

URBAN FINANCE

Quarterly Newsletter

National Institute of Urban Affairs



Sustainable Cityform India: Some Perspectives

A Conference on Sustainable Cityform: India was organized at NIUA on August 21, 2008. NIUA and Oxford Institute for Sustainable Development at Oxford Brookes University (OBU) teamed up to host this one-day international conference. Other partners included The British Council, Centre for Environmental Planning and Technology (CEPT) Ahmedabad, School of Planning and Architecture (SPA), New Delhi and Indian Institute of Technology (IIT) of Mumbai and Delhi.



Dr. M. Ramachandran and Prof. Nitin Desai jointly launched the book "World Cities and Urban Form" during the International Conference on Sustainable CityForm:India

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Prof. Chetan Vaidya, Director, NIUA welcomed all participants and resource persons. In his opening remarks, he presented a brief background of the conference emphasizing that sustainable urban form based on environmental, social and economic aspects is an area of major debate all over the world, and hoped that this conference would create the required platform for dealing with concerned issues in India.

Dr. M. Ramachandran, Secretary, Ministry of Urban Development (MoUD), in his inaugural address mentioned that in view of emerging urban challenges, Government of India has made substantial efforts to address them. He stated that Indian urban planning process needs to be improved within the framework of sustainable development and linked to issues like resource mobilization, environmental protection and governance. Mainstreaming sustainable development policies and the inclusion of climate-change related measures in urban development initiatives are the need of the

hour. In this context, he appreciated the initiatives by NIUA, OBU and other partners in organizing this conference.

Prof. Nitin Desai, President NIUA and Dr. Ramchandran jointly launched the book "World Cities and Urban Form" edited by Prof. Mike Jenks, OBU and others. Prof. Desai in his keynote address stated that this type of dialogue linking urban and sustainable development is very important. He emphasised that the role of cities and urban design on the global climate is becoming increasingly important.

Prof. Jenks, OBU made a presentation on importance of sustainable urban form and sustainability efforts. Various issues brought out in this discussion included role of density, polycentric but connected network, compact forms, and inclusive design in the city. He added that physical form does not determine behaviour, however, cultural issues play an important role in this process.

Dr. Shibu Raman and Dr. Nicola Dempsey, OBU made presentations on findings from CityForm, UK. The research covers a wide range of findings ranging from energy use, transport behaviour and bio diversity. Extensive discussions on the two presentations took place dealing with optimal size of city, productivity of city, lessons from old city development in India, role of private developers, feasibility of mixed land use and role of governance in developing CityForm.

The four parallel workshop sessions looked at how urban form - the size, shape, density, land uses and layouts of a city - can influence its social, economic and environmental sustainability and transport use.



Technical Session in progress being chaired by Prof. K.T. Ravindran, SPA- Delhi

The parallel technical sessions covered some rich and varied presentations delivered by speakers from outside the country and India.

The closing session was chaired by Mr. A.K. Mehta, Joint Secretary, UD, MoUD. In this session, Prof. Mike Jenks presented a brief summary of deliberations of the conference. He mentioned that there is need to identify key research areas in India and identify role of various partners. Based on the deliberations in the conference, NIUA, OBU and other partners will prepare a research proposal for further action. Mr. Mehta said that the findings of the conference and research are very significant for the Ministry. Some of the areas of key interest for the Ministry are developing appropriate urban form for Indian cities in the context of energy efficiency and transport needs. Prof. Vaidya thanked all the participants and the partners.



Prof. M.P. Mathur, Prof. V.K. Dhar, NIUA and Prof. K.K. Pandey, IIPA participating in the conference

CityForm, U.K. Project

Cityform: Sustainable Urban Form Consortium U.K. is a recently completed large-scale research project, which examined the extent to which high-density, mixed-use urban areas are economically viable, environmentally sound and socially beneficial. The research team looked at how urban form - size, shape, density, land uses and layouts of a city - can influence its social, economic and environmental sustainability and transport use.

The researchers used a wide range of methodological tools including a national household survey to collect residents' views and site surveys to measure the impact of urban form in five UK cities.

Municipal Bonds: Mobilizing Funds for Urban Infrastructure

To fulfill the objectives of Jawaharlal Nehru National Urban Renewal Mission (JNNURM), adequate funds are needed to correct deficiencies in urban infrastructure services. Certain JNNURM reforms, such as property tax system, user charges on basic services, accounting reforms, and re-engineering and e-Governance in key municipal functions are important initiatives that will enable local bodies to access the capital market. To date, fourteen ULBs/utilities from twelve cities and two state level agencies have issued municipal bonds, raising Rs. 1,224 crore. Very few ULBs, however, appear to be planning to use market borrowing as a source of financing: the City Development Plans submitted under JNNURM show that only 22 of the 63 JNNURM cities have proposed market borrowing as part of their investment plans. This would tend to indicate that bond financing for infrastructure is feasible, but also shows there are constraints on the widespread use of municipal bonds as a financing mechanism. The constraints affect both the supply of capital, and the demand for capital. Identifying these constraints and finding ways to overcome them is critical to the continued development of India's long-term bond market.

In this context, a Working Session was organized by the MoUD and Ministry of Finance (MoF) in association with FIRE- (D) and NIUA on July 29, 2008.

