



Report and Recommendation of the President to the Board of Directors

Project Number: 55054-001
November 2021

Proposed Programmatic Approach and Policy- Based Loan for Subprogram 1 and Technical Assistance Grant India: Sustainable Urban Development and Service Delivery Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 7 November 2021)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.013
\$1.00	=	₹74.18

ABBREVIATIONS

ADB	–	Asian Development Bank
AMRUT	–	Atal Mission for Rejuvenation and Urban Transformation
ARHC	–	affordable rental housing complex
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
GESI	–	gender equality and social inclusion
JNNURM	–	Jawaharlal Nehru National Urban Renewal Mission
M&E	–	monitoring and evaluation
MOHUA	–	Ministry of Housing and Urban Affairs
NDB	–	New Development Bank
NRW	–	nonrevenue water
O&M	–	operation and maintenance
PBL	–	policy-based loan
PMAY-U	–	<i>Pradhan Mantri Awas Yojana</i> (Housing for All)–Urban
PPP	–	public–private partnership
TA	–	technical assistance
ULB	–	urban local body

NOTES

- (i) The fiscal year (FY) of the Government of India and its agencies ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2022 ends on 31 March 2022.
- (ii) In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 55054-001	
Project Name	Sustainable Urban Development and Service Delivery Program (Subprogram 1)	Department/Division	SARD/SAUW
Country	India	Executing Agency	Ministry of Housing and Urban Affairs
Borrower	India		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=55054-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=55054-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban policy, institutional and capacity development	350.00	
		Total	350.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	1,186,000.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		ADB Financing	
✓ Making cities more livable		Adaptation (\$ million)	75.69
✓ Strengthening governance and institutional capacity		Mitigation (\$ million)	31.99
Sustainable Development Goals		Cofinancing	
SDG 6.1, 6.2, 6.3, 6.4, 6.6		Adaptation (\$ million)	0.00
SDG 11.1, 11.3, 11.6		Mitigation (\$ million)	0.00
SDG 13.a		Gender Equity and Mainstreaming	
		Some gender elements (SGE)	✓
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Complex		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		350.00	
Sovereign Programmatic Approach Policy-Based Lending (Regular Loan):		350.00	
Ordinary capital resources			
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		350.00	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-OTHERS) in the amount of \$1,500,000.			
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed programmatic approach for the Sustainable Urban Development and Service Delivery Program, and (ii) a proposed policy-based loan (PBL) to India for subprogram 1 of the Sustainable Urban Development and Service Delivery Program. The report also describes proposed technical assistance (TA) for Strengthening Institutional Capacity for Sustainable Urban Development and Service Delivery, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.

2. The proposed program is the first national PBL in the urban sector in India. It is a programmatic PBL with two subprograms of \$350 million each within the PBL period of 2021–2023 and will be supported by the attached TA (paras. 32–33). It aims to improve access to basic urban services in India by accelerating a series of policy actions and reforms that will mainstream performance-linked funding for urban service delivery. The program reforms will establish and operationalize (i) national and subnational policies, guidelines, and programs for accelerated achievement of universal water supply and improved sanitation service delivery with associated urban reforms; (ii) policies and programs for providing rental housing to urban migrant and industrial workers, working women, and the poor; and (iii) policies and guidelines for performance-based central fiscal transfers. Subprogram 1 will establish essential policies and guidelines at the national level. Subprogram 2 will prepare and commence the specific reform actions and program proposals at state and urban local body (ULB) levels following the set policies and guidelines under subprogram 1, which will be enforced through performance-based grants.

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **India's economy.** India was among the world's fastest-growing economies from fiscal year (FY) 2013 to FY2020, with gross domestic product (GDP) growth averaging 6.6%, supported by sound macroeconomic management and economic development policies that have contributed to a substantial reduction in poverty.¹ The central government's fiscal deficit averaged 3.6% during FY2016–FY2020, down from 4.8% in FY2011–FY2015.² GDP contracted sharply to –7.3% in FY2021 because of the coronavirus disease (COVID-19) pandemic. The government's structural reforms—such as the reduction in the corporate tax, introduction of the goods and services tax, and streamlining of business processes to improve the ease of doing business—have helped to raise India's productivity and competitiveness. Building on these reforms, the government launched *Atmanirbhar Bharat Abhiyan* (Self-reliant India Campaign) to initiate wider economic reforms—including measures to boost manufacturing competitiveness with job creation, urban reforms, and infrastructure investments of \$1.4 trillion during FY2019–FY2025—to accelerate inclusive economic transformation, and to stir post-COVID-19 economic recovery.

4. GDP is expected to recover strongly, with growth of 9.5% in FY2022 and 8.5% in FY2023.³ After a sharp increase of public debt in FY2021 estimated at 90% of GDP, it is projected to decline to 85% of GDP by FY2027, reflecting lower deficits and favorable interest rate–growth differential, but debt will remain significantly higher than pre-pandemic levels and gross financing needs are

¹ Computed from Government of India, Ministry of Statistics and Plan Implementation. [Annual GDP Data](#) (accessed 2 June 2021).

² Reserve Bank of India. 2020. [Handbook of Statistics on Indian Economy 2019–20. Table 232](#). Delhi.

³ International Monetary Fund (IMF). 2021. [India Staff Report for the 2021 Article IV consultations](#). Washington DC.

projected to remain elevated (footnote 3). The government's economic reforms focus on reviving the investment momentum, attracting strong inflows of foreign investment, strengthening the rural economy, encouraging start-ups, promoting domestic manufacturing, and addressing constraints to infrastructure growth. Although no standard methodology is in place for estimating urban GDP in India, based on estimates by the Central Statistics Office, private agencies, and researchers, the urban share of GDP is estimated at average 60%.⁴ The country's general direction of macroeconomic conditions and policies is deemed satisfactory.

5. **Urbanization in India.** India's urban population of 460 million in 2020 is the second largest in the world.⁵ However, as a share of the country's total population (34%), it is much less than the Asian average of 50%. India's urban population is projected to grow at an annual rate of 2.01% over the next 3 decades to reach nearly 600 million by 2030 and 876 million by 2050.⁶ Estimates of the Asian Development Bank (ADB) suggest that, for developing Asia, a one percentage point increase in urbanization is associated with 3%–5% higher real GDP per capita.⁷ Therefore, the urban sector must become a strong engine of growth for India to become an upper middle-income country, generating economic activity and outputs, creating jobs absorbing massive amounts of workers, improving competitiveness and urban livability, and protecting environment. As urbanization grows, there is also a significant increase in urban slums as rural poor migrate to the cities in search of better livelihood. As per 2011 census, about 65.5 million or 17.4% of the urban population live in slums, which was estimated to have reached about 81 million by 2020.

6. **Core development problem.** Urban development in India has not been able to maximize the economic benefits associated with increasing urbanization.⁸ With uncontrolled urbanization, many cities are not equipped to provide basic urban services such as water supply, sanitation, and housing to their increasing urban populations.⁹ Poorly managed urbanization has curbed social gains, and compromised environmental sustainability, exposing many people to worsening climate and disaster risks. Urban sector development has been constrained by several overarching factors: (i) insufficient urban service delivery; (ii) limited progress in the nationwide delivery of the urban reform agenda, with inadequate incentives for reforms; (iii) insufficient funding to the urban sector; (iv) low financial capacity of ULBs, with overdependence on fiscal transfers; and (v) evolving governance frameworks, which slow private sector participation in urban services delivery.¹⁰ These constraints are further described in paras. 7–11.

7. **Insufficient urban service delivery.** There has been a strong bias towards adding physical infrastructure rather than providing financially and environmentally sustainable

⁴ Government of India, Ministry of Housing and Urban Affairs (MOHUA). 2019. [Consultation Paper on City GDP Measurement Framework](#). New Delhi.

⁵ United Nations, Department of Economic and Social Affairs, Population Division. 2019. [World Urbanization Prospects: The 2018 Revision](#). New York.

⁶ Government of India. 2019. [Census of India, 2011: Population Projections for India and States, 2011–2036—Report of the Technical Group on Population Projections](#). New Delhi.

⁷ ADB. 2019. [Asian Development Outlook 2019 Update—Fostering Growth and Inclusion in Asia's Cities](#). Manila.

⁸ National Institute of Urban Affairs. 2018. [Making Cities Work: Policies and Programs in India](#). New Delhi.

⁹ Only 56.9% of urban households have piped water supply, and nonrevenue water (NRW) is high at 40%–60% for most cities and towns. Only 53.5% are connected to underground drainage, and others dispose of their wastewater in covered surface drains (16.2%) or in an unsafe manner (27.8%). Wastewater treatment capacity is at 37%, which means that untreated sewage is dumped into water bodies and pollutes the environment. About 36.2% of urban households do not own a house, and 23.1% of urban householders are staying in rental housing without rental contracts (Government of India, National Statistical Office. 2019. [Drinking Water, Sanitation, Hygiene and Housing Condition in India. NSS 76th Round](#). New Delhi).

