



1. Project Data

Operation ID
P167246

Operation Name
SHWSSP1

Country
India

Practice Area(Lead)
Water

L/C/TF Number(s)
IBRD-89180

Closing Date (Original)
31-Oct-2020

Total Financing (USD)
40,000,000.00

Bank Approval Date
16-Jan-2019

Closing Date (Actual)
31-Oct-2020

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	40,000,000.00	0.00
Revised Commitment	40,000,000.00	0.00
Actual	40,000,000.00	0.00

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2. Project Objectives and Policy Areas

a. Objectives

The Program Agreement (signed February 15, 2019) for the DPL did not include any statements on the objectives of the Program.

The Program Document (PD) of the Programmatic Development Policy Loan 1 for this operation, however, described the Program Development Objectives (PDO) as follows: "The PDO is to support the GoHP (Government of Himachal Pradesh) in its policy and institutional development program for improving water supply and sewerage services that are financially sustainable and managed by an accountable institution responsive to its customers".



b. Pillars/Policy Areas

The operation, which was originally structured as a series of three DPLs, supported three pillars of the Government of Himachal Pradesh (GoHP)'s Medium-term Program for improving WSS (Water Supply & Sewerage) services, which would benefit some 4.08 million people with continuous, pressurized piped water supply and 4.01 million people with improved sewage connections, and put the urban WSS of Himachal Pradesh on a solid institutional, financial and governance footing. The program supported by this DPL would build on the reform efforts already undertaken, reinforcing stakeholder incentives to pursue change. The pillars/policy areas supported by this operation were:

- i . Improving governance, managerial and financial autonomy
- ii . Increasing the efficiency of WSS operations
- iii . Increasing customer orientation and accountability, complemented by a cross-cutting capacity building effort.

Following international best practice of utility reform, these policy actions were considered key to improving the performance of water utilities. The policy areas were underpinned by seven prior actions linked to DPL1, along with triggers for the second and third tranches of the envisaged programmatic series, aimed at deepening the reforms under each of the prior actions.

Policy Area A: Improving Governance, Managerial and Financial Autonomy

This pillar included the following sub-areas for reform:

- (a) *Shifting from departmental structure to an autonomous WSS company with devolved responsibilities:* The program supported GoHP's policies for corporatizing WSS operations, consolidating the company into the Shimla Jal Prabandhan Nigam Ltd (SJPNL), as a jointly owned autonomous WSS company.
- (b) *Delegating full managerial and financial autonomy to the WSS company:* During the initial reform step, all financial and managerial powers of WSS had been delegated to the SJPNL's Board of Directors. The Board further delegated these to the Managing Director (MD)-cum-CEO, which marked a major break with the past, when the authority of WSS managers had been divided between various governmental departments.
- (c) *Developing and implementing the organization structure, human resource (HR) policy and capital investment plan:* The Board of Directors of SJPNL was chaired by the Chief Secretary of the GoHP. An MD-cum-CEO was appointed, and the Board had developed key company-level policies and systems – a corporate governance framework, an HR structure, an internal performance standard and Monitoring & Evaluation system, and grievance redressal mechanisms.
- (d) *Supporting Medium-term Plan activities aimed at improving financial autonomy:* Under the program, a



clear regulatory mechanism would be put into place to govern tariff setting and subsidies to improve cost recovery. GoHP had approved these proposals and the Shimla Municipal Corporation (SMC) had adopted these policies. By introducing volumetric tariffs alongside well-defined cost-recovery and subsidy policies, SJPNL aimed to achieve 100 percent recovery of O&M costs for water distribution and sewage collection and treatment (excluding bulk water costs) by FY2021-22. Full O&M cost recovery was expected to reach 66 percent by the year 2033-34.

