

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC468

<b>Project Name</b>	Karnataka Urban Water Supply Modernization Project (P130544)
<b>Region</b>	SOUTH ASIA
<b>Country</b>	India
<b>Sector(s)</b>	Water supply (90%), Sanitation (10%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P130544
<b>Borrower(s)</b>	Department of Economic Affairs, Ministry of Finance, Government of India
<b>Implementing Agency</b>	Karnataka Urban Infrastructure Development Corporation (KUIDFC)
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared</b>	27-Jun-2012
<b>Estimated Date of Appraisal Completion</b>	00000000
<b>Estimated Date of Board Approval</b>	09-Jul-2013
<b>Concept Review Decision</b>	

## I. Introduction and Context

### Country Context

India has been one of the World's fastest growing economies in the last decade with annual GDP growth in the region of 8-9 percent p.a. - although this has recently fallen substantially to a projected 6 percent this year. According to the UN, India's urban population will increase from 288 million in 2000 to 590 million by 2030, a 2.4% 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 providing them with adequate public services and infrastructure in an environmentally sustainable manner.

The state of Karnataka encompasses 27 districts with a population of 53 million (2001). 218 Urban Local Bodies (ULBs) in addition to Bangalore city, the capital, together comprise 34% of the total population. The urban population has grown by 29% over the last decade resulting in an increasing mismatch between the levels of service provided by ULBs and growing customer expectations - with intermittent water supplies the norm and a sizeable portion of the population, particularly the poor, relying on public stand posts for water.

### Sectoral and Institutional Context

In India water and sanitation (WSS) are State subjects where, typically, roles and responsibilities of

different actors are unclear and/or overlapping. State WSS Departments set policies on quality of service and cost recovery, supply grant funds to ULBs and act as regulators of the WSS services. At the same time, while ULBs are responsible for the WSS services as per 74th Amendment, infrastructure is often developed by State WSS Engineering Agencies (SEAs). In most cases, SEAs create infrastructure that is handed over, once completed, to the ULBs and thus have little incentive to ensure it is cost effective or translates into good quality services to the end users. SEAs can also operate schemes where ULBs are ill-equipped or unwilling. Where ULBs do take over operations they may have inadequate human or financial resources. The result is institutional dysfunction, perverse incentives, little attention to customers, under financing of O&M, and lack of accountability within the system.

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. The Policy statement aims at (a) ensuring universal coverage of WSS services to all households willing to pay for the services; (b) providing such facilities so as to preserve water resources; (c) ensuring that the facility operations are commercially and economically viable; and (d) ensuring that all citizens receive minimum service levels. The policy identifies appropriate institutional mechanisms to address the objectives, tariff frameworks for commercial sustainability and the role of private sector in service delivery. In addition, through the successful World Bank-financed Karnataka Urban Water Supply Improvement Project (KUWASIP) in select wards of the cities of Belgaum, Gulbarga and Hubli-Dharwad, the GoK was able to demonstrate that continuous and reliable water supply was technically feasible, that the private sector could play a positive role, and that consumers were willing to pay for a good service.

KUWASIP, the recipient of a US\$39.5 million loan from the World Bank and closed in March 2011, demonstrated that continuous water supply was technically possible and brought multiple additional benefits including:

- a) Universal access to house connections – regardless of income group
- b) Reduced abstractions of raw water - consumers less wasteful/leakage reduced
- c) Customer willingness to pay for improved service on a volumetric charging basis
- d) Acceptance that the private sector was able to deliver improved service
- e) Improvements in health outcomes

This follow-on project was envisaged in the original design of KUWASIP as a vehicle to scale up continuous water supplies in the cities of Belgaum, Gulbarga and Hubli-Dharwad (combined population ~2 million).

#### **Relationship to CAS**

The proposed Karnataka Urban Water Supply Modernization Project (KUWSMP) would contribute directly to the Country Strategy (FY09-12) objectives of rapid and inclusive growth, sustainable development and service delivery.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The Project Development Objective is to improve water service quality to a continuous supply

across the three project cities of Hubli-Dharwad, Belgaum and Gulbarga in the state of Karnataka, through the establishment of sustainable service delivery arrangements at ULB level.

