

India : Andhra Pradesh Urban Water Supply and Septage Management Improvement

1. Project Information

Project ID:	P000079	Instrument ID:	L0079A
Member:	India	Region:	Southern Asia
Sector:	Water	Sub-sector:	Water supply, sanitation, and wastewater treatment
Instrument type:	<input checked="" type="checkbox"/> Loan:400.00 US Dollar million <input type="checkbox"/> Guarantee	Co-financier(s):	
ES category:	A	Borrowing Entity:	Ministry of Finance, India
Implementing Entity:	Public Health & Municipal Engineering Department (PHMED), Ministry of Urban Development		
Project Team Leader:	Ronald Muana (Responsible DG: Rajat Misra; Responsible Department: INF1)		
Project Team Members:	<p>Jyosyula Siva Rama Krishna Sastry, OSD - Social Development Specialist; Asma Bachikh, Team Member; Liu Yang, Project Counsel; Aditi Khosla, Alternate Counsel; Yogesh Malla, OSD - Financial Management Specialist; Gerardo Pio Parco, OSD - Environment Specialist; Jurminla Jurminla, OSD - Procurement Specialist; Jinghui Li, Project admin</p>		
Completed Site Visits by AIIB:	<p>Aug, 2019 The mission team comprised of Zacharias Ziegelhöfer, Bank Team Leader and Infrastructure Sector Economist, Jurminla, Procurement Specialist, and Maruthi Mohan Dharmapuram, Water Supply & Sanitation Engineering Consultant.</p> <p>Nov, 2019 The mission team comprised of Zacharias Ziegelhöfer, Bank Team Leader and Infrastructure Sector Economist, Jurminla, Procurement Specialist, Somnath Basu, Principal Social Development Specialist and Jan Hoybye, Senior Water Supply & Sanitation Engineering Consultant.</p> <p>Aug, 2021 Monthly virtual meeting with PMU to follow up on project progress and address pending issues.</p> <p>Jul, 2021 Monthly virtual meeting with PMU to follow up on project progress and address pending issues.</p> <p>Jun, 2021 Monthly virtual meeting with PMU to follow up on project progress and address pending issues.</p> <p>Nov, 2021 Monthly virtual technical review</p> <p>Oct, 2021 Monthly virtual technical review</p> <p>Sep, 2021 Monthly virtual meeting with PMU to follow up on project progress and address pending issues.</p> <p>Jan, 2022 Bi-monthly virtual project implementation review</p> <p>Jun, 2022 Site visit by consultants Prabhuchimulkar Raghuvir and Mohan Dharmapura, and supervised online by PTL Wanli Fang, On-site mission facilitated by consultants Prabhuchimulkar</p>		

	Raghuvir and Mohan Dharmapura, and supervised online by PTL Wanli Fang Mar, 2022 Bi-monthly virtual project implementation review Nov, 2022 On-site mission by consultants Prabhuchimulkar Raghuvir and Mohan Dharmapura, and supervised online by PTL Ronald Muana
Planned Site Visits by AIIB:	Feb, 2023 Proposed Q1 2023 supervision mission
Current Red Flags Assigned:	2
Current Monitoring Regime:	Enhanced Monitoring- Level I
Previous Red Flags Assigned:	2
Previous Red Flags Assigned Date:	2022/06

2. Project Summary and Objectives

To provide safe drinking water through piped water supply to 3.3 million people in Andhra Pradesh, and to improve service levels and strengthen sustainable service delivery. The project has three components: (i) Investment in Water Supply Infrastructure. This will include the construction of intakes at the raw water source, raw water transmission mains, water treatment plants, clear water transmission mains, treated water storage, distribution networks, and household service connections; (ii) The construction of pilot sewage treatment plants and (iii) capacity building to strengthen overall project management and supervision and the institutional capacity in the ULBs in municipal services delivery and management, including financial, environmental, and social monitoring. A mission on November 2022 determined that based on updated work plans an extension of the loan closing date may be needed to fully complete all contracts. The PIU is preparing plans and alternative scenarios in coordination with the AIIB team to submit a proposal by Q1 2023.

3. Key Dates

Approval:	Dec. 07, 2018	Signing:	Feb. 25, 2019
Effective:	May. 21, 2019	Restructured (if any):	
Orig. Closing:	Jun. 30, 2024	Rev. Closing (if any):	

4. Disbursement Summary (USD million)

Contract Awarded:		Cancellation (if any):	0.00
Disbursed:	44.69	Most recent disbursement (amount/date):	25.00/May. 12, 2022
Undisbursed:	355.31	Disbursement Ratio (%) ¹ :	11.17

5. Project Implementation Update

Progress: Procurement of all twenty (20) civil works contracts) was completed as of Q3 2021. Fifteen (15)

¹ Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

contracts with expired original ending dates have been extended based on updated construction schemes endorsed by the PMU. Physical progress stands at around 9% (vs 6% in the previous quarter), and total disbursements at 11.2%. In three months from July 2022 to Sep 2022, total physical accomplishment significantly increased from USD 38.42 M to USD 58.50 (in terms of earned value).

