



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 11-Sep-2019 | Report No: PIDC196629



**BASIC INFORMATION**

**A. Basic Program Data**

Country India	Project ID P170811	Parent Project ID (if any)	Program Name Punjab Urban Governance and Water Supply Improvement Program
Region SOUTH ASIA	Estimated Appraisal Date 03-Feb-2020	Estimated Board Date 26-Mar-2020	Does this operation have an IPF component? No
Financing Instrument Program-for-Results Financing	Borrower(s) The Republic of India	Implementing Agency Ludhiana Municipal Corporation, Punjab Municipal Infrastructure Development Company, Amritsar Municipal Corporation (AMC)	Practice Area (Lead) Urban, Resilience and Land

**Proposed Program Development Objective(s)**

To support strengthening of urban governance, finances and delivery of sustainable water services in the cities of Amritsar and Ludhiana.

**COST & FINANCING**

**SUMMARY (USD Millions)**

<b>Government program Cost</b>	340.00
<b>Total Operation Cost</b>	340.00
Total Program Cost	340.00
<b>Total Financing</b>	340.00
<b>Financing Gap</b>	0.00

**FINANCING (USD Millions)**

<b>Total World Bank Group Financing</b>	250.00
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World Bank Lending	250.00
<b>Total Government Contribution</b>	<b>90.00</b>

## B. Introduction and Context

### Country Context

- India's urban led economic growth is being accompanied by an unprecedented spatial transformation.** The share of urban population and contribution of urban areas to the economy are expanding steadily. It is estimated that, India's urban population has increased from 291 million in 1990 to about 450 million in 2017 (DDP, World Bank, 2019). This massive economic, social and spatial transformation presents one of India's greatest development opportunity and challenge. In these twenty years, Indian cities have needed to accommodate an additional 10.5 million urban dwellers per year, providing them with urban services and creating opportunities for economic growth and environmentally sustainable urbanization. Moving forward, the investment requirement in cities over the next two decades is estimated to be about US\$ 800 billion and is even more critical due to past inattention and underinvestment in key infrastructure.
- To respond to the growing need for urban services, the Government of India (GoI) has launched several national-level urban missions.** The Atal Mission for Rejuvenation and Urban Transformation (AMRUT) supports 500 cities for universal coverage of basic urban services and improved urban management and governance systems, based on service level improvement plans prepared by cities. The AMRUT is financed through a combination of Central government grant, state and Urban Local Body (ULB) contributions, as well as public-private partnerships. The Smart Cities Mission (SCM) supports 100 cities across the country with a transformative area-based development approaches that include municipal road, public space, pedestrianization, cultural heritage, non-motorized transport solution, traffic management, water and sanitation, and ICT improvements. The Swachh Bharat Mission (SBM) supports improved access to sanitation services in 4,041 cities and towns. The Housing for All Mission (HFA) focuses on developing affordable and low-cost housing stock to meet the growing demand for shelter. The AMRUT, SBM, SCM and HFA form a suite of interventions that underscore the importance of urbanization and cities in India's development agenda.
- With support from national urban missions and state government programs, the cities of Amritsar and Ludhiana in the State of Punjab are targeting to provide sustainable 24x7 water supply services to all their residents.** Water and wastewater services in Amritsar and Ludhiana are poorly resourced and capacitated. There are numerous challenges that prevent the cities from achieving this goal, among them, the use of groundwater instead of surface water which has led to rapid decline in groundwater levels (by 3 meters and 2.6 meters from 2014 to 2016 in Amritsar and Ludhiana, respectively), limited service delivery hours and coverage (12 hours/day in Amritsar 10 hours/day in Ludhiana in 2014), incomplete, deteriorating distribution networks that cater to tube well supply, high levels of non-revenue water (NRW, in excess of 60-65%), and poor cost recovery from user charges (around 30% due to flat tariffs and large scale exemptions). These challenges need to be surmounted to achieve the goal of 24X7 services to all residents. Exacerbating this, there are limitations at the state level in the regulatory, institutional and financing frameworks for



effective and sustainable urban services, including unclear policies to leverage private sector financing/capabilities and limited autonomy to ULBs to enhance own source revenues (OSRs).

