# BASIC INFORMATION

## A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>India</td>
<td>P167246</td>
<td>First Programmatic Water Supply and Sewerage Service Delivery Reform Development Policy Loan for Shimla Himachal Pradesh (P167246)</td>
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<thead>
<tr>
<th>Region</th>
<th>Estimated Board Date</th>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
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<tr>
<td>SOUTH ASIA</td>
<td>28-Nov-2018</td>
<td>Water</td>
<td>Development Policy Financing</td>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Department of Economic Affairs</td>
<td>Urban Development Department, Government of Himachal Pradesh</td>
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## Proposed Development Objective(s)

The PDO is to support the Government of Himachal Pradesh in its policy and institutional development program for improving water supply and sewerage services that are financially sustainable and managed by an accountable institution responsive to its customers.

## Financing (in US$, Millions)

### SUMMARY

| Total Financing | 25.00 |

### DETAILS

<table>
<thead>
<tr>
<th>Total World Bank Group Financing</th>
<th>25.00</th>
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<tr>
<td>World Bank Lending</td>
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## Decision

The review did authorize the team to appraise and negotiate
B. Introduction and Context

Country Context

1. **India continues to be one of the world’s fastest growing large economies and has made remarkable progress in reducing absolute poverty.** The Indian economy registered rapid growth, at 7.1 percent in FY16/17, and is estimated to have expanded by 6.7 percent in FY17/18. After temporary disruptions caused by demonetization and the implementation of the Goods and Services Tax (GST), the real GDP growth is projected to rise to 7.3 percent in FY18-19. Between 2004 and 2011, poverty declined sharply from 38.9 to 21.6 percent at the international poverty poverty line ($1.90 PPP/day). With over a 100 million people escaping poverty, the pace of poverty reduction exceeded that of the developing world and Middle-Income Countries (MICs) in this period. High economic growth, a rapid rise in rural wages, greater rural-urban integration and increasing non-farm activity, especially construction, were the key drivers of poverty reduction.

2. **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. 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.

3. **Urgent need for improving WSS services in the 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 once in two days for 1-2 hours, sewer connections serve about 60-70 percent of the population with partial and shared connections, and Non-Revenue Water is estimated at 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$13 million. The population in the Greater Shimla Area, including Shimla city and peri-urban areas, is expected to rapidly increase from existing 0.23 million to 0.41 million by 2050. In addition, the city receives about 66,000 tourists per day during peak season in May, with an average of about 3.6 million tourists per year. The design capacity of the water supply schemes, drawing water from various rivulets and tributaries, is 57 MLD. However, the actual supply has depleted to 40 MLD due to reduction at the sources, competing irrigation demands, and deteriorating water quality, against a demand of 56 MLD for Shimla city and rapidly increasing. The cost of services is high, since local sources are inadequate and bulk water needs to be pumped 1,400 meters up from the source to meet the growing requirements.

4. **The proposed operation supports the Government of Himachal Pradesh’s Medium-term Program for improving water supply and sewerage services.** The proposed programmatic operation for US$25 million, the first in a series of three proposed Development Policy Loans (DPLs)\(^1\), supports the Government of Himachal Pradesh (GoHP) in its policy and institutional development program for improving water supply and sewerage (WSS) services in the medium term (2018-24), starting with the Greater Shimla Area\(^2\). Given the challenges of rapidly increasing demand in this area, a series of jaundice epidemics, and the recent severe crisis due to reduced supply from traditional sources, the GoHP has taken up a package of transformational policy and institutional shifts from traditional infrastructure financing to service delivery orientation, improving cost recovery through tariffs, subsidy and energy efficiency policy reforms, and a major institutional

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\(^1\) DPL 1 is likely to be scheduled for Board approval in December 2018, DPL 2 in December 2020, DPL 3 in December 2022.

\(^2\) Greater Shimla Area comprises the Shimla Municipal Corporation area and three areas under Special Area Development Authority – Kufri, Shoghi, and Ghanahati.
reform consolidating asset ownership and service delivery within a single ring-fenced, autonomous and accountable WSS Company with devolved responsibilities for improving services. This operation will support GoHP’s WSS program, starting with the Greater Shimla Area, focusing on separation of powers and improving governance, managerial and financial autonomy, increasing efficiency of WSS operations, and increasing customer orientation and accountability. The operation will also build capacity of Shimla Municipal Corporation (SMC) and WSS Company to perform their roles and responsibilities.