¹⁰ Sector Assessment (Summary): Water and Other Urban Infrastructure and Services (accessible from the list of linked documents in Appendix 2).

services.¹¹ Indian cities score very low on the Ease of Living Index 2021 as urban investment does not target to incentivize improvement in urban service delivery.¹² The urban poor, especially women, suffer from lack of tap water connections and poor sanitation services, which create unhealthy conditions, and result in high health risks and deprive women of income-generating activities. Water bodies are polluted and/or silted because of unplanned urbanization and inefficient drainage systems. Groundwater is being depleted because of over-abstraction. Water charges are low and often do not meet even operation and maintenance (O&M) costs. The urban poor gets pushed into slums or informal settlements. Insufficient supply of good quality affordable housing undermines workforce productivity and the potential for economic gains.

8. Need to fast-track progress on reforms. ULBs implement development plans and urban development strategies approved by states, and are responsible for providing urban services such as water, sanitation, and solid waste management.¹³ ULBs need to be empowered to plan and deliver urban services through effective devolution and capacity building. The extent of urban development and sectoral reforms varies because of widely differing urban landscapes and socioeconomic contexts across India. Past national urban missions—such as the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT),¹⁴ and Smart Cities Mission¹⁵ laid the foundation for urban reforms. However, the pace and quality of reforms have been below expectations as these national programs focused on infrastructure investments and did not clearly articulate the service level standards requirement. Certain qualitative and process-oriented reforms under those programs were not linked to tangible service delivery outcomes.¹⁶ Also, there were no significant incentives provided for the states and ULBs to undertake critical reforms measures.

9. Insufficient urban investment. The average annual capital expenditure required for the urban sector during FY2021–FY2025, including covering shortfalls in previous years, is expected to be \$45.7 billion, which equals 1.5% of GDP.¹⁷ Average annual grant support from the central government since FY2015 has been about \$7.7 billion. Though information on capital expenditure in the urban sector by various states is not consolidated, annual average capital expenditure in the urban sector is estimated to be about \$19 billion (equals 0.70% of GDP), of which ULB funding is no more than 20%. Therefore, the central and state governments together are estimated to fund about \$15 billion (or 0.55% of GDP), indicating a significant shortfall. India is still in the early stages of implementing public–private partnerships (PPPs) in the urban sector.¹⁸ Private sector investment in urban services is negligible for lack of bankable projects in the urban sector,

¹¹ The World Bank. 2011. [India's Urban Challenges](#). Washington DC.

¹² Government of India, MOHUA. 2021. [Ease of Living Index 2020: Assessment Report](#). New Delhi.

¹³ ULBs' main sources of revenue include property taxes, user fees for urban services, and fiscal transfers from the national and state governments.

¹⁴ AMRUT was launched in 2015 to improve urban services (water supply, sewerage and septage management, stormwater drainage, nonmotorized urban transport, and green space) in 500 selected towns with a population of more than 0.1 million (2011 census) and some other towns. To date, about 5,891 projects worth \$11.1 billion are either completed or under implementation, and the mission has provided 11.2 million water connections and 8.7 million sewer connections to households and sewage treatment plants with a total capacity of 1,800 million liters per day. As part of municipal reforms, 468 ULBs were credit rated and nine ULBs raised municipal bonds under AMRUT. In addition, 439 ULBs have established online building permit systems as part of improved e-governance.

¹⁵ MOHUA launched Smart Cities Mission in 2015 to promote 100 smart cities that provide core infrastructure, clean and sustainable environment and give decent quality of life to citizens through applicability of technological solutions.

¹⁶ Reforms such as ULBs following double-entry accounting, preparing city level urban planning, creating municipal staffing, conducting energy and water audits, were qualitative and process oriented.

¹⁷ Government of India. 2020. [Report of Task Force on National Infrastructure Pipeline](#). Delhi.

¹⁸ Of the 1,117 PPP projects in 64 countries during 1990–2020 in the water and sewerage sector reaching financial closure—only 20 were from India with investment of only \$1.25 billion. Source: The World Bank. [Infrastructure Finance, PPS, and Guarantees](#).

because of inadequate municipal reforms in setting up affordable user charges for sustainable operations, limited mobilization of other revenues, and staff capacity constraints for delivering PPP transactions.

10. **Low financial capacity of urban local bodies.** The municipal finance system equals about 1% of GDP. Financial support from the central and state governments increased from 0.35% of GDP in FY2011 to 0.45% in FY2018.¹⁹ This occurred with increased attention to grant support for investments in urban infrastructure from both the national and state governments. With growing demand for sustainable urban infrastructure and services, ULBs need to strengthen their capacity to mobilize their own revenues. ULBs' own-source revenue has remained low, equal to about 0.55% of GDP, because of slow pace of municipal finance reforms, lack of incentives to implement reforms, and high dependence on government support. Ample scope exists to increase ULB own-source revenues, not least by reforming the property tax regime. Property tax is a major source of municipal revenue in many countries. Data from the Organisation for Economic Co-operation and Development show that average property tax collection for countries in the group equals to about 1.10% of GDP. In India, it has been 0.15%–0.20%, which is even less than the average of 0.60% in developing countries, peers such as Malaysia and the Philippines collecting 0.50% and Indonesia 0.30%.²⁰

11. **Evolving governance framework.** The government's first guiding framework for urban governance reforms started with the 74th constitutional amendment of 1992, which gave urban local governments a constitutional status as the third tier of governance. State governments are responsible for defining key strategic policies, for example approving tariffs for urban services. The central government continuously strives to shape the urban reform agenda with a view to empowering ULBs. It consistently provides discretionary financial support through fiscal transfers to the states and ULBs through its national urban programs, which has enabled increased urban expenditure and asset creation in priority areas. However, it has not sufficiently translated into improved service delivery to meet national benchmarks. This is partly because of the prevalence of input-based funding, with a limited focus on outcomes. The government also needs to promote data-driven and participatory governance through a citizen feedback mechanism, and validation of ULB performance in urban service delivery in real time.

12. **Alignment with government and ADB priorities.** The Government of India intends to significantly accelerate national urban programs and associated reforms supported by the Ministry of Housing and Urban Affairs (MOHUA). The program aligns with the government's national programs that promote cities as engines of economic growth by improving the quality of urban life—through the creation of high-quality urban infrastructure, assured service provisions, and efficient governance.²¹ The program aligns with the ADB country partnership strategy for India, 2018–2022, which envisages inclusive urbanization by supporting investments in municipal infrastructure, promoting municipal reforms, improving governance, and building capacity in ULBs,

¹⁹ Indian Council for Research on International Economic Relations. 2019. *State of Municipal Finances in India—A study prepared for the Fifteenth Finance Commission*. New Delhi; and Sector Assessment (Summary): Water and Other Urban Infrastructure and Services (accessible from the list of linked documents in Appendix 2).

²⁰ R. Awasthi and M. Nagarajan. 2020. [Property Taxation in India: Issues Impacting Revenue Performance and Suggestions for Reform](#). *Governance Discussion Paper*. No. 5. Washington, DC: World Bank; and Indian Council for Research in International Economic Relations. 2019. [State of Municipal Finances in India: A Study Prepared for the Fifteenth Finance Commission](#). New Delhi.

²¹ Government of India. 2017. [Report of the Group of Secretaries: Group 4—Health, Sanitation and Urban Development](#). New Delhi; and Government of India, National Institution for Transforming India Aayog. 2018. [Strategy for New India@75](#). New Delhi.

through a mix of modalities, including policy advice.²² Policy support will help achieve universal and equitable access to urban services in line with ADB Strategy 2030 and its operational priorities (OPs) of addressing remaining poverty and reducing inequalities (OP1); accelerating progress in gender equality (OP2); tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability (OP3); making cities more livable (OP4); and strengthening governance and institutional capacity (OP6).²³

B. Policy Reform, ADB's Value Addition, and Sustainability

13. **Government's reform agenda.** The government, as a part of its COVID-19 economic recovery reform initiative (para. 3), intends to significantly accelerate reforms in urban service delivery. On 1 October 2021, the Prime Minister launched AMRUT 2.0, a national flagship urban water mission, which aim to achieve universal coverage of piped water supply across all urban areas, and improved sanitation in 500 larger towns in the next 5 years.²⁴ Under AMRUT 2.0, central government grant disbursements are linked to meeting the service delivery outcome targets such as household water and sewerage or septage connections, as well as targeted reform incentives to ensure water security such as reducing NRW to less than 20%, rejuvenation of water bodies, reuse of treated wastewater to meet 20% of cities' water demand and 40% of aggregate industry water demand at state level (Reform area 1). The government has also established a new urban rental housing program for migrant laborers and the poor to safeguard their livelihoods as COVID-19 recovery program (Reform area 2). Further, in line with the report of India's 15th Finance Commission, routine fiscal devolution is made conditional on local revenue improvements, with yearly targets to reach 95% efficiency in the coverage and collection of property taxes and user charges (Reform area 3).²⁵

14. The PBL modality is designed to accelerate the implementation of policy actions that are crucial for structural urban reforms linked to (i) improving water supply and sanitation service delivery outcomes and local revenue under AMRUT 2.0, with the aim of making cities water-secure and climate resilient through circular water economies achieved through water source conservation, rejuvenation of water bodies, groundwater management, and the reuse of treated wastewater; (ii) enhancing access to affordable housing for the poor, migrant workers, industrial workers, and working women; and (iii) implementing the 15th Finance Commission's recommendation for performance-based fiscal transfers to the states and ULBs. A programmatic approach (vertical packaging of reforms) with two subprograms, each for \$350 million, is proposed to support policy actions in a sequential manner at the national level (subprogram 1), and to ensure that reforms are undertaken coherently at the state and ULB levels (subprogram 2) within the PBL period of 2021–2023.²⁶ All actions for subprogram 1 have been completed. Under subprogram 1, critical policies at the central level are consolidated under three reform areas, to

²² ADB. 2017. [Country Partnership Strategy: India, 2018–2022–Accelerating Inclusive Economic Transformation](#). Manila.

