



Report and Recommendation of the President to the Board of Directors

Project Number: 42267
October 2014

Proposed Loans and Technical Assistance Grant and Administration of Grant India: Rajasthan Urban Sector Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 September 2014)

Currency unit – Indian rupees (Re/Rs)

Re1.00 = \$0.016

\$1.00 = Rs60.966

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
GIS	–	geographic information system
IEE	–	initial environmental examination
LSGD	–	Local Self Government Department
NRW	–	nonrevenue water
O&M	–	operation and maintenance
PAM	–	project administration manual
RUIDP	–	Rajasthan Urban Infrastructure Development Project
SDP	–	sector development program
SFPTF	–	Sanitation Financing Partnership Trust Fund
TA	–	technical assistance
WWTP	–	wastewater treatment plant

NOTES

- (i) The fiscal year (FY) of the Government of India and its agencies begins on 1 April. “FY” before a calendar year denotes the year in which the fiscal year begins, e.g., FY2013 begins on 1 April 2013.
- (ii) In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROPOSAL	1
II. THE SECTOR DEVELOPMENT PROGRAM	1
A. Rationale	1
B. Impact and Outcome	2
C. Outputs	2
D. Development Financing Needs and Investment and Financing Plans	3
E. Implementation Arrangements	5
III. TECHNICAL ASSISTANCE	6
IV. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	7
C. Governance	7
D. Poverty and Social	8
E. Safeguards	8
F. Risks and Mitigating Measures	9
V. ASSURANCES AND CONDITIONS	10
VI. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14
3. Development Policy Letter	15
4. Policy Matrix	18

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 42267-026	
Project Name	Rajasthan Urban Sector Development Program	Department /Division	SARD/SAUW
Country	India	Executing Agency	Government of Rajasthan
Borrower	India		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban policy, institutional and capacity development		163.50
	Urban sanitation		25.00
	Urban sewerage		137.50
	Urban water supply		175.00
	Total		501.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Partnerships (PAR)	Civil society organizations Implementation	Effective gender mainstreaming (EGM)	✓
Private sector development (PSD)	International finance institutions (IFI) Official cofinancing Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	Yes	Urban	High
MDG-targeting (TI-M)	MDG7		
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		501.00	
Sovereign Capacity development technical assistance: Technical Assistance Special Fund		1.00	
Sovereign SDP - Program loan: Ordinary capital resources		250.00	
Sovereign SDP - Project loan: Ordinary capital resources		250.00	
Cofinancing		2.00	
Sanitation Financing Partnership Fund (under the Water Financing Partnership Facility or WFPF)		2.00	
Counterpart		110.00	
Government		110.00	
Total		613.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed policy-based loan, (ii) a proposed project loan, and (iii) proposed administration of a grant to be provided by the Sanitation Financing Partnership Trust Fund (SFPTF)¹ under the Water Financing Partnership Facility, all to India for the Rajasthan Urban Sector Development Program. The report also describes proposed technical assistance (TA) for Capacity Development of Institutions in the Urban Sector in Rajasthan, and if the Board approves the proposed loans and grant, I, acting under the authority delegated to me by the Board, approve the TA.²

2. The sector development program (SDP) will complement past and ongoing efforts of the Government of Rajasthan to improve water supply and wastewater services to the residents of the state of Rajasthan.³ The SDP comprises (i) a program, financed by a policy-based loan, to support policy reforms, including institutional development and governance improvement in the urban sector in the state; and (ii) a project, financed by a project loan, to invest in the water distribution network in five project cities and sewerage systems in the six project cities.⁴

II. THE SECTOR DEVELOPMENT PROGRAM

A. Rationale

3. **Urban centers as engines of growth.** Urban centers have been driving economic growth in India, led by services and manufacturing, placing cities at the forefront of the country's economic transformation.⁵ According to recent estimates, the urban sector contributes about 63% of India's gross domestic product (2009–2010); this share is projected to increase to 75% by 2021.⁶ Similarly, while India's urban population currently constitutes about 31% of the total population, it is expected to grow to 43% by 2031.⁷ Increasing urbanization has aggravated the already deficient urban infrastructure and poor services.⁸ The country partnership strategy, 2013–2017 of the Asian Development Bank (ADB) for India identifies the urban infrastructure deficit as one of the most important binding constraints to inclusive growth.⁹ The SDP fits well with the priorities identified in the strategy, and will address the country's urbanization challenge, including plans for urban renewal and development of smart cities. The proposed investment is included in ADB's country operations business plan, 2013–2015 for India.¹⁰

¹ Financing partner: Bill & Melinda Gates Foundation.

² The design and monitoring framework is in Appendix 1.

³ The Asian Development Bank (ADB) provided project preparatory technical assistance: ADB. 2011. *Technical Assistance to India for Preparing the Rajasthan Urban Development Program*. Manila (TA 8043-IND).

⁴ The six project cities (with population per Census 2011) are Bhilwara (359,483), Sri Ganganagar (237,780), Pali (230,075), Tonk (165,294), Hanumangarh (150,958), and Jhunjhunu (118,473). The water supply component will be implemented in all cities except Bhilwara.

⁵ Government of India, High Powered Expert Committee. 2011. *Report on Indian Urban Infrastructure and Services*. New Delhi.

⁶ Government of India, Planning Commission. 2007. *Report of the Steering Committee on Urbanization, Eleventh Five Year Plan (2007–2012)*. New Delhi.

⁷ Government of India, Planning Commission. 2012. *Report of the Steering Committee on Urbanization, Twelfth Five Year Plan (2012–2017)*. New Delhi.

⁸ Only 64% of India's urban population has individual water connections; water supply is mostly intermittent ranging from 1 to 6 hours a day; nonrevenue water accounts for about 50% of production; most cities do not have functional water meters; only 5% of cities have any kind of sewerage system; 18% of urban households defecate in the open; and only 21% of wastewater generated is treated (footnote 5).

⁹ ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

¹⁰ ADB. 2013. *Country Operations Business Plan: India, 2013–2015*. Manila.

4. **Need for investments and reforms.** Rajasthan, with a population of 68.6 million and an area of 342,239 square kilometers, is the largest state in the country. About 25% of the population is urban, this percentage is increasing rapidly at 2.9% per annum. Since 2000, the state government has successfully implemented two multisector urban investment projects, which benefitted more than 5 million residents of six major cities under the first project and more than 2 million residents of 15 secondary cities under the second project.¹¹ Important lessons from the projects have been incorporated in the SDP design, including (i) consultations on project design, last-mile connectivity, cost recovery, user charges, and timely induction and capacity building of counterpart staff are crucial for sustainability; (ii) contracts should be grouped into fewer packages with long-term operation and maintenance (O&M) provisions; and (iii) advance actions for procurement should be undertaken to enhance project readiness. Another important lesson, reiterated in the review of the country partnership strategy, 2009–2012, is that investments have to be coupled with sustainable and vibrant institutions and effective governance systems to sustain and maximize their impacts.¹²

5. **Need for a sector development program.** The SDP modality will support both the infrastructure needs and the reform program, which focuses on strengthening institutions and adjusting the policy, institutional, legal, financial, and regulatory framework. The policy-based loan will provide financial support to the state government to implement reforms that will unlock the potential of various stakeholders, including municipal bodies, individual households, and private sector investors. The project loan will support catalytic investments that enhance productivity and leverage finances from various other sources in the project cities. The project will also introduce innovations in water supply and wastewater management, such as continuous water supply, and long-term O&M embedded construction contracts for nonrevenue water (NRW) reduction and sustainability of operations.¹³ If implemented successfully, the SDP may play a demonstrative role for urban sector operations in India.