Policy Area B: Increasing Efficiency of WSS operations

(i) *Shifting focus from traditional infrastructure construction to performance-based financing and a service delivery orientation:* With the support of the DPL, the GoHP intended to improve the service delivery orientation of the WSS sector for the Greater Shimla Area and ensure continuous (24x7) pressurized water supply, sewage collection and treatment for all households. The GoHP's Medium-Term Capital Investment Plan included both capacity addition and rehabilitation of existing sewage treatment plants (STPs) to reduce the risk of contaminated water supplies and overwhelmed water infrastructure in the wake of floods. The operation would also support GoHP in improving service delivery orientation in the Greater Shimla Area through performance-based service delivery policy.

(ii) *Incentivizing energy efficiency improvements in WSS operations:* Based on a detailed study, inefficiencies in energy consumption were estimated to be about 25 percent on account of old equipment for Shimla city and non-revenue water. SJPNL had identified a package of electrical and hydraulic measures to improve energy efficiency, including contract demand optimization, energy efficiency pumps, modification of suction line, and minimization of leakages, among others. SJPNL intended to incentivize energy efficiency through performance-based policy for WSS services, which would result in energy use per unit of bulk water from existing sources being reduced by 20 percent by FY2023-24.

Policy Area C: Increasing Customer Orientation and Accountability

(i) *Increasing Customer Orientation:* Short-term improvements carried out by SJPNL had resulted in greater water quality compliance and improved bulk water production. SJPNL was also planning to demonstrate better response to customer complaints, predictable supply schedules and volumetric billing benefiting customers with low consumption. SJPNL was also to develop customer-friendly connection and billing practices.

(ii) *Increasing Accountability:* SJPNL, having developed utility systems and databases to collect information on WSS service performance, would establish a Monitoring & Evaluation (M&E) framework using global WSS benchmarks and GoI's Service Level benchmarks to collect performance information disaggregated by customer groups to highlight service delivery status for poor and vulnerable sections. SJPNL would also carry out communication, grievance redressal and customer feedback programs to improve citizen engagement. The utility would implement a grievance redressal mechanism, combined with social outreach, annual customer satisfaction surveys and citizen report cards.

Although the Program was envisaged as a series of three DPLs, upon completion of DPL-1 the Government of Himachal Pradesh (GoHP) requested the Bank to replace the second and third DPLs in the series with a Program for Results (PforR) operation of US\$160 million centered around the same objectives as the original programmatic DPL series. Within the framework of the GoHP's WSS medium-term program (2018-30), the development objectives of the PforR (approved by the Board in 2021) were to strengthen the financial and operational performance of the SJPNL utility and improve access to water supply and sewerage services in Shimla City. The target areas of the PforR were a natural extension of the DPL series, picking up from DPL-1 to support the continued reforms in governance while targeting performance improvements in operations and



finance. The demonstrated commitment of the GoHP and SJPNL to pursue the reform objectives under the PforR program strongly indicated the likely continuity of the reforms initiated under DPL-1.

c. Comments on Program Cost, Financing, and Dates

Program Cost: The cost of the program under DPL1 was US\$ 40 million. After the onset of the Covid-19 pandemic in early 2020, the GoI decided to refrain from future sub-national DPLs. As such, the subsequent DPLs in the series were replaced by a Program-for-Results of US\$160 million centered around the same objectives as the original programmatic DPL series.

Financing: An IBRD loan of US\$40 million was used to finance the program costs for DPL1. The loan was provided to the Government of India, with the Urban Development Department of the State of Himachal Pradesh as the implementation agency for the Program. The loan was disbursed in a single tranche.

Borrower Contribution: Neither GoI nor GoHP contributed to the Program financing.

Dates: The Loan Effectiveness date for DPL1 was April 24, 2019. DPL1 Loan closed on October 31, 2020, as scheduled.

