



**The World Bank**

First Programmatic Water Supply and Sewerage Service Delivery Reform Development Policy Loan for Shimla Himachal Pradesh (P167246)

# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 20-Jun-2018 | Report No: PIDC24597

## BASIC INFORMATION

### A. Basic Project Data

Country India	Project ID P167246	Project Name First Programmatic Water Supply and Sewerage Service Delivery Reform Development Policy Loan for Shimla Himachal Pradesh	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date May 07, 2019	Practice Area (Lead) Water	Financing Instrument Development Policy Financing
Borrower(s) Department of Economic Affairs	Implementing Agency Urban Development Department, Government of Himachal Pradesh		

### Proposed Development Objective(s)

The PDO is to support Government of Himachal Pradesh in its policy and institutional reform program to improve water supply and sewerage services in the Greater Shimla Area.

### Financing (in US\$, Millions)

#### SUMMARY

<b>Total Financing</b>	25.00
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#### DETAILS

<b>Total World Bank Group Financing</b>	25.00
World Bank Lending	25.00

#### Decision

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

- 1. Proposed operation supports Government of Himachal Pradesh's program for improving water supply and sewerage services.** The proposed programmatic operation for US\$25 million, the first in a series of three DPLs<sup>1</sup>, supports the Government of Himachal Pradesh (GoHP) in its policy and institutional reforms for improving water supply and sewerage (WSS) services in the state, starting with the Greater Shimla Area<sup>2</sup>. Given the challenges of rapidly increasing demand in this area and a series of jaundice epidemics, the GoHP has taken up a transformational institutional program to set up autonomous and accountable WSS Company and service providers, improve operational and financial performance, and increase responsiveness to customers and rapidly growing demand for WSS services.
- 2. India continues to be one of the world's fastest growing economies and has made remarkable progress in reducing absolute poverty.** The Indian economy continues to register rapid growth at 7.1 percent in FY16/17, and estimated at 6.7 percent in FY17/18. After temporary disruptions caused by the twin policy events – demonetization and the implementation of Goods and Services Tax (GST) - real GDP growth has accelerated to 7.2 percent in Q3 FY17/18 (the most recent quarter). Between 2004 and 2011, poverty declined sharply from 38.9 to 21.6 percent at the international poverty line (\$1.90 PPP/day). With over a 100 million people escaping poverty, the pace of poverty reduction exceeded the developing world and Middle-Income Countries (MICs) in this period. High economic growth, rapid rise in rural wages, greater rural-urban integration and increase in non-farm activity, especially construction, were the key drivers of poverty reduction. Since 2011, trends in the construction sector and rural wages suggest that the pace of poverty reduction may have moderated.
- 3. Rapid urbanization is increasing pressure on WSS services.** India's rapid economic growth is accompanied by an unprecedented urban and spatial transformation, with urbanization projected to increase from 31% as per 2011 census to 50% over the next 20 years and huge development challenges to accommodate an additional 10 million urban dwellers per year. While there has been a substantial increase in coverage of piped water and sanitation facilities, the service performance has been inadequate. Hardly any Indian city receives piped water 24 hours a day. The Non-Revenue Water (NRW) due to leakages, unauthorized connections, and other inefficiencies, is estimated between 40-70% of the water distributed and the operations and maintenance (O&M) cost recovery through user charges is 30-40%. While 81% of the urban population has access to adequate sanitation, very few cities have sewerage networks, and most urban sanitation systems are not financially sustainable. Most households, forced to cope with poor quality water supply and sanitation services, spend time and money on expensive and unsafe substitutes, with the poor suffering the most by spending time collecting water and water borne illnesses directly impacting the family earnings.
- 4. Himachal's economy has grown by 7.5 percent during 2012-16, significantly above the average across states.** Himachal Pradesh, a mountainous state located in northern India with a population of about 7 million, is consistently ranked among the top 3 of Indian states. GSDP has grown by approximately 7.5 percent on average between 2012 and 2016, significantly above the average across states of 6.3 percent. Poverty in Himachal is among the lowest in the country, with only 8 percent of the population living below the poverty line in 2012. The state has also made considerable progress in education, with over two-thirds of its adults having completed secondary school. In health, while fewer households practice open defecation than rest of the country and infant mortality is lower than the national average, however, malnutrition levels are high, especially among lower income groups. The state also struggles

<sup>1</sup> DPL1 is proposed for US\$25 million, DPL2 for US\$30 and DPL3 for US\$30 million.

