. There are 15 senior technical officers, 3 senior officers, 16 engineer/technical officers, 10 officers, 7 senior assistants, 2 assistants, 19 light vehicle drivers, 6 computer operators and 13 messengers. The organization structure of PID is shown in Fig.4.5. On the whole, PID has adequate staff with necessary competence.

4.2 Identification and Analysis of Key Issues on Human Resource Practices in the Institutes involved in WASH Sector in KV

4.2.1 Assessment of Human Resource Practice

108 As mentioned earlier, the link between HR practices and organizational performance has been well established by research both in private and public organizations suggesting that the HR system has great strategic potential as a driver of organization effectiveness. Therefore, the organizations must design and deliver HR practices that would help them deliver better services. These practices should explicitly focus on employee performance. It is in this context that the HR practices in the institutions involved in WASH sector in KV is being analyzed which was presented in the previous section. Summary of those analysis are presented here.

109 It is observed that in none of the institutions under consideration, recruitment and promotion activities take place regularly. Proper HR Plan and policies in KUKL are not in place. MoUD also has not established a coherence and comprehensive human resource development policy framework consistent with broader development and investment strategy for KV, to improve implementation capacity of these institutions. The institutions, on their part too, have not had their own HRD plan and policies. These institutions have given least priority to performance management and organizational governance. Compensation and incentive practices are also not attractive. They are in no way motivating employees to perform better. There is least employee interaction and no attempt ever made to improve employee relations particularly in KUKL. Adequate funding for training and capacity building programs is not provided and whenever there is some budget and programs, they are not seen to be effectively used. For example, urban governance capacity improvement program of MoUD could not take off well. Similarly, KUKL does not have regular training programs for its staff and even when KVWSMB provided fund for capacity building to KUKL; it could not utilize it properly as it could not run any training program through this fund. Also none of the institutions are seen to have carried out Human Resource audit using productivity, people and process to track the impact of Human Resource on the institutions.

4.2.2 Key Issues

110 Some key issues that have emerged are as follows:

- i. Need to prepare a coherent and comprehensive Human Resource Development policy & guideline and implementation policies of HRP in line with broad policy guidelines prepared by MoUD.
- ii. Making recruitment and promotions activities regular in organizations
- iii. Bringing attitudinal change of top management and major stakeholders toward the importance of training and development including knowledge sharing
- iv. Making Performance review more goal oriented and linking it with reward and punishment system
- v. Improving productivity and employee relations activities

