

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

Report No.: PIDA17333

<b>Project Name</b>	Tamil Nadu Sustainable Urban Development Program (P150395)
<b>Region</b>	SOUTH ASIA
<b>Country</b>	India
<b>Sector(s)</b>	Wastewater Treatment and Disposal (30%), Sub-national government administration (30%), Water supply (30%), Solid waste management (1 0%)
<b>Theme(s)</b>	Municipal finance (40%), Municipal governance and institution building (30%), City-wide Infrastructure and Service Delivery (30%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P150395
<b>Borrower(s)</b>	Government of India
<b>Implementing Agency</b>	TNUDF
<b>Environmental Category</b>	A-Full Assessment
<b>Date PID Prepared/Updated</b>	20-Jan-2015
<b>Date PID Approved/Disclosed</b>	20-Jan-2015
<b>Estimated Date of Appraisal Completion</b>	
<b>Estimated Date of Board Approval</b>	31-Mar-2015
<b>Decision</b>	

## **I. Project Context**

### **Country Context**

1. India's rapid economic growth is being accompanied by an unprecedented urban and spatial transformation. While the current level of urbanization in the country is around 31% (377 million persons) as per census 2011, it is projected to increase to 50% or more over the next 20 years. For the first time since Independence, India has seen a greater absolute increase in urban population versus rural, and the number of towns in India has increased from 5,161 in 2001 to 7,935 in 2011, with about 53 cities having a population of over 1 million. This massive urban transformation in many ways defines one of India's fundamental development challenges going forward, as it seeks to accommodate an additional 10 million urban dwellers per year, provide them with adequate housing and urban services (such as water supply, sewerage, drainage, solid waste management transport), address the issue of slums, create opportunities for economic growth and at the same time, ensure that such urbanization is environmentally sustainable. This is in addition to the huge current backlog in urban services.

2. Therefore, accommodating the needs of India's growing urban population is now and will continue to be a strategic development challenge that has to be faced primarily by the state governments, since urban development is a 'state' subject under the Indian Constitution. In this context, the Bank's forthcoming 'South Asia Urbanization Flagship Report' (to be published) also identifies four general policy areas as key to addressing these urban challenges, viz. (i) Strategic Planning and Connectivity; (ii) Efficient Land and Housing; (iii) Effective Urban Governance and Finance; and (iv) Urban resilience.

3. The scale of challenges summarized above also brings into context the urban capital investment needs in India as outlined by various Finance Commissions and expert bodies and the realization that such needs cannot be met by government budgetary sources alone. For example, the Government of India (GOI) report on Indian Urban Infrastructure and Services by the High Powered Expert Committee (HPEC) estimates an investment need of US\$870 billion over the next 20 years. This is in addition to substantial resources required for sustainable operation and maintenance (O&M) of urban services. Policymakers at the national level too are now increasingly seized of the urbanization related challenges and the new government at the Centre is in the process of formulating / launching a number of urban development programs including the "100 Smart Cities" program, "National Urban Development Mission (NUDM)" and "Swachh Bharat Abhiyan" that covers cities as well.

4. Among the larger Indian states, Tamil Nadu (TN) ranks first on urbanization rates and has the second largest state economy in India. From 2004-05 to 2011-12, its Gross State Domestic Product (GSDP) has grown at an average of 9.3% per annum, which was higher than the national average and also highest among the more developed states in India. During the same period, the state's per capita income increased at a CAGR of 15.9% during 2004-11, to reach US\$1,622 equivalent. Services contributed about 58% of the GSDP of TN, followed by industries / manufacturing that contributed about 30% and the rest accounted for by agriculture. This underscores the importance of urban areas in TN, for many of the activities such as trade, hotels and restaurants, real estate, transport, communication and construction.

### **Sectoral and institutional Context**

5. As per Census 2011, TN is about 48.5% urbanized with about 35 million people residing in urban areas and accounting for 9.6% of India's urban population. In terms of absolute numbers of population living in urban areas, Tamil Nadu is in third position after Maharashtra (>50 million) and Uttar Pradesh (> 40 million). Further, the urban growth rates have outpaced rural growth rates - the urban population growth in the state was 27% during 2001 to 2011 as compared to rural growth of 6% during the same period. Urbanization in TN is widely dispersed and encompasses 12 municipal corporations, 124 municipalities and 528 town panchayats, besides about 374 "Census Towns" identified as areas with urban characteristics, but not formally notified as urban. This urban growth combines net in-migration into urban areas, expansion of city boundaries to accommodate peri-urban growth as well as growth of existing urban populations.

