

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

Report No.: PIDA83936

Project Name	Madhya Pradesh Urban Development Project (P155303)
Region	SOUTH ASIA
Country	India
Lending Instrument	Investment Project Financing
Project ID	P155303
Borrower(s)	Government of India
Implementing Agency	Urban Development and Environment Department, Govt. of Madhya Pradesh
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	27-Oct-2016
Date PID Approved/Disclosed	06-Nov-2016
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	14-Mar-2017
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

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 the 2011 census, 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 over 1 million population. This massive urban transformation defines one of India's fundamental development challenges going forward, namely to accommodate an additional 10 million urban dwellers per year and provide them with adequate housing and urban services like water supply, sewerage, drainage, solid waste management and urban transportation in an environmentally sustainable way. Accommodating the needs of this growing urban population is therefore a strategic development challenge that has to be faced primarily by the state governments, since urban development is entirely a state subject under the Indian Constitution.

The scale of the urban challenges brings into context the massive investment needs outlined by various Finance Commissions and expert bodies, as well as policies to facilitate the financing of urban infrastructure and services in a sustainable, equitable and accountable way. The High Powered Expert Committee on Indian Urban Infrastructure and Services set up by Ministry of Urban Development estimates an investment need of around US\$600 billion over the next 20 year

period (2012-2031). This is in addition to substantial resources required for operation and maintenance of urban services. Policy makers at the national level are also increasingly seized of the urbanization related challenges and hence the emphasis placed on the recent launch in June 2015 of three high-level missions: Atal Mission for Rejuvenation and Urban Transformation (AMRUT); Smart Cities Mission (SCM); and Housing for All.

Sectoral and institutional Context

Madhya Pradesh (MP) is geographically the second largest, fifth populous, and eighth most urbanized states in India. MP's income per capita is INR54,030/year, well below the national mean of INR74,380/year. MP has more than one-third of its population living below the poverty line. Despite the fact that cities in MP contribute 55% of the state's gross domestic product, there are also high levels of urban poverty (21%) and slum population (28%) in these cities. MP recorded a higher rate of growth for its urban population compared to the rural in the last decade; its urbanization rate is however still below the national average, but it is projected to catch-up in the next 15 years.

At present, MP's total urban population is 20.1 million (28% of total population) concentrated in 378 urban centers. Rapid urbanization in MP has seen the sprouting of new urban settlements, more often close to existing cities. The last decade (2001-2011) saw a 20% increase in the number of urban centers, including a 50% increase in census towns, compared to a 6% increase in the previous decade (1991-2001). The last decade also saw more than a quarter-fold increase in population of the four largest urban agglomerations including Bhopal and Indore.

There is a relatively low level of access to basic services in urban areas, resulting from underinvestment on essential services (water, sewerage, street lighting, refuse disposal, lighting, etc.). MP spends around \$6 per person per annum on these services, in contrast to the \$18 per person per annum spent nationally. Three in 10 poor people in urban MP have no access to piped water; and over half have no sanitation. Even the four largest cities have a relatively low level of access to basic services: household access to piped water supply ranges between 48-80%, per capita water supply ranges between 35 to 150 lpcd, metering of water connection ranges from nil to 40%, and hours of water supply ranges between 1.5-4 hours; access to underground sewerage ranges up to 40%; door-to-door solid waste collection ranges between 25-90%, while secondary waste collection ranges between 85-90%; only 60-80% of rainwater runoff is effectively drained overall indicating. Weak project management in urban local bodies (ULBs) remains a challenge for developing good-quality urban infrastructure projects and ensuring effective project implementation and sustainability.

MP's Urban Agenda. In the last few years the Government of Madhya Pradesh (GoMP) has started to focus on urbanization. In 2009, GoMP initiated the preparation of participatory city development plans in 106 towns. This exercise was intended to: (i) help meet the gap in urban services in keeping with the fast paced urban growth; (ii) deepen urban public financial management reforms to enable ULBs generate the required financial resources by improving efficiency and to effectively tap into the economic growth occurring in the cities; (iii) improve urban governance and capacity of cities to take on the challenges in keeping with the Constitution (74th Amendment) Act and ensure accountability to city residents; (iv) address the issue of slums in cities and meet the gap in urban housing, especially low income housing; and (v) ensure that cities continue to play an important role in fostering economic growth.

GoMP has also undertaken an ambitious reform program under the aegis of the Urban Development and Environment Department (UDED). Some key reform actions successfully adopted in the state include the enactment of the Madhya Pradesh Public Services Guarantee Act to ensure the timely delivery of essential municipal services from a single window; establishment of Citizen Facilitation Centers; introduction of common tendering and integrated computerized Standard Schedule of Rates; design of a municipal e-governance system for all ULBs in the state (e-Nagarpalika); adoption of five municipal cadres; automated building plan permission systems; setting up of a state-wide urban management information system; and operationalization of the Madhya Pradesh Urban Infrastructure Fund.