B. Impact and Outcome

6. The impact of the SDP will be sustainable urban development in Rajasthan. The outcome will be improved urban service delivery in Rajasthan.

C. Outputs

7. The SDP will have five outputs: the policy-based loan will support outputs 1 and 2; the project loan will support outputs 3, 4, and 5. The policy-based loan will have two tranches with

¹¹ ADB. 1998. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to India for the Rajasthan Urban Infrastructure Development Project*. Manila; ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranches Financing Facility to India for the Rajasthan Urban Sector Development Investment Program*. Manila. The two projects focused on the urban sector with several subsectors, such as water supply, wastewater, urban transport, drainage, solid waste management, fire fighting, and heritage. The six cities proposed under the SDP were not covered in these two earlier projects.

¹² Water supply and wastewater operations are handled by the Public Health Engineering Department throughout the state, with overlap in responsibilities with municipalities, development authorities, and housing boards in some areas. Recently, the Government of Rajasthan delegated operations to municipalities; however, the decision is not yet operationalized.

¹³ Current status of water supply in the six project cities: average duration varies from 1 hour every 3 days to 2 hours every day; coverage varies from 80% to 100%; production varies from 69 to 136 liters per capita per day; and household service connections coverage varies from 57% to 96%. NRW ranges from 36% to 76% due to poor quality networks, unauthorized connections, ineffective metering, and poor revenue realization. There is no piped sewerage system, and septic tank coverage varies from 65% to 99%. Tariffs are very low (for example, the rate for up to 15,000 liters consumption for a domestic consumer is Rs1.56 per 1,000 liters) and covers around 20% of the O&M cost of water supply. Sewerage charge is collected as a percentage (20% to 33%) of the water charge.

10 and 13 policy actions, respectively. The project will invest in water supply in five project cities and in wastewater in six project cities (footnote 4), which were selected in consultation with the state government using the criteria that each city: (i) has a population of more than 100,000; (ii) is a district headquarter not covered under the earlier two projects (footnote 11); (iii) is an important administrative and economic center; and (iv) has potential to play demonstrative role for other cities in the country in implementing and sustaining the proposed sector reforms.

8. **Output 1: Urban institutions strengthened.** Activities include (i) creation of a sustainable corporatized state institution for urban development; (ii) corporatization of water supply and wastewater operations in the capital city of Jaipur; (iii) implementation of long-term performance-based management contracts in at least six cities; (iv) delegation of water supply and sewerage functions, along with adequate resources and tariff-setting authority, to municipal bodies; and (v) rationalization of urban property tax for municipal bodies.

9. **Output 2: Urban governance improved.** Activities include (i) formulation and approval of a long-term urban development policy; (ii) development of a human resource development plan for urban governance, including establishment of a state training institute; (iii) implementation of water sector reforms such as reduction of NRW, 24-hour water supply, individual household connections to residents in slum areas, benchmarking of urban services, and development of geographic information systems (GIS) and customer databases, and water and wastewater quality monitoring systems; (iv) support for total sanitation and solid waste management; (v) support for linkages between sanitation and health; and (vi) rationalization of water and sewerage tariffs for O&M cost recovery, and improvement of collection efficiency.

10. **Output 3: Water supply system rehabilitated and expanded in five project cities.** Activities include (i) distribution network improvement, including digital network systems, on a district metering area basis for NRW reduction; (ii) provision of individual property connections to residents, especially the poor and households headed by women; (iii) provision of 24-hour water supply; and (iv) improvement of water supply efficiency by reducing NRW and energy losses of electromechanical machinery.

11. **Output 4: Wastewater system rehabilitated and expanded in six project cities.** Activities include (i) rehabilitation and expansion of the sewerage network, including separation of sanitary sewers from drains, and property connections; (ii) modernization and expansion of wastewater treatment plants; (iii) use of wastewater as a resource, including recycling of wastewater, and energy generation through sludge digestion and gasification; (iv) septage management and decentralized wastewater treatment systems in suitable areas; and (v) total sanitation and solid waste management.

12. **Output 5: Capacity building and efficient program management implemented.** Activities include (i) capacity building of urban institutions and municipal bodies, (ii) project management, (iii) implementation of a gender equality and social inclusion action plan, and (iv) implementation of a community awareness and participation plan.

D. Development Financing Needs and Investment and Financing Plans

13. The policy-based loan will provide budget support to the state government to finance the policy reforms as outlined in the Government of India's development policy letter and policy matrix (Appendixes 3 and 4). The size of the policy-based loan was determined based on (i) financial support required to prepare, implement, and monitor the proposed policy actions; (ii) assessment of the state government's overall financial resources, allocation for and

development financing needs in the urban sector; (iii) the state government's absorptive capacity demonstrated through implementation of the urban sector projects; and (iv) requirement of capacity building of institutions in the urban sector.¹⁴ The government of India has requested a loan of \$250 million from ADB's ordinary capital resources to help finance the program, which the government will relend to the state government under the same terms as the original loan. 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 project agreements. The two tranches of \$125 million each are expected to be released, upon full compliance with the respective tranche conditions, in December 2015 and December 2017, respectively.

14. The project is estimated to cost \$362 million (Table 1). Detailed cost estimates are in the project administration manual (PAM).¹⁵

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Water supply system rehabilitated and expanded in five project cities	97.00
2. Wastewater system rehabilitated and expanded in six project cities	209.90
3. Capacity building and efficient project management	22.54
Subtotal (A)	329.44
B. Contingencies^c	25.43
C. Financing Charges During Implementation^d	7.13
Total (A+B+C)	362.00

^a Includes taxes and duties of \$9.75 million to be financed from government resources.

^b In mid-2014 prices. Exchange rate of \$1 = Rs60.4 is used.

^c Physical contingencies are computed at 7.5% for civil works and equipment. Price contingencies are computed at 1.0%–1.4% on foreign exchange costs and 6.0%–8.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the ADB loan has been computed at the 5-year forward London interbank offered rate plus a spread of 0.6%. Commitment charges for an Asian Development Bank loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

15. The Government of India has requested a loan of \$250 million from ADB's ordinary capital resources and a grant cofinancing of \$2 million from the SFPTF (footnote 1) to help finance the project, which it will make available to the Government of Rajasthan under the same terms as the original loan and grant. The loan will have a 25-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility,¹⁶ a commitment charge of 0.15% per year (interest and other charges during construction as applicable to be capitalized in the loan), and such other terms and conditions set forth in the draft loan, grant, and project agreements. The loan and the grant will finance 69.6% of the project cost, including part of the civil works and consulting costs (outputs 3, 4, and 5). The SFPTF grant, fully administered by ADB, will finance innovative sanitation in two project cities under output 4. Any incidental local transport or insurance costs will be eligible under the loan and the grant. The Government of Rajasthan will

¹⁴ Details of development financing needs are included in the Sector Assessment (Summary): Water and Other Urban Infrastructure and Services, and details of financial support required for reforms are included in and the Economic Analysis: Program Loan (accessible from the list of linked documents in Appendix 2). Current investments in the urban sector in the state are about \$700 million per year against a requirement of about \$2,200 million per year.

