

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA500

Project Name	IN Karnataka Urban Water Supply Modernization Project (P130544)
Region	SOUTH ASIA
Country	India
Sector(s)	Water supply (95%), Sanitation (5%)
Theme(s)	City-wide Infrastructure and Service Delivery (100%)
Lending Instrument	Specific Investment Loan
Project ID	P130544
Borrower(s)	Government of Karnataka
Implementing Agency	Karnataka Urban Infrastructure Development and Finance Corporation
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	30-Mar-2015
Date PID Approved/Disclosed	30-Mar-2015
Estimated Date of Appraisal Completion	13-Feb-2015
Estimated Date of Board Approval	31-Mar-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

India has been one of the fastest growing economies in the last decade, but its economy now shows signs of slowing down. Between 2004 and 2011, a period that includes the global financial crisis, India's growth averaged 8.3 percent per year. Expanding social programs lowered the poverty rate by 1.5 percentage points per year in 2004–09, double the rate of the preceding decade. India's growth rate has, however, slipped to less than five percent in 2012-13 and 2013-14 due to a combination of domestic and external factors, including high inflation, high fiscal deficit and weak external demand for the country's exports. This slowdown carries high social costs for millions of Indians and threatens the gains made in poverty reduction over the past decade.

India's 12th Five-Year Plan (2012-2017) calls for major investments in infrastructure, including water and sanitation, as one of the pathways to increased growth and poverty reduction. According to the UN, India's urban population will increase from 288 million in 2000 to 590 million by 2030, a 2.4 percent annual increase. This massive urban transformation defines India's fundamental opportunities and challenges: to respond to the demands of an additional 10 million urban dwellers

each year and provide them with adequate public services and infrastructure in an environmentally and financially sustainable manner. At the same time it is estimated that the annual economic impacts of inadequate sanitation in India is about INR 2.44 trillion (US\$53.8 billion) or 6.4 percent of India's GDP in 2006. This means an annual loss of INR 2,180 (US\$48) per person, a figure that would be even higher if the impact of poor water supply is also added. Improving access to water and sanitation services is therefore a development priority for India.

The state of Karnataka encompasses 30 districts with a population of 61 million (2011). 219 Urban Local Bodies (ULBs) in addition to Bangalore city, the capital, together comprise 38 percent of the total population. The urban population has grown by 31 percent over the last decade.

Sectoral and institutional Context

Currently, no Indian city provides continuous and reliable water supply to its residents. Most cities typically supply water for 1-6 hours per day, and some only provide water on alternate days or less. Intermittent water supply imposes economic hardship especially on the poor, and on women and children, due to high coping costs related to water storage, long waiting periods, and having to buy water from private vendors. It also increases health risks due to increased likelihood of contamination during the periods when the pipes are not pressured with water. Controlling water losses in an intermittent supply system is also extremely challenging leading to higher wastage of water. Currently, an average of one-third of water supplied in Indian cities is lost in the system; it neither reaches the citizen nor can the Urban Local Body get revenue from it to help defray operation and maintenance expenditure. On average only 40 percent of operating costs are recovered from user fees and reducing these water losses could help improve the financial sustainability of entities supplying water.

The Government of Karnataka (GoK) has undertaken significant efforts to improve urban WSS (UWSS) service levels, including making large investments and carrying out specific reforms. GoK passed a Policy on Urban Drinking Water and Sanitation in 2002 that identifies appropriate institutional mechanisms, tariff frameworks for commercial sustainability, and clarifies the role of private sector in service delivery.

GoK has also been an early mover in transitioning from an intermittent to continuous water supply. It has already implemented, with World Bank financial and technical assistance, a pilot project that demonstrated that continuous and reliable piped water supply was technically feasible and did not involve high tariff for customers. The Karnataka Urban Water Supply Improvement Project (KUWASIP; 2005– 2011) was implemented in select wards of the water-stressed cities of Belagavi, Kalaburagi and Hubballi-Dharwad. The Project helped about 2,30,000 people in these cities get continuous water supply when earlier they would average about once in three days. The introduction of water meters and payment of tariffs based on volumetric billing has allowed citizens to manage their consumption within their budgets, led to the generation of revenues for the municipal water service provider, and helped conserve water. The Project also demonstrated it was possible to utilize private sector assistance to improve the quality of public services. The Pro-Poor Policy under KUWASIP also ensured that the poorer households were able to avail of the improved services by providing a one-time waiver of connection deposit and the capital costs for those living in houses measuring up to 600 sq ft built up area. The volumetric tariff was designed based on a "willingness to pay survey" and kept in view the affordability of different categories of customers. For instance, the water tariff for lifeline consumption (up to 8KL) was kept at levels that the poor households could afford to pay.

Based on KUWASIP's success, and in response to strong demand from residents of these three cities, GoK now intends scaling-up continuous water supply services to cover the remaining parts of these cities. The proposed Karnataka Urban Water Supply Modernization Project (KUWSMP) will be implemented by the Karnataka Urban Infrastructure Development & Finance Corporation (KUIDFC) on behalf of the Urban Local Bodies (ULBs) of these three cities. These ULBs intend hiring a professional water supply operating company for 12 years to help convert the existing intermittent water supply to a continuous, pressured water supply system.