3. Relevance of Objectives & Design

a. Relevance of Objectives

At appraisal, India's economy had recovered from the disruptions caused by the demonetization of 2016 and introduction of a goods and services tax (GST) in 2017, to record 6.5 percent in 2018 (and reach 8.2 percent in Q1, 2018-19), making it one of the world's fastest growing economies at the time. The country was also making good progress in reducing absolute poverty, the number of people living below the absolute poverty line of US\$1.90 per day (2011 PPP) having declined to 8 percent in 2018. At the same time, rapid urbanization was increasing pressure on the delivery of basic urban services, including water supply and sanitation, across the country.

Urbanization was projected to increase from 31 percent as per the 2011 census to 50 percent over the net 20 years. While there had been a substantial increase in coverage through WSS facilities, service performance was found to have been inadequate. Hardly any Indian city received piped water 24 hours a day, non-revenue water – due to leakages and unauthorized connections – was estimated at 40-70 percent of the water distributed and the operations and maintenance (O&M) cost was only 30-40 percent on average. While 81 of the urban population had access to adequate sanitation, very few cities had sewage networks. Urban Local Bodies (ULB's) were responsible for WSS services; however, infrastructure was often developed by State Agencies and handed over to the ULB's, which might not have the financial and technical capabilities to manage the assets. This led to poor performance due to lack of clear lines of accountability. The GoI recognized that to improve WSS services, sector institutions needed to become customer-focused, efficient and accountable.

Himachal Pradesh exemplified many of the challenges of rapid growth and urbanization that were facing the WSS sector. The population of greater Shimla was expected to nearly double to 0.41 million by 2050, in addition to which the city received an average of 3.6 million tourists per year, thereby putting considerable strain on the historical WSS infrastructure. Water was being supplied only once in two days, for limited hours



and sewer connections served under 70 percent of the population with partial and shared connections. The cost of services was high, since bulk water needed to be pumped 1,400 meters up from the source. On account of low accountability and operational efficiency, Non-Revenue Water was estimated at 50 percent and O&M recovery only 21 percent, necessitating an annual subsidy of over \$12 million.

In response to these challenges, GoHP prepared a comprehensive, transformational program to improve WSS services for the Greater Shimla area, which the DPL would reinforce. In 2018, GoHP and SMC incorporated SJPNL as a “ring-fenced”, autonomous WSS company with devolved responsibilities and managerial and financial autonomy. The reform program was intended to consolidate these actions, to improve operational and financial performance and accountability to customers. Complementary reforms targeted under the program would support a shift from traditional infrastructure financing to a service delivery orientation.

The objectives of the DPL were relevant to the development strategy and priorities set out in the World Bank’s Country Partnership Framework (CPF) for India for FY18-FY22, and in the Systematic Country Diagnostic (SCD, 2018), which underpinned them. A key developmental challenge addressed by the SCD was the need to pivot to a more resource-efficient growth path – with a strong focus (pgs. 38-39) on correcting distortions in energy and water use, including the need for greater efficiency in water use and policies to promote greater demand-side water management. The CPF was organized around four approaches for smarter engagement in India, which included Engaging a Federal India and the need for Strengthening Public Sector Institutions. The former approach envisaged strategic partnerships with select states and the latter, improving institutions through increasing capability and via aligning incentives and strengthened core government systems. Specifically, under Objective 1.1 of the CPF the World Bank supported steps to improve efficiency of natural resources, particularly water, by *inter alia* (i) improving the management of water resources through reforms and capacity strengthening, and (ii) developing efficient, sustainable, performance-based service delivery models for the water sector. It was expected that state-level operations to support water efficiency, and other objectives such as climate resilience, would underpin results. Similarly, Objective 1.2 supported steps to “improve the livability and sustainability of cities in select states”, especially focusing on the need to address deficiencies in basic services, such as water, sanitation, energy and health care.

Rating

b. Relevance of Design

Rating

4. Achievement of Objectives (Efficacy)



Objective 1

Objective

".. to support the GoHP (Government of Himachal Pradesh) in its policy and institutional development program for improving water supply and sewerage services that are financially sustainable and managed by an accountable institution responsive to its customers"

Rationale

The DPL series had one program development objective: to support the GoHP's transformational program to improve WSS services for the greater Shimla Area. This support was intended to be spread across a series of three DPLs, which were subsequently cut back to a single DPL, followed – on the basis of the Government's request - by a PforR of US\$160 million, centered around the same objectives as the original programmatic series.

