



Project Readiness Financing Report

PUBLIC

Project Number: 56002-001
October 2022

India: Agartala Municipal Infrastructure Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 September 2022)

Currency unit	–	Indian rupee/s (₹)
₹1.00	=	\$0.013
\$1.00	=	₹79.34

ABBREVIATIONS

ADB	–	Asian Development Bank
AMC	–	Agartala Municipal Corporation
COVID-19	–	coronavirus disease
NEEC	–	North East Economic Corridor
PRF	–	project readiness financing
UDD	–	Urban Development Department

NOTE

In this report, “\$” refers to United States dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. PROJECT READINESS FINANCING	1
A. Rationale	1
B. Outputs and Activities	2
C. Ensuing Project	3
D. Cost Estimates and Financing Arrangements	3
E. Implementation Arrangements	4
II. DUE DILIGENCE	5
III. THE PRESIDENT'S DECISION	5
APPENDIX	
1. List of Linked Documents	6

PROJECT READINESS FINANCING AT A GLANCE

1. Basic Data		Project Number: 56002-001	
Project Name	Agartala Municipal Infrastructure Development Project	Department/Division	SARD/INRM
Country	India	Executing Agency	Urban Development Department, Gov't of Tripura, Agartala
Modality	Project Readiness Financing (Loan)		
Borrower	India		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=56002-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=56002-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Other urban services		0.500
	Urban flood protection		1.500
	Urban policy, institutional and capacity development		0.250
	Urban water supply		0.250
Transport	Urban roads and traffic management		0.500
		Total	3.000
3. Operational Priorities		Climate Change Information	
✓ OP1: Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Low
✓ OP4: Making cities more livable			
✓ OP6: Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.600
		Mitigation (\$ million)	0.600
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Poverty Targeting	
SDG 1.1, 1.5		General Intervention on Poverty	✓
SDG 6.1, 6.4			
SDG 11.2, 11.5, 11.6, 11.7			
SDG 13.a			
4. Risk Categorization:	Low		
5. Safeguard Categorization	Not Applicable.		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		3.000	
Sovereign Project Readiness Financing (Regular Loan): Ordinary capital resources		3.000	
Cofinancing		0.000	
None		0.000	
Counterpart		0.750	
Government		0.750	
Total		3.750	
Currency of ADB Financing: US Dollar			

I. PROJECT READINESS FINANCING

A. Rationale

1. **Context.** Agartala, the capital and largest city of the State of Tripura is the second-largest city and municipal body in the northeastern states and one of the fastest developing cities in India. Agartala, accounts for 57% of the urban population and 12% of the state's total population; population growth of 2.94% per annum during 2001–2017 resulted in 581,960 inhabitants and a population density of 10,119 people per square kilometer in 2018.¹ Only 2 kilometers from the Bangladesh border and in the Bangladesh–Bhutan–India–Nepal economic corridor, Agartala could take advantage of future infrastructure developments with an increase in cross-border trade and commerce. However, the city's economic growth is limited because of poor infrastructure and degraded livability.

2. **Urban sector overview.** The state's Urban Development Department (UDD) is the nodal agency and acts through the Agartala Municipal Corporation (AMC), which is responsible for the development and maintenance of Agartala's urban infrastructure (water supply; urban roads, drains, and bridges; streetlights; and sewerage and solid waste management). Since 2009, several development projects have been undertaken and are ongoing in Agartala through Government of India programs (Smart Cities Mission, Atal Mission for Rejuvenation and Urban Transformation) and Asian Development Bank (ADB)–assisted projects.² The recently approved Agartala City Urban Development Project (footnote 1) assessed key problems in Agartala. They include (i) limited urban mobility arising from inadequacies in the road network, parking system, traffic management, and encroachment onto footpaths, leading to increased traffic congestion and accidents; (ii) inadequate stormwater drainage, causing floods; and (iii) a deficient wastewater network with many sewer lines open to water bodies, polluting the environment. ADB's Northeast Economic Corridor (NEEC) study report identified and recommended Agartala as a key growth center, while identifying key infrastructure gaps to be filled to supplement growth by reducing spatial and socioeconomic imbalances.³ As infrastructure services remain inadequate, additional investments are sorely needed to increase coverage and improve infrastructure services, such as water supply; stormwater drainage; urban roads, footpaths, and footbridges; streetlighting; and parks and open spaces, to comply with national standards. The services will enable the city to explore its full potential for greater economic growth.

