

Proceedings of the Government of Karnataka

Sub: Implementation of "Karnataka Urban Water Supply Modernization Project"
(KUWSMP) with the World Bank assistance – reg.

Ref: File No. KUIDFC/KUWSMP/Extn/24x7/97 of the Managing Director, KUIDFC.

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Preamble:

Based on the success of 24x7 water supply in the Demonstration Zones in the cities of Belgaum, Gulbarga & Hubli-Dharwad and resolutions passed by the said three City Corporations, approval of the Government was accorded for up-scaling 24x7 water supply to cover the entire Corporation areas of the three cities on PPP basis, vide G.O. UDD 81 PRJ 2008 dated 6.10.2008.

As per the line estimates prepared during 2008-09 for the projected population by 2031, project cost for up-scaling was assessed as Rs.220 crores for Belgaum, Rs.155 cores for Gulbarga and Rs.360 crores for Hubli-Dharwad. Thus, total cost of the Up-Scaling Project was estimated at Rs.735 cores.

A broad investment structure of the PPP project envisaged was as under:

(Rs. in Crores)

1	Investment by Private Operator on construction and O&M	50%	367.50
2	GOI funding under VGF	20%	147.00
3	State Government funding	20%	147.00
4	ULB contribution	10%	73.50
	Total	100%	735.00

The other assumptions were that the private Operator would be paid on annuity basis, subject to adherence to pre-determined performance standards throughout the contract period. These payments would include investment as well as service charges. ULB contributions would be made by the ULBs from out of their own sources or state support of SFC. The ULBs would be required to adopt appropriate tariff structure in consultation with the Government. The

respective ULBs would be responsible for collection of water rates and refund of investments. Releases under SFC grants could be used as guarantees.

Preparation of project reports and structuring for the Up-Scaling Project has been taken up by KUIDFC through Consultants (M/s TATA Consulting Engineers Limited in association with M/s. SREI Infrastructure Finance, Ltd.). As per the project reports prepared by the Consultants for the projected population by 2041, project costs are assessed as under:

Sl. No.	City	Project Cost (Rs. in crores)
1	Belgaum	470
2	Gulbarga	480
3	Hubli-Dharwad	810
	Total	1760

As projects based on annuity payments to the Operator are not eligible for support under VGF scheme of GoI (as informed by GoI vide it's letter No. 3D(3)/1/2008-PPP dated 2.1.2009 in response to the proposal sent by GoK), a proposal seeking financial assistance from the World Bank to an extent of 50% of the above project cost (Rs. 880 crores) was sent to GoI vide letter dated 30.7.2011 of the Chief Secretary, GoK. The proposal was recommended to the World Bank by GoI, vide letter dated 1.1.2012 of DEA. The World Bank agreed for an assistance of US\$ 190 million and communicated the same vide its letter dated 24.1.2012. The up-scaling project is named as "Karnataka Urban Water Supply Modernization Project" (KUWSMP). Project preparation activities are in progress. As a part of the preparatory activities, two studies (a) Sectoral Environmental and Social Assessment (SESA) and (b) Communications & Stakeholder Intermediation Strategy (CSIS) are taken up. Loan negotiations are expected to take place in April 2014. The project in addition to up-scaling of 24/7 in the three cities aims to bring about reforms in urban water sector.

As per the budget presented for 2013-14, 24x7 water supply up scaling projects in Gulbarga, Hubli-Dharwad and Belgaum cities at a total cost of Rs. 1760 crore will be undertaken. The current year budget for this project is Rs. 30.00 crores.