#### Sectoral (or multi-sectoral) and Institutional Context of the Program

4. **A strong foundation in urban governance and finance is a prerequisite for sustainable investments in sectors like water, solid waste management and urban transport.** Most cities in Punjab, including Ludhiana and Amritsar, operate without clear capital investment plans and on the basis of ad hoc investment frameworks that depend on grants from the State and/or the Central government. The Government of Punjab (GoP) transfers about 1.5% of its tax revenues to local governments. The State is ranked in the lower reaches of Indian States in terms of intergovernmental fiscal transfers (IGFTs). State support for capital expenditures is discretionary, there are no formal modalities for predictable and sustainable capital expenditure support. Current levels of IGFTs and OSRs, including water tariffs, are inadequate to cover capex investments, expenditures on major repairs or replacements, or even meet full operation and maintenance (O&M) requirements. In recent years, Punjab has faced considerable fiscal stress. A notable share of the State's revenues goes into debt servicing and not towards creation of capital assets. This is compounded by low levels of local taxes and tariffs, including property taxes and water tariffs. With greater attention to financial sustainability, cities in Punjab can provide more sustainable urban services. For example, financial models for Amritsar and Ludhiana suggest that full O&M cost recovery is possible with incremental tariff enhancements, along with increased capex recovery, over time.
5. **The Ludhiana Municipal Corporation (LMC) and the Amritsar Municipal Corporation (AMC) derive their revenues mainly through IGFTs from the Central and State governments.** According to AMC and LMC Financial Assessment and Improvement Plans in 2016, around 69% (or around US\$23 million) of AMC's revenues and around 70% (or around US\$59 million) of LMC's revenues came from IGFTs, while over 21% of LMC's revenues and close to 16% of AMC's revenues came from OSRs, including property tax and water tariffs. Non-tax revenue, including development charges, licensing fees and other income, comprised around 9% and 14% of revenues for LMC and AMC, respectively. Although AMC has registered revenue surplus since FY14, with more than 270% increase in surplus since FY14, the reliance on state or national grants has also increased by 20% and 37% for LMC and AMC, since FY14. Capital investments are almost always provided through grants. Water and sanitation services (WSS) depend on the general budget of the cities for O&M subsidy, and the city, in turn, depends on revenue transfers from the State to meet this subsidy.
6. **Addressing deficits in WSS — and, more broadly, in urban services — calls for a paradigm shift in approach.** While investing in water infrastructure, it is essential to address fundamental causes of infrastructure backlogs and service deficiencies, which are rooted in policy and institutional deficits at the state and city levels. The proposed Punjab Urban Governance and Water Services Improvement Program (PUGWSIP) will be part of a comprehensive State Partnership program between the GoP and the World Bank. It will aim to leverage state level reforms in urban governance, finance and service delivery through a proposed Development Policy Loan (DPL), currently in the initial stages of discussion with GoP, and put them into action at the city level in the cities of Amritsar and Ludhiana. This synergistic combination provides an opportunity for a transformation in urban service delivery environment in Punjab.

#### Relationship to CAS/CPF

7. **The World Bank's India Country Partnership Framework (CPF) for 2018-22 has three focus areas,** namely (i) promoting resource efficient growth, (ii) enhancing competitiveness and enabling job creation, and (iii) investing in human capital. Improving livability, productivity and sustainability of cities lies at the core of promoting resource efficient growth in India. The CPF identifies catalytic entry points for tackling these priorities, including strategic



partnership with states, leveraging the private sector focusing on maximizing finance for development (MFD), strengthening public sector institutions, with a focus on improving policies, institutions, governance and finance.

8. **The proposed PUGWSIP is consistent with the India CPF.** There are institutional capacity constraints across critical urban subsectors, leading to poor service delivery outcomes in urban areas. The Program aims to strengthen the goal of improved access to services, especially to the excluded population, as a result of water supply services that will be funded. Moreover, through a strong institutional strengthening focus, it aims at “supporting institutional arrangements that promote an enabling environment for results.”.

#### Rationale for Bank Engagement and Choice of Financing Instrument

9. **In 2018, the GoP sought World Bank assistance to improve water supply services in the cities of Amritsar and Ludhiana.** Analysis by the Bank team suggest that, critical interventions to strengthen the governance of these cities and improve their urban finances are a prerequisite to attract and sustain large-scale public and private investments in water, and to improve the quality, effectiveness and sustainability of services. Towards this goal, both cities are interested in attracting private sector investments in the water sector and capitalizing on existing revenue surpluses to issue market-based bonds<sup>1</sup>. GoP is strengthening urban governance and finance through state and city level programs that are supported by national urban missions such as the AMRUT and the SCM, which provides further impetus for the Bank to adopt a holistic approach in supporting GoP.

