

SAR IFGI Suggested Areas for Funding – Water and Sanitation, April 2011

- A. Relevant Sector** - Water Supply and Sanitation – WSS (including solid waste management and drainage)
- B. Theme/Focus Areas for Funding** - Sustainable and Reliable Water Supply & Sanitation Services, Solid Waste Management and Drainage
- C. Why is this important?**

While South Asian countries have expanded water supply coverage over the past decade, there is still a need to augment water sources to many low-income areas in cities/towns and remote villages in lagging regions. Even where formal services are established, there is need for higher quality of services, better service standards and reliability, more efficiency, and sustainability.

Poor quality, unreliable and inefficient services are all symptoms of the highly dysfunctional institutional and policy environment that the WSS sector in South Asia faces. The challenges are well understood – low tariffs, poor cost recovery, lack of clearly delineated service providers, poor accountability/autonomy when there are service providers, low managerial/financial capacity and excessive politicization in the larger cities, and often with supply driven/monopolistic agencies having sector responsibility at the State level. Sector financing is heavily reliant on grants from National and State governments both for investment and recurring expenses.

Decentralization is underway but has not yet delivered on its potential to bring accountability at the local level. The process is hampered by lack of real financial transfers to the local authorities, limited ability of local governments to raise revenues, weak capacity, and resistance amongst state agencies and actors to loosen their grip on power. This provides a challenge both for rural WSS and urban WSS activities.

Rural schemes, which have traditionally relied on community based management for their management, need to be linked back into local government institutions for improved sustainability and accountability - but these institutions remain weak. In addition to working to improve accountability of rural institutions the design of Bank RWSS projects also needs to further evolve in terms of Bank products. The use of programmatic or policy lending in the sector needs to be explored and tested.

Urban schemes on the other hand face a lack of capacity amongst urban local bodies to fully take responsibility for WSS services. This is particularly challenging given that pressure on urban centers is growing, demanding more responsiveness from local authorities. Urban areas are growing rapidly with the percentages of population in urban areas increasing by between 12% (Sri Lanka) and 30% (Nepal) over the next 10 years – with India/Pakistan increasing by ~15%

each (100 million people in India, and 25 million in Pakistan). This increasing urbanization will also result in increasing numbers of urban poor who need to access WSS services. Targeted subsidies and use of results-based aid approaches may be important vehicles in meeting the needs of the urban poor.

Falling between the rural and urban approaches lie the many thousands of small towns that are neither large enough for utility management approaches nor small enough for community management. This “towns sector” is an important and growing focus of the Bank’s engagement in the sector in all countries in the region. Governments in Nepal, Bangladesh, Sri Lanka and India have all expressed interest for more support to this town market segment.

Institutional reform in all market segments – urban, rural, towns - is therefore critical to the Bank’s engagement in the region.

Finally, while the focus of much of the Bank’s work has been on water supply issues, there is now a growing challenge related to sanitation services, particularly in urban areas. Many cities in South Asia lack appropriate investments in urban drainage, sewerage, and solid waste management sectors. Very often, uncollected solid waste ends up clogging the combined systems of drainage and sewerage, flooding the roads and residential areas, which poses serious environmental and health risks in many cities in South Asia. Climate change and increase in extreme weather events also challenge the poor drainage and sanitation situations. There are few cities in South Asia with piped sewerage systems and formally-designated sanitary landfills in the first place. While the Bank has initiated a number of planning studies related to sanitation there has been little investment under dedicated WSS projects, although there has been some as part of more generic “urban” projects. The challenges are many and varied. A cross cutting theme is the issue of how to effectively manage on-site urban sanitation, given that sewers are still many years away in many of the towns and cities of the region. Solid waste management presents a similar challenge. In addition, governments have an excessive focus on water supply - to the extent that their financing replaces other funding for water services that could come from user fees and borrowing. This leads to a situation in which funds cannot be allocated to sanitation services where public investment would be more valuable given the externalities that arise and the relatively low willingness to pay for sanitation and solid waste services vis-a-vis water services.