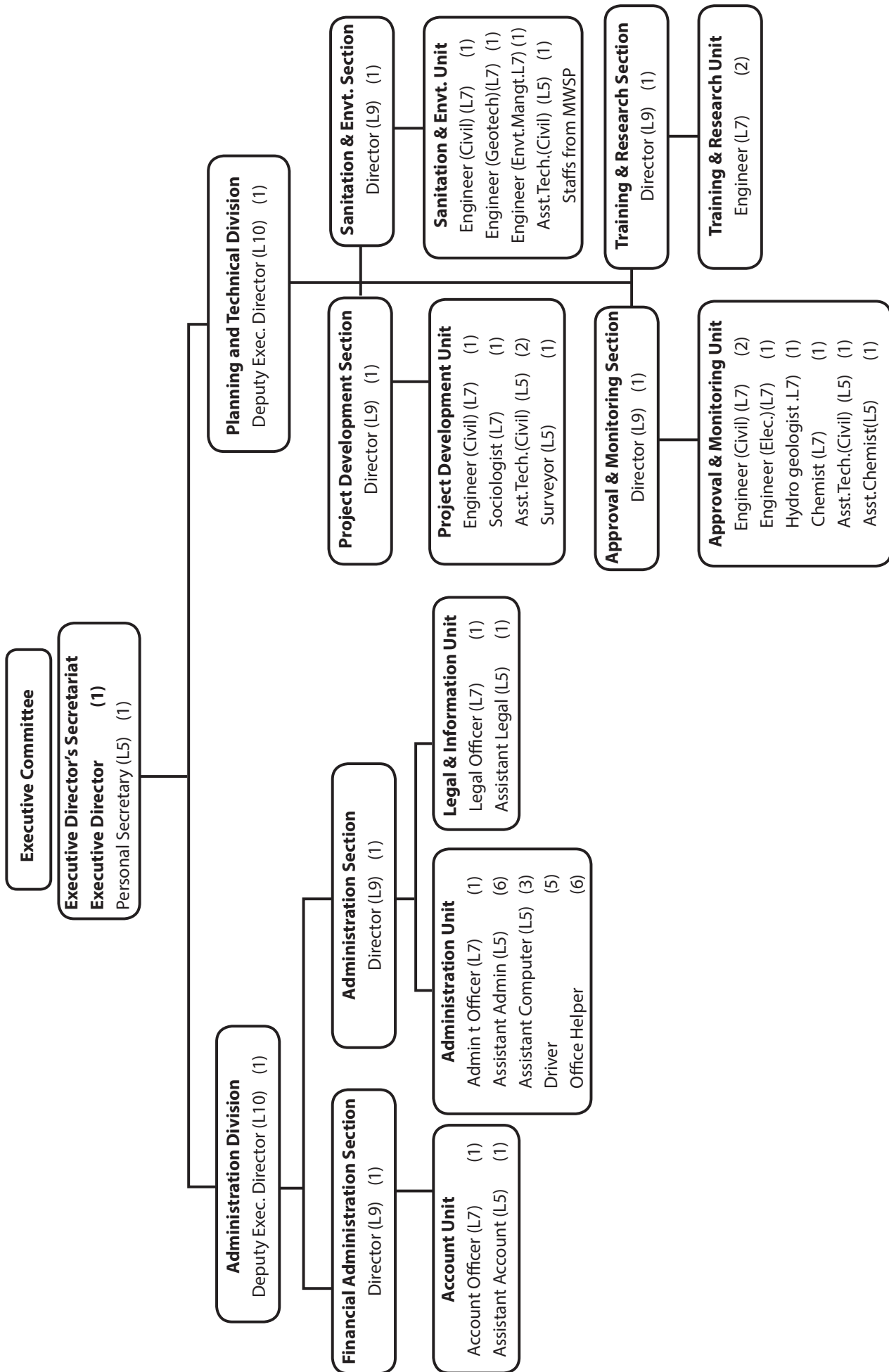


Fig 4.2 Organization Structure of KYWSMB

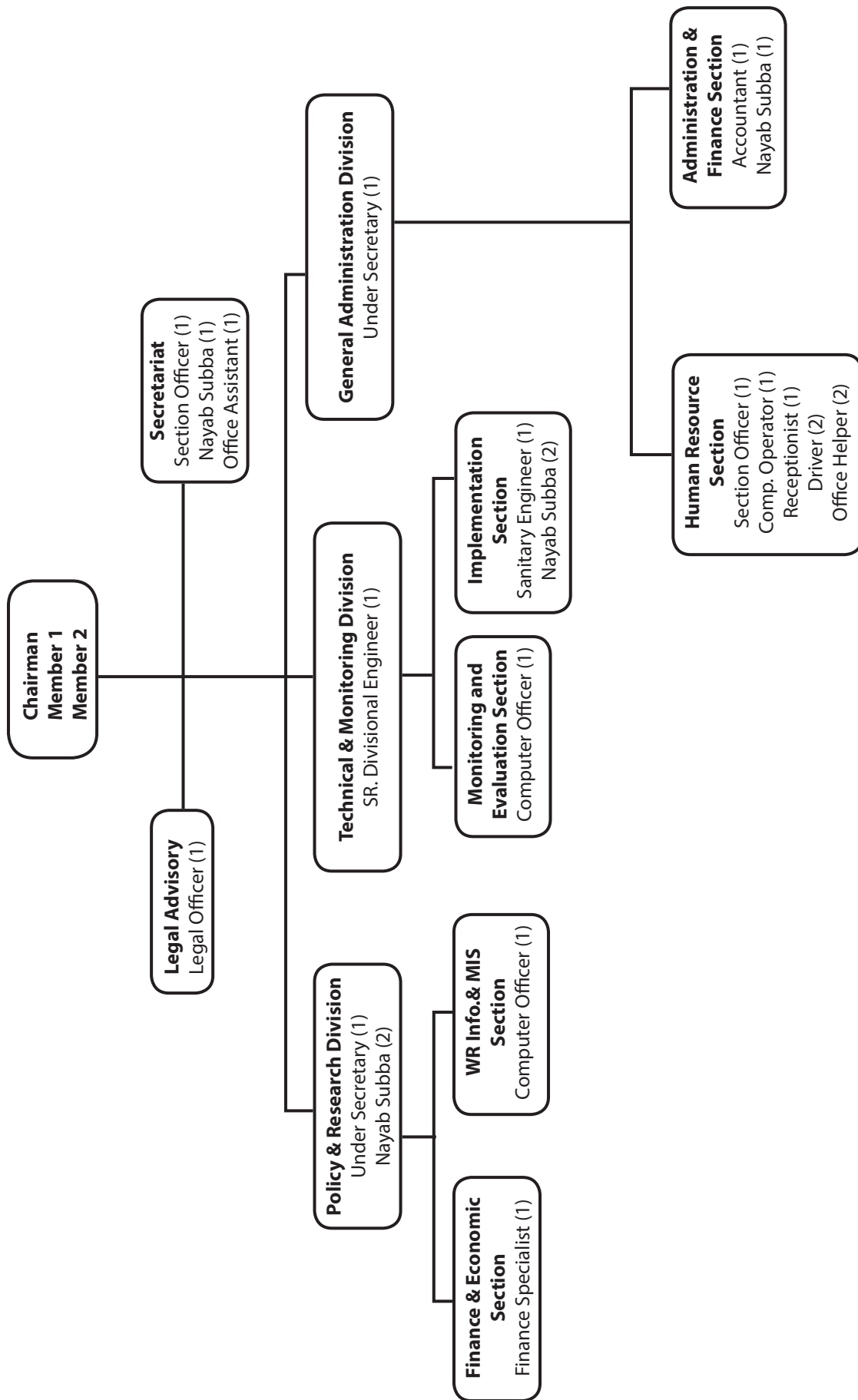


Fig 4.3 Organization Structure of WSTFC

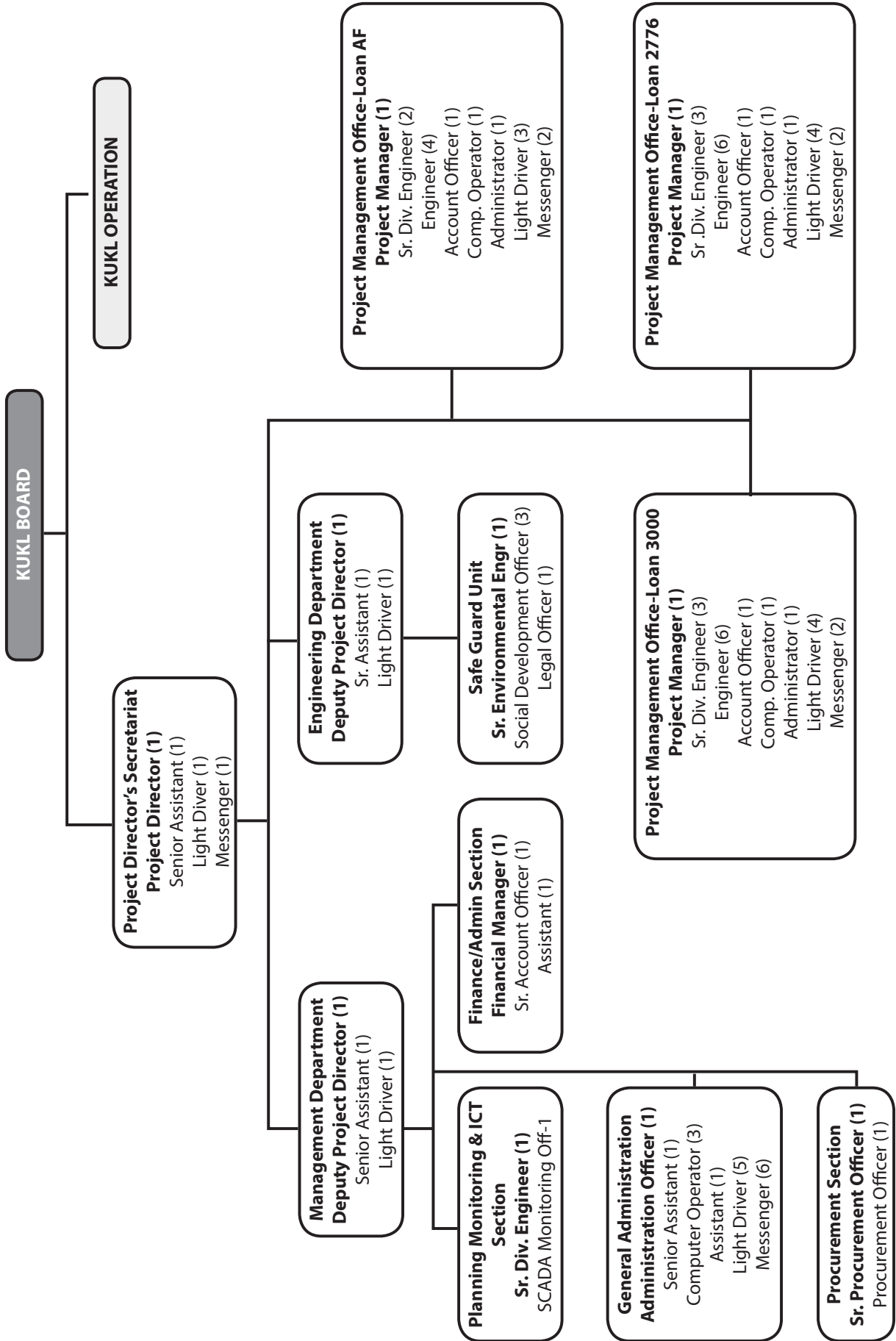


Fig 4.5 Organization Structure of PID

111 As presented in Section 2, the current framework needs some improvements for effective management of water supply and service delivery in KV. The current institutional framework for the provision of water supply and sewerage services is based on a separation between urban water supply & sewerage services and rural water supply services. The ultimate responsibility for the provision of these services in the urban area and hence in KV too rests largely with MoUD. But a number of other agencies such as KVWSMB, WSTFC, KUKL, PID and MWSDP also deal with various aspects of water resources management in KV as per their mandates and legislative provisions. For better coordination among these institutions for streamlining their roles and responsibilities with a view to provide effective services to the people of KV, the following suggestions are provided.

5.1 Legal Framework

5.1.1 MoUD

112 In case of MoUD, there is no need to revisit its mandate. The roles and responsibilities as per the legal provisions are clear.