#### Key Results (From PCN)

Improved quality of service:

- number of people (existing customers) receiving a continuous (24x7) water supply of adequate pressure and minimum quality standard;
- number of people (new customers) gaining access to a continuous (24x7) water supply of adequate pressure and minimum quality standard;

Sustainability of service delivery:

- improvement in the operating surplus of the participating service providers;
- establishment of accountable, customer focused, ULB service provision arrangements

### III. Preliminary Description

#### Concept Description

##### Background

The project comes at a time of change in the urban water sector in India. There is more understanding of the need for autonomy, accountability and customer orientation of service providers through ring fencing of their activities and governed by performance agreements. In addition partnering with the private sector is becoming more widespread and has evolved from BOTs, consistent with bulk water projects, to include management contracts focused on distribution systems and, in Nagpur, a 25 year concession contract. Financing of water PPPs is now more varied with private finance alone replaced by mixed public and private financing which not only reduces private sector risks but also reduces upward pressure on tariffs. An earlier reliance on international partners is now seeing the development of national operators with nine out of 12 recently awarded PPP contracts having the domestic private sector as the dominant partner.

The request from Government of Karnataka seeks World Bank help to scale up the KUWASIP experience. A number of models appear technically viable, but deciding which to adopt will be determined by each ULB through extensive consultation with stakeholders, including customers and their representatives; KUIDFC; as well as from market feedback. As in KUWASIP the project plans to eliminate public standposts and provide house connections to low income communities. This is a critical element of the project and of its likelihood of acceptability among stakeholders.

A project goal is to catalyze GoK's grant financing (assumed at 50% of capital costs) to establish viable ULB-level service providers which, by project end, can continue to provide the new levels of service and finance urban expansion out of their own revenues. It is too early to say whether this can be achieved but will provide the starting point for the financial modeling. Initial work indicates the continuing importance of State Finance Commission grants for sector financing in the foreseeable future.

The project is considering to assist GoK in operationalizing the Water Council -- an entity designed as part of KUWASIP project -- which is expected to play a central role in sector monitoring, capacity building and tariff policy.

The Asian Development Bank is financing a North Karnataka Urban Sector Improvement Program

(US\$ 440 million) to address sanitation gaps in the project cities; hence sanitation investments under the Bank project are likely to be minimal or none.

#### Project Components

##### Component 1 – Service Delivery Improvements

Investments in assets and systems to deliver continuous water supply in each city. Asset investments include limited bulk capacity augmentation; enhancing capacity or resilience of transmission/feeder mains; treatment plant renovations/capacity enhancement; pump station upgrades; 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. System investments include management information systems, geographic information systems, call centers, billing systems and others expected in a modern utility.

##### Component 2 – Capacity Building

Activities to develop UWSS in the State including the following indicative list:

- a. Helping GoK to operationalize the state Water Council with support in capacity building, systems and equipment.
- b. Supporting KUWS&DB to undertake activities to strengthen its operations and to improve service delivery and financial performance in non-project cities.
- c. Supporting KUIDFC to further develop its WSS resources
- d. Helping build capacity at the ULB level

##### Component 3 Project Implementation Activities

Financing of activities to ensure efficient and effective project implementation such as equipment for PMUs, consultants for technical evaluations, third party monitoring, safeguards and fiduciary auditing, construction supervision, communications and others.

#### Project Costs and Financing

Indicative Project Components	Description		Indicative Amount (\$ millions)	
	ULB/PPP	WB (GoK)	Total	
1. Service delivery improvements continuous supply	150	150	300	Infrastructure and equipment to improve service delivery to
2. Capacity building stakeholders	0	20	20	Consultants and equipment to build capacity across a range of
3. Project implementation activities.	0	20	20	Consultants and equipment to support project implementation
<b>TOTAL</b>	<b>150</b>	<b>190</b>	<b>340</b>	

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	

Physical Cultural Resources OP/BP 4.11			x
Indigenous Peoples OP/BP 4.10			x
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

## V. Tentative financing

<b>Financing Source</b>	<b>Amount</b>
Borrower	150.00
International Bank for Reconstruction and Develo	190.00
Total	340.00

## VI. Contact point

### World Bank

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### Borrower/Client/Recipient

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### Implementing Agencies

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