

## 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	Lead 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:	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		
Completed Site Visits by AIIB:	<p>Aug, 2019 Supervision mission: supervised by PTL and Infrastructure Sector Economist Zacharias Ziegelhöfer, Jurminla, Procurement Specialist, and Mohan Dharmapuram, Water Supply &amp; Sanitation Engineering Consultant.</p> <p>Nov, 2019 Supervision mission: supervised by PTL and Infrastructure Sector Economist Zacharias Ziegelhöfer, Jurminla, Procurement Specialist, Somnath Basu, Principal Social Development Specialist, and Jan Hoybye, Senior Water Supply &amp; Sanitation Engineering Consultant.</p> <p>Jun, 2022 Supervision mission: supervised online by PTL Wanli Fang, joined on-site by consultants Raghuvir Prabhuchimulkar and Mohan Dharmapuram</p> <p>Oct, 2022 Supervision mission: supervised online by PTL Ronald Muana, joined on-site by consultants Mohan Dharmapuram and Raghuvir Prabhuchimulkar and joined online by Yogesh Mala, Siva Jyosyula, Asma Bachikh, and consultant BKD Raja</p> <p>Dec, 2022 ES and Procurement mission: supervised online by PTL Ronald Muana, joined on-site by Social Safeguards Specialist Siva Jyosyula, and consultant BKD Raja and Kumaraswamy Sankaravadivelu, joined online by Environmental Specialist, Gerry Parco and Procurement Specialist, Jurminla.</p>		
Planned Site Visits by AIIB:	Apr, 2023 Proposed on-site supervision mission		
Current Red Flags Assigned:	2		
Current Monitoring Regime:	Enhanced Monitoring- Level I		

Previous Red Flags Assigned:	2
Previous Red Flags Assigned Date:	2022/11

## 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 (%) <sup>1</sup> :	11.17

## 5. Project Implementation Update

**Progress:** Procurement of all twenty (20) civil works contracts) was completed as of Q3 2021. Fifteen (15) contracts with expired original ending dates have been extended based on updated construction schemes endorsed by the PIU. Physical progress stands at around 10.64% (vs 9% in the previous quarter), and total disbursements at 11.2%. 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 work stoppage due to COVID from 2020 to 2021. In 2022, delays were experienced due to funds flow issues of the Government of Andhra Pradesh. GoAP has not paid contractor invoices since Q3 2022. Ninety percent of the Project remains to be physically built to achieve project objectives. GoAP through Government Order No.120 of the Finance Department (dated June 13, 2022), 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 160 days (as of 16-Feb-23). The non-payment of bills is continuously

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

negatively 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 updated work plans of the subprojects have been assessed against the remaining time. Analysis indicates that most of the sub-projects will need additional time to finish and achieve project objectives. Physical completion within the project implementation period will be very difficult because of the ongoing funds-flow issue. Cognizant of this, the PIU expressed intent for an extension of 24 months to complete the works. The PIU would need to secure approval from AP State Government and DEA. **Stakeholder Engagement:**The AIIB team continues to coordinate with DEA and AP State Finance Department regarding the funds' flow issues raised with them while working with the PIU in parallel to address project implementation. **Looking ahead:**The AIIB team continues to hold regular monthly review meetings with the PIU to follow up closely on the status of project management issues. However, physical progress is ultimately dependent on the payment of pending bills. The AIIB 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. The next supervision mission is planned for April 2023.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Component 1: Investment in Water Supply Infrastructure for 50 ULBs (Total costs: USD534 million)	Nine civil works contracts made substantial progress in the past quarter: <ul style="list-style-type: none"> <li>Ananthapuramu Source (7.9%),</li> <li>Nellore Source (32.7%),</li> <li>Kurnool Distribution (3.8%)</li> <li>Chittoor Distribution (16.1%),</li> <li>Nellore Distribution (33.2%),</li> <li>Visakhapatnam Distribution (9.26%)</li> <li>Guntur Distribution (19.56%)</li> <li>West Godavari Distribution (7.00%)</li> <li>East Godavari Distribution (14.25%)</li> </ul>	ESMPF, RPF and TPPF are approved by the AIIB and disclosed. Site-specific instruments are prepared as necessary	Procurement completed.
Component 2: Investment in Sanitation and Drainage in five pilot ULBs (Total costs: USD14 million)	None. Work is not yet fully mobilized due to the funds flow issue and non-payment of contractor.	ESMPF, RPF and TPPF are approved by the AIIB and disclosed. Site-specific instruments are prepared as necessary	Procurement completed.
Component 3: Technical	Component 3 is a non-physical component	N/A	Procurement mostly completed, with few small

