



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 06-Nov-2020 | Report No: PIDC232738

**BASIC INFORMATION****A. Basic Program Data**

Country India	Project ID P174732	Parent Project ID (if any)	Program Name Shimla-Himachal Pradesh Water Supply and Sewerage Services Improvement Program (PforR)
Region SOUTH ASIA	Estimated Appraisal Date 03-Feb-2021	Estimated Board Date 25-Mar-2021	Does this operation have an IPF component? No
Financing Instrument Program-for-Results Financing	Borrower(s) Department of Economic Affairs	Implementing Agency Shimla Jal Prabandhan Nigam Limited, Urban Development Department, Government of Himachal Pradesh	Practice Area (Lead) Water

Proposed Program Development Objective(s)

The PDO is to support the Government of Himachal Pradesh in improving water supply and sewerage services that are efficient and financially sustainable by strengthening the policy and institutional development program in target areas in the state.

COST & FINANCING**SUMMARY (USD Millions)**

Government program Cost	180.00
Total Operation Cost	80.00
Total Program Cost	80.00
Total Financing	80.00
Financing Gap	0.00

FINANCING (USD Millions)



Total World Bank Group Financing	80.00
World Bank Lending	80.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- India's Gross Domestic Product (GDP) growth has slowed in the past three years, and the COVID-19 outbreak is expected to have a significant impact.** Growth has moderated from an average of 7.4 percent during FY15/16-FY18/19 to an estimated 4.2 percent in FY19/20. The growth deceleration was due mostly to unresolved domestic issues (impaired balance sheets in the banking and corporate sectors), which were compounded by stress in the non-banking segment of the financial sector, and a marked decline in consumption on the back of weak rural income growth. Against this backdrop, the outbreak of COVID-19 and the public health responses adopted to counter it have significantly altered the growth trajectory of the economy, which is now expected to contract sharply in FY20/21. On the fiscal side, the general government deficit is expected to widen significantly in FY20/21, owing to weak activity and revenues as well as higher spending needs. However, the current account balance is expected to improve in FY20/21, reflecting mostly a sizeable contraction in imports and a large decline in oil prices. Given this, India's foreign exchange reserves are expected to remain comfortable.
- Although India has made remarkable progress in reducing absolute poverty, the Covid-19 outbreak has reversed the course of poverty reduction.** Between 2011-12 and 2017, India's poverty rate is estimated to have declined from 22.5 percent to values ranging from 8.1 to 11.3 percent. Recent projections of GDP per capita growth rate indicate that as result of the pandemic, poverty rates in 2020 have likely reverted to estimated levels in 2016. The extent of vulnerability is reflected in labor market indicators from high frequency surveys. Data from the Centre for Monitoring Indian Economy (CMIE), shows urban households are facing greater vulnerabilities: between September-December 2019 and May-August 2020, the proportion of people working in urban and rural areas has fallen by 4.2 and 3.8 percentage points respectively. Approximately, 11 and 7 percent of urban and rural individuals, identifying themselves to be employed in the recent period, have performed zero hours of work in the past week. Short-term employment outlook is contingent on whether these temporarily unemployed workers can fully re-enter the labor force. Overall, the pandemic is estimated to have raised urban poverty, creating a set of new poor that are likely to be engaged in non-farm sector and receive at least secondary or tertiary education, as compared to existing poorer households who are predominantly rural with lower levels of education.
- Rapid growth and urbanization are increasing pressure on the Water Supply and Sewerage (WSS) services in cities across India.** Policy and institutional reforms have not kept pace with the rapid urbanization which is projected to increase from 31 percent in 2011 to 50 percent over the next 20 years. The urban WSS sector has traditionally been managed through government departments and sector agencies with a high level of subsidies for CAPEX and OPEX and less focus on cost recovery and revenue generation. Although access to water supply and sanitation has increased, the



service quality has remained inadequate. No city in India receives piped water 24 hours a day, drinking water standards are often not met, and few sewage treatment plants (STPs) are functional. The Non-Revenue Water (NRW) due to leakages, unauthorized connections and other inefficiencies is estimated at 40-60 percent of the water distributed, contributing to low cost recovery of typically 30-40 percent. In response, the GoI has initiated three high-level missions: the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Smart Cities Mission (SCM), and Housing for All. In 2019, GoI also launched its ambitious Jal Jeevan Mission (JJM) to provide piped drinking water to all rural households by 2024. The JJM Urban is under preparation.

