

URBAN FINANCE



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Pooled Financing Structures for Financing Urban Infrastructure Projects of Small and Medium Urban Local Bodies

Background

The majority of urban infrastructure projects currently being undertaken by urban local bodies (ULBs) depend heavily on subsidized funds

from state governments and other agencies. In addition, institutions such as LIC and HUDCO lend to ULBs as part of their directed lending programs, which rely on state government guarantees. This traditional reliance on cheap and readily available funding has militated against the introduction of user charges and efficient project operations and maintenance.

The declining availability of state finances and the Reserve Bank of India's (RBI) endeavor to bring discipline to lending against state guarantees have limited the flow of funds to ULBs for infrastructure projects. They are compelled, therefore, to explore alternative sources of funding. One such source, which has developed over the last three-four years, is to directly access the domestic capital markets on a sustainable basis.

Direct access to capital markets, which was pioneered under the Indo-US FIRE (D) project, is now an accepted option for the country's larger, financially viable ULBs. In most cases, bond proceeds have been used to fund water and sewerage schemes, and other urban infrastructure. At least 10 ULBs have received investment grade credit ratings and six have successfully issued municipal

bonds. Several others are also in the process of being rated in order to be able to go to the market.

There is no denying, however, that India's larger municipal corporations are in a better position vis-à-vis their smaller counterparts to directly access the capital markets to fund urban infrastructure. Most smaller and medium-sized ULBs, particularly in those states that have abolished octroi, do not have the financial wherewithal to avail themselves of this option. Another constraint to the expansion of the municipal bond market has been the lack of investor appetite for longer-term debt. Until, now, the tenor of municipal bonds has been confined to a maximum of seven years. Attempts at floating municipal bonds with longer tenors have been perceived as too risky for the market and thus unviable for receiving acceptable pricing. Mechanisms to increase tenor, while catering to the needs of the majority of smaller and medium-sized ULBs, are required to further develop the domestic municipal bond market.

A number of states in the United States of America have created state-level pooled financing structures or bond banks to support borrowing by smaller municipalities, who otherwise

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would find it difficult to directly access the capital market. A bond bank is essentially a state-sponsored intermediary, which borrows from the capital markets, usually with some state or federal credit enhancement. The bond bank then on-lends to participating local governments by either purchasing their individual bonds or by providing them with direct loans. By pooling debt in this manner, significant savings can be achieved through reductions in marketing costs and reduced spreads due to higher credit ratings, larger issue size, and wide investor coverage. In a similar manner, the recently created USAID Development Credit Authority (DCA) is available as a credit enhancement facility to lengthen the tenor of loans and to support the establishment of backstop facilities such as debt service reserve funds (DSRF).

The U.S. State Bond Banks

Beginning in the late 1960s, the state-level bond bank concept emerged in a number of smaller states of the U.S. to support the borrowing by smaller (and often weaker) municipalities, which otherwise would find it difficult to directly tap the capital market. A bond bank is essentially a state-sponsored intermediary that provides local governments with access to capital markets through debt issuance. Typically, a bond bank will issue bonds under a master legal indenture and use bond proceeds to purchase debt obligations of localities. Bonds generally are secured by loan repayments from the pool of local borrowers, as opposed to one locality, and in some cases have additional credit enhancement from the state. Because of the diversification in the pool, investors generally require lower interest rates than they would, if they were purchasing a single obligation from one locality.

U.S. state bond banks have been especially active in providing financing for municipal water and sewer needs. They also provide funding for schools, transportation, solid waste management facilities, and economic

development. They have proven to be highly adaptable for taking on new and evolving roles in meeting state infrastructure financing needs.

The Vermont Municipal Bond Bank, which was created by state law in 1969, is generally credited as the first general purpose bond bank in the U.S.A. It was soon followed by the Maine Municipal Bond Bank, Puerto Rico Municipal Finance Agency, Alaska Municipal Bond Bank Authority, North Dakota Municipal Bond Bank, and the New Hampshire Municipal Bond Bank.

Bond banks generally do not issue bonds backed by state guarantees. However, most states provide additional interest rate savings to bond borrowers by pledging some form of credit enhancement to bond bank issues. The type and level of state credit support can vary and is dictated by statutory, financial, and political limitations. The most commonly used credit enhancement of this nature is the state grants-in-aid intercept. Under this arrangement, if a local borrower fails to make a timely payment of principal and interest, state grants to that locality are intercepted to make the debt service payment.

Most bond banks are not reliant on state funds to cover operating expenses. The most common means of support are fees charged to local borrowers. Some bond banks levy lump sum fees at closing, while others charge an annual fee based on outstanding loan amount or mark-up interest rates. No one-fee structure is more commonly used than another.

There are a number of different types of financing programs that bond banks offer to the local governments. Most programs can be categorized into three broad types: (1) long-term bond pools, including refunding; (2) cash flow financing; and (3) equipment lease financing.

Bond banks, as opposed to state revolving funds, do not receive support of any kind from the central government. Furthermore, state bond banks are considered public authorities and,

as such, are not required to file their bond prospectus with the U.S. Securities and Exchange Commission. Most bond banks, however, are required to file Annual Reports and annual Audited Financial Statements with the respective state governor and legislature.

