Real

GDP growth moderated from an average of 7.4 percent during FY15/16-FY18/19 to an estimated 4.0 percent in FY19/2L 1 The growth deceleration was mostly due to (i) shocks to the financial sector, and (ii) decline in private consumption growth 2 Against this backdrop of pre-existing weaknesses, the outbreak of COVID-19 had a significant impact, with real GDP contracting by 7.3 percent in FY20/213 3 On the fiscal side, the general government deficit widened significantly in FY20/21, owing to higher spending and low revenues 4 Given the significant uncertainty pertaining to epidemiological developments, real GDP growth for FY21/22 is likely to be in the range of 7.5 to 12.5 percent. 5

However, recent projections of GDP

per capita growth, taking into account the impact of the pandemic, suggest that poverty rates in 2020 have likely reverted to estimated levels in 2016 9

In the State of Himachal Pradesh, which the proposed project would support, economic growth has slowed in line with national trends.

Safeguarding existing water and sanitation services, and rebuilding better to improve their quality, reliability and coverage, is critical to contain the pandemic and to recover from it.
In line with national trends, the state of Himachal Pradesh has experienced rapid economic growth, a decline in poverty and fast urbanization.
The WSS sector challenges continue to be severe, including weak institutions; a focus on infrastructure creation rather than service delivery; intermittent supply against rapidly increasing demand in the tourist towns; flat tariffs and gaps in metering; inadequate monitoring of water quality and systems for grievance redressal; growing stress on dependable, perennial and sustainable water supply sources; inadequate upgrading and augmentation of existing WSS schemes; and low cost recovery and heavy reliance on subsidies from GoHP, including
high energy costs.

Prior to

the onset of COVID-19, the company had completed three cycles of metered volumetric billing, nearly tripling its revenues.

GoHP has put in place the key pillars of WSS

utility reforms including integration of WSS functions under a single company governed by a Board of Directors (BoD) with full autonomy and enabling policies for performance orientation, professional organisation structure, engaging with private sector, and funding commitment for a medium term investment plan.

Although confidence of citizens

and elected representatives has improved, there is need for improving services beyond what was achieved in managing the 2018 water crisis.

SJPNL is now focusing on citywide improvement in WSS service

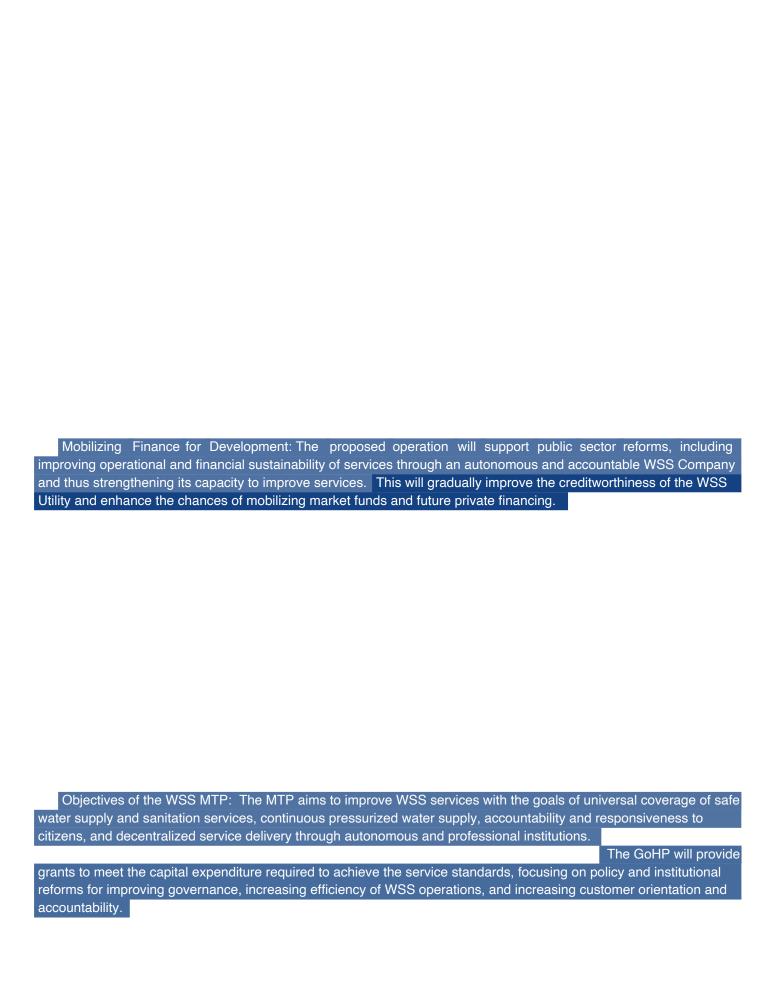
including 24/7 supply, increased coverage in sewerage facilities from 60% to 100%, and treatment of 100% of wastewater, reducing GHGs, including methane capture and sludge management. Given the high bulk water costs in Shimla, the SJPNL needs to reduce water loss and energy consumption to control costs, improve revenue and maintain subsidies within the levels committed by GoHP.