5.1.2 KVWSMB

113 Recently many new municipalities have been created in KV. This has increased its scope of operation in KV and hence there is a need to revisit its roles and responsibilities. And there is a need to clarify its roles and responsibilities related with ground water and rain water. We are given to understand that the proposal for establishing Ground Water Authority is underway; however, the KVWSMB has responsibility for ground water regulation and management.

114 KVWSMB also needs to rationalize composition of its Board members. To make it more responsive and effective to the needs of KV, continuous support from the government is needed. For this, the status of the Board needs to be enhanced by having Secretary, MoUD as its Chairperson. The present system of selection of Chairperson from among the Board Members on a rotation basis should be discontinued as this is found to be not practical and not effective in case of KUKL. Since there are so many municipalities within KV, it is not feasible to have representations from all the municipalities in the Board. Instead it is advisable to have Chairpersons of three districts within KV. Executive Director, selected on the basis of competitive selection procedure should be the Member Secretary of the Board. S/he should be responsible for day to day operation of KVWSMB and s/he should be hired on Performance Contract basis based on his or her strategic plan presented. The ED implements Plans and policies approved by the Board. The Board monitors ED's performance based on the Performance contract and his or her strategic plan.

115 The revision of composition of Board of Directors is recommended as follows:

1. Secretary, MoUD	Chairperson	1
2. Section Chief (looking after KV), MoUD	Member	1
3. Chairperson DDC from the three districts (KV)	Member/s	3
4. Water Sector Expert	Member	1
5. Representative from Kathmandu valley Development Authority	Member	1
6. Representative from Consumer Forum/NGO (Preferably Woman) Working in the field of WS sector	Member	1
7. Executive Director, KVWSMB	Member Secretary	1

- 116 The Board will be primarily responsible for all functions related to providing water and sewerage services in KV i.e. planning, resource mobilization (people's participation, donors with the help from GoN), infrastructure development and operations and maintenance. The Water Supply Management Board Act, 2006, has made a provision that the WSMBs established under the Act can either contract out the service provision to other parties or it can act as a service provider itself. WSMBs established so far other than KVWSMB has this provision and as such Hetauda Water Supply Management Board and Bharatpur Water Supply Management Boards are providing services by themselves. Kavre Valley Water Supply Management Board too has this provision of providing services by itself.
- 117 In line with this, KVWSMB might have option to operate as service provider for the time being and with the provision of automatic inactive this option after two years of completion of Melamchi Water Supply Project. This provision will ensure some fear element among the service providers in KV that in case they did not provide efficient service, KVWSMB may break the contract with them and that it may provide services by itself. For this, revision of the WSMB act is necessary.

5.1.3 WSTFC

- 118 As pointed out in earlier chapters, WSTFC has not been able to function as a full-fledged organization. Question has been raised as to whether it is, in fact, necessary at all. Tariff fixation can be done with time based temporary tariff fixation committees formed to review and fix tariff as and when necessary as is the case with electricity tariff fixation in Nepal. Therefore, the operation of the Commission can be withheld for a number of years till it is felt that there will be sufficient workload for it. The team strongly feels that adopting this option is much practical in the present context. In this situation, 3- Members Water Tariff Fixation committee should be formed consisting of experts from three sectors; water supply, finance management and financial regulation. This committee will be formed as and when necessary.
- 119 Another option is to revisit its mandate and make explicit that it is responsible for tariff fixation for water and sewerage services provided by all the service providers including Water User Committees which are spread across the whole country. This is quite legitimate as it is the national authority established under the Act for fixation of tariff for water supply and sewerage services provided by the service providers in the country. This will increase the scope of WSTFC tremendously and hence the funding as well as organization structure of WSTFC should be in line with this new scope of operation of WSTFC. Its regulatory function on water quality control should be taken away as its primary function should be to regulate and fix water and sewerage tariff. The mandate for fixing tariff for water services provider water tankers and also ground water used for commercial purposes and private use should be made more explicit. The present system of levy to be paid to it by service providers every year should be replaced by the provision of a lump sum budget from the government. This budget should be adequate enough to allow the Commission to function as a full- fledged organization. For this budgetary provision, GoN can, however, charge service providers certain annual levy up to 1 % of their annual income. This should apply to all service providers irrespective of act or provision under which they have been formed.

5.1.4 KUKL

- 120 The present Board structure of KUKL needs to be changed as it is found to be quite dysfunctional. The Chairperson and the members of the Board should be made responsible for the policy decisions such as plans and programs including infrastructure improvement and O&M programs and resource mobilization for the organization. The Board should be made accountable for the overall performance of KUKL. The practice of selecting the Chairperson among the Board Members on a rotation basis should be discontinued. This practice has diffused the ownership of the Chairperson on the decisions made by the Board. Let the GM of the organization be Member Secretary of the Board. There should be a clear demarcation on roles and responsibilities of Board Members including the Chairperson and the

GM of KUKL by clearly stating in Articles of Association and Memorandum of Association. This needs revision of both Articles of Association and Memorandum of Association.

