



The World Bank

Tamil Nadu Sustainable Urban Development Program (P150395)

REPORT NO.: RES39021

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
TAMIL NADU SUSTAINABLE URBAN DEVELOPMENT PROGRAM
APPROVED ON MARCH 31, 2015
TO
REPUBLIC OF INDIA

URBAN, RESILIENCE AND LAND

SOUTH ASIA

| | |
|---------------------------|---|
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ABBREVIATIONS AND ACRONYMS

LFAD Local Fund audit Department
SEBI Securities and Exchange Board of India

BASIC DATA

Product Information

| | |
|---|--|
| Project ID P150395 | Financing Instrument Investment Project Financing |
| Original EA Category Full Assessment (A) | Current EA Category Full Assessment (A) |
| Approval Date 31-Mar-2015 | Current Closing Date 31-Mar-2022 |

Organizations

| | |
|-------------------------------|-----------------------------|
| Borrower Republic of India | Responsible Agency TNUDF |
|-------------------------------|-----------------------------|

Project Development Objective (PDO)

Original PDO

To improve urban services delivery in participating ULBs in a financially sustainable manner and to pilot improved urban management practices in selected cities.

Summary Status of Financing

| Ln/Cr/Tf | Approval | Signing | Effectiveness | Closing | Net Commitment | Disbursed | Undisbursed |
|------------|-------------|-------------|---------------|-------------|----------------|-----------|-------------|
| IBRD-84880 | 31-Mar-2015 | 03-Jun-2015 | 21-Aug-2015 | 31-Mar-2022 | 400.00 | 216.20 | 183.80 |



Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

- 1. The US\$400 million loan for Tamil Nadu Sustainable Urban Development Project (the Project) was approved on March 31, 2015 and became effective on August 21, 2015.** The Project Development Objective (PDO) is to improve urban services delivery in participating Urban Local Bodies (ULBs) in a financially sustainable manner and to pilot improved urban management practices in selected cities. This is sought to be achieved through three main components: (i) Results Based Grants for Urban Governance; (ii) Investments in Urban Services (comprising three sub-components); and (iii) Urban Sector Technical Assistance (TA). As of February 28, 2020, the loan had disbursed US\$210.25 million (52.56 percent). Achievement of PDO and Implementation Progress are currently rated as 'Satisfactory' and 'Moderately Satisfactory' respectively. The PDOs are expected to be achieved by March 31, 2022, the Loan Closing Date. A brief overview of the status of each of the components is presented below.
- 2. Results Based Grants for Urban Governance ('Model-City') Component (Component A).** This component provides results-based grants to Vellore and Erode Municipal Corporations and Hosur Municipality ("Model Cities") subject to their achieving annual targets for the Disbursement-Linked Indicators (DLIs). It also provides technical assistance and project management assistance to administer and carryout the results-based grants. All actions stipulated for Years 0, 1, 2, and 3 DLIs have been completed by the three Model Cities. Year-4 DLIs have been achieved as on March 31, 2020 (end of the fiscal year) and claims for Year 4 are expected to be sent to the Bank along with Independent Verification Agent (IVA) report and the corresponding audit reports. The Model Cities have managed to increase their own source revenues, improve institutional capacities and enhance the transparency and accountability of the municipal functions through this component. Of the US\$1 million allocated from the loan for project management and technical assistance, there is a saving of about US\$0.50 million.
- 3. Investments in the Urban Services Component (Component B).** This component comprises three main sub-components: (i) Sub-Component B1 provides sub-loans and sub-grants to ULBs; (ii) Sub-Component B2 provides credit enhancement support; and (iii) Sub-Component B3 provides project development and technical Assistance (TA) support.
- 4.** Under Sub-Component B1 there are currently 13 sub-projects for water supply, sewerage, storm water drains, etc. with contracts under implementation.; one sub-project, viz. the Hosur sewerage has been dropped and the savings would be used for other (quicker) sub-project(s) that can be implemented within the balance period available under the project. Implementation progress in the on-going sub-projects is broadly on track at 50-70% physical progress, except for storm water drainage sub-projects in Cuddalore and Tuticorin that require stronger monitoring due to slow progress. The largest sub-project, Chennai Storm Water Drainage, that involves implementation of drain and canal works for 407 kilometers, has been substantially completed. There have been cost overruns of about US\$18 million in some of the sub-projects, particularly the storm water drainage sub-project in Chennai and the tertiary



treatment reverse osmosis sub-project being implemented by the Chennai Metro Water Supply and Sewerage Board.