The ULBs will retain ownership of the water supply assets and control of the service delivery set-up, as well as power over tariff-setting. The services the Operator will provide include a system technical review; cost effective design of works needed for upgrading the system to a continuously-pressured supply; procurement of works/ goods/services on behalf of the ULB for the purpose of creating a well-functioning water utility in the city; construction supervision and operation and maintenance of the system; and customer relations (including customer interface, billing and collection). The Operator's services will be contracted for a period of 12 years. Post that contract period, it is envisaged that the ULB owned Special Purpose Vehicle (City Water Utility) created and operationalized through the project will have acquired the capacity to manage water supply operations on a long-term basis. The Pro Poor measures initiated under KUWASIP will also apply to the new project to ensure that poorer households are able to benefit from the improved services without having an additional burden imposed on them. The tariff will be fixed by the ULB in line with the GoK's guidelines.

II. Proposed Development Objectives

The Project Development Objective is to provide city-wide access to a continuous piped water supply in the project cities of Belagavi, Kalaburagi and Hubballi-Dharwad in the state of Karnataka, and to strengthen service delivery arrangements at the city level.

III. Project Description

Component Name

Component 1 – Capital Investment Program

Comments (optional)

- a) Capital Works: Includes bulk capacity augmentation; enhancing capacity or resilience of transmission/feeder mains; treatment plant renovations/capacity enhancement; service reservoir improvements; distribution network sectorization, pipeline rehabilitation/replacement; water meters for bulk supplies and consumer consumption; replacement of house connections; and new connections to low income households.
- b) Service Improvement Plan: The Operator will prepare and implement a Service Improvement Plan (SIP) which will set out the needed investments for capital works, utility systems and equipment.
- c) Construction Management: The Operator will act as the Client's Construction Manager for implementing the SIP and will contract with third party contractors for delivery of the SIP.

Component Name

Component 2 – Institution Building

Comments (optional)

- a) SPV (ULB-Owned Water Utility) set up and operations: This includes operationalizing the SPVs including i) preparation of institutional staffing, training and delegation plan; ii) office

equipment; iii) staff training costs; and iv) incremental operating costs.

b) **Systems and Equipment for Service Delivery:** This includes all the systems (MIS, GIS, Billing and Collection, Call Center), equipment and preparation of Standard Operating Procedures for the water utility.

c) **Partial financing of Operator Fees during the Transition Period:** The project will finance 50 percent of the Operator fee during the Transition Period as a result of the additional costs incurred at this time due to intensive staff training, capacity building, and heavier operating costs (especially for leakage control).

Component Name

Component 3 – Technical Assistance for Sector Development

Comments (optional)

a) **Project Impact Evaluation:** This would assess the impact of providing continuous water supplies at both the household level and the city level.

b) **Improving Social Accountability:** This would support implementation and routine capture of consumer feedback on the quality of WSS services in each city and make it available on line for easy access by all stakeholders.

c) **Improved dam management:** Preparation of Operation and Maintenance Plans and Emergency Preparedness Plans for the five dams providing water to the three cities and considered Large Dams under the Bank’s policy “Safety of Dams” (OP4.37).

Component Name

Component 4 - Project Management

Comments (optional)

This component finances activities to ensure efficient and effective project implementation. This includes, for example, equipment to establish PMU/PIU offices, consultants to support technical evaluations, third party monitoring, expert reviewer, safeguards and fiduciary auditing, construction quality assurance, communications and others.

IV. Financing (in USD Million)

Total Project Cost:	301.50	Total Bank Financing:	199.80
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			101.70
International Bank for Reconstruction and Development			199.80
Total			301.50

V. Implementation

The Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC), which manages a range of urban infrastructure development projects for the Government of Karnataka, will be the implementing agency. The three ULBs have been actively engaged in design of the project and will finance approximately 26% of the capital expenditure. Each of the ULBs has passed a resolution affirming the project design.

KUIDFC has established a Project Management Unit (PMU) under a full-time project manager which will have overall project responsibility including day to day project management, progress

monitoring and reporting, procurement activities, and financial management. The Managing Director (MD) of KUIDFC will be the head of the PMU.

At the city-level, KUIDFC has established a Project Implementation Unit (PIU) in each city which will oversee the day to day activities of the project and will report to the PMU within KUIDFC and to the ULB. The Municipal Commissioner is proposed as the ex-officio head of the PIU, thus ensuring good coordination and information flows to the ULB.

An Empowered Committee has been established under a Government Order which will guide the project and has representation from key departments involved in the project including Urban Development, Planning, and Finance Departments. The Chair is the Additional Chief Secretary to the Government of Karnataka, and KUIDFC is the Secretariat and MD KUIDFC is the Member Secretary.

KUIDFC/ ULBs will manage the overall safeguard management activities of the project with the help of environmental and social safeguard specialists. At the city level, professionals with environmental and social expertise with the PIU will ensure the implementation of safeguard measures. Safeguard staff will also be deployed by the Operator in each city to implement the environment and social safeguard management measures.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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