



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Jun-2020 | Report No: PIDC27772



BASIC INFORMATION

A. Basic Project Data

Country India	Project ID P167739	Project Name Shimla Water Supply and Sewerage Second Programmatic Development Policy Loan (P167739)	Parent Project ID (if any) P167246
Region SOUTH ASIA	Estimated Board Date Dec 17, 2020	Practice Area (Lead) Water	Financing Instrument Development Policy Financing
Borrower(s) Shri Hanish Chhabra	Implementing Agency Urban Development Department, Government of Himachal Pradesh, Shimla Jal Prabandhan Nigam Limited		

Proposed Development Objective(s)

The PDO is to support the Government of Himachal Pradesh in scaling-up its policy and institutional development program for improving water supply and sewerage services that are financially sustainable and managed by accountable institutions responsive to customers.

Financing (in US\$, Millions)

SUMMARY

Total Financing	200.00
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DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

1. **Over the past decade India has been one of the fastest growing emerging market economies, but Gross Domestic Product (GDP) growth has slowed in the past three years.** Between 2011 and 2015, rapid economic growth has reduced extreme poverty as measured by the international poverty line of US\$1.90 per person per day from 21.6 percent to an estimated 13.4 percent of the population. Despite this success, poverty remains widespread and with the recent growth slowdown, the pace of poverty reduction has moderated too. The current slowdown is due to the combined effects



of unresolved domestic issues, in particular impaired balance sheet issues in the financial sector, and (ii) significant additional headwinds following the COVID-19 outbreak. Given the nation-wide lock-down and major disruptions to economic activity in the first quarters of FY20/21, growth is expected to slow significantly in the current fiscal year, before recovering gradually from FY21/22 onwards.

2. **Rapid urbanization is increasing pressure on WSS services in cities across India, including in the state of Himachal Pradesh.** In line with national trends, the state of Himachal Pradesh has experienced rapid economic growth and urbanization over the past decades. The situation of WSS services in urban and peri-urban areas of the state remains challenging, particularly outside of the capital area which has benefited from the first operation. While water supply coverage in the eight largest urban towns stands at 80 percent, the number of hours of supply is only two hours per day, with up to 50 percent non-revenue water. Tariffs are based on fixed monthly charges and cost recovery hovers around 30-40 percent. This limits maintenance and investments and thus further undermines service quality and sustainability. Coverage of sewerage connections is only 35 percent and a third of the collected sewage cannot be treated due to shortfalls in treatment capacity. There is thus an urgent need for improving water and sanitation services to strengthen public health and hygiene, in particular in light of the ongoing COVID-19 pandemic. The proposed project will also address vulnerabilities to climate change by increasing capacity for adaptive management and mitigation.

3. **The Government of Himachal Pradesh (GoHP) has initiated a transformational Medium-Term Reform Program in the WSS sector in its state capital Shimla under the Shimla Water Supply and Sewerage Service Delivery Reform Programmatic Development Policy Loan 1 (DPL-1).** These reforms are addressing the challenges of a series of jaundice epidemics, rapidly increasing water demand, the declining capacity of traditional water sources and limited services offered by existing infrastructure. A major achievement under DPL-1 was the creation of the Shimla Jal Prabandhan Nigam Limited (SJPNL), an incorporated WSS company with full operational autonomy and clear responsibilities for WSS services, financial sustainability and customer accountability. The SJPNL has established a track record of significant service improvements in the state capital during the last one year. It has carried out several rapid measures to improve WSS services, including systematic improvements in treatment and monitoring. It has reduced transmission losses and increased water availability by 25%, enabling daily water provision as compared to alternate day supply. The SJPNL has improved metering from 20% to 100%, implemented volumetric tariffs, and improved revenue collection by 126% compared to 2016-17. Efficiency measures have significantly reduced energy consumption, thus saving operational costs. The SJPNL has also improved customer service by setting up dedicated grievance redressal cells, bill collection centers, and carrying out community outreach, communication campaigns, and customer satisfaction surveys.

4. **Encouraged by the reform effort of DPL-1 in the Greater Shimla Area, the GoHP is proposing to expand the reforms to benefit other urban areas in the State.** The proposed operation will support the scale-up of the WSS reform program from the capital to rapidly urbanizing tourist towns and their peri-urban areas, addressing the need for improving services and the impact of COVID-19 crisis on a widening gap between revenues and costs, mainly due to loss in tourism activities. The geographical responsibility of the SJPNL is proposed to be expanded to cover thirteen additional strategically important tourist towns and peri-urban areas under the oversight of the corporate office in Shimla. The WSS reforms of the first operation will be applied in the new urban areas, including establishing ring-fenced, autonomous regional operating units, strengthening service delivery and performance orientation, implementing energy efficiency improvements, volumetric tariff with metering, cost recovery targets, transparent subsidy policies and greater customer accountability through a modern grievance redressal system. By consolidating the reform program and expanding it to other areas, this operation will also set an example for urban WSS reforms across the state and India.