121 It is also pertinent to discuss at present whether KUKL should operate as a private company or should it operate as a public enterprise. KUKL as pointed out earlier was established with a view to encourage private sector in water and sewerage management in KV and operate it purely on commercial principles. It assumed that with private sector participation and with financial and administrative autonomy, KUKL will be able to provide effective service to its customers. That is one of the reasons for it being established under Company Act, 2006. The assumption at that time was that Seven Trend, a private foreign company will take over this function as operator providing water and sewerage services in KV. However, this did not materialize.

122 Given the socio-economic and political condition of the country and the lack of water availability, it is extremely difficult for KUKL to function purely on commercial principle only. As water services for domestic use are a public good, local government is seen to be in the best position to make accountable decisions related to how service are provided taking into account social aspects of water services. For these reasons, where local government has the capacity and financial resources to provide services effectively and sustainably, local government is the preferred provider of water services. This is the reason that KUKL had participation from local government as shareholders. But since there has been no election at the local level for the past 18 years, there is practically no local government. Local government activities are carried out government officers on deputation. There is again frequent transfer of them. This has lead to weak capacity of local government. Also there is scarcity of water resources to cater to the ever growing demand in KV. The completion of Melamchi Water Supply Development Project is expected to make available more water for distribution. It will help ease this scarcity of water to a great extent. However, it may still take few more years for the project to complete as the progress on tunnel construction is not going as planned. The team, therefore, suggest that till water from Melamchi project is available, KUKL should operate more or less on a public enterprise mode. In fact, looking at the composition of shareholding at presents, it is clear that majority of shareholders are government agencies. The support and subsidy from the government is quite essential for its infrastructure development as well as major O&M activities. To ensure active support from the government, it is necessary to have close institutional linkage with MoUD. Hence, the team suggests restructuring of the Board of KUKL as follows:

1.	Joint Secretary (Urban WASH sector, MoUD)	Chairperson	-	1
2.	Water Sector Expert	Member	-	1
3.	Representative from Consumer Forums or NGOs involved in water sector (Preferably women)	Member	-	1
4.	Representatives from Municipalities of KV (Nominations through MuAN)	Members	-	3
5.	Representatives from FNCCI and Chamber of Commerce of KV	Members	-	1
6.	Representative from the Employees (from among the Divisional Heads-Technical)	Member	-	1
7.	General Manager	Member Secretary	-	1

9

123 Once the Melamchi project is completed, we can reform KUKL structure and try to run it as a private entity.

5.2 Institutional Framework

5.2.1 MoUD

124 The suggested Board for KVWSMB has two members from MoUD. This is expected to bring closer interaction between the two institutions and support to KVWSMB from MoUD. Since water is a basic necessity of people, MoUD cannot stay away from its responsibility to provide it to the people of the country and in this case to the people for KV. As such, MoUD cannot delegate its accountability to other institutions. It should be more pro-active to take up issues related with WASH sector in KV and take necessary decisions to address these issues. MoUD has a responsibility to create an environment where all the institutions involved in WASH sector in KV can operate effectively and efficiently. This will also help KUKL improve its performance. For this to happen, there is a need to establish separate unit under Water Supply and Environment Division in MoUD to provide support and guide WASH Planning and policy formulation and implementation in KV. MoUD should establish mechanism to monitor activities of institutions involved in WASH sector in KV. For this, the team suggests that MoUD establish a Coordination Committee either chaired by Secretary or Joint Secretary (looking after WASH sector) of MoUD. Other members will include ED of KVWSMB, GM of KUKL, and PD of PID. Section Chief (KV section in MoUD) will be Member Secretary of the Committee. The mandate for the Committee is to review the progress of activities of these institutions and address issues that are hampering effective undertaking of project activities. It should meet every two months.

5.2.2 KVWSMB

125 KVWSMB should implement Strategic Plan which has already been prepared. It should develop realistic performance indicators for KUKL and establish monitoring system for KUKL. The monitoring should focus on water quality, services provided and so on as per the contract between the two institutions. It should give continuity to the Monitoring and Evaluation Committee it recently constituted. It can also establish a Consultative Group with both the GM and Deputy GM as members to discuss any issues that is of concern to both the institutions.

5.2.3 WSTFC

126 If the first option is opted, it is necessary to take some administrative steps to make it non-functional for a couple of years. 3- Members Water Tariff Fixation committee should be formed consisting of experts from three sectors; water supply, finance management and financial regulation. This committee will be formed as and when necessary. If the second option is opted, the government should support WSTFC by providing adequate fund to it through its budget. MoUD should also approve the organization structure including staffing approved and submitted by the Commission years back. In the meantime, WSTFC should prepare a clear Water Tariff Fixation guideline with templates so that service providers do not have difficulty in submitting tariff proposals as per WSTFC requirements. It will also help maintain uniformity in tariff proposals. Also, WSTFC should come out with an Action Plan to cover all the water and sewerage service providers in the country.

