

ASIAN DEVELOPMENT BANK

TAR: IND 36397

TECHNICAL ASSISTANCE

TO

INDIA

FOR

URBAN SECTOR REVIEW AND STRATEGY

August 2003

CURRENCY EQUIVALENTS

(as of 11 August 2003)

Currency Unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.021
\$1.00	=	Rs45.94

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
MOUDPA	–	Ministry of Urban Development and Poverty Reduction
TA	–	technical assistance
TOR	–	terms of reference

NOTE

In this report, "\$" refers to US dollars.

This report was prepared by a team consisting of H. Kim (team leader) and A. Jorgensen.

I. INTRODUCTION

1. Since 1995, the Asian Development Bank (ADB) has approved seven projects in the urban sector in India totaling US\$1.58 billion. Most of the projects were integrated in nature, and several important lessons have emerged during implementation of these integrated urban development projects. Because of substantial start-up delays and slow implementation, it became necessary to look into ADB's urban sector operations in general and initiate major realignments in coverage of urban subsectors as well as arrangements for improved project implementation, if required. For this purpose, advisory technical assistance (TA) for the Urban Sector Review and Strategy was included in the 2003 program to evaluate ADB's past and ongoing operations in the urban sector and reengineer ADB's approach in future interventions to ensure sustainability of urban sector investments.¹ The TA framework is in Appendix 1.

II. ISSUES

2. India is one of the largest borrowers of ADB. During the last decade and a half, ADB has been actively involved in supporting the Government's reform initiatives through loan assistance totaling \$11.5 billion and TA grants totaling \$85 million. The bulk of past assistance was for energy projects (35%), followed by projects in transport and communication (30%) and urban infrastructure (12%). The new Country Strategy and Program for India presents an even more ambitious program for 2003-2006 for a total of \$7.5 billion, or approximately \$1.9 billion per year. Urban sector projects will account for about 13% of the proposed loan pipeline.

3. While ADB's assistance to India began in 1986, the first loan to the urban sector, namely, Karnataka Urban Infrastructure Development Project,² was approved only in 1995. Initially, the Government was reluctant to borrow for the urban sector because of India's lack of access to Asian Development Fund resources, given that urban projects often include components to address basic human needs and direct poverty reduction. In addition, successive 5-year plans of the Government in the past stressed rural development in general and neglected balanced urban development because more than 70% of the population reside in rural villages. However, with the passing of the 74th Constitutional Amendment in 1992, the urban sector gained importance both politically and economically. The potential of the urban sector as the engine of economic growth was also clearly recognized, as the excellent performance of the economy in the 1990s was largely due to the ability of the urban sector to attract investment and increase productivity. In fact, estimates of the contribution of urban areas to gross domestic product are in the order of 55-60%, well above the level of urbanization (28% in 2001).

4. At present seven ADB-assisted urban sector projects are being implemented in India and the total financial commitment of ADB in these projects is close to \$1.3 billion. Of the seven projects, three are loans to national financial institutions for onlending to eligible borrowers in the housing and commercial urban infrastructure sectors. The remaining four are integrated urban development projects for selected state and local governments to improve basic urban infrastructure. The components in the integrated projects are multiple and range from water

¹ The TA first appeared in *ADB Business Opportunities* on 25 March 2003.

² ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to India for Karnataka Urban Infrastructure Development Project*. Manila; ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to India for Rajasthan Urban Infrastructure Development Project*. Manila; ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to India for Karnataka Urban Development and Coastal Environmental Improvement Project*. Manila; and ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to India for Calcutta Environmental Improvement Project*. Manila.

supply and sanitation, urban roads, and slum improvement to providing public toilets, kitchen markets, and fire-fighting equipment. With the exception of the Kolkata Environmental Improvement Project, each project covers several towns, ranging from 6 in Karnataka Urban Infrastructure Development Project and Rajasthan Urban Infrastructure Development Project to 10 in Karnataka Urban Development and Coastal Environmental Management Project. The urban component is also an important part of the Gujarat Earthquake Reconstruction and Rehabilitation Project (GERRP) to rehabilitate water supply and sewerage, roads, housing, and power distribution in 14 earthquake-affected towns.