²³ The program contributes to OP1 by promoting inclusive access to water, sanitation services, and housing; OP2 by mainstreaming gender equality and social inclusion (GESI) in MOHUA institutional processes, and national policies/guidelines; OP3 by promoting water conservation and innovative technologies for housing; and OPs 4 and 6 by improving ULBs' capacity, including the revenue base, accountability mechanism, and urban environment; and incentivizing private sector involvement. ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

²⁴ The government launched AMRUT 2.0 as an extension of AMRUT to provide universal coverage of water supply to 4,800 towns, and sewerage and sanitation to 500 AMRUT towns by March 2026 benefiting about 80 million additional population including the poor. AMRUT 2.0's reform agenda focuses on water security and the financial sustainability of ULBs.

²⁵ XV Finance Commission. 2020. [Finance Commission Report for 2021–26](#). New Delhi.

²⁶ The policy design and monitoring framework is in Appendix 1.

help the states and ULBs immediately initiate AMRUT 2.0 and rental housing programs with improved fiscal devolution formula, such as the policies and guidelines for designing schemes for universal coverage of water and sewerage, wastewater recycling, associated municipal reforms, and PPP. Under subprogram 2, AMRUT 2.0 will be broken down into subcomponents such as commencing implementation of holistic action plans by states and ULBs for improved service delivery and reforms, and operationalizing and implementing policies at the state and ULB levels.

15. Reform area 1: National and subnational policies and guidelines for universal and improved water supply and sanitation service delivery established. AMRUT 2.0 was approved by the cabinet with financial outlay of over \$37 billion, which aims to provide universal coverage of piped water supply and improved sanitation coverage by providing 26.8 million new water supply connections, and 26.4 million new sewerage or septage connections.²⁷ The program will disproportionately benefit urban poor and women not having piped water and sewerage connections. Under subprogram 1, as per the government-approved AMRUT 2.0, MOHUA issued program implementation regulations through operational guidelines to the states, which articulate the key strategic elements of (i) accelerated achievement of universal coverage of piped water supply in 4,800 towns, and sewerage or septage management in 500 AMRUT towns, and incentive based reforms for reducing NRW to less than 20%, recycling and reuse of treated wastewater to meet 20% of water demand of ULBs, and O&M sustainability; (ii) rejuvenating urban water bodies to augment fresh water supply, with the objectives of developing green spaces to augment water conservation and amenity value, reducing flood impacts, maintaining a positive groundwater balance; (iii) projects amounting to at least 10% of the total project allocation for cities with population above 1 million to be mandatorily taken up in PPP mode; and (iv) mainstreaming gender equality and social inclusion (GESI) measures in achieving universal coverage of water supply and sanitation including involvement of women in water demand management, capacity building, O&M of assets, behavior change communication, and information, education, and communication strategies.

16. Under subprogram 2, the MOHUA will operationalize the mission with state governments, covering the following aspects: (i) at least 10 states will approve and commence implementation of state water action plans outlining annual targets (2023–2026) for providing universal coverage of piped water supply through tap connections to all urban households, and sewerage and/or septage connections in AMRUT towns; (ii) following the memorandum of understanding signed between MOHUA, states and ULBs, the 10 states will enjoin at least 250 ULBs in those states to carry out reforms under AMRUT 2.0, and allocate funds to ULBs annually based on identified financing gaps; (iii) at least 10 states will operationalize the policy guidelines for recycling and reusing water to meet 20% of their ULBs' water demand; (iv) at least 250 ULBs will begin implementing action plans for continuous water supply with NRW reduction (2023–2026); and (v) at least 10 states will implement a policy or government order on user charges for water supply and sewerage, with periodic increases to recover O&M costs for sustainable operations and improve collection efficiency.²⁸ MOHUA will operationalize a paperless AMRUT 2.0 monitoring system to promote data-driven and participatory governance, using a technology-based monitoring and evaluation (M&E) platform and a citizen feedback mechanism involving women

²⁷ AMRUT 2.0 has earmarked significant grant component of \$290 million (3.25% of the central allocation) to support ULBs in preparing and implementing various action plans, including detailed project reports, setting up of project management and implementation units, cost of project development and management consultants, capacity building, and support in reforms implementation. Separate grant allocations are made for (i) project management at MOHUA level (\$160 million); (ii) information, education, and communication campaigns (\$90 million); and (iii) supporting implementation of innovative environment-friendly technologies in water sector (\$90 million).

²⁸ States and ULBs set up different user charges for non-domestic and domestic water consumers, including lower charges for the poor, considering the affordability and equitability of the provision of services.

for direct validation of ULBs' performance on an annual basis. MOHUA will roll out an e-learning platform to sensitize ULBs with GESI in urban water supply service delivery. At least 10 states will implement measures to mainstream GESI aspects in state water action plans to enhance service delivery through women's participation in water management. MOHUA will institute a policy for states for time-bound implementation of water body rejuvenation and operationalize policy guidelines for inclusion of PPP component in state water action plans for cities with population above 1 million. At least 250 AMRUT towns operationalize policy guidelines by developing road map for ground water recharge augmentation through time-bound implementation of urban aquifer management plans.

17. Reform area 2: Housing policies and programs to improve access to rental housing for urban migrant and industrial workers, working women, and the poor established. This reform area focuses on Housing for All (PMAY-U), which is a very large, nationwide program launched in 2015 to build 11.3 million households at a total investment of nearly \$100 billion.²⁹ The housing agenda has advanced following reforms such as the Real Estate (Regulation and Development) Act, 2016; establishment of state real estate regulatory authorities; the Model Tenancy Act, 2019; and the establishment of various state housing programs for the poor. The COVID-19 pandemic has resulted in the reverse migration of urban migrant workers, industrial laborers, and the poor, which has severely affected the sustainability of urban economic activities. Urban migrant workers, industrial laborers, working women, and the poor need decent rental housing at affordable rates near their work sites. The government launched a program for providing affordable rental housing complexes (ARHCs) for urban migrant and industrial workers, working women, and the poor residing in unorganized settlements.³⁰ The outcome from this reform is significant as it will curb reverse migration trend and help in increasing labor productivity.

18. Under subprogram 1, MOHUA approved (i) a policy for ARHCs to (a) provide universal shelter for urban migrant workers, industrial workers, and the poor in urban areas; (b) ensure preference in allotments for scheduled castes, scheduled tribes, other backward classes, widows, working women, people with disability, minorities from economically weaker sections, and other low-income groups; and (c) provide incentives to the concessionaires of ARHCs (e.g., exemptions from income tax, goods and services tax, and concessional loans); (ii) a policy to provide innovation grants for projects that incorporate innovative technologies in affordable housing construction including six demonstration projects; and (iii) policies or directives for houses developed by states to ensure barrier free accessibility following the Rights of Persons with Disabilities Act, 2016; and to include rainwater harvesting systems to promote sustainable building practices.

19. Under subprogram 2, (i) at least 10 states will comply with ARHC policy guidelines for providing shelter to urban migrant workers, industrial workers, working women, and the poor in urban areas by converting vacant government-funded houses into ARHCs through PPP or by public agencies, or incentivizing public or private entities to provide ARHCs on their own property;³¹ (ii) at least 10 states will implement guidelines for ULBs to operationalize a system for generating sex-disaggregated data on the beneficiaries to evaluate the inclusion of women and

²⁹ Under PMAY-U, about 76% households from economically weaker section category (household with annual income less than \$4,025) will be benefitted. As of end-October 2021, about 8.86 million houses are grounded for construction, out of which 5.18 million have been completed with central assistance commitment of about \$25 billion.

³⁰ ARHC is a sub-scheme under PMAY-U, which is expected to have investment of about \$1 billion and will generate 0.42 million direct and indirect jobs. Government of India, MOHUA. 2020. [Affordable Rental Housing Complexes: Operational Guidelines](#). New Delhi.

³¹ About 75,000 government-owned vacant dwelling units are targeted to be converted to ARHCs. In addition, new construction of 40,000 dwelling units and 180,000 dormitory units are targeted by public and private entities.

disadvantaged groups; (iii) MOHUA will institute a policy for any state or concessionaire to incorporate at least 10 innovative and replicable technologies (e.g., green and climate resilient, cost-effective, speedier implementation, or meeting diverse geo-climatic conditions) in their proposals for accessing MOHUA grants; and (iv) at least 10 states will comply with policy guidelines in the state housing projects under PMAY-U to include design features for older persons, women, children, and persons with disability; and provisions for rainwater harvesting system to promote sustainable building practices.