5.2.4 KUKL

127 GM for KUKL should be hired immediately for 4 years and there should be performance contract with him or her based on his/her Strategic plan for KUKL. Priority should be given to restructuring of KUKL organization structure along the commercial lines with creation of job descriptions adequate to the tasks. For developing efficient procedures and practices and systems, KUKL should also establish a System Design Committee which will update O&M manual and SOP prepared by capacity building and technical assistance and takes steps to implement them.

128 It is also necessary that all the employees have target set for them. It is to be reviewed every three months. GM should be given full authority to hire and fire employees. It should also establish a

Management committee chaired by GM with all the Divisional heads as members. It oversees day to day operation of the organization. The committee should meet once every week to review progress of activities of each Division. With branch managers, similar meetings should be held every fortnight as operation committee meeting including all divisional heads.

5.2.5 PID

129 The activities under PID should be carried out as it is. It should work as a separate project as it has been working now. However, it should be made more responsible to KUKL. It should have direct reporting link with GM of KUKL. The Project Steering Committee will play an advisory and supportive role only. The staff of PID should be mostly from KUKL. This will help maintain organizational memory and will help in taking up O&M activities more efficiently. Only when it is absolutely necessary, staff should be taken on deputation from MoUD or other government agencies or hired on contract. Also information on activities of PID is to be shared with the technical key staffs of KUKL every three months.

5.3 Financial Flow

5.3.1 Financial flow between KVWSMB and KUKL

130 There are basically two ways of fund flow between KVWSMB and KUKL. First one is the fund flow from KUKL to KVWSMB as a part of license and lease fee every year. There is no problem in this flow as it is straight forward. However, as pointed out earlier, KUKL has not paid any fee in this category till now due to its poor financial health. So there is no question of fund flow in this regard. Second one is the fund flow from KVWSMB to KUKL as a part of budget for Infrastructure improvement projects which were approved by the Board of KVWSMB. As most projects get delayed due to various reasons, the release of funds too gets deferred. The funds are transferred based on the percentage of work completed. To improve this situation, it is suggested that funds be transferred to KUKL Head office based on approved programs on a quarterly basis. From the second quarter, it should be based on the progress of the project work. The final fund adjustment is done at the end of Fiscal Year. KVWSMB has already established Monitoring and Evaluation Committee to monitor the progress of the project work. The Committee has representatives from both the organizations. The committee should work not only as a monitoring committee but also as a problem solving committee that addresses outstanding issues that are hampering effective implementation of activities.

5.4 Human Resource Management

131 To effectively plan and manage WASH sector and trained professional and technical staff must be developed within each institute. For this each institute should establish HR plan taking into consideration present requirements and planned development works.

132 On the part of MoUD, it should establish separate section responsible for WASH sector in KV. This is justified in the sense that Kathmandu is to be the national capital and hence the nerves centre of the Federal Republic of Nepal. The population is growing fast in KV. It is gaining more and more importance in the national perspective. This Section in the ministry should be manned by appropriate and adequate staff. It should concentrate its activities on regulation, grant funding, identifying financial resources, providing guarantees and tariff approval (if WSTFC is made non functional for few years). It also should monitor contractual relationship between KVWSMB and KUKL.

133 It should come out with a comprehensive guideline for HR plan and development strategy for other institutes. It should also try to settle issue of ownership of Urban Development Training Centre, which at present is a part of Local Development Training Academy under the Ministry of Federal Affairs and

Local Development. Also, MOUD should provide support for strengthening proposed training centre at KVWSMB which will cater to the training and development needs of institutions involved in WASH sector in KV.

- 134 In KVWSMB, the top management needs to give priority to HRP and development of its staff. Recruitment and Promotion Committee should be made more functional. HR audit should take place on the annual basis. Vacant posts should be filled in as soon as possible. The necessary curriculum development for selection of candidates in various positions had been already completed by the Expert Committee comprising of representatives from Public Service Commission, MoUD and expert from NWSC. Recruitment and Promotion Committee can use complete curriculum with set examination criteria.
- 135 In the context of KUKL too, the top management should give priority to HR Development and for this it should create HR Management Division in the restructured organization structure. The Division should conduct HR audit and try to fill in the vacant posts as soon as possible. KUKL Board has finally constituted a Recruitment and Promotion Committee under the chairmanship of representative from Kathmandu Metropolitan City. The staff developments programs should be initiated on a continuous basis based on regular training needs assessments. Apart from technical skills, the programs should focus on bringing attitudinal change in the staff and improve their customer skills. Also project management skills are to be emphasized. The staff should be made accountable for their output through identification of Performance Indicators and performance evaluation every three months. Each division should be made responsible for its own planning and accountability. For this, they have to produce their own annual plan. Line managers are to be made responsible for evaluation. To make the work of KUKL more transparent, it should come out with reports on its performance including performance indicators should be published on a quarterly basis.

6.1 Short Term Plans

136 Based on the conclusion and recommendations presented earlier, an action plan is prepared for easy reference and implementation. The Plan is prepared keeping in view that it needs to be modest rather than over ambitious and that it should be achievable without much problem. The plan is therefore, divided into short term and medium term. The short term plan is presented below in Table 6.1.