Objective of Domestic State-Level Pooled Finance Mechanism

The objective of a state-level pooled finance mechanism, is to provide a cost-effective and efficient approach for smaller and medium-sized ULBs to access the domestic capital markets for investment in urban infrastructure and to introduce new institutional arrangements for mobilizing urban infrastructure finance.

Structure of the Pooled Finance Mechanism

The following paragraphs describe a generic structure for a state-level pooled finance mechanism, which could be applicable in the Indian context. Of course, a number of variants /options will be available for providing credit enhancement.

The bond issuer will be a trust formed under the Indian Trusts Act or a Special Purpose Vehicle (SPV) which will serve as Debt Fund.. The Debt Fund will be the pooled financing entity, with possibility of initial contributor and settler being a state government entity. The funds raised by the bond issue will either be used to purchase the bonds of or be disbursed as sub-loans to the participating ULBs. An asset management company (AMC) will be named to manage the trust.

For the purpose of debt service, an ESCROW fund may be created, requiring participating ULBs to escrow 1 to 2 years of respective debt service payments out of the specific project revenues or out of ULBs own total revenue sources.

Additional credit enhancement can be provided by establishment of a separate Debt Service Reserve Fund (DSRF) where the initial funding may

come from the State Govt/Govt of India Pooled Finance Development Fund (or from ULBs, Financial Institutions, Donors etc.) and an All India Financial Institution /International donor agency may guarantee outstanding principal and interest payments through the DSRF.

In summary, the key security mechanisms involved in repayment of the bond issue are listed in descending order of utilization as follows:

- Strength of the total revenues of the ULBs;
- Escrow Account comprising amounts equivalent to 1-2 years of debt service (principal and interest) of the participating ULBs,
- DSRF will be maintained in the form of fixed deposits that are equivalent to 1-2 annuity payments; the DSRF is established and replenished by a state government entity with optional participation of an All-India FI; and
- An All-India FI or a Govt of India Pooled Financing Development Facility /or an International Donor agency provide the final backstop to support debt service repayment.

Role of Government of India in Supporting the Pooled Finance Arrangement for Small and Medium ULBs.

i) Need for the Support/Intervention of GOI:

Following the passage of the 74th Constitutional Amendment, even though the local governments have gained increased responsibilities, not much has happened in terms of actual implementation, financial autonomy, amended legislations etc in true spirit of the 74th Amendment.

The absence of qualified personnel, increased losses and leakages, poor management and governance, lack of uniform and transparent accounting

systems coupled with scarcity of funds and poor finances has made it difficult for the smaller and medium ULBs to formulate projects and access the capital market, thereby slowing the reforms agenda and service delivery mechanisms. It is proposed that to facilitate the medium and smaller ULBs to avail the pooled financing mechanism for implementing ongoing and future projects and reforms, the Ministry of Urban Development, Govt. of India may consider setting up of a separate fund /Facility. This initiative / fund can be termed as "The Pooled Finance Development Fund" (PFDF).

ii) Pooled Finance Development fund (PFDF), GOI:

The Objectives of PFDF:

- To provide credit enhancement to facilitate pooled finance borrowing by small and medium ULBs.
- To provide support funding of Debt Service Reserve Funds/ State initiatives which may be required for pooled financing.
- To facilitate introducing municipal reforms for institutional strengthening, financial capacity building and improving the creditworthiness of ULBs.
- Provide technical assistance and support for project formulation and management to the small ULBs for participating in pooled financing structures.

iii) Structure and Mechanism of Pooled Finance Development Fund (PFDF):

- The PFDF will be set up as a Trust under Indian Trust Act.
- PFDF will be managed by Trustees appointed from Public and Private sector.
- Initial corpus of Rs. 2 billion will be provided by the Govt of India with option for funding participation by International Agencies/All India Financial Institutions /State Governments/ other private sources.

- Government of India (GOI) will formulate general guidelines for pooled financing and criterion for evaluation of proposals coming to PFDF.
- The PFDF would invite proposal from state level entities initiating pooled financing for its small and medium ULBs as per guidelines.
- Access to PFDF will be subject to participating small and medium ULBs agreeing to a specific **reform agenda**, which may include:
 - * Accounting reforms
 - * Financial management reforms
 - * Pricing and tariff / reforms
 - * Environmental management & water conservation
- Effort would be made to make this Facility self sustaining over a longer term period after the initial budgetary support