20. Reform area 3: Policies and guidelines for performance-based central fiscal transfers to urban local bodies established. This reform area promotes performance-based central fiscal transfers based on the recommendations of the 15th Finance Commission. This reform will help improve local financial resource generation in ULBs, and will have a significant impact on urban governance improvement. Under subprogram 1, the Ministry of Finance approved operational guidelines for the states to implement the recommendation of the 15th Finance Commission progressively from FY2022 to FY2026 toward linking fiscal transfers to ULBs to (i) urban service delivery improvements in water supply, sanitation, rainwater harvesting, and water recycling; (ii) property tax collection reform; and (iii) their timely submission of audited accounts and online disclosure of their accounts.³²

21. Under subprogram 2, (i) at least 10 states will comply with operational guidelines issued by the government through a memorandum of understanding with MOHUA, that include a baseline for urban services as of 1 April 2021, and annual targets for achieving urban service delivery benchmarks until FY2026 through investments planned under AMRUT 2.0; (ii) at least 10 states will amend state municipality and municipal corporation acts and rules on floor rates for property tax for different types of properties—residential, commercial, and industrial—to broaden the tax revenue base;³³ and (iii) at least 250 ULBs will (a) comply with municipal accounts manuals and/or guidelines prepared by states based on the National Municipal Accounts Manual published by MOHUA, and (b) disclose online by 31 December 2023 provisional accounts for FY2023 and audited accounts for FY2022.

22. ADB's experience in the sector and lessons. ADB is a key development partner in India's urban sector. It has worked with various states since 1996 to support urban infrastructure and service delivery, institutional capacity building, policy advice, and sector reforms. ADB supported JNNURM, the government's first nationwide urban mission, launched in 2005, through TA to ensure (i) governance reforms in states and ULBs, (ii) the efficient processing and implementation of interventions in ULBs, and (iii) the effective management and disbursement of grant funds.³⁴ In addition, ADB supported MOHUA's Smart Cities Mission. Lessons from ADB's policy-based lending to make greater use of PBL in sectors where investment loans are also undertaken and ADB has experience, to ensure that policy constraints on the achievement of the overall development outcome, such as increased access to services, are supported by relevant policy reforms.³⁵ The relevant reference is ADB's engagement in Rajasthan Urban Sector Development Program, which comprises of a program financed by PBL to support policy reforms,

³² 15th Finance Commission has recommended fiscal transfer of \$16.2 billion for the period FY2022 to FY2026, to be allocated to two categories of cities: (a) \$5.1 billion is allocated for million plus cities (\$1.6 billion linked to air quality improvement, and the remaining \$3.5 billion for meeting service level benchmark for water supply, sanitation and solid waste management); and (b) \$11.1 billion for other cities—of which 60% (\$6.6 billion) is earmarked equally for (i) drinking water, rainwater harvesting and water recycling, and (ii) sanitation and solid waste management.

³³ ULBs are required to show consistent improvement in collection of property tax in line with at least the simple average growth rate of respective state's own GDP from FY2024 onwards.

³⁴ ADB. [India: Support for the Jawaharlal Nehru National Urban Renewal Mission](#).

³⁵ Independent Evaluation Department. 2018. [Corporate Evaluation – Policy-based Lending 2008-2017: Performance, Results and Issues of Design](#). Manila: ADB.

institutional development and governance support, and a project loan for investments in water and sewerage infrastructure.³⁶

23. **ADB value addition.** This is ADB's first national PBL in the urban sector in India, but it builds upon long engagement in urban sector at the state level. ADB has engaged with MOHUA and in various states toward implementing urban national flagship missions after JNNURM, such as AMRUT and the Smart Cities Mission, which have helped MOHUA design AMRUT 2.0. ADB's experience has contributed to AMRUT 2.0, which, with ADB's policy support, will be widely replicated through the mission. ADB helped MOHUA finalize guidelines for AMRUT 2.0 that incorporate a number of replicable elements demonstrated in ADB's interventions including NRW reduction; inclusive sanitation; and smart technologies such as supervisory control and data-acquisition systems to support high-quality, efficient, and continuous tap water supply for consumers; GESI and a poverty focus, and cost recovery through volumetric tariff collection. AMRUT 2.0 provides a significant platform for ADB to work with MOHUA and state governments to scale up and replicate these elements, with ADB providing policy advice on important and timely urban sector reforms. Reform area 2 focuses on affordable rental housing scheme for the poor, working women, industrial workers, and migrant workers, the design of which is drawn on ADB's rental housing project in Tamil Nadu. ADB was engaged with the Finance Commission and provided inputs on the performance-based fiscal transfer to local governments.³⁷

24. In subprogram 2, ADB will support follow-up reform in states and ULBs by leveraging its experience, working with development partners, and having dialogue at various government level to help states and ULBs improve service delivery through performance-linked financing. ADB's TA support focusing on lower-income states with capacity constraints will result in quality state and city level water action plans and proposals complying with AMRUT 2.0 guidelines by reflecting best practices in project design including safeguards and GESI aspects, institutional mechanisms, and capacity building for effective program implementation. TA will also support (i) establishing data-driven governance through a digital platform for effective mission M&E to ensure timely delivery of outcomes, and (ii) public outreach and stakeholder consultations and engagement. Experiences and lessons from the program will be disseminated to other states in India and beyond, as will international best practices, through knowledge publications, workshops, and international dialogues on key topics like municipal resource mobilization. These will be facilitated using the Capacity Development Resource Center platform of ADB's India Resident Mission.

25. **Post-program engagement framework.** ADB envisages continued engagement with the central and state governments alike in urban service delivery, financing, and policy advocacy through national flagship programs. The focus will be on lower-income states, which require support in capacity building, institution strengthening, and policy reform implementation. Envisaged as a future engagement is a potential state-level sector development program or results-based lending that combines policy reforms and project investment under AMRUT 2.0, in coordination with other development partners. This PBL could facilitate future investments in the urban water segment by private players through the One ADB approach.³⁸ It would also provide opportunities for structuring PPP components under AMRUT 2.0 and ARHCs. Private sector investment is envisaged in projects such as water and sewage treatment plants, sewage water recycling for industrial use, and municipal bonds.

³⁶ Independent Evaluation Department. 2020. [Validation Report: Rajasthan Urban Sector Development Investment Program in India](#). Manila: ADB.

³⁷ ADB.2020. [Strengthening India's Intergovernmental Fiscal Transfers—Learnings from the Asian Experience](#). Manila.

³⁸ The One ADB approach encourages collaboration between ADB's sovereign and nonsovereign operations, synergy in knowledge activities between operations and non-operations departments, and integrated solutions through collaboration across sector and thematic groups.

26. **Sustainability.** The reform agendas of AMRUT 2.0 and the 15th Finance Commission are geared toward water security by reducing NRW, meeting 20% of water demand through recycled water, waterbody rejuvenation, groundwater management, and toward ensuring financial sustainability through annual revision of user charges, property tax reform, ULB creditworthiness enhancement, and urban planning reforms. All reforms serve to increase climate resilience of the urban water sector. ADB will play an important role in implementing reforms in states and ULBs, drawing on its vast experience in India and elsewhere in Asia.

27. **Development partner coordination.** Development partner support in the urban sector is guided by the country's policy direction and reform agenda. Given that urban planning and development are the responsibilities of individual states, most development partner support is directed at the states. The World Bank recognizes urban livability and sustainability and air pollution control as key development challenges, and prioritizes water supply, wastewater management, and affordable housing.³⁹ The Japan International Cooperation Agency (JICA) also prioritizes urban development and provide loans and TAs focused on urban transport, water supply, and sewerage. The New Development Bank (NDB) is processing a \$500 million loan to MOHUA for PMAY-U.⁴⁰ ADB was engaged with AFD in conceptualizing their program for Smart Cities Mission.⁴¹ The program team held consultations with the World Bank, JICA, Department of International Trade, British High Commission in India, and the NDB to (i) maximize reform impact and results; (ii) build partnership and cooperation, and ensure complementarity in program implementation in states and ULBs; and (iii) share lessons. ADB has collaborated closely on fiscal projections and broader macroeconomic analysis with the International Monetary Fund, which has provided an assessment letter for the program.⁴² ADB will continue to engage with development partners, including during the post-program phase, for a well-coordinated approach.

C. Expected Outcome of the Reforms

28. The program will assist state governments and ULBs in commencing implementation of national urban flagship programs for improving access to basic urban services for water, sanitation, and housing as its outcome. It aligns with the country's overarching development objective of rapidly transforming cities into economically vibrant and environmentally sustainable habitats that provide equitable access to basic infrastructure, public services, and opportunities to all citizens, especially poor including women (footnote 21) over the longer term. Reforms of national and subnational policies for universal and improved service delivery will ensure access to basic urban services such as water supply, sanitation, and affordable rental housing, especially for the poor most affected by the pandemic.⁴³ Performance-based reform-linked fiscal transfers will ensure the sustainability of urban services and incentivize ULBs to generate local resources, and holistically address underlying urban constraints (paras. 6–11). The program will support the post- pandemic recovery by providing impetus for critical urban investments.⁴⁴

³⁹ World Bank. 2018. [Country Partnership Framework for India, 2018–2022](#). Washington DC.

⁴⁰ The NDB has proposed a sustainable development loan modality for the PMAY-U.

⁴¹ The City Investments to Innovate, Integrate and Sustain (CITIIS) program of AFD is providing grants and technical assistance to 12 smart city projects in collaboration with MOHUA and European Union. ADB supported consultation, evaluation and selection of projects for financing.

⁴² International Monetary Fund Assessment Letter (accessible from the list of linked documents in Appendix 2).

⁴³ After completion of the PBL, states and ULBs are expected to commence implementation of national urban flagship programs, which will take 5-7 years to complete. Improved access to basic services will only be fully realized after completion of civil works and all infrastructure is put in operation.