5. Sub-Component B2, aimed at fostering market borrowings by Urban Local Bodies (ULBs) in TN, has not started implementation. The Credit Enhancement Facility (CREF) was meant to be used to support either the Water and Sanitation Pooled Fund (WSPF) of Tamil Nadu Urban Development Fund (TNUDF) or TNUDF itself for issuing pooled finance bonds by group(s) of ULBs or stand-alone ULB(s). In July 2015, following the approval of TNSUDP, the Securities and Exchange Board of India (SEBI) issued the Issue and Listing of Debt Securities by Municipalities Regulation, 2015 stating that only a Municipality or a Corporate Municipal entity may issue debt securities. As such, neither WSPF nor TNUDF, being Trusts, could issue bonds. TNUDF made numerous representations to SEBI to amend this notification and also followed up with national ministries. However, revised regulations have not been forthcoming. TNUDF explored term loans from local commercial banks, but in the current tight domestic credit markets the rates of interest offered proved to be unviable. In view of this, it was agreed during the Mid-Term Review (MTR) of TNSUDP to cancel this sub-component. This will not have an impact on the PDOs since other measures for ensuring 'financial sustainability' noted in the PDO continue to be part of the project (such as ensuring repayments of sub-loans), but will require an amendment to the Results Framework (RF) and the legal documents for the Project.
6. Sub-Component B3 provides Technical Assistance (TA) support to ULBs, including Greater Chennai Corporation (GCC), for sub-project preparation, social & environment assessments, etc. TA is also being provided for a comprehensive flood warning and control center system that will provide advanced modeling and warning systems in Chennai. An innovative drone-based GIS mapping for Chennai is underway and is targeted for completion by June 2020. Apart from being useful for urban planning, this will significantly benefit property tax collections and other such revenues. This sub-component is fully committed to completed / on-going TA activities. There are new requests for TA support for priority activities from ULBs, for a total of US\$2 million in loan funds; these include preparation of urban sub-projects in sectors such as sewerage, water supply and urban transport, besides City Development Plans.
7. **Urban Sector TA Component (Component C)**. This component comprises: (i) New municipal e-governance systems at ULBs; (ii) Strengthening Public Financial Management (PFM) at ULBs; (iii) Geographic Information System (GIS) mapping at ULBs; and (iv) Training for urban sector staff and elected officials. Overall, implementation is satisfactory under this component, except for the GIS sub-component, where there has been some delay and hence the related intermediate indicator is being revised as part of this restructuring. A total of 29 e-Governance modules are being developed to support the delivery of Electronic Public Services (EPS) in the municipalities. Of these, 28 modules of the Urban Tree platform are operational in all the municipalities covered under the project. The remaining module on works management is under pilot testing and is expected to be operational by April 1, 2020. Various training programs were organized to build the capacity of the ULB staff, including extensive training provided for rolling out e-governance, as noted above. In addition, nearly 100 officers from the Local Fund audit department (LFAD) have been provided training on audit software in the first phase, so that LFAD can conduct future audits through the system. An Action Plan for GIS is being prepared and implementation is expected to commence in a few months' time. Of the Bank Loan allocation of US\$21 million for this component, there are savings of about US\$1.5 million, primarily on account of lower than anticipated training expenditures, besides lower project management / incremental operating costs based on approved posts in the office of municipal administration.
8. **Safeguards**. TNSUDP is a Safeguard Category A project. There is no change to the safeguards categorization and no new safeguard policies are being triggered. A Social and Environment Management Framework (ESMF) approved by Bank is in place and all on-going sub-projects have in place safeguard instruments that were prepared in



accordance with the ESMF and approved by the Bank. The project has completed resettlement of about 81 families as part of Chennai storm water drainage sub-project based on a Bank approved Resettlement Action Plan (RAP), including payment of all compensation and allowances, and provision of resettlement homes. Final allotment letters have been provided to all affected families for their new resettlement homes. The implementing agencies under TNSUDP need to continue to maintain adequate staffing of safeguards personnel in the Project Management Consultant (PMC) teams and in the Project Implementation Units (PIUs) of the sub-projects. More attention is needed in complying with the requirements of the approved environmental management plans. As such, the safeguards rating is currently 'Moderately Satisfactory'.

