

URBAN LOCAL BODY REFORM DRIVEN SELECTION PROCESS

1. **The Process.** The proposed design promotes reform at State and Urban Local Body (ULB) level through a multipronged approach including (i) ULB performance based selection and financial assistance to enable reform, (ii) IT based platforms, and (iii) State Level reforms. The program will promote town selection based on willingness to undertake IWRM and financial management reforms. For this purpose, a two-phase methodology will be followed for tranches subsequent to project 1. The process is diagrammatically shown in Figure 1.

2. In Phase I, towns may draw a small amount of funds from the *ULB Incentive Fund (UIF) for Improved Water Sector Planning, Monitoring and Use* to enable them, amongst other, to undertake water and energy audits, ascertain the condition of existing assets,¹ undertake water planning exercises and achieve improvements in financial management (particularly collection efficiencies). Upon meeting pre-agreed criteria parameters – e.g. (i) achieving water tariff collection efficiencies in excess of 80%, (ii) updating of customer databases, (iii) completion of preliminary water balances and asset mapping and condition assessments and identification of illegal connections, and (iv) city-level water and sanitation Master Plans – the ULB would then receive approval for further physical investments. A separate small pool funding allocation will be made under Tranche 1 to assist ULBs undertake rapid assessments.

3. Town eligibility will be determined at 3 stages: (i) reform willingness (granting with access to ULB Incentive Fund), (ii) preparation of a urban watershed Master Plan and brief concept paper by willing ULBs (granting in principle acceptance by GOK), and (iii) preparation of a full feasibility study and detailed designs (for subsequent approval by ADB).

4. Phase II will further promote the appraisal, approval and implementation of infrastructure subprojects, where further systems improvements (e.g. creation of utility SPVs, promotion of PPP contractual arrangements etc) may be explored.

5. **Phase I - Eligible Activities for Financing under UIF.** UIF will finance services, goods and/or civil works in support of water-related reform targets. Maximum financing for any one ULB will be determined by a combination of parameters, including the ULB's size and number of reform objectives and associated activities, up to a maximum of \$1 million. Grant fractions/concessionality will be linked to the speed and level of success with which reform initiatives were undertaken. Typical water-related reforms eligible for support and sample activities are listed in Table 1.

Table 1: UIF Eligible Activities

Key Area	Sample Assistance
Water Planning	<ul style="list-style-type: none"> • Water audits • Urban watershed masterplans (water, sewerage, drainage and flood protection)
Water Use Efficiency	<ul style="list-style-type: none"> • Installation of strategic bulk meters • Fitting meters and automatic shut-off valves at all standposts
Asset Management	<ul style="list-style-type: none"> • Asset mapping and condition assessments
Commercial and Cost Recovery	<ul style="list-style-type: none"> • Customer databases surveys and/or computerization • Illegal connections surveys/assessment. Disconnection works
Demand	<ul style="list-style-type: none"> • Installation of revenue meters (for pilot purposes).

¹ Funds may finance small procurement contracts for items such as bulk flow meters, household surveys or specialized services such as technical audits and asset condition assessments.

Key Area	Sample Assistance
Management	<ul style="list-style-type: none"> • Volumetric tariff modeling and roll out.
Transparency	<ul style="list-style-type: none"> • Customer service levels publication. • Water quality parameters at production and distribution points web disclosure. • Effluent quality at discharge point web disclosure.

6. **Phase II – ULB Conditional Access to Infrastructure.** In line with the process described in paras 1 to 4 and Figure 1, ULBs would become eligible for water and sewerage infrastructure and services financing upon complying with the urban reform targets. These are tentatively set as follows (if applicable):

Key Reform Area	Target Compliance
Water Planning	<ul style="list-style-type: none"> • Up-to-date urban watershed masterplan available, including proposed medium term financing plan (for capital investment and O&M)
Water Use Efficiency	<ul style="list-style-type: none"> • NRW analyses and action plan
Commercial and Cost Recovery	<ul style="list-style-type: none"> • Customer databases up to date • Illegal connections assessment available • Water and sewerage tariff in force, if applicable • >80% Collection Efficiency (Water Charges for Current Year) • >80% efficiency in redressal of customer complaints • Water accounts ring fenced
Demand Management	<ul style="list-style-type: none"> • Resolution for full water metering approved by the council • Resolution for volumetric tariffs approved by the council for enforcement immediately after commissioning.
Transparency	<ul style="list-style-type: none"> • Customer service levels published. • Water quality parameters at production and distribution points disclosed. • Effluent quality at discharge point disclosed.

7. The **ULB Incentive Fund (UIF) for Improved Water Sector Planning, Monitoring and Use** will be established and maintained by KUIDFC to provide ULBs access to a limited amount of resources to finance services, goods and/or civil works required to accomplish essential water-related reform. KUIDFC, with the support of the institutional and financial consultant, will develop the design of UIF, which among others will include, (i) the objective, scope and structure of the UIF; (ii) required initial amount and source of funding; (iii) ULBs and projects eligibility criteria; (iv) financing ceiling and percentage under the UIF; (v) project appraisal, evaluation and approval process, (vi) monitoring and evaluation frameworks, (v) financing recovery mechanisms to ensure sustainability; and (vii) fiduciary oversight, audit and reporting mechanism. The UIF will be submitted to the State and ADB for review and concurrence within 6 months of the Tranche 1 loan effectiveness.

Figure 1: Town Selection Process and Access to ULB Incenting Fund