Relationship to CPF

5. The proposed program is consistent with the Bank’s Country Partnership Framework (CPF), 2018-22, which focuses on a more resource-efficient growth path for India, in which improving living conditions and sustainability of cities through improving water systems is a direct contributor. The new CPF specifically recognizes that India needs to bring greater efficiency, accountability, and stronger governance, making public institutions more competitive and ensuring that policy reforms and investments better translate to last mile service delivery and development impact. This operation involves a major attempt in the institutional transformation of the WSS sector in Himachal Pradesh, India. This institutional transformation aligns with the CPF as the GoHP and SMC have incorporated a jointly owned autonomous WSS Company – Shimla Jal Prabandhan Nigam Limited (SJPNL), with devolved responsibilities for improving WSS services, along with program and policies for service delivery orientation, tariff reforms and cost recovery, enhancing customer engagement, disclosure of annual performance reports and citizens report cards. This would help in improving the credit-worthiness of the urban WSS sector and enhance the chances of leveraging private sector financing in the future.

6. The proposed program directly contributes to the World Bank Group’s twin goals of ending extreme poverty and promoting shared prosperity as the policy and institutional reforms will improve WSS services and reduce the burden of water collection, storage and related coping mechanisms and costs, as well as reduce instances of water borne diseases. The proposed program also addresses the broader goal of gender equality and empowerment by reducing drudgery of low-income groups, especially women, in collecting and storing water, time savings and enhancing income generation activities and improved personal and domestic hygiene practices. The proposed program will enhance female employment by at least 30% through SJPNL related activities. As the proposed improvements will result in more climate-resilient water supply infrastructure, the operation also contributes to the climate co-benefits agenda (both adaptation and mitigation). The citizen engagement and grievance redressal activities will especially target low-income groups and women beneficiaries in planning and implementation phases of water supply schemes.

C. Proposed Development Objective(s)

7. The program development objective is to support GoHP in its policy and institutional development program for improving water supply and sewerage services that are financially sustainable and managed by an accountable institution responsive to its customers.

Key Results

8. **Key results indicators:** The key results indicators are: Number of ULBs as customers of the newly formed WSS Company (SJPNL); Percentage of decisions on investment, expenditure and staff recruitment referred to GoHP for approval; Annual audited financial statements of SJPNL publicly disclosed; Percentage of SJPNL staff receiving performance incentives based on employee performance evaluation; Females as percentage of total staff in various services of SJPNL; Percentage of corrective actions taken by SJPNL based on recommendations of corporate governance review; Improved performance of SJPNL measured by the annual performance scorecard rating; Timely determination of annual tariffs and subsidies; Volumetric billing of 24x7 customers; Collection efficiency; O&M cost recovery (bulk water and distribution); O&M cost recovery (water distribution); O&M cost recovery (sewage); Percentage of customers of the
WSS Company service by private operators and receiving continuous water supply and connected to sewage systems; Annual service delivery performance report of SJPNL approved and disclosed by Board of Directors of SJPNL; Energy consumption of water production from existing sources; Reduction in non-revenue water; Annual reports on customer satisfaction and citizen report cards published and disclosed; Percentage of WSS complaints redressed within the stipulated redressal period.

D. Project Description

9. This operation supports GoHP’s WSS Medium-term Program in establishing the WSS Company with devolved responsibilities for improving services in the Greater Shimla Area along with policies for service delivery orientation and accountability to customers, operational efficiency and financial sustainability. The GoHP and SMC have incorporated the WSS Company (SJPNL) with a Board of Directors and policies for managerial and financial autonomy. The Medium-term Program includes the following policies on performance standards for the Greater Shimla Area: (i) universal access to piped water supply and sewage connections; (ii) continuous pressurized water supply (24X7); and (iii) compliance with GoI norms for water quality and effluents. All households in Greater Shimla Area will receive safe and piped water supply of 135 liter per capita per day (lpcd) and sewage connection. Increasing block volumetric tariff has been notified for all categories of customers with special provisions for low income households. Connection policies have special provisions to subsidize low income households to connect to piped water supply and sewage system.

10. This operation promotes policies for sustainability of WSS services through operational efficiency and energy efficiency improvement programs as bulk water in Shimla is brought over long distances and over high elevations and is one of the most expensive systems in India. The WSS services in Greater Shimla Area would meet targets for metering, reduction in energy consumption, collection efficiency, reduction of Non-Revenue Water, and O&M cost recovery, consistent with Service Level Benchmarks (SLBs) recommended by the GoI for Urban WSS sector. As part of the Medium-term Program, the GoHP would apply volumetric tariff and provide timely, predictable subsidies linked to performance. The new tariff structure, effective from April 1, 2018, introduces increasing block volumetric tariff. This encourages equity, demand management and affordability for the poor. Tariff is indexed automatically by 10 percent each year till FY 2024-25 and 8 percent post FY 2024-25. GoHP has also set the cost recovery targets based on financial projections. The Board of Directors of SJPNL will carry out annual performance evaluations, review of grievance redressal, and staff satisfaction surveys to substantiate the proposals for increase in tariffs. Strengthening the financial and operational management of the WSS will ensure the improvements attained will be sustainable in the long term and therefore raise the sector’s resilience to climate change, including growing water stress.