Table 6.1 Short Term Action Plans with Responsible Institution/person

S.N	Actions	Responsible institutions/Person	Remarks
A. Ministry of Urban Development (MoUD)			
1	Establish WASH section for KV within Water Supply and Environment Division	MoUD	
2	WASH Section helps create Training Units at KVWSMB and KUKL	WASH section, MoUD and KVWSMB, KUKL	
3	Prepare comprehensive guidelines on HR Plan and development strategy for KVWSMB and KUKL	WASH section, MoUD	
4	Establish Coordination Committee chaired by Secretary, MoUD to review and guide activities of institutions involved in WASH sector in KV	MoUD	
5	Publication of WASH sector progress report of all the institutions including MOUD be made a regular feature	WASH section, MoUD	
6	Review and revise Memorandum of Association and Articles of Association of KUKL by explicitly making clear roles, responsibilities and accountability of members of Board, Chairperson and GM of KUKL and making GM Member Secretary of the Board	MoUD/KUKL	This action should be started as soon as possible.
B. Kathmandu Valley Water Supply Management Board (KVWSMB)			
1	Establish a Committee to implement Strategic Plan prepared	KVWSMB Board/ED	
2	Develop Key Performance Indicators (KPIs) for ED and staff of KVWSMB	KVWSMB/MoUD	
3	Develop Key Performance Indicators for (KPIs) for KUKL as per the contract and lease agreement	KVWSMB/ED	
4	Make monitoring and evaluation system functional by having regular meeting of Monitoring and Evaluation Committee	KVWSMB/ED	
5	Establish Consultative Group/Committee consisting of senior staffs from KVWSMB and KUKL mandate to meet every fortnight to discuss on issues of mutual concern including the project work being undertaken and the service provisions from KUKL.	KVWSMB/KUKL	

S.N	Actions	Responsible institutions/Person	Remarks
6	Strengthen Training Unit proposed in the organization structure by manning it with adequate and qualified staff and starting regular training program for its staff as well as KUKL	KVWSMB	
7	Establish practice of releasing approved by KVWSMB on a quarterly basis to the head office	KVWSMB	
8	Revisit and redraft mandates of KVWSMB in the light of the increase in its scope of operation	MoUD/KVWSMB	<i>This should start as short term action because it needs sufficient time for approval</i>
9	Restructure BOD of KVWSMB as suggested	MoUD and KVWSMB	<i>This should start as short term action because it needs sufficient time for approval</i>
C. Kathmandu Upatyaka Khanepani Limited (KUKL)			
1	Appoint GM at KUKL as soon as possible for 4 years. Enter into Performance Contract with him/her which is to be reviewed every six months	KVWSMB Board/ED	
2	Prepare Strategic Plan for KUKL	KVWSMB/MoUD	
3	Develop Key Performance Indicators (KPIs) for staff of KUKL	KVWSMB/ED	
4	Provide full authority to GM on day to day operation of KUKL including hiring and punishment of staff	KVWSMB/ED	
5	Restructure KUKL organization structure in line with commercial principles and with emphasis on HRP & D by establishing HRMD Division as one of its major division and updating Staff regulation and job descriptions	KVWSMB/KUKL	
6	Develop efficient procedures and practices and their implementation by constituting a Task Force to review and update O&M manual and SOP prepared by CBTA and implement them.	KUKL Board/GM	
7	Develop HRP and policies as per the guidelines provided by MoUD	KUKL GM/HRMD Division	
8	Establish in house training center/unit which should develop detailed training programs based on training need assessment study	KUKL GM/HRMD Division	
9	Make monitoring and supervision of staff performance of KUKL according to agreed principles and KPIs defined and agreed for each employee	KUKL GM/HRMD Division	
10	Establish Management Committee at the Head office of KUKL	KUKL GM	
11	Make ED of PID report to GM of KUKL for all project activities	KUKL PID	

6.2 Medium Term Plans

137 The medium term plan is presented in Table 6.2.

Table 6.2 Medium Term Action Plans with Responsible Institution/person

S.N	Actions	Responsible institutions/Person	Remarks
1	Revisit and redraft mandates of KVWSMB in the light of the increase in its scope of operation,	MoUD/KVWSMB	<i>This is continuation of action started in short term action</i>
2	Restructure BOD of KVWSMB as suggested	MoUD and KVWSMB	<i>This is continuation of action started in short term action</i>
3	Decide on option for the operation of WSTFC: Option 1- Make WSTFC non-functional for coming few years till it is feasible to operate independently on the levy it gets from Water Board established all over the country. Establish Water Tariff fixation committee of 3 experts as and when needed. Option 2- Make WSTFC a fully fledged organization by providing adequate fund through government budget to it so that it can be independent of service providers. Limit its mandate only to tariff fixation and regulating tariff while revising its act.	GoN	
4	Prepare robust institutional framework including the organizational structure of KUKL or other service provider which will take over Melamchi project once it is completed	MoUD in consultation with KVWSMB and KUKL	