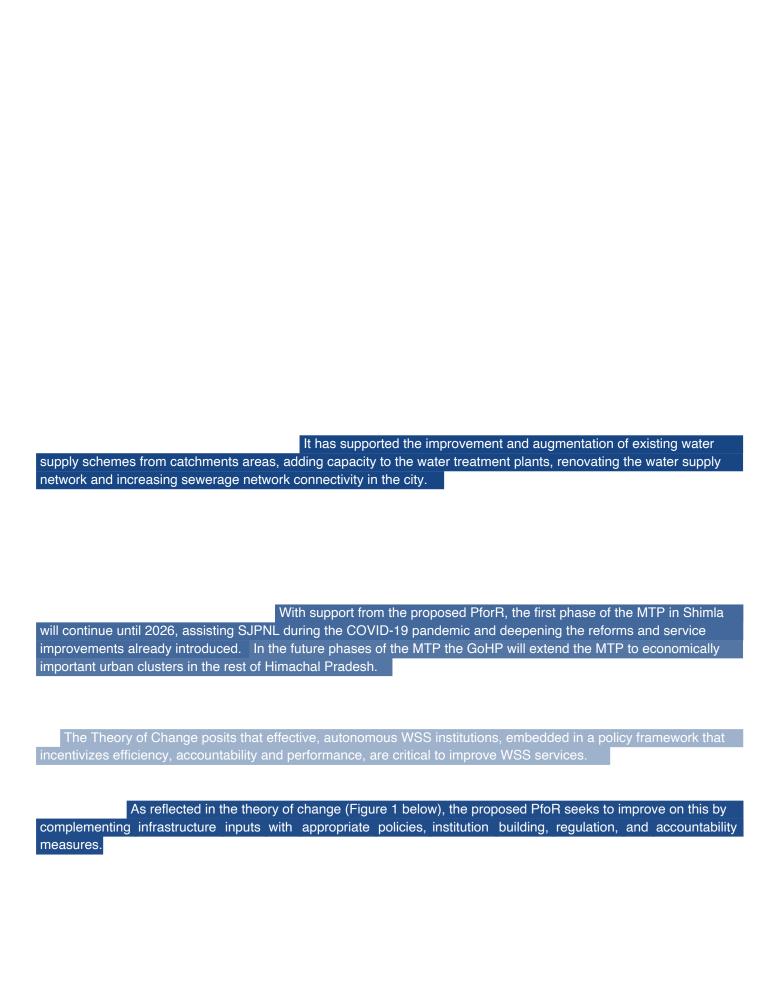
It needs to build on these initiatives for improving

WSS services and strengthening efficiency, sustainability and customer accountability.

These are: a)

developing SJPNL as a well governed professional WSS utility with systematic business planning, corporate governance and performance focus, b) increasing operational efficiency, including energy efficiency, NRW reduction with associated GHG emissions reductions, smart metering, collection efficiency, tariff revision, and customer accountability, and c) improving services to deliver citywide 24/7 water supply and 100% sewerage coverage and treatment.









Results Area 1: Improved governance, managerial and financial autonomy of SJPNL: The SJPNL will solidify best practice business planning and corporate governance, introduce performance incentives for staff and contractors, and further improve its organizational structure, inclusiveness, managerial and financial autonomy. Specifically:

(a) Strategic Business Planning and Corporate Governance Practices

(i Under the PforR, the SJPNL will develop a Strategic Business Plan, including a Performance Improvement Plan, to help meet operational, commercial, and financial WSS performance targets.

(b) Introducing Performance Incentives: SJPNL will introduce performance incentives for both staff and contractors:

(i GoHP and SMC has authorised SJPNL to develop a performance incentive policy for its employees

enter into performance-based contracts with private operators which will include targets for service delivery and operational efficiency (e.g.

Results Area 2: Improved efficiency, financial sustainability are one of the most expensive in India, since bulk water is pur	
initiatives to achieve the agreed results: (a Energy efficiency improvement and NRW reduction: The improve by 20 percent, that is, from 13 KWH of energy of balancing reservoir to 10.4 KWH per KL, through a pack pumping and transmission under the Government programment.	consumption per kiloliter (KL) of water delivered at the tage of electrical and hydraulic measures in bulk water

		ncentives for improving operational
efficiency will increase O&M cost re intra-city O&M cost recovery from 1		ompared to 21% at present and increase
Intra-city Oxivi cost recovery from 1	20% at present to 175% by the en	d of the Flogram.
	The GoHP has issued performance	e standards for WSS, based on which SJPI
		PNI on a) customer service, b) financial
· · · · · · · · · · · · · · · · · · ·	ganizational processes and moder	nization, and d) implementation of the
investment plan.		
O IDNII - 'II ' I (I I I - I - I - I	1,1100	Under the proposed Program, the
SJPNL will provide safely managed and in coverage with sewerage network.	mproved WSS services targeting 2	4/7 supply for all residents and 100%
coverage with sewerage network.		
		SJPNL will also expand the
sewerage network.		301 NE WIII also expand the

Under the PforR Program, SJPNI will organize technical workshops and information dissemination campaigns for women entrepreneurs, women-owned businesses to encourage bids from localized women business owners for the water supply and sewer network to be added in uncovered areas.

