Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 22-Mar-2021 | Report No: PIDA236907

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Program Name	Parent Project ID (if any)
India	P175221	Chennai City Partnership: Sustainable Urban Services Program	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	29-Mar-2021	10-Jun-2021	Urban, Resilience and Land
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Program-for-Results Financing	Republic of India	State of Tamil Nadu	

Proposed Program Development Objective(s)

The Program Development objective is to strengthen institutions and financing for improving the quality and sustainability of selected urban services in the Chennai Metropolitan Area.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	1,646.00
Total Operation Cost	937.00
Total Program Cost	937.00
Total Financing	937.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	150.00
World Bank Lending	150.00
Total Government Contribution	637.00
Total Non-World Bank Group and Non-Client Government Financing	150.00

Multilateral and Bilateral Financing (Concessional)	150.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **India's Gross Domestic Product (GDP) growth has slowed in the past three years, and the COVID-19 outbreak is expected to have a significant impact.** Growth has moderated from an average of 7.4 percent over FY15/16-FY18/19 to an estimated 4.0 percent in FY19/20. The growth deceleration was due mostly to unresolved domestic issues (impaired balance sheets in the banking and corporate sectors), which were compounded by stress in the non-banking segment of the financial sector, and a marked decline in consumption on the back of weak rural income growth. Against this backdrop, the outbreak of COVID-19 and the public health responses adopted to counter it have significantly altered the growth trajectory of the economy, which is now expected to contract sharply in FY20/21. On the fiscal side, the general government deficit is expected to widen significantly in FY20/21, owing to weak activity and revenues as well as higher spending needs. However, the current account balance is expected to improve in FY20/21, reflecting mostly a sizeable contraction in imports and a large decline in oil prices. Given this, as well as robust capital inflows, India's foreign exchange reserves have risen sharply and are expected to remain comfortable. Going forward, as per the latest projections of the Government of India, growth is expected to be above 10 percent and India to be among the world's fastest growing economies.

2. **Although India has made remarkable progress in reducing absolute poverty, the COVID-19 outbreak has reversed the course of poverty reduction.** Between 2011-12 and 2017, India's poverty rate is estimated to have declined from 22.5 percent to values ranging from 8.1 to 11.3 percent. Recent projections of GDP per capita growth rate indicate that as result of the pandemic, poverty rates in 2020 have likely reverted to estimated levels in 2016. The extent of vulnerability is reflected in labor market indicators from high frequency surveys. Data from the Centre for Monitoring Indian Economy (CMIE), shows urban households are facing greater vulnerabilities: between September-December 2019 and May-August 2020, the proportion of people working in urban and rural areas had fallen by 4.2 and 3.8 percentage points, respectively. Short-term employment outlook is contingent on whether these temporarily unemployed workers can fully re-enter the labor force. Overall, the pandemic is estimated to have raised urban poverty, creating a set of new poor that are likely to be engaged in non-farm sector and receive at least secondary or tertiary education, as compared to existing poorer households who are predominantly rural with lower levels of education.

Sectoral and Institutional Context

3. **India's economic growth is closely associated with urbanization, with cities offering a pathway to rapid poverty alleviation and the achievement of middle-income status, and the southern State of Tamil Nadu is the one of India's most urbanized states and an economic powerhouse.** It is estimated that over 50 percent of Indians already live in cities. By 2030, 70 percent of new employment is expected to be generated in cities and the number of urban households in the middle class is likely to more than quadruple. Urbanization is placing cities as the main engines of economic opportunities

and shared prosperity for the country. By 2011, nearly half (48.4 percent) of Tamil Nadu's population of 72.1 million was already urban. With the rapid urbanization that is underway, share of the urban population is expected to increase to 63 percent by 2030.

4. **The Chennai Metropolitan Area (CMA) epitomizes both the economic potential and vulnerabilities of the State's rapid urbanization.** The CMA is the fourth-most populous metropolitan area in India and encompasses an area of 1189 sq km. With an estimated population of about 10.9 million people and an estimated $78.6 billion GDP, CMA is also rated as the fourth-largest economy in India. Its diverse economy includes electronic manufacturing, automobiles, and IT/IT-enabled services. The CMA is highly vulnerable to natural disasters, climate change and, as the COVID-19 emergency revealed, to pandemics. Frequent disaster events—such as the devasting flood in 2015, debilitating drought in 2018 and 2019, Cyclone Gaja in 2018, and the ongoing COVID-19 pandemic (2020)—are inflicting substantial economic losses, causing loss of life and livelihoods, and adversely impacting infrastructure and service delivery.