Meanwhile based on the proposals submitted by KUWS&DB, Government accorded approval for implementation of (i) 24x7 water supply in 13 wards (to cover 3 wards fully and 10 wards partly) in Hubli-Dharwad out of the savings of Rs. 42.90 crores (ii) 24x7 water supply in 17 wards (to cover 5 wards fully and 12 wards partly) in Hubli-Dharwad at an estimated cost of Rs. 71 crores under the funding pattern of 40% grant by GoK, 50% loan from financial institutions and 10% ULB contribution vide G.O. No. UDD 14 UWS 2012 dated 12.9.2012 and No. UDD 02 UWS 2012 dated 8.10.2012 respectively. KUWS&DB has already awarded the contract for the works under Rs. 71 crores project and has invited bids for the works under Rs. 42.50 crores project.

The Project Reports for up-scaling 24x7 water supply in the 3 ULBs have been further refined by the Consultants based on consultation with the respective ULBs, KUWS&DB and KUIDFC.

It is proposed to implement the project in phases (viz., I phase to cater for the population by 2026 and subsequently II phase to cater for the population by 2041). Accordingly, investment required for implementation of phase I & phase II is worked out as under:

(Rs in Crores)

ULB	Total Investment	Phase I					Phase II			
		Investment	GoK support	GoK support	ULB contribution	ULB Contribution	Investment	GoK support	GoK support	ULB contribution
Gulbarga	635	489	72%	352	28%	137	146	0%	0.0	100%
Belgaum	663	427	72%	308	28%	120	236	0%	0.0	100%
Hubli-Dharwad	1146	763	72%	550	28%	214	383	0%	0.0	100%
Total	2444	1,679	72%	1,209	28%	470	765	0%	0	100%

Note: (1) Proposed investments include price & physical contingencies and IDC
(2) The investment for Hubli-Dharwad is arrived at duly deducting the investments being made by KUWS&DB.

Taking into consideration both phase I & II, the share of the State Government & the three ULBs works out as under

(Rs in Cr.)

Proposed Investment	Share		% Share	
	GoK	3ULBs	GoK	ULB
2444	1209	1235	49%	51%

Thus the share of the State Government is as per the originally envisaged percentage (i.e. 50%)

Base case scenarios in respect of all the 3 ULBs are enclosed vide Annexure I to III. Also, statements showing component-wise investments under phase I & II in 3 ULBs are enclosed vide Annexure IV to VI

It is to be mentioned here that proposals prepared by KUWS&DB for improvements in water supply in the above 3 ULBs each costing about Rs 200crores are being posed under UIDSSMT. If the proposals are approved, funds that would be available under UIDSSMT may be dovetailed with the funds under the World Bank assisted project.

It is assumed that (i) ULBs would be able to raise the loan by earmarking 35% of untied SFC grant for a period of 12 years (2014-2026) and (ii) each ULB would pay Rs 40crores out of CM's special grant (Nagarothana Phase III) of Rs. 100 crore. It is further proposed that any grants that would be released by the Government to the ULBs for water supply would be earmarked for the project.

It is envisaged that all 3ULBs would open an "Escrow account" for depositing amount to meet their contribution, repayment of loan & towards phase II investment. The ULBs would deposit funds out of CMs special grant (Nagarothana Phase III) of Rs 100crores, 35% of untied SFC grant & any other grants that may be released by the Government for the water supply.

All the three City Corporations have passed necessary resolutions in this regard.

As regards water charges, the volumetric tariff stipulated in G.O. No. UDD 07 UWS 2011 dated 20.7.2011 is adopted with 2% increase per annum. The water charges would be sufficient to meet the O&M expenditure.

Currently, there is an Empowered Committee for KUWASIP headed by the Additional Chief Secretary to Government (the Committee was constituted vide GO No. UDD 168 PRJ 2005 dated 8.2.2006). The said Committee is proposed to be continued to take decisions for implementing KUWSMP (Up-scaling Project)

The proposal was referred to the Finance Department for their concurrence and their opinion is as under;

Finance Department concurs for placing the DCN before the Cabinet with the following conditions/clarification.

