

## India Country Dialogue

26 September 2006

## Rural Water Supply

- **Government focusing on reform-linked sector development through Bharat Nirman & Swajjal Dhara program**
  - Water quality is an issue in rural India (Arsenic, flouride)
  - Focus of program on irrigation (AIBP) and rural water supply
  - Reforms based program including O&M cost recovery
- **Funds requirement**
  - Rs 8916 crores (US\$ 1.98 bn) required for water quality in 2006-2009 with central government share at Rs 4000 cr (US\$ 888m)
  - \$3B annual requirement for irrigation under bn program, with central share \$1bn
  - \$8B funding gap between 2006-2009 for irrigation and RWS
  - Therefore a funding gap at the state level
  - WB funding available

## Rural Water Supply (contd)

- **Role therefore for ADB**
  - Meet the funding gap
  - Capacity development at local institutional levels (including through assistance in implementing Water Users Association Act)
  - MFF modality to be used
  - Assistance in developing sustainable institutional structures at a local level
- **Constraints in ADB role**
  - Need for concessional rates within an OCR framework for ADB competitiveness
  - Slow Project preparation at the local government level

## Irrigation

- **Irrigation Sector Potential:**
  - **Existing Water Bodies Rehabilitation**
    - 20,000 potential projects at MOWR
    - WB partly funding using blended product
    - ADB role: In funding balance IF comparable product available
  - **Utilisation of Under-utilised Irrigation Potential**
    - 15 m hectares potential identified
    - ADB Role : Study to identify solutions / package a project with investment, cost recovery, institutional, and regulatory reforms for 1 state
  - **Developing the Pipeline of Irrigation Projects**
    - GOI to explore developing pipeline with states for ADB funding

## Urban Water Supply

**Government focusing on sector development through JNNURM and other central programs**

- **JNNURM**
  - Focusing on 63 cities in India
  - Reforms including cost recovery over a 7 year program (2005-2012)
  - Funds requirement of US\$ 26 bn (WSS, SWM, D)
    - \$9 bn USD will be contributed by Central and state Governments
    - Gap in funding is mostly at ULB level with possible state level gaps also - around US\$ 17 bn
- **Potential Role for ADB**
  - ULB with population beyond 4 M, 7 cities only, gap is about 50% - likely to raise own funds
  - No real role at the central government counterpart level
  - Beyond JNNURM, knock on funds requirements at other non JNNURM cities (5098 cities and towns)
  - Primary potential for ADB scaling up is the Gap at the cities with populations 1m – 4 m: 30% potential funding gap

## Urban Water Supply (contd.)

- **ADB & the Funding Gap**
  - Explore wholesale funding instrument at the national level as a pooled credit facility
  - Explore directly with states and municipalities on a project by project basis especially given back to back arrangements
  - Explore co-financing and on-lending financing arrangements with other national financial institutions (IDFC, ILFS, IIFC, banks)
- **Other Opportunities**
  - Pilot NRW reduction schemes in selected cities & towns (GOI grant funds plus ADB pooled loan funds)
  - Explore a loan-based project preparation facility to speed up project preparation at state and ULB level
  - ADB to do fast-track demonstration projects in 1-2 cities

## Conclusions

- **Potential exists for substantially increasing financing in India**
  - Mainly in the Urban water supply & sanitation sector: 1-4 m cities' funding gaps under JNNURM
  - Increasing demand in non-JNNURM towns
  - Rural water supply and sanitation sectors – funding gaps under Bharat Nirman
  - Potential in irrigation
- **Major Constraints**
  - Limited number of bankable deals thus requiring project by project development
    - Need for additional ADB resources for project development
    - Closer engagements with States from project concept development to implementation
  - Bottlenecks in developing users pay culture for sustainable projects
  - ULB capacities
  - Lack of concessional funds
  - Scope for sub-sovereign lending limited
  - Local currency financing to be introduced