

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC26927

Project Name	Madhya Pradesh Urban Development Project (P155303)
Region	SOUTH ASIA
Country	India
Sector(s)	General water, sanitation and flood protection sector (25%), Solid waste management (25%), Sub-national government administration (5 0%)
Theme(s)	Municipal finance (15%), Municipal governance and institution building (50%), City-wide Infrastructure and Service Delivery (35%)
Lending Instrument	Investment Project Financing
Project ID	P155303
Borrower(s)	Government of India
Implementing Agency	Urban Development and Environment Department, Govt. of Madhya Pradesh
Environmental Category	A-Full Assessment
Date PID Prepared/ Updated	29-Jun-2015
Date PID Approved/ Disclosed	29-Jun-2015
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	20-Apr-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. India's rapid economic growth is being accompanied by an unprecedented urban and spatial transformation. While the current level of urbanization in the country is around 31% (377 million persons) as 2011 census, it is projected to increase to 50% or more over the next 20 years. For the first time since independence, India has seen a greater absolute increase in urban population versus rural and the number of towns in India has increased from 5,161 in 2001 to 7,935 in 2011, with about 53 cities having over 1 million population. This massive urban transformation in many ways defines one of India's fundamental development challenges going forward, namely to accommodate an additional 10 million urban dwellers per year and provide them with adequate housing and urban services like water supply, sewerage, drainage, solid waste management and urban transportation in an environmentally sustainable way. Accommodating the needs of its growing urban populations is

therefore a strategic development challenge that has to be faced primarily by the state governments, since urban development is entirely a 'state' subject under the Indian Constitution.

2. The scale of the urban challenges brings into context the massive investments needs outlined by various Finance Commissions and expert bodies and a set of policy reforms to both facilitate the financing of urban infrastructure and services and ensure its provision in a sustainable, equitable and accountable way. The High Powered Expert Committee estimates an investment need of US\$ 822 billion over the next 20 year period (2012-2032). This is in addition to substantial resources required for sustainable operation and maintenance (O&M) of urban services. Policy makers at the national level too are now increasingly seized of the urbanization related challenges and hence the emphasis placed on the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and the recent launch, on June 25, 2015, of the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and the Smart Cities and Housing for All Missions, which aim to address several of the urban challenges of India.

Sectoral and Institutional Context

3. Madhya Pradesh (MP) is geographically the second largest, fifth populous, and eighth most urbanized state in India. Although MP recorded a higher rate of growth for its urban compared to rural population in the last decade, its urbanization rate is still below the national average but it is projected to catch-up in the next 15 years. At present, MP total urban population is of 20.1 million (28% of total population) concentrated in 476 urban centers as follows: 360 municipal bodies of which 14 are Municipal Corporations (Nagar Palika Nigams), 96 are Municipal Councils (Nagarpalik Parishad), and 250 are Nagar Panchayats, and 116 Census Towns - identified as areas with urban characteristics, but not formally notified as urban. Of the 14 municipal corporations, four (Indore, Bhopal, Jabalpur, and Gwalior) are million-plus cities.

4. Rapid urbanization in MP has seen sprouting of new urban settlements across the state, more often close to existing cities. The last decade (2001-2011) has seen a 20% increase in the number of urban centers, including a 50% increase in census towns, compared to a 6% increase in the previous decade (1991-2001). The last decade also saw more than a quarter-fold increase in population of the four largest urban agglomerations including Bhopal and Indore.

5. Bhopal and Indore, being the two largest cities and economic production centers of MP, have attracted special attention from the Government of Madhya Pradesh (GoMP) as nodes for economic development. The two cities are spaced about 200 km from each other and are well-connected by an expressway with multiple economic activities already established along the corridor. Five towns along the expressway are already experiencing pressures of rapid urbanization, which is leading to haphazard and environmentally costly development. GoMP is keen to undertake a balanced regional planning and development approach to ensure positive economic and environmental impact of the urbanization along the corridor. With this in mind, GoMP is keen to develop the Bhopal Indore Super Corridor (BISCO) as a network of urban nodes that grow as self-sufficient development hubs with focus on creating employment opportunities, providing world class infrastructure and social amenities.