5. Integrated urban development projects are inherently complex, as they typically include multiple sector investments for more than one urban area, along with policy reform, capacity building, and governance and community participation components. Besides, implementation of urban projects tend to face more challenges due to the weak capacities of urban local bodies, the multidisciplinary and interconnected nature of the works in the urban subsectors, and the reforms that are required to make the projects institutionally and financially sustainable. In addition, for executing agencies (EAs) and participating municipalities that are new to ADB-assisted projects, it takes time and intensive capacity building to make them fully familiar with ADB's technical and procurement requirements. As most urban projects have a component for urban poverty reduction at the community level, EAs and participating municipalities must also learn how to deal with the urban poor through nongovernment organizations and local slum leaders, also a time-consuming process. All these have contributed to delays in project implementation and less than satisfactory performance of the ADB-assisted urban projects in the initial stage.

6. A number of lessons learned were reported through ADB's project review missions. The lessons cover all aspects of a project cycle from the design stage to project implementation.³ The key ones follow. (i) Project design can be made simpler by focusing on large capital investments for basic services such as water supply, sewerage, and roads, and limiting the number of towns participating in the project, while the smaller revenue generating schemes such as marketplaces, sites and services, and commercial complexes can be managed by local bodies out of their own funds through short-term commercial borrowings. (ii) Since the sustainability of the assets created under the project depends on the level of ownership and commitment to reform displayed by the local bodies, extensive interaction with the local bodies is required in the entire process of planning, design, and implementation. (iii) State governments should be required to have a dedicated project management structure in place from the project preparatory technical assistance (TA) stage and complete the advance actions for recruiting consultants before loan effectiveness. (iv) Making ADB's standard bid documents and procedures mandatory will save several months of time taken for their review and approval. (v) The local competitive bidding limit could be raised from the current \$3 million to attract better local contractors and bring in efficiencies of scale of operation (vi) The project management unit must be staffed with competent and experienced personnel, who should be allowed a reasonable tenure of 3-4 years. (vii) An operational manual should be prepared at the preparatory stage itself, defining the role of each entity in the implementing framework and delegating suitable powers, which should be followed strictly to avoid delays in decision making. (viii) An attempt should be made to integrate the poverty reduction components more closely with ongoing government programs and traditional delivery mechanisms at the local level so as to maximize impact and improve sustainability.

³ In addition, the Operations Evaluation Department has prepared seven project performance audit reports, two special evaluation studies, one impact evaluation study, and a technical assistance performance audit report in the urban sector. These reports are available on the ADB web site (www.adb.org/evaluation/reports).

7. As ADB's urban sector strategy will continue to support integrated urban development in selected states, it is important that lessons learned are passed on to ADB's new clients in the sector. ADB's role as a facilitator is therefore important in consolidating the lessons learned, providing opportunities for the concerned states and municipalities to interact and learn from each other, and promoting better practices in project preparation and implementation. ADB can specially help its clients build a supportive network among themselves through which they can learn from each other's mistakes, exchange views and share experiences.

8. In the future, stand-alone interventions may be considered in the areas of (i) solid waste management, (ii) water supply and sanitation, (iii) tourism development, (iv) urban transport, and (v) urban land management and redevelopment. ADB's financial assistance, especially for those outside the focus states, will be provided in exchange for an enabling policy framework to attract investments. At present, about 90% of the investment requirements for the urban infrastructure provision is not covered by budgetary provisions, leaving urban local bodies with the responsibility for mobilizing financial resources from various sources, including market borrowing. While ADB will continue to assume a leading role in providing external assistance to the sector, improving the creditworthiness of the urban local bodies in this context becomes critical to meet the huge investment requirement, both backlog and new. In this regard, ADB assistance can complement the recently announced initiatives of the Government to support urban sector reform at both state and municipal levels, namely, the City Challenge Fund, Urban Reform Initiative Fund, and Pooled Financing Scheme.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