5. **In Chennai city, capital of Tamil Nadu state and heart of the CMA, economic growth and dynamism has been coupled with rapid physical growth and changes in its boundaries.** The growth in Chennai's footprint has been significant from 1997 to 2017. In recognition of the growth, in 2011, the area under the jurisdiction of Greater Chennai Corporation (GCC) was expanded from 176 sq km to 426 sq km, by incorporating the surrounding 42 local bodies (9 Municipalities, 8 Town Panchayats, 25 Village Panchayats).

6. **GCC, the largest ULB in the CMA, is directly responsible for delivering several but not all urban services in its jurisdiction.** GCC's population accounts for about 67 percent of the total population of CMA[1]. GCC's service responsibilities include delivery of local roads and streetlights, stormwater drainage, municipal solid waste management, health, family welfare services, education, land and estate facilities, public spaces, and pedestrian infrastructure. By contrast, services such as water, sewerage, public transport are provided by separate agencies such as Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB), Metropolitan Transport Corporation (MTC), and Chennai Metro Rail Company (CMRL). Chennai Metropolitan Development Authority (CMDA) is responsible for metropolitan planning and development regulation. Some of these agencies, such CMDA and MTC, are responsible for planning and delivery of services not only in the GCC area but also in all other local bodies in the CMA. These agencies have a varying degree of autonomy and capacity and report to different state-level departments.

7. **Service delivery responsibilities in Chennai and CMA are fragmented across jurisdictions and service delivery agencies, and service quality, operational efficiency and environmental sustainability are suboptimal.** The complexity and variation of institutional arrangements, performance, and challenges in service delivery are especially evident in four essential urban services: water supply and sewerage, urban mobility, municipal solid waste management and public health care. The emerging short- and medium-term challenges across these urban services are strikingly similar in CMA and are indicative of those in other metro regions in India. Service delivery in most of urban sectors in CMA suffers from the following cross-cutting challenges: (i) fragmentation of responsibilities across multiple agencies and jurisdictions; (ii) lack of institutional capacity and mechanisms for integrated planning and delivery; (iii) operating frameworks that focus on investments for infrastructure asset creation rather than on service delivery performance measured in terms of coverage, quality, sustainability and resilience; and (iv) lack of sustainable financing frameworks, with very low own-source revenue generation, excessive reliance on the state government for input-based budget allocations and operating subsidies, and few incentives for cost-effective service delivery and private sector participation.

8. **The COVID-19-induced crisis has highlighted the need for better services and the limitations of current delivery**

[1] The current population is GCC's jurisdiction is estimated at 7.4 million, while that of CMA is about 10.9 million

models; it has created an imperative to pivot towards sustainable delivery and building back better. During the first few months of the COVID-19 pandemic, Chennai was among the 10 large Indian cities that quickly became hot spots and accounted for the majority of cases in the country. As with other city corporations, GCC has been at the frontlines of the response. On the one hand, the pandemic has underscored the need for additional, better, and more resilient services in sectors such as water, sanitation, health, and public transportation. On the other hand, with the severe economic downturn underway, the state, local governments, and utilities are financially strapped and unable to continue delivering highly subsidized services, let alone scale up and improve them significantly. There is a clear understanding across GoTN that it is time to strengthen key service delivery institutions, *overhaul current service delivery models and pivot* towards arrangements that can, over time, deliver world-class services in a manner that is environmentally and financially sustainable as well as socially inclusive.

9. **The Government of Tamil Nadu (GoTN) is committed to making Chennai a world-class city—one that is green, livable for all residents, competitive, and resilient to climate change and other shocks.** Given that Chennai is the most significant metropolitan area and economic growth engine of the state, the development of the CMA is prioritized within the Tamil Nadu 2023 Vision that is currently under implementation. Accordingly, the government has already been investing heavily in high-quality infrastructure assets in CMA. GoTN finds, however, that financing for infrastructure assets is neither automatically translating into massive improvements in service delivery for citizens nor transforming the city rapidly enough. Therefore, as a key next step, GoTN is **commencing a program—Chennai 2030—that brings fresh impetus to transformation of the city and its services and, simultaneously, accelerates Chennai's shift to a growth trajectory that is lower-carbon and more resilient**. The Chennai 2030 program not only aims to improve Chennai's livability, productivity and carbon footprint but also to serve as a **"lighthouse"**—in that experience from the program is expected to directly **inform development approaches for three additional metropolitan clusters (Coimbatore, Trichy and Madurai)** as well as other important towns in Tamil Nadu.