However, the project is critically delayed. Project implementation was affected by a 16-month hold order by the newly elected Government of Andhra Pradesh (GoAP) issued in May 2019. This was followed by around 7 months of a work stoppage due to COVID. Most recently, delays were experienced due to funds flow issues related to COVID impacts on GoAP finances. The Project has only 18 months left to complete the balance of 90% of the work.

The funds' flow issue relates to bills not cleared in time and it is adversely impacting the project's progress. Historical performance in payment of bills is poor with an average turn-around time for payment of 136 days (with some bills paid only after 422 days).

India's Department of Economic Affairs (DEA) directed that GoAP open a project-designated account to receive Bank funds and disburse payments. GoAP through Government Order No.120 of the Finance Department, committed to releasing payments within 7 working days through CFMS (Comprehensive Financial Management System – the billing system of the Government of India (GoI)). However, these payment commitments have not been complied with and presently, there are 22 pending bills amounting to USD 17 million that have been unreleased for 68 days (as of 14-Nov-22).

Non-payment of bills is impacting implementation. Contractors have slowed down the works due to non-payment of bills on time, preventing them from paying workers and suppliers and mobilizing efficiently. The project is also expected to incur some cost claims due to delays and the PIA is assessing the potential impact. The Project Management Consultant (PMC), who is engaged to support the PIA to manage the project, is also impacted by the non-payment of bills, which affects the PIA's ability to manage the complex project. The PMC has not been able to fully mobilize the required number of professional staff.

Stakeholder Engagement and Escalation: The AIIB Project Team is in constant coordination with the Finance Department officials who push the release of the funds with the Finance Secretary and higher officials. There were successive assurances for payment in October and November that had not been met purportedly due to constraints internal to GoAP.

A meeting with the Secretary of Budget conducted in November resulted in a commitment of payment of USD 19.6M by the first week of December 2022. The AIIB team is closely monitoring this new commitment. Should all pending payments be paid, the PIA will request a replenishment of advances.

The team is coordinating with the larger India-portfolio team of AIIB to synchronize engagement activities with the appropriate levels of bureaucracy in GoI (particularly DEA) and GoAP. The project needs firm commitments from GoAP if the project is to achieve its objectives.

Looking ahead:

The AIIB team holds regular monthly review meetings with the PIA to follow up closely on the status of finalizing and closing out outstanding issues. The AIIB team is also working with the PIA in improving the following areas: IT tools for monitoring and coordination, bill processing, approval of variations, and permit acquisition. During site inspection of project sites, minor infractions were observed. The AIIB team is closely monitoring agreed action items.

The detailed work plans of the subprojects are being assessed for time and budget implications against the achievement of project objectives. Scenarios are being firmed up whether i) the project will finish the original project scope by the original loan closing date; ii) the project will finish the original scope by an extended loan closing date; iii) or the project will be finished with changes in both scope and loan closing date. The PIA is also looking at the impact on project indicators of each scenario. Final recommendations in coordination with the PIA are targeted by the end of Q4 2022.

The next supervision mission is planned for Q1 2023.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Component 1: Investment in Water Supply Infrastructure for 50 ULBs (Total costs: USD534 million)	<p>Nine civil works contracts made substantial progress in the past quarter:</p> <ul style="list-style-type: none"> • Ananthapuramu Source (7.4%), • Nellore Source (29.5%), • Kurnool Distribution (3.1%) • Chittor Distribution (15.6%), • Nellore Distribution (30.20%), • Visakhpatnam Distribution (8.77%) • Gurtur Distribution (18.25%) • West Godavari Distribution (5.55%) 	ESMPF, RPF and TPPF are approved by the AIIB and disclosed. Site-specific instruments are prepared as necessary	Procurement completed.

	• East Godavari Distribution (13.72%)		
Component 2: Investment in Sanitation and Drainage in five pilot ULBs (Total costs: USD14 million)	None	ESMPF, RPF and TPF are approved by the AIIB and disclosed. Site-specific instruments are prepared as necessary	Procurement completed.
Component 3: Technical Assistance, Institutional Development & Municipal Capacity Enhancement and Implementation Support (Total costs: USD21 million)	Technical Assistance is a regular & continuous activity in progress. Development, Capacity Building Plan (CPP) is prepared & will be implemented in the FY 2021-22.	N/A	Procurement mostly completed, with few small procurement items remaining.

