

# URBAN FINANCE

Quarterly Newsletter

National Institute of Urban Affairs



## Workshop on Alternate Sources of Financing Urban Development

The Government of India has taken several initiatives to improve financing of urban infrastructure. However, the requirements of funds for the sector are so huge that there is need to integrate these initiatives with other alternate methods of financing. Several land based financing methods like higher Floor Space Index (FSI), Transferable Development Rights (TDR), impact fee, area linked development charge, external development charge, betterment levy and private sector participation have been used as tools for financing urban development.

In this context, the Ministry of Urban Development (MoUD) in association with NIUA organized a Workshop on, "Alternate Sources of Financing Urban Development" on March 26, 2009 at NIUA.

The workshop witnessed participation of over 60 representatives from MoUD, TCPO, NHB, ADB, AMDA, World Bank, Planning Commission, Urban Finance and Planning Organizations, and a host of research and academic institutions, international organizations, NGOs, etc.

Prof. Chetan Vaidya, Director, NIUA, welcoming the participants to the workshop emphasized the need to improve India's urban infrastructure and governance to increase productivity and create jobs for the poor. He was of the view that alternate land based sources of financing should be a part of overall city development strategy.

## 2

## Contents

Vol. 12 No. 2  
April -June 2009

Workshop on Alternate Sources of Financing Urban Development	1
Sharing Regional Experiences in Urban Development	3
Centers of Excellence to Strengthen Capacity Building	4
Model National Municipal Asset Valuation Methodology Manual	4
An Exploration of Sustainability in the Provision of Basic Urban Services in Indian Cities	4
Slum Upgrading : Addressing the Challenges	5
Recent Research Studies at NIUA	5
India's Urban Future	6
Urban Statistical Handbook-2008	6
Be Part of a Brighter Future	6
Events organized/supported by NIUA	7



Mr. Noor Mohamad, Prof. Chetan Vaidya, Dr. M. Ramachandran and Mr. VK Phatak participating in the workshop

Dr. M. Ramachandran, Secretary, MoUD inaugurated the workshop and guided the deliberations. He complimented NIUA in organizing such a workshop and said that it will be very useful to share experiences on initiatives using land as a resource for financing urban infrastructure. He also emphasized the need to look in details the following in terms of policy implications:

- Distribution of taxes and development charges - proportion to be recovered from within the city and outside the city;
- Utilisation of user charges and funds raised by the ULBs;
- A detailed study should be made that would list out the practices being followed by different cities and states; and
- The distribution of administrative powers in terms of collection of taxes and charges between States and ULB's.

Mr. V. K. Phatak, Former Chief Town and Country Planner, Mumbai Metropolitan Region Development Authority (MMRDA) and presently Director, National Housing Bank made a presentation on the subject.



Mr. V K Phatak

Mr. Phatak threw light on currently available established sources of funding urban infrastructure and also mentioned about the major hindrances in the process-conventional methods of financing urban infrastructure and their limitations and need for exploring more alternative sources of finance like land and development rights, impact fees, development fees, etc. The key points highlighted were:

- Currently available sources of finance are - revenue surplus, borrowings from financial institutions or from capital market through municipal bonds, inter-governmental transfers, private investment in PPP mode, sale of land and real estate, etc.

