Project Information Document (PID)
## 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>P170811</td>
<td>Punjab Municipal Services Improvement Project</td>
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<table>
<thead>
<tr>
<th>Region</th>
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<td>SOUTH ASIA</td>
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<td>20-Aug-2020</td>
<td>Urban, Resilience and Land</td>
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<tr>
<th>Financing Instrument</th>
<th>Borrower(s)</th>
<th>Implementing Agency</th>
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<tbody>
<tr>
<td>Investment Project Financing</td>
<td>India</td>
<td>Ludhiana Municipal Corporation, Punjab Municipal Infrastructure Development Company, Amritsar Municipal Corporation (AMC)</td>
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**Proposed Development Objective(s)**

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

**Components**

- Component 1: Strengthening Urban Service Delivery Systems
- Component 2: Improving Water Supply Infrastructure (excluding LA & R&R)
- Component 3: COVID-19 Crisis Response
- Component 4: Project Management

### PROJECT FINANCING DATA (US$, Millions)

#### SUMMARY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Total Project Cost</td>
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<tr>
<td>Total Financing</td>
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<tr>
<td>of which IBRD/IDA</td>
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<td>Financing Gap</td>
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#### DETAILS
World Bank Group Financing

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<tr>
<th>Description</th>
<th>Amount (US$)</th>
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<td>International Bank for Reconstruction and Development (IBRD)</td>
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Non-World Bank Group Financing

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<td>Borrower/Recipient</td>
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Environmental and Social Risk Classification

High

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **While India remains one of the fastest growing major emerging market economies, Gross Domestic Product (GDP) growth has slowed markedly in the past three years.** The current slowdown is due to the combined effects of (i) unresolved domestic issues (impaired balance sheet issues in the banking and corporate sectors, compounded by stress in the non-banking segment of the financial sector) and (ii) significant external headwinds following the COVID-19 outbreak. These have not only prevented a sustainable revival in private investment, but also affected private consumption in FY19/20. As a result, growth is expected to reach 5 percent in FY19/20. Assuming that the COVID-19 outbreak does not extend significantly to India, growth should pick up gradually from FY20/21 onwards. On the fiscal side, the general government deficit is expected to widen to about 6.8 percent of GDP in FY19/20, owing to tax cuts and weak economic activity. The current account balance is expected to improve in FY19/20, reflecting mostly a sizeable contraction in imports and a dramatic decline in oil prices. Given this, in spite of recent portfolio capital outflows, India’s foreign exchange reserves remain comfortable (equivalent to about 11 months of imports as of end-February-2020).

2. **Since the 2000s, India has made remarkable progress in reducing absolute poverty.** Between FY11/12 and 2015, poverty declined from 21.6 percent to an estimated 13.4 percent at the international poverty line (US$1.90 per person per day in 2011 Purchasing Power Parity (PPP), continuing the earlier trend of rapid poverty reduction. Owing to robust economic growth, more than 90 million people escaped extreme poverty and improved their living standards during this period. Despite this success, poverty remains widespread. In 2015, 176 million Indians were living in extreme poverty, while 659 million—half the population—were below the higher poverty line commonly used for lower middle-income countries (US$3.20 per person per day in 2011PPP). With the recent growth slowdown, the pace of poverty reduction may have moderated.

3. **India’s economic growth is accompanied by an unprecedented urban transformation.** The urban population and the contribution of cities to the economy are expanding steadily. McKinsey (2010) estimates that the population of India’s cities will increase from 340 million in 2008 to 590 million in 2030. Urban India will
create 70 percent of all new jobs and these urban jobs will be twice as productive as rural jobs. However, 38 percent of urban households do not have access to treated tap water and thus do not have safe and hygienic practices (especially critical during COVID-19 response), 18 percent of households do not have access to latrines within their premises, and only about 18 percent of urban waste is treated (Mathur 2018). Providing urban dwellers with public services and economic opportunities, while making sure that urbanization is environmentally sustainable, is simultaneously one of India’s greatest development opportunities and challenges. According to the 2019 Vulnerability Atlas of India, the northern half of Punjab, where the project cities are located, is classified as a Zone IV: High Damage Risk Zone with regard to earthquake hazards, which poses a threat to infrastructure and service delivery. In terms of climate vulnerability, by 2050, it is estimated that the state of Punjab is likely to experience an increase in temperature of about 1.7°C to 2.0°C, more erratic temperatures and an increase in heavy precipitation events of the order of 100mm/day and 150mm/day, contributing to a greater frequency of both floods and droughts. This will increase demand for water and put pressure on already limited supply. Supply pressures will be exacerbated after 2050 when glacier melt as well as snow precipitation are expected to reduce.