(b) Digitalization of WSS management systems: To improve service quality and asset management, the PforR will support SJPNL to digitize its WSS management systems.

In addition, SJPNL will build critical digital assets using geospatial data like a Geographic Information System (GIS)-linked customer database, asset database, billing and collection database, IT applications for accounting, costing and budgeting and customer relations

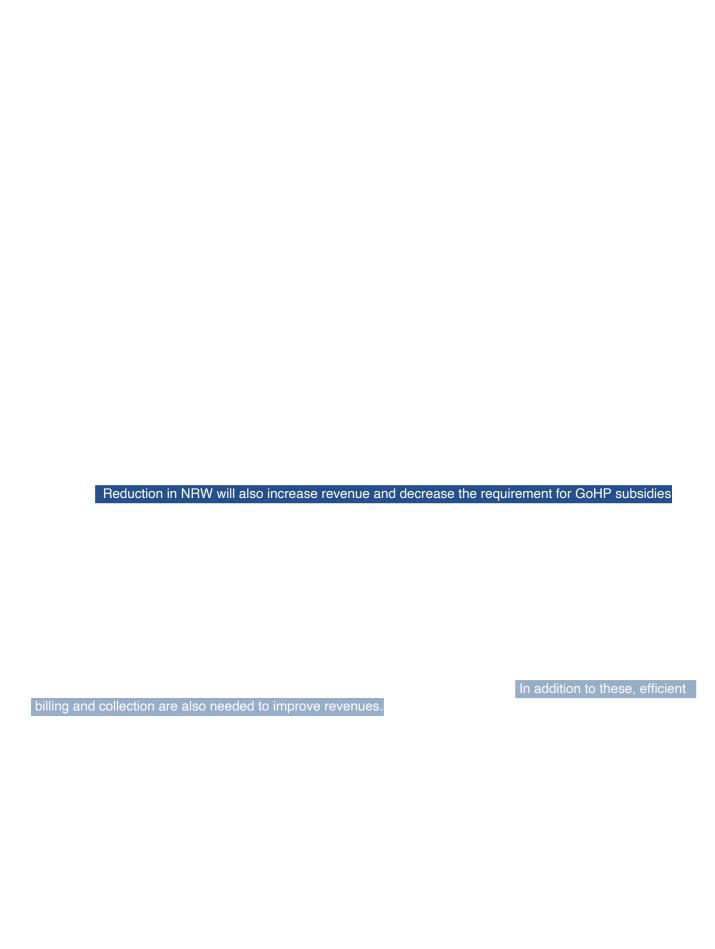
Table 2: Program Fir	nancing Summary	
Source	Amount (USD milion)	% of Total
International Bank for Reconstruction and Development (IBRD)	160	64
Government of Himachal Pradesh (GoHP)	90	36 100
Total Program Financing	250	100

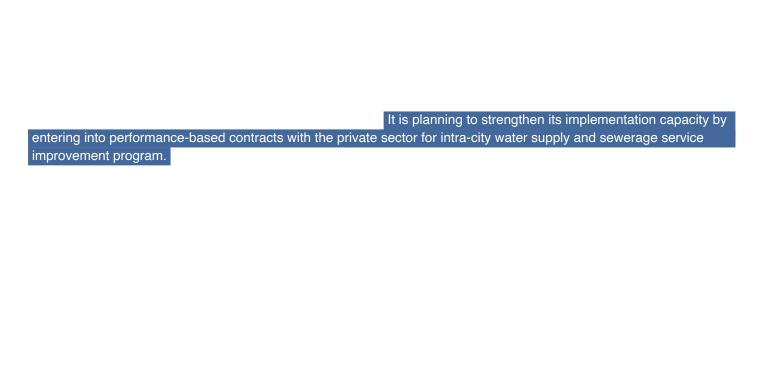
D . Program Development Objective(s) (PDO) and PDO Level Results Indicators

33. The PDO is to strengthen the operational and financial performance of the SJPNL Utility and improve access to water supply and sewerage services in Shimla City.