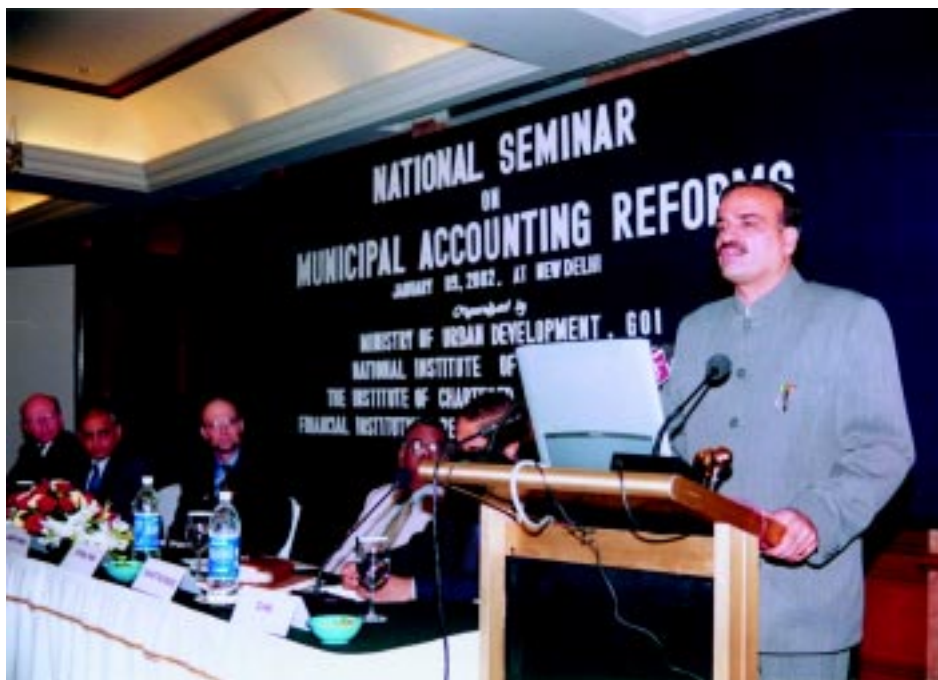
Conclusion

The objective of this GOI support is to provide assistance in credit enhancement for facilitating pooled finance borrowing by the small and medium ULBs; providing rewards and incentives in terms of Technical Assistance support for ULBs following the reforms agenda and facilitate the small and medium size ULBs move towards good governance and sound financial health on a self-sustaining basis. The Pooled Financing mechanism would facilitate the small and medium ULBs to not only prioritize and execute the necessary projects for municipal reforms but also to mobilize and channelise funds for implementation. This would help in decreasing the resource gaps of ULBs and help them to explore Public Private Partnership and improve efficiency in service delivery.

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National Seminar on Municipal Accounting Reforms



A one-day National Seminar on Municipal Accounting Reforms, held on January 9, 2002, was jointly organized by the Ministry of Urban Development, Government of India (GOI), National Institute of Urban Affairs, Institute of Chartered Accountants of India and Indo-US FIRE (D) Project.

The seminar was attended by more than 175 representatives from Central and State Governments, municipal officials, Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India, Comptroller and Auditor General of India, State Accountant General's office, Private Consulting Firms, FICCI, Development Finance Institutions, World Bank, Asian Development Bank, USAID etc, to discuss the Municipal Accounting Reforms in India. The organizers were particularly happy to note the overwhelming response to the seminar, which also demonstrated the interest and the relevance of the subject.

The seminar was inaugurated by Shri Ananth Kumar, Hon'ble Minister for Urban Development, GOI. In his

address, the minister emphasized the need to initiate accounting reforms since the present system of accounts followed by the ULBs has failed to properly evaluate and measure their performance. The minister declared that a national summit is being planned by the Government under the chairmanship of the Hon'ble Prime Minister, before the budget, wherein issues concerning urban development, including issues relating to municipal accounting reforms, would also be discussed. The seminar speakers highlighted the inherent weaknesses in the existing system of cash basis accounting as it fails to depict the financial health or net worth of the ULB or report accounting policies properly. As a result, all participants agreed that municipal accounting needs reforms.

To achieve this goal, ICAI and FIRE (D) project took the initiative, which was supported by Union Ministry of Urban Development. A technical guide designed by ICAI to assist states to introduce a new accounting system based on generally accepted accounting principles was also circulated to the delegates.

Some of the State Governments such as Tamil Nadu, Karnataka and Maharashtra, along with Bangalore and Ludhiana cities, made presentations on their respective initiatives with regard to Municipal Accounting Reforms. There was also a presentation by Delhi Development Authority.

The representatives of ICAI and Comptroller and Auditor General (C&AG) also expressed their views on helping the ULBs to change their existing system to the new modified accrual systems.

The seminar concluded with the delegates taking note of the need for reforms and calling for a creation of a "Task Force" under the aegis of Comptroller and Auditor General of India and comprising representatives from different concerned organizations.

Update On Municipal Bond

Ahmedabad Municipal Corporation City Bonds (Tax-Free) 2002

The Ahmedabad Municipal Corporation has become the first corporation to launch tax-free municipal bonds. The bond was launched on March 7, 2002 for Rs 500 million with the option to retain over subscription of Rs 500 million. These are secured, non-convertible, redeemable tax-free bonds in the nature of debentures. The bond has been assigned AA (SO) rating by the Credit Rating and Information Services of India Ltd. (CRISIL), which indicates a high degree of certainty regarding timely payment of financial obligations. The tenure of bonds is 10 years with expected rate of interest of 9 per cent payable semi-annually. The interest income from these municipal bonds is eligible for tax exemption under section 10(15)(vii) of the income tax, 1961. Incidentally, AMC was also the first corporation to issue a municipal bond without the state guarantee in January 1998.

NIUA's Best Municipal Website Award Goes To Visakhapatnam Municipal Corporation

In order to provide an incentive to the municipal governments to design their own websites, NIUA decided to award the best website prizes for the Municipal Corporations and the Municipal Councils with the support of the on-going Indo-USAID collaborative FIRE programme. Therefore, a Committee, consisting of a panel of experts, was constituted by NIUA. Later on, a sub-committee was created to look into different websites of urban local bodies in detail and was asked to present its report.