In 2013-14, MP was the only state in India which fully met all reform-linked performance grant requirements of the 13th Central Finance Commission, while in 2012-13 the Ministry of Urban Development awarded MP as the best performing state for pro-poor urban reforms under Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Considering the high importance of AMRUT in reforms, GoMP will continue to focus on its reform agenda, in at least the 34 cities selected by AMRUT. Given MP's efforts on information technology, service provision, and reforms over the last few years, the State will also benefit from the Smart Cities initiative. In the first round seven MP cities were nominated for Smart City support; in the final round, three MP cities were selected for immediate support - the highest number of cities in any state in India that were selected.

Given weak capacity in urban local bodies (ULBs) to structure transactions and interact with financial markets, and poor creditworthiness of ULBs, GoMP is keen to explore avenues that can facilitate ULBs to access new sources of capital from financial markets. With this in mind, GoMP has initiated the credit rating of all major ULBs, set-up city-level special purpose vehicles that can structure and implement investments under SCM, and is envisaging the setting up of a facility that can provide credit enhancements for ULB borrowing.

An intervention focusing on strengthening state institutions to deliver basic services (water, sewerage, public transport) in urban areas and supporting the reforms agenda is likely to tie-in well with the two national schemes.

The Bhopal Indore Super Corridor (BISCO). Bhopal and Indore, being the two largest cities and economic production centers of MP, have attracted special attention from the Government of Madhya Pradesh (GoMP) as nodes for economic development. The two cities are spaced about 200 km from each other and are well-connected by an expressway with multiple economic activities already established along the corridor. Five towns along the expressway are already experiencing pressures of rapid urbanization, which is leading to haphazard and environmentally costly development. GoMP is keen to undertake a balanced regional planning and development approach to ensure positive economic and environmental impacts of the urbanization along the corridor. With this in mind, GoMP is keen to develop the Bhopal Indore Super Corridor (BISCO) region as a network of urban nodes that grow as self-sufficient development hubs with focus on creating employment opportunities, providing world class infrastructure and social amenities. GoMP estimates that the 160 km long region, with an existing population of around three million, is likely to become home to 0.7 million new residents and 2.4 million new jobs over the next decade, and is keen to develop a regional urban and economic development plan and related investment proposals for the proposed BISCO region. Given that rapid urbanization and economic development is expected to take place along the corridor, a regional urbanization and economic plan for the BISCO region will be prepared. Drawing from the plan, investment proposals that ensure sustainable urban

and economic growth in the region will be developed.

Higher Level Objectives to which the Project Contributes

The Madhya Pradesh Urban Development Project (MPUDP) will contribute to India's vision for development outlined in the country's Twelfth Plan (2012-17) by mobilizing financial resources for urban infrastructure investments, and by strengthening the financial and administrative capacity of ULBs to plan, finance and deliver services in a financially sustainable manner. It will also directly contribute to the implementation of the recently launched AMRUT and Smart Cities initiatives which are the main schemes of the Government of India (GoI) to unlock the economic potential of cities in India. MP has been classified as a low-income state; in addition to having high incidence of urban poverty (21%), urban MP also has one of the highest concentrations of urban poor among all states in India, as well as high proportions of urban Scheduled Castes (15.3%) and Scheduled Tribes (5.2%) compared to other poorer states in India. Given these, MPUDP is expected to contribute to the two key objectives of the 2013-17 Country Partnership Strategy (CPS) for India, namely: supporting the urban transformation and the engagement with low-income states to reduce poverty and share prosperity. The focus of the project on basic municipal services (water supply, sanitation, solid waste management, roads, etc.) will directly benefit women, especially in small and medium towns where services are not available on a regular basis.

II. Proposed Development Objectives

The project development objective (PDO) is to enhance the capacity of Madhya Pradesh Urban Development Company (MPUDC) to improve coverage of key urban services and increase the revenue of participating urban local bodies.

III. Project Description

Component Name

Component 1: Institutional Development (Bank Loan: US\$ 18.3 million)

Comments (optional)

This will support strengthening of the Municipal Reforms Cell (MRC) and institutional strengthening of MPUDC. Through MRC, support will be extended to six areas of State initiated reforms linked to the implementation and sustainability of municipal investments. These are property tax; user charges; advertisement tax; accounting; budgeting and credit improvement. Support will encompass both policy reform initiatives within MRC (State level) and dedicated capacity building at regional and ULB levels. Institutional strengthening of MPUDC will strengthen MPUDC to serve as state nodal urban infrastructure implementation agency, build project management capacity of MPUDC, and extend TA for preparation of a BISCO regional & economic development plan and related investment proposals.