- Each currently available source has its own limitations. Revenue surpluses are insignificant as property tax is not buoyant revenue, O & M expenses keep on increasing and user fees do not cover services other than water supply and sewerage. Commercial borrowings or bonds have not become popular for variety reasons. Intergovernmental transfers from state or center is the most favored source. PPPs in urban infrastructure are limited. Therefore, there is a major need to consider alternative sources of finance.
- Land as a resource had a very dominating role during 60's and 70's. The dominant view was - Large-scale advance acquisition of land is by far the best and perhaps the only way to put an end to speculation in land and to capture subsequent increases in land values. Examples are Delhi Development Authority (DDA), Navi Mumbai by CIDCO and many development authorities on a smaller scale. But this method of land value capture seems to be neither adequate nor feasible.
- Infrastructure increases the land value and therefore there is a need to capture it. Increase in land value in turn will lead to an Increment Tax. Examples are Town Planning Schemes in Gujarat and Maharashtra. Though present in Andhra Pradesh and Punjab legislation they are not in vogue. The other approach of introduction of extra FSI at market-linked rates under Transfer of Development Rights was also explained.
- In US and Canada, cities found it difficult to fund incremental infrastructure to service additional growth through increased property tax to service the bonds. This led to Impact Fees in US and Development Charge in Canada. The US judiciary laid down "rational nexus between the investment required and the charge" as the basic criterion for estimating impact fees. Area linked development charges are prevalent in India as well. Maharashtra Town Planning Act allows for such a charge and Punjab state charges external

development charges while granting permission for conversion for land. However, this usually suffers from lack of buoyancy.

- Instead of attempting to tax the land value increment on account of infrastructure, directly taxing the value of property at its inception would be a more effective way of obtaining capital receipts for financing urban infrastructure. This could be termed as an Infrastructure Benefit Tax (IBT). It could be introduced through suitable amendment to the Town Planning Acts. The tax base would be value of the property at the time of construction. This would ensure buoyancy that is absent in area linked development charges. The use of tax revenues for capital infrastructure could be ensured by creating a 'ring fenced fund' in the ULB.
- IBT can avoid problems faced in existing methods. In this case, the development must contribute to infrastructure investment in proportion to its market price.
- Mr. Phatak said that IBT was evaluated with the other available sources of finance like land value increment tax/betterment charges, sale of FSI, impact fee and development charges on the basis of legal feasibility, tax base, administration and revenue potentiality. Last but not the least, the most opportune time for introducing this

new tax would be when the real estate market is in an ascending mode. Mr. Phatak also suggested that any interventions in the land market should: (a) limit planning to essential; (b) pay attention to price of land and internalize price mechanism; and (c) support better land information systems and streamlined procedures.

## Sharing Regional Experiences in Urban Development

The members of High Powered Expert Committee (HPEC) for estimating the investment requirements for urban infrastructure services, under the chairmanship of Dr. Isher Judge Ahluwalia, participated in a Seminar on "Sharing Regional Experiences in Urban Development" organized by the Asian Development Bank (ADB) on April 29-30, 2009 at ADB, Manila.

The Committee held discussions with Mr. Haruhiko Kuroda, President, ADB who said that the Bank is very keen to support urban development initiatives in India. He added that participation of the HPEC in the Seminar and learning from experiences of other Asian countries would help India as well as the ADB. The Seminar had four technical sessions: economic growth and urban development agenda; PPP in urban infrastructure financing; ADB's urban development experience in the Asian region and relevance to India; and discussion on India's urban development and ADB's



HPEC team at ADB, Manila

role. The presentations in the Seminar included city cluster development approach, China's experience in urban planning, privatization of Manila Water Supply, Phnom Penh Water Company, Cambodia, climate change and urban development, PPP in urban development projects in South Korea, non-sovereign operations of ADB, etc. A presentation was also made on the GIFT City, Gujarat. Specific issues and relevance of various case studies to India were identified in the last session. Dr. Isher Ahluwalia mentioned that the Seminar was very useful and thanked ADB for organizing it.

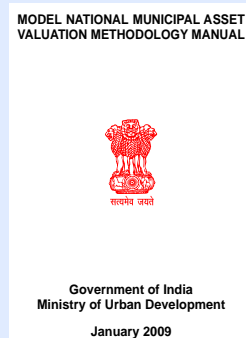


In order, to strengthen the capacity building efforts, the Ministry of Urban Development has approved setting up of 13 Centers of Excellence. These are:

- 1) Administrative Staff College of India, Hyderabad – Municipal Service Delivery, Urban Reforms and Public Private Partnership.
- 2) Centre for Science and Environment, New Delhi – Sustainable Water Management.
- 3) Indian Institute of Technology, Guwahati – Integrated Land Use Planning & Water Resource Management.
- 4) Integrated Research and Action for Development, Delhi – Climate Change Vulnerability and Adaptation.
- 5) Centre for Environment and Development, Thiruvananthapuram – Wastewater Management.
- 6) Indian Institute of Management, Bangalore – Urban Administration and Financial Management.
- 7) Indian Institute of Technology, Madras – Decentralised Waste Water Management and PPP.
- 8) Lal Bahadur Shastri National Academy of Administration, Mussoorie – Urban Development and Management.
- 9) The Energy and Resources Institute, Delhi – Urban Development.

In addition to the above centers in field of urban development, four centers of excellence in area of urban transport at Indian Institute of Technology (IIT) – Delhi, IIT–Chennai, Center for Environmental Planning and Technology – Ahmedabad and National Institute of Technology – Warangal have also been approved.

The Model National Municipal Asset Valuation Methodology Manual has been prepared by the Ministry of Urban Development, Government of India with the support of Office of the Comptroller and Auditor General of India, USAID FIRE-D Project and the NIUA. Infrastructure Professional Enterprise [P] Ltd. has been the consultant for the study.

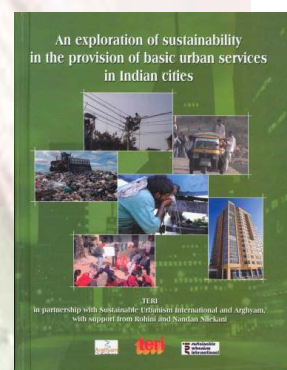


It has been designed for the use of the staff of the ULBs to facilitate bringing on record the value of municipal assets determined during the preparation of opening balance sheet and also determine the appropriate value, useful life and depreciation of municipal fixed assets and their reporting in the financial statements. The manual shall increase the effectiveness of control over municipal fixed assets. It shall also assist the ULBs to present their true and fair financial position, facilitate budgetary planning and control over resources.

The manual lays down policy level guidance in respect of asset valuation. The States of the Union may adopt it sue-motto to suit their needs in line with their respective accounting manual and ULB requirements.

### An Exploration of Sustainability in the Provision of Basic Urban Services in Indian Cities

This report was launched on 17 April 2009 by The Energy and Resources Institute (Teri) in partnership with Sustainable Urbanism International and Arghyam, and with support from Rohini and Nandan Nilekani highlights the state of affairs in cities, and also makes recommendations for making cities sustainable.



The study begins an important and necessary debate about urban sustainability in India. By looking closely at urban local bodies and their provision of basic services, identifying gaps in their effectiveness and ways to improve service delivery, cities can begin the process of reform towards sustainable provision even within the existing administrative and institutional framework. Putting policies and regulations in place to promote energy efficient buildings is an extra step that city governments can take in reform towards sustainability.

Focusing on sectors like buildings, water, solid waste management, transport and power, the report also makes a case for engaging the private sector either on its own or through PPPs in developing sustainable cities.



## Slum Upgrading : Addressing the Challenges

Bhubaneswar Slum Development Project is aimed at improving access of urban slum dwellers to sanitation and water services on a sustainable and equitable basis. The project is being implemented in partnership with Bhubaneswar Municipal Corporation (BMC) and Public Health Engineering Office (PHEO) by Bharat Integrated Social Welfare Agency (BISWA), a local NGO, with technical support from NIUA and USAID FIRE (D) Project. Financial support for the project is from the Michael and Susan Dell Foundation (MSDF).

The Slum Upgrading Project is proposed in seven settlements of the city. The project is aimed at improving access to water and sanitation services to all slum households for a significant reduction in poverty, disease and women's work burden, through a process of community mobilization and inclusion in planning and implementation. The project is also expected to contribute significantly to increase in revenue through community contributions for connection and user charges.