The sub-committee went through the Websites of 18 municipal corporations and two municipalities in detail and presented its report along with the detailed criteria.

While judging the websites, the following criteria were considered:

- Coverage of various aspects (contents)
- Interactive with the public (FAQ, Important Phone Numbers, News flash, downloaded application forms, Email contact, access to services through website etc.)
- Current information
- Links
- Design and Format
- Ease Navigation/user friendly
- Grievances and Suggestions

The contents were mainly looked for information regarding:

- Financial Aspects
- Tenders
- Coverage of various services (water and sanitation, solid waste management, health aspects, and any other aspects etc.)
- Information about the corporation and its working including the statistical information
- Rules and Byelaws related to filing of property tax, building rules and municipal acts etc.
- Maps

While going through these websites it was observed that some sites are descriptive and provide large information and procedural details but did not have much

for the user to offer online (Delhi, NDMC, Mumbai, Chennai). The linkages were missing in the websites of Guntur, Ahmedabad and Bhopal Municipal Corporation, though they were mentioned in the site map. Likewise, in case of Pimpri Chinchwad Municipal Corporation (PCMC), the Marathi font was not coming and no message was flashing for downloading the particular font. Some of the sites has a weak information base and did not provide much for the users.

The sub-committee short-listed the following five Municipal websites for consideration of the Committee:

- Visakhapatnam Municipal Corporation;
- Pune Municipal Corporation;
- Coimbatore Municipal Corporation;
- Surat Municipal Corporation;
- Faridabad Municipal Corporation;

The Committee discussed and reviewed these five websites in detail. As it was difficult to rank the websites as best or second best, it was observed that all the websites have some or the other unique plus points. These websites were found to be with excellent innovation and creativity comparable to the websites of high business and commercial houses.

All in all, looking from the users point of view, Visakhapatnam Municipal Corporation's website stood out among others as the site has made effort to provide services of the corporation/municipality in a transparent and accessible manner to the user, thereby narrowing the bridge between the service providers and the service users.

It was therefore unanimously decided that the Visakhapatnam Municipal Corporation should be awarded first prize but efforts of other municipal corporations also needs to be equally applauded and they should be given certificate of merit.

It was also decided to give an award to both the municipalities (Vyara Nagarpalika and Changanacherry Municipality) as they have done a tremendous job in developing their websites and their efforts should be highlighted so that other municipalities could be motivated to have their own websites.

Urban Management Innovations in Indore

The city of Indore, with a population of 1.64 million in 2001, is the largest city in Madhya Pradesh. It is also the state's major commercial and

industrial center. Since 1999, the Indore Municipal Corporation (IMC) has launched a number of innovations to increase citizens' participation in

governance and improve city services. The following are the major innovations:

Visions: The IMC prepared vision for the city in 1999 with the active

participation if its citizens. Working with the United Nations Centre for Human Settlement's Urban Management Program, the corporation led a consultative process and adopted a participatory framework to prepare a vision of a *people friendly city*. The vision emphasized delivering municipal services with greater efficiency, reliability, transparency, and accountability.

People's Participation: The IMC helped local citizens to form 75 resident associations and encouraged them to participate in the city's development programs by contributing cash or services. These associations have facilitated in-kind contributions of residents for construction of roads, repair of water supply pipelines, maintenance of community parks, and collection of solid waste in more than 100 locations in the city.

Urban E-Governance: The IMC introduced new technologies to provide reliable and improved urban services to its people. Data on major revenue sources including property tax and water supply charges is posted on the web for all citizens to see. In addition, citizens submit suggestions and grievances to the city and receive responses via e-mail.

The IMC computerized its systems through a build-operate-and transfer contract with a private firm and introduced double entry accrual-based accounting system. The improved management and computerized systems helped the IMC to double its revenue from its own sources. For example, the number of properties registered for property taxes nearly doubled in two years.

Serving Low-Income Settlements: Nearly one-third of the city's population, about 0.5 million people, live in 480 low-income settlements. The Indore Habitat Project, a slum networking project, provided improved environmental services to 0.3 million residents in 175 of these low-income settlements. Residents participated by contributing their labor and funds to help build streets, latrines, water pipelines and connections, and

improve their houses. The project was implemented with British Overseas Development Assistance support in the early 1990s and received the World Habitat Award in 1997 and the Aga Khan Award for Architecture in 1999. In addition, the IMC provides services to the poor through other schemes including employment generation, social security pensions to old widows, subsidized water supply, low-cost sanitation, paved roads, and solid waste collection.

Insurance for All Citizens: The IMC is the first municipal corporation in India to provide accident/disability insurance to all its citizens. It has insured more than 1.64 million citizens for Rs.10, 000 (US\$ 200) each in case of a fatal or disabling accident. Moreover, all 17,000 female students of municipal schools are insured so that they will receive Rs. 87,000 (US\$ 1720) in case of death of one of their parents.

City Greening: The IMC launched a greenbelt of 130 acres (52 ha) in July 2000. Citizen contributions resulted in more than 15,000 trees being planted in the designated areas. Citizens donated Rs. 251 (US\$ 5) per tree and planted trees in tribute to their departed relatives and friends. The city maintains the greenbelt. All of the trees in this area have survived.