3. The gross state domestic product (at current prices with base year 2011–2012) showed an increasing share of the tertiary sector at 46.36% in 2017–2018; the primary sector's share was 40.15% and the secondary sector's 13.49%. In 2020–2021, during the coronavirus disease (COVID-19) pandemic, the share of the tertiary sector declined to 46.13% and that of the secondary sector to 10.86% (advance figures), while that of the primary sector increased to 43.02%.⁴ Tripura's own resource mobilization is limited and, like other northeastern states, its economy depends mainly on central government assistance, with grants constituting 85%–88% of state revenue.⁵ The AMC's revenue receipt depends mostly on state government transfers and grants, and the AMC's major own sources of revenue are property tax, building rentals, building permission fees, advertisements, mobile tower fees, trade licenses, and parking and about 70%

¹ ADB. 2021. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to India for the Agartala City Urban Development Project*. Manila.

² ADB. 2009. *India: North Eastern Region Capital Cities Development Investment Program*. Manila.

³ The final report of the NEEC study has been submitted to the Government of India.

⁴ Government of Tripura. 2022. *Economic Review of Tripura 2020–2021*. Agartala.

⁵ Tripura University, Department of Economics. *An Evaluation of the State Finances of Tripura (2006–2007 to 2016–2017): A Report Submitted to Fifteenth Finance Commission, Government of India*.

of the revenue expenditure is on establishment expenditure for the AMC.⁶ The cost recovery from urban services is observed to be poor in several towns of Tripura.⁷

4. **ADB value addition.** The NEEC report advises adoption of a spatial development framework that recognizes Agartala's vital role as an urban and border center in generating prosperity and economic growth in the northeastern region. Agartala is a tourist gateway and destination. The city needs (i) integration with the AMC's Agartala Master Plan and (ii) strengthened linkages with other urban centers within the Greater Agartala Planning Area. ADB is engaged with the state through (i) project readiness financing (PRF) for the ensuing Tripura Urban and Tourism Development Project; (ii) Infrastructure Development of Industrial Estates in Tripura (PRF under processing); and (iii) the Tripura road sector study, which will contribute to a proposed road sector PRF, to help develop urban–tourism–transport–industry service links in Tripura and bridge connectivity gaps, including last-mile connectivity. ADB knowledge and support technical assistance is backing urban strategy and investment planning and preparation of an institutional capacity development report.⁸ The PRF will support the Tripura government in holistic planning and development of priority municipal infrastructure investments in Agartala with innovative and finance-plus elements and in preparation of a future investment–ready project.

5. The PRF is consistent with ADB's country partnership strategy for India, 2018–2022,⁹ and is closely aligned with ADB's Strategy 2030 operational priorities 1 (poverty), 3 (climate change), 4 (livable cities), and 6 (governance).¹⁰ The PRF will contribute to the operational priorities by designing climate-resilient urban infrastructure to acceptable standards and coverage, including access for the poor and vulnerable; strengthening institutional capacity and improving resource mobilization of the AMC; boosting technical, procurement, and financial capacities of agencies to prepare and undertake the ensuing project; and supporting the ongoing and proposed sector and institutional reforms. During PRF implementation, climate change mitigation and adaptation components will be incorporated into the ensuing project design to ensure alignment with the Paris Agreement.

B. Outputs and Activities

6. The PRF will ensure high readiness of the ensuing project by achieving the following outputs, which will be realized by mobilizing consulting services for project preparation, under the supervision and coordination of the Tripura government, the UDD, the AMC, and ADB.