¹⁵ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁶ The interest includes a maturity premium of 10 basis points. This is based on the loan terms and the government's choice of repayment option and dates.

contribute \$110 million, or 30.4%, of the total project cost, to finance taxes and duties, resettlement costs, financial charges during implementation, and part of the civil works and equipment; and will provide the loan proceeds and counterpart funds to the implementing agency as a grant. The state government will transfer the assets created under the project to the operating agencies as a grant. The state government will assume the foreign exchange risk. The financing plan is in Table 2.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (program loan)	250.0	40.9
Ordinary capital resources (project loan)	250.0	40.9
Sanitation Financing Partnership under the Water Financing Partnership Facility (grant) ^a	2.0	0.3
Government	110.0	17.9
Total	612.0	100.0

^a Financing partner: Bill & Melinda Gates Foundation. Grant fully administered by the Asian Development Bank. Source: Asian Development Bank estimates.

E. Implementation Arrangements

16. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 15). The State of Rajasthan acting through its Local Self Government Department (LSGD) will be the executing agency and the Rajasthan Urban Infrastructure Development Project (RUIDP) will be the implementing agency. LSGD will be responsible for overall strategic planning, guidance, and management of the SDP, and for ensuring compliance with the tranche release conditions and loan covenants. A policy support unit will be established in LSGD to support the state government with implementation of the tranche release policy actions under the policy-based loan. RUIDP will be responsible for planning, implementation, monitoring and supervision, and coordination of all activities under the SDP. RUIDP will recruit consulting firms—project management, design, and supervision consultant (which will also work as the engineer for administration of civil works contracts), and community awareness and participation consultant—using the quality- and cost-based selection method with a quality–cost ratio of 90:10 in accordance with ADB’s Guidelines on the Use of Consultants (2013, as amended from time to time). Procurement of civil works and goods will be carried out in accordance with ADB’s Procurement Guidelines (2013, as amended from time to time). Advance contracting and retroactive financing under the SDP have been approved by the management.

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	March 2015–December 2019
Estimated completion date	31 December 2019
Project management	
(i) Oversight body	Empowered Committee: Minister, UDH (Chair), Additional Chief Secretary or Principal Secretary, UDH; Secretary, LSGD; Secretary, Finance; Principal Secretary, PHED; Secretary, PWD; Secretary, Plan; Director, Local Bodies (members); Project Director, RUIDP (member secretary)
(ii) Executing agency	State of Rajasthan acting through its LSGD
(iii) Implementing agency	RUIDP

Aspects	Arrangements		
Procurement	International competitive bidding	4 contracts (works)	More than \$40,000,000 for works, more than \$1,000,000 for goods
	National competitive bidding	6 contracts (works)	\$40,000,000 or less for works, \$1,000,000 or less for goods
Consulting services	PMDSC (QCBS)	810 person-months	\$11.14 million
	CAPC (QCBS)	216 person-months	\$1.00 million
	City NGOs (CQS)	432 person-months	\$0.90 million
	SFPTF Consultants	60 person-months	\$0.50 million
Retroactive financing and/or advance contracting	Retroactive financing will be up to 20% of the ADB project loan and grant amount for eligible expenditures incurred prior to loan effectiveness, but not earlier than 12 months prior to the signing of the project loan agreement. Advance recruitment of the PMDSC has been approved.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the Government of India and ADB.		

ADB = Asian Development Bank; CAPC = community awareness and participation consultant; CQS = consultant qualifications selection; LSGD = Local Self Government Department; NGO = nongovernment organization; PHED = Public Health Engineering Department; PMDSC = project management, design, supervision, and management consultant; PWD = Public Works Department; QCBS = quality- and cost-based selection; RUIDP = Rajasthan Urban Infrastructure Development Project; and UDH = Urban Development and Housing Department.

Source: Asian Development Bank.

III. TECHNICAL ASSISTANCE

17. The proposed TA for Capacity Development of Institutions in the Urban Sector in Rajasthan will support implementation of the program. It will have two outputs to support the state government: (i) urban institutions strengthened, (ii) urban governance improved, and (iii) capacity building support provided. The TA is estimated to cost \$1,000,000, financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The Government of Rajasthan will provide counterpart support in the form of counterpart staff, office space, workshop venues, and other in-kind contributions. LSGD will be the executing agency for the TA, and the TA will be implemented over 3 years during SDP implementation.¹⁷

IV. DUE DILIGENCE

A. Technical

18. **Water supply and improved efficiency.** RUIDP will work with the state government to establish 24-hour water supply in the major cities in the state, including the five project cities. To ensure sustainability of operations, the SDP will implement a comprehensive network management plan based on a district metering areas approach for NRW assessment.¹⁸

19. **Smart cities and economic corridors.** The SDP will support development of well-planned, ecologically friendly, and technologically integrated smart cities in the state, which are livable, workable, and sustainable.¹⁹ In addition, the SDP will implement a comprehensive information technology-based network, including GIS and asset management plan, in the urban sector focusing on real time data collection and use in urban operations. The SDP will support

¹⁷ Attached Technical Assistance (accessible from the list of linked documents in Appendix 2).

¹⁸ A district metering area refers to a zone of a water supply network that can be isolated, and provided with a bulk meter to measure input water quantity and consumer meters to measure consumption. The difference is used for assessing NRW in the district metering area.

¹⁹ The concept of smart cities is still evolving in India; the SDP will provide timely and suitable mechanism to facilitate development and implementation of this new concept.

updating the water and sewerage GIS, which will help improve operationalization of the NRW reduction plan and asset management plan.

20. **Energy-efficient treatment processes and septage management.** Under the project, wastewater treatment plants (WWTPs) will be constructed with energy-efficient and mechanized treatment processes. The project will support integrated planning and development of WWTPs, which will include (i) use of wastewater as a resource with recycling of wastewater, and energy generation from sludge digestion or gasification, wherever feasible; (ii) septage management; and (iii) landscaping, plantation, and information centers in WWTPs sites.

21. **Operation and maintenance embedded construction contracts.** The project will include O&M embedded construction contracts for a sufficiently long period (7–10 years), which will mitigate the municipalities' lack of O&M capacity, improve construction quality by providing continuity in system operation, and obligate municipalities to allocate adequate O&M budget. Special contract conditions for NRW reduction will be incorporated in the bidding documents.

22. **Sanitation and solid waste management.** Solid waste is frequently disposed of in sewers and utility holes, causing blockages, flooding, and problems for operations, or in the water bodies. Similarly, open defecation is practiced in many urban areas. The SDP will support ongoing programs on total sanitation and solid waste management.

B. Economic and Financial

23. **Economic analysis.** The estimated economic internal rates of return (EIRR) of the five water supply subprojects range from 17.30% to 21.70% and six wastewater subprojects range from 15.80% to 25.20%, higher than the economic opportunity cost of capital, estimated at 12.0%, indicating sufficient economic return.²⁰ The consolidated EIRR is 19.29% for water supply subprojects and 18.04% for wastewater subprojects. The results are satisfactory against individual downside risks, including a 20% increase in capital expenditure, 20% increase in operating costs, 20% decrease in benefits, and 1-year delay in project completion.