<sup>2</sup> Greater Shimla Area comprises the Shimla Municipal Corporation area and three areas under Special Area Development Authority – Kufri, Shoghi, and Ghanahati.



with employment generation, with the share of non-farm employment lower than other states, and job creation focused on agricultural and construction sectors. Tourism is the key contributor to Himachal's service sector. The state received more than 19 million tourists in 2017, about 2.7 times its population, of which 3.5 million (i.e. 18 percent of all tourist arrivals) arrived in Shimla, 3.3 million of which were Indian and 0.2 were foreign.

5. ***There is huge pressure for improving WSS services in Greater Shimla Area.*** Shimla city, capital of Himachal Pradesh, with 0.2 million population, is situated at an altitude of 2,130m and is rapidly expanding, with its economy driven by tourism, horticulture, trade, education and health services. Water supply is provided for 1-2 hours, once in two days, sewer connections serve about 60-70% of the population, and NRW is estimated at 40-50%, mainly due to the very old water supply system. O&M cost recovery is about 21% and annual O&M subsidy is about US\$20 million. The population in Greater Shimla Area, including Shimla city and peri-urban areas, is expected to rapidly increase from existing 0.3 million to 0.5 million by 2050. In addition, the city receives about 66,000 tourists per day during peak season in May, with an average of about 3.5 million tourists per year. Also, the actual capacity of the water supply schemes, drawing water from various rivulets and tributaries has depleted due to reduction at the sources, competing irrigation demands, and deteriorating water quality.

6. ***Proposed operation focuses on policies and institutional reforms for improving WSS services in Greater Shimla Area.*** The GoHP is currently embarking on a comprehensive program to improve WSS services for the Greater Shimla Area. In 2016, the GoHP established the Greater Shimla Water Supply and Sewerage Circle (GSWSSC) as a 'ring-fenced' department within the Shimla Municipal Corporation (SMC) with the responsibility for water supply (bulk and distribution) and sewerage to reduce the fragmentation of responsibilities. The proposed operation will support GoHP's WSS program, starting with the Greater Shimla Area, focusing on improving governance, service delivery orientation and financial and operational performance.

#### Relationship to CPF

1. The proposed Program contributes to the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity. There is a strong relationship between increasing access to improved WSS services and poverty levels, which the Program seeks to influence positively. The proposed operation is consistent with the World Bank's Performance and Learning Review of the Country Partnership Strategy for India (Report No. 99283-IN), discussed by the Executive Directors on October 20, 2015. The Program is in line with the recently completed India Systematic Country Diagnostic (SCD). The SCD focuses on a more resource-efficient growth path for India, in which the management of rapidly expanding cities is a direct contributor. The SCD recognizes that to transform India into a successful middle-class economy, the sector policies and institutions must be strengthened, including improving accountability, efficiency, and effectiveness along the chain from inputs to 'outcomes' for ensuring the provision of basic public goods and services like WSS.

#### C. Proposed Development Objective(s)

7. The PDO is to support Government of Himachal Pradesh (GoHP) in its policy and institutional reform program to improve water supply and sewerage services in the Greater Shimla Area.

#### Key Results

8. The program will result in improved policies and accountable institutions in the WSS sector along with WSS service delivery results for customers, including increase in number of households receiving 24x7 supply, increase in number of households connected to the sewerage system, and improved cost-recovery by the water utility through volumetric billing and improved operational efficiency through non-revenue water reduction, improved energy efficiency, and higher collection efficiency.