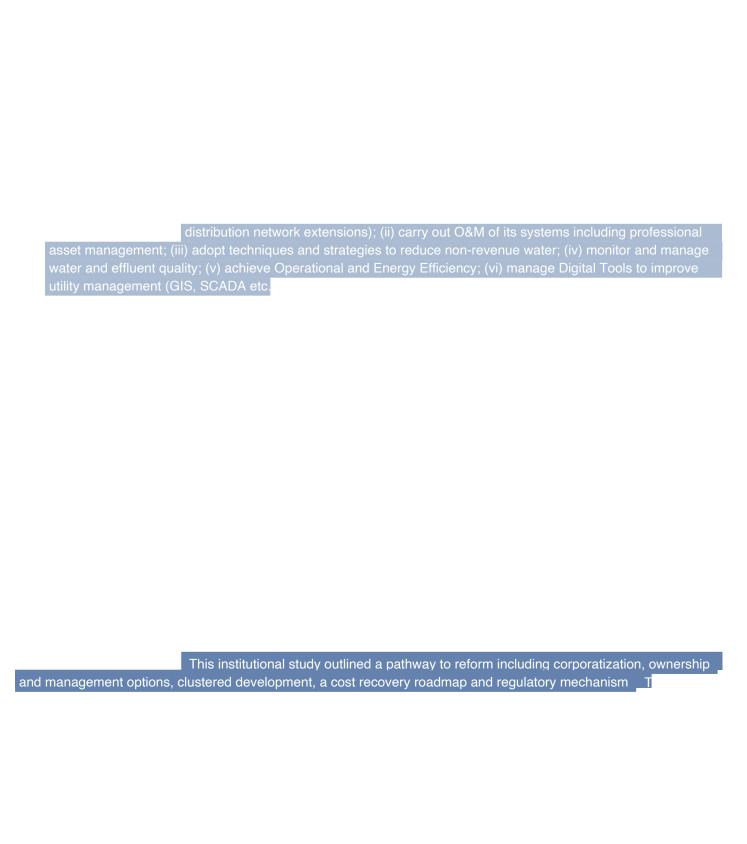
- (b) SJPNL achieves operational efficiency and financial sustainability: (i) SJPNL improves energy efficiency by 20%; (SJPNL reduces Non-Revenue-Water by 15%; (iii) O&M Cost Recovery in water distribution is at least 175%; and
- (c) Number of people benefitting from improved WSS services (i) Number of people having access to continuous water supply; (ii) Number of additional people provided with sewerage services.







Of the total PforR amount of US\$ 160 million, 12% is allocated to Result Area 1 (DLI # 1) on improve governance, managerial and financial autonomy of SJPNL, 58% to Result Area 2 (DLIs #2 to #6) on improvements in operational efficiency, financial sustainability, and customer accountability, and 30% to Result Area 3 (DLI#7) on improved water supply and sewerage services.



Financial Analysis: The Program supports SJPNL in strengthening its financial autonomy with a improving O&M cost recovery through tariffs and committed subsidies for bulk water.	oadmap for
The financial analysis shows that while the WSS O&M costs projethe absence of efficiency measures are double the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivizes several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity several of the costs in FY 20, the Program incentivity sever	
efficiency improvements, including reduction of NRW by 15% and energy efficiency improvements by moderating the water production requirements and the cost of production.	

	Economi	c Analysis: Th	ne Progra	m is	expected to provid	de	significant	econo	omic	benefi	ts through	policy	and
inst	itutional	development	reforms	and	WSS service delive	ery	improveme	nts.	Base	ed on	a detailed	benefit-	-cost
ana	lysis, the	Economic Rat	e of Retu	rn (EF	RR) for the Program	n is (estimated a	t 25.3°	%.		_	_	

(ii) Benefits due to incremental water supply: With the Program interventions, the availability of treated and potable water in Shimla is expected to increase from 40 MLD currently to 60 MLD by 2030 and 107 MLD by 2050.

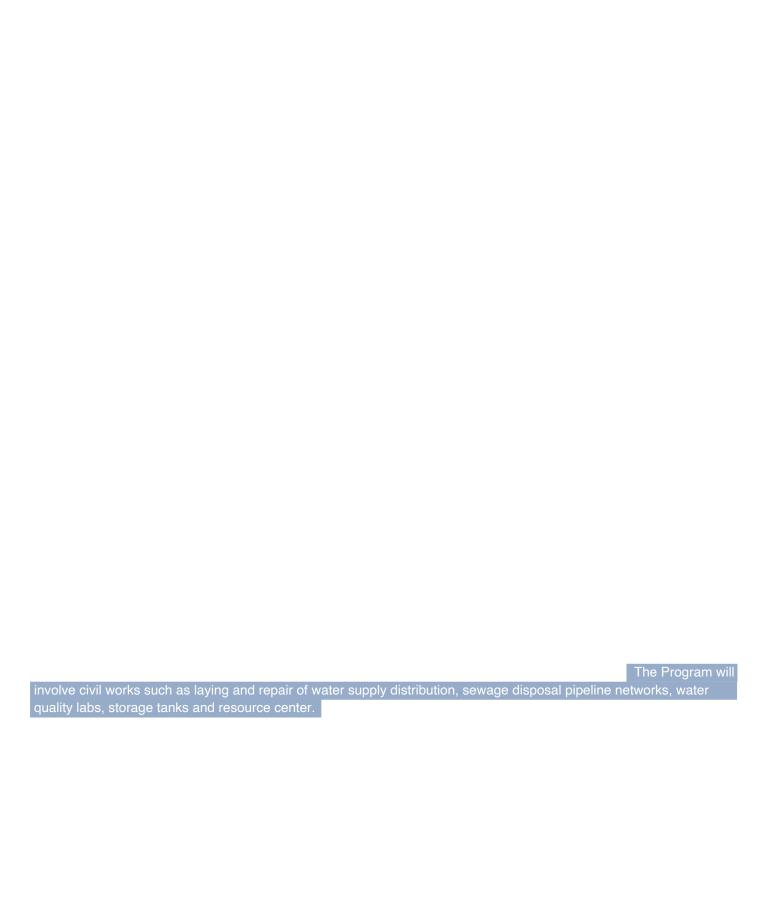
The hotels and commercial connections serve the annual tourist population of 3.2 million in FY20, which is estimated to increase to 5 million in FY50.