7. **Output 1: Feasibility studies, detailed engineering designs, and due diligence of identified subprojects completed.** The output will be achieved by performing a preliminary analysis of the NEEC report and the urban strategy being prepared, leading to identification of potential subprojects consistent with the strategy and NEEC. Deliverables consist of (i) feasibility studies; (ii) detailed project reports for identified subprojects; (iii) due diligence of the detailed project reports covering technical, economic, and financial analysis; environmental and social safeguards; gender equality and social inclusion analysis and planning; and climate risk assessment, including preparation of a climate and disaster resilience framework; (iv) a report on the COVID-19 pandemic's impact on project preparation, implementation, and cost; and (v) project strategic procurement planning, including contract management plans, preparation of

⁶ Government of Tripura, Agartala Municipal Corporation. [Budget 2017–2018](#). Agartala.

⁷ Government of Tripura, Urban Development Department. [Service Level Benchmarks Status of 2017–2018](#). Agartala.

⁸ ADB. 2019. *Technical Assistance to India for Knowledge and Institutional Strengthening for Infrastructure Planning and Sustainable Development for Subregional Integration*. Manila.

⁹ ADB. 2017. [Country Partnership Strategy: India, 2018–2022](#). Manila.

¹⁰ ADB. 2018. [Strategy 2030](#). Manila.

procurement related documents, and support for the bidding process and the ensuing loan-processing activities.¹¹

8. **Output 2: Institutional capacity strengthened.** The output will be achieved by (i) building capacity in financial management, procurement, climate change, safeguards, gender equality and social inclusion, operation and management, and sustainability, through training, workshops and seminars; (ii) strengthening the AMC’s governance and systems; (iii) preparing a geographic information system–based municipal resource mobilization road map to be implemented during the ensuing project; and (iv) preparing a digital strategy and/or e-governance solutions for municipal services in line with the National Urban Digital Mission.¹²

C. Ensuing Project

9. The ensuing Agartala Municipal Infrastructure Development Project, with an indicative financing requirement of \$153.44 million from ADB’s ordinary capital resources, is expected to be approved in 2024. The ensuing project will aim to (i) improve urban infrastructure in priority areas within Agartala city and (ii) strengthen institutional and financial capacity identified based on the results of the preparatory activities supported by the PRF. The loan amount will be confirmed based on (i) detailed engineering design of the selected subprojects, (ii) implementation period, (iii) absorptive capacity of the executing agency and the contracting industry, (iv) availability of counterpart funding from the Tripura government, and (v) performance of the ongoing projects.

D. Cost Estimates and Financing Arrangements

10. The PRF is estimated to cost \$3.75 million (Table 1). Detailed cost estimates by expenditure category and by financier are in the PRF project administration manual.¹³

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Feasibility studies, detailed engineering designs, and due diligence of priority subprojects completed	2.44
2. Institutional capacity strengthened	0.72
Subtotal (A)	3.15
B. Contingencies^c	0.49
C. Interest during Implementation^d	0.11
Total (A+B+C)	3.75

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$0.48 million to be financed by the state government through cash contribution as part of its overall counterpart funding. Such amount does not represent an excessive share of the project cost.

^b In early-2022 prices as of 3 August 2022 using an exchange rate of \$1.00 = ₹78.61.

^c Physical contingencies computed at 10% for consulting services. Price contingencies are computed in the range of 1.7%–1.8% on foreign exchange costs and 4.0%–5.0% on local currency costs and include a provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during implementation for the ordinary capital resources loan has been computed at the 3-year United States dollar fixed-swap rate plus an effective contractual spread of 0.50% and surcharge on funding cost margin of 0.16%.

Source: Asian Development Bank estimates.

¹¹ The detailed project report will (i) comply with the national standards and codes; (ii) incorporate good practices; (iii) include detailed designs, cost estimates, and detailed construction working drawings; and (iv) provide the necessary documentation in formats acceptable to ADB.

¹² [National Urban Digital Mission](#). Government of India.

¹³ [Project Administration Manual](#) (accessible from the list of linked documents in the Appendix).

11. The government has requested a regular loan of \$3.0 million from ADB's ordinary capital resources to help finance project preparation and design activities. The loan will have a 15-year term, including a grace period of 3 years; an interest rate determined in accordance with ADB's Flexible Loan Product; and such other terms and conditions set forth in the draft loan agreement. ADB will finance the expenditures in relation to consulting services. The summary financing plan is in Table 2.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan) ^a	3.00	80.0
Government ^b	0.75	20.0
Total	3.75	100.0

^a The project readiness financing loan will be refinanced under an ensuing loan, and the refinancing date will be the expected date of effectiveness of the ensuing loan agreement and will generally be adjusted to coincide with the actual effectiveness date of the ensuing loan agreement. The refinancing date will be before the first principal repayment date to the project readiness financing loan.