- 9. **Fiduciary.** Both Procurement and Financial Management (FM) are currently rated as 'Satisfactory'. Timely FM reports are being received from TNUDF. All audit reports till FY 17-18 have been submitted on time and there are no pending issues. The audit report for the TNUDF Component B for FY 18-19 has been received and there are no issues. Audit of Component C for FY 18-19 has been received recently and is under review. In the case of Component A / 'Model Cities', audit reports till FY 17-18 have been submitted. The audit FY 18-19 is in progress and will be submitted along with the DLI claims.
- 10. **Legal Covenants.** The project is in compliance with its Legal covenants, except for the covenant relating to credit enhancement (Schedule 2, Section I C of the Loan Agreement).

B. Rationale for Restructuring

- 11. **Deletion of the Credit Enhancement sub-component (B2).** As discussed above, it is no longer feasible to implement this sub-component and it is proposed to delete it.
- 12. **Utilization of Loan Savings.** As discussed above, it is proposed to reallocate loan savings of US\$2 million from Components A and C, as well as the cancellation of US\$18 million from Sub-Component B2, to meet the additional requirement of US\$18 million in loan funds for Sub-Component B1 primarily towards cost over-runs already incurred in on-going sub-projects and US\$2 million in loan funds for priority TA proposed under Sub-component B3.

II. DESCRIPTION OF PROPOSED CHANGES

- 13. **Loan Reallocation by Components and Disbursement Categories.** Total funds of US\$20 million available as noted above is proposed to be reallocated as follows:
 - Reallocation of US\$18 million to Sub-Component B1 equally for sub-loans and sub-grants to ULBs.
 - Reallocation of US\$2 million to Sub-Component B3 to provide additional TA support to ULBs.
- 14. In the context of the above reallocations by component, corresponding counterpart financing from GoTN would also be made. The revised Loan allocation under TNSUDP across different categories is shown in the table below. The increase of US\$9 million in the overall cost of the project is being met by additional counterpart funds.

| Category | As per Current Loan Agreement | | | After Restructuring/Reallocation | | |
|----------|-------------------------------|----------------|----------------------------------|----------------------------------|----------------|----------------------------------|
| | Cost | Loan Allocated | % of Expenditures to be financed | Cost | Loan Allocated | % of Expenditures to be financed |
| | | | | | | |



| | | | | | | |
|---|---------------|---------------|-----|---------------|---------------|-----|
| 1. Eligible Expenditure Programs under Part A.1 of the Project. | 60.00 | 54.00 | 90% | 60.00 | 54.00 | 90% |
| 2. Credit enhancement facility under Part B.2 of the Project. | 20.00 | 18.00 | 90% | 0 | 0 | 0 |
| 3. Sub Loans and Sub Grants under Part B.1 of the Project and Goods, consulting services, non-consulting services, and Operating Costs under Part B.3 of the Project. | 484.00 | 305.00 | 63% | 516.00 | 325.00 | 63% |
| 4. Goods, works, non-consulting services, and consultants' services, and Operating Costs for Parts A.2 and C of the Project. | 35.00 | 22.00 | 63% | 32.00 | 20.00 | 63% |
| 5. Front-end Fee | 1.00 | 1.00 | - | 1.00 | 1.00 | - |
| 6. Interest Rate Cap or Interest Rate Collar premium | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Amount | 600.00 | 400.00 | | 609.00 | 400.00 | |

15. **Results Framework.** Consistent with the changes proposed above, the indicators in the Results Framework are proposed to be amended as follows:

- i. The end target of PDO Indicator "Direct project beneficiaries (Number) - (Core)" is proposed to be increased from 2,000,000 to 2,200,000.
- ii. "Repayment rates on sub-loans by TNUDF to ULBs (Percentage)" is proposed to be included as a PDO Indicator with end target as "at least 95.00%". This is currently an Intermediate indicator with the same end target.
- iii. The PDO Indicator "Additional financial resource mobilization from non-budgetary sources through credit enhancement and other means under the project (Amount in INR crores)" is proposed to be deleted, consistent with the proposed deletion of this Sub-Component.
- iv. The end target of intermediate indicator "Number of participating ULBs with updated GIS maps" is proposed to be lowered from 90 ULBs to 30 ULBs, based on experience under the project so far.

16. **Legal Covenant.** Sub-Component B.2 of the Project and references to it in the legal documents will be removed including relevant covenants, such as the legal covenant relating to credit enhancement (Schedule 2, Section I C of the Loan Agreement).



