



# Project Readiness Financing Report

---

**PUBLIC**

Project Number: 54166-001  
March 2022

## India: Nagaland Urban Infrastructure Development Project

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

**Asian Development Bank**



## CURRENCY EQUIVALENTS

(as of 20 January 2022)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.013
\$1.00	=	₹74.43

## ABBREVIATIONS

ADB	–	Asian Development Bank
DHT	–	district headquarter town
DUD	–	Directorate of Urban Development
GON	–	Government of Nagaland
PRF	–	project readiness financing
UDD	–	Urban Development Department
ULB	–	urban local body

## NOTE

In this report, “\$” refers to United States dollars.

<b>Vice-President</b>	Shixin Chen, Operations 1
<b>Director General</b>	Kenichi Yokoyama, South Asia Department (SARD)
<b>Deputy Director General</b>	Manmohan Parkash, SARD
<b>Country Director</b>	Takeo Konishi, India Resident Mission (INRM), SARD
<b>Team leaders</b>	Ashok Srivastava, Senior Project Officer (Urban), INRM, SARD Prabhasha Sahu, Senior Project Officer (Transport), INRM, SARD
<b>Team members</b>	Soumya Chattopadhyay, Senior Programs Officer, INRM, SARD Jogendra Ghimire, Principal Counsel, Office of the General Counsel Shyam Sunder Mehndiratta, Senior Procurement Officer, INRM, SARD Chandni Narang, Project Assistant, INRM, SARD Santosh Pokharel, Urban Economist, Urban Development and Water Division, SARD Devender Rawat, Associate Programs Analyst, INRM, SARD Bhisma Rout, Programs Analyst, INRM, SARD Krishnendu Baran Sarkar, Senior Financial Management Officer, INRM, SARD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	<b>Page</b>
PROJECT AT A GLANCE	
I. PROJECT READINESS FINANCING	1
A. Rationale	1
B. Outputs and Activities	2
C. Ensuing Project	3
D. Cost Estimates and Financing Arrangements	3
E. Implementation Arrangements	4
II. DUE DILIGENCE	5
III. THE PRESIDENT'S DECISION	5
APPENDIX	
1. List of Linked Documents	6

## PROJECT READINESS FINANCING AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 54166-001	
<b>Project Name</b>	Nagaland Urban Infrastructure Development Project	<b>Department/Division</b>	SARD/INRM
<b>Country</b>	India	<b>Executing Agency</b>	Urban Development Department, Govt of Nagaland
<b>Modality</b>	Project Readiness Financing (Loan)		
<b>Borrower</b>	India		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54166-001-CEI">https://www.adb.org/Documents/LinkedDocs/?id=54166-001-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54166-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54166-001-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Water and other urban infrastructure and services</b>	Other urban services		0.500
	Urban policy, institutional and capacity development		0.250
	Urban sanitation		0.150
	Urban water supply		0.100
<b>Health</b>	Health system development		0.250
<b>Transport</b>	Urban roads and traffic management		0.750
		<b>Total</b>	<b>2.000</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Low
✓ OP4: Making cities more livable			
✓ OP6: Strengthening governance and institutional capacity			
		<b>ADB Financing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
<b>Sustainable Development Goals</b>		<b>Poverty Targeting</b>	
SDG 1.1		General Intervention on Poverty	✓
SDG 3.d			
SDG 6.1, 6.2			
SDG 10.2, 10.3			
SDG 11.2, 11.7			
SDG 12.2, 12.8			
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	Not Applicable.		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>2.000</b>	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		2.000	
<b>Cofinancing</b>		<b>0.000</b>	
None		0.000	
<b>Counterpart</b>		<b>0.500</b>	
<b>Currency of ADB Financing:</b> US Dollar			



## I. PROJECT READINESS FINANCING

### A. Rationale

1. **Context.** Nagaland, a state with multiple tribes, is in the northeastern part of India. It is a low-income state, as its per capita gross state domestic product (₹124,240) in 2018–2019 is lower than the national average (₹142,328).<sup>1</sup> For livelihood, majority of the population depends on agrarian occupations.<sup>2</sup> The primary sector has low productivity, with limited ability to absorb the educated unemployed. Nagaland Vision 2030 (prepared in 2015–2016) focuses on the comparative and competitive advantages of the state, and identifies the agriculture sector as having the most potential. Simultaneously, enabling environments have to be created to boost industrialization and urbanization, fully utilizing the state's rich natural resources for vibrant trade and commerce to emerge.<sup>3</sup> These processes have to be accompanied by focused development, upgrading, and maintenance of infrastructure to realize the full economic potential of Nagaland.