Sectoral and Institutional Context

4. **About 37.5 percent of the State of Punjab’s 27.7 million population live in urban areas (2011 Census). Its two largest cities, Ludhiana and Amritsar, host over a quarter of this urban population.** Amritsar is the spiritual and cultural center of the Sikh religion and home to 1.13 million, while Ludhiana is home to 1.62 million and a prime industrial and educational center. Both cities are engines of economic growth for the State. To meet the demands of population and economic growth in cities, Urban Local Bodies (ULBs) in Punjab need to reduce infrastructure gaps, improve services, address constraints in land and housing markets and ensure that diseconomies of urbanization are addressed effectively. However, the Municipal Corporations (MCs) of both Amritsar and Ludhiana, like other ULBs in Punjab, face serious institutional and governance challenges that constrain them from seizing the opportunities of urbanization.

5. **WSS operations in Amritsar and Ludhiana are similar to those in many Indian cities.** They are characterized by poor service levels (12 hours of service delivery per day in Amritsar and 10 hours per day in Ludhiana in 2014), low cost recovery (only around 30 percent recovery from user charges due to flat tariffs and large-scale exemptions) and high levels of non-revenue water (over 60 percent in both cities). Furthermore, reliance on ground water has led to a rapid decline in ground water levels (by 3 meters and 2.6 meters between 2014 and 2016 in Amritsar and Ludhiana, respectively) and deterioration of water quality (27 percent of samples in Amritsar were observed to have more than double the permissible limit of arsenic, while 75 percent of samples in Ludhiana were observed to have more than the acceptable limit of Aluminum and 60 percent of samples were observed to have more than the acceptable limit of magnesium). The distribution network, designed for localized pumping from bore wells, has limited coverage and low capacity to manage desired pressure. Excessive pumping has led to high power charges for the MCs and large volumes of wastewater.

6. **The Government of Punjab (GoP) finances capital expenditure in water supply.** Operating deficits are subsidized from the general revenue of MCs. Services are managed by WSS department of the MCs. Current levels of funding for WSS are inadequate to cover capex gaps or operations and maintenance (O&M) needs. The WSS departments operate with limited financial and operational autonomy and low technical and management capacity. Induction of professionals is difficult since staff recruitment is bound by existing rules and procedures. Ringfencing of WSS finances and
independent financial management decisions are difficult to implement since there are competing claims for funds. Accountability is difficult to enforce as departments do not bear the consequences of poor service delivery to citizens.

7. **Addressing deficits in WSS services — and, more broadly, in urban services — in Amritsar and Ludhiana needs to go beyond bridging infrastructure backlogs** to tackling broader governance and institutional gaps at multiple levels of the local government system. These gaps in Amritsar and Ludhiana include (i) outdated organizational structures, weak administrative systems, skill mismatches and capacity constraints that hinder service delivery mandates; (ii) low level of intergovernmental fiscal transfers and own source revenues as well as weak public finance management systems; and (iii) Limited de factor authorities in infrastructure and service delivery at the ULB level.

8. **Responding to the fundamental capacity gaps in urban governance and urban finance is crucial for ensuring that municipal service delivery is effective and responsive.** This calls for: (i) Strengthening service delivery mandates of MCs and enhancing their institutional and technical capabilities to uphold these authorities and responsibilities; (ii) Improving resource mobilization and management of MCs to strengthen financial sustainability in service provision; and (iii) Strengthening accountability systems and citizen orientation to improve quality of service delivery. These focus areas require concurrent action on enabling urban policy and regulatory reforms, modernizing organizational structures and administrative systems of ULBs, reskilling human resources, capacitating personnel and changing institutional cultures and mindsets.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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

Key Results

9. **Key results expected from this operation include (i) Strengthened urban governance, (ii) Improved urban finances, and (iii) Improved water supply.** Key result indicators are (i) Reduced times for building permits in Amritsar and Ludhiana, (ii) Strengthened asset management in Amritsar and Ludhiana as measured by establishing asset registries for at least 3 major fixed assets updated annually, (iii) Percentage Increase in own source revenue in Amritsar and Ludhiana MCs as measured by improvement in property tax revenue (Amount adjusted for inflation), (iv) Improved quality of water in Amritsar and Ludhiana as measured by reduced levels of arsenic, nitrate and selenium, and (v) Water utilities established and operational in two municipal corporations.