PforR Program Scope

10. **In response to GoTN's request, the World Bank has proposed a Chennai City Partnership that will bring both financing and knowledge to support the city's transformation.** The partnership is seen as a programmatic engagement that is multi-phased and commences with a multi-sectoral Program for Results (PforR) operation —the Chennai Sustainable Urban Services Program—focusing on the institutional and financial changes that can drive significant improvements in service delivery.

11. **The proposed Chennai City Partnership (CCP) is envisaged as a programmatic engagement between the GoTN and the World Bank that supports the Chennai 2030 program and aligns with its three pillars.** Specifically, the Partnership adopts a framework with three results areas to enable a transition to higher-quality, sustainable and resilient services: (i) strengthening and professionalizing service delivery institutions; (ii) improving their operational efficiency and service delivery performance; and (iii) enhancing financial sustainability.

12. **The Chennai Sustainable Urban Services Program (C-SUSP) is proposed as a first engagement under the Partnership and supports the government program identified as Phase 1 of the Chennai 2030 program.** The C-SUSP, designed as a PforR, incentivizes results and has three features that are worth highlighting. *First*, the C-SUSP directs efforts under the "institutions" pillar on reducing fragmentation in service delivery and vulnerability to climate change and increasing transparency. Therefore, institutional efforts under the C-SUSP focus on building the capacity of existing service delivery institutions and establishing new institutions and mechanisms that would improve coordination, enhance resilience, and increase transparency. *Second*, the C-SUSP aims to demonstrate one approach to achieve urban transformation—by selecting and sequencing actions across multiple sectors and overtime to catalyze the process of

institutional and service delivery transformation in a single city. *Third*, given that the city has been hit hard by the ongoing COVID-19 pandemic, the C-SUSP supports strengthening of municipal primary public health services and those infrastructure services that can contribute directly to better health and, more broadly, to enhancing resilience and sustainability.

13. **The proposed Program would support and strengthen the implementation of the first phase of the government program by focusing on a core set of service delivery improvements across the identified service sectors over 5 years (2021-2026).** The PforR Program will cover all the identified service sectors under the Government program but prioritize support for institutional changes and new models of service delivery, leaving some of the more traditional investment approaches to the broader government program. The geographic coverage the CMA region with special focus on GCC, among the ULBs, as the largest and economically most important ULB in CMA. Detailed definition of Program Boundaries can be found at below table:

	Government program	**The Program supported by the PforR**	**Reasons for non-alignment**
Title	**Phase 1: Chennai 2030**	**Chennai Sustainable Urban Services Program**	
Objective	To improve the quality of and access to core urban services in CMA	To strengthen institutions and financing for improving quality and sustainability of selected urban services in the CMA	PforR prioritizes fundamental institutional reforms, only selected investments, and new delivery models
Duration	2021-2026	2021-2026	
Geographic coverage	CMA	CMA	
Results areas	Three pillars focusing on (i) policies and institutions, (ii) infrastructure and service delivery, and (iii) funding and financing mechanisms for capital and operational expenditures	Three Result Areas focusing on (i) strengthening governance and institutions for integrated and resilient service delivery, (ii) enhancing the quality and sustainability of urban services, and (iii) improving the financial sustainability of service agencies	
Overall Financing	USD 1.65 billion	USD 937 million	Balance to be supported by GoTN

14. **The PforR Program will focus on supporting activities across the three interlinked results areas (RAs) that correspond to the three pillars of the government program.** The three RAs are: i) strengthening governance and institutions; ii) improving the quality and sustainability of urban services; and iii) improving the financial sustainability of services. The Program will provide financial incentives to the service delivery agencies for implementing key institutional, financial, and service delivery reforms in the respective service sectors and demonstrate concrete improvements across all three results areas. The first RA will support critical institutional reforms that will reduce institutional fragmentation, strengthen inter-institutional coordination, strengthen agencies' staffing capacity, and support e-procurement. The second RA builds on this by enhancing the way service provision is planned and implemented. It supports a shift from input-based financing to performance-based approaches and a focus on quality, efficiency, and environmental sustainability of services. The third RA will focus on improving the financial sustainability of the service delivery agencies by incentivizing them to expand own-source revenues and increase the share of O&M expenses covered by their own

revenues (including through a lowering of O&M costs). Together, the activities under these three results areas will lead to improved institutional systems, financial capacities, and service levels in CMA.