24. **Financial analysis.** The financial internal rates of return for the project, calculated only on the basis of income from water and sewerage tariffs, are negative against a weighted average cost of capital of 2.62% per annum since the water tariffs are expected to recover partial O&M costs only. A municipal cash-flow analysis, including revenues from property tax and institutionalized transfers from the state government to municipal bodies, is more relevant and confirms that project cities have the financial capacity to sustain infrastructure and deliver the services.²¹ Moreover, the SDP will help municipal bodies in improving financial sustainability by (i) increasing revenues by rationalizing the urban property tax, (ii) rationalizing water and sewerage tariffs, (iii) improving collection efficiency, (iv) recovering arrears with adequate provisioning for bad debts, and (v) computerizing operations and financial management.²²

C. Governance

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to, and discussed with, the governments of India and Rajasthan, and LSGD. The specific policy

²⁰ Details are included in the Economic Analysis: Project Loan (accessible from the list of linked documents in Appendix 2).

²¹ Details are included in the Financial Analysis (accessible from the list of linked documents in Appendix 2).

²² Details are included in the Economic Analysis: Program Loan (accessible from the list of linked documents in Appendix 2).

requirements and supplementary measures are described in the PAM (footnote 15). Based on the risk assessments, some of the mitigation measures incorporated in the SDP design aim to (i) establish a mechanism for regular voluntary disclosure of project-related information to residents; (ii) develop and update a website to enhance transparency in project implementation, procurement, and safeguards; and (iii) establish a grievance redress mechanism to ensure quick and effective resolution. The delegation of water supply operations to municipal bodies will require coordination between the Public Health Engineering Department and municipal bodies.

D. Poverty and Social

26. Urban poverty in the state is estimated at 10.7%.²³ Poverty is more evident in rural areas, but the gravity of poverty in cities is more severe due to lack of access to basic services, uncertainty about security of tenure, and concerns about safety in highly populated but insecure environments. The project prioritizes water supply and sewerage connections to the poor and households headed by women.²⁴ The SDP will complement the state government's ongoing efforts to provide pro-poor and gender-inclusive water and sanitation services by (i) reducing connection fees and facilitating individual connections to the poor, socially excluded, and households headed by women, especially in slums; (ii) ensuring project cities are free of open defecation; (iii) incorporating pro-poor and gender-sensitive sanitation services in the state government master plans; and (iv) piloting alternative onsite sanitation. A community awareness and participation plan is prepared for widespread, ongoing, and meaningful participation.²⁵

27. **Gender.** The project loan is classified as effective gender mainstreaming. The gender equality and social inclusion action plan prepared has clear targets, responsibilities, and resource allocation.²⁶ RUIDP will implement the action plan, and community awareness and participation plan with support from the community awareness and participation consultant, nongovernment organizations, and water and sanitation committees of municipal bodies.

E. Safeguards

28. **Social safeguards.** The project loan is classified as category B for involuntary resettlement and category C for indigenous peoples. The project does not involve permanent land acquisition or physical displacement. Families of scheduled tribes living in the project cities are mainstreamed with the general population. Draft resettlement plans prepared for the six project cities are in accordance with ADB's Safeguard Policy Statement (2009) to address temporary livelihood impacts.²⁷ The plans will be finalized and disclosed at the time of the detailed engineering design. The resettlement framework prepared will guide RUIDP on an additional component in Pali, targeting industrial effluent treatment and disposal, and expected to have limited resettlement impacts.²⁸ Meaningful and widespread consultations will continue with all communities in the project area, and a grievance redress mechanism will be established. The policy-based loan is not anticipated to have social safeguards impacts.²⁹

²³ Government of India, Planning Commission. 2013. *Poverty Estimates (2011–2012)*. New Delhi.

²⁴ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

²⁵ Community Awareness and Participation Plan (accessible from the list of supplementary documents in Appendix 2).

²⁶ Gender Equality and Social Inclusion Action Plan (accessible from the list of linked documents in Appendix 2).

²⁷ Resettlement Plan (accessible from the list of linked documents in Appendix 2).

²⁸ This component was identified toward the end of the project preparatory TA at the request of the Government of Rajasthan. The feasibility study and design will be prepared after SDP approval by the ADB Board of Directors.

²⁹ Environmental and Social Assessment of the Policy Matrix (accessible from the list of supplementary documents in Appendix 2).

29. **Environmental safeguards.** The project loan is classified as category B for environmental safeguards. Six initial environmental examinations (IEEs) with environmental management plans were prepared for the six project cities in accordance with ADB's Safeguard Policy Statement (2009) and government laws.³⁰ Draft IEEs will be finalized and submitted to ADB for review and disclosure at the time of detailed engineering design. Project sites are located outside protected areas and construction impacts will be mitigated through implementation of the environmental management plans as part of the contract documents. A feasibility study and IEEs for the additional component in Pali will be guided by the environmental subproject selection criteria in the environmental assessment and review framework.³¹ No significant environmental impacts are envisaged. The policy-based loan is not anticipated to have environmental impacts (footnote 29).

30. **Monitoring of wastewater.** The project will support improved monitoring of environmental regulatory standards by (i) enforcing domestic sewage discharge standards, (ii) monitoring the quality of discharge to water bodies, (iii) providing a properly equipped laboratory, (iv) enforcing pretreatment of industrial effluent before discharging, (v) developing a septage management plan, and (vi) processing and disposing of sludge and screenings.

31. **Natural disasters and climate change.** Climate change projections indicate an increase of 2.40^o Celsius during 2071–2100 in Rajasthan.³² Mean annual rainfall is predicted to decrease slightly; extreme rainfall is expected to increase in frequency and intensity. The key risk factors are frequent droughts, extremely low and erratic rainfall, and very limited surface water sources resulting in greater dependence on groundwater resources. The SDP will focus on NRW reduction and water use efficiency, improved sewerage collection, treatment, and energy generation; and adaptation measures for risks related to earthquakes, landslides, floods, and climate change. Detailed design of the project components will consider findings from ongoing climate change analysis models.

F. Risks and Mitigating Measures

32. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.³³ The fiduciary risk for the program loan is medium; the state government's public financial management systems are adequate to mitigate such risks. The integrated project benefits and impacts are expected to outweigh the costs.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Delays in project implementation, including availability of clear sites, may result in cost and time overruns.	LSGD and UDH will assign qualified staff to RUIDP and minimize staff turnover. The project management, design, and supervision consultant will support project management, safeguards, reporting, and training on FIDIC contracts. Large contract packages will be designed to attract competent bidders. RUIDP will ensure possession and security of land acquired for project works.
Lack of coordination among various agencies may result in suboptimal outcomes.	The project steering committee and city coordination committees will provide direction and guidance for coordination. The roles, responsibilities, and functions of RUIDP, PHED, and municipal bodies will be clearly delineated.
The state government may not implement the proposed institutional and staffing	The government will review and establish a proper institutional structure for the corporatized entities to ensure functional autonomy while maintaining accountability to the government and residents. The government will ensure

³⁰ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

³¹ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

³² Government of Rajasthan. 2010. *Rajasthan State Action Plan on Climate Change*. Jaipur.