The sensitivity analysis indicates that the Program can absorb 20% increase in total costs (capex + opex) and 20% in overall benefits and yet result in a positive ERR of 13°

been included, such as benefits from strengthening the SJPNL institution, policy and M&E systems, customer accounts and grievance redressal mechanism, e

The FSA is

frewarding determinion with the payer report to the deficiency, effectiveness, transparency, and accountability will be praintained.





SJPNL is hiring a

finance manager and improving financial management systems.

This allowed economic activity to resume from the second quarter (July to September 2020)

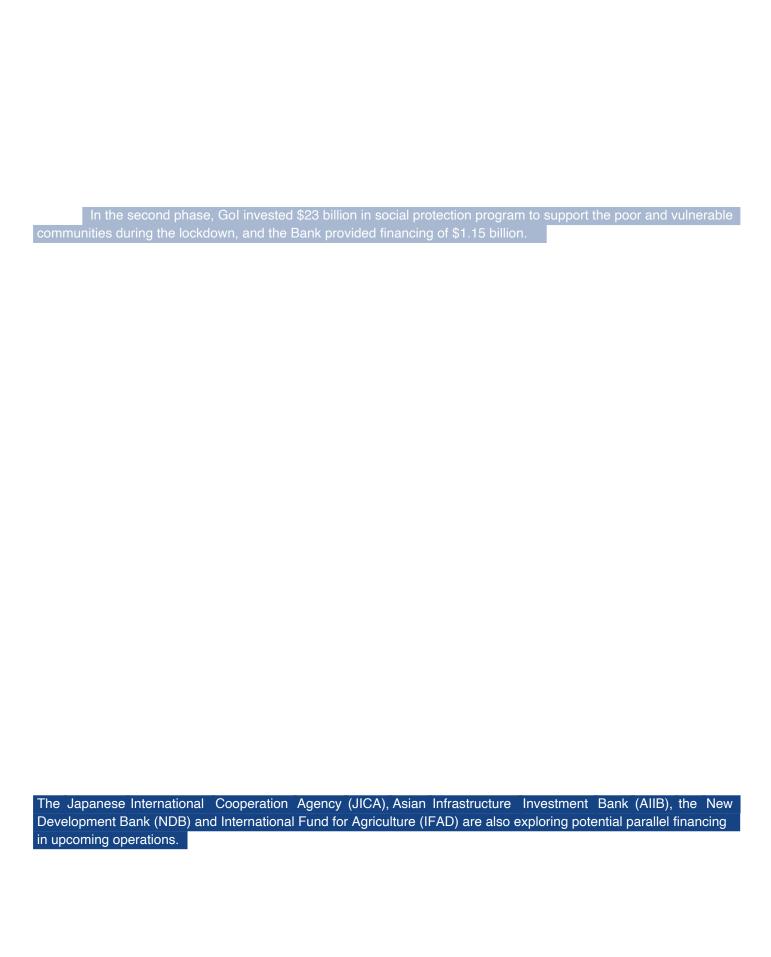
onwards.

Growth is expected to rebound in

FY21/22 (within a range of 7.5-12.5 percent), but there is considerable uncertainty around the trajectory of future

waves of COVID-19. The sharp economic slowdown

has affected revenues disproportionately with general government revenues declining by over 10 percent in FY20/21.





The survey

would focus on (a) access
to water supply and
sewerage services, (b)
water quality and quantity,
(c) reliability and
affordability, (d) customer
service related to WSS
services, and (e) willingness
to use esservices

	The construction for the second second state of the construction of the second	
roadmap for sector reforms and notified a WSS	In order to implement its vision and wat MTP for improvement of WSS servi	
roadmap for sector reforms and notified a WSS Under the MTP, the SJPNL will increase energy by 2025.	MTP for improvement of WSS servi	Energy efficient operations
Under the MTP, the SJPNL will increase energy	MTP for improvement of WSS servi	Energy efficient operations
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Under the MTP, the SJPNL will increase energy	MTP for improvement of WSS servi	Energy efficient operations
Under the MTP, the SJPNL will increase energy	MTP for improvement of WSS servi	Energy efficient operations

It supports financing of the bulk water supply an distribution system for Shimla city including NRW reduction program, SCADA and automation, sewerage system, O&M program, GRM, and capacity building activities