10. **A Program-for-Results (PforR) operation is the preferred financing instrument.** The PforR will support and sharpen GoP’s ongoing programs to strengthen urban governance and finance—financed with support of national urban missions like the AMRUT and the SCM—and to deliver sustainable 24X7 water services in urban areas. Because of the direct relationship between institutional results and the Program disbursements to city governments, the PforR will create an incentive-driven approach to delivering results. The PforR instrument provides an ideal vehicle for prompting behavioral changes by introducing performance-based incentives to ‘reward’ cities and citizens for improvements in water service management. Finally, in line with the goals of this Program and as recommended for PforRs, the PUGWSIP will use and strengthen local government systems, including public financial management, social and environmental systems in the AMC and the LMC.

### C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

#### Program Development Objective(s)

To support strengthening of urban governance, finances and delivery of sustainable water services in the cities of Amritsar and Ludhiana.

#### PDO Level Results Indicators

11. **Proposed PDO level results indicators target three areas of improvement sought by the Program:** strengthening urban finance, enhancing urban governance and ensuring sustainable and effective water supply services. These areas are consistent with the State’s ongoing urban reform and investment programs. The key PDO level indicators are:

- a) Enhanced OSRs by the ULBs;

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<sup>1</sup> LMC undertook a creditworthiness analysis in 2017 to explore the possibility of issuing a bond and received a rating of BBB+ from Brickwork



- b) Strengthened capital investment and asset management by the ULBs;
- c) Improved management performance in service delivery and citizen orientation by the ULBs;
- d) Expanded provision of water supply services in the two cities; and
- e) Introduction of private sector in water supply services in the two cities.

#### D. Program Description

##### PforR Program Boundary

12. **PUGWSIP builds on several ongoing urban initiatives led by GoP, the ULBs and the SCM and AMRUT national level government programs at the state level.** Amritsar and Ludhiana have piped water supply, sewerage systems and green spaces projects supported under AMRUT. Both cities are Smart Cities under the SCM. In Amritsar, this includes interventions such as BRTS corridor, piped gas, water supply, solar roofing, SMART roads, etc. Amritsar also has ongoing initiatives to strengthen e-Governance, urban planning, project management and municipal staffing, shift to double-entry based accrual accounting, implement SBM, a JICA-supported Sewerage Project and a HRIDAY scheme on conservation of culturally important public spaces. Ludhiana has ongoing urban infrastructure programs through SCM, including e-Governance, smart ICT works, placemaking, sanitation and waste management, and integrated central command control center. At the state level, GoP has embarked upon policy, regulatory and institutional reforms to strengthen IGFTs to ULBs via the State Finance Commission, strengthen property taxes and improve WSS, and enhance professional capabilities of staff working in major ULBs. These initiatives constitute a comprehensive government program to strengthen ULBs, improve urban infrastructure and services, and reform urban policy environment.
13. **Additionally, the proposed PUGWSIP supports the recently announced Urban Environment Improvement Programme (UEIP) of GoP.** This Programme lays out actions and measures to integrate urban services and environmental resources/information. This includes creating a Comprehensive Environmental Management Information System and Environmental Improvement Measures for Amritsar and Ludhiana to mitigate air pollution, reduce congestion, promote non-motorized transport, promote clean fuels, improve air quality monitoring systems, promote treatment and recycling of water, increase ground water recharge by increasing pervious areas, and reduce contamination of natural drains by closing discharge points.
14. **The proposed PUGWSIP aims at strengthening policies, systems and capacities of GoP, AMC and LMC in urban services, especially WSS, and supporting GoP's investments in water supply in the two cities.** The GoP intends to reform WSS in the State through expansion of coverage, provision of 24x7 services, involvement of private sector, and enhanced cost recovery. In line with the state-level objectives, both AMC and LMC aim to extend coverage across the entire city, shift from ground water to surface water sources, provide 24X7 services, contract private operators for construction, management and O&M of water infrastructure and services, implement volumetric tariffs, ensure 100% metered connections, and reduce NRW. Through these interventions, the GoP and the city administrations aim to enhance environmental sustainability of water resources, improve quality and reliability of service delivery, and strengthen financial sustainability of capex and opex in WSS. Through the PUGWSIP, the World Bank aims to respond to GoP's request to support its ongoing and planned programs in water supply in Amritsar and Ludhiana, through a holistic Program that addresses systemic issues in urban governance and finance that hinder effective and sustainable service delivery, as well as improves water infrastructure and services.
15. **Program interventions will target three areas of improvement:**