2. **Urban sector overview.** During 2001–2011, the state recorded a high decadal growth rate of 66.57% in urban population compared to the national decadal growth rate of 31.80% (footnote 2). As of 2011, the state had an urban population of 28.86% compared to the national average of 31.14%.<sup>4</sup> Presently, the urban population is spread across 39 urban local bodies (ULBs), including 16 district headquarter towns (DHTs). Moreover, the urbanization pattern is somewhat skewed, as Dimapur and Kohima districts together have a higher percentage (56%) of urban population compared to the state's average (29%) (footnote 2). Most towns in Nagaland are transitioning from rural to urban without the requisite infrastructure and services.

3. The towns and cities in Nagaland are confronted by significant long-term challenges such as climate change, lack of basic amenities, a housing shortage, and lack of economic activities. Further, most towns have development areas, including major transport routes, that are severely affected by landslides during the monsoon.<sup>5</sup> The water supply is grossly inadequate, with an average supply of 1 hour per day; none of the towns has sewerage or septage management systems except in Dimapur (under a state government project).<sup>6</sup> Poor state of urban roads without proper stormwater drainage (59.5% of urban houses have access to drainage facility) also severely affects livability in urban areas (footnote 6). There has been substantial deficit in urban services in all the towns because of limited investments in urban infrastructure and weak institutional capacities. Thus, as a prerequisite for achieving the full potential of economic growth in Nagaland, there is a need to improve key infrastructure.

4. **Project readiness financing and value addition.** The Government of Nagaland (GON) has requested a project readiness financing (PRF) facility from the Asian Development Bank (ADB) to support the preparation of the Nagaland Urban Infrastructure Development Project covering 16 DHTs. The PRF will support the GON in conducting holistic planning and developing priority infrastructure investment subprojects with innovative and finance plus

---

<sup>1</sup> Government of Nagaland (GON), Department of Economics and Statistics. 2019. [Nagaland Economic Survey, 2018–2019](#). Kohima; and Reserve Bank of India. 2021. [Handbook of Statistics on Indian Economy](#). Mumbai.

<sup>2</sup> Government of India. [Census of India, 2011](#). Of total workers, 76% were main and 24% were marginal workers. Of total main workers, 60% were engaged in agrarian occupations, 1% in household industries, and 39% in others.

<sup>3</sup> GON. 2016. [Nagaland Vision 2030](#). Kohima.

<sup>4</sup> Government of India, Ministry of Housing and Urban Affairs. 2019. [Handbook of Urban Statistics, 2019](#). New Delhi.

<sup>5</sup> GON, Nagaland State Disaster Management Authority. 2020. [Nagaland State Disaster Management Plan](#). Kohima.

<sup>6</sup> GON, Public Health Engineering Department. 2021. [Annual Administrative Report, 2020–2021](#). Kohima; and Government of India, NITI Aayog. 2021. [SDG India Index and Dashboard, 2020–2021: Partnerships in the Decade of Action](#). New Delhi.

elements. The PRF is consistent with ADB's country partnership strategy for India, 2018–2022.<sup>7</sup> It is closely aligned with the following operational priorities of ADB's Strategy 2030: addressing remaining poverty and reducing inequalities; tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; making cities more livable; and strengthening governance and institutional capacity.<sup>8</sup> The PRF will contribute to the operational priorities by designing climate resilient urban infrastructure (water supply, sanitation, solid waste management, and urban roads) for 16 DHTs to acceptable standards and coverage, including access to poor and vulnerable; strengthening institutional capacity and improving resource mobilization of ULBs; enhancing technical, procurement, and financial capacities of agencies for preparing and undertaking the ensuing project; and initiating sector and institutional reforms.

## **B. Outputs and Activities**

5. The PRF will ensure high readiness of the ensuing project by delivering the following outputs which will be achieved through mobilization of consulting services under the supervision of and coordination by the GON, the Urban Development Department (UDD), and the Directorate of Urban Development (DUD).

6. **Output 1: Sector strategy and investment plans prepared.** Covering 16 DHTs, the PRF will support (i) preparing and/or strengthening an urban sector strategy and sector assessment;<sup>9</sup> and (ii) preparing phased investment plans based on a multi-indicator prioritization matrix to be developed under the PRF, to serve as the basis for identifying ensuing subprojects.

7. **Output 2: Feasibility studies, detailed engineering designs, and due diligence of priority subprojects completed.** Output 2 will be achieved by (i) undertaking feasibility studies and detailed engineering design to support the preparation of detailed project reports;<sup>10</sup> (ii) conducting due diligence to cover technical, economic, and financial assessments; environmental and social safeguards; gender equality and social inclusion analysis and planning; climate risk and vulnerability assessment; and impact assessment of coronavirus disease (COVID-19) on project preparation, cost, and implementation of the priority subprojects;<sup>11</sup> and (iii) undertaking project procurement risk and capacity assessment, and a strategic procurement planning study to identify contract packages and modalities; prepare procurement and contract management plans, bid documents; and support the bidding process.