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

4. ***Himachal Pradesh exemplifies many of the challenges that India's rapid growth and urbanization are posing for the urban WSS sector.*** In line with national trends, the state of Himachal Pradesh has experienced rapid economic growth, a decline in poverty and fast urbanization. The WSS sector challenges include weak institutions with a focus on infrastructure creation rather than service delivery, intermittent supply and inadequate services against rapidly increasing demand, absence of metering and flat tariffs, inadequate monitoring of water quality and inadequate systems for grievance redressal, dearth of dependable, perennial and sustainable water supply sources, inadequate upgrading and augmentation of existing WSS schemes, low cost recovery and heavy reliance on subsidies from GoHP. These issues have been especially challenging for Shimla city, the capital of Himachal Pradesh, which receives an average of 3.6 million tourists per year and its resident population is expected to double to 0.5 million by 2050. These challenges have been further compounded with a series of jaundice epidemics since 2010. This has put heavy strain on the historical WSS infrastructure in Shimla city which retains a capacity of only 40 million liters daily (MLD) as opposed to a current demand of 56 MLD.

5. ***The GoHP has initiated its Medium-Term Program for improving WSS services, with a first phase for transformational policy and institutional reforms in Shimla to address the challenges of rapidly increasing water demand, a series of jaundice epidemics, and supply crisis from declining traditional sources.*** Supported by the World Bank-financed Shimla Water Supply and Sewerage Service Delivery Reform Programmatic Development Policy Loan (DPL), a major achievement has been the creation of the Shimla Jal Prabandhan Nigam Limited (SJPNL) in July 2019, a corporatized WSS company with full operational autonomy and clear responsibilities for WSS services, financial sustainability and customer accountability. The SJPNL has started implementing the first phase of the Medium-Term Program in Shimla city. It has maintained stringent quality standards, with no further outbreak of jaundice, reduction of transmission losses, assured daily supply of water, and increase in sewage collection. An increasing block volumetric tariff has been adopted and 100% of connections in Shimla city are now metered. The company has completed four cycles of metered volumetric billing, nearly doubling its revenues. A massive customer outreach program has been initiated and a Grievance Redressal Mechanism established. The Customer Survey Report Card has been released with satisfactory to excellent ratings.

6. ***The proposed Program (PforR) will strengthen the implementation of the water sector reforms under the GoHP's WSS Medium-Term Program initiated in the capital Shimla in 2018.*** Notwithstanding impressive results within two years of the establishment of the SJPNL, the sector reforms in Shimla require continued support for improving WSS services, financial sustainability and customer accountability. The proposed program will implement the policies adopted under the DPL, augment its organization structure in line with future activities, and achieve performance orientation with improved WSS services, strengthened cost recovery and financial management systems. Specific areas for which work is in progress are city-wide provision of continuous water supply and sewerage connections, reduction of Non-Revenue Water, and improving cost recovery and financial sustainability. The SJPNL will develop its Strategic Business Plan to meet operational, commercial and financial WSS performance targets. The Program will support SJPNL to achieve a) 100% coverage of all citizens with water supply and sewage services, and b) water supply on 24 x 7 basis. The Program will support SJPNL in achieving the Service Level Benchmarks of GoI for WSS (100% coverage, 135 litres per capita per day of water supply on



24 x 7 basis, full compliance with water quality standards, 100% wastewater treatment meeting disposal standards) in the entire Shimla city and provide adequate quantity and quality of bulk water supply and sewage treatment for peri-urban areas. The SJPNL will enter into performance-based contracts with private operators to achieve the service delivery targets. New assets for water distribution and sewage network will be built and will incorporate resilience principles. The Program will strengthen customer accountability through strengthened M&E systems, grievance redressal mechanism, and customer outreach program.

7. The COVID-19 has underscored the need for WSS services in safeguarding public health, protecting the poor and vulnerable, and ensuring sustainable business growth and job creation, especially as Shimla is a major tourist economy in Himachal Pradesh. In light of these challenges, the recent reforms in Shimla continue to require close support in order to entrench achievements and complete the process of transforming SJPNL into a sustainable provider of universal, continuous WSS services.

8. ***The reforms in Shimla will also address vulnerabilities to climate change by increasing the water utility's capacity for adaptive management.*** The service area covered by the proposed operation is vulnerable to several climate hazards, including more frequent water shortages due to increasing temperatures, prolonged drought spells, and changes in precipitation and snow melting patterns which will increase flood risks¹. These climate-change related risks have major implications for the supply and demand for WSS services. These climate change vulnerabilities are addressed by the introduction of internal performance evaluation, the cost recovery, tariff, and subsidy policies, performance-based service delivery, and the policy to monitor energy efficiency improvements and NRW reduction programs. More efficient operations and improved service levels will support adaptation and improve resilience of the population in targeted urban areas in the face of expected climate change effects such as increased mean temperatures and changes in precipitation.