11. This operation will also support GoHP in improving the service delivery orientation in Greater Shimla Area through performance-based service delivery contracts. The SJPNL will enter into performance-based service contracts for bulk water supply, water distribution on 24x7 basis, and sewage collection and treatment. The focus on efficient use of existing sources and augmenting bulk water supply from new and sustainable source will help in achieving desired water service delivery to the customers. As the existing sources are depleting due to climate change and availability of water is reducing every year, the new bulk supply, enhanced operational efficiencies and prudent financial management will ensure assured water supply at the customer end.

12. SJPNL has developed service standards and commitments for WSS services in Greater Shimla Area. SJPNL will develop utility systems and databases to collect information on WSS service performance. SJPNL will establish a robust Monitoring and Evaluation (M&E) framework using global WSS benchmarks and GoI’s Service Level Benchmarks and will collect performance information disaggregated by customer groups to highlight service delivery status for the poor and vulnerable sections. SJPNL will carry out communication programs, grievance redressal and customer feedback programs to improve citizen engagement. SJPNL will follow a protocol for regular reporting and disclosure of performance to all
stakeholders, especially SMC, domestic and non-domestic customers, particularly the poor and vulnerable sections. SJPNL will implement a grievance redressal mechanism, social outreach, annual customer satisfaction surveys and citizen report cards. The program will have a structured communication strategy to engage with customers.

**Capacity Building**

13. This operation supports capacity building of SMC and SJPNL to enable them to perform their roles and responsibilities. SMC would receive support from WSS expert to build its capacity to monitor and review progress of WSS services in Greater Shimla Area. The SJPNL will enter into a performance-based contract with a global good practice WSS Utility, as a utility partner which can provide experts for helping SJPNL achieve its annual outputs. The global utility will also support SJPNL in developing as a professional, autonomous and accountable utility.

**E. Implementation**

Institutional and Implementation Arrangements

14. **Monitoring and evaluation of the results is an integral part of the proposed operation.** The main objective of this operation is to support GoHP in developing policies and institutions for improving WSS services in Greater Shimla Area. The Urban Development Department (UDD) of GoHP will be responsible for implementing the DPL program, tracking progress, evaluating results, and reporting progress. The UDD will also be responsible for coordinating activities among other concerned ministries and agencies. The key indicators for tracking progress have been identified by GoHP. The monitoring and evaluation system including strengthening of existing system and grievance redressal system has been agreed with GoHP and SJPNL. The SJPNL will provide data and information on the key results indicators to UDD for tracking implementation progress and UDD will prepare the update on implementation progress for periodic reviews. The results of surveys, citizen report cards, performance reviews and audits will be disclosed to the public and special emphasis will be on sharing information with SMC, and the poor and vulnerable sections of citizens.

**F. Poverty and Social Impacts and Environmental Aspects**

Poverty and Social Impacts

15. **A Poverty and Social Impact Analysis (PSIA) has been carried out for the proposed program.** This assesses the distributional impact of the program, with a focus on the poor and vulnerable, including women and women headed households. Key findings are presented below:

- **Low Income Groups suffer disproportionately:** About 45 percent customers suffered from water borne diseases in the past six months – either due to their dependence on shared sources, public taps and/or not treating their water. The present system of bunching water bills every quarter or half-yearly burdens them further. The low-income households were affected disproportionately as the average monthly cost of sewerage was higher in comparison to other income groups.

- **Huge coping costs to overcome intermittent water supply:** Average coping costs for domestic customers to overcome intermittent water supply varied by mechanism i.e. lifting pumps (INR 167), private tankers (INR 3000), treating water using Reverse Osmosis (RO) purifiers (INR 652) to storage tanks (INR 6144). Further, commercial establishments incurred extra time (1-3 hours) and costs towards collection, storage and monitoring the water wastage.

- **Low customer satisfaction levels regarding quality of WSS services:** All income groups reported that the water supply situation had deteriorated in the past ten years. Duration of water supply for domestic customers was 102 minutes with gap of 1 to 4 days – similar to the supply received by commercial customers. Water quality was considered
as average by all. Commercial customers such as hotels paid INR 13,000 month on average, due to higher consumption and/or more than one connection, while educational institutions paid one-third of this cost, on average per month.