The slum upgrading project will serve as a pilot in the city. It will test the processes and mechanisms for community engagement and participation in planning for sustainable water and sanitation solutions in slum communities. Based on the pilot, the city will prepare a citywide slum upgrading and poverty reduction plan to scale up the initiative across Bhubaneswar.

Based on interactions and combined visits by BMC, USAID FIRE (D) and BISWA, three slums, namely, Gyannagar, Badagada Bhoi Sahi, and Kapileswar Basti have been selected for the first phase of the pilot. Key criteria for selecting the slums were: land tenure or Right of Residence and nearness to available water supply and sewerage networks, and inclusion under Basic Services for the Urban Poor (BSUP) project. On the successful implementation of

the first Phase, four additional settlements will be selected for implementation. Slum upgrading activities will include building of community toilets and baths connected to sewer system and extending water supply connections to households.

Center for Urban and Regional Excellence (CURE), has been appointed by NIUA to design an inclusive strategy for implementing the slum upgrading pilot in Bhubaneswar and provide ground support in implementing the strategy.

## Recent Research Studies



NIUA has initiated three new studies supported by MoUD:

### Study on Sustainable City Form for India

The objectives of this project are to identify gaps in policy and practice relating to sustainable urban form in Indian cities, examine how policy is interpreted and implemented at the local level, and investigate how urban form performs in terms of sustainability. It will be based on case study of two cities namely, Faridabad and Rajkot. A meeting on framework for pilot study took place on 26 May, 2009 at NIUA wherein all the four partners CEPT, Ahmedabad, SPA, Oxford Brookes University and NIUA discussed the focus and scope of the pilot study, finalized the case study areas and had brainstorming on indicators and data collection methods.



Prof. Utpal Sharma, CEPT, Prof. KT Rvindran and Prof. Ranjit Mitra, SPA working on the project details

### Documentation of Urban Transport Initiatives

The study will document the urban transport initiatives (rail based and bus based projects) undertaken in ten cities of India and will document the success stories -best practices in PPP. It will identify the reasons for their success and constraints/problems faced during implementation and operation stages.

### Tracking State Finance Commissions (SFCs) and Central Finance Commission Grants (CFC) in Selected States

The study will focus on the nature of the grants, change in devolution packages, releasing mechanisms of the grants and the impact of these grants on the fiscal health of the ULBs.



### India's Urban Future

An in-house research project on India's Urban Future has been initiated by NIUA. The project aims to review the trend in urbanization in the country and contrast the actual growth rates with the various projections. The migration trends, components of urban growth, changing structure of urban hierarchy and differential of growth rate of urban centers in different size classes, changes in employment and the effects, if any, of the structural reforms and development policies, possible impacts of changes in urban management on the provision of urban basic services and projections for the future along with their development implications would be studied. An attempt would also be made to study the trend of changing poverty ratios across states. Finally a correlation analysis of various developmental indicators would be worked out to assess their possible inter linkages in shaping the development dynamics of the country.

## Be part of a brighter future



The Ministry of New and Renewable Energy, Government of India has launched a programme on 'Development of Solar Cities' during the 11<sup>th</sup> plan period. The goal of the program is to promote use of renewable energy in urban areas by providing support to municipal corporations in developing a roadmap for 'solar cities' or eco/green cities'.

The basic objective of the programme is to empower urban local governments to address energy challenges at city level. Key activities to be conducted are:

- ✧ Preparation of master Plan including assessment of current energy situation, future demand and action plans;
- ✧ Setting up of 'solar city cell' in the municipal body;
- ✧ Build capacity and create awareness among civil society through training programmes, workshops and awareness camps;
- ✧ Preparation of proposals for carbon financing; and
- ✧ Involving various stakeholders in the planning process.

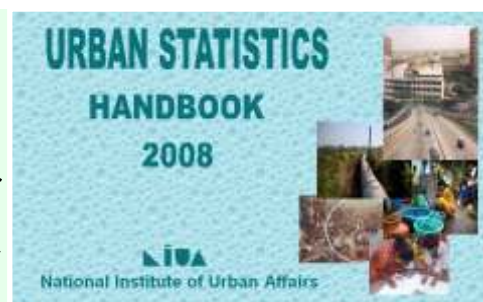
A total of 60 cities are proposed to be developed as Solar Cities during the 11<sup>th</sup> plan period.