Municipal Bond: With its increased revenue and improved accounting system, IMC was able to issue a Rs. 100 million (US\$ 2 million) municipal bond and raised these funds from private institutional investors. The city used the proceeds to upgrade roads and urban services in the city, with the active participation of residents' associations.

New Partnerships: In addition to the above partnerships, the IMC forged a partnership with the Indo-USAID Financial Institutions Reform and Expansion (FIRE) project. The project is helping municipal officials to increase the city's revenues in various ways, including making optimal use of existing assets, and build their capacity to better govern the city through

providing training and technical assistance.

These innovations introduced by the IMC have brought about democratic decentralization by promoting active participation of all citizens including the poor in building a healthy and livable city.

Delhi High Court Ruling Lifts Rent Control

In a recent judgment, Delhi High Court set aside sections of the Delhi Rent Control Act (DRCA), 1958 that deal with determining and fixing the standard rent. The ruling will provide relief to landlords who get a monthly rent of Rs 3500 or less. As per the judgment, the provisions of the Act are archaic and there ought to be a mechanism to increase the agreed rents keeping in view the price index. The judges held that Sections 4, 6 and 9 of the DRCA couldn't be upheld as they are keeping the rents chained to low levels, which render them arbitrary. As per the observations made by the honourable judges, these sections have not taken into account the huge difference between the cost of living in the past and present and as such do not pass the test of reasonableness.

The court's ruling will provide succour to landlords stuck in a low-rent trap. The petitioners took the government to court, pointing out that because of the DRCA, the rent was pegged at a very low level. The High court said that even the Rent Control (Amendment) Act 57 of 1988, under which the rent could be increased by 10 per cent every three years, had not been able to provide succour to landlords. The court observed that the rent is not commensurate with fast dwindling money value and that it is a pittance.

The bench also took note of several amendments made in the Act by Parliament to address several deficiencies in it in 1995. However, the amended Act got into trouble before being notified as several associations

of tenants approached the High Court challenging the amendments. The High Court refused to direct the Government to notify the Act. The matter is now pending before the Supreme Court as a lobby of landlords has challenged the High Court judgment.

The Capital's traditional business community that functions from rented commercial establishments reacted in anger, the general feeling being that the court had not taken into account the huge amounts that the landlords had extracted while leasing out shops in 1950s. In their view the judgment failed to separate commercial from residential establishments. As per the vice-president of the New Delhi Traders Association (NDTA), in the 1950s, the law did not allow someone to buy a single shop in a complex. One had to buy the whole building and as such they were forced to rent shops instead of buying. As per the NDTA vice-president, the landlords took advantage and charged large amounts as *pugree*.

Rs 800 Million Mobilised Through Priority Bonds by HUDCO

Housing and Urban Development Corporation Ltd (HUDCO) mobilized Rs 800 million through a tax-free priority sector bond issue that was oversubscribed by 50 per cent in three working days.

The company decided to retain a sum of Rs 800 million, being maximum permissible as per the government approval, though it received bids worth Rs 1.2 billion.

As per the Chairman and Managing Director (CMD) of HUDCO, it has been able to mobilise resources through tax-free bonds at a rate, which is competitive to the Reserve bank of India (RBI) rate. The cut-off rate was fixed at 9 per cent per annum for 10 years and 8.4 per cent per annum for 5 years, with the interest payable

annually. The only other tax-free instrument available to the individual investors is the RBI relief bond at 8.5 per cent per annum with interest payable half-yearly.

HUDCO has decided to pass on the benefit to its customers by offering a further reduction in interest rates up to 0.25 per cent for loans above Rs 2 million. It has also reduced the processing and administrative fees by 0.30 per cent with effect from January 2, 2002. This initiative came in wake of the recent reduction in interest rates by the State Bank of India.

According to the Chairman and Managing Director of HUDCO, while commenting on the interest-rate war and on the commercial banks becoming aggressive in the sector, Hudco Niwas offers the lowest equated monthly instalments to customers, thus ensuring maximum savings and benefits to the loanees.

HUDCO is targeting to a 30 per cent market share in the housing finance segment within the next few years, which at present is about 10 per cent. As per the CMD of HUDCO, continuous innovation and research is being done to offer best products to the customer at the lowest possible price. The organization is likely to tie up with some commercial banks to disburse its housing loan product. Furthermore, HUDCO is also foraying into secondary cities in a big way to increase disbursements.

HUDCO is also planning to foray into newer areas of consultancy and insurance.

Need of the Hour - Model Municipal Act With More Powers for Mayors

To ensure benefits of the 74th Constitution Amendment to the urban local bodies, the All-India Council of Mayors demanded that the Centre should bring a Model Municipal Act for all states.

In a memorandum submitted to the Prime Minister, the council emphasized the need for empowerment of all civic bodies by making the constitutional provisions obligatory and mandatory for all states. The chairman of All-India Council of Mayors submitted the memorandum to the Prime Minister, urging him to ensure the Centre's intervention for empowering the urban local bodies as enshrined in the 74th Constitution Amendment.