C. Proposed Program Development Objective(s)

Program Development Objective(s)

15. The Program Development objective is to strengthen institutions and financing for improving the quality and sustainability of selected urban services in the Chennai Metropolitan Area. The PDO level results indicators are as follows:

- GCC's human resource capacity strengthened (percent reduction in vacancy rates in professional staff in Groups/cadres A and B)
- CUMTA operationalized and provided allocative control over a share of sector budget (percent increase in share of sector budget allocated by CUMTA)
- Improvement in service delivery performance of MTC, CMWSSB and GCC (percentage increase in population with access to improved bus, water, and municipal primary health services)
- Increase in GCC own-source revenues (percent)
- Increase in share of O&M costs recovered through user charges by CMWSSB (percent)

D. Environmental and Social Effects

16. **An Environmental and Social Systems Assessment (ESSA) has been conducted by the Bank for the proposed PforR to ensure consistency with the basic principles described in Policy and Directive for the Program Financing for Results.** Initiated with a desk review of relevant systems documents, the ESSA was informed by virtual consultations with staff and manager of Implementing Agencies.

17. **Environmental Assessment** focused on borrower's environmental management systems – both regulatory and organizational (Core Principle 1) and public and worker safety (Core Principle 3). The assessment confirmed consistency with the environmental Core Principles, and the exclusion of activities ineligible for PforR financing. Capacities for environmental management vary across sectors and, overall, are assessed to be satisfactory. The Implementing Agencies (IA) have appropriate regulatory procedures. The Department of Environment and State Pollution Control Board and its compliance procedures are adequate to mitigate impacts associated with Program activities. The National Green Tribunal (NGT) orders relevant to the city's environmental assets and performance are reviewed periodically and implementation ensured at the highest level of the GoTN. However, there are gaps in enforcing environmental regulations for which capacity strengthening is needed. Stakeholders feedback was considered in identifying capacity needs and relevant actions are included in the Program Action Plan (PAP) or Program Operations Manual (POM).

18. **Environmental risks and impacts**: Although the Program primarily supports institutional systems and capacity building, some activities may have construction-related temporary negative impacts such as air pollution, dust and noise pollution, worker and public safety, and generation of scrap and debris. These impacts are expected to be localized, temporary and reversible, and are planned to be mitigated effectively through management measures. Upstream investments planned in the SWM sector under the Program contribute to establishing a circular economy and will have positive benefits by reducing solid waste. These investments will be planned to manage negative impacts that might arise during implementation. The Program's support to MTC for improvement in urban bus services will bring positive environmental impacts city-wide by reducing traffic congestion as well as GHG emissions.

19. **Environmental risk rating**: The environmental risk is rated as **Moderate** pertaining to (i) sufficient regulatory systems and organizational capacity to deal with the environmental impacts associated with the Program. Gaps in institutional capacity will be addressed as part of the PAP, and (ii) environmental impacts associated with the program activities are expected to be localized, temporary and reversible, which can be mitigated effectively through management measures.

20. **Recommendation for improving environmental management system:** Given weak enforcement of environmental regulations, it is necessary to build the capacity of IAs. Enhancing organizational capacity on contract management, including preparation of bidding documents, is required to ensure that Environmental Health and Safety (EHS) requirements (including COVID-19 pandemic measures) are included. These are relevant for WSS as well as WRM sectors. Pertaining to SWM, the proposed upstream dry waste recycling activities are new to GCC. Their capacity (pre-investment reviews, safety protocols and monitoring) to manage environmental impacts needs to be enhanced. In public health, strengthening of bio-medical waste management (documented procedures, regular audits, monitoring and adopting COVID-19 practices) in the primary and community health care facilities will be required.

21. **Social Assessment and Risk Rating**: The Social Assessment reviewed the social policies, legal framework and capacity of government institutions and systems to (a) avoid, minimize, or mitigate adverse impacts; (b) protect public and worker safety against the potential risks associated with construction and/or operation of facilities; (c) manage land acquisition and improve or restore livelihoods and living standards of affected; and (d) equitable access to program benefits, giving special attention to the rights and interests of the needs or concerns of vulnerable groups (Core Principles # 1, 3, 4 and 5)[2] to deliver quality services to achieve the social development outcomes. Findings indicate that Government has enabling laws and policies to address the effects of the program and associated risks. The challenges are largely in terms of ensuring the operationalization and enforcement of these regulations as well as bridging the gap in Institutional systems and capacity for evidence-based reporting on social development outcomes. Thus, social risk is rated as **Substantial**.