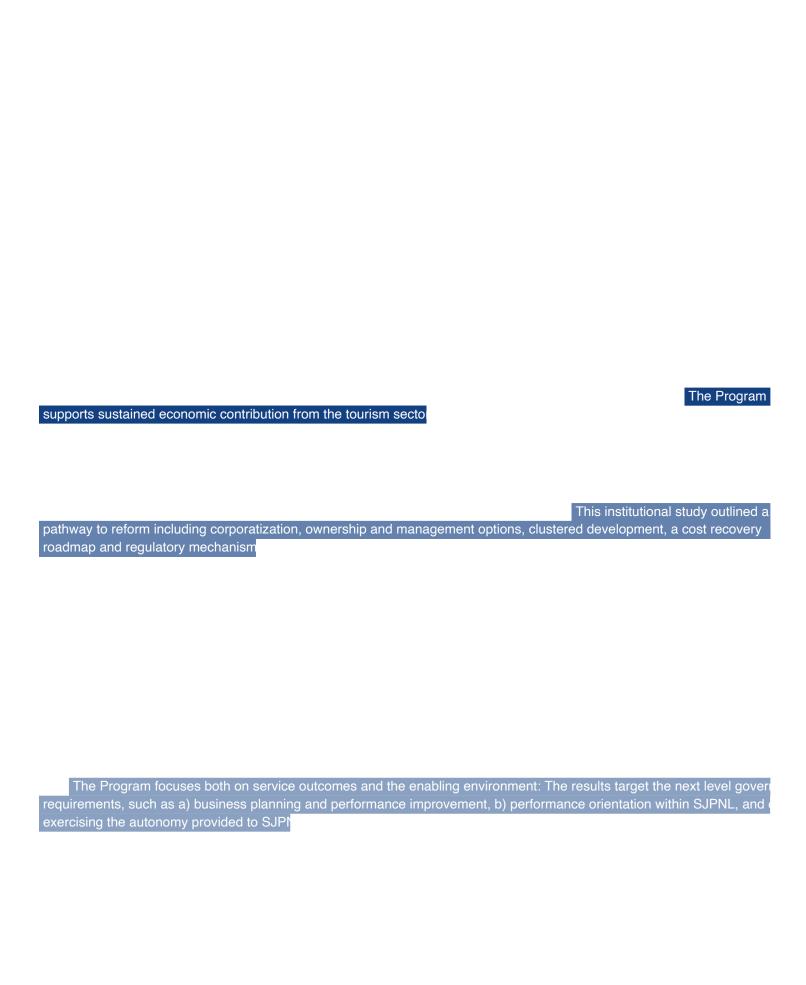
The PforR operation (US\$ 250 million),

comprising US\$160 million of IBRD financing and US\$90 million of GoHP financing, aims at improving the WSS distribution system for moving to 24/7 supply and 100% sewerage connections, along with improvements in operating efficiency, financ sustainability, and customer accountability in Shimla control Investments are supported by commitments towards sustainable O8 of WSS services in Shimla city recognizing the high cost of bulk w

Expenditure financed by PforR: The expenditure program for the PforR operation will support category B (low risk investments) for water quality monitoring and improving distribution system in Shimla city through upgrading and expanding existing distribution system, including small pumping systems, pipe networks, storage tanks, SCADA and automation, digitized and customer connections

The PforR operation supports service delivery improvements by improving the water supply distribution s	
expanding sewerage networks in Shimla city This includes upgrading and expanding the existing distribution small pumping systems, pipe networks, storage tanks, SCADA and automation, digitization, and customer contents.	
(vi) Sewerage Services: The Program wi provide sewerage connectivity to unserved areas through expansion networks and increasing coverage from 60% to 100% through household and commercial connectivity to unserved areas through expansion	
expand the existing network to Panthaghati, Dhalli 2 and Mashobra unserved areas of Shimla City; and (b	extend the
network in already served areas to the unconnected residents. The expansion and extension will help a sewerage coverage in Shimla city.	chieve 100%
Sowerage soverage in ominia city.	

entergone of CIDNII h) large of officiency financial containshills	It will a) Improve governance, managerial and financial
autonomy of SJPNL, b) Improve efficiency, financial sustainability sewerage services in Shimla cit	rand customer accountability, and c) improve water supply
	The
SJPNL will develop its Strategic Business Plan including corpora indicators on quantity and quality of water, billing and collection,	cost recovery, NRW, e
Program will incentivize the strengthening of performance policies	The es, managerial and financial autonomy, efficient operations
financially sustainable services	
SJPNL w with private operators, with incentives linked to achievements of will be strengthened by timely tariff revisions and increase in rev	
(b) Result Area 2: Improved efficiency, financial sustainability	
continuous water cumply and sowers as service	The Program will incentivize city-wide coverage with 24
continuous water supply and sewerage service	