While inaugurating the 37th All-India Mayors' Conference held for the first time in Lucknow, the Prime Minister emphasized the need for empowering the urban local bodies for dealing with problems arising out of rapid urbanization and called for evolving a national consensus in devolving more administrative and financial powers to the local bodies and the Centre was ready to take up the issue in a meeting of the National Development Council (NDC) to build a consensus in this regard.

As per the Prime Minister, the State Governments were to be blamed more than the Centre for the present state of the urban local bodies, since the Centre has done its job with the historic 74th Amendment in the Constitution, while the state governments were not implementing it in letter and spirit. The Prime Minister drew the attention of the mayors to the problems caused by rapid urbanization and observed that Mahatma Gandhi's words that India resided in villages no longer reflected the reality since urban population is substantial which is increasing at a rapid pace.

The Prime Minister warned that a disaster was in the making with the rapid growth of urban population that creates heavy stress on urban infrastructure. As such, besides providing basic amenities, the urban local bodies should address the problem of water scarcity in urban areas. Furthermore, the population explosion has made it difficult to provide the basic amenities to the masses and hence there was greater need for mayors to make the

functioning of the local bodies more effective.

Referring to recent incident of September 11 terrorist attack at the World Trade Centre in New York, the Prime Minister said "We should learn a lesson from the New York City mayor's performance after the September 11 terror attacks". He, however, added that the rehabilitation work was prompt since the New York mayor had the power, resources and also the trust of the people.

Welcoming the guests, the chairman of the All-India Council of Mayors said that it was for the first time that the Prime Minister inaugurated the mayor's conference. Regretting the plight of the mayors, the chairman said they were called the first citizens of the city, but had no powers.

The All-India Mayors' Council demanded empowerment of all civic bodies in the country and a constitutional provision to make delegation of powers to mayors mandatory for the states. The Council affirmed that the 12th Schedule of the Constitution clearly mentions about powers to urban local bodies, but even after nine years, state governments have not delegated those powers to the urban local bodies. Their powers are not yet clearly defined.

The memorandum, with a six-point charter of demands, contains that the State Finance Commissions had recommended adequate distribution of state taxes, fees and other revenues among civic bodies, but the suggestions have not been implemented in the state governments. It further demanded the right to impose municipal taxes by the local bodies on the properties of the Central Government.

The memorandum recognises the fact that the empowerment of municipal government is a state subject. But as the first step towards decentralization was taken by the Center, it urges upon the central government to take the lead in reviewing the follow-up of the implementation of the provisions of the 74th Constitution Amendment Act.

IL&FS Likely to Come Up With Rs 2 Billion Bond Issues

Infrastructure Leasing and Financial Services Co (IL&FS) is likely to come up with a maiden public issue of bonds worth Rs 2 billion this year.

In this context, IL&FS has approached the Central Board of Direct Taxes (CBDT) seeking concessions allowable under Section 88 of the Income Tax Act. Under Section 88, specified categories of investments qualify for rebate for an amount not exceeding Rs 10,000. The deduction allowable is for an amount equal to 20 per cent of the amount so subscribed. For certain categories, this rate is 25 per cent.

From next year, IL&FS plans to undertake fund mobilization through public bonds on an ongoing basis. At present, IDBI and ICICI have annual public bond issues for raising funds. Whereas IDBI raises funds through "Flexibonds", ICICI does so through its "Safety Bonds" issue. Holders of both these bonds are eligible for rebate under Section 88.

As per the source, the exercise to launch a public bond issue would be in the direction of raising large quantum of funds, at costs lower than those at which the company currently raises funds.

The company is likely to approach the Securities and Exchange Board of India (SEBI) to file an offer document for the proposed issue. For public debt floats, issuers file an shelf prospectus with SEBI for fund mobilisation for the entire financial year. This does away with the requirement of seeking SEBI clearance, each time the issuers need to tap the market during the year.

IL&FS has a large fund mobilisation programme for the current financial year. The proposed bond programme, which would be raised on a private placement basis, has been rated "AAA" by rating agency CARE.

MCD Decides To Privatised Toll Tax Collection

The toll tax collection system is being privatized in Delhi. The Municipal Corporation of Delhi has already taken this decision and the requisite clearances have been taken from the Union Government. The MCD has initiated talks with a few private companies who have assured a minimum toll tax collection of Rs 1 billion per annum as compared to Rs 0.57 billion collected by the MCD, of which nearly 30 to 40 per cent goes into establishment cost, resulting in net income of less than Rs 0.4 billion.

MCD believes that privatization of toll tax collection will generate revenue for the civic body without any investment and establishment cost. It will also result in collection becoming cheaper and customer-friendly. The civic body is highly impressed by the South African company entrusted with the task of collecting toll tax on NOIDA Toll Bridge.

Since there were reports of large-scale corrupt practices in its Toll Tax Department and the civic body being unable to curb it despite taking several measures, this decision was arrived at. According to a senior official of the civic body "The way things are going on in the Toll Tax Department, it will become a liability instead of generating revenue". Rather, the civic body was forced to pay an additional allowance ranging between Rs 500 and Rs 1000 per month to the employees of the Toll Tax Department after their threat to launch an agitation.

Since its introduction in January 2000, the civic body started collecting toll tax from about 40,000 commercial vehicles that enter the Capital from 41 major entry points. The MCD has been using even mobile vans for collecting toll tax. As per the MCD official, nearly Rs 1.5 billion is expected from the Toll tax Depart, while in actual it

has collected just Rs 571.4 million in the first year.