^b The government contribution includes interest during implementation, taxes, and duties.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

12. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual (footnote 13). Procurement will follow ADB's Procurement Policy (2017, as amended from time to time), and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time). A project management unit will be established at the AMC.

Table 3: Implementation Arrangements for Project Readiness Financing

Aspects	Arrangements		
PRF implementation period	October 2022–March 2025		
Estimated PRF completion date	30 September 2024		
Management			
(i) Executing agency	Tripura government, acting through the Urban Development Department		
(ii) Implementing agency	Agartala Municipal Corporation		
Consulting services	Firm: QCBS (quality–cost ratio–80:20)	1 PDMC firm, 507 person-months	\$2.31 million
	Individual: Individual consultant selection	5 individual consultants, 59 person-months	\$0.40 million
Advance contracting and retroactive financing	The Tripura government will use retroactive financing and advance contracting for consulting services. ADB will provide retroactive financing for expenditures incurred before loan effectiveness but not earlier than 12 months from the date of the signing of the legal agreement, subject to a maximum amount equivalent to 20% of the loan amount.		
Disbursement	Disbursements under the PRF will follow ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, PDMC = project design and management consultant, PRF = project readiness financing, QCBS = quality- and cost-based selection.

Source: Asian Development Bank .

II. DUE DILIGENCE

13. **Technical.** The project design and management consultant, in coordination with the AMC, will deliver the envisaged outputs while conducting due diligence for the identified subprojects. Due diligence will include field surveys and investigations covering technical analyses, social and environmental safeguards, economic viability, and the financial impact of COVID-19, and will incorporate gender equality and social inclusion–responsive, climate- and disaster-resilient, and innovative features identified therein. To establish the climate and disaster resilience of each identified subproject, a rapid climate risk assessment will be undertaken using the preliminary climate risk screening checklist. Further assessments and measures will be conducted to strengthen resilience against natural hazards and climate change impacts, and to fully capture climate financing. A gender equality and social inclusion action plan will be developed to ensure effective gender mainstreaming, including in facilities serving the elderly, women, children, differently abled, and transgender people in the ensuing project. Individual consultants will be recruited under the PRF to provide hand-holding support to the project management unit.

14. **Governance.** A fiduciary assessment for the AMC was carried out. While the UDD has experience with ADB-financed projects, the AMC has none. Considering the risks identified for the PRF loan amount and subject-to-mitigation arrangements during the implementation period, the financial management risk is assessed as *substantial*. The AMC's financial management capacity will be strengthened by (i) introducing a computerized accounting system, (ii) assessing and improving the AMC's internal audit function and control gaps, and (iii) hiring appropriate accounting staff. A financial management consultant will be recruited through the PRF to support the activities. A procurement capacity assessment was conducted and rated the procurement and contract management risk as *moderate* and manageable through the implementation of agreed mitigation measures indicated in the project administration manual. With the approval of advance contracting, the AMC has initiated recruitment of the project design and management consultant, following the ADB Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time). ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

15. **Safeguards.** Since the PRF activities consist only of consulting services without any pilot testing, they have not been categorized in accordance with ADB's Safeguard Policy Statement (2009). The safeguard classifications for the ensuing project are likely to be *B* for environment and involuntary resettlement and *C* for indigenous peoples, which will be confirmed during the due diligence and project preparation. The ensuing project will avoid subprojects in or close to national parks, wildlife sanctuaries, or any other environmentally sensitive areas. The PRF will finance the preparation of safeguard documents for the ensuing project.

III. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the loan of \$3,000,000 to India for the Agartala Municipal Infrastructure Development Project, from the ordinary capital resources of the Asian Development Bank (ADB), in regular terms, with interest to be determined in accordance with ADB's Flexible Loan Product; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement; and hereby reports this action to the Board.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=56002-001-PRF>

1. Loan Agreement
2. Project Agreement
3. Project Administration Manual