³³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigating Measures
arrangements of the corporatized entities.	competent staff in these organizations, allowing them to recruit from the market. Capacity-building support will help them to establish proper operating systems.
Power for the wastewater treatment plants is not available.	RUIDP will ensure dedicated 24-hour power supply for the WWTPs from the national electricity grid. Energy generation from sludge and back-up diesel generators will be installed in the WWTPs.
Financial sustainability is lacking due to water tariffs not recovering full O&M costs.	The state government has agreed to develop a road map for full cost recovery in a phased manner starting with partial O&M cost recovery. This will be strengthened by the introduction of a property tax and implementation of a systematic transfer of funds from the state to municipal bodies through the Finance Commission.

FIDIC = Fédération Internationale Des Ingénieurs-Conseils (International Federation of Consulting Engineers), LSGD = Local Self Government Department, O&M = operation and maintenance, PHED = Public Health Engineering Department, RUIDP = Rajasthan Urban Infrastructure Development Project, SDP = sector development program, UDH = Urban Development and Housing Department, WWTP = wastewater treatment plant.

Source: Asian Development Bank.

V. ASSURANCES AND CONDITIONS

33. The Government of India, Government of Rajasthan, and RUIDP have assured ADB that implementation of the SDP shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement and standard legal conditions, as described in the PAM and loan documents. The Government of India, Government of Rajasthan, and RUIDP have agreed with ADB on certain covenants for the SDP, which are set forth in the loan, project, and grant agreements.

VI. RECOMMENDATION

34. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the policy-based loan of \$250,000,000 to India for the Rajasthan Urban Sector Development Program, from ADB's ordinary capital resources, 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 policy-based loan and program agreements presented to the Board;
- (ii) the project loan of \$250,000,000 to India for the Rajasthan Urban Sector Development Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board; and
- (iii) the administration by ADB of the grant in an amount of \$2,000,000 to India for the Rajasthan Urban Sector Development Project, to be provided by the Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility.

Takehiko Nakao
President

02 October 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Sustainable urban development in Rajasthan</p>	<p>By 2024 (for all indicators): Contribution of the urban sector to the state's GDP increased to at least 58% (2014 baseline: 48%) At least 25 cities have water bodies meeting standards specified by the Central Pollution Control Board (2014 baseline: 0)</p>	<p>For all indicators: Census 2021 reports; annual reports of RUIDP and LSGD; state and national government economic reports; annual reports of MOUD</p>	<p>Assumption Solid waste management plans in the state are effectively implemented. Risk Extreme natural disasters disrupt urban infrastructure.</p>
<p>Outcome Improved urban service delivery in Rajasthan</p>	<p>By 2019 (for all indicators): Water supply in at least five cities improved to 24-hour supply (2014 baseline: average 2 hours/day) (target: new beneficiaries from poor, 30%) Collection and treatment of sewage and septage in at least six cities increased to 70% (2014 baseline: 5%) (target: new beneficiaries from poor, 30%) Policy, institutional, legal, and regulatory frameworks for state infrastructure corporations, corporatized utilities, and PPPs are operational</p>	<p>For all indicators: Annual reports of RUIDP and LSGD</p>	<p>Assumptions Important stakeholders continue to be committed to urban sector reforms. Nonproject cities improve urban service delivery. Risk Climate change parameters go beyond projected limit in Rajasthan and relevant headwaters.</p>
<p>Outputs 1. Urban institutions strengthened</p>	<p>By 2019: Corporatized entity for RUIDP established (with approved business plan, HRD plan, and design center), and functioning (with at least 25 municipal bodies supported) The corporatized entity for Jaipur water supply and wastewater operations established and functional with its business plan and HRD plan O&M embedded construction contracts operationalized for water supply in five cities and for wastewater in at least six cities Water and wastewater operations, including authority to set water and sewerage tariffs, delegated to at least five municipal bodies Property tax rationalized in the state and collected from at least 50% of all eligible properties in 50% of the municipalities in the entire state</p>	<p>For all indicators: Progress reports of RUIDP and LSGD Government of Rajasthan website</p>	<p>Assumption Delegation to municipal bodies is coupled with adequate powers and personnel.</p>

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
2. Urban governance improved	<p>By 2019:</p> <p>Urban development policy, human resource development plan, and urban water and sanitation policy adopted and disclosed</p> <p>Benchmarking of urban services, and gender-disaggregated consumer database operationalized for 25 cities</p> <p>Support for total sanitation and solid waste management provided to at least six cities</p> <p>Water tariff rationalized to recover O&M costs in at least five cities</p> <p>Five project cities improve billing and collection efficiency to more than 90% (2014 baseline: 0)</p> <p>Water and wastewater quality monitoring system, as per national standards, established in 25 cities</p>	<p>For all indicators:</p> <p>Progress reports of RUIDP and LSGD</p> <p>Government of Rajasthan website</p>	
3. Water supply system rehabilitated and expanded in five project cities	<p>By 2019 (for all indicators):</p> <p>2,546 km of new or rehabilitated pipelines constructed through O&M embedded construction contracts</p> <p>196,006 new house service connections with functional meters provided to benefit 0.98 million residents (target: connections provided to poor, 30%)</p> <p>NRW reduced to less than 15% and ILI reduced to less than 10 (2014 baseline: NRW more than 40% and ILI more than 200)</p> <p>Compliance of water samples with national drinking water quality standards increased to 95% (2014 baseline: 5%)</p>	<p>For all indicators:</p> <p>Progress reports of RUIDP and LSGD</p>	<p>Assumptions</p> <p>Proper network management continues after completion of works.</p> <p>Coordination between PHED and municipal bodies is effective.</p>
4. Wastewater system rehabilitated and expanded in six project cities	<p>By 2019 (for all indicators):</p> <p>1,865 km of sewers constructed and 189,133 sewer connections provided benefiting 0.94 million residents (target: connections provided to poor, 30%)</p> <p>25 MLD capacity WWTPs constructed and operating through O&M embedded construction contracts</p> <p>Wastewater used as a resource for recycling or energy generation in at least three project cities</p> <p>Septage management facilities constructed in at least two areas</p> <p>DEWATS constructed in at least two areas</p>	<p>For all indicators:</p> <p>Progress reports of RUIDP and LSGD</p>	<p>Assumption</p> <p>Households connect to the sewerage systems.</p>