D. Key policy areas to be supported

The key policy areas to be supported by the AusAid’s Infrastructure for Growth Initiative under WSS would include institutional, operational, and investment policies of water supply, sanitation and solid waste sectors in both urban and rural settings. More details of the targeted policy areas are highlighted below:

- 1. Sustainable Institutional Set-up to Deliver Water Supply & Sanitation Services:** This theme will review the existing delivery mechanisms of both urban and rural water supply and

sanitation services, and help develop and promote more sustainable institutional set-ups. South Asia has many different institutional models to deliver water and sanitation (WSS) services. For example, utilities, state or local governments and national water agencies are responsible for delivering WSS services in urban areas while community organizations and local governments tend to dominate WSS service delivery in rural areas. There is a need to clarify and redefine roles and responsibilities of various agencies involved in the sector, define the regulatory environment, and look into alternative institutional models such as establishment of regional or metropolitan water agencies, private sector participation, small town and multi-village water operators, etc. This activity could include capacity building of various agencies responsible for water service delivery.

2. **More Reliable and Sustainable Services:** There are very few water schemes in South Asia which are operational for 24/7 or achieve even recovery of O&M costs. There is an urgent need to identify bottlenecks that are preventing more reliable and sustainable services of 24/7 and develop practical measures to overcome them. This activity would include examining and disseminating lessons learned from successful models in and beyond South Asia.
3. **Promoting Cost Recovery.** The poor cost recovery in South Asian utilities is a result of a range of issues including lack of incentives, poor management, inadequate technical knowledge and others. But as noted above the solution to this is not simply a matter of increasing tariffs. The inefficiencies and lack of capacity in many utilities means that there are opportunities to reduce the financing gap without recourse to tariff increases. This could be achieved through, for instance better management of key cost centers associated with NRW and energy management, by improved revenue management activities and by improved incentives (that would include the private sector and public-private partnerships PPPs). Attention to these issues will also improve service provision to customers. This activity will fund selected analytical work, case studies and possible planning for investments that aim to reduce the financing gap through efficient service delivery.
4. **Towards More Energy Efficient Systems:** Most water supply and sewerage systems rely heavily on electricity for pumping. In many utilities in the region energy costs comprise 50% or more of operating costs and continue increasing (due to, for example, higher electricity charges, and declining groundwater levels). Energy efficiency is therefore critical to closing the financing gap while at the same time providing additional benefits with regards to climate change. Given the global agenda to reduce carbon emissions, but also to reduce the systems' running costs, energy efficiency of many existing water and sewerage schemes in South Asia need to be improved. This activity will review the energy requirements of selected water and sewerage systems in South Asian cities and identify the priority measures to improve and/or retrofit the systems. This activity could include cooperation between Australian cities and South Asian cities so that South Asia can learn from energy efficient Australian systems.

5. **Urban Drainage, Sewerage and Solid Waste Management:** There is no doubt that more has to be done in South Asia in terms of urban drainage, sewerage, and solid waste management sectors, especially in the era of climate change. The recent catastrophic floods in Pakistan and Sri Lanka highlight the importance of these sectors. This activity will cover a variety of priority studies/analyses in these sectors, including master planning, sector policy and strategy formulation, identification of investment needs, project preparation, etc. The focus will be on urban sanitation, as rural sanitation is either relatively well understood and managed, or low priority compared to the challenges in the rapidly urbanizing towns and cities in the region. The precise nature of the demand for support is evolving but is likely to include urban on-site sanitation (technical, institutional and financial issues), sewerage service provision in urban areas, solid waste management (including collection, transportation and safe disposal, as well as waste reduction, re-use and recycle) and the management of drainage systems. Support on sanitation will build on the work already undertaken by WSP and other development partners.
6. **Climate Change Adaptation:** Today's climate variability already has a large impact on WSS infrastructure and services in South Asia. Millions of people in the region are affected every year by droughts and floods, and future climate change is likely to make things worse. Many client countries are aware that climate change is expected to have serious consequences for water supply, urban drainage, sewerage and solid waste management, but they are unsure on how to incorporate climate information into the management of infrastructure and services. This activity will support more rigorous assessments of risks (flooding, drought, sea level rises) on WSS infrastructure and the corresponding investments and policy measures to better adapt to these climate change risks. Also, in line with the global agenda to reduce carbon emissions, a broad range of emissions reduction related analytical work, advocacy, project design and implementation support will be undertaken, particularly in the areas of energy efficiency, water loss reduction, waste recycling/reduction, and landfill gas collection.