9. The TA will improve the effectiveness and efficiency of ADB's urban sector operations in India by assisting selected state and local governments to share the lessons learned from ADB-assisted urban projects, to help improve the design and implementation of future investment projects, and to develop initial investment proposals for ADB's financial assistance. To achieve this objective, the TA will provide the concerned state and local governments with opportunities to share their experiences and build a supportive network among them. The TA will also compile best practices in urban management for replication in ADB-assisted urban projects in the future. Focus group discussions will assess the level of urban services in selected states and develop a framework for ADB's urban sector operations in India.

B. Methodology and Key Activities

10. The TA will comprise five parts: part A: sharing experience and building a supportive network among the selected states and municipalities; part B: improving the design and implementation of new urban development projects (scoping and predesign of urban development projects in selected states); part C: compiling best practices within India to apply in new urban projects; part D: focus group discussions for stand-alone (against integrated) urban investment projects outside ADB's focus states; and part E: consolidating the findings and developing a comprehensive framework for ADB's urban sector operations in India.

11. Part A will promote experience sharing among the selected state and municipal governments that are directly involved in ADB-assisted urban projects. It will also cover those expecting financial assistance from ADB in the future. The activities in part A will include participatory workshops to discuss lessons learned, site visits to other states and municipalities, building a supportive network for key project implementation issues, and group discussions on

urban policy and financing issues. The project manager will prepare a consolidated report on all the activities in part A for the final dissemination workshop.

12. Policy discussions, technical support, and studies under parts B-E will be as follows:
- (i) Part B: Improving the design and implementation of new urban development projects (scoping and predesign of urban projects in selected states)
 - (a) Selecting states and municipalities for ADB assistance in the urban sector
 - (b) Selecting urban subsectors for investments
 - (c) Integrating urban governance reform in project design
 - (d) Simplifying implementation arrangements
 - (e) Ensuring a sense of ownership of the project and sustainability of investments
 - (ii) Part C: Best practices within India for urban management reform and improved service delivery
 - (a) Computerization and electronic-governance
 - (b) Financial management and resource mobilization
 - (c) Urban poverty reduction and community participation
 - (d) Private sector participation
 - (e) Value-based education for sustainable delivery of municipal services
 - (iii) Part D: Theme papers for focus group discussions
 - (a) Tourism development
 - (b) Solid waste management
 - (c) Urban water supply and sanitation
 - (d) Urban transport
 - (e) Urban land management and redevelopment
 - (iv) Part E: Urban sector strategy: Consolidating findings and recommendations for ADB's urban sector operations in India

C. Cost and Financing

13. The total cost of the TA is estimated at \$606,000 equivalent, comprising foreign exchange of \$65,000 and local currency of \$541,000 equivalent. ADB will provide \$480,000 to finance the entire foreign exchange cost and \$415,000 equivalent in local currency costs. The TA will be financed on a grant basis by ADB's TA funding program. The Government will contribute the remaining local currency cost of \$126,000 equivalent for counterpart staff inputs, compilation of project data and surveys, and other logistical support for networking activities. Details of the cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

14. The Ministry of Urban Development and Poverty Reduction (MOUDPA) will be the EA and will be responsible for overall coordination with ADB. It will also provide administrative support to the consultants and will coordinate with concerned states if required. For effective implementation, a TA steering committee, chaired by the joint secretary of MOUDPA, will be set up comprising representatives from the Planning Commission, Department of Economic Affairs, ADB, and a reputable research institute in urban development. The steering committee will meet at least three times during the TA to review and monitor the implementation.