- **Willingness to pay for better and improved services that would also significantly benefit women.** Improvements in WSS will benefit all and particularly low-income households. All categories of customers are willing to pay more for a 24x7 water supply and are agreeable to an increase in tariff based on volume consumed and better sewage services. Users perceive these reforms would eliminate the burden of water collection, storage, related coping mechanisms and costs, and reduce instances of water borne diseases. Poor WSS services impact women, particularly working women, as they are responsible for water collection in majority of households. Also, female-headed households (FHHs) and low-income households specially reported health problems arising from water borne diseases.

16. **As a follow-up to the PSIA recommendations, the new connection policy would include several pro-poor features.** The new connection policy would include the following features: i) simplifying the documentation and processes of connection policy; ii) implementing a system of different meters or sub-meters for landlords and tenants; iii) moving to a system of monthly billing, concessions, and payment in installments for low income households; iv) providing household level sewage connections; (v) devising a well-planned communication strategy to communicate proposed reforms and schedule of improvements in WSS services, raising awareness of domestic and non-domestic customers, political representatives, and other stakeholders; and (vi) designing a robust monitoring mechanism to measure impact of changes in WSS services, including disaggregated impacts for different groups of customers, especially the poor and vulnerable groups.

17. **In addition, the DPL will contribute to addressing gender inequality, leading to improved and better targeted services and thereby positively impacting women.** The proposed WSS program including grievance redressal and customer feed-back policy with special provisions to reach out to, and elicit concerns of women customers, and incorporate their suggestions, will empower them. The SJPNL will establish customer service centers accessible within each zone to increase access to urban poor, women and vulnerable groups to register grievances and seek redressal. Annual review of customer grievance redressal mechanism as well as annual customer satisfaction surveys will lay emphasis on women related grievances and their satisfaction levels by focusing on parameters relating to customer end WSS services. Some of the key activities such as customer outreach, grievance redressal, monitoring and evaluation will require female staff to be hired from open market, thus promoting female employment. In addition, SJPNL will also hire women entrepreneurs through Small and Medium Enterprises for carrying out O&M related activities. By end of the program, SJPNL shall target to increase the share of female staff to 30 percent in various services. Having presence of female staff will enhance the customer interface, especially with SJPNL.

Environmental Aspects

18. **The program of actions supported by this operation will have significant positive environmental effects in the Greater Shimla area.** By its very nature, this operation supports policies and institutional reforms relevant to water, an environmental resource, which will be effectively managed through establishing a separate water company, SJPNL, and its management arrangements. The policy and institutional development program will support the key environmental aspects that include (a) strengthening and streamlining water quality testing, (b) ensuring sewage treatment discharge standards are met, and (c) ensuring legal compliance and addressing environmental issues during construction. SJPNL will maintain environmental staff to coordinate with the various line departments, regulatory agencies, communities and contractors. While all the program will bring positive environmental benefits, the energy-efficiency improvement policies will also entail climate-related benefits.

19. This operation will address the climate vulnerabilities that are relevant to the targeted areas by increasing the water utility's capacity for adaptive WSS management—the ability to respond quickly to changing conditions that affect
water demand and the volume and/or quality of the water supply, as well as the treatment capacity of water and wastewater facilities to adequately cope with rising water stress, extended periods of drought, extreme precipitation, and flooding. The steps taken to improve the WSS Company’s financial and operational management will contribute to raising the available water supply by expanding and rehabilitating WSS infrastructure, reducing water losses, reducing the contamination of water bodies, and improving the quality and volume of treated wastewater and diversifying water sources.

G. Risks and Mitigation

20. **The proposed operation faces substantial risks.** This operation is a major attempt on public sector reforms in India, to make the institutional shift from a municipal department to an autonomous ring-fenced entity with performance standards and accountability to customers. Rather than investing in water infrastructure, this DPL aims at creating a WSS Company under the SMC, operating under company law, based on the principles of accountability and sustainability, and creating an enabling environment to leverage private sector financing in the future. There could be the risk of resistance to the shift from departmental structure to an autonomous company due to the shift in powers and roles and responsibilities. Also, there could be the risk of poor performance of the service provider. The risks are partially mitigated since the program stems from the GoHP’s own reform agenda, in response to the chronic jaundice epidemic, and formalized through Cabinet approval in April 2018. The recent water crisis has also helped in developing a consensus for the reform of WSS services in the capital. The GoHP has also consulted with various stakeholders including municipal councilors and other political representatives, domestic and commercial customers, staff and labor unions, etc., to inform them about the existing challenges and the opportunities to improve WSS services efficiently and sustainably.
FOR MORE INFORMATION CONTACT

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<th>APPROVAL</th>
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<tr>
<td>Task Team Leader(s):</td>
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**Approved By**

<table>
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<tr>
<th>Country Director:</th>
<th>Luc Lecuit</th>
<th>28-Sep-2018</th>
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