6. Despite the fact that cities in MP contribute 55% of the state's gross domestic product, there are also high levels of urban poverty (21%) and slum population (28%). Overall there is a relatively poor level of access to basic services. Three in 10 urban poor have no access to piped water; and over half have no sanitation. In the four largest and most progressive cities in MP, household access

to piped water supply ranges between 48-80%, per capita; water supply ranges between 35 to 150 lpcd; metering of water connection ranges from nil to 40%; hours of water supply ranges between 1.5-4 hours; access to underground sewerage range between nil to 40%; door-to-door solid waste collection ranges between 25-90%; secondary waste collection ranges between 85-90%, and 60-80% of rainwater runoff is effectively drained. Bhopal, probably having the best public transport coverage in the state, reports 36.3% population using public transport against 37.4% using private transport and 18% dependent on IPTs. GoMP spends only around \$6 per person per annum on all essential city services (water, sewerage, street lighting, refuse disposal, lighting, etc.), which corresponds to only one third of the \$18 per person per annum spent nationally. This current level of expenditure contrasts sharply with the estimation by the High Powered Expert Committee of urban infrastructure capital investment for MP to the tune of \$30 billion for the next 20 years. In addition to the funding gap, weak project cycle management skills and capacities in urban local bodies (ULBs) remains a challenge for developing good-quality urban infrastructure projects and ensuring effective project implementation; only around one-fourth of JNNURM Urban Infrastructure and Governance (UIG) projects have been completed by the state.

7. Over the last half decade, GoMP has started focusing on urbanization as a critical growth factor. As a part of its commitment to transform the State in to 'Golden Madhya Pradesh', GoMP proposes to facilitate: (i) planned urban development (ii) investments for making the State slum-free; (iii) social development, and (iv) strengthen existing policies to achieve these goals. To support this vision, in 2009 GoMP initiated preparation of participatory city development plans (CDPs) in 106 towns which prioritized infrastructure projects and identified gaps in: (i) meeting the gap in urban services in keeping with the fast paced urban growth; (ii) deepening urban public financial management reforms to enable ULBs generate required financial resources by improving efficiency and being able to effectively tap into the economic growth occurring in the cities; (iii) improving urban governance and capacity of cities to take on the challenges in keeping with the Constitutional (74th Amendment) Act and ensuring accountability to city residents; (iv) addressing the issue of slums in cities and meeting the gap in urban housing, especially low income housing; and (v) ensuring cities continue to play an important role in fostering economic growth.

8. To respond to these challenges, GoMP undertook an ambitious reform program under the aegis of the Urban Development and Environment Department (UDED). This program focused on accessing urban sector central schemes, and setting-up three state missions to respond to the needs of towns not covered under the central schemes. A total investment portfolio of approximately \$3,200 million (including piped water supply, underground sewerage and integrated solid waste) for large and medium towns/cities not covered under existing central schemes was identified and actions taken to develop these projects. Given that the proposed national AMRUT scheme intends to focus on water and sewerage, access to open spaces, access to public and non-motorized transport, and improvement of storm water drainage in urban areas, MP is likely to actively access this Scheme. Some key reform actions successfully adopted in the state include the enactment of the Madhya Pradesh Public Services Guarantee Act to ensure the timely delivery of essential municipal services from a single window; establishment of Citizen Facilitation Centers; introduction of common tendering and integrated computerized Standard Schedule of Rates; introduction of municipal e-governance in all ULBs in the state (e-Nagarpalika); adoption of five municipal cadres; automated building plan permission systems; setting up of a state-wide urban management information system; and operationalization of the Madhya Pradesh Urban Infrastructure Fund, among others. In 2013-14, MP was the only state in India which fully met all reform-linked performance grant requirements of the 13th Central Finance Commission, while in 2012-13 it was awarded the best performing state

for pro-poor urban reforms under JNNURM by the Ministry of Urban Development. Clearly, MP has taken numerous efforts to facilitate and benefit from urbanization in the state.