15. The TA will be implemented over 12 months from September 2003 to August 2004. A domestic urban development specialist (12 person-months) will be appointed as project manager, under the direct supervision of ADB, to administer all TA activities. At the end of the TA, one international consultant will be engaged for 1.5 person-months to prepare a consolidated final report based on the outcomes of the networking activities, focus group discussions, studies, and reports prepared under the TA. Up to 30 person-months of domestic consulting services will be provided to support the activities in part B. In addition, 10 domestic urban sector specialists will be engaged on a lump-sum contract basis to undertake studies under part C (5 consultants) and part D (5 consultants). ADB will engage all consultants on an individual basis, in accordance with its *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. Administrative support will be provided to the project manager as needed. The outline terms of reference for the consultants are in Appendix 3. Equipment purchased under the TA will be turned over to the EA upon completion of the project. Equipment will be procured in accordance with ADB's procurement guidelines.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$480,000 on a grant basis to the Government of India for the Urban Sector Review and Strategy, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Indicators and Targets	Monitoring Mechanisms	Key Assumptions
<p>Goal</p> <p>Improved effectiveness and efficiency of ADB's urban sector operations in India</p>	<p>For the ADB-assisted urban projects to maintain satisfactory or highly satisfactory ratings in the project performance report for both implementation progress and the achievement of development objectives.</p>	<p>ADB's loan review missions</p> <p>Project performance reports</p> <p>Project completion reports</p>	<p>State and municipal governments will build sufficient capacity for all phases of project preparation and implementation.</p> <p>ADB will support capacity building.</p>
<p>Purpose</p> <p>Assist state and local governments (i) to review the lessons learned from the ADB-assisted urban projects, (ii) to help improve the design and implementation of investment projects, and develop initial investment proposals for ADB's financial assistance</p>	<p>Advance consultation between ADB and concerned state and local governments on the project design and implementation arrangements before preparing PPTAs</p> <p>Initial investment proposals prepared by the concerned state and local governments on their own initiatives.</p>	<p>Continuous dialogue with the concerned state and local governments</p> <p>Stakeholder discussions under the TA</p> <p>Focus group discussions under the TA</p>	<p>State and municipal governments have a strong sense of ownership.</p>
<p>Components/Outputs</p> <p>1. Sharing of experience among the concerned state and municipal governments</p> <p>2. Improving the project design and implementation of new urban development projects</p>	<p>Participatory workshops in Delhi and selected venues to discuss the lessons learned; and group discussions on urban policy and financing issues</p> <p>Site visits to other states and municipalities</p> <p>Report/manual on key project implementation issues</p> <p>Selection of states and municipalities; and selection of urban subsectors for investments</p> <p>Investment proposals or pre-feasibility studies integrating urban governance reform in project design, simplifying implementation arrangements, and ensuring ownership of the project</p>	<p>Consultants' monthly progress reports</p> <p>TA review missions</p> <p>Participatory workshops</p> <p>Consultants' monthly progress reports</p> <p>TA review missions</p> <p>Participatory workshops</p>	<p>Concerned states and municipalities actively participate.</p> <p>Participatory workshops are efficiently organized.</p> <p>Concerned states and municipalities have a strong sense of ownership.</p> <p>Timely fielding of consultants</p> <p>Competent counterpart staff interact with the consultants.</p>