- It is mentioned that for the capital investment programme (Rs 1679cr) only 50% funding is expected from the World Bank i.e., Rs. 840 crores (\$130 million). Since it has been mentioned that the entire share of GOK will be met out of the loan to be taken from the World Bank, it should be clearly mentioned in para 10, 11 & 19(ii) of the Cabinet Note that what is the actual share of Government of Karnataka and how the remaining amount for capital investment in phase-I will be met.
- The Department should mention clearly whether the entire capital investment cost of ULB (Rs. 470 cr. In Ph-I and Rs. 765 cr. In Ph-II) will be met out of the loan it will raise by earmarking 35% of untied SFC grant and payment of Rs. 40 cr. out of CM's special grant and other grants released for the water supply by the Government to ULBs or a part of World Bank assistance will be passed on to them. If so, the mode of transfer.
- A new Government Order for constituting of Empowered Committee should be issued.
- Normally the World Bank reimburses statutory deductions like taxes and duties. But it is not mentioned in the DCN. Will the contingency

fund allocated be utilized for meeting statutory deduction expenditures? This may be clarified by the Implementing Agency.

- The funding pattern shown for the project highlights only Government of Karnataka share and ULB share. But the funding pattern should be shown in the following manner:

SI No.	Funding Agency	Phase-I			Phase-II		
		In million \$	In Rs. crore	%	In million \$	In Rs. crore	%
1.	World Bank						
2.	State Share						
3.	ULB Share						
	Total						

Compliance to the comments of the Finance Department are furnished below.

- It is clarified that the capital investment for Phase-I is proposed to be met through 72% assistance from the World Bank(which is about 50% of total capital investment of Rs 2444crores under Phasel & II) & 28% contribution by the ULBs. Whereas, the entire capital investment (100%) for Phase-II is proposed to be met out of ULBs contribution. The investment phasing is shown below;

(Rs in Crores)

ULB	Total Investment						Phase II			
		Investment	World Bank assistance	World Bank assistance	ULB contribution	ULB Contribution	Investment	World Bank assistance	World Bank assistance	ULB contribution
Gulbarga	635	489	72%	352	28%	137	146	0%	0.0	100%
Belgaum	663	427	72%	308	28%	120	236	0%	0.0	100%
Hubli-Dharwad	1146	763	72%	550	28%	214	383	0%	0.0	100%
Total	2444	1,679	72%	1,209	28%	470	765	0%	0	100%

Apart from the capital investment, it is estimated that an amount of Rs 100crores would be required for “project management” & Rs 30 crores for “technical assistance for sector development” under Phase-I. It is proposed to meet the expenditure towards the said components by the State Government.

Thus, taking into consideration both phase I & II including project management & technical assistance components, the share of the World Bank, State Government & the three ULBs works out as under;

SI No	Funding Agency	Phase I + Phase II		
		US \$ Million	In Rs Cr	%
1	World Bank	187	1209	47
2	State Share	20	130	5
3	ULB Share	190	1235	48
	Total	397	2574	100

- It is clarified that ULBs contribution towards implementation of Phase-I & Phase-II will be met out of the loan it will raise by earmarking 35% of untied SFC grant & payment of Rs 40crore out of CMs special grant & other grants released for water supply by the Government.
- A separate Government order regarding constitution of an Empowered Committee for KUWSMP will be issued.
- The estimated capital investment are inclusive of taxes & duties.
- The funding pattern is shown below

SI No	Funding Agency	Phase-I			Phase-II		
		US \$ Million	In Rs Cr	%	US \$ Million	In Rs Cr	%
1	World Bank	187	1209	67	0	0	0
2	State Share	20	130	7	0	0	0
3	ULB Share	72	470	26	118	765	100
	Total	279	1809	100	118	765	100

The Managing Director, KUIDFC has sought approval of the Government to the following proposal:

(i) to implement "Karnataka Urban Water Supply Modernization Project" (KUWSMP) phase-I at an estimated cost of US\$ 279 million (Rs.1809 crores), with an assistance of US\$ 187 million (Rs.1209 crores) from the World Bank.