III. SUMMARY OF CHANGES

| | Changed | Not Changed |
|--|---------|-------------|
| Results Framework | ✓ | |
| Components and Cost | ✓ | |
| Reallocation between Disbursement Categories | ✓ | |
| Legal Covenants | ✓ | |
| Other Change(s) | ✓ | |
| Economic and Financial Analysis | ✓ | |
| Implementing Agency | | ✓ |
| DDO Status | | ✓ |
| Project's Development Objectives | | ✓ |
| PBCs | | ✓ |
| Loan Closing Date(s) | | ✓ |
| Cancellations Proposed | | ✓ |
| Disbursements Arrangements | | ✓ |
| Disbursement Estimates | | ✓ |
| Overall Risk Rating | | ✓ |
| Safeguard Policies Triggered | | ✓ |
| EA category | | ✓ |
| Institutional Arrangements | | ✓ |
| Financial Management | | ✓ |
| Procurement | | ✓ |
| Implementation Schedule | | ✓ |
| Technical Analysis | | ✓ |
| Social Analysis | | ✓ |
| Environmental Analysis | | ✓ |

IV. DETAILED CHANGE(S)



COMPONENTS

| Current Component Name | Current Cost (US\$M) | Action | Proposed Component Name | Proposed Cost (US\$M) |
|--|----------------------|---------|--|-----------------------|
| A. Results Based Grants for Urban Governance Component | 61.00 | Revised | A. Results Based Grants for Urban Governance Component | 60.50 |
| B. Investments in Urban Services Component | 504.00 | Revised | B. Investments in Urban Services Component | 516.00 |
| C. Urban Sector TA Component | 34.00 | Revised | C. Urban Sector TA Component | 31.50 |
| TOTAL | 599.00 | | | 608.00 |

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

| | Current Allocation | Actuals + Committed | Proposed Allocation | Financing % (Type Total) | |
|--------------------------------|-----------------------|---|-----------------------|--------------------------|----------|
| | | | | Current | Proposed |
| IBRD-84880-001 Currency: USD | | | | | |
| iLap Category Sequence No: 1 | | Current Expenditure Category: Eligible Expen Prog under Pt A.1 | | | |
| | 54,000,000.00 | 29,170,000.00 | 54,000,000.00 | 90.00 | 90.00 |
| iLap Category Sequence No: 2 | | Current Expenditure Category: Credit Enhant fac under B.2 of Proj | | | |
| | 18,000,000.00 | 0.00 | 0.00 | 90.00 | 0 |
| iLap Category Sequence No: 3 | | Current Expenditure Category: SL,SG Pt B.1 Proj,Gds,CS,NCS,OP B.3 | | | |
| | 305,000,000.00 | 182,163,002.34 | 325,000,000.00 | 63.00 | 63.00 |
| iLap Category Sequence No: 4 | | Current Expenditure Category: Gds,Wks,NCS,CS and OP Pt A.2 & C | | | |
| | 22,000,000.00 | 3,869,001.25 | 20,000,000.00 | 63.00 | 63.00 |
| Total | 399,000,000.00 | 215,202,003.59 | 399,000,000.00 | | |



LEGAL COVENANTS

| Loan/Credit/TF | Description | Status | Action |
|----------------|--|---------------|---------------------|
| IBRD-84880 | Finance Agreement :Maintain Institutional Capacity for Urban Governance Component Description :Tamil Nadu shall maintain a project management unit to carry out Part A of the Project with resources, powers, functions, staffing, and expertise acceptable to the Bank. Frequency :CONTINUOUS | Complied with | No Change |
| IBRD-84880 | Finance Agreement :Satisfactorily operate Credit Enhancement sub-component Description :Tamil Nadu shall ensure that any credit enhancements under Part B.2 of the Project are made in accordance with eligibility criteria and procedures acceptable to the Bank and the provisions of the TNUDF-TNUIFSL Operations Manual. Frequency :CONTINUOUS | Not yet due | Marked for Deletion |



Results framework

COUNTRY: India

Tamil Nadu Sustainable Urban Development Program

Project Development Objectives(s)

To improve urban services delivery in participating ULBs in a financially sustainable manner and to pilot improved urban management practices in selected cities.