⁴⁴ Program Economic or Impact Assessment (accessible from the list of linked documents in Appendix 2).

D. Development Financing Needs and Budget Support

29. The COVID-19 pandemic caused the government's fiscal deficit to increase significantly to 9.2% of GDP (\$245.1 billion) in FY2021. It is estimated that it could gradually decrease to 6.8% of GDP (\$201.1 billion) in FY2022 (budget estimate) and 5.4% of GDP (\$203.2 billion) by FY2024, in line with the government's targeted fiscal deficit–GDP ratio of 4.5% by FY2026.⁴⁵ The government's financing needs in FY2022, computed as the sum of the fiscal deficit and repayments, will be met almost entirely from domestic sources that include market borrowings (dated securities), borrowings from financial institutions, and drawdown of cash balances. Gross external borrowings in FY2022 are expected to be \$5,664.9 million, of which \$2,090.2 million (36.9%) will be from ADB and the remainder from other sources, including other development partners. ADB's \$350 million financing for subprogram 1 will account for 6.2% of the gross external borrowings and 0.17% of the government's fiscal deficit in FY2022.

Table 1: India's Central Government Financing Needs (\$ million)

No.	Indicators	FY2021	FY2022 Budget Estimates	Proportion of Gross External Borrowings
A	Total receipts	227,721.9	263,812.8	
B	Total expenditure	473,198.4	464,941.9	
C=B-A	Fiscal deficit (net financing need)	245,476.5	201,129.1	
D	Net domestic borrowings	236,006.1	200,927.0	
E	Net external borrowings	9,470.4	202.1	
F	External debt repayments	4,678.5	5,462.8	
E+F	Gross external borrowings, of which	14,148.9	5,664.9	
	ADB		2,090.2	36.9%
	Other sources		3,574.7	63.1%

Source: Asian Development Bank estimates based on data from the [Government of India's Budget 2021–2022](#); and exchange rates from International Monetary Fund. 2021. [World Economic Outlook, Managing Divergent Recoveries](#). Washington, DC (April 2021).

30. The program will provide budget support of \$700 million under two subprograms. The government has requested a regular loan of \$350 million from ADB's ordinary capital resources to help finance subprogram 1.⁴⁶ The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan and program agreements. Based on the straight-line method, the average maturity is 9.25 years, and no maturity premium is payable to ADB.

E. Implementation Arrangements

31. India will be the borrower of this loan. MOHUA will be the executing and implementing agency for the program. MOHUA will guide and monitor the implementation of the PBL. ADB will monitor program implementation through regular missions and periodic reviews to (i) confirm the progress and fulfillment of policy actions; (ii) monitor the continued applicability of the assumptions that may impact program success, as well as specified risks and their mitigating measures; and (iii) advise on actions to maintain effective implementation within the program period. The program does not involve procurement, advance contracting, or retroactive financing. The proceeds of the

⁴⁵ ADB estimates based on Government of India, Speech of Finance Minister. 2021. [Budget 2021–2022](#). Delhi.

⁴⁶ This lending proposal was not included in ADB. 2020. [Country Operations Business Plan: India, 2021–2023](#). Manila. India's Department of Economic Affairs, in a letter dated 6 January 2021, requested ADB's financial assistance as an addition to the country operations business plan. ADB's South Asia Department confirmed that such financial assistance can be accommodated in the 2021 resource envelope.

PBL will be withdrawn following ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The overall implementation period for the program is April 2021–December 2023, with subprogram 1 from April 2021 to October 2021; and subprogram 2 from November 2021 to December 2023.

III. ATTACHED TECHNICAL ASSISTANCE

32. Attached TA will provide knowledge and advisory support to MOHUA and state governments toward rolling out policy reforms under AMRUT 2.0 in states and ULBs, mainly under subprogram 2. The TA has two outputs: (i) MOHUA's capacity to manage, implement, monitor, and evaluate the reform program under AMRUT 2.0 strengthened; and (ii) capacity of states and ULBs to prepare and implement AMRUT 2.0 and related programs strengthened. The first output will help MOHUA (i) develop guidelines and establish mechanisms to monitor the implementation of AMRUT 2.0,⁴⁷ (ii) capture lessons from AMRUT 2.0 implementation, and (iii) strengthen the capacity of the AMRUT 2.0 program management unit. The guidelines will ensure that crosscutting issues, such as climate change and GESI mainstreaming, are addressed. TA resources will be used to implement key GESI actions. The second output is designed to facilitate the high-quality preparation of AMRUT2.0 programs and implementation of reforms including municipal resource mobilization, prioritizing lower-income states having capacity constraints, which can be replicated by other states and ULBs. TA will help ULBs and states prepare investment plans and provide recommendations on safeguards assessment and monitoring.⁴⁸

33. TA is estimated to cost \$1,670,000, of which \$1,500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of counterpart staff, office space, and other in-kind contributions. ADB will administer the TA.⁴⁹ The government will undertake policy actions with TA support; and identify opportunities for expanding, strengthening, and sustaining reforms in states and ULBs including preparation of AMRUT 2.0 projects. The TA will begin in January 2022 and be implemented over 30 months until June 2024. TA implementation arrangements will align with the program implementation arrangements.

IV. DUE DILIGENCE

34. **Economic.** The program team qualitatively assessed the PBL. The program is expected to have the following positive economy-wide impacts: (i) improved access to drinking water and sanitation services, as well as improved access to affordable housing for migrant workers, industrial workers, working women, and the poor, will have health benefits and reduce the disease burden on urban residents, especially women, thereby enhancing labor productivity; (ii) policy provision for ARHCs and viability gap funding for PPP projects in the water sector will help attract private sector investment in the urban sector; (iii) ULBs will be incentivized and supported to develop institutional capacity, take ownership, and develop decentralized demand-driven urban services, as well as improve service quality as their financial envelope expands through performance-linked central fiscal transfers, reduced NRW, increased property tax collection, and performance improvements that reduce the cost of service delivery and create efficiencies; (iv) water resources management will be improved by reusing wastewater, managing groundwater

⁴⁷ The TA will support preparation of guidelines for states and ULBs to prepare quality city water balance plan, city water action plan, aquifer management plan, and water rejuvenation plans.

⁴⁸ Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

⁴⁹ All consultants will be recruited following the ADB Procurement Policy (2017, as amended from time to time). All disbursements under the TA will be made following ADB's *Technical Assistance Disbursement Handbook* (2020, as amended from time to time).

aquifers, rejuvenating water bodies, and setting water tariffs that reflect O&M costs and the scarcity value of water; and (v) jobs will be created in urban areas by public investment in building downstream infrastructure.

35. **Governance.** MOHUA follows national laws on public financial management, while subnational governments follow the respective public financial management regulations. Central and state governments practice a well-organized and systematic approach to budget formulation, linked to fiscal targets under the respective fiscal responsibility legislation, to ensure prudence in fiscal management and fiscal stability. The Office of the Comptroller and Auditor General of India (the supreme audit institution of India) carries out regular statutory external audits. ADB's country partnership strategy for India, 2018–2022 (footnote 22) flagged two issues: (i) low capacity in executing agencies to handle multidisciplinary tasks on interdepartmental coordination and governance; and (ii) weaknesses in the urban governance institutional framework. While MOHUA has experience in implementing various national programs, the attached TA will enhance the capacity of MOHUA and state agencies (including ULBs) to mitigate the risk further. The program will strengthen ULB capacity to deliver basic services through better planning and an enhanced revenue base. Moreover, an online M&E platform to be established by MOHUA under the program will improve reform monitoring and increased transparency. As ADB financing will be provided as budget support to the Ministry of Finance, no significant risk is associated with fund flow.

36. **Safeguards.** Following ADB's Safeguard Policy Statement (2009), the program is classified *category C* for environment, involuntary resettlement, and indigenous peoples safeguards. The policy actions supported by the program are not expected to have adverse impacts on the environment or indigenous peoples or require involuntary resettlement. The safeguard assessment matrix indicates the potential impacts of each policy action under subprogram 1, together with the corresponding mitigation measures.⁵⁰ The safeguards matrix focuses on subprogram 1, but during the processing of subprogram 2, ADB will discuss with the government the potential indirect environment and social impacts of the policies once they are implemented by the states and ULBs. TA will support an institutional review and capacity assessment for safeguards under subprogram 2, and provide recommendations to address any constraints or suggest any improvements.

37. **Mainstreaming climate change.** A climate risk and adaptation assessment was undertaken during program preparation, and identified how basic urban services are sensitive to a changing climate. An increase in temperature and changes in precipitation patterns will affect the performance of service delivery under reform area 1. Urban water supply is very sensitive to changes in rainfall and requires adaptation measures on both the supply side, such as through improved water resources management, and through demand-side management. Extreme weather and higher temperatures can affect the performance of wastewater treatment plants. Urban water bodies, while very sensitive to climate impacts, are critical for building resilience through improved groundwater recharge and for reducing flood risks. Accordingly, relevant policy actions proposed for reform areas 1 and 2 promote the integration of climate adaptation and resilience considerations based on the local climate risk context.⁵¹ The program will contribute to climate mitigation by reducing water wastage and promoting energy-efficient technologies. Climate change adaptation is estimated to cost \$75.69 million, and climate change mitigation \$31.99 million. ADB will finance 100% of climate change adaptation and mitigation costs.