Theory of Change (TOC): The TOC was based on creating an independent and accountable WSS provider, operating on commercial principles, who would deliver better water supply and sewerage services in a financially sustainable and customer-responsive manner (ICR, p.9). Prior Actions under each Policy Area, specifying the establishment of the establishment of the WSS provider (SJPNL) with a move to cost-recovery tariffs and a clear policy on subsidies, a discernible shift towards performance-based service delivery and energy efficiency, and monitoring of WSS service performance, were expected to lead to longer-term outcomes in the form of improved governance, management and fiscal autonomy of the WSS provider, increased efficiency of WSS operations and increased customer orientation and accountability.

Although the DPL series was formally terminated after completion of DPL-1, the approach followed by the ICR, of assessing results of what could reasonably be expected to be completed by the end of the DPL-1 period, on a pro-rata basis, is valid. As such, results under Policy Area B were not expected to be realized prior to 2024, and could not be pro-rated. Results expected under the second and third DPLs in the series were for the most part based on medium to longer-term reforms that would be put into place, that would widen the geographical area of impact (to peri-urban and satellite towns) and ensure longer-term sustainability. Much of the Government's WSS medium-term program (MTP) continued to be supported under the PforR that replaced DPLs 2 & 3 (ICR, pgs 8-9), thereby ensuring the continuity of reforms and actions initiated under DPL-1.

The achievement of the Program's objectives is evaluated on the basis of results obtained under the Prior Actions to the operation. These objectives were to be achieved through implementation of policy and other actions organized under the respective Policy Areas. Efficacy ratings have been determined by: (a) assessing the extent to which each RI or group of RIs were achieved and rating it on a four point scale (High, Substantial, Modest and Negligible); (b) assigning ratings to the RIs at the policy area level using a six point scale (Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory and Highly Unsatisfactory); and (c) using a numerical rating scale to aggregated the policy area results to an overall efficacy rating. The first two steps are described in the paragraphs below, taking into account the achievement of targets identified in Table 3, and are summarized in Table 4. The derivation of the overall rating is shown in Table 5.

Policy Area A: Improving Governance, Managerial and Financial Autonomy

The DPL operations contributed to a significant improvement in governance, and managerial and financial autonomy in the State's WSS sector. Targets for the majority of (12) results indicators were fully



achieved. The exceptions were RI #12, which could not be verified because the indicator was transferred to the PforR, and RI #9, which was partially achieved because the automatic tariff increases for 2020 and 2021 were deferred on account of Covid 19 (instead, GoHP decided to charge commercial establishments lower residential tariffs due to the absence of tourists, and to compensate SJPNL for lost revenue in the amount of INR 112 crores for 2019-20). As reported by the ICR (p.14), following the creation of SJPNL, the utility achieved “impressive service and governance improvements in its first two years of operation despite the impacts of the Covid-19 pandemic”. SJPNL maintained stringent quality standards, ensuring no further outbreaks of jaundice; reduced transmission losses and increased water supply by 25 percent and sewage collection by 200 percent. This contributed to strong initial revenue growth, allowing the utility to make investments in replacing pipes and pumps. It was also able to implement a 100 percent metering policy and volumetric tariffs. A Corporate Governance and Financial Accountability Assessment of SJPNL conducted by the Bank in December 2020 confirmed that significant progress was achieved in implementing key corporate governance actions, including appointment of the Board of Directors (with two independent members) and of the Managing Director, and the delegation of several financial management and administrative responsibilities, as well as of use of interim procurement procedures. The Company’s audited accounts for 2018-19 were approved by the management and published, with no qualifications recorded in the accounts.