(ii) to adopt the following funding pattern ;

SI No	Funding Agency	Phase-I			Phase-II		
		US \$ Million	In Rs Cr	%	US \$ Million	In Rs Cr	%
1	World Bank	187	1209	67	0	0	0
2	State Share	20	130	7	0	0	0
3	ULB Share	72	470	26	118	765	100
	Total	279	1809	100	118	765	100

(iii) to the following financial arrangement by the City Corporations of Belgaum, Gulbarga & Hubli-Dharwad:

- a) Earmarking of 35% of untied SFC grant for a period of 2014-2041 towards loan repayment relating to Phase I & execution of phase II works.
- b) Payment of a contribution of Rs 40crores out of CM's special grant (Nagarothana Phase III) of Rs. 100 crores.
- c) Opening of an "Escrow account" for depositing amount to meet their contribution, repayment of loan & towards phase II investment.
- d) Keeping Escrow account in operation for the period 2014-2041 and

(iv) to constitute an "Empowered Committee" to take decisions for implementing the World Bank assisted "Karnataka Urban Water Supply Modernization Project"(KUWSMP).

The Government have examined the proposal in detail and hence this Order.

Government Order No. UDD 244 PRJ 2013, Bangalore dated 7.11.2013

For the reasons explained in the preamble, sanction is accorded for up-scaling 24x7 water supply to the entire corporation areas of Belgaum, Hubli-Dharwad and Gulbarga under the World Bank assisted "Karnataka Urban Water Supply Modernization Project" (KUWSMP) and to the following:

- (i) to implement "Karnataka Urban Water Supply Modernization Project" (KUWSMP) phase-I at an estimated cost of US\$ 279 million (Rs.1809 crores), with an assistance of US\$ 187 million (Rs.1209 crores) from the World Bank.
- (ii) to adopt the following funding pattern ;

SI No	Funding Agency	Phase-I			Phase-II		
		US \$ Million	In Rs Cr	%	US \$ Million	In Rs Cr	%
1	World Bank	187	1209	67	0	0	0
2	State Share	20	130	7	0	0	0
3	ULB Share	72	470	26	118	765	100
	Total	279	1809	100	118	765	100

- (iii) to the following financial arrangement by the City Corporations of Belgaum, Gulbarga & Hubli-Dharwad:

- a. Earmarking of 35% of untied SFC grant for a period of 2014-2041 towards loan repayment relating to Phase I & execution of phase II works.
- b. Payment of a contribution of Rs 40crores out of CM's special grant (Nagarothana Phase III) of Rs. 100 crores.
- c. Opening of an "Escrow account" for depositing amount to meet their contribution, repayment of loan & towards phase II investment.
- d. Keeping Escrow account in operation for the period 2014-2041 and

- (iv) to constitute an "Empowered Committee" to take decisions for implementing the World Bank assisted "Karnataka Urban Water Supply Modernization Project" (KUWSMP).

This Order issues as per the Cabinet meeting held on 30.10.2013 vide No.C.754/2013 and the Finance Department's Note FD420 Exp-9/2013, dated 28.10.2013.

By Order and in the name of the
Governor of Karnataka

Sd/-
(N. Gopalaiah)
Under Secretary to Government
Urban Development Department

To:

1. The Accountant General, Karnataka, Bangalore
2. The Principal Secretary / Secretary to Government, Urban Development Department
3. The Principal Secretary to Government, Finance Department
4. The Managing Director, KUIDFC, Bangalore
5. The Managing Director, KUWS&DB, Bangalore
6. PS to the Hon'ble Minister for Urban Development, Vikasa Soudha, Bangalore.
7. The Deputy Commissioners, Belgaum / Gulbarga / Hubli-Dharwad.
8. The Commissioners, City Municipal Corporation, Belgaum / Gulbarga / Hubli-Dharwad.
9. PS to the Chief Secretary (Cabinet section) (case No. C754/2013)
10. Section Guard File / Spare copies