- a) Sustainable urban finances through (i) improving OSRs, (ii) development of Capital Investment Plans and strengthening of public investment management systems; (iii) establishment and operationalization of municipal asset management systems; (iv) strengthening local public financial management systems.
- b) More accountable and effective urban governance through (i) establishment of performance baselines and adoption of performance targets in select service delivery areas; (ii) development and operationalization of e-Governance action plans; (iii) strengthening of municipal cadre in associated skills and competences; and (iv) introduction of social accountability tools like social audits, report cards and scorecards
- c) Improved water supply services through (i) establishment of city-based ring-fenced water and wastewater entities; (ii) improved design, construction, O&M of WTPs and distribution networks, delivery of services and collection of tariffs with the support of capable private sector operators; (iii) expansion of coverage and service delivery hours through investments in distribution networks, storage networks and WTPs that use surface water sources; (iv) reduction of NRW; etc.

16. **The result areas and the disbursement linked indicators (DLIs)** for this PforR will be finalized for the two cities as part of detailed program preparations. Preliminary discussions have covered the following areas noted below. Based on further analyses and discussions, a maximum of three to four result areas and associated DLIs will be finalized.

**Long List of Potential Results Areas and DLIs to be applied under the Program**

Key Results Areas	Activities/ DLIs
<b>Strengthening urban finances</b>	<ul style="list-style-type: none"> <li>• Preparation of a 5-year Capital Investment Plan</li> <li>• Increased OSR through:               <ul style="list-style-type: none"> <li>○ expanded property tax collection</li> <li>○ increased water revenues</li> </ul> </li> <li>• Establishment of an asset registry</li> <li>• Adoption of double entry accrual accounting</li> <li>• Publication of budgets, financial statements and audit reports</li> </ul>
<b>Enhancing urban governance</b>	<ul style="list-style-type: none"> <li>• Establishment of performance baselines and adoption of performance benchmarks</li> <li>• Development and operationalization of city level e-Governance platforms in specific service delivery and citizen orientation areas</li> <li>• Enhancement of skills and competences of municipal cadre in key technical areas</li> <li>• Introduction of social accountability tools (participatory budgeting, citizen scorecard/report card, social audits, etc.)</li> </ul>
<b>Improved water services</b>	<ul style="list-style-type: none"> <li>• Establishment of city-based water and wastewater utilities/ring-fenced water and wastewater departments</li> <li>• Replacement of ground water sources with surface water sources</li> <li>• Construction of WTPs and extension of distribution networks</li> <li>• Increase in household piped water connections and metering</li> <li>• Improvements in cost recovery and reduction of non-revenue water</li> </ul>

17. **Implementing arrangements:** The precise implementation arrangements will be finalized during Program preparation. The Local Government and Community Development Department of the GoP is responsible for ULBs and major government programs in urban services. The Punjab Municipal Infrastructure Development Corporation (PMIDC) under this Department is the state level apex institution that implements urban reforms and investment





programs. Consistent with this role, it will act as the nodal agency for the PforR. The PMIDC will be responsible for integrating the DPL and PforR actions, overall PforR program management, and in supporting ULBs to obtain policy approvals as required from GoP (such as tariff and subsidy policy, HR policy) and in providing assistance to ULBs in WSS reform implementation at the city level.

18. **At the city level, programs in urban and water are overseen by the Municipal Commissioner of the ULB, who is assisted by an Additional Commissioner, who also serves as the Smart City CEO (called the Amritsar and Ludhiana Smart City Company Limited, respectively).** Consistent with this arrangement, the Bank supported PUGWSIP will be coordinated by the Additional Commissioner, who will serve as the Program focal point, and overseen by the Municipal Commissioner. The Additional Commissioner will be supported by a contingent of municipal staff and consultants from relevant departments and allied agencies, including the revenue and O&M departments, the water and sanitation department and the Smart City Company.
19. **Existing GoP polices support decentralization of capital investment responsibilities in WSS from PWSSM to large cities, including Amritsar and Ludhiana, although it has still not been implemented for large projects.** City level implementation of WSS projects is the responsibility of PWSSB as per current practices. However, considering the likely creation of a WSS entity at the city level and the long-term objective of creating a single point responsibility for WSS at city level, WSS part of the Program will be housed such that an effective transition of responsibility to ULBs can be achieved over time. The ULBs will be responsible for O&M and meeting policy and reform milestones, with support from the PMIDC.