E. Indicative sub-activities that would be funded

For each of the sub –sectors (rural water and sanitation, urban water and sanitation, drainage, solid waste management), the Trust Fund will support the following activities:

- **Developing national or sub-national level policies, strategies, master plans, and regulatory frameworks.** Most countries in the region lack credible policies, strategies, and plans for rural and urban WSS, drainage and solid waste management. This creates a less conducive environment for implementing sustainable service improvements and attracting external assistance. This activity will support client countries in developing policies and strategies aimed at improving governance; financing and infrastructure

development; cost recovery, public-private partnerships, regulation, as well as capacity building professionalization of WSS provider.

- **Studies and technical assistance for institutional set-up and reform measures.** This will focus on the key policy areas identified in section D above, including developing possible institutional arrangements for rural and small towns within the context of decentralization; review of experience in improving accountabilities in the provision of rural water supplies in the region; and WSS public expenditure reviews.
- **Program and project design, preparation, appraisal, and implementation support.** This will include targeted technical assistance and studies to implement the policies and reforms at the operational level, including assessment of feasibility, detailed design of institutional, financial and implementation arrangements, technical/economic/financial analysis, ensuring social, environmental, gender sustainability, results-orientation, monitoring and evaluation.
- **Knowledge generation, learning, dissemination and networking including workshops, peer to peer learning, south-to-south exchanges, field visits, publications, web-based dissemination forums, etc.**

This cluster of activities would focus on the key policy areas identified in a programmatic and multi-year partnership. The activities may take place in any or all parts of the project cycle starting with creation of demand for reform through analytical work and advocacy, designing projects to incorporate the reform agenda, and providing implementation support to help overcome the various obstacles that arise when moving from design into practice. It would also include monitoring and evaluation of the reforms implemented.

F. Synergy with Bank's strategy and work program. Mention if this would leverage any Bank projects or AAA.

The proposed themes will support the Bank's broad strategy for WSS in the region, including a focus on the identified cross cutting operational, policy and institutional priorities namely: strengthening governance mechanisms; ensuring financial sustainability; and improving service delivery. In addition, the proposed work program is directly linked and consistent with the principle of engagements in the CAS across the region. Sometimes this will be in relation to improving public service delivery, sometimes in increasing access to basic services and sometimes through improving local government accountability. It varies from country to country but there is an alignment between the proposed themes and the region's CASs. The analytical work and studies are expected to help identify new ways of doing business, enhance the quality of the Bank's water operations and generate a new pipeline of water supply, sewerage, drainage and solid waste management operations. The activities would leverage more than \$5bn of Bank dedicated WSS projects either active, or in the pipeline, in the region (see Annex 1 – SAR WSS portfolio). In addition WSS feature in many of the region's dedicated urban projects which include investments in water supply and sanitation. Finally, the proposed

work program will be implemented in coordination with WSP and other WSS development partners working in the region.

G. What would be the expected outcomes and benefits? What would be the follow up if any?

The expected outcomes/ benefits three-fold: (i) growth of the portfolio – by providing relevant information to clients on how to improve service and performance of the sector through technical and reform activities, supported by appropriate research work and advocacy. This will lead into the development of new investment projects by the Bank, or more likely, an expansion of the scope of currently planned activities, and thus an increase in the number of project beneficiaries; (ii) quality enhancement of Bank projects – by providing World Bank task team leaders with the information they need to support their clients in making reforms or changes in the way they have traditionally done business; and (iii) innovation in the water sector – by addressing the difficult institutional, financial and technical challenges faced in the region through supporting analytical activities.

Annex 1 – SAR Dedicated WSS Portfolio (2011)