Shimla was on track to improving O&M cost recovery to 66 percent by 2033-34, notwithstanding a slight slowdown due to the Covid-19 pandemic. The move to volumetric billing and metered consumption had a positive impact on revenues. However, given Shimla’s geographical characteristics as a high-altitude city requiring water to be pumped up a considerable height, much remains to be done for the Company to attain full operational cost recovery, which was not possible (nor targeted to be achieved) within the time-frame of DPL1 - hence would be addressed under the PforR operation.

On this basis, the efficacy rating for this Policy Area is **Satisfactory**.

Policy Area B: Increasing Efficiency of WSS operations

Since the time frames for activities falling under Policy Area B extended well beyond DPL1 (many of these being transferred to the PforR), only partial results were obtainable within the period under consideration. Among these, SJPNL successfully introduced an approach to performance-based contracting, by linking up to 40 percent of the contract sum to agreed performance standards. In this way, as reported by the ICR (p. 16), SJPNL recently entered into a design-build-operate (DBO) contract for bulk water offtake, treatment and transmission from the Sutlej river, with a construction period of three years and an O&M period of ten years, with performance parameters included – such as continuous water supply, reduction of Non-Revenue Water (NRW), and strengthened billing and collection. The contract was included as a disbursement-linked indicator (DLI) in the PforR program, with payment to the operator being linked to such parameters as the actual volume of water delivered, water quality, energy efficiency and water loss. SJPNL also initiated the procurement of an operator to implement a continuous water supply project in Shimla city and tested performance-based service contracts for water distribution on a 24x7 basis.

Under energy efficiency, SJPNL was able to replace aged pumps and leaking pipes for energy efficiency improvements and NRW control. A reduction in energy consumption from 7.69 Kwh/m³ to 7.24 Kwh/m³ by 2021, representing noticeable progress towards a 2024 target of 6.15 Kwh/m³.

In light of the fact that most of the activities under this Policy Area extended well beyond the reach of DPL-1’s time-frame, the efficacy of this Policy Area is **not rated**.

Policy Area C: Increasing Customer Orientation and Accountability



Significant progress was registered by SJPNL towards strengthening customer orientation and accountability. The Company successfully implemented a Finance Management System with transparent accounting procedures; implemented a Grievance Redressal Mechanism (GRM) – including provision for online registration of grievances and monitoring redressal; introduced simplified procedures for new water/sewerage connections; and an online system for connection applications, billing and payments. It also launched a Social Outreach Program and IEC Campaign on water conservation and usage, engaging shareholders and NGOs. A biannual customer satisfaction survey (with public disclosure) was launched, as well as a variety of tools to reach customers (website, toll-free number, email address, Grievance Redressal Portal and Walk-In facilities).

Both results indicators under this Policy Area were achieved. Based on the above, the efficacy rating for this Policy Area is **Satisfactory**.

Table 4: Relevance and efficacy rating

Result indicator	Relevance rating	Achievement rating	Efficacy rating (PA)
Policy Area A: Improving Governance, Managerial and Financial Autonomy			
RI #1 (DPL1) - Number of urban local bodies (ULBs) as customers of the SJPNL	Satisfactory	Substantial	Satisfactory
RI #2 (DPL1) - Percentage of decisions on investment, expenditure and staff recruitment referred to GoHP for approval		High	
RI #3 (DPL1) - Annual audited financial statements of SJPNL publicly disclosed		High	
RI #4 (DPL1) - Adherence to HR Policy for hiring MD-cum-CEO with a fixed tenure of at least two years	Satisfactory	High	
RI #5 (DPL1) - Percentage of SJPNL staff receiving performance incentives based on employee performance evaluation		N/A	
RI #6 (DPL1) - Females as percentage of total staff in various services of SJPNL		High	
RI #7(DPL1) - Percentage of corrective actions taken by SJPNL based on recommendations of corporate governance review	Satisfactory	High	
RI #8 (DPL1) - Improved performance of SJPNL as measured by the annual performance scorecard rating		High	
RI #9 (DPL1) - Timely determination of annual tariffs and subsidies	Satisfactory	Substantial	
RI #10 (DPL1) - Volumetric billing of 24x7 customers		High	
RI #11 (DPL1) - Collection efficiency		High	
RI #12 (DPL1): O&M cost recovery (water) Bulk and distribution O&M cost recovery (distribution) O&M cost recovery (sewerage)	Satisfactory	N/A	