D. Project Description

10. **The proposed Punjab Municipal Services Improvement Project (PMSIP) is supported by the Punjab State Partnership and thus will be part of a holistic, long term and incremental approach to reform and strengthening of governance and finance of MCs in Punjab** with a view of making municipal service delivery effective and responsive, and, over time, efficient. PMSIP will establish the foundations for more effective and responsive urban services in Amritsar and Ludhiana by providing support to AMC and LMC for (i) modernizing administrative systems and institutional capabilities; (ii) enhancing own source revenue; (iii) establishing and rolling out Capital Investment Plans and Asset Management Plans; and (iv) introducing performance measures
and social accountability in service delivery and grievance redress. These will be complemented by targeted institutional actions and investments to improve WSS services in Amritsar and Ludhiana. The Project will (i) invest in bulk water infrastructure; (ii) establish new institutional models for WSS service delivery; (iii) introduce private sector participation in WSS; and (iv) strengthen financial sustainability and customer orientation in WSS delivery. Additionally, the Project will also extend just-in-time and flexible resources and institutional support to the GoP and the MCs in the State to tackle some of the critical challenges arising from the COVID 19 pandemic.

11. The PMSIP is expected to cost US$287 million, of which the IBRD share is 70 percent and the GoP share is 30 percent. The Project has the following four components:

(i) **Component 1: Strengthening Urban Service Delivery System** to support Amritsar and Ludhiana transition into more financially sustainable, administratively efficient, focused on gender and workplace diversity, technically capable and institutionally accountable MCs. The subcomponents are as follows:
   a. Subcomponent 1a: Strengthening urban governance and finance systems
   b. Subcomponent 1b: Strengthening water service management

(ii) **Component 2: Improving Water Supply Infrastructure** to support the urgent need to shift from contaminated and depleting groundwater sources to reliable surface water supply. The Project will finance raw water systems, water treatment plants, clear water pumping systems, transmission lines and overhead storage reservoirs in both cities.

(iii) **Component 3: COVID-19 Crisis Response** to support the nine MCs in Punjab to respond to urgent and critical needs arising at the city level from the COVID-19 crisis

(iv) **Component 4: Project Management** to support various project management activities, including but not limited to social and environmental safeguards management and fiduciary management in the two MCs, monitoring and evaluation activities, technical studies, Project Management Unit and Project Implementation Unit support, etc.

### Legal Operational Policies

<table>
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<tr>
<td>Projects on International Waterways OP 7.50</td>
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<tr>
<td>Projects in Disputed Areas OP 7.60</td>
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### Summary of Assessment of Environmental and Social Risks and Impacts

The water supply in Amritsar and Ludhiana is currently from ground water. The water supply system is inefficient and allows for significant water loss and wastage as households are not incentivized to save. As a result, the cities of Amritsar and Ludhiana are experiencing over-exploitation of scarce ground water resources, excessive water supply resulting in higher power charges, low cost recovery and high volumes of wastewater generation. In addition, water quality is a serious concern as the ground water is contaminated with Arsenic, Selenium and Nitrate. Most of the ground water is supplied without appropriate water treatment. High arsenic levels may lead to cancer-causing keratosis and hyperkeratosis. The proposed project will shift water supply from rapidly depleting and highly contaminated decentralized ground water sources
The Component 2 of the project involves civil works that is limited to (i) construction of water intakes from canals; (ii) construction of water treatment plants, including pumping stations (WTPs); (iii) laying of clean water distribution lines between WTPs and Overhead Service Reservoir (OHSRs); and (iv) construction of new OHSRs and repairs of existing OHSRs. The adverse environmental impacts related to Component 2 activities include: (i) sludge from the WTPs during operation phase; (ii) emission of dust, noise, debris, waste products during construction; and (iii) health and safety of workers and traffic disruption during construction of WTPs and OHSRs. All these adverse potential risks can be effectively prevented, mitigated, or minimized on-site in a predictable manner through good engineering design. Considering that the impacts are reversible, localized and temporary, the environmental risk of the Project is considered as "Substantial".

The social risk of the Project has been classified as ‘High’, considering that acquisition of large private land parcels (40 and 50 acres of farm land is required in Amritsar and Ludhiana cities respectively) are anticipated in the project for construction of Water treatment Plants for both cities, with potential land and livelihood related impacts. In addition, civil works including large scale road cutting/Right of Way (RoW) for laying the transmission lines to overhead storage reservoirs through congested urban localities is likely to lead to temporary economic displacement of street vendors, hawkers, roadside establishments with attendant loss of income, besides impacts on squatters and encroachers who occupy stretches of public land/RoW.