PROJECT ID	PROJECT NAME	COUNTRY	PROJECT STATUS	APPROVAL DATE	CLOSING DATE	PROJECT COST (US\$)	IMP AGENCY
P050653	Second Karnataka Rural Water Supply and Sanitation Project	India	Active	18-Dec-01	30-Jun-13	193,440,000	GOVERNMENT OF KARNATAKA, KRWSSA
P071285	Second Rural Water Supply & Sanitation Project	Nepal	Active	1-Jun-04	30-Aug-11	41,500,000	RURAL WATER SUPPLY & SANITATION FUND DEVELOPMENT BOARD
P083187	Uttaranchal Rural Water Supply and Sanitation Project	India	Active	5-Sep-06	30-Jun-12	224,000,000	GOVERNMENT OF UTTARANCHAL
P087860	Afghanistan Urban Water Sector Project	Afghanistan	Active	25-May-06	30-Jun-12	40,000,000	AFGHANISTAN URBAN WATER SUPPLY & SEWERAGE CORPORATION
P090592	Punjab Rural Water Supply and Sanitation	India	Active	14-Dec-06	31-Dec-13	261,400,000	GOVERNMENT OF PUNJAB
P093988	Dhaka Water Supply and Sanitation Project	Bangladesh	Active	2-Dec-08	30-Jun-13	165,700,000	DHAKA WATER SUPPLY AND SEWERAGE AUTHORITY
P096555	Dhaka Environment and Water Project (DEW)	Bangladesh	Pipeline	10-Jul-12	N/A	110,000,000	MINSITRY OF LOCAL GOVERNMENT/DWASA
P100133	Kabul Municipal Solid Waste Recycling and Composting (Carbon Finance)	Afghanistan	Pipeline	14-Dec-07	N/A	2,000,000	MUNICIPALITY OF KABUL
P100352	Karnataka Municipal Water Energy Efficiency Project	India	Active	11-Nov-09	N/A	1,321,000	KUIDFC
P101650	Andhra Pradesh Rural Water Supply and Sanitation	India	Active	22-Sep-09	30-Nov-14	180,000,000	GOVERNMENT OF ANDHRA PRADESH
P103979	GPOBA - Nepal Biodigesters	Nepal	Active	4-Oct-07	30-Apr-12	5,000,000	NEPAL BIOGAS PROGRAM

P103999	Chittagong Water Supply Improvement and Sanitation Project	Bangladesh	Active	23-Jun-10	31-Dec-15	186,762,000	CHITTAGONG WATER SUPPLY AND SEWERAGE AUTHORITY
P105991	Urban Water Supply and Sanitation Modernization Project	India	Pipeline	9-Aug-11	N/A	1,000,000,000	MINISTRY OF URBAN DEVELOPMENT
P106652	Pakistan: Lahore Composting project	Pakistan	Active	27-Aug-08	31-Dec-13	5,524,000	
P110463	Second Rural Water Supply and Sanitation Project - Additional Financing	Nepal	Active	6-May-08	N/A	41,000,000	RURAL WATER SUPPLY AND SANITATION FUND DEVELOPMNET BOARD
P111161	GPOBA - Sri Lanka Access to Sanitation Project	Sri Lanka	Pipeline	10-May-11	N/A	3,000,000	NATIONAL WATER SUPPLY AND DRAINAGE BOARD (NWS&DB)
P117824	Punjab WASA	Pakistan	Pipeline	31-May-11	N/A	125,000,000	FIVE WASA
P119085	National Ganga River Basin Project	India	Pipeline	31-May-11	N/A	1,556,000,000	MINISTRY OF ENVIRONMENT AND FOREST
P119882	Karnataka RWSS II Additional Financing	India	Active	15-Jun-10	N/A	180,000,000	KARNATAKA RURAL WATER AND SANITATION AGENCY
P121464	Supporting and Operationalising the National Urban Sanitation Policy (NUSP) in India	India	Active	21-Mar-10	30-Sep-13	75,000	NATIONAL INSTITUTE OF URBAN AFFAIRS
P121774	Second Kerala Rural Water and Sanitation Project (Jalanidhi II)	India	Pipeline	28-Jul-11	N/A	222,000,000	KERALA RURAL WATER AND SANITATION AGENCY
P122269	Bangladesh Rural Water Supply and Sanitation Project	Bangladesh	Pipeline	16-Feb-12	N/A	75,000,000	MINISTRY OF LOCAL GOVERNMENT RURAL DEVELOPMENT AND COOP.

P122735	Metro Colombo Integrated Urban Development Project	Sri Lanka	Pipeline	12-Oct-11	N/A	150,000,000	SRI LANKA LAND RECLAMATION AND DEVELOPMENT AUTHORITY
P124021	Rajasthan Water Supply and Sanitation Project	India	Pipeline	28-Jun-12	N/A	230,000,000	GOVERNMENT OF RAJASTHAN
P126325	Third Maharashtra Rural Water Supply and Sanitation Project (Jalswarajya-II)	India	Pipeline	12-Jul-12	N/A	300,000,000	MAHARASHTRA WATER SUPPLY AND SANITATION DEPARTMENT
			25			5,298,722,000	