Assistance, Institutional Development & Municipal Capacity Enhancement and Implementation Support (Total costs: USD21 million)	that funds ongoing/continuous project management consultancy, institutional support consultancy, E&S consultancy, and other support activities.		procurement items remaining.
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**Financial Management:**

The project has been submitting IUFs periodically with some delays. The IUF for quarter ending December 31, 2022, has been received with some delay and no issues noted. The IUF noted a total advance balance of USD 19.92 million. The advance proceeds could not be released due to non-availability of counterpart funds. The next IUF for quarter ending March 31, 2023 is due on May 15, 2023.

The project audit of FY22 was submitted on Dec 31, 2022 and the external auditor reported unqualified audit opinion. 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.

**6. Status of the Grievance Redress Mechanism (GRM)**

Two-tiered GRM has been established at the ULBs.

The latest ES mission (Dec 2022) observed GRM activities are not regular. The PIU was advised to reengage GRCs and report progress.

**7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)**

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.

The PIU has been tasked with assessing the PDO metrics per contract in view of results evaluation by loan closing but also in view of possible project restructuring.

**Remarks:**

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

Project Objective Indicators	Indicator level	Unit of Measure	Cumulative Target Values															Frequency	Responsibility	Comments		
			Baseline		2018		2019		2020		2021		2022		2023		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year				Target	Actual
Households with connection and meter	Project	# of households (in thousands)	2018	0	0		100		300		500		700		850				Quarterly	PMU, ULBs	see summary note	
Hours of water supplied per day	Project	Hours per day	2018	4	4		8		12		16		20		24				Quarterly	PMU, ULBs	see summary note	
Quantity of water supplied per day	Project	Liters per capita per day (lpcd)	2018	50	50		60		80		100		120		135				Quarterly	PMU, ULBs	see summary note	
Quality of water supply according to CPHEEO standard.	Project	% of ULBs	2018	0%	0%		0%		0%		25%		50%		100%				Quarterly	PMU, ULBs	see summary note	
No of Pilot ULBs with drainage systems completed.	Project	Number	2018	0	0		0		0		4		5		5				Quarterly	PMU, ULBs	see summary note	
Share of HHs in Pilot ULBs covered by rehabilitated drainage system and WWTP	Project	%	2018	0%	0%		0%		0%		80%		100%		100%				Quarterly	PMU, ULBs	see summary note	
Amount of treated wastewater divided by water supply/use	Project	%	2018	0	0		0%		0%		50%		70%		80%				Quarterly	PMU, ULBs	see summary note	
Outflow concentration (TP) according to CPHEEO standard.	Project	%	2018	0	0		0%		0%		80%		100%		100%				Quarterly	PMU, ULBs	see summary note	
Number of ULBs with computerized billing and cost accounting systems in operation	Project	Number	2018	0	0		0		10		50		50		50				Quarterly	PMU, ULBs	see summary note	
Increase in revenues for the ULBs and cost recovery to sustain the O&M costs	Project	% out of 50 ULBs	2018	0%	0%		10%		20%		30%		50%		80%				Quarterly	PMU, ULBs	see summary note	
Implementation of a water supply and sanitation complaints system	Project	% out of 50 ULBs	2018	0%	0%		10%		20%		30%		50%		80%				Quarterly	PMU, ULBs	see summary note	