Policy Area B: Increasing Efficiency of WSS operations			
RI #13 (DPL1) - Percentage of customers of the WSS company serviced by private service providers receiving continuous water supply and connected to sewage systems	Moderately Satisfactory	Not Rated	Not Rated
RI #14 (DPL1) - Energy consumption of water production from existing sources	Satisfactory	Not Rated	
RI # 15 (DPL1) - Reduction in Non-Revenue Water			
Policy Area C: Increasing Customer Orientation and Accountability			Satisfactory
RI # 16 (DPL1) - Annual reports on SJPNL performance, customer satisfaction, and citizen report cards published and disclosed	Satisfactory	High	
RI # 17 (DPL1) - Percentage of WSS complaints redressed within the specified redressal period	Satisfactory	High	

The above table indicates that the efficacy rating is **Satisfactory** for two of the three policy areas, and Not Rated for the remaining policy area, on account of the fact that the activities extended well beyond the scope of DPL-1 (and were transferred to the PforR operation).

On this basis, overall efficacy for DPL-1 is rated **Satisfactory**.

Rating

Substantial

5. Outcome

The relevance of the prior actions is rated **Satisfactory** based on Satisfactory ratings for RIs under 6 PAs and a Moderately Satisfactory for the RI under one PA (percentage of customers of the WSS company serviced by private service providers receiving continuous water supply and connected to sewage systems). The PAs under all of the Policy Areas had a clear and direct impact on the program objective of improving water supply and sewerage services that were financially sustainable and managed an accountable, customer responsive institution. Although the DPL series was terminated early, reforms had been front-loaded via the prior actions the impact of which was not diluted, since the activities targeted to be completed during period of DPLs 2 & 3 were transferred to the PforR that replaced them, so that continuity could thereby be maintained.

The overall efficacy rating is **Satisfactory**. The rating is based on a Satisfactory rating for two of the three policy areas, the third policy area not being rated, since targets for the results indicators under this area were not expected to be realized during the period of DPL1 (though it was noted in the ICR that considerable progress had been made in implementation of these activities, which were on track to achieve their completion targets). As mentioned in the ICR (17), SJPNL and GoHP remain committed to the reform process and have



confirmed their intention to continue World Bank support under the PforR program (approved by the Board in 2021). The DPL was instrumental in supporting establishment of SJPNL as a corporate entity and setting it on the path to reform through actions related to improved governance, operations and service delivery. As such, with an overall PA relevance rating of Satisfactory and an overall efficacy rating also of Satisfactory, the overall outcome rating for DPL-1 is **Satisfactory**.

a. Outcome Rating
Satisfactory

6. Rationale for Risk to Development Outcome Rating

There are risks to the development outcomes that have been achieved by prior actions undertaken under the DPL series. Key among these is the possibility of persistent or increased net revenue shortfalls on account of delays in tariff/subsidy adjustments due to political economy constraints and the negative impact of the Covid - 19 pandemic on GoHP's revenues, which would seriously impact the financial sustainability of the WSS institution (SJPNL). Secondly, efforts to achieve continuous 24x7 supply of water, which are key to achieving a shift to performance-based service delivery (under PA #5), could conceivably be derailed through exogenous factors. The same is true of the GoHP's efforts to improve energy efficiency in WSS operations (in keeping with PA #6). If this were to happen, it would seriously compromise the progress made under the reforms undertaken via the relevant prior actions. The fact that these objectives continue to be pursued under the PforR may mitigate these risks somewhat, but sustained efforts in the form of continued reforms and investments in service improvement will need to be made to ensure that the progress made so far does not lose momentum.

