

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA60363

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 India
Implementing Agency	Karnataka Urban Infrastructure Development & Finance Corporation (KUIDFC)
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	02-Mar-2016
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 during the last decade. Between 2004 and 2011 (This period included the global financial crisis in 2008), gross domestic product expanded at a rate of 8.3 percent per year while poverty declined by an average of 2.5 percentage points per year, a pace significantly faster than earlier periods. Poverty reduction was supported by higher economic growth and greater responsiveness of poverty to growth, including through the expansion of social programs. Increases in non-farm wage employment, especially in construction, greater rural-urban integration, and higher rural wage growth were among the key drivers. However, in the more recent period since 2012, a slowdown in rural real wage growth and volatility in construction activity may have had a sobering effect on the pace of poverty reduction. At the same time, acceleration of growth to 7.3 percent in 2015, if sustained, may lead to further gains for the poor. Maintaining the growth momentum and increasing the responsiveness of poverty reduction to growth are India's key challenges going forward.
- 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 United Nations, 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 water supply and sanitation (WSS) in India is about INR 2.44 trillion (US\$53.8 billion) or 6.4 percent of India's gross domestic product in 2006 (The Economic Impacts of Inadequate Sanitation in India. Water and Sanitation Program, World Bank, 2007). This means an annual loss of INR 2,180 (US\$48) per person. Improving access to water and sanitation services is therefore a development priority for India.

3. The state of Karnataka encompasses 30 districts with a population of 61 million (2011). Around 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

4. Today, not a single metropolitan city in the country provides its residents with continuous water supply – a situation that will only be exacerbated by the rapid pace of urbanization in the country. The Service Level Benchmarks compiled by Ministry of Urban Development show that coverage of house service connections average around 50 percent whilst pressurized supplies are typically 1-6 hours per day. On average only 40 percent of operating costs are recovered from user fees (Service Levels in Urban Water and Sanitation Sector, Ministry of Urban Development, Government of India, March 2012). The poor quality of service particularly affects the poor, women and children. The poor are typically not connected to the pipe system and have to pay significantly higher prices to purchase water from private vendors. Where service is poor it is women and children who bear the cost of coping with the current intermittent supply situation by spending time collecting water from public standposts or waiting for hours for water to arrive. This adversely impacts women's economic opportunities and school attendance by children. When water borne illness strikes a family this directly impacts family earnings and also places further burdens on the women who care for the sick.

5. Countries in East Asia and Latin America fare much better in delivery of water services. Table 1 compares indicators of utility performance and service levels in India with those in other countries.

Table 1: Comparison of service level indicators

India	Brazil	China	Vietnam	Cambodia		
Continuity (hours per day)			5.2	24	24	22.7
Operating Cost Coverage Ratio (%)			55	144	76	168
NRW (m3/ km/ day)	119	33	37	40	8	
Water sold that is metered (%)	39	94	100	100	100	
Staff per 1000 connections	0.9	-	1	1.1	0.5	

Source: IBNET Water Supply and Sanitation Blue Book 2014

6. 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 the Constitution (74th Amendment) Act 1992, 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 who may or may not have the financial and technical capacity to manage those assets. SEAs can also operate schemes where ULBs are ill equipped or unwilling. This results in poor performance due to i) lack of clear lines of accountability – with no single entity being responsible for delivering a good quality service to residents ii) weak incentives to perform, as poor performance can be blamed on others, and a public service model which cannot reward superior achievements; iii) poor financial situation of providers which results in inadequate maintenance, leading to further deterioration of service and inability to improve/expand services; and iv) weak technical capacity which means staff are not able to tackle many of the endemic issues that might otherwise lead to improved performance.

GoK has been an early mover in addressing the challenge of intermittent supplies. It 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. Some 2,30,000 people gained access to continuous water supply when earlier they would average about once in three days. The introduction of water meters and volumetric billing allowed citizens to manage their consumption within their budgets and helped conserve water. The Pro-Poor Policy under KUWASIP ensured that poorer households were able to access 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 to reflect affordability of different customer categories. For instance, the tariff for the initial consumption block (up to 8KL) was kept at levels that the poor households could afford to pay. The Project also demonstrated it was possible to utilize private sector assistance to improve the quality of public services.

More recently, the Government of Karnataka has been working to further improve continuity of water supply across several cities including Mysore, Ilkal, Raichur, Bellary and Hospet. GoK now intends scaling-up continuous water supply services to cover the remaining parts of the three cities included in the Bank-financed pilot, beginning with Hubballi-Dharwad. 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 Body (ULB) of Hubballi-Dharwad.

The ULB in Hubballi-Dharwad intends hiring a professional water supply operating company (the Operator) for 12 years to help convert the existing intermittent water supply to a continuous, pressured water supply system. The ULB will retain ownership of the water supply assets and control of the service delivery set-up, as well as power over tariff-setting in accordance with GoK guidelines. The Operator's services will be contracted for a period of 12 years with clear performance targets. Simultaneously, the Project will also support the setting up and operationalisation of a City Water Utility (via a Special Purpose Vehicle or SPV). The aim is that the professional Operator will help build the capacity of this City Water Utility so that at the end of the 12-year contract period, the City Water Utility 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 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 cities of Kalaburagi and Belagavi have been subject to extensive evaluations by the Bank team in parallel Hubballi-Dharwad. The process for awarding performance-based contracts in these cities is expected to be completed by the end of 2016. Karnataka may seek additional Bank financing for activities in or related to these cities as soon as this process is completed.

II. Proposed Development Objectives

The Project Development Objective is to provide city-wide access to a continuous piped water supply in the eligible cities 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) 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) a) 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).
- b) 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.
- c) 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.

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 the eligible 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 providing bulk water supply to the eligible city 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:	153.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			53.00
International Bank for Reconstruction and Development			100.00
Total			153.00

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 ULB in Hubballi-Dharwad has been actively engaged in design of the project and will finance approximately 26% of the capital expenditure. It 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 Hubballi-Dharwad 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.

Safeguards: In order to manage safeguard issues related to the project, KUIDFC has carried out - specific Environment and Social Assessment (ESA) and prepared Environment Management Plan (EMP) for Hubballi-Dharwad. For further guidance during the start-up, transition, and sustaining phases of the project, an Environment Code of Practice (ECoP) has also been prepared. The EMP and the ECoP are integrated into the operator contract and will ensure that all environmental management issues are adequately mitigated by the operator.

The project relies on the performance of two existing dams, each higher than 15 meters, to deliver water services in Hubballi-Dharwad. Complying to the safeguard policy of 'Safety of Dams (OP 4.37), the Project will finance updating or preparation of dam Operation & Maintenance plans and Emergency Preparedness Plans for dams under the project. Government of Karnataka has committed to undertake necessary civil and mechanical works required to ensure the structural integrity and hydraulic performance of the dams under the project

On social safeguards, most of the land required for the Project is already available and additional land requirement is minimal and purchase of land will be explored. However, to provide for any involuntary acquisition of lands, a Resettlement Policy Framework has been prepared following the provisions of OP 4.12 and the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

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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