9. Considering that AMRUT is likely to focus on 11 reforms areas including e-governance, municipal cadre, accounting reforms, setting up state-level financial intermediary, building byelaws, among others, MP is likely to continue focusing strongly on its reform agenda. Given MP's efforts on information technology enabled service provision and reforms over the last few years, it is likely to be assertive in accessing the proposed national 100 Smart Cities scheme (likely to be launched in end-June 2015) as well. Since the selection for the 100 cities program is likely to be based on achievement of urban reforms and their impact, sanitation improvements, governance strengthening, and ease of doing business, MP cities are expected to be strong contenders. An intervention focusing on strengthening state institutions to deliver basic services (water, sewerage, public transport) in urban areas and supporting the reforms agenda is likely to tie-in well with the two proposed national schemes when operationalized.

10. The Bank has never had a lending operation in the urban sector in MP. However it has engaged with the state on other sectors including irrigation (MP Water Sector Restructuring Project), rural development (MP District Poverty Initiative Project-II) governance (Citizen Access to Responsive Services Project) and education (Higher Education Quality Improvement Project). On the water sector, the Water and Sanitation Program (WSP) has supported UDED for the operationalization of performance monitoring of basic services; has undertaken a review of information systems in Indore, Dewas and Pithampur; and it is currently implementing ICT based citizen feedback processes in Jabalpur and Bhopal. On sanitation, WSP has supported the development of a city sanitation plan for Hoshangabad; assisted in developing a septage strategy and a feasibility study for a cluster of towns; and supported the sanitation vision of the State.

11. In the urban sector MP has had a long-standing relationship with Asian Development Bank (ADB) and Department for International Development (DFID) since 2005. DFID's first engagement (2005-12) focused on urban policy and institutional reforms across the state, capacity strengthening of participating ULBs, and in-situ slum upgrading in the 14 largest cities. In its ongoing engagement (2013-15), DFID helped UDED operationalize the ir Municipal Development Fund (MDF) called Madhya Pradesh Urban Infrastructure Fund (MPUIF) on similar lines as the World Bank s supported MDFs in Tamil Nadu and Karnataka. The DFID support has also helped set-up a 100% government owned Asset Management Company – the Madhya Pradesh Urban Development Company (MPUDC) – to manage MPUIF. MPUDC was incorporated in May 2015 and is likely to be fully operational by August 2015. ADB structured a \$200 million line of credit (2003-13) targeted at the four biggest cities focusing on improving city-wide water supply, sewerage, and drainage improvements; it structured a \$71 million supplementary loan as well (2008-14). ADB is currently in the process of preparing a \$370 million investment project which will focus on improving city-wide water supply in the 177 smallest towns/cities in the state and likely to be made operational through MPUIF. In addition to these two, the KfW Development Bank in 2014 initiated the process of structuring a €50 million line of credit to UDED targeting improved city-wide sewerage and sanitation systems in six towns/cities of MP. KfW may consider additional line of credit through MPUIF in future based on its performance. In spite of engagements with various bilateral and multilateral agencies in the past, GoMP opted to reach out to the World Bank to help them with institutional development and entrenching of MPUDC based on the Bank's previous successful engagement on similar state municipal financial intermediaries in Tamil Nadu and Karnataka, as well as its international experience of developing/strengthening similar institutions globally.

12. MPUIF, established in 2008 by UDED as a revolving fund, is a Government owned trust fund with a limited liability structure. The Trust is managed by a GoMP appointed Board of Trustees chaired by the Chief Secretary, GoMP. The key objectives of the Trust are primarily to identify and finance development of urban infrastructure projects; facilitate ULBs to access institutional finance and/or capital markets; borrow and on-lend to ULBs; undertake credit enhancement functions; and facilitate creditworthiness improvement of ULBs. In 2013, a DFID project helped operationalize MPUIF which led to creation of MPUDC as an asset management company for MPUIF. MPUDC was set-up as a 100% government owned company with the primary objectives of undertaking fund management of MPUIF and supporting implementation of externally aided projects providing direct funding support and credit enhancement support to ULBs, MPUDC was incorporated in May 2015. A legal performance-linked management contract between MPUIF and MPUDC has been proposed wherein MPUIF will pay MPUDC a management fee linked to disbursements and repayment targets. The ongoing DFID support, which closes in December 2015, is supporting UDED prepare operational manual, business plan, HR policies/systems, and financial management guidelines for MPUDC. The Company is proposed to be headed by a full-time IAS officer.