Based on poor collection and large-scale corruption, the civic body has set up a modest Rs 750 million as the target for the year 2001-02 and 2002-03. According to the officials engaged in the process of drawing out the broader terms and conditions for privatization, the rate of toll tax would be fixed by MCD. The private company will be entrusted with the task of collecting the toll tax and use MCD premises for this purpose.

The civic body recently got green signal from the Union Home Ministry to go ahead with privatisation process. It is understood that the Additional Solicitor General has also cleared the proposal from legal point of view.

Rajkot Municipal Corporation Offers For Redevelopment of Kalawad Road on PSP/BOT Basis

Rajkot Municipal Corporation has invited offers for pre-qualification and selection of developer for redevelopment of Kalawad Road on private sector participation/BOT basis, from the competent bidders in the field of construction and/or advertising meeting criteria laid down in Pre-qualification document.

Each bidder shall have to pay an Earnest Money Deposit (EMD) of Rs 0.5 million in form of demand draft favouring the civic body, along with the bid documents.

To be eligible, the bidder/consortium shall have a minimum net worth of Rs 15 million as per the latest audited annual reports. Besides the bidder/consortium shall have either completed a single work on road sector worth at least Rs 40 million during the last five years or construction work in core sector worth Rs 200 million during past five years or consortium between advertising agency and contractor, the bidder/consortium shall have a total revenue of Rs 20 million or above, from advertising activities and shall have completed a single work in road sector worth at least Rs 20 million during the past five years.

Sangli, The First Municipal Corporation To Access The Incentive Grants

The cities of Sangli, Miraj, and Kupwad merged into one municipal corporation in 1998. Located on the banks of the Krishna River in southern Maharashtra, Sangli is a major business center. The present population is estimated at 450,000, including 31,000 slum residents. The existing water and sewerage systems are more than 40 years old and no new schemes have been undertaken in nearly last 20 years. Poor water quality, a main concern of residents, is due to inadequate sewage collection, treatment, and disposal, as well as the dilapidated water supply network and facilities.

The USAID FIRE (D) project is supporting the Sangli-Miraj-Kupwad Municipal Corporation as a model for medium-size cities for improvement of service delivery. The FIRE (D) project is undertaking a comprehensive program of technical support to the city in the areas of PSP in water and sewerage, accounting reforms, energy/water/leak detection audits, solid waste management, resource mobilization, and improved service access to the poor. The city is implementing an accrual accounting system and computerizing its records. It has introduced area-based property tax assessments for new properties and issued service contracts for solid waste collection.

The Sukthankar Committee visited the city to discuss the need for reforms in the water sector with officials. At a workshop in Pune in February 2000, the corporation officials decided to work with FIRE (D) and Infrastructure Leasing and Financial Services Ltd (IL&FS) to develop a demonstration water supply and sewerage project with

PSP. The general body unanimously approved this new approach later that year. The first phase of the project proposes reduction of leaks and energy savings, improved O&M practices, customer service, staff training, and preparation for second-phase investments. The first phase will be implemented through a three-year management contract. The second phase consists of attracting investments to augment the service, and will be implemented through a long-term contract such as a concession that will use a special purpose vehicle jointly operated by the corporation and IL&FS.

The corporation applied to the government for a grant under the restructured capital grants program. The state government announced its support for the first phase in December 2001. The state will provide an Incentive Grant of Rs 60 million (US\$ 1.25 million) to cover 75 percent of the management contract cost. It is expected that the state will award another grant to cover 23.3 percent of the system rehabilitation costs. The corporation entered into an agreement with IL&FS to support the city in the development of the project on February 2, 2002. The corporation met private sector water operators to discuss development options the following week and will begin the bidding process soon. The corporation's proposal played an important role in the state's formulation of government resolutions to implement the new Incentive Grants program.

NATIONAL INSTITUTE OF URBAN AFFAIRS

Launch of website : www.indiaurbaninfo.com

18 February 2002

Jacaranda Hall, India Habitat Centre
Lodhi Road, New Delhi

Supported by

Indo-USAID Project on Financial Institutions Reform and Expansion (FIRE-D)



NIUA Launches New Website as Resource for Urban Professionals

The National Institute of Urban Affairs (NIUA) announced the launch of its new website, the India Urban Information Resource Centre, <http://www.indiaurbaninfo.com>, on February 18, 2002.

The website was launched by Shri Bandaru Dattatraya, Hon'ble Minister of State for Urban Development and Poverty Alleviation. In his address, the minister emphasized that this new website is a valuable resource that will help to achieve the national goals of economic growth and sustainable development.

As per the Director, NIUA, "This new website is a cost-effective way to disseminate information about strategies that work and resources the cities can use."

The website has been developed with the support of the Financial Institutions Reform and Expansion Project, a collaborative project of the Government of India and the United

States Agency for International Development.

The website contains extensive information, searchable by key words, on various aspects of urban management and infrastructure development in the country. The seven databases are:

- *Resource Institutions:* profiles of national and international organizations that provide support related to urban infrastructure and finance.
- *City Profiles:* profiles of cities in India with a population over 1,000,000. Each profile contains information on population, area, distinguishing features, urban innovations and governance of the city. The profiles also contain current contact information of key local officials. This database will be expanded to include more cities.
- *Infrastructure Projects:* descrip-

tions of commercially viable, bankable urban infrastructure projects.