Relationship to CPF

5. **The proposed program is consistent with the Country Partnership Framework for India (CPF 2018-22) and directly contributes to the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity.** The policy and institutional reforms will improve WSS services and reduce the burden of water collection, storage and



related coping mechanisms and costs, including instances of water borne diseases, thus supporting poverty alleviation. The reform program is consistent with the CPF focus on resource efficient growth that aims to “improve living conditions and sustainability of cities” as well as the CPF’s aim to “target catalytic contributions, including strategic partnerships with select states” and “improving institutions [...] through increasing capability and better aligning incentives as well as strengthening core government systems”. The expected reforms will support gender equality and empowerment by raising female employment at the proposed new water service provider and by reducing water-related costs such as collection time that presently fall disproportionately on women and girls.

C. Proposed Development Objective (PDO)

6. The PDO is to support the Government of Himachal Pradesh in scaling-up its policy and institutional development program for improving water supply and sewerage services that are financially sustainable and managed by accountable institutions responsive to customers.

Key Results

7. **The key results include improvement in governance, managerial and financial autonomy in the WSS sector; increase in efficiency of WSS operations; and strengthening in customer orientation and accountability.** To improve governance, the successful model of the DPL-1 will be expanded by creating a new Himachal Pradesh Jal Prabhandan Nigam Limited (HPJPNL) water and sanitation company. The HPJPNL will have autonomous regional offices with decentralized managerial and financial responsibility. Oversight, capacity building and guidance will be provided by a central corporate office based in Shimla. The new HPJPNL will expand successful reforms carried out under DPL-1 to the newly targeted towns, notably policies to improve cost-recovery, fair volumetric billing and transparent subsidies. To increase efficiency of WSS operations, the HPJPNL will adopt a new service-delivery orientation, linked to improving performance standards rather than just infrastructure. Specifically, under the Medium-term Program, all clusters of HPJPNL will achieve GoHP’s core service standards including universal access to piped water supply and sewage; continuous pressurized water supply and full compliance with water quality and effluent standards. This operation will also support measures to strengthen customer orientation and accountability based on a modern customer service policy, public outreach, innovative and well-staffed grievance redressal mechanism and monitoring, evaluation and information disclosure systems.

D. Concept Description

8. **The proposed operation supports the GoHP’s Medium Term WSS Program for improvements in governance, operational efficiency and customer accountability.** Activities related to governance improvements include devolution of WSS responsibilities by GoHP and 14 Urban Local Bodies, including their respective planning areas, to the newly formed HPJPNL; adopting a competitive process for hiring of a CEO of HPJPNL and General Managers for its Regional Offices; approving the revised organizational structure of HPJPNL with regional offices and a performance incentive policy for its staff; as well as obtaining the support of a global WSS utility to achieve defined annual outputs. The HPJPNL will establish a WSS regulatory mechanism and apply cost recovery, tariff and subsidy policies across regional offices. To ensure these reforms produce the expected results, there will also be an annual review of corporate governance of HPJPNL completed by the Board of Directors.

9. Activities to increase the efficiency of WSS Operations will comprise of HPJPNL applying a performance-based service delivery policy to the 14 ULBs including their respective planning areas; an energy efficiency policy to determine tariffs and subsidies, starting in the Greater Shimla Area; and HPJPNL implementing an M&E and grievance redressal program, including setting up dedicated, professionalized grievance redressal cells for the new regional offices equipped with modern software tools for tracking and reporting on grievances. In order to ensure continuity of utility services, safety of employees, and the guarantee of the supply chain in the face of the ongoing COVID-19 pandemic, or similar crises, the GoHP will issue state-wide contingency plan and policies to address COVID 19.



10. The financing instrument is likely to change to Program for Results (PforR) as advised by Government of India.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

11. **The program is expected to have significant positive impacts for beneficiaries, reducing poverty and inequality in particular as it relates to access to water and sanitation services.** At present, WSS services in urban Himachal Pradesh suffer from intermittent supply, limited quantity and unreliable quality of water supply, in particular outside of the Shimla capital area. Large inequalities exist between urban cores and peri-urban and planning areas, as well as between richer and poorer customers. Costly coping mechanisms such as investments in storage tanks, private water supply or filtration equipment are common. The activities under the proposed operation will improve governance, operational efficiency and customer accountability are expected to lead to significant service improvements as already observed under DPL-1 in Shimla. A Poverty and Social Impact Analysis is being carried out to assess the distributional impacts of reforms in detail with a focus on analyzing expected impacts on the well-being of different social and livelihood groups, with a focus on the poor and vulnerable, including women and women headed households.

Environmental, Forests, and Other Natural Resource Aspects

12. **The policy reforms supported by this project are not likely to have significant adverse effects on the environment, forests and natural resources and will strengthen the GoHP's ability to cope with climate change impacts.** The professionalization of HPJPNL will include hiring environmental specialists to manage environmental, safety and health issues and coordinate with the responsible line departments, regulatory agencies, communities and contractors. The GoI / GoHP's regulatory systems, that is, environmental, forests and pollution control acts and regulations, were assessed and found to be adequate to manage any effects related to the policy and institutional reform. Reforms promoting energy-efficiency will also entail direct climate-related benefits. The reforms will also address climate vulnerabilities in the targeted area by increasing the water utility's capacity for adaptive WSS management to adequately cope with rising water stress, extended periods of drought, extreme precipitation, and flooding.

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APPROVAL

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Approved By

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