8. **Output 3: Institutional capacity strengthened.** Output 3 will be delivered by (i) carrying out an institutional and organizational review to identify and implement pre-project capacity building activities for the executing and implementing agencies (and other stakeholders of the ensuing project) in areas such as safeguards, climate change resilience of urban infrastructure, procurement, gender equality and social inclusion, stakeholder engagement, financial management, operation and management, and contract management; (ii) establishing institutional mechanisms and processes for undertaking investment-ready infrastructure

<sup>7</sup> ADB. 2017. [Country Partnership Strategy: India, 2018–2022—Accelerating Inclusive Economic Transformation](#). Manila.

<sup>8</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

<sup>9</sup> Urban Strategy for water supply, sanitation, solid waste management, urban roads, municipal planning, and resource mobilization.

<sup>10</sup> The detailed project reports prepared will ensure that national standards and codes are met, and best practices are incorporated. These reports will include detailed cost estimates, construction drawings, and necessary supporting documentation in formats accepted by ADB for each selected subproject.

<sup>11</sup> This will also include due diligence of existing detailed project reports separately prepared in the state, if any.



projects; (iii) preparing short-, medium-, and long-term strategies for institutional and financial strengthening, including augmenting own-source revenue through tax and nontax reforms at the ULB level, keeping in view the sociopolitical scenario in the state; and (iv) recommending a governance performance framework outlining requisite reform actions and the scope of the institutional strengthening component of the ensuing project to ensure asset sustainability.

### C. Ensuing Project

9. The ensuing Nagaland Urban Infrastructure Development Project, with an indicative financing requirement of \$110 million, will be financed from ADB's ordinary capital resources. It is expected to be approved in the fourth quarter of 2023. The ensuing project aims to (i) improve urban infrastructure in priority urban areas in 16 DHTs in the state of Nagaland, and (ii) strengthen institutional and financial capacities identified based on the results of preparatory activities supported under the PRF. The loan amount for the ensuing project will be confirmed upon (i) subproject prioritization, (ii) detailed engineering design for the selected subprojects, (iii) implementation period determination, (iv) assessment of absorptive capacity of the executing agency and the contracting industry, and (v) availability of counterpart funding from the GON.

### D. Cost Estimates and Financing Arrangements

10. The PRF is estimated to cost \$2.50 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual.<sup>12</sup>

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Sector strategy and investment plans prepared	0.17
2. Feasibility studies, detailed engineering designs, and due diligence of priority subprojects completed	1.53
3. Institutional capacity strengthened	0.50
<b>Subtotal (A)</b>	<b>2.20</b>
<b>B. Contingencies<sup>c</sup></b>	<b>0.26</b>
<b>C. Interest During Implementation<sup>d</sup></b>	<b>0.03</b>
<b>Total (A+B+C)</b>	<b>2.50</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Includes taxes and duties of \$0.34 million to be financed by the state government through cash contribution as part of its overall counterpart funding. Such amount does not represent an excessive share of the project cost.

<sup>b</sup> In early-2022 prices as of 20 January 2022 using an exchange rate of \$1.00 = ₹74.43.

<sup>c</sup> Physical contingencies computed at 6.5% for consulting services. Price contingencies computed in the range of 1.7%–1.8% on foreign exchange costs and in the range of 4.0%–4.8% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Interest during implementation for the ordinary capital resources loan has been computed at the 3-year United States dollar fixed-swap rate plus an effective contractual spread of 0.5%.

Source: Asian Development Bank estimates.

11. The Government of India has requested a regular loan of \$2 million from ADB's ordinary capital resources to help finance project preparation and design activities. The loan will have a 15-year term, including a grace period of 3 years; an interest rate determined in accordance with ADB's Flexible Loan Product; and such other terms and conditions set forth in the draft loan agreement.

<sup>12</sup> Project Administration Manual (accessible from the list of linked documents in the Appendix).

12. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to consulting services.

**Table 2: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan) <sup>a</sup>	2.00	80.0
Government <sup>b</sup>	0.50	20.0
<b>Total</b>	<b>2.50</b>	<b>100.0</b>

<sup>a</sup> The project readiness financing loan will be refinanced under an ensuing loan; the refinancing date will be the expected date of effectiveness of the ensuing loan agreement and will generally be adjusted to coincide with the actual effectiveness date of the ensuing loan agreement. The refinancing date will be before the first principal repayment date to the project readiness financing loan.