- 138 The current institutional framework for the provision of WASH services in KV is based on a separation of functions policy, planning, regulation and operations. MoUD is basically responsible for country wide policy formulation, planning and administration. KVWSMB is given the responsibility to acquire, construct, extend, improve and rehabilitate the service system in KV. It is the owner of assets of water supply and sewerage system. WSTFC is created for regulating tariff and water quality. It is expected to protect consumer's interest too. KUKL is established under the company act to provide efficient and effective water supply and sewerage services in KV under the license and lease contract from KVWSMB.
- 139 Analysis of performance of these organizations, however, indicates that the current institutional framework is inadequate in meeting the challenges of effective management of water resources and in providing efficient water and sewerage services in KV. MoUD, although has the prime responsibility for the provision of these service, it has not been able to take pro-active role to tackle the problems in WASH sector in KV, because of its enormous responsibilities on urban development as a whole.
- 140 It is also noticed that because of structural problem like provision for fund for it through levy paid to it by service providers, WSTFC has not been able to work in a full-fledged manner. As there are only few Water Boards established in Nepal and KUKL is in financial problems perennially, the expected fund flow is not taking place. As such, WSTFC is always in shortage of fund for its operation. There is no provision for fund from the government.
- 141 KVWSMB's board structure needs to be restructured along with review of its mandate as its scope of operation has increased tremendously due to creation of many municipalities in KV recently by the government. KVWSMB cannot work as an operator itself and hence has to outsource its operation responsibility to other service providers. In the absence of many service providers in the market, it has no choice but to stick to KUKL even though it is not satisfied with its performance. KVWSMB too did not function as fully fledged organization earlier but now with the new ED taking over; it is slowly gearing towards becoming a full-fledged organization after 10 years of its establishment.
- 142 KUKL, although established with a view to encourage private sector participation in PPP model, it is operating neither in a PPP model nor as a public enterprise. The ownership of shares indicate that majority of the share is owned by the government and local government agencies like the municipalities. From private sector, the shares are owned by the association of private sector organizations not by private organization itself.
- 143 Most of the Board members are ex-officio members and therefore, there is a problem of ownership of decisions made. There is dysfunctional relationship between PID and KUKL although PID is established as a project under KUKL.
- 144 While assessing institutional framework on the basis of specific criteria mentioned in previous chapters, MoUD, KUKL and PID are found to be strong in clarity of mandate and Separation of functions criteria where as KVWSMB and WSTFC are found to be weak. In case of clear accountability, MoUD and KVWSMB are found to be weak where as in transparency and good governance criterion, KUKL too found to be weak besides MoUD and KVWSMB. Judging on Human Resource Redeployment and development criteria, institutions except PID are found to be weak. Similarly, assessing through Institutional Capacity Attributes, these institutions except PID are found to be weak or very weak, particularly notable here is Strategic Leadership. But in case of KVWSMB with newly appointed ED, strategic leadership has become strong.

- 145 It is also seen that except in functions such as quality control and monitoring and evaluations, the responsibilities are clear. There is no overlapping. The institutions are also assessed on their accountability and functionality by using a series of criteria. It is found that MoUD, KVWSMB and KUKL are weak where as WSTFC and PID is seen to be strong.
- 146 Fund flow between KVWSMB and KUKL needs some fine turning by releasing budget for projects from KVWSMB to KUKL head office on a quarterly basis. Once KUKL becomes financially strong, fund flow from KUKL to KVWSMB as a part of annual payment for license and lease fees should not pose any problem.
- 147 Also, there is a need for restructuring of board of directors of KUKL and making the roles and responsibilities of Board of Directors and GM clear. GM should be entrusted with day to day administration of KUKL and should have authority to hire and dismiss the employees.
- 148 WSTFC either should be made dysfunctional for a number of years and formulation of temporary 3-members water tariff fixation committee on as and when necessary basis, and till there are a number of water boards operating in the country to justify its existence or it should be made more functional organization by providing it with adequate fund through government budgetary system.
- 149 It is suggested that PID should be made more responsible to KUKL by having its PD reporting to GM of KUKL directly. MoUD is advised to establish a separate Section/Unit looking after WASH management in KV. There is a need to give priority to HRM and development in all the institutions under discussion. Also human resource audit should be made a regular feature of management.

1. Annual Report of KUKL, 2015, KUKL
2. Annual Progress Report 2071, MoUD 2071
3. Centre Bureau of Statistics (2012), National Population and Housing Census 2011, National Report, National Planning Commission Secretaries, GoN
4. Doyle, P (1994), Strategic Marketing Management, 2nd Edition, Butterworth Heinemann, p.48.
5. KUKL Need Assessment, Final Report, JICA, Sept 2013
6. KUKL Third Annual Report (2011), KUKL
7. MN Shrestha (2002), Assessment of Hydrological Changes due to Land-use Modifications, Ph.D Thesis Dissertation, Indian Institute of Technology, Madras, Indian
8. National urban Development Strategy (2015), Ministry of Urban Development, GoN.
9. PAM, ADB Projects # 34304, Nepal-Kathmandu Valley Water Supply Improvement Project, Aug 2011.