Relationship to CAS/CPF

9. ***The proposed operation is consistent with the Country Partnership Framework for India (CPF 2018-22) and directly contributes to the World Bank Group's twin goals of ending extreme poverty and promoting shared prosperity.*** The policy and institutional reforms with the underlying investment program will improve WSS services and reduce the coping costs of collection and storage along with instances of waterborne diseases and jaundice epidemics, especially benefitting the poor. The reform program is consistent with the CPF focus on resource efficient growth that aims to “improve living conditions and sustainability of cities” as well as the CPF’s aim to “target catalytic contributions, including strategic partnerships with select states” and “improving institutions [...] through increasing capability and better aligning incentives as well as strengthening core government systems”. The expected reforms will support gender equality and empowerment by raising female employment at the proposed new water service provider and by reducing water-related costs such as collection time that presently fall disproportionately on women and girls.

10. ***The proposed project is aligned with the World Bank Group COVID-19 Crisis Response Approach Paper.*** The proposed project will provide Relief by enabling the GoHP to safeguard existing services in the face of pandemic related fiscal pressures; it will enable the Restructuring of water services by supporting the fundamental institutional reforms under the GoHP’s Medium Term Reform Program; and it will also back a more resilient recovery and “rebuilding better” by facilitating capital investments to improve access and water service quality.

Rationale for Bank Engagement and Choice of Financing Instrument

¹ Water scarcity, extreme heat, and urban flood hazards are classified as high based on modeled flood information currently available, <http://thinkhazard.org/en/report/1493-india-himachal-pradesh>.



11. **The Bank is uniquely positioned to support the extension of the GoHP's Medium Term Reform Program for the WSS sector due to its crucial role in the first phase of the reforms under the DPL.** As a core partner of the GoHP since the start of the reforms in the capital Shimla, the Bank has established strong relationships and local expertise that are now informing the proposed operation and will help mitigate risks. The PforR instrument, which is designed to finance borrower programs and incentivize the achievement of results, is particularly well-suited for this WSS sector reform program with its clearly defined institutional and service performance goals and successful track record.

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

Program Development Objective(s)

12. The PDO is to support the Government of Himachal Pradesh in improving water supply and sewerage services that are efficient and financially sustainable by strengthening the policy and institutional development program in target areas in the state.

13. This operation supports GoHP's Medium Term Program for improving WSS services, benefitting at least 3.9 million people (residents and tourists) in Shimla city by 2025. The first phase supported the creation of the corporatized WSS Company in Shimla (SJPNL) under the DPL.

PDO Level Results Indicators

14. The following outcome indicators would be used to measure achievement of the PDO:

- 1) SJPNL functioning as a well-governed autonomous WSS Company.
- 2) Improvements in operational efficiency and financial sustainability: (a) Non-Revenue Water is less than 20%; (b) Energy efficiency improves by 20%; (c) O&M Cost Recovery is at least 85%; and
- 3) Beneficiaries: (a) Number of people benefitting from improved WSS services; (b) at least 30% women employed as staff in SJPNL.

D. Program Description

PforR Program Boundary

15. **GoHP's WSS Medium Term Program (MTP):** The GoHP's MTP includes comprehensive reforms of policies, institutions, and infrastructure development, and enhanced accountability to customers, focusing on promoting a professional corporate culture, enhancing efficiency and financing sustainability and improving service delivery and accountability. The MTP supports capacity building and addressing climate change related vulnerabilities. The MTP also emphasizes the need for financial and physical sustainability, including tariff structures, cross-subsidization, digitization of WSS schemes and information, and auditing and accountability of service delivery. The first phase of this program was initiated in Shimla under the DPL and has resulted in improvement of the WSS services. In Shimla, priority was given to improving water quality and quantity through strengthening of the governance system and enabling financial and managerial autonomy.