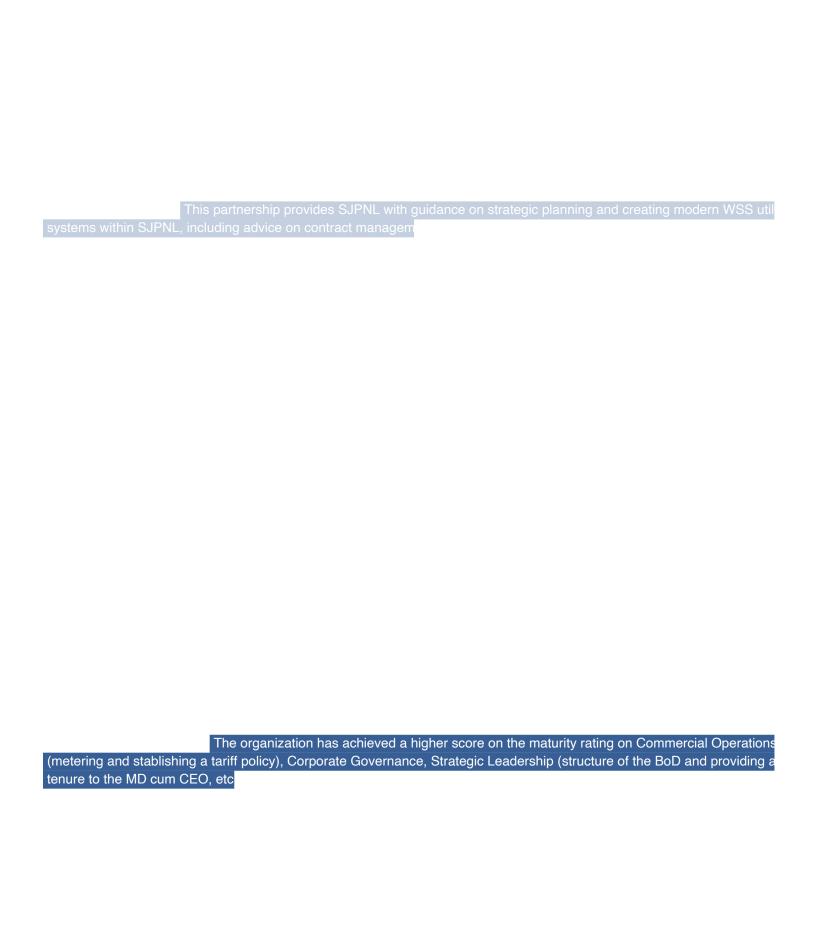


The Program now sets quantitative targets for efficient

which are in line with the GoHP policies and performance standa

SJPNL also has the freedom to enter into performance-based contracts with priva

sector to achieve these results, which are already in procurement sta



	The Program suppo	orts SJPNL	in strengthening	its financial	autonomy v	with an	efficient tariff structure	and c	ommitted
subs	sidies for bulk water.								

The Program

improves bulk water availability by 33%, increase in water supply from 2 hours daily to 24/7 supply city-wide, increase in sewerage coverage by 40% and wastewater treatment volume by 2.5 times.

Revenue collection improves as a result of the new tariff and subsidy policy

The operational improvements and the new tariff and subsidy policy stabilize the finances of SJPNL.

without efficiency improvements and tariff policy, the WSS O&M cost recovery falls from 21% in FY20 to 14.4% in FY26, mainly due to increasing costs of bulk water supply and wastewate treatment.

Under this scenario, the WSS O&M cost

recovery improves rapidly to 40.2% by FY26 mainly due to NRW reduction, energy efficiency improvements and annual tariff revision.

The Program has a strong economic rationale with an ERR for the Program estimated to be 25.3% due to significant I from improvements in WSS service

The quantifiable direct and indirect benefits due to the proposed Program interventions are: (i) Benefits due to reduction in operational costs - reduction in NRW and improvements in energy efficience leading to savings in O&M cost; (ii) Benefits due to incremental water supply - availability of water supply is expected to increme 40 MLD in FY 2020 to 107 MLD in 2050; (iii) Benefits due to savings in coping cost - reduction in usage of water tanked especially benefitting the non-domestic customers, including hotels, and reduction in the domestic cost for water storage tall water purification systems, etc); (iv) Health benefits from improved water supply - reduction in several diseases - diarrhea, indenduce, malaria associated with poor quality of water, valued as the opportunity cost of person days lost due to Disability A Life Years - DALYs, (WHO estimates 20

total costs (capex + opex) and 20% decrease in		hat the Program can absorb 20% increase in
benefits that are more difficult to quantify have		The ERR is a conservative estimate sind
and M&E systems, customer accountability and		
The GSDP of the State at constant crore in 2019-20 (RE) with an average annual of		n INR 72719.83 crore in 2011-12 to INR 12
ororo in 2010 20 (riz) min an avorago armaar s	grown rate or r per de	
2019-20 (RE) with an annual average growth re		cure of the state has doubled from 2015-16 of Revenue expe

However there has been an increase in capital expenditure over the years, with an average increase of 16% as against increase in revenue expenditure during 2015-2020, as seen bel

