

SOUTH ASIA DEPARTMENT'S RESPONSE TO IED'S PCR VALIDATION REPORT OF LOAN 2366 OF INDIA RAJASTHAN URBAN SECTOR DEVELOPMENT INVESTMENT PROGRAM (TRANCHE 1)

A. Effectiveness

1. If a weighted average is undertaken, even based on IED's ratings of what has been achieved, the project 1 works out to be effective (refer to the table at the end of this appendix). Binary counting, which assigns 4 outcome indicators to capacity building (constituting less than 2% of total project cost) as equivalent to 1 outcome indicator to water supply (constituting over 42% of total project cost) and 3 outcome indicators to wastewater (constituting over 28% of the total project cost), is not an objective assessment, and therefore, calls for weighted average approach, as the project has multiple outcomes and outputs (para. 30 of IED Guidelines 2016).¹ Moreover, "partly achieved" outcomes are being treated as "not achieved" in the PCR Validation, which SARD considers not fair or reasonable in project performance assessment. SARD, therefore, request the following facts be considered against "Effectiveness":

"The design and monitoring framework (DMF) output target for project 1 is 30% households connected to the sewer network, against which 24.7% was achieved. The facility targets 100% population for urban local bodies (ULBs) with sanitation interventions, which for project 1 are Alwar and Jaisalmer (cumulative 0.42 million population), against which 0.1 million were benefitted. Sanitary landfills were constructed, and solid waste management equipment procured and supplied as planned but landfills were not used as associated facilities are yet to be developed by ULBs. Capacity development programs were delivered as planned in project ULBs during project 1 implementation period but were financed under subsequent tranches for ease of administration allowed by the flexibility of MFF modality. Based on IED Guidelines 2016, (i) para. 27, which recognizes that outcome and output targets at completion may not be fully reached at the time of observation but that achievements may be on an upward trajectory — as is evidenced from household connections going from 24.7% in June 2017 to over 51% in July 2018, (ii) para. 9, which states that new information submitted by the regional department and information gained independently by IED can add to the PVR; and (iii) para. 30 recommendation that relative weights based on relative financial costs of various outputs and outcomes should be assigned to projects with multiple outputs and outcomes while assessing effectiveness — as is evidenced from a weighted rating of 2.33 out of 3.00 (refer to the table at the end of this appendix), SARD assesses the project to be *effective*."

B. Sustainability

2. The household connectivity issue was already considered under the effectiveness criteria and hence the same parameter ought not to be counted again under sustainability. The Government of Rajasthan (GOR) has already issued notification for imposing 33% sewerage cess over water bill and is awaiting completion of household connections to levy the same. Moreover, the undeniable benefits accrued from social acceptance of universal access to basic municipal services and its transformative effect, particularly in geographically and geologically challenging desert regions, has not been given due importance. Developing storage capacity for 15 days at Mohangarh headworks, which is over 50 km from the desert city of Jaisalmer, to address water security concerns, resulted in negative financial internal rate of return (FIRR) as substantial capital

¹ IED Guidelines, 2016 stipulates weighted average as the prescribed approach for projects with multiple outcomes and outputs (para. 30) and does not leave it to the discretion of the evaluator, contrary to IED's position on the matter.

expenditure was incurred compared to the revenue from water charges collectable from very small ULB population. The institutional capacity of the line agency for water supply services, Public Health Engineering Department, has not been considered while assessing institutional sustainability. The training and capacity building activities provided to project ULB staff in a planned, long-term and sustainable manner under a comprehensive capacity development plan, financed under the facility to strengthen ULBs capacity to manage environmental sanitation assets, have also not been considered. SARD, therefore, request the following observation be considered against “Sustainability”.

“Provision of household connection is ongoing (24.7% households connected against DMF target of 30% connections), and the government and ULBs are committed to introduce sewerage tariff once it is completed. Sustainability concerns are therefore transitional and should not be basis for rating. Significant investments were also required to ensure water supply and address water security in desert areas, transforming lives of comparatively small target beneficiaries, but negatively impacting FIRR. Further, institutional reform covenant states that “The State shall ensure adequate funds towards O&M of the project facilities through budgetary allocations or other means, to be provided to the Investment Program Management Unit (IPMU), appropriate ULB or line agency(ies) during and after subproject completion.” The Report and Recommendation of the President (RRP) for the facility also provides specific assurance in this regard that “the GOR will ensure adequate funds towards the O&M of the facilities created under the Facility through budgetary allocations or other means, to be provided to the executing agency, the appropriate ULB, or line agencies during and after subproject completion.” (RRP, para. 73(ii)) Therefore, SARD rates the project as *likely sustainable*.”

C. Preliminary Assessment of Development Impacts

3. The outcomes and outputs indicators associated with environmental sanitation have already been considered under the effectiveness criteria (and again under sustainability) and the same indicator should not be counted yet again while assessing development impacts. As the PVR (para. 28) concurs that all the six impact indicators have demonstrated positive improvements in project towns, and four indicators have significantly exceeded targets, the preliminary assessment of development impacts ought to be rated satisfactory. SARD, therefore, request the following observation be considered against “Preliminary Assessment of Development Impacts”.

“Based on the long-term and far-reaching impacts of improving living conditions for all, particularly the poor, sustained improvements in the urban environment, and increasing access to economic opportunities, as reflected by four of the six impact indicators having significantly exceeded set targets, SARD assesses the development impact of the project as *satisfactory*.”

Table. Weighted Average of Outcome Achievement Rating of Project 1

| Project Components | Actual Cost (in \$ million) | % | Rating based on what have been achieved | Weighted Rating | Basis for the Rating under Column (C) |
|--|--|--------------|--|----------------------------|--|
| <i>Column</i> | <i>(A)</i> | <i>(B)</i> | <i>(C)</i> | <i>(D)</i> | |
| Component A: Urban Infrastructure Improvements | 50,900,386 | 88.2% | | 2.27 | 6 out of 8 indicators achieved. |
| Water Supply | 24,659,823 | 48.4% | 3 | 1.45 | Sole indicator achieved. |
| Wastewater Management | 16,287,833 | 32.0% | 1 | 0.32 | 2 out of 3 indicators achieved. |
| Solid Waste Management | 1,469,403 | 2.9% | 0 | 0.00 | Sole indicator not achieved. |
| Urban Drainage | 883,789 | 1.7% | 3 | 0.05 | Sole indicator achieved. |
| Urban transport and Roads | 3,545,003 | 7.0% | 3 | 0.21 | Sole indicator achieved. |
| Resettlement, land and utility shifting | 4,054,536 | 8.0% | 3 | 0.24 | Sole indicator achieved. |
| Component B: Capacity Development and Investment Program Management | 6,839,124 | 11.8% | | 2.78 | |
| Implementation Assistance | 5,303,553 | 77.5% | 3 | 2.33 | Performance of PMU, PIU, consultants and contractors was quite satisfactory, as reported in PCR |
| Incremental Administration | 1,070,302 | 15.6% | 2 | 0.31 | Incremental assistance was economically & optimally used by PMU |
| Capacity and Institutional Development | - | 0.0% | 2 | 0.00 | 2 out of 4 indicators achieved |
| CAPP / IEC | 425,959 | 6.2% | 2 | 0.12 | Satisfactory performance |
| Investment Program performance Monitoring System | 39,310 | 0.6% | 2 | 0.01 | Baseline performance satisfactory; less than satisfactory performance at midterm was corrected by change in consultant |
| Total | 57,739,510 | 100% | | | |
| Overall Weighted Rating | | | | 2.33 | <i>Effective</i> |