Relationship to CAS

The proposed Madhya Pradesh Urban Development Project (MPUDP) recognizes the importance of efficiently functioning cities to support poverty reduction and shared prosperity under the Country Partnership Strategy (CPS) for FY2013 – 2017. The project is particularly consistent with the goals set out under Engagement Area Two on transformation under the CPS, which is focused on reaping the benefits from agglomeration through transformation, by working with targeted states to strengthen institutional capacity of urban government to (i) improve long-term planning for sustainable and inclusive urban development; (ii) strengthen governance; and (iii) improve financial sustainability of ULBs. It is also consistent with the Bank's strategic engagements in low income states. MP's income per capita is 54,030 (Rs/year) below the national mean of 74,380 (Rs/year) and has more than one-third of its population living below the poverty line. In addition, MP has a strong presence of scheduled castes and tribes.

The project is closely aligned with India's vision for development outlined in the country's Twelfth Plan (2012-17) which calls for "faster, sustainable, and more inclusive growth" focusing on poverty reduction, group equality, regional balance, empowerment, environmental management, and employment. MPUDP would directly contribute to the Twelfth Plan and the CPS by mobilize financial resources for urban infrastructure investments, and by strengthening the financial and administrative capacity of ULBs to plan, finance and deliver services in a financially sustainable manner, helping demonstrate new urban management models and taking ahead the transformative urban-economic agenda of the proposed Bhopal Indore Super Corridor (BISCO).

Rationale for Bank engagement and choice of financing instrument:

The proposed lending instrument is an Investment Project Financing (IPF) for the following two reasons: (i) this project is the first Bank engagement with Madhya Pradesh in the urban sector; and (ii) the project emphasis on the support of the institutional capacity building with a long-term perspective to create a solid institutional framework for financing and delivery of urban services. Since the objective of the project will be to leverage the institutional performance of the ULBs, relying on a series of key reforms underway, the team also considered a Program for Results (PforR). However, because this will be the first urban engagement with the State; because it is likely

to finance investment of an environment category A; and because the institutional building of the intermediate financial institution is still incipient, an IPF was chosen.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The development objective of the proposed MPUDP project is to enhance the capacity of the relevant State-level institutions to support ULBs in developing and financing urban infrastructure.

Key Results (From PCN)

Key objectives and their corresponding performance indicators include:

PDO

- Number of participating ULBs that have implemented the agreed reforms.
- Number of projects financed/implemented through MPUDC.

Strengthen the institutional and financial capacities of ULBs and relevant State-level institutions

- Improve the capacity of ULBs to undertake the agreed reforms supported by the project;
 - o Number of ULBs undertaking PFM (accounting and budgeting) reforms
 - o Number of ULBs enhancing own-source revenues
- Resources managed by MPUDC

Increase ULBs capacity to deliver [develop, finance, and manage] urban infrastructure

- Improve the coverage of services in the beneficiary ULBs, as indicated by the number of people provided with access to improved infrastructure (core sector indicator: water, sanitation; SWM; roads).
- Enhance capacity of ULBs to access external finance through improved project development, as measured by the ratio of sub-project applications approved/received.
- Enhance the financial capacity of ULBs to manage sub-projects, as indicated by increases in operations and maintenance expenditures.
- Additional financial resource mobilization through credit enhancement

Boost/enhance the economic potential along the Indore-Bhopal corridor

- Prepare a regional/urban plan for the Bhopal-Indore corridor
- Prepare the technical designs of the key priority investments

III. Preliminary Description

Concept Description

The proposed MPUDP would be the first urban operation supported by the Bank in MP, but it builds on a long term experience of the Bank supporting municipal development funds in the States of Tamil Nadu and Karnataka. The proposed operation builds on such institutional design that has proven successful in other States but builds in a series of lessons learned and specific requirements by MP. The proposed project is expected to comprise the following three components.