a. Risk to Development Outcome Rating

7. Assessment of Bank Performance

a. Quality-at-Entry

Quality-at-Entry Rating

b. Quality of supervision

Quality of Supervision Rating



Overall Bank Performance Rating

Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

Government Performance Rating

b. Implementing Agency Performance

Implementing Agency Performance Rating

Overall Borrower Performance Rating

9. M&E Design, Implementation, & Utilization

a. M&E Design

b. M&E Implementation

c. M&E Utilization

M&E Quality Rating

10. Other Issues

a. Environmental and Social Effects



b. Fiduciary Compliance

c. Unintended impacts (Positive or Negative)

d. Other

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Relevance of Results Indicators		Satisfactory	---
Quality of ICR		Modest	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

IEG derives the following lessons drawn from the ICR:

1. The front-loading of key reforms can have a positive impact on program outcomes: Under the Shimla WSS Reform Program, the upfront creation of SJPNL was critical to initiating a virtuous circle in which institutional improvements facilitated improved service and motivated further reforms. SJPNL's experience shows that institutional strengthening, the separation of responsibilities and introduction of accountability mechanisms can lead to performance gains in operations, management and finances – resulting in better quality product (water) and better service provision. These results served to validate the reforms in the eyes of both stakeholders and the public, making it possible to protect the momentum of the reforms, even when there



was pressure from the GoI to terminate the DPL series early, by encompassing them within a PforR that was introduced in its place.

2. A successful strategy to improve cost recovery, especially via tariff increases, needs a clear communication to the public, as well as tangible service improvements, in order to raise willingness to pay. Non-performing public utilities often struggle with a vicious cycle with regard to cost recovery, whereby low service performance undermines consumer willingness to pay, and resultant low revenue flows inhibit service improvements. The example of SJPNL demonstrates that this vicious cycle can be broken, with the public accepting reasonable increases in tariffs in exchange for real improvements in service that are communicated clearly. In SJPNL's case, customer satisfaction rose by a reported 70 percent, as a consequence not only of better service provided but also on account of efforts made by the company to promote information via surveys, advertising and social media.

3. The willingness to devolve power is central to the successful creation of an autonomous utility. In the case of SJPNL, there was support from both the political establishment and the World Bank, as well as strong public pressure arising out of the earlier jaundice epidemic and water scarcity crisis, which also affected the profitable tourism industry. The freedom given to SJPNL to recruit a competent workforce played a key role in meeting targets and providing the basis for achieving a utility turnaround.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR generally reads well, is informative in parts, is concise and broadly consistent with the Bank's guidelines. The sector challenges and government program to improve WSS services are well described, so as to provide a rationale for the DPL program, its objective and policy areas supported. The framework of the PforR program which replaced DPLs 2 & 3 is also described in matrix form. A more detailed matrix (ICR pages 10-13) provides a summary of the program design and outcomes showing the prior actions under each policy area, and their linkage to the results indicators and targets. The indicative triggers for DPLs 2 & 3 are included for clarification.

That said, the quality of analysis is not based on sufficient and balanced interrogation of the evidence, and clear linking of evidence to findings through the results chain. The discussion of both relevance and of efficacy does not look closely enough at the disaggregation of specific prior actions and their linked results indicators, but takes the form of a more general overview. Hence, a clear understanding of the outcomes for groups of prior actions for each policy area does not adequately emerge.

The section on Bank performance, especially on Implementation aspects, is overly brief. Some more details would have helped to justify the rating. The section on Environmental, Forests and Natural Resources provides negligible information.

On the positive side, the lessons provided are based on the experience gained from implementing the DPL and appear to be operationally relevant.



Based on this, the quality of the ICR is rated Modest.

a. Quality of ICR Rating
Modest