Prof. Chetan Vaidya welcomed the participants representing MoUD, MoF, Reserve Bank of India (RBI), SEBI, International Organizations, IDFC, Insurance Regulatory and Development Authority (IRDA), insurance companies, and other stakeholders. Mr. A.K. Mehta, presented a brief background and purpose of the meeting. Dr. M. Ramachandran, in his keynote address, mentioned that large amount of investment is required for urban infrastructure. JNNURM funds are provided by the Government of India to support the development of basic infrastructure in the mission cities, and it is expected that the cities shall access capital market for their overall financing requirements. However, this is not happening and is a matter of concern. He further mentioned that the reform agenda of the JNNURM is helping ULBs to improve their credit worthiness, and will also help to address the demand-side constraints on the use of municipal bonds. These reforms will strengthen the governance and management of the ULBs.

Mr. George Deikun, Mission Director, USAID/India mentioned that USAID assisted the Ahmedabad Municipal Corporation in issuing the first municipal bond in India without a state guarantee, and also



Prof. Chetan Vaidya, Mr. K.P. Krishnan, Dr. M. Ramachandran, Mr. A.K. Mehta, Mr. George Deikun during the Working Session on Developing India's Municipal Bond Market

Karnataka Urban Infrastructure & Finance Corporation (KUIDFC) in issuing a Pooled Finance Bond. He said that improving urban infrastructure is necessary for India to achieve 8-9% annual economic growth rate.

Dr. K.P. Krishnan, Joint Secretary, MoF emphasized the need to develop a financially sustainable municipal bond market. He mentioned there is a need to focus on how more debt funds can be attracted to urban infrastructure in next 2-3 years. He outlined some major supply-side constraints like: institutional investors such as insurance companies are constrained by restriction imposed by IRDA; commercial banks prefer to invest in short- to-medium term as their assets are short- to-medium term in nature; there is lack of credit enhancement for the municipal bonds; and there is a cap on interest rate on tax-free municipal bonds. Dr. Krishnan urged that appropriate recommendations should be made to IRDA, RBI and Pension Fund Regulatory and Development Authority (PFRDA) and Government of India to change some of their regulations to facilitate investment in municipal bonds by Commercial Banks, Insurance companies and Pension Funds, etc.

There were extensive discussions on various issues including the need for a bankruptcy law for ULBs in India, possibility of declaring municipal bonds in the prescribed list of investments for the SLR

Constraints on the Supply of Capital through Municipal Bonds

- ✧ Institutional investors with long-term funds face regulatory constraints on purchasing municipal bonds.
- ✧ Since there is lack of credit enhancement, hedging tools for investors to mitigate credit risk, and limited reliability of credit information, investors perceive municipal bonds to be risky.
- ✧ The fixed cap on tax-free interest from municipal bonds does not respond to market conditions. Municipal bonds become unattractive when market rates exceed the cap.
- ✧ Given the poorly developed government securities market, municipal bonds are relatively illiquid investments for lack of exit opportunities for institutional investors. Further, there is an inefficient clearing and settlement mechanism.

requirements, asset-liability mismatch between investments by banks vis-à-vis infrastructure projects, lack of liquidity in India's bond market due to a variety of reasons, limited capacity of ULBs to service loans, unduly long time taken by the government in assessing municipal bond applications by cities, and lack of professionalism in ULBs, etc.

Mr. A.K. Mehta, explained how various reforms introduced by the MoUD are helping ULBs to improve their credit rating. He mentioned that the ULBs do not have the capacity to develop projects and implement them. He added that ULBs should explore the possibility of issuing taxable bonds, MoUD is looking into issues regarding improved budgeting, accounting, auditing in ULBs, and MoUD will explore the possibility of reducing the time required by the government in approving tax-free bond application. The Working Session resolved to make recommendations to the responsible institutions regarding the supply side constraints. The meeting ended with thanks to the chair and all participants.

Constraints on the Demand of Capital through Municipal Bonds

- ✧ Too few creditworthy issuers seeking bond financing.
- ✧ Limited financially viable projects seeking bond financing.
- ✧ A lack of intermediation support to help issuers achieve bond structures that respond to investor needs while providing the issuer with the longest possible tenor, low interest rate, and low cost of issuance.
- ✧ A variety of "administrative and managerial" constraints. Though, the reforms initiated by the MoUD shall help change the situation. Presently, there is divergence of opinion on the optimal debt equity ratio for ULBs. Therefore, the rating agencies must communicate the optimal debt equity ratio for projects by ULBs.
- ✧ Need for clarity on how the GoI will operationalize the sanctioning mechanism for Tax-Free Pooled Finance Development bonds.
- ✧ Need for further clarity on how will the RBI approved credit rating agency carry out the surveillance throughout the tenor of the Tax Free Pooled Finance Development Bonds.

Doing Business with City Governments

A Workshop on Municipal Licenses and Registering Property organized by Department of Industry and Policy Promotion (DIPP), Ministry of Commerce and Industry was facilitated by NIUA on August 19, 2008. The main objective was to develop comprehensive guidelines for optimizing the procedures for clearances to serve as guide to ULBs/development authorities based on analysis of procedures, cost and time prevailing in select cities of India.

Prof. Chetan Vaidya, while delivering the introductory remarks mentioned that NIUA had been working on this study for almost last one year and was pleased to provide the methodology and findings to the group. He also mentioned that the study would provide important inputs to JNNURM reforms.

Dr. Rajat Kumar, Director, DIPP mentioned that India had been ranked poorly in the World Bank's Doing Business reports. He was glad that NIUA had done a very thorough study in these two issues of dealing with licenses and registering property. NIUA had taken up actual cases, interviewed a number of stakeholders including Government