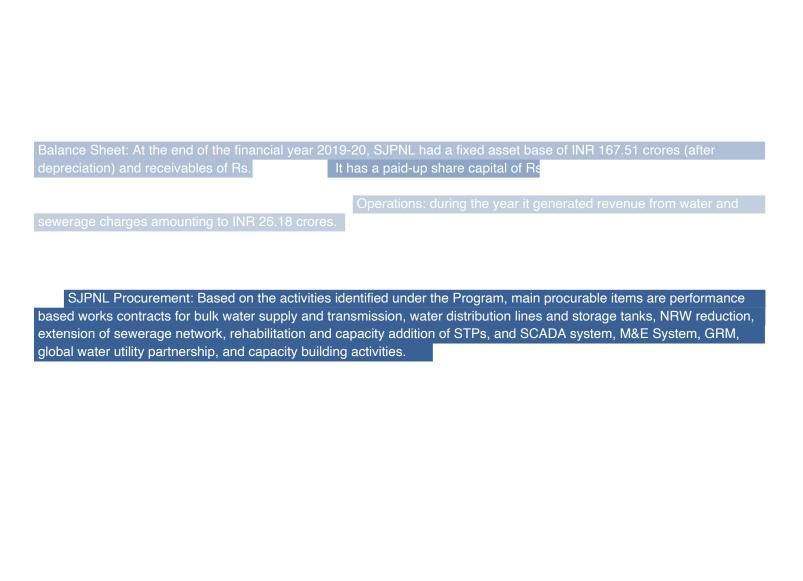
Year	Revenue Expenditure	Capital Expenditure	Total Expenditure	Percentage change		
2015-16	882.1	318.0	1200	8		
2016-17	1137.4	392.6	1530	27		
2017-18	982.9	461.6	1444	-6		
2018-19	1141.4	417.7	1559	8		
2019-20 (RE)	1139.5	586.4	1726	11		
Source: State Finances: A Study of Budgets, Reserve Bank of India (various y						

42.

The SJPNL has demonstrated significant achievement und

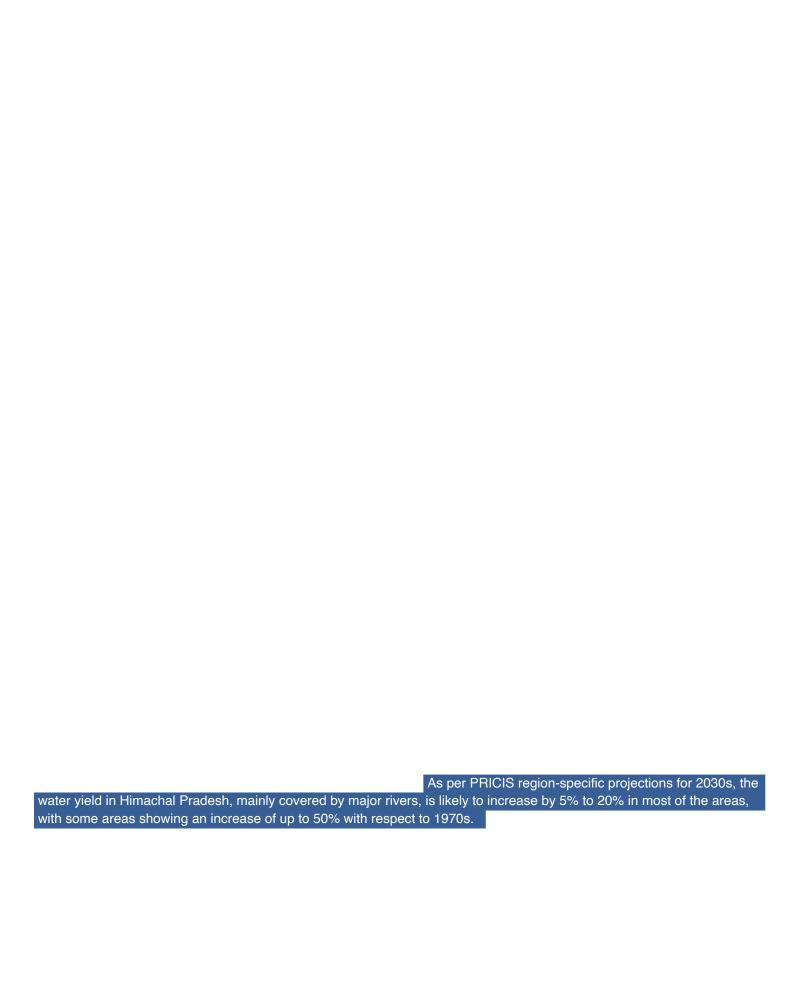
DPL-1, showing that performance-based service delivery can be implemented successfully by ensuring contracts are of good quality, based on market sounding and sector experier

The FSA focused on determining whether relevant SJPNL systems provide reasonable assurant that Program funds will be used for the intended purpose and that principles of economy, efficiency, effectiveness, transparency, and accountability will be maintained.



SJPNL prepares a six-year investment plan on infrastructul $\frac{\epsilon}{2}$ 0

Procurement processes and procedures: SJPNL has put in place a fair and transparent procurement process with the objective of achieving best value for money. The assessment reviewed procurement performance of SJPNL based on analysis of sample review of 19 contracts with an estimated amount of Rs 340 million [USD 47 million].				
objective of achieving best value for money. The assessment reviewed procurement performance of SJPNL based on analysis of sample				
objective of achieving best value for money. The assessment reviewed procurement performance of SJPNL based on analysis of sample				
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objective of achieving best value for money. The assessment reviewed procurement performance of SJPNL based on analysis of sample				
	Procurement processes a objective of achieving best value	and procedures: SJPN ue for money.	L has put in place a fair and trans	sparent procurement process with the



The annual performance score (DLI#6) will provide a general performance | incentive | covering | core | aspects | of | utility performance including (a) Customer Service (30%); (b) Efficiency (20%); (c) Organizational Systems (20%); and (d) Completion of Capital Investment Plan (30%).