<sup>b</sup> The government contribution includes interest during implementation, taxes, and duties.

Source: Asian Development Bank estimates.

## E. Implementation Arrangements

13. The UDD will be the executing agency, and the DUD will be the implementing agency. The Public Health Engineering Department will support the DUD in the water supply component. The implementation arrangements are summarized in Table 3 and described in detail in the project readiness financing project administration manual (footnote 12). Procurement will follow the ADB Procurement Policy (2017, as amended from time to time), the Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and its associated staff instructions. The project management unit that will be established at the DUD under the UDD will be led by a project director, and will be adequately staffed and suitably resourced.

**Table 3: Implementation Arrangements for Project Readiness Financing**

Aspects	Arrangements		
PRF implementation period	March 2022–February 2025		
Estimated PRF completion date	31 August 2024		
Management			
(i) Executing agency	Government of Nagaland acting through the Urban Development Department		
(ii) Implementing agency	Directorate of Urban Development		
Consulting services	Firm: QCBS (quality–cost ratio–90:10)	1 PDMC firm, 418 person-months	\$1.59 million
	Individual: Individual consultant selection	4 individual consultants, 52 person-months	\$0.31 million
Advance contracting and retroactive financing	The Government of Nagaland will use retroactive financing and advance contracting for consulting services. ADB will provide retroactive financing for expenditures incurred before loan effectiveness but not earlier than 12 months from the date of the signing of the legal agreement, subject to a maximum amount equivalent to 20% of the loan amount.		
Disbursement	Disbursements under the PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, PDMC = project design and management consultant, PRF = project readiness financing, QCBS = quality- and cost-based selection.

Source: ADB.

## II. DUE DILIGENCE

14. **Technical.** The project design and management consultant, in coordination with the DUD, will deliver the envisaged outputs while conducting due diligence based on field surveys and investigations covering technical, social, environmental, economic viability, financial impact of COVID-19, and climate change and disaster risk. To establish the climate resiliency of the improved urban infrastructure plans and feasibility studies, each of the ensuing subprojects will accomplish a rapid climate risk assessment using a preliminary climate risk screening checklist. As appropriate, further assessments and measures to strengthen resilience against natural hazard and climate change impacts will also be undertaken. A gender equality and social inclusion action plan will be developed to ensure effective gender equality and social inclusion mainstreaming, including the potential for facilities serving the elderly, women, children, differently abled, and transgender people in the ensuing project. Four individual consultants will provide handholding support to the project management unit established at DUD.

15. **Governance.** A fiduciary assessment for the DUD under the UDD was carried out. The UDD has prior experience with an ADB-financed project,<sup>13</sup> but the DUD has none. A financial management assessment of the DUD noted that, considering the risk factors identified for the size of the PRF loan with subject-to-mitigation arrangements during the implementation period, the assessed overall financial management risk is *moderate*. Strengthening is required in the external audit function for timely submission of audit reports, the internal audit function, the introduction of a computerized accounting system, and the induction of appropriate accounting staff. With approval of advance contracting by ADB, the DUD has completed recruitment of the project design and management consultant, following the Procurement Regulations for ADB Borrowers. The financial management constraints identified in internal controls at the DUD will be mitigated by engaging a firm for the internal audit function. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

16. **Safeguards.** Since the proposed activities consist of consulting services only, activities have not been categorized in accordance with ADB's Safeguard Policy Statement (2009).<sup>14</sup> However, the ensuing project will avoid subprojects in, or close to, national parks, wildlife sanctuaries, or any other environmentally sensitive areas. The safeguard classification for the ensuing project is likely to be B for environment and B for involuntary resettlement.<sup>15</sup> No adverse impacts from the ensuing project are expected for indigenous peoples (category C). The PRF will finance the preparation of safeguard documents for the ensuing project.

## III. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the loan of \$2,000,000 to India for the Nagaland Urban Infrastructure Development Project, from the ordinary capital resources of the Asian Development Bank (ADB), in regular terms, with interest to be determined in accordance with ADB's Flexible Loan Product; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement; and hereby reports this action to the Board.

---

<sup>13</sup> ADB. 2009. [India: North Eastern Region Capital Cities Development Investment Program Tranche 1 and Tranche 2](#). Manila.

<sup>14</sup> The PRF will not finance any pilot testing of project design.

<sup>15</sup> ADB will confirm the safeguard categorization of the ensuing project during due diligence and project preparation, when information on the exact locations, beneficiaries, and nature and extent of works will become available.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/LinkedDocs/?id=54166-001-PRF>

1. Loan Agreement
2. Project Agreement
3. Project Administration Manual