16. The MTP aims to improve WSS services across the state with the goals of universal coverage of water supply and sanitation, continuous pressurized water supply, accountability and responsiveness to citizens, and decentralized service delivery through autonomous and professional institutions. The state has adopted the Ministry of Housing and Urban Affairs (MoHUA) Service Level Benchmarks (SLBs) for improving and sustaining WSS services in the urban areas. The GoHP has accorded top priority to the provision of safe drinking water to every household and has set targets aligning with the SLBs and GOI's objectives on service delivery improvements and capacity building program. The WSS MTP is financed by the State budget and various national missions such as AMRUT, Smart City Mission, Swachh Bharat Mission (SBM)-Urban



and Grameen and Jal Jeevan Mission (JJM). The state also supports the National Water Mission (one of 8 missions of the National Action Plan on Climate Change, 2008) by promoting water use efficiency through regulatory and pricing mechanisms in the State Strategy and Action Plan on Climate Change, which has a set target of 20% by 2030, also mentioned in India's Nationally Determined Contribution (NDC, 2015). The anticipated expenditure under the Medium Term WSS Program is US\$ 750 million in the period 2018-30.

17. ***The proposed operation (Program) would strengthen the ongoing WSS reforms and service delivery improvements in Shimla with clearly delineated Results Areas.*** The Program is proposed for implementation in the capital city Shimla, which is also a local growth center and priority tourist destination. The Program is expected to benefit at least 3.9 million people (residents and tourist population) by 2025 with improved WSS services. In Shimla, the SJPNL will provide continuous water supply to its customers and expand sewerage connections to all households. The SJPNL will develop its Strategic Business Plan including corporate strategic focus and priority areas and key performance indicators on quantity and quality of water, billing and collection revenues, cost recovery, NRW, etc. The Program will incentivize the strengthening of performance incentive policies and financial autonomy. The SJPNL will develop the performance incentive policy for its staff including performance assessments and disbursement of incentives. The SJPNL will strengthen the performance-based contracts with incentives linked to achievements of the related performance indicators. Financial autonomy of SJPNL will be strengthened by timely tariff revisions and increase in revenue earnings. Further, the Program will support SJPNL in modernizing its accounting practices including accounting, budgeting and cash management policies and systems. Audited financial statements will be publicly disclosed.

18. The SJPNL will continue to administer performance-based contracts with private operators with targets for continuous water supply, NRW reduction, billing and collection efficiency and grievance redressal. NRW in the water distribution network will be reduced to less than 20% as per GoI norms for urban water supply and sewerage. The Program will incentivize 100% of the customers having Smart Meters and continuous pressurized water supply. The financial sustainability of SJPNL will be measured by volumetric billing, collection efficiency, and O&M cost recovery for water and sewage. The M&E Software will be linked to key indicators on service delivery performance. Annual customer surveys will be conducted to assess satisfaction with service delivery and involvement of women in identifying and addressing issues. Annual reports on SJPNL performance, customer satisfaction, and citizen report cards will be published and disclosed. By supporting the strengthening of the ongoing reforms in Shimla, this operation will support a model of relevance to urban WSS reforms across the state and India. This is also a critical step towards the future expansion of the reforms to other towns in Himachal Pradesh, as envisaged by the GoHP's Medium-Term Program.

E. Initial Environmental and Social Screening

19. ***The policy, institutional, and service delivery reforms supported by this operation are not likely to have any significant adverse effects on the environment, forests and natural resources.*** Improved water supply management in terms of availability, quantity and quality is expected to have positive environmental and public health benefits. Strengthening the sewerage network will contribute towards streamlining its treatment and disposal, which will also be a positive contribution. The overall environmental performance in the WSS sector in Shimla is bound to improve. Institutional systems within SJPNL relevant to environmental management will be strengthened through additional staff resources, establishing procedures and practices. The Program's civil works related to water supply distribution and sewage pipeline networks will have localized, minor, reversible construction-related environmental and safety impacts that will have to be mitigated through appropriate management measures. No impacts on natural habitats or cultural properties are expected. As part of project preparation, an Environment and Social Systems Assessment (ESSA) study is being conducted for assessing E&S risks. The ongoing ESSA will examine the existing environmental systems in the context of the environmental effects and recommend actions to further enhance performance.



20. ***The program is expected to have significant positive impacts for beneficiaries, reducing poverty and inequality, as it relates to access to water and sanitation.*** The key positive impacts likely are: reduction in coping costs of collection and treatment of water and instances of waterborne diseases, especially benefitting the poor; increase in coverage and quality of service to the customers; effective engagement of all consumers through a communication strategy; establishment of monitoring systems and effective redressal of grievances. The Program will involve civil works such as laying and repair of water supply distribution and sewage disposal pipeline networks, besides water supply and sewage house connections. As part of ESSA preparation, consultations, focus group discussions and key informant interviews will be conducted with varied set of stakeholders.

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