Financial Management:

The financial management system of the PIA has been the subject of an audit (reported August 2022). The Project was assessed to have a moderate internal control system commensurate with and nature of the Project during the period covered by the audit. Areas for improvement include end-to-end synchronization of electronic and manual monitoring, matching physical progress and insurance with EOT amendments, and correcting GST errors. The audit also recommends annual asset verification. The AIIB Financial team is closely monitoring

6. Status of the Grievance Redress Mechanism (GRM)

Two-tiered GRM has been established at the ULBs. Two grievances have been logged. (details in E&S section)

7. Results Monitoring

Due to implementation delays, no progress has been made on any of the indicators to be measured. With the three-year lag in implementation, it is projected that achievement of project objective indicators is not expected until the completion of subprojects towards the first semester of 2024.

Project Objective Indicators #1

1.1: Households with connection and meter.

Year	Target	Actual	Comments, if any
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Dec. 31, 2019	100	0	
Dec. 31, 2020	300	0	
Dec. 31, 2021	500	0	
Dec. 31, 2022	700	N/A	
Dec. 31, 2023	850	N/A	

Project Objective Indicators #2

1.2: Hours of water supplied per day.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	8	4	
Dec. 31, 2020	12	4	
Dec. 31, 2021	16	4	
Dec. 31, 2022	20	N/A	
Dec. 31, 2023	24	N/A	

Project Objective Indicators #3

1.3: Quantity of water supplied per day.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	60	50	
Dec. 31, 2020	80	50	
Dec. 31, 2021	100	50	
Dec. 31, 2022	120	N/A	
Dec. 31, 2023	135	N/A	

Project Objective Indicators #4

1.4: Quality of water supply according to CPHEEO standard.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	0%	0%	
Dec. 31, 2020	0%	0%	
Dec. 31, 2021	25%	0%	
Dec. 31, 2022	50%	N/A	
Dec. 31, 2023	100%	N/A	

Project Objective Indicators #5

2.1: No of Pilot ULBs with drainage systems completed.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	0	0	

Dec. 31, 2020	0	0	
Dec. 31, 2021	4	0	
Dec. 31, 2022	5	N/A	
Dec. 31, 2023	5	N/A	

Project Objective Indicators #6

2.2: Share of HHs in Pilot ULBs covered by rehabilitated drainage system and WWTP.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	0%	0%	
Dec. 31, 2020	0%	0%	
Dec. 31, 2021	80%	0%	
Dec. 31, 2022	100%	N/A	
Dec. 31, 2023	100%	N/A	

Project Objective Indicators #7

2.3: Amount of treated waste water divided by water supply/use.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	0%	0%	
Dec. 31, 2020	0%	0%	
Dec. 31, 2021	50%	0%	
Dec. 31, 2022	70%	N/A	
Dec. 31, 2023	80%	N/A	

Project Objective Indicators #8

2.4: Outflow concentration (TP) according to CPHEEO standard.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	0%	0%	
Dec. 31, 2020	0%	0%	
Dec. 31, 2021	80%	0%	
Dec. 31, 2022	100%	N/A	
Dec. 31, 2023	100%	N/A	

Project Objective Indicators #9

3.1: Number of ULBs with computerized billing and cost accounting systems in operation.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	0	0	
Dec. 31, 2020	10	0	

Dec. 31, 2021	50	0	
Dec. 31, 2022	50	N/A	
Dec. 31, 2023	50	N/A	

Project Objective Indicators #10

3.2: Increase in revenues for the ULBs and cost recovery to sustain the O&M costs.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	10%	0%	
Dec. 31, 2020	20%	0%	
Dec. 31, 2021	30%	0%	
Dec. 31, 2022	50%	N/A	
Dec. 31, 2023	80%	N/A	

Project Objective Indicators #11

3.3: Implementation of a water supply and sanitation complaints system including feed-back.

Year	Target	Actual	Comments, if any
Dec. 31, 2019	10%	0%	
Dec. 31, 2020	20%	0%	
Dec. 31, 2021	30%	0%	
Dec. 31, 2022	50%	N/A	
Dec. 31, 2023	80%	N/A	

Intermediate Result Indicators #1

No Intermediate Result Indicators as per Annex 1 of the PD.

Year	Target	Actual	Comments, if any
Dec. 31, 2023	N/A	N/A	

Remarks:

Awarded contracts were delayed against the original work adversely affecting physical progress. Reasons are elaborated in the Key Issues section below.