⁵⁰ Matrix for Potential Environmental and Social Impacts and Measures (accessible from the list of linked documents in Appendix 2)

⁵¹ Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

38. **Poverty and social.** Following the 2020 Global Multidimensional Poverty Index, India halved its Multidimensional Poverty Index value from FY2006 to FY2016 and achieved the world's largest reduction in the number of multidimensionally poor people (by 273 million).⁵² However, the COVID-19 pandemic could affect about 400 million workers in India's informal sector, pushing them deeper into poverty. Based on the international poverty line of \$3.2 per day, the population living below the poverty line reached 44.1% in 2020 because of the COVID-19 pandemic but is expected to fall back to 33.5% in 2022.⁵³ A growing gap between higher- and lower-income states remains a chronic concern. The program will support equitable access to basic urban infrastructure, public services, and opportunities for all through better living conditions, by accelerating and implementing policy actions and urban reforms for improved urban service delivery. Urban poor communities and other socially excluded and vulnerable populations such as older people, women, children, and people with disabilities suffer disproportionately from a lack of reliable and safe water supply and sanitation services. Insufficient affordable housing forces migrant workers, industrial workers, and the poor, including women, to live in substandard housing, or commute long distances. The program will benefit about 81 million current urban poor by improving their living conditions. It is estimated that during pandemic response, there was a homeward exodus of 11.4 million migrant workers, and ARHC is a small but important step toward solving the shelter problem for the migrant population. Program benefits are more prominent considering the COVID-19 pandemic, as the provision of shelter, clean water, and improved sanitation are important to combat health risks, particularly for the poor.

39. **Gender.** Subprogram 1 is categorized *some gender elements*. The program will help MOHUA institutionalize GESI commitments in the key urban programs of AMRUT 2.0 and PMAY-U by mainstreaming policies on women's participation in water demand management and infrastructure operation. GESI guidelines established under subprogram 1 will be applied across all schemes benefiting women and other disadvantaged groups in AMRUT2.0 and ARHC. Subprogram 2 will build on subprogram 1 to pursue *effective gender mainstreaming* categorization. AMRUT 2.0 guidelines strongly commit to gender equality by supporting women's participation in decision-making processes, such as through a citizen feedback mechanism, structures and practices related to water resources management, and self-help groups to support asset operations. States and ULBs will implement the guidelines, which will include gender targets, under subprogram 2. Subprogram 2 will include preparing and implementing a standardized module to mainstream GESI in urban services delivery; as well as set up an e-learning platform to enable state agencies and ULBs to sustain the inclusion of GESI principles in urban service delivery. Under reform area 2, guidelines will be prepared to help ULBs use a sex-disaggregated beneficiary database to evaluate compliance with ARHC's preferential policy for women and disadvantaged groups. This program will improve the quality of urban life, especially for women, the poor, slum dwellers, industrial workers, and migrant workers—by making access to housing, water supply, and sanitation services gender and socially inclusive. The policy actions will enable states and ULBs to narrow GESI gaps across urban service provision by (i) identifying women and disadvantaged groups as target beneficiaries, (ii) ensuring their participation in resource and service planning and management, and (iii) obtaining feedback from them on functional performance so that their unmet needs can be systematically addressed.

40. **Risks and mitigating measures.** Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.⁵⁴

⁵² Oxford Poverty and Human Development Initiative and United Nations Development Programme. 2020. [Global Multidimensional Poverty Index 2020](#).

⁵³ ADB (Economic Research and Regional Cooperation Department). 2021. Updated Poverty Estimates. Memorandum. 19 April (internal).

⁵⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Lack of central government's direct control over state governments under the federal structure slows implementation more than envisaged.	Under AMRUT 2.0, 40% of central grant is conditional to the achievement implementation of the set performance targets and reform actions, which will serve as enforcement measure. Real time monitoring of the national mission on an electronic platform at MOHUA, including ULBs' performance assessment through a citizen feedback mechanism will encourage states to deliver program objectives. Attached TA will be used to engage with the state and local governments.
Weak capacity and administrative inefficiency in state implementing agencies and ULBs will hinder the timely achievement of service delivery performance targets.	MOHUA has prepared guidelines for states and ULBs to implement reforms. AMRUT 2.0 has included significant grant to support planning activities undertaken by states and ULBs (footnote 27). TA will support reform action planning in selected states and ULBs for replication by other states and ULBs. It will help MOHUA monitor program delivery on a digital platform, enabling timely and effective intervention. Asian Development Bank will be continuously engaged in implementation of AMRUT 2.0, in collaboration with other development partners.
State and local governments prioritize short-term stimulus for economic revival from the COVID-19 pandemic over urban sector reforms.	Provision of central grant will be an incentive to implement AMRUT 2.0 as COVID-19 economic recovery process. States prioritize investments in water supply and sanitation, recognizing its importance in dealing with the pandemic situation. TA support will be used to engage with state and local governments.

AMRUT = Atal Mission for Rejuvenation and Urban Transformation, COVID-19 = coronavirus disease, MOHUA = Ministry of Housing and Urban Affairs, TA = technical assistance, ULB = urban local body.

Source: Asian Development Bank.

41. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MOHUA.

V. ASSURANCES

42. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft loan agreement and program agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

VI. RECOMMENDATION

43. I am satisfied that the proposed programmatic approach and policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the programmatic approach for the Sustainable Urban Development and Service Delivery Program, and
- (ii) the loan of \$350,000,000 to India for subprogram 1 of the Sustainable Urban Development and Service Delivery Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; 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 program agreement presented to the Board.

Masatsugu Asakawa
President

18 November 2021

POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Cities transformed into economically vibrant and environmentally sustainable habitats that provide equitable access to basic infrastructure, public services, and opportunities to all citizens (Strategy for New India@75) ^a		
Outcome Subnational governments commenced implementation of national urban flagship programs for improving access to basic urban services for water, sanitation, and housing. ^b	Risks and Critical Assumptions R: Weak capacity and administrative inefficiency of state level implementing agencies and ULBs will hinder timely achievement of service delivery performance targets. A: Grant support and performance-based schemes from Government of India will encourage states and cities to achieve service delivery and policy reform outcomes.	
Prior Actions: Subprogram 1 Completed April 2021–October 2021	Policy Actions: Subprogram 2 November 2021–December 2023	Outcome Indicators December 2024
Reform Area 1: National and subnational policies and guidelines for universal and improved water supply and sanitation service delivery established		
1.1 Government of India approved a national urban water mission (AMRUT 2.0) ^c to clearly articulate a national policy with the key strategic elements of: <ul style="list-style-type: none"> (i) accelerated achievement of universal coverage of piped water supply to urban households, and 100% sewage and septage management in AMRUT towns making access to water supply and sanitation gender and socially inclusive especially in the poor and slum areas, and by setting a policy to provide central assistance, grants and incentives for reforms^d to ULBs with following objectives: <ul style="list-style-type: none"> (a) providing about 26.8 million water connections and 26.4 million sewer or septage connections for improved quality of life of urban population, especially women in terms of reducing drudgery and time saving; (b) providing continuous water supply in 500 towns identified under AMRUT, and reducing NRW to less than 20% ; and (c) recycling and reuse of treated wastewater to meet 20% of water demand of ULBs. 	2.1 MOHUA and/or the state governments will operationalize AMRUT 2.0 to achieve its objectives covering the following aspects: <ul style="list-style-type: none"> (i) at least 10 states will approve and commence implementation^e of state water action plans outlining annual targets (2023–2026) with resource requirements and responsible agencies for providing universal coverage of piped water supply through tap connections to all urban households, and sewerage and/or septage connections in AMRUT towns; (ii) in accordance with the MOU signed between MOHUA, states and ULBs, the states^f will enjoin at least 250 ULBs^g to carry out reforms under AMRUT 2.0 and allocate funds to ULBs on annual basis based on identified financing gaps; (iii) at least 10 states will operationalize^e policy guidelines for recycling and reuse of treated used water to meet 20% water demand of its ULBs; (iv) at least 250 ULBs will commence implementation^g of action plans (2023–2026) for continuous water supply with NRW reduction; and (v) at least 10 states will implement a policy or government order on user charges for water supply and sewerage with a formula ascertaining periodic increase and substantial recovery of operation and maintenance for sustainable operations. 2.2 MOHUA will operationalize a paperless AMRUT 2.0 monitoring system to promote data-driven and participatory governance using:	<ul style="list-style-type: none"> a. At least \$15 billion value of projects under AMRUT 2.0 mission approved as prescribed in five-year state water action plans. (2021 baseline = 0) b. At least 10 states received 30% of first installment of grants released based on approved targets under state water action plans. (2021 baseline = 0) c. At least 10 PPP projects proposed by states and/or ULBs with population above 1 million approved by MOHUA under AMRUT 2.0 for urban service delivery (2021 baseline = 0)