Project Development Objective Indicators by Objectives/ Outcomes

| Indicator Name | PBC | Baseline | Intermediate Targets | | | | | | End Target |
|--|-----|----------|----------------------|------|-------|------------|--------------|--------------|--------------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | |
| Improve urban services in participating ULBs (Action: This Objective has been Revised) | | | | | | | | | |
| Direct project beneficiaries (Number) | | 0.00 | 0.00 | 0.00 | 0.00 | 500,000.00 | 1,000,000.00 | 1,500,000.00 | 2,200,000.00 |
| Action: This indicator has been Revised | | | | | | | | | |
| Female beneficiaries (Percentage) | | 0.00 | 0.00 | 0.00 | 0.00 | 40.00 | 40.00 | 40.00 | 0.40 |
| Additional financial resource mobilization from non-budgetary sources through credit enhancement and other means under the project (Amount in INR crores) (Number) | | 0.00 | 0.00 | 0.00 | 60.00 | 125.00 | 245.00 | 370.00 | 492.00 |
| Action: This indicator has been Marked for Deletion | | | | | | | | | |



| Indicator Name | PBC | Baseline | Intermediate Targets | | | | | | End Target |
|---|-----|---------------------|--|---|-------|-------|-------|-------|---|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | |
| Repayment rates on sub-loans by TNUDF to ULBs (Percentage) | | 100.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 |
| Action: This indicator is New | | | | | | | | | |
| Pilot improved urban management practices in selected cities | | | | | | | | | |
| Increase in Own Source Revenues (OSR) of 'Model Cities' in INR Crores over previous year with implementation of OSR improvement plans. (Text) | | INR72 crores (FY13) | ULBs have prepared a revenue improvement plan and an action plan to improve its OSR. | ULBs have adopted the revenue improvement plan and an action plan to improve OSR. | 15.00 | 15.00 | 22.50 | 22.50 | Erode and Vellore Corporations have to show increase of Rs. 31.93 crore each in the end of project over and above the OSR of 2016-17 and Hosur Municipality has to show cumulative increase of OSR amounting to Rs. 15.96 crore in the end of Project over and above the OSR of 2016-17 |



Intermediate Results Indicators by Components

| Indicator Name | PBC | Baseline | Intermediate Targets | | | | | | End Target |
|---|-----|--|---|---|-------|---|---|-------|---|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | |
| A. Results Based Grants for Urban Governance Component | | | | | | | | | |
| Average increase on MoUD Service Level Benchmarks (SLB) Index for the 'Model Cities' related to solid waste household collection coverage. (Percentage) | | 65.00 | 65.00 | 65.00 | 70.00 | 75.00 | 80.00 | 85.00 | 90.00 |
| Improved ULB citizen engagement in the 'Model Cities'. (Text) | | Grievances are received offline. Use of online grievance application is limited because of low levels of awareness, technical glitches and poor visibility of the website. | | Each ULB has implemented all the e-governance modules as identified by DMA. | | | Each ULB has met grievance redressal response time requirement under its citizen charter in 80% of cases. | | Each ULB has implemented all the e-governance modules as identified by CMA. |
| Improved ULB empowerment in the 'Model Cities'. (Text) | | Authority to approve capital works is low in terms of Administrative Sanction (AS) powers. | A government order (G.O.) has been issued to raise Administrative sanction to Rs. 2 crores for Vellore and Erode, and Rs. 80 lakhs for Hosur. | Each ULB has appointed a high quality Technical Expert Cell. | | Each ULB has disclosed its audited financial statements for FY 2017-18 no later than September 30, 2018, pursuant to applicable laws, statutes, and rules | | | Each ULB has appointed a high quality Technical Expert Cell. |



| Indicator Name | PBC | Baseline | Intermediate Targets | | | | | | End Target |
|--|-----|----------|----------------------|-------|--------|--------|--------|--------|------------|
| | | | 1 | 2 | 3 | 4 | 5 | 6 | |
| B. Investments in Urban Services Component (Action: This Component has been Revised) | | | | | | | | | |
| Length of Storm Water Drains constructed / rehabilitated and made operational under the project for Greater Chennai (Kilometers) | | 0.00 | 0.00 | 50.00 | 100.00 | 150.00 | 200.00 | 260.00 | 290.00 |
| Proportion of new / rehabilitated water / sewer connections achieved against aggregate target amongst participating sub-projects in these sub-sectors (Percentage) (Percentage) | | 0.00 | | | | | | | 70.00 |
| Repayment rates on sub-loans by TNUDF to ULBs. (Percentage) | | 100.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 | 95.00 |
| Action: This indicator has been Marked for Deletion | | | | | | | | | |
| Percentage of participating ULBs seeking investment support reporting delivery of improved urban services in their cities. (Percentage) | | 0.00 | 0.00 | 0.00 | 0.00 | 30.00 | 50.00 | 70.00 | 80.00 |



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