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
5. Capacity building and efficient program management implemented	By 2019 (for all indicators): Capacity-building program implemented for LSGD and RUIDP staff GESI action plan and CAPP are implemented	For all indicators: Progress reports of RUIDP and LSGD	Risk Turnover of consultants and project management staff is high.
Activities with Milestones			Inputs (\$ million)
1. Urban institutions strengthened 1.1 Approve corporatization of RUIDP and Jaipur city utility (September 2015) 1.2 Delegate water supply operations to five municipal bodies (September 2017) 1.3 Five municipal bodies commence water supply operations (September 2017) 1.4 Rationalize property tax in state to include all properties (September 2015) 2. Urban governance improved 2.1 Submit an urban development policy, a human resource development plan, an NRW management policy, a 24-hour water supply policy, and a water and sewerage connections policy (September 2017) 2.2 Develop benchmarking system and GIS (September 2017) 2.3 Develop computerization of consumer databases (September 2017) 2.4 Implement use of billing and collection system (March 2017) 2.5 Adopt water and wastewater quality monitoring system (September 2017) 3. Water supply system rehabilitated and expanded in five project cities 3.1 Complete NRW assessment in five project cities (March 2019) 3.2 Award all water supply contracts (December 2016) 3.3 Complete the civil works to start 24-hour water supply (December 2018) 3.4 Complete all construction and commission all water supply facilities (March 2019) 4. Wastewater system rehabilitated and expanded in six project cities 4.1 Operationalize environmental monitoring system (September 2017) 4.2 Complete energy and environmental audits (December 2015) 4.3 Finalize safety manual with GESI principles (June 2016) 4.4 Award all wastewater contracts (December 2016) 4.5 Complete all construction and commission all wastewater facilities (March 2019) 5. Capacity building and efficient program management 5.1 Establish PMU with necessary staff (November 2014) 5.2 Initiate capacity-building activities of LSGD and RUIDP staff (December 2014) 5.3 Mobilize PMDSC and CAPC (June 2015)			Loan ADB: \$501 million (policy-based loan of \$250 million, project loan of \$250 million, and technical assistance of \$1 million) Grant SFPTF: \$2 million Government: \$110 million Total: \$613 million

ADB = Asian Development Bank; CAPC = community awareness and participation consultant; CAPP = community awareness and participation plan; DEWATS = decentralized wastewater treatments system; GDP = gross domestic product; GESI = gender equality and social inclusion; GIS = geographic information system; HRD = human resource development; ILI = infrastructure leakage index; km = kilometer; LSGD = Local Self Government Department; MOUD = Ministry of Urban Development; MLD = million liters per day; NRW = nonrevenue water; O&M = operation and maintenance; PHED = Public Health Engineering Department; PIU = project implementation unit; PMDSC = project management, design, and supervision consultant; PMU = project management unit; PPP = public-private partnership; RUIDP = Rajasthan Urban Infrastructure Development Project; SDP = sector development program; SFPTF = Sanitation Financing Partnership Trust Fund under the Water Financing Partnership Facility; and WWTP = wastewater treatment plant.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=42267-026-3>

1. Program Loan Agreement
2. Project Loan Agreement
3. Program Agreement
4. Project Agreement
5. Grant Agreement
6. Sector Assessment (Summary): Water and Other Urban Infrastructure and Services
7. Project Administration Manual
8. Contribution to the ADB Results Framework
9. Development Coordination
10. Attached Technical Assistance
11. Financial Analysis
12. Economic Analysis: Project Loan
13. Country Economic Indicators
14. International Monetary Fund Assessment Letter
15. Summary Poverty Reduction and Social Strategy
16. Gender Equality and Social Inclusion Action Plan
17. Initial Environmental Examination: Bhilwara
18. Initial Environmental Examination: Hanumangarh
19. Initial Environmental Examination: Jhunjhunu
20. Initial Environmental Examination: Pali
21. Initial Environmental Examination: Sri Ganganagar
22. Initial Environmental Examination: Tonk
23. Environmental Assessment and Review Framework
24. Resettlement Plan: Bhilwara
25. Resettlement Plan: Hanumangarh
26. Resettlement Plan: Jhunjhunu
27. Resettlement Plan: Pali
28. Resettlement Plan: Sri Ganganagar
29. Resettlement Plan: Tonk
30. Resettlement Framework
31. Risk Assessment and Risk Management Plan
32. List of Ineligible Items

Supplementary Documents

33. Community Awareness and Participation Plan
34. Climate Change Risk Screening–Climate Change: Project Adaptation Action Report
35. Environmental and Social Assessment of the Policy Matrix
36. Financial Management Assessment Report
37. Grant Component for Rajasthan Urban Sector Development Program: Piloting Innovative Sanitation Solutions in Rajasthan
38. Economic Analysis: Program Loan

DEVELOPMENT POLICY LETTER

दिनेश शर्मा, मा.प्र.से.
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Government of India
Ministry of Finance
Department of Economic Affairs
North Block, New Delhi-110001

D.O. No. 7/17/2010-ADB-I

11th September, 2014

Dear Nakao San,

I am writing this in context of the Rajasthan Urban Sector Development Program loan.

2. I am attaching a copy of the letter dated 10.09.2014 of the Government of Rajasthan to the Government of India, expressing the unequivocal commitment to implement the Rajasthan Urban Sector Development Program. Negotiations for a loan of US\$ 250 million for this purpose will be held on 11-12 September, 2014.

3. I am pleased to convey the full support of the Government of India to the Government of Rajasthan in implementing the program, and request ADB to lend US\$ 250 million from its Ordinary Capital Resources so as to enable Government of India to on-lend these funds to the Government of Rajasthan.

4. I assure you of the highest consideration of the Government of India.

Yours sincerely,

(DINESH SHARMA)

Mr. Takehiko Nakao,
President
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila
Philippines.

Encl: As above



**Government of Rajasthan
Office of Project Director**

Rajasthan Urban Infrastructure Development Project

AVS Building, Jawahar Circle, JLN Marg, Jaipur - 302017

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No. F3 (2013)/RUIDP/PMU/Ph-III/Gen/2010/Part-III/ 8852

Date: 10.09.2014

Secretary to the Government of India,
Department of Economic Affairs,
Ministry of Finance, North Block,
New Delhi
E-mail: secy-dea@nic.in

Sub: Rajasthan Urban Sector Development Program- RUIDP Phase-III- reg Development Policy framework under proposed Program Loan

Sir,

The Government of Rajasthan has developed an Urban Sector Development Policy framework in connection with the Rajasthan Urban Sector Development Program with ADB loan assistance. The Government of India (GoI) at the request of Government of Rajasthan (GoR) has approached the Asian Development Bank for financial support of US\$500 million (Project Loan component of US\$ 250million and Program Loan component of US\$250 million) to support implementation of Rajasthan Urban Sector Development Program (RUSDP). The impact of the RUSDP will be sustainable urban development in Rajasthan. The outcome will be improved urban service delivery in Rajasthan.

2. The proposed RUSDP will complement the past and ongoing efforts of the government of Rajasthan (GOR) to improve urban services mainly in the water supply, sewerage, solid waste etc to the residents of the state of Rajasthan. The project will cover the concept of Urban renewal as announced in the recent (2014-15) GOI budget inter-alia covering – Water supply and sewerage, total sanitation, solid waste management, recycling of waste water and digital network etc. in design of project loan and program loan component.

3. The RUSDP comprises (i) a project, financed by a project loan, to invest in water distribution network, solid waste and sewerage systems in the six project cities in the state and (ii) a reform program, financed by a policy-based loan, to support policy reforms, including institutional development and governance improvement in the urban sector in the state. The reform program will focus on strengthening institutions and implementing reforms that entail large scale adjustments in policy, institutional, legal, financial, and regulatory framework. The policy-based loan will provide financial support to the GOR to implement these reforms that will unlock the potential of various stakeholders, including municipal bodies, and private sector investors.