Design Summary	Indicators and Targets	Monitoring Mechanisms	Key Assumptions
<p>3. Best practices within India for urban management reform and improved service delivery</p> <p>4. Theme papers for focus group discussions</p> <p>5. Urban sector strategy paper</p>	<p>Five reports on (i) computerization and electronic-governance, (ii) financial management and resource mobilization, (iii) urban poverty reduction and community participation, (iv) private sector participation, and (v) value-based education for sustainable delivery of municipal services</p> <p>Five theme papers on (i) tourism development, (ii) solid waste management, (iii) urban water supply and sanitation, (iv) urban transport, and (v) urban land management and redevelopment</p>	<p>Reports and studies</p> <p>Consultants' monthly progress reports</p> <p>Seminars</p> <p>TA review missions</p> <p>Participatory workshops</p> <p>Reports and studies</p> <p>Consultants' monthly progress reports</p> <p>Final report and workshop</p>	<p>Replicable best practices are available.</p> <p>Concerned states are receptive to changes and proposed reforms.</p> <p>Investment proposals are developed for the reform-minded states and municipalities.</p>
<p>Inputs/Activities</p> <p>1. Consulting services</p> <p>a. Domestic project manager</p> <p>b. International urban development specialists</p> <p>c. Domestic urban sector specialists</p> <p>d. Domestic urban development specialists</p> <p>2. TA administration and support services</p> <p>3. Seminars and workshops (parts B – D)</p> <p>4. Building supportive networks (part A) and site visits</p>	<p>Domestic (12 person-months)</p> <p>International (1.5 person-months)</p> <p>Domestic (up to 30 person-months)</p> <p>Domestic (10 experts)</p> <p>\$17,000</p> <p>\$50,000</p> <p>\$80,000</p>	<p>Consultants' monthly reports</p> <p>TA review missions</p>	<p>Qualified consultants are available and deployed on time.</p>

ADB = Asian Development Bank, PPTA = project preparatory technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing ^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	30	0	30
ii. Domestic Consultants	0	148	148
b. International Travel	5	0	5
c. Domestic Travel	0	10	10
2. Office Equipment ^b	15	0	15
3. Technical Support and Studies (including participatory workshops)			
a. Part B Technical Support	0	20	20
b. Part C Studies	0	25	25
c. Part D Studies	0	25	25
4. Workshops and Site Visits			
a. Sharing Experience under Part A	0	80	80
b. Focus Group Discussions	0	10	10
c. Resource Persons	0	20	20
5. Miscellaneous TA Administration Costs ^c			
a. Subprofessional Support Staff	0	10	10
b. Consumables, Documents, Reports	0	7	7
6. Contingencies	15	60	75
Subtotal (A)	65	415	480
B. Government Financing			
1. Counterpart Staff and Support	0	65	65
2. Compilation of Project Data and Surveys	0	35	35
3. Workshop Venues (at state level)	0	6	6
4. Local Transportation (at state level)	0	6	6
5. Coordination and Other Logistical Support	0	14	14
Subtotal (B)	0	126	126
Total	65	541	606

^a Financed by ADB's TA funding program.

^b Equipment to be purchased may include computers, printers/copiers, mobile phones, and facsimile machine for use by the consultants and to be turned over to the Executing Agency upon completion of the TA.

^c Includes office utilities and supplies, and secretarial expenses.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

A. Domestic Urban Development Specialist /Project Manager (12 person-months)

1. A domestic urban development specialist will be recruited for a period of 12 person-months as project manager. The consultant will be located at New Delhi and will be responsible for planning and executing all activities under the technical assistance (TA). The consultant will closely coordinate with the Executing Agency (EA) and of the Asian Development Bank (ADB) staff and monitor the work of other experts to achieve the goals of the TA. The task of the project manager will include, but will not be limited to, the following.

- (i) Prepare a detailed work plan of individual experts, within 3 weeks from appointment, to execute all activities under the TA in consultation with ADB staff and the EA; coordinate the work of individual consultants to achieve the TA objectives; and be responsible for preparing monthly progress reports for submission to ADB and the EA.
- (ii) In addition to overall planning, coordination and monitoring of all activities under the TA, assume sole responsibility for implementing of part A (sharing experience and building supporting network); prepare a full implementation plan for part A for review by ADB staff and implement the approved plan; and thoroughly review the reports prepared by staff consultants on urban sector review and strategy and prepare a consolidated paper to be shared and discussed under part A of the TA.
- (iii) Assist ADB staff with all aspects of TA implementation; draft detailed terms of reference for parts B, C, and D in consultation with ADB staff; contact and mobilize resource persons, organize the various workshops, and arrange necessary logistics to execute the TA activities; and keep records and build the database for efficient management of the TA activities.