### URBAN Statistical Handbook - 2008

NIUA has released the fourth edition of the Urban Statistical Handbook. The publication provides relevant information on various facets of urbanization. It is a comprehensive collection of statistical data relevant for analysis in urban field. Data are presented in an analytical way in order to facilitate their interpretation.

The central concerns of the handbook include: urbanization and migration, economy and employment, housing, transport, poverty, slums, environment, Health, education. There is a separate section on JnNURM and plan-outlays. This comprehensive reference material is an important contribution to the urban sector and a valuable tool for research, policy making and education.

Selected tables from the handbook will be available online at [www.niua.org](http://www.niua.org). Printed versions of the Urban Statistical Handbook can be purchased from NIUA.





## EVENTS

Organized/supported by NIUA

### ⚙️ Developing Communication Material on Urban Reforms

Water and Sanitation Program (WSP) Communication Team meet with NIUA research professionals on May 5, 2009 to discuss the possibility of collaboration in establishing communication materials on reforms in urban water supply and sanitation in India.

The scope of work would include:

- ❖ Collecting material (audio/ visual/ written) from institutes, which are involved in the development, production and dissemination of material, related to urban water and sanitation activities;
- ❖ Cataloging and indexing the collected material using different criteria; and
- ❖ Analyzing and disseminating the information collected through workshops and a catalogue that will be available electronically for ULB managers.

### ⚙️ Presentation by Dr. Rajivan Krishnaswamy to HPEC



Dr. Rajivan Krishnaswamy

Dr. Rajivan Krishnaswamy, former Head of Tamil Nadu Urban Development Fund (TNUDF) and Senior Urban Finance Advisor, Cities Alliance, made a presentation

on the topic "The Role of Institutions in making PPPs work" to the HPEC on May 20, 2009 at NIUA. He said that one can identify three different types of PPPs in the urban context: equity PPPs, debt PPPs; and PPPs through the development of partnerships between municipalities and communities in sharing the costs of assets created in low-income slum neighbourhoods. The debt PPPs are very important for the developed countries like USA and China; but

unfortunately in India, the institutional framework does not allow for their growth. It is a generally acknowledged fact that government investment alone is not sufficient to finance urban infrastructure, and private investment has to be leveraged for that purpose. The policy decision that has to be taken then is whether one decides to leverage equity or debt PPPs. The primary considerations that need to be factored in within the decision-making are the asset characteristics and the size of the city. The small cities being constrained by scale and hence have limited scope of full cost recovery. The small and medium cities can take the help of the financial intermediaries, while the big cities can directly go to the market. He was of the opinion that while the pre-74th CA period urban scenario was marked by financing through ad-hoc grants and the piling up of huge contingent liabilities; but in the post-74th CA period, there was an attempt to look for sources of market-based financing by mobilizing debt and equity PPPs. The presentation was followed by extensive discussion on the topic.

### ⚙️ Afghanistan Urban Team Visits NIUA under USAID Project

The USAID supported, Land Titling and Economic Restructuring (LTERA) Project in Afghanistan is helping the Government to develop a policy on upgrading informal urban settlements throughout the country. As part of this, the project sponsored a study tour to India to

examine the experience of India in upgrading informal urban settlements or slums. The delegation of fifteen members comprising of Members of Parliament, Mayors & deputy Mayors, members of Ministry of Urban Development, Afghanistan and members of the LTERA Project visited NIUA on May 25, 2009. Prof. Vaidya, made a presentation on urban issues in India, Dr. Renu Khosla talked to them on the Cross-Cutting Agra



Afghanistan Delegation at NIUA

Program and Dr. Debolina Kundu, NIUA spoke to the team on land tenure in low-income settlements of Delhi. The program was organised by the Urban Management Center, Ahmedabad. Mr. Ahmed Jawaid Tahinri, Project Management Specialist, USAID, Afghan Mission and Mr. Micheal Sinclair, Project Leader accompanied the delegation.