Prior Actions: Subprogram 1 Completed April 2021–October 2021	Policy Actions: Subprogram 2 November 2021–December 2023	Outcome Indicators December 2024
<p>(ii) rejuvenating water bodies in urban areas to augment fresh water supply with objectives of (a) developing green spaces to augment water conservation and amenity value, (b) reducing flood impacts in urban areas, (c) maintaining positive groundwater balance in urban aquifer system, and (d) mainstreaming women's participation in the activities.</p> <p>(iii) projects amounting to at least 10% of the total project allocation for all cities with population above 1 million to be mandatorily taken up in PPP mode to incentivize private sector participation in urban water infrastructure and services.ⁱ</p> <p>(iv) mainstreaming GESI measures through</p> <ul style="list-style-type: none"> (a) involvement of women in water demand management, water infrastructure operations and providing feedback on functional outcomes; (b) capacity building programs for stakeholders including contractors, plumbers, plant operators, students, women, and citizens; (c) inclusion in tender process for operation maintenance responsibility including for women self-help groups; (d) co-opting community, especially women and youth and institutions as partners in water supply, used water management, and water bodies rejuvenation; (e) capacity building of 75,000 elected representatives, out of which one-third are women; and (f) women participation in BCC and IEC strategies. <p>1.2 MOHUA approved and rolled out operational guidelines, for compliance by states and</p>	<ul style="list-style-type: none"> (i) technology-based M&E platform where states and ULBs upload all real time information electronically, and (ii) a citizen feedback mechanism involving women for direct validation of ULBs' performance on annual basis. <p>2.3 MOHUA will roll out an e-learning platform for training and capacity building to sensitize states and ULBs for GESI in urban water supply service delivery including climate and disaster resilience.</p> <p>2.4 At least 10 states will implement measures to mainstream the GESI in state water action plans for promoting participation of women in water demand management for enhanced service delivery based on a standardized module^h prepared by MOHUA for use by the states and ULBs.</p> <p>2.5 MOHUA will institute a policy for states to incorporate in their state water action plans proposals for time-bound implementation of water bodies rejuvenation (2023–2026) in order to augment fresh water supply, increase green spaces, augment water conservation, reduce flood impacts, and maintain positive ground water balance. At least 10 states will incorporate the following proposals in their state water action plans:</p> <ul style="list-style-type: none"> (i) 5 water bodies in cities with population more than 4 million; (ii) 3 water bodies in towns with population of 1 million to 4 million; (iii) 2 water bodies in towns with population of 100,000 to 1 million; and (iv) one water body in towns with population below 100,000. <p>2.6 At least 250 AMRUT towns operationalize policy guidelines by developing road map for ground water recharge augmentation through time-bound implementation of urban aquifer management plans (2023–2026) with a focus on maintaining positive groundwater balance in urban aquifer.</p> <p>2.7 At least 10 states will operationalize policy guidelines for inclusion of PPP component in state water action plans for cities with population above 1 million to attract private sector participation in urban water infrastructure and services.</p> <p>Documents Required (Reform Area 1): MOHUA to provide (i) MOU signed between MOHUA, states and ULBs as described in 2.1 (ii); (ii) action plans, policy guidelines, government orders, etc. submitted by states as described in 2.1 (i), (iii)-(v), 2.5, 2.6 and 2.7; (iii) weblink for online platform for mission</p>	

Prior Actions: Subprogram 1 Completed April 2021–October 2021	Policy Actions: Subprogram 2 November 2021–December 2023	Outcome Indicators December 2024
<p>ULBs, for the AMRUT 2.0 covering all strategic elements of national policy described in policy action 1.1.</p> <p>Documents Required (Reform Area 1): MOHUA to provide: (i) relevant notification and/or office memorandum for approval of AMRUT 2.0, and (ii) AMRUT 2.0 guidelines as issued to the states and ULBs.</p>	<p>M&E, and notification issued for a citizen feedback mechanism through <i>Pey Jal Survekshan</i> as described in 2.2; and (iv) module and program design and weblink to e-learning platform to mainstream gender and social inclusion aspects as described in 2.3 and 2.4.</p>	
Reform Area 2: Housing policies and programs to improve access to rental housing for urban migrant and industrial workers, working women, and the poor established		
<p>1.3 MOHUA approved a policy for ARHCs under PMAY-U to:</p> <ul style="list-style-type: none"> (i) provide universal shelter for urban migrant workers, industrial workers and poor in urban areas;^l (ii) ensure preference shall be given to scheduled castes, scheduled tribes, other backward classes, widows, and working women, people with disabilities, minorities from economically weaker section and low-income group segments;^k and (iii) provide incentives to the concessionaire of ARHCs such as exemption from income tax and GST, and access to concessional loans. 	<p>2.8 At least 10 states will comply with MOHUA's policy guidelines of ARHC for providing shelter to urban migrant workers, industrial workers, working women, and poor^k in urban areas, using either of the following models:</p> <ul style="list-style-type: none"> (i) utilizing existing government-funded vacant houses to convert into ARHCs through PPP or by public agencies, and (ii) promoting public or private entities to provide ARHCs on their own premises. <p>2.9 At least 10 states will implement guidelines for ULBs to operationalize a system for generating ARHC beneficiaries data disaggregated by sex, social class, and other vulnerabilities to evaluate the inclusion of women and disadvantaged groups.^k</p>	<p>d. At least 75,000 rental housing units for migrant workers, industrial workers, and poor (including at least 33% women) across states and union territories allotted. (2021 baseline = 2,500 units)</p> <p>e. At least 10 states reported ARHC beneficiaries disaggregated by sex, social class, and other vulnerabilities in line with ARHC policy. (2021 baseline = 0).</p>
<p>1.4 MOHUA approved policy under PMAY-U to provide innovation grant for projects that incorporate innovative technologies in affordable housing construction and approved six demonstration projects.^l</p>	<p>2.10 MOHUA will institute a policy for any state or concessionaire to incorporate at least 10 innovative and replicable technologies like green and climate resilient technologies, cost-effective and speedier implementation, meeting diverse geo-climatic conditions, etc. in their proposals for accessing grant support from MOHUA.</p>	
<p>1.5 MOHUA approved policies/directives under PMAY-U for the houses developed by the states (i) to ensure barrier free accessibility in compliance with Rights of Persons with Disabilities Act (2016), and (ii) to include rainwater harvesting systems to promote sustainable building practices.</p> <p>Documents Required (Reform Area 2):</p>	<p>2.11 At least 10 states will comply with the policy guidelines in the state housing projects under PMAY-U to include (i) EWCD responsive features in design,^m and (ii) provisions of rainwater harvesting system to promote sustainable building.</p> <p>Documents Required (Reform Area 2): (i) ARHC proposals of the states; (ii) ARHC beneficiaries data disaggregated by sex, social class, and other vulnerabilities; (iii) ARHC proposals from the states for accessing grants for adopting innovative technology; and (iv) state housing project proposals</p>	

Prior Actions: Subprogram 1 Completed April 2021–October 2021	Policy Actions: Subprogram 2 November 2021–December 2023	Outcome Indicators December 2024
(i) PMAY-U Guidelines, 2021; (ii) Operational guidelines for subcomponent on ARHC under PMAY-U; and (iii) MOHUA approval to light-house projects.	which are EWCD responsive and with provision for rainwater harvesting.	
Reform Area 3: Policies and guidelines for performance-based central fiscal transfers to urban local bodies established		
<p>1.6 The Government of India approved operational guidelines to implement recommendation of 15th Finance Commission by the states progressively from FY2022 to FY2026 for:</p> <ul style="list-style-type: none"> (i) linking central fiscal transfers to ULBs to urban service delivery improvements (water supply, sanitation, rainwater harvesting, water recycling, etc.) as clearly specified in the operational guidelines; (ii) linking central fiscal transfers to ULBs to reforms in property tax collection; and (iii) linking central fiscal transfers to ULBs to their timely submission of audited accounts and making online availability of accounts by ULBs. <p>Documents (Reform Area 3): (i) 15th Finance Commission report, and (ii) MOF operational guidelines for implementation of the 15th Finance Commission recommendations on ULB grants.</p>	<p>2.12 At least 10 states will comply with the operational guidelines issued by the government through an MOU with MOHUA containing baseline for urban services as on 1 April 2021, and annual targets for achievement of service delivery benchmarks (water supply, sanitation, rainwater harvesting, water recycling, etc.) until FY2026.</p> <p>2.13 At least 10 states will amend State Municipality and Municipal Corporation Acts and Rules specifically on the floor rates of property tax for different types of properties (residential, commercial, industrial, etc.) to enhance tax revenue base, and such new floor rates will be notified effective 1 April 2023.</p> <p>2.14 At least 250 ULBs will comply with (i) state-specific municipal accounts manual and/or guidelines prepared by respective states based on National Municipal Accounts Manual published by MOHUA, and (ii) will make available online provisional accounts for FY2023 and audited accounts of FY2022 by 31 December 2023.</p> <p>Documents (Reform Area 3): (i) Copies of MOU signed between MOHUA and state governments, (ii) notification by states for floor rates of the property tax, (iii) copy of state-specific municipal accounts manual and/or guidelines, and (iv) online copies of ULBs' provisional accounts for FY2023 and audited accounts of FY2022.</p>	<p>f. At least 250 ULBs reported growth in property tax collections in FY2023 over FY2022. (FY2021 baseline = Consolidated data not available. Data from 25 states indicate average property tax revenue growth is stagnant).</p> <p>g. At least 250 ULBs submit timely audited accounts following double-entry accrual-based accounting system for efficient management of municipal assets and financial transactions. (FY2021 baseline = consolidated data not available).</p>
<p>Budget Support Asian Development Bank: \$350 million for subprogram 1 (regular ordinary capital resources loan) Asian Development Bank: \$350 million for subprogram 2 (regular ordinary capital resources loan) Asian Development Bank: \$1.5 million technical assistance grant from Technical Assistance Special Fund (TASF-other sources)</p>		

A = assumption, AMRUT = Atal Mission for Rejuvenation and Urban Transformation, ARHCs = affordable rental housing complexes, BCC = behavior change communication, EWCD = elderly, women, children, and disabled, FY = fiscal year, GESI = gender equality and social inclusion, GST = goods and services tax, IEC = information, education, and communication, M&E = monitoring and evaluation, MOF = Ministry of Finance, MOHUA = Ministry of Housing and Urban Affairs, MOU = memorandum of understanding, NRW = nonrevenue water, PMAY-U = *Pradhan Mantri Awas Yojana*–Urban, PPP = public–private partnerships, R = risk, ULB = urban local body.