B. Domestic Urban Sector Specialists (up to 30 person-months for Part B)

2. The services of the domestic urban sector specialists (financial analysts, project economists, municipal and environmental engineers, etc.) will be required to assist the selected state and municipal governments with the predesign and scoping of new urban development projects for ADB assistance. The expertise required will be determined by the specific needs of the concerned state and local governments and will be identified during TA implementation. It is estimated that up to 30 person-months of domestic consulting services will be provided to meet the requirements of the new clients who will receive ADB financial assistance from 2004 to 2006. Before the provision of a formal project preparatory TA, the technical support to be mobilized under the TA will help the concerned state and local governments to undertake rapid appraisal of the project concept and scope based on lessons learned from past and ongoing urban projects in India. In addition, the consultants will review best practices and key implementation issues summarized in ADB's evaluation reports that are available on ADB's web sites. Detailed Terms of Reference (TOR) will be prepared by ADB staff with the assistance of the project manager once the project cities are identified.

C. Domestic Urban Development Specialists (Part C)

3. Five domestic consultants will be engaged to prepare in-depth studies on (i) computerization and electronic-governance, (ii) financial management and resource

mobilization, (iii) urban poverty reduction and community participation, (iv) private sector participation in urban infrastructure development, and (v) value-based education for sustainable delivery of municipal services. The consultants will be engaged under a lump-sum contract to compile the best practices available within India on each of the subject areas. The consultants will combine extensive literature review with field visits to prepare the report (50 pages of main text supported by the field visit reports as appendix). The reports will include recommendations on how the experience of other cities in India can be successfully replicated for the benefit of the cities receiving ADB financial assistance. In addition, the consultants will review best practices and key implementation issues summarized in ADB's evaluation reports that are available on ADB's web sites. Each expert will receive a detailed TOR at the time of engagement.

D. Domestic Urban Sector Specialists (Part D)

4. Five domestic consultants will be engaged to prepare five theme papers for focus group discussions: (i) tourism development, (ii) solid waste management, (iii) urban water supply and sanitation, (iv) urban transport, and (v) urban land management and redevelopment. The consultants will be engaged under a lump-sum contract to prepare a stand-alone paper on each topic. In the past, ADB's urban sector operations supported mainly integrated urban development projects in focus states. The consultants will examine the possibility of broadening ADB's urban sector operations to include multicities projects on one sector outside the focus states. Considering national priority as defined in 5-year plan documents and in consultation with relevant central ministries and state governments, the consultants will propose sample investment projects in each subsector for ADB's financial assistance. The projects may cover the states that are not currently involved in ADB urban sector operations. There must be sufficient justification for selecting states and cities for sample projects. In this regard, ADB assistance can complement the recently announced initiatives of the Government to support urban sector reform at both state and municipal levels, namely; City Challenge Fund, Urban Reform Initiative Fund, and Pooled Financing Scheme. The consultants will finalize the paper by incorporating recommendations from the focus group discussions.

E. International Urban Development Specialist (1.5 person-months for Part E)

5. An international consultant will be recruited for 1.5 person-months toward completion of the TA. The consultant's main responsibility will be to consolidate the findings of the TA in a final report for an Urban Sector Strategy Paper. The tasks of the consultant will include, but will not be limited to, the following.

- (i) Review the studies, minutes, and activities under the TA; consolidate the findings of the TA in view of lessons learned from other countries in the region and elsewhere; and prepare an outline of the Urban Sector Strategy Paper for review and approval by ADB staff and the EA; upon the approval of the outline, prepare the strategy paper with full appendixes (at least 70 pages of main text).
- (ii) Present the strategy paper at the final workshop and participate in open discussion; finalize the paper based on the comments received at the workshop.