#### ✿ Visit to Istanbul

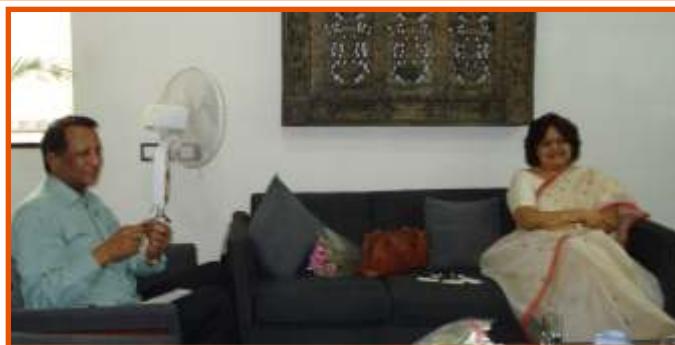
Dr. Debolina Kundu visited Istanbul on policy training on informal economies during 24th to 30th April' 09. She presented a paper on 'Taxation of Informal Economies' jointly with Mr. A. Ogra, consultant, KPMG.

#### ✿ Visit to Dhaka

Ms. Paramita Dey participated in a regional workshop on provision of water supply and sanitation to the urban poor, organized by the Water and Sanitation Programme (WSP), at Dhaka, Bangladesh. The main objective of the workshop was to serve as a platform for information and knowledge sharing and developing a regional level plan of action on the theme Water and Sanitation Services to the Urban Poor. The participants included representatives from WSP-SA, government officials, implementing agencies, NGOs, other partners and donor organizations like DFID, Water Aid etc.

#### ✿ Discussions with KUIDFC

Ms. Neerja Rajkumar, IAS, Chairman, Karnataka Urban Development Infrastructure Finance Corporation (KUIDFC) and Mr. Chandramohan, Director (Finance) held discussions with the senior faculty members of NIUA on 27 May 2009. KUIDFC is planning to undertake a major training and capacity building program for urban sector under World Bank assisted Karnataka Municipal Reform Project. Mrs. Rajkumar said that the major issue with urban capacity building program in the state is to institutionalize the program. NIUA faculty brought out need for making changes in the training approach through changes in recruitment rules and financial incentives. It was suggested by Mrs. Rajkumar that in addition to proposed capacity building program NIUA and KUIDFC should work together to explore the possibility of developing a framework for: model cadre and recruitment rules; certification of the training programs; and independent monitoring and evaluation of the training courses.



Ms. Neerja Rajkumar having discussions at NIUA

#### ✿ Presentation on utilizing Modern Techniques in Computers for Hindi

A presentation was delivered at NIUA on 3 June 2009 by Mr. Kewal Krishan, Director, Rajbhasha, NIC. The presentation focused on utilizing modern techniques in computers for working in Hindi, which was well received by NIUA staff.



Mr. Kewal Krishan

He also briefed on various software's and programmes that have been developed to promote and facilitate usage of Hindi on computers. He requested that only Unicode compliant Hindi fonts (adopted as standard for Indian languages) should be used.

### SUBSCRIPTION

To receive Urban Finance and send your contributions use the following address:

Editor

Dr. M P Mathur

Advisor

Chetan Vaidya

Assistant Editor / Design and Layout

Satmohini Isha  
Srivastava Ray

Secretarial Assistance

C B Pandey

The Editor,  
Urban Finance  
National Institute of  
Urban Affairs  
Core 4B, I & II Floor,  
India Habitat Centre,  
Lodhi Road,  
New Delhi-110003  
Ph : 011-24627543  
Fax : 011-24617513  
Email : [nua@nua.org](mailto:nua@nua.org)  
Website : [www.nua.org](http://www.nua.org)