^a Government of India, National Institution for Transforming India Aayog. 2018. *Strategy for New India@75*. Delhi.

- ^b One year after PBL completion, states and ULBs are expected to commence implementation of policy reforms through investment projects which will take 5-7 years to complete. Improved access to basic services will only be fully realized after completion of civil works and all infrastructure is put in operation.
- ^c AMRUT 2.0 aims to provide universal coverage of tap water supply to all households in 4,800 towns; sewerage and septage management in 500 towns identified under AMRUT (towns with a population of over 0.1 million, heritage cities, 13 towns on the stem of main rivers, and 10 cities from hill states, islands and tourist destination); promoting wastewater recycling and reuse; rejuvenation of urban water bodies; and advancement of public-private partnerships.
- ^d The grants are proposed to be released in three installments. First two installments are linked to submission of action plans and progress of works. The third installment of 40% of total grant will be released on achievement of functional outcomes.
- ^e Commencing implementation or operationalizing policy guidelines within the PBL period will involve non-civil works activities such as acceptance of national policy guidelines, issuing state level government orders/policies/guidelines, preparing financing plans, making budgetary provisions by state and ULBs, drawing schedule of activities.
- ^f It is proposed to target at least 10 states to ensure policy actions under subprogram 2 are being implemented in a short span (until mid-2023). ADB will work with MOHUA to achieve implementation of policies in bigger and lower-income states, and provide support through the technical assistance for low capacity states.
- ^g It is proposed to target at least 250 towns to ensure policy actions under subprogram 2 are being implemented in a short span (until mid-2023). AMRUT 2.0 policy reforms are largely targeted in 500 AMRUT towns, which mostly include towns with population above 100,000. It is proposed to select 250 ULBs out of these 500 AMRUT towns, which is a significant number.
- ^h The standardized module will include measures to mainstream gender and social inclusion through identifying targeting mechanism and road map for coverage of women and slum settlements and households with water supply and sanitation; and preparing a ULB level participation and engagement framework for women and slum communities in areas including but not limited to water resource management, citizen feedback, BCC, and IEC.
- ⁱ The maximum grant would be 50% of the viability gap funding subject to maximum 30% of the project cost. The balance viability gap funding will be borne by respective state and/or ULB. The total viability gap funding should not exceed 60% of project cost.
- ^j The Affordable Rental Housing Complexes is a sub-scheme under PMAY-U to provide ease of living to urban migrants/poor in industrial sector as well as in nonformal urban economy to get access to dignified affordable rental housing close to their workplace. The program provides concessional finance and tax exemptions to the projects that offer dwelling units on rental basis to poor and migrants workers in urban areas.
- ^k Government of India, Ministry of Housing and Urban Affairs. *Affordable Rental Housing Complexes - Operational Guidelines*. July 2020.
- ^l Light-house projects were selected under the Global Housing Technology Challenge – India, with an objective of identifying and mainstreaming of a basket of innovative technologies from across the globe that are sustainable, green, and climate resilient, cost-effective, speedier to implement, complying with quality standards, meeting diverse geo-climatic conditions, and desired functional needs. Based on a global challenge, 54 technologies have been shortlisted in six categories, which can be adopted by the states.
- ^m The EWCD responsive features will include barrier free accessibility for persons with disability with provision of ramp and other facilities, safety, and health of women and children such as well-lit and ventilated spaces, etc.

Contribution to Strategy 2030 Operational Priorities: Operational priority indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=55054-001-3>

1. Loan Agreement
2. Program Agreement
3. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
4. Contribution to Strategy 2030 Operational Priorities
5. Development Coordination
6. International Monetary Fund Assessment Letter
7. Summary Poverty Reduction and Social Strategy
8. Program Economic or Impact Assessment
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items
11. Management-Approved Concept Paper: Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1 and Technical Assistance Grant—India: Sustainable Urban Development and Service Delivery Program
12. Attached Technical Assistance Report
13. Matrix of Potential Environmental and Social Impacts and Measures

Supplementary Document

14. Climate Change Assessment

DEVELOPMENT POLICY LETTER

• रजत कुमार मिश्र, भा.प्र.से.
अपर सचिव
Rajat Kumar Mishra, IAS
Additional Secretary



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D.O. No. 5/20/2020-ADB-I
Dated 1st November, 2021

Dear Mr. Asakama,

We appreciate Asian Development Bank (ADB) for its continued support to India's urban development for the past over 2 decades. ADB is the key development partner and has been supporting urban infrastructure investments, institutional capacity building, policy advocacy and sector reforms in various states of India. This development policy letter signifies our interest in obtaining budget support loan of USD 350 million under Subprogram 1 of the Sustainable Urban Development and Service Delivery Program. The program aims to accelerate and implement a series of policy actions and urban reforms in India by mainstreaming performance linked funding for urban service delivery. Subprogram 1 will establish essential policies and guidelines at the national level, which will be followed by subprogram 2 for preparing specific reforms programs and proposals at state and urban local body (ULB) level. All policy actions under subprogram 1 (April 2021 to October 2021) in three reform areas of establishing: (i) national and sub-national policies and guidelines for universal and improved water supply and sanitation service delivery, (ii) rental housing policies and programs for urban migrant workers and the poor, and (iii) policies and guidelines for performance-based central fiscal transfers, have been completed.

2. The government's urban development strategy is to promote cities as engines of economic growth through creation of quality urban infrastructure and efficient governance to improve the quality of urban life for the citizens. In this direction, the Ministry of Housing and Urban Affairs (MoHUA) launched several national flagship programs in 2015 such as Atal Mission for Rejuvenation and Urban Transformation (AMRUT), *Pradhan Mantri Awas Yojana—Urban* (PMAY-U) - Housing for All, Smart Cities Mission, *Swachh Bharat Mission—Urban* (SBM-U), Heritage City Development and Augmentation Yojana (HRIDAY), etc.

3. The Government of India launched *Atmanirbhar Bharat Abhiyan* in 2020 for accelerated and sustained recovery of economic growth post-pandemic. Under *Atmanirbhar Bharat Abhiyan*, government announced the affordable rental housing complexes scheme for urban migrant workers, industrial laborers, and the poor as a part of PMAY-U. Hon'ble Prime Minister of India launched two missions on 1 October 2021 (AMRUT 2.0 and SBM-U 2.0) to take forward the urban reform agenda with an objective of providing universal coverage to the citizens. The recommendations of India's 15th Finance Commission, accepted by Government of India, also stress for fiscal transfers linked to universal delivery of basic urban services (such as water, sanitation, and housing) and reforms in municipal finance system including enhancing municipal revenue sources.

4. Policy Matrix: The government is committed to the policy actions included under the two subprograms in three reform areas of (i) water supply and sanitation service delivery outcomes and local revenue improvements under the newly announced AMRUT 2.0 with the aim of making cities water-secure, through circular economy of water by effecting water source conservation, rejuvenation of water bodies, groundwater management, and reuse of treated wastewater; (ii) reforms to enhance access to housing for the poor and migrant workers; and (iii) Performance-

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5. Expenditure for the Program: MoHUA launched AMRUT in 2015 and has already provided central assistance of about ₹28,000 crore (USD 3.7 billion), and additional central assistance of ₹8,000 crore (USD 1.06 billion) is estimated until March 2023 (end date for AMRUT Mission). AMRUT 2.0, which is launched in 2021, envisages total financial outlay of ₹277,000 crore (USD 37.001 billion), in which central share would be ₹76,760 crore (USD 10.25 billion) over 5 years of mission period. PMAY-U is aimed to construct 11.4 million houses with committed central assistance of ₹185,000 crores (USD 25.2 billion), out of which ₹112,898 crores (USD 15.4 billion) have been released. PMAY-U is expected to be completed by March 2024. Commitments from external multi-lateral agencies and domestic resources would be ensured to fund the balance fund requirements.

6. Technical Assistance: ADB's provision of transaction technical assistance of \$1.5 million to assist with policy actions under subprogram 2 of the proposed loan is appreciated.

7. We would like to take this opportunity to thank ADB for all the coordination and close engagement with the government to develop the program. We look forward to positive consideration by ADB's board and early approval of the proposed Sustainable Urban Development and Service Delivery Program, Subprogram 1.

With regards,

Yours sincerely,


(Rajat Kumar Mishra)

Mr. Masatsugu Asakawa
President
Asian Development Bank
6 ADB Avenue
Mandaluyong City 1550
Metro Manila