## E. Initial Environmental and Social Screening

### Environmental Safeguard Management

20. **Under the ongoing SCM and AMRUT programs, the GoP aims to provide 24X7 water supply in the cities of Amritsar and Ludhiana.** The activities under SCM and AMRUT include improvement of basic urban infrastructure such as sewerage, solid waste, roads and other urban services. Activities for improving water supply in Amritsar and Ludhiana will involve tapping of water from existing irrigation canals, construction of WTPs (400 MLD and 600 MLD), additional storage reservoirs and replacement/ laying of new water distribution network.
21. **As per the current environmental regulations of the GoI and the GoP, no specific environmental assessment is required for the development, construction and operation of water supply projects.** The capacity of the AMC, the LMC, the PMIDC and the PWSSB in managing environment issues is limited. Issues related to labor welfare are managed as per the labor regulations of the GoI, although compliance monitoring is weak.

### Social Safeguard Management

22. **The Program would likely have positive social impacts on the lives and livelihoods of a large number of residents in the two cities who do not receive optimal levels and acceptable quality of water supply services.** However, the existing community capacity for participatory planning and supporting implementation of water supply schemes is weak. The institutional capacity to deal with social issues such as social inclusion, gender mainstreaming, citizen engagement and an effective grievance redressal mechanism is also weak. The Program involves creation of infrastructure in the two cities, which may require land acquisition and engagement with communities where clear water reservoirs are proposed to be constructed on community land or public parks that are being used by residents. Further, most of the labor which will be working on these construction sites will be migrant labor from other states, requiring the need for labor camps, monitoring of the camp facilities, etc.





**Risk Mitigation of Program Activities**

- 23. **Based on the information available at this stage, the Program is expected to have significant impacts.** These could include water allocation from the irrigation channels, increase of capacity and other structural changes to the irrigation channels, management and disposal of WTP sludge, loss of tree cover due to construction of WTP and elevated reservoirs, labor and community safety during the construction of over 1200 km of distribution network in each of the city, issues of water quality due to the dumping of solid waste in the proposed water supply sources, severance/sensitivities on number of heritage/cultural properties in Amritsar, loss of community assets such as parks/playgrounds due to the proposed service reservoirs and replacement of existing/old asbestos pipes used for water supply. In addition, activities under AMRUT and SCM for sewerage, solid waste, roads, river restoration and other urban infrastructure projects also involve major construction and may entail significant environmental impacts in the Program area.
  
- 24. **Considering the above and the fact that current GoI/GoP regulations do not require specific environmental assessment of urban infrastructure projects, the potential environmental risk of the Program is substantial.** In addition, both the municipalities and PMIDC have limited or no capacity to manage safeguard issues of the Program and do not have experience of implementing projects with multilateral development institutions. These issues will be studied in detail as the Program design is developed and appropriate mitigation strategies will be developed.
  
- 25. **Program investments may require acquisition of private land for the construction of WTPs. It may also involve using public or community land for construction of water reservoirs in the two cities.** The distribution lines may cause hardship during the construction phase due to difficulties in access to houses and shops and some impact along the right of way, particularly if there are encroachments. It appears that, from the level of construction and requirement for land, the social impacts of the Program will be significant in the Program area. Further, gender mainstreaming is relatively low in Punjab, with ineffective participation of women in community activities, as seen in other Bank supported projects in the State. The labor requirements for the construction work will be large as most of this will be migrant labor. Hence, issues with regard to setting up of labor camps in these cities, facilities at the camps, conduct of the workers with local residents especially women, will be some of the other likely risks. Social safeguards requirements will be detailed once there is greater clarity on the Program design.
  
- 26. **With a PforR as the financing instrument,** an Environmental and Social Systems Assessment (ESSA) will be prepared and disclosed by Program appraisal.

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