- *Case Studies:* case studies on innovative and replicable management practices in urban infrastructure.
 - *Documents:* abstracts of documents and publications on urban infrastructure.
 - *News Briefs:* short descriptions of news and events from periodicals and newsletters in the urban sector.
 - *Training and Seminars:* announcements of regional, national and international training programmes, workshops, and conferences in the urban sector.
- The website also contains links to the websites of central ministries, infrastructure finance institutions, local governments, research institutions, international agencies, and urban information sources.

Provisions for Urban Development and Infrastructure in the Union Budget 2002-03

Urban Development

- Urban Reform Incentive Fund (URIF) to be set up with an initial allocation of Rs. 5 billion to provide reform linked assistance to States. The fund will seek to give incentive to reforms in Rent Control Laws and repeal of Urban Land Ceiling Acts, rationalization of high stamp duty regimes, revision of bye-laws to streamline the approval process for construction of buildings, development of sites, etc., revision of municipal laws, levy of realistic user charges and resource mobilisation by urban local bodies and initiation of public private partnership in the provision of civic services.
- A City Challenge Fund (CCF) to be set up as an incentive based facility that will support cities to fund transitional costs of moving towards sustainable and creditworthy institutional systems of municipal management and service delivery. A pooled Finance Development Scheme is also to be setup to provide credit enhancement for assisting local bodies to access market borrowing on a creditworthy basis. Allocation for the issue of tax-free municipal bonds is increased to Rs. 5 billion from Rs. 2 billion.

Infrastructure Finance

- An Infrastructure Equity Fund of Rs. 10 billion will be set up to help in providing equity investment for infrastructure projects.
- An institutional mechanism is

Urban Finance, March 2002

WORKSHOP ON SOLID WASTE MANAGEMENT

A two-day national workshop on defining steps required for implementing waste management regulations issued by the Ministry of Environment and Forest was held in New Delhi on December 19, 2001. The workshop, jointly sponsored by the Ministry of Urban Development and Poverty Alleviation (MOUD & PA), U.S. Agency for International Development (USAID) and GEP-CSS was attended by over 130 representatives including central and state governments, municipal officials from more than 35 Indian cities, waste management experts, private firms, financial institutions and other stakeholders.

The Secretary, Ministry of Urban Development and Poverty Alleviation in his inaugural address stated that the Supreme Court involvement in 1997, resulting from a Public Interest Litigation has led to the creation of a Technology Advisory Group under MOUD & PA to provide technical guidance to urban local bodies. The Central Public Health and Environmental Engineering Organization, under the Ministry, brought out a comprehensive Manual on Municipal Solid Waste Management in May 2000.

During the discussion on linkages between urbanization, cities and environment, the Regional Director USAID re-emphasized the need to create healthy "productive cities in India". The Indo-US Financial Institutions Reform Expansion (FIRE) Project, a joint program of the Government of India and United States of America has been working with municipal, state and central governments in India, to develop sustainable urban environment services and ensure that the poor have access to these services.

Another USAID project, the Greenhouse Gas Pollution Prevention Project – Climate Change Supplement (GEP-CCS), focuses on the links between climate change, energy generation, urban development and sustainable development.

During the discussions, a need for addressing critical issues such as inadequate revenue base of local bodies, capacity building, and waste minimization was identified. Besides, need for proactive role at the state level and the need for central advice regarding suitable technologies was identified.

The workshop focused exclusively on Indian context, specifically, actions that can be taken in order to put in place a sustainable model for waste management. The issues explored during the workshop included:

- Ensuring implementation of the waste management regulations
- Responsibilities and critical first steps at the local level
- Role of the private sector
- Financing issues and options in municipal waste management; and
- Support required from the State and Central Government.

being set up to coordinate debt financing by financial institutions and banks for infrastructure projects larger than Rs. 2.5 billion.

IDFC will act as the coordinating institution with primary responsibility for different sectors being shared with the IDBI and ICICI.

URBAN INFRASTRUCTURE NEWS IN BRIEF

- The Australian Agency for International Development (AusAID) is planning to extend A\$20 million assistance per annum for community-aided projects like drinking water supply and sanitation schemes in the north-eastern states and Himachal Pradesh. The funding for the proposed projects is expected to commence shortly at Shillong and Gangtok.
- Waste-based Power Plant for Hyderabad: Integrated with the city's municipal solid waste processing unit, a 6.6 MW power plant project worth 280 million will come up in Hyderabad. The Technology Information Forecasting and Assessment Council had developed a technique to run power plants on solid fuel derived from municipal waste. The Hyderabad plant processes 700 tonnes of waste daily, from which 210 tonnes of solid fuel can be produced.
- The World Bank has agreed in principle to extend financial assistance to the tune of Rs 16 billion to the Maharashtra government for completion of water supply schemes across 16 districts in the state, which has been pending since 1997.
- The Life Insurance Corporation has sought a guarantee from the union government for providing a Rs 50 billion loan to the National Highways Authority of India (NHAI) to part-finance the first phase of the Rs 580 billion National Highways Development Programme.

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