Punjab has a high in-migration of labor from other states (particularly Uttar Pradesh and Bihar) for fulfilling the labor requirements in agriculture and construction. There may therefore be a substantial labor influx, especially in sites of construction of Water Treatment Plants, which are expected to be located in suburban areas of municipalities with ‘low absorptive capacity’; and Clear Water Reservoirs/Zonal Reservoirs, which will be located within urban localities with proximity to residential colonies. Both these categories of sites may require setting up of labor camps and developing detailed procedures for camp and worksite management and supervision, managing risks related to Gender Based Violence and Sexual Exploitation and Abuse for with a detailed assessment will be done as part of the ESIA. Hence, on this basis at the appraisal stage the risk of labor influx is expected to be high.

Existing low client capacities to manage social issues emerging from Project investments, engaging with communities/ citizens groups, understanding issues of equity and inclusion or undertake large scale social mobilization also raises the risks for the Project.

It is proposed that the WTPs and distribution networks will be either connected to new storage constructed under the Project, existing networks/ storage or new constructions under other schemes like Smart City Mission and Atal Mission For Rejuvenation And Urban Transformation. A detailed assessment will be required to understand if such convergence actions qualify as Associated Facilities under ESS1 and whether such activities would need to follow Bank procedures under the E&S requirements.
E. Implementation

Institutional and Implementation Arrangements

11. The implementation arrangements reflect two principles. First, activities associated with the service delivery functions of the MCs will be mainstreamed through the institutional structures of the MC while activities specific to the administration of the Bank-supported Project will be managed through project management arrangements. Second, in both cases, there will be a continuous effort to strengthen the MC capacities.

12. Nodal Implementing Agency: The Department of Local Government (DLG) is responsible for ULBs affairs in GoP. The Punjab Municipal Infrastructure Development Company (PMIDC), under the DLG, is the state level institution that supports urban reforms and investment programs. Consistent with this role, it will act as the nodal implementing agency for the Project. The PMIDC will establish a PMU, led by a Project Director, that will be responsible for day-to-day project management, coordination across agencies and between the two MCs, progress monitoring and reporting, fiduciary and safeguards oversight, communications, state level grievance redress, etc. The CEO of PMIDC will head the PMU to facilitate faster decision-making and to ensure that Project activities are mainstreamed within the overall Government apparatus.

13. City Level Implementing Agency: At the city level, urban and water services are overseen by the Municipal Commissioner of the MC, assisted by an Additional Commissioner who also serves as the Smart City CEO (called the Smart City Company Limited in each city). In line with the GoP’s decision to transfer implementation of city-level projects to the large ULBs, the Amritsar and Ludhiana MCs will be responsible for the implementing their respective institutional and investment activities. The MCs will establish a PIU, led by the Additional Commissioner/Smart City CEO, to manage Project implementation at the city level. The PIU will be overseen by the Municipal Commissioner at the city level and the PMU Director at the State level. The Additional Commissioner will coordinate with municipal staff from relevant departments, allied agencies, consultants and the Smart City Company. Key tasks of the PIU will be two-fold – (i) implementation coordination and management of city-specific activities under Component 1 to 4, procurement, safeguards management, grievance redress, financial management, communications, reporting to PMU and DLG; and (ii) establishing and operationalizing the newly constituted water utility.

14. Water and Wastewater Utility: Water supply investments will be initially managed by the PIU in each MC. A WSS utility will be established in each city by year 2 of the Project, at which time water supply operations and management responsibility will be legally transferred to the utility, which will be set up under the Companies Act 2013. To support the utility, staff experienced in large water supply operations in the MCs and DWSSB will be deputed to the utility. The PMIDC will continue to support the MCs and the utility in all activities related to water investments. A private operator will be responsible for construction and O&M through a DBOT contract. Construction responsibilities include bulk water offtake, WTP, water conveyance mains and storage reservoirs. O&M responsibilities include water treatment and production, conveyance of treated water till clear water sump or storage reservoirs (based on future water distribution contracts).
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Borrower/Client/Recipient

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|                           | Srinivasa Rao Podipireddy  |

**Approved By**

| Environmental and Social Standards Advisor: |                                      |
| Practice Manager/Manager:                  |                                      |
| Country Director:                         | Sumila Gulyani                        | 05-Jun-2020 |