22. **Social Management Systems:** The four key IAs (MTC, GCC, CMWSSB and WRD) require capacity support to address the associated social risks, many of which are common across sectors. Therefore, measures will be included in the POM to strengthen systems for institutionalizing reporting on performance of laws and policies. In addition, IAs may need to bring in additional expertise on social management (community engagement, gender, communication, and MIS).

23. **Recommendations for improving social management: The PAP includes *establishment of M&E systems for evidence-based reporting on social risk* on the following issues**; (i) Capacity, (ii) M&E system to track performance on social management; (iii) social Inclusion; (iv) citizen feedback and GRM to benchmark services; (v) closing gender gaps; (vi) management of land acquisition and resettlement; (vii) labor welfare measures especially for the contracted and daily wage workers.

24. **Stakeholder engagement, consultations, and disclosure:** The ESSA was prepared during the COVID-19 pandemic

[2] #1 - E&S management systems are designed to (a) promote E&S sustainability in the Program design; (b) avoid, minimize, or mitigate adverse impacts; and (c) promote informed decision-making relating to a Program's E&S effects; # 3- E&S management systems are designed to protect public and worker safety against the potential risks associated with (a) the construction and/or operation of facilities or other operational practices under the Program; # 4 - E&S systems manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement and assists affected people in improving, or at the minimum restoring, their livelihoods and living standards; and # 5 E&S systems give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of Tribals, Tribal Groups or Tribal Populations, and to the needs or concerns of vulnerable groups.

and has been hindered by restrictions imposed by lockdown/s. Therefore, the desk review was supplemented with virtual meetings with officials, consultation with stakeholders and telephonic KIIs with partner institutions. Additionally, virtual sector-specific consultations with stakeholders and interest groups were held through February to March 19, 2021. The draft ESSA report was updated to include the feedback received from the stakeholders. It will be disclosed by end-March 2021 for receiving feedback from government officials, Residential Welfare Associations, opinion leaders, non-governmental organizations, civil society organizations, and other relevant stakeholders. and will culminate with one city-level workshop tentatively planned on March 24, 2021. The final ESSA document will be updated to include consolidated feedback received via email and virtual consultations before close of appraisal. With COVID-19-related limitations on organizing consultations with the direct beneficiaries for qualitative analysis of implementation of government programs and their outcomes, a road map is detailed out in ESSA and will be included in the POM to allow completion of consultations within 6 months of ease on travel. All actions that are required as per ESSA findings will be part of the PAP and the POM. Details of such required actions and other recommendations and findings of ESSA as well as overall Program principles will be specified in the POM.

E. Financing

25. The total Program financing is USD 937 million, with USD 150 million from IBRD, potential co-financing of USD 150 million from AIIB, and USD 637 million as counterpart funding from GoTN. The Program expenditure framework includes capital expenditures; service O&M and staffing costs; and technical assistance, capacity building and systems development. The expenditure items have been finalized based on the program activities that are critical for achieving the targeted results (DLIs/DLRs) and the agency level budgetary allocations to be provided by GoTN for these activities under the government program. The eligible expenditure categories and items are fully aligned and anchored within the GoTN’s budgetary system for MTC, GCC, CMWSSB and WRD.

26. **An Integrated Fiduciary Systems Assessment (IFSA) of the Program was conducted in accordance with Bank Policy and Directive for PforR financing.** The Financial Management (FM) and Procurement systems for this PforR are predicated on extant country systems. The IFSA concludes that the present systems together with proposed PAP and DLI will provide reasonable assurance that the financing proceeds will be used for the intended purpose, with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability. The IFSA identified key fiduciary risks and recommended system improvement and capacity strengthening mitigation measures that will be implemented during the life of the Program. Based on the IFSA, the **fiduciary risk is assessed as ‘Substantial’**.

Program Financing

Sources	Amount (USD Million)	% of Total
Counterpart Funding	**637.00**	**67.98**
Borrower/Recipient	637.00	67.98
International Bank for Reconstruction and Development (IBRD)	**150.00**	**16.01**
Cofinancing - Other Sources (IFIs, Bilaterals, Foundations)	**150.00**	**16.01**
Asian Infrastructure Investment Bank	150.00	16.01
Total Program Financing	**937.00**	

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