Component 1: Institutional Development Component (Bank financing US\$ 15 million). This component will comprise the following three subcomponents:

1.1 Policy reform (Bank financing US\$ 10 million): This subcomponent will provide support to the implementation and sustainability of urban policy reforms in areas such as: (i) expansion of municipal e-governance system to all ULBs; (ii) municipal accounting; (iii) municipal budgeting; and (iv) enhancement of own-source revenues of ULBs.

1.2. Support to MPUDC and ULB (Bank financing US\$1.5 million): This subcomponent will provide (i) capacity building support to MPUDC for strengthening their overall systems and operational procedures, and improving their implementation capacities for development and implementation of urban infrastructure projects; and (ii) capacity building support to ULBs for preparing, implementing and operating technically and financially sound projects in ULBs, including environmental and social mitigation actions, contract supervision, and Public Private Partnerships.

1.3 Project management (Bank financing US\$ 3.5 million): This subcomponent will support project management activities (i.e. provision of necessary office equipment, funding of incremental operating costs, etc.) of the three implementing agencies namely, MPUDC, Directorate of Municipal Administration (DMA) in charge of implementing the institutional development and policy reform activities, and the unit in charge of the preparation of the Bhopal-Indore Super corridor (BISCO).

Component 2: Urban Investment Component (Bank financing US\$ 97.5 million). This component will comprise the following two subcomponents:

2.1 Access to finance for urban investments (Bank financing US\$ 93 million): The main objective of this sub-component is to help participating ULBs improve urban services/infrastructure. It will do so by providing sub-loans and sub-grants to participating ULBs to support the development of sustainable urban investments in areas under the mandate of ULBs such as water supply, solid waste management, water waste management and urban roads and public transport, based on demand driven City Development/Vision Plans developed by ULBs. The selection of participating ULBs will be based on an assessment of the technical, environmental, social and financial sustainability of the investments as per criteria that will be established by MPUDC.

2.2 Credit Enhancement (Bank financing \$ 4.5 million): Experience shows that successful financial intermediaries should be developed as interim instruments to prepare subnational governments to access credit markets directly. As such state and central government have expressed strong demand to include this subcomponent. This sub-component will channel increased financial resources for investment in urban sector projects by leveraging Bank funds. Thus, MPUIF's role will be expanded to include credit enhancement support through instruments-such as debt service reserve funds, partial risk support, bond insurance and subordinated debt instruments which would assist the overall objective of providing sustainable access to the capital markets and commercial financing to ULBs.

Component 3: Bhopal-Indore Super Corridor (BISCO) Component (Bank financing US\$3.5 million): The objective of this component is to support the preparation of BISCO. It will do so by providing technical assistance and consulting services to develop the regional/urban plan for the Bhopal-Indore corridor and any other relevant studies to be undertaken for the BISCO development.

Safeguards: The project interventions are expected to have positive impacts on the urban environment of the respective cities/towns. Activities such as sewerage, solid waste management, road improvements will also have positive impacts on the health of the project communities. In addition to these sub-project specific impacts, MPUDP proposes to main stream environmental and social management in the project design building further environment capacity at Project Implementing agencies/ULBs. In addition, some project activities are likely to have negative impacts on the project communities if the sub-projects are not designed and implemented with consideration to the nature and significance of the environmental profile of the project area. The environment impacts are also likely significant during the construction phase of the infrastructure projects in the urban areas, more importantly with regard to construction safety. To address these issues, the project proposes to prepare an Environmental and Social Management Framework (ESMF). The ESMF would primarily focus on developing (i) sub-project evaluation with regard to environmental impacts (ii) build environment management capacity of implementing agencies (iii) main stream environment management in to sub-project design, implementation and operation.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	166.00	Total Bank Financing:	116.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			50.00
International Bank for Reconstruction and Development			116.00
Total			166.00

VI. Contact point

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