6. Urban development is thus of critical importance to the Government of Tamil Nadu (GoTN) and this is clearly spelt out in their latest Twelfth Five-Year Plan Document and the 'Vision Tamil Nadu 2023' document. Though TN is a pioneer in many aspects of urban development, there remains a huge unfinished agenda and the key urban sector challenges for TN in this context include: (i) Meeting the demand supply gap in urban services in keeping with the fast

paced urban growth – for instance coverage of sewerage and storm water drains is less than 30% in the state and less than 10% of the solid waste is treated sanitarly and disposed; (ii) Deepening urban public finance reforms to enable city governments to more effectively tap into economic activities occurring in their areas to generate the financial resources they need. TN was the first state in India to set up a structured system of state finance commissions in the late 1990s for formula-based transfer of funds to Urban Local Bodies (ULBs). This has greatly empowered the ULBs and such devolutions have grown at an average rate of 23% per annum over the last decade; (iii) Improving urban governance and the capacity of cities to take on the challenges in keeping with the 74th Constitutional Amendment and ensuring accountability to city residents. TN already has a system of directly elected mayors, but with very limited powers and autonomy; (iv) Ensure cities continue to play an important role in fostering economic growth in the state.

7. In keeping with the aforesaid challenges and to leverage urbanization for economic growth, the 'Vision Tamil Nadu 2023' document and GoTN's Twelfth 5-Year Plan set out as its vision for the sector as seeking to "promote and facilitate the development of inclusive and sustainable cities". In keeping with this vision, some of the specific priorities / goals include: (i) Developing Ten "World Class" Cities; (ii) Improving Urban Environments through: (a) Achieving an "Open Defecation Free" State; (b) Achieving 100% access to safe sanitation; (c) Achieving a "Garbage Free" State; and (iii) Ensuring continuous water supply in urban areas. The aggregate investment requirements for achieving these and other related urban sector development goals are estimated to be in excess of US\$37 billion over the next 20 years. For achieving these goals, it calls upon the state to take actions, with innovations as a cross-cutting theme, across four fronts: (i) Urban Governance; (ii) Planning; (iii) Funding; and (iv) Capacity Building.

8. The Bank has had a long engagement with the Government of Tamil Nadu in the urban sector, starting with the TNUDP-I project that was a 'sites and services' type of urban development project. The "Municipal Development Fund" (MDF) type urban projects in TN that began with the setting up of the Tamil Nadu Urban Development Fund (TNUDF) started under subsequent TNUDP-II in late 1990s, which was followed by the recently closed TNUDP-III. TNUDF was set-up as a municipal fund in Public-Private Partnership (PPP) format between GoTN and private sector domestic financial institutions. TNUDF has played an important role in fostering greater access to financial markets by ULBs in TN while maintaining an outstanding track record on loan repayments from ULBs - 100% over the last decade. It has also undertaken many pioneering transactions including first pooled finance municipal bond issuance, promoting capital contributions from beneficiaries of urban projects as a financing mechanism and PPPs at municipal level. TNUDF has grown as an institution as a result of this long standing partnership and supported over US\$1.5 billion in urban investments in the state (leveraging an aggregate Bank support of about US \$400 million over this period through TNUDP-II & III), combining public and private funds, as well as other donors (JICA, KfW). The ICR rating for TNUDP-III was 'Satisfactory'.

Project Rationale - why should Bank do one more urban project in TN?

9. TNUDF has been proven to be among the most successful Bank MDF type operation in India and is a clear demonstration of the benefits of the Bank's long term engagement in helping build institutions. Urban operations in TN have continued to evolve and innovate: TNUDP-II helped set up the TNUDF and was largely used for simpler interventions such as city roads; TNUDP-III scaled up TNUDF and took addressed more challenging urban sub-sectors such as sewerage. The proposed TNSUDP seeks to take forward this partnership with GoTN in urban

development to address the next generation of urban sector challenges in the state by building on the past engagements with Tamil Nadu in the urban sector, in particular on TNUDP-III. It will step-up the level of engagement by enhancing the local urban management and governance as well as supporting innovations including piloting of a 'Results Based Financing Component on Urban Governance'; supporting credit enhancement; and supporting reforms in urban finance and in sector policies – all of which provides useful lessons beyond this immediate operation and serves to inform Bank's engagement in urban sector in general in India and elsewhere.