4. Output of the policy based program loan would be:

(i) **Urban institutions strengthened.** This output will include (a) creation of a sustainable corporatized state-level institution for urban development; (b) corporatization of water supply and wastewater operations in the capital city of Jaipur; (c) long-term performance-based management contracts in at least six cities of the state; (d) delegation of water supply and sewerage functions, along with adequate resources and tariff-setting authority, to municipal bodies; and (e) rationalization of urban property tax for municipal bodies.

(ii) **Urban governance improved.** This output will include (a) formulation and approval of a long term urban development policy; (b) human resource development plan for urban governance, including establishment of a state-level training institute; (c) water sector reforms such as reduction of NRW, 24x7 water supply, individual household connections to residents in slum areas, benchmarking of urban services, development of geographic information system (GIS) and customer databases, and water and

wastewater quality monitoring systems; and (d) rationalization of water and sewerage tariffs for O&M cost recovery, and improvement of collection efficiencies.

5. The GOR has successfully implemented two multi-sector urban investment projects in the past decade, covering six major cities under the first project and 15 secondary cities under the second project. RUIDP Phase 1, covering the six divisional headquarter cities, i.e., Ajmer, Bikaner, Jaipur, Jodhpur, Kota and Udaipur with about 7.7 million population (2011), has been completed and rated successful. The Rajasthan Urban Sector Development Investment Program (RUSDIP), with loan amount of \$273 million, is currently under implementation.

6. One of the important lessons learned by the GOR is that the investments have to be coupled with sustainable and vibrant institutions, and effective governance systems, to sustain and maximize their impacts. Accordingly, the GOR has committed to developing a long-term urban development policy that stimulates investments in urban infrastructure, and, simultaneously, addresses institutional deficiencies, and targets major reforms in urban governance. The proposed RUSDIP will support the GOR's reform agenda, and, if implemented successfully, may play a demonstrative role for urban sector operations in India.

7. Only a reliable and efficient urban infrastructure and service delivery will pave the way for the continued expansion of the state's economy and the welfare of its people. The Government of Rajasthan once again reaffirms its commitment to make reforms in urban sector with the committed service delivery. Given its vast experience in the reforms process in the urban sector of its developing member countries, ADB can play a major role in assisting the State of Rajasthan in making urban sector reforms.

8. On behalf of the Government of Rajasthan, I wish to convey our commitment to the various policy reform initiatives that have been charted out under the policy based Program and request you to kindly forward this letter to the President of ADB for the purpose of seeking ADB's loan assistance of US\$250million for policy reforms implementation.

9. We would like to thank ADB for working closely with the Government in developing this program and would like to reiterate full support for it.

GoR's commitments on policy reforms agreed with ADB (policy reform matrix attached) may please be forwarded to ADB for consideration of policy based program loan.

Encl: As above

Yours sincerely,



(Ashok Jain)

Additional Chief Secretary
UDH & LSGD, GoR

POLICY MATRIX

The State has 190 municipal bodies comprising seven municipal corporations (including Jaipur), 34 municipal councils, and 149 municipalities.

The term “city”, as used in this policy matrix, refers to an urban area, which may extend beyond the legal boundary of a municipal body.

“Project cities” comprise the following six cities: Pali, Tonk, Jhunjhunu, Sri Ganganagar, Hanumangarh, and Bhilwara.

Policy Areas/Objectives	A. Actions Prior to First Tranche Release (December 2015 (indicative))	B. Actions Prior to Second Tranche Release (December 2017 (indicative))	Verification Document and Responsible Agency (RA)
Output 1: Urban Institutions Strengthened			
1. Establish sustainable corporatized state-level organization for urban development.	1.A.1. GOR will have approved corporatization of RUIDP to form a sustainable state-level organization with the mandate to design and implement urban infrastructure projects, and provide project management support to municipal bodies.	<p>1.B.1. GOR will have corporatized RUIDP that will have supported at least 25 municipal bodies for project management.</p> <p>1.B.2. The corporatized entity will have adopted a business plan and a human resource development policy, endorsed by UDH/LSGD. The business plan will include, among others, the corporatized entity’s vision, organizational structure, and strategy for long-term organizational growth. The human resource development policy will include provisions for independent recruitment of employees, including through campus recruitment.</p> <p>1.B.3. The corporatized entity will have established, as internal units, a</p>	<p>1.A.1. GOR decision approving corporatization of RUIDP to form a corporatized entity. RA: UDH/LSGD, GOR</p> <p>1.B.1. Incorporation documents of the corporatized entity; GOR report confirming that the corporatized entity has supported at least 25 municipal bodies for project management. RA: UDH/LSGD, GOR</p> <p>1.B.2. The business plan and the human resource development policy documents; the corporatized entity BOD meeting minutes adopting the business plan and the human resource development policy; GOR decision endorsing the business plan and the human resource development policy. RA: UDH/LSGD, GOR</p>

Policy Areas/Objectives	A. Actions Prior to First Tranche Release (December 2015 (indicative))	B. Actions Prior to Second Tranche Release (December 2017 (indicative))	Verification Document and Responsible Agency (RA)
		<p>technical design center with technical expertise for preparation of urban sector projects, and a safeguards and gender equality unit with capacity to prepare and/or review environmental, social safeguards, and gender equality frameworks/plans for individual projects.</p>	<p>1.B.3. The corporatized entity BOD meeting minutes, establishing the technical design center and the safeguards and gender equality unit; corporatized entity annual reports. RA: UDH/LSGD, GOR</p>
<p>2. Establish an independent corporatized utility at the city level to manage water supply and wastewater services, and promote PPPs in the urban water and wastewater sectors.</p>	<p>2.A.1. GOR will have approved the establishment of an independent corporatized utility with the mandate to manage water supply and wastewater services in Jaipur urban area.</p>	<p>2.B.1. GOR will have established an independent corporatized utility with the mandate to manage water supply and wastewater services in Jaipur urban area.</p> <p>2.B.2. The corporatized entity will have adopted a business plan and a human resource development policy, endorsed by GOR. The business plan will include, among others, the corporatized entity's vision, organizational structure, and strategy for long-term organizational growth. The human resource development policy will include provisions for independent recruitment of employees, including through campus recruitment, as well as provisions that encourage</p>	<p>2.A.1. GOR decision, approving the establishment of an independent corporatized utility to manage water supply and wastewater services in Jaipur urban area. RA: PHED/UDH, GOR</p> <p>2.B.1. Incorporation documents of the corporatized entity. RA: PHED/UDH, GOR</p> <p>2.B.2. The business plan and the human resource development policy documents; The corporatized entity BOD meeting minutes adopting the business plan and the human resource development policy; GOR decision endorsing the business plan and the human resource development policy. RA: PHED/UDH, GOR</p>