Component Name

Urban Investments (Bank Loan: US\$97.4 million)

Comments (optional)

The main objective of this component is to provide investments to participating ULBs to implement subprojects in a range of urban services, including water supply, sewerage and septage management, drainage, solid waste management, amongst others. ULBs qualifying on minimum fiduciary criteria established by MPUDC will be eligible for submitting investment proposals. Selection of subprojects will be based on demand from ULBs, and will be assessed in accordance to technical, financial, social, and environmental screening criteria laid down in the Operations Manual. This

component will also include setting up of a credit enhancement facility (CEF) to provide credit enhancements to ULBs to help them leverage commercial finance for municipal infrastructure projects.

IV. Financing (*in USD Million*)

Total Project Cost:	166.00	Total Bank Financing:	116.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			50.00
International Bank for Reconstruction and Development			116.00
Total			166.00

V. Implementation

MPUDC will have the primary responsibility for project implementation and ensuring that the PDO is achieved. It will be directly responsible for the implementation of the Urban Investment Component (Component 2) and the Institutional Strengthening of MPUDC Sub-component (Sub-component 1.2), including all procurement, financial management and safeguard activities. It will set up a dedicated technical unit under the Projects and Engineering Division to oversee the BISCO Regional Development Plan Preparation activity. The municipal reform cell (MRC), constituted within the Urban Administration and Development Directorate (UADD), will be responsible for the implementation of the policy reforms Sub-component (Sub-component 1.1). In addition, to these two implementing agencies at the State level, ULBs will be involved in the implementation of sub-projects. A Tripartite Implementation Agreement (TPIA) will be signed by MPUDC, UDED and the ULBs. The TPIA will establish the roles and responsibilities of each of these agencies for the implementation of urban investments.

MPUDC will serve as the Project Management Unit (PMU) with overall responsibility for project management and execution. The PMU will assume direct responsibility for day to day project management, coordination and implementation. It will take the lead role in planning, coordination and monitoring of project performance in line with the project implementation schedule and facilitate day to day decisions for implementing the project components, and will be responsible for inter-institutional coordination. The PMU will prepare annual work programs, budgets, procurement plans, disburse funds, review fund execution and accountability, and oversee quarterly review meetings, as well as contract and supervise project staff and consultancy assignments, prepare reports and other documents and provide quality control. The PMU will be headed by a Project Director assigned from the state government, who will report to the UADD Commissioner/ Principal Secretary. The PMU will be staffed by the following key positions (i) Deputy Project Director; (ii) Financial Specialist; (iii) Procurement Specialist; (iv) Environmental Safeguards Specialist (v) Social Safeguards Specialist; (v) Monitoring and Evaluation Specialist; (vi) Municipal Engineer; and (vii) Support Staff. The PMU will also be supported by 13 regional Project Implementation Units (PIUs) who will bear the main responsibility of implementation supervision at the ground level.

Environmental Safeguards: Project activities improved provision of water supply, sewerage and septage management, solid waste management, among others, are overall expected to improve environmental conditions in the participating towns. However, some environmental impacts can be

anticipated due to the proximity of some of the sub-projects to environmentally sensitive locations (such as the River Tapti in Burhanpur, River Chambal in Morena) or to natural habitats (such as Crocodile Sanctuary in Morena) and important cultural properties (in towns such as Burhanpur, Maheswar, Mandsaur). In addition, environmental and construction safety issues are expected during the construction phase of sub-projects.

Considering the above, the project triggers three environment safeguard polices, OP 4.01 Environmental Assessment, OP 4.04 Natural habitats, OP 4.11 on Physical Cultural Resources. To address the above issues and safeguard policy requirements, an Environmental and Social Management Framework (ESMF) has been prepared, that provides a framework for sub-project screening, categorization processes for conducting Environmental and Social Assessment (ESA) of sub-projects. MPUDC will be responsible for ESMF implementation and for monitoring implementation of the Environmental Management Plans (EMPs).

The draft ESMF and draft ESAs for three identified sub-projects (water supply projects in Khargone and Burhanpur, sewerage project in Chhindwara) were disclosed in July 2016. The final versions of the ESMF and three sub-project ESAs were then disclosed in October 2016.

Social Safeguards: The proposed Project will have positive social impacts as a result of improved water supply, sanitation, safe disposal of rain water, and related infrastructure improvements in cities, in particular in slums and other areas inhabited by other vulnerable people. However, there may be some adverse social impacts emanating from land acquisition. Although the need for acquiring private land is expected to be limited, it could involve displacement of people, including non-title holders. As a result, the project triggers the Bank's Operational Policy 4.12 (Involuntary Resettlement). The ESMF prepared for the project, requires social screening of all sub-projects and preparation of Resettlement Action Plans (RAPs), if so required.

Some of the participating cities of the project such as Khargone, Burhanpur and Seondha are located in Schedule V areas. OP 4.10 Indigenous Peoples is therefore triggered and an Indigenous Peoples Management Framework (IPMF) has been prepared as part of ESMF to identify and effectively promote IP participation throughout the project cycle in sub projects, as applicable.

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)

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