#### **D. Concept Description**

9. The GoHP is currently embarking on a comprehensive program to promote WSS service delivery aimed at important outcomes in three key areas: a) Improving governance in WSS sector, b) improving service delivery orientation in WSS sector, and c) improving the financial and operational performance of the WSS sector. The program will support GoHP's policy and institutional program in the WSS sector in Himachal Pradesh starting with the Greater Shimla Area:
- a) **Improving Governance in WSS Sector:** WSS operations in Shimla have traditionally had fragmented responsibilities resulting in less accountability for service standards and water quality. The GoHP has observed that the most suitable structure for improving WSS services in Greater Shimla Area is a corporatized structure with functional, financial and operational autonomy, and support from SMC and GoHP for skilled manpower. In line with this recommendation, the GoHP has decided to incorporate a company which would be assigned the responsibility for WSS operations in the Greater Shimla Area. This operation will support GoHP policies to corporatize WSS operations and establish the WSS Company, support policies for corporate governance, functional, financial and operational autonomy, and in strengthening organization structure, systems and staff capacity and accountability in responsiveness to customers.
  - b) **Improving Service Delivery Orientation in WSS Sector:** Service delivery orientation has been lacking in Greater Shimla Area as the focus has been on planning for intermittent supply. Other service standards including continuous supply, water quality, grievance redressal have not been given adequate attention. The GoHP intends to improve service delivery orientation in WSS sector for Greater Shimla Area and assure continuous, pressurized water supply (24x7) and sewage collection and treatment for all households. Recognizing the lack of capacity within existing institutions to achieve this target, the GoHP has decided to involve private sector in service delivery, both for water supply and sewage. This operation will support GoHP in improving the service delivery orientation in Greater Shimla Area by formalizing a policy for private sector participation and establishing performance standards for service delivery. This operation will also support the GoHP in formulating a policy for grievance redressal and customer feedback to improve service delivery and customer orientation.
  - c) **Improving Financial and Operational Performance in the WSS Sector:** At present only 21% of the O&M costs are recovered. The households are charged a flat monthly tariff which is well below the O&M costs. Commercial establishments are charged a volumetric tariff, but is also below O&M costs. Inefficiencies in energy consumption are estimated to be around 25% due to old equipment. Tariff revision is ad hoc and there are no guidelines for tariff setting. As a result, the WSS operations depend on GoHP subsidies for O&M expenses as well as for capital expenditure. So far, these subsidies have been provided without any link to performance and were also not predictable or timely. GoHP intends to apply volumetric tariff and provide timely, predictable subsidies linked to performance. This operation will support GoHP policies to introduce a volumetric tariff, reduce NRW, carry out energy efficiency improvements, and establish an independent mechanism to determine tariff, subsidies and capital expenditure grants.

#### **E. Poverty and Social Impacts and Environmental Aspects**

##### **Poverty and Social Impacts**

10. The overall program is expected to be positive for the consumers within the Greater Shimla Area, with resulting



improvements in water quality, standards of services, and mechanisms for engaging with service providers, including redressal of complaints. The government’s plans to overhaul the service delivery system will require some behavior changes from consumers with respect to installing meters, shifting from flat to volumetric tariff, or payment discipline. However, the preliminary analysis indicates that the provision of 24x7 quality water supply and sewage facilities will benefit all consumers and particularly women consumers across all sections of society in respect of time savings in collection and storage of water, while also addressing their health issues and concerns such as the recent jaundice outbreak. Further, the analysis indicates that lower ability to pay due to lower incomes, despite higher demand for good quality water services, could be addressed by ensuring lifeline consumption and appropriate targeting of subsidies. Also, there could be lower capacity and awareness on issues such as existing tariffs and connection charges, procedures to obtain new or regularize connections, and information about the existing complaint system to report water supply and quality related issues. The design, implementation and monitoring of the program actions, introduction of a grievance redressal mechanism and customer feedback policy will empower the customers.

**Environmental Impacts**

11. The policy and institutional reform supported by this operation will have significant positive environmental effects in the Greater Shimla Area. By its very nature, water is an environmental resource that requires to be properly managed. This operation focuses on strengthening the management arrangements relevant to production, distribution and disposal. This is bound to lead to better water supply, distribution and sewage management, which would both enhance environmental quality and reduce degradation. While the proposed program will bring positive environmental benefits relevant to the water sector, the actions related to energy-efficiency policies will also have climate change mitigation benefits. Energy savings could lead to a commensurate increase in the power exported to the northern high-carbon, coal-oriented grid. This will contribute to a reduction in GHG emissions.

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**APPROVAL**

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