Policy Areas/Objectives	A. Actions Prior to First Tranche Release (December 2015 (indicative))	B. Actions Prior to Second Tranche Release (December 2017 (indicative))	Verification Document and Responsible Agency (RA)
		the recruitment of female employees.	
3. Delegate water supply operations from the State to the municipal bodies.	3.A.1. GOR will have transferred water supply operations, including tariff-setting authority, to the municipal bodies in the five project cities.	3.B.1. GOR will have (i) transferred adequate personnel with required technical expertise, and equipment and facilities, and (ii) provided sufficient budget allocation for O&M expenditures to the municipal bodies in the five project cities; municipal bodies in the five project cities will have established appropriate procedures for carrying out water supply operations and commenced carrying out water supply operations.	3.A.1. GOR decision transferring water supply operations, including tariff-setting authority, to the municipal bodies in the five project cities. RA: PHED/UDH, GOR 3.B.1. GOR report confirming (i) transfer of adequate personnel with required technical expertise, and equipment and facilities, and (ii) provision of sufficient budget allocation for O&M expenditures to the municipal bodies in the five project cities; an independent performance audit report confirming that the municipal bodies have (i) adequate personnel with required technical expertise, (ii) sufficient budget provision for O&M expenditure, and (iii) appropriate procedures for carrying out water supply operations. RA: PHED/UDH, GOR
4. Rationalize urban property tax in the State.	4.A.1. GOR will have issued an order rationalizing the property tax (urban development tax or equivalent) by making it applicable to all properties in all municipal bodies in the State (with the exception of properties eligible for exemptions and reductions, as decided by the government).	4.B.1. Municipal bodies will have collected property tax (urban development tax or equivalent) from at least 50% of all eligible properties in 50% of municipalities in the State.	4.A.1. GOR order to require property tax (urban development tax or equivalent) to be applicable to all properties in all municipal bodies in the State (with the exception of properties eligible for exemptions and reductions, as decided by the government). RA: LSGD/UDH, GOR 4.B.1. GOR report confirming (i) the total number of eligible properties in all

Policy Areas/Objectives	A. Actions Prior to First Tranche Release (December 2015 (indicative))	B. Actions Prior to Second Tranche Release (December 2017 (indicative))	Verification Document and Responsible Agency (RA)
			municipal bodies in the State, and (ii) the total number of eligible properties with such tax paid. RA: LSGD/UDH, GOR
Output 2: Urban Governance Improved			
5. Develop a long-term urban development policy.	5.A.1. GOR will have prepared a draft Rajasthan urban development policy and consulted stakeholders for a review of such draft policy.	5.B.1. GOR will have approved and publicly disclosed, including posting on its website, the Rajasthan urban development policy.	5.A.1. Draft Rajasthan urban development policy; printout of the GOR website showing availability of the draft policy for public review and comments. RA: LSGD/UDH, GOR 5.B.1. GOR decision approving the Rajasthan urban development policy; printout of the GOR website showing availability of the approved policy. RA: LSGD/UDH, GOR
6. Develop a human resource development plan for urban governance.	6.A.1. GOR will have prepared a draft human resource development plan for urban governance that includes training over a period of five years, of at least 10,000 functionaries (including all women functionaries) and elected representatives (including all elected women representatives), and will have consulted with stakeholders, including by posting the draft plan on its website, for a review of the draft plan. 6.A.2. GOR will have approved	6.B.1. GOR will have approved the human resource development plan for urban governance as finalized under tranche 1, and will have disclosed such plan on its website 6.B.2. GOR will have operationalized	6.A.1. Draft human resource development plan for urban governance; a printout of the GOR website showing availability of such draft plan for public review and comments. RA: LSGD/UDH,GOR 6.B.1. GOR decision approving the human resource development plan for urban governance; a printout of the GOR website showing availability of the approved plan. RA: LSGD/UDH, GOR 6.A.2. GOR decision confirming

Policy Areas/Objectives	A. Actions Prior to First Tranche Release (December 2015 (indicative))	B. Actions Prior to Second Tranche Release (December 2017 (indicative))	Verification Document and Responsible Agency (RA)
	establishment of a state-level urban governance training institute that incorporates gender-responsive urban governance as a key training module.	the Institute to train functionaries and elected representatives, and will have trained at least 3,000 functionaries and elected representatives (including at least 30% of the women functionaries and elected representatives).	establishment of the Institute. RA: LSGD/UDH, GOR 6.B.2. An independent performance audit report confirming that the Institute has adequate number of personnel with required technical expertise and sufficient budget provision for operational expenditure and giving data of persons trained. RA: LSGD/UDH, GOR
7. Improve revenue realization from water and sewerage charges.	7.A.1. GOR will have prepared a roadmap that includes a system to rationalize water tariffs to (i) recover full costs in the State in a phased manner, (ii) recover at least 30% of the O&M costs by 2017 and at least 100% of the O&M costs by 2019 in the five project cities, (iii) link water tariffs to inflation rate every year in the five project cities, and (iv) set different tariffs for different categories of urban areas instead of a uniform tariff for all urban areas.	7.B.1. GOR will have implemented the roadmap and rationalized water tariff to recover at least 30% of the O&M costs in the five project cities.	7.A.1. GOR decision approving the roadmap RA: PHED/UDH, GOR 7.B.1. An independent report confirming that water tariff has been revised to recover at least 30% of the O&M costs in the five project cities RA: PHED/UDH, GOR
8. Improve water supply and wastewater service delivery in the State	8.A.1. GOR will have prepared a draft urban water and sanitation policy, and consulted with stakeholders for review and comments. The draft policy will include, among others, (i) NRW reduction, (ii) operationalization of 24x7 water supply, (iii) sewerage and septage management, (iv) provision of	8.B.1. GOR will have approved and publicly disclosed, including posting on its website, the urban water and sanitation policy. GOR will have established a system to monitor implementation of the policy	8.A.1. Draft urban water and sanitation policy; print out of the GOR website showing availability of the draft policy for public review and comments. RA: PHED/UDH, GOR 8.B.1. GOR decision approving the urban water and sanitation policy;

Policy Areas/Objectives	A. Actions Prior to First Tranche Release (December 2015 (indicative))	B. Actions Prior to Second Tranche Release (December 2017 (indicative))	Verification Document and Responsible Agency (RA)
	individual water supply and sewerage connections to households in slums and poor settlements, (v) development of water supply and sewerage GIS and computerized gender-disaggregated customers' database, (vi) guidelines to set water tariffs, (vii) water and wastewater quality monitoring systems, (viii) system to monitor billing and collection efficiency, (ix) waste and wastewater recycle and reuse, (x) bridging gaps between sanitation and health outcomes, and (xi) water and sanitation linkages with economic growth and competitiveness of cities.		GOR website showing availability of the approved policy. GOR report confirming that system to monitor implementation of the policy established. RA: PHED/UDH, GOR
9. Establish benchmarking of urban services in the State	9.A.1. GOR will have approved recruitment of a service provider to develop benchmarking of urban services in the State.	9.B.1. GOR will have operationalized a system of regular benchmarking of urban services for 25 cities in the State.	9.A.1. GOR decision to recruit a service provider to develop a system of benchmarking of urban services in the State RA: PHED/UDH, GOR 9.B.1. GOR report stating that the system of benchmarking of urban services is operational in 25 cities. RA: PHED/UDH, GOR

BOD = Board of Directors, GIS = geographic information system, GOR = Government of Rajasthan, LSGD = Local Self Government Department, NRW = nonrevenue water, O&M = operation and maintenance, PHED = Public Health Engineering Department, PPP = public-private partnership, RUIDP = Rajasthan Urban Infrastructure Development Project, UDH = Urban Development and Housing Department.