10. The proposed TNSUDP fully supports the World Bank Group's India Country Partnership Strategy (CPS) for FY 2013-17. Specifically, TNSUDP would contribute to the development goals set out under Engagement Area 2 on 'Spatial Transformation' under the CPS that seeks to leverage the rural-urban transformation as an opportunity to reduce poverty and increase competitiveness. In helping India and the state of Tamil Nadu manage such spatial transformation and improve the livability of cities, TNSUDP as articulated through its PDO and components, aims to contribute to the following outcomes outlined under Engagement Area 2 of the CPS: (i) Strengthened institutional capacity of urban governments; (ii) Improved urban services; (iii) Improved environment protection. In addition, many of initiatives proposed under TNSUDP are also fully consistent with the stated objectives of GOI's new urban development programs, including with the '100 Smart Cities program' due to the emphasis under TNSUDP on municipal e-governance / GIS and with the 'Clean Cities program' due to the emphasis on environment sustainability within TNSUDP as noted earlier.

## **II. Proposed Development Objectives**

To demonstrate improved urban management practices and improve urban services delivery in participating ULBs in a financially sustainable manner.

## **III. Project Description**

### **Component Name**

Component A: Results Based Grants for Urban Governance Component (Bank Loan: US\$56 million)

### **Comments (optional)**

The main objective of this component is to demonstrate new models of urban management with a focus on building strong governance and financial sustainability at the ULB level. This component will target three ULBs ('Model Cities') that have been identified, viz. Vellore, Erode municipal corporations and Hosur municipality, which will be empowered and incentivized to improve urban management across a range of areas. Four such urban reform areas have been identified as follows: (i) ULB Empowerment and Organizational Capacity; (ii) Spatial /Development Planning; (iii) Sustainable Finances; and (iv) E-Governance and & Public Disclosure. The selected Model Cities will be provided an annual grant based on satisfactory performance in these urban governance/ management areas aggregating US\$60 mn.

### **Component Name**

Component B: Urban Investments (Bank loan: US\$320 million)

### **Comments (optional)**

The main objective of this component is to provide investment support to participating ULBs by way of sub-loans / sub-grants through TNUDF to improve a range of urban services. This would be a 'demand-driven' facility and there would be an emphasis on 'sustainability' or improvement of urban environments / cleanliness through interventions in waste-water collection and treatment /

water reuse, storm water drains and restoration of water bodies in urban areas.

Overall this component will comprise of the following three sub-components as follows:

- a) Sub-component B1: Urban Investments (Bank loan: US\$287 million);
- b) Sub-component B2: Credit Enhancement (Bank loan: US\$15 million);
- c) Sub-component B3: Project Development and TNUDF Technical Assistance (TA) (Bank loan: US\$19 million):

#### **Component Name**

3. Component C: Urban Sector Technical Assistance (Bank loan: US\$23 million)

#### **Comments (optional)**

This is aimed at strengthening the capacity of ULBs and urban sector officials in the state in specific areas as well as supporting reforms in the area of urban finance and municipal governance. Hence this component will mainly comprise the following activities: (i) Support for next generation of municipal e-governance system & GIS systems covering a majority of ULBs in TN; reforms to strengthen public financial management, disclosure and oversight in ULB's (ii) Institutional Development and Capacity Building of ULBs and urban sector institutions in the state, including training, sector studies and measures for strengthening O&M at ULBs, etc. (iii) Project management, incremental operating costs, etc. at DMA.

#### **IV. Financing (in USD Million)**

Total Project Cost:	600.00	Total Bank Financing:	400.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			200.00
International Bank for Reconstruction and Development			400.00
Total			600.00

#### **V. Implementation**

Almost all of the interventions, except for a few related to Institutional Development / Capacity Building, will be implemented at the ULB level, but under the supervision and monitoring of state level agencies. Hence the Municipal Administration and Water Supply (MAWS) Department of GoTN will be the overarching department for TNSUDP as a whole and TNUDF will be the nodal agency for TNSUDP under MAWS dept. In terms of specific components: (i) Components A and C, i.e. the Urban Governance (Model-City) and Urban Sector TA will be overseen / managed by the office of the Directorate of Municipal Administration (DMA); and (ii) Component B (Urban Investments) comprising mainly the urban investment sub-projects will be implemented at the (respective) ULB level and overseen by TNUDF, which would also be main agency for channeling the funds to ULBs.

Since this project involves several sub-projects, an Environmental and Social Management Framework (ESMF) which provides mechanism for sub-projects preparation, appraisal and implementation from safeguards point of view will be used and an ESMF for TNSUDP has been formulated and disclosed.

#### **VI. Safeguard Policies (including public consultation)**

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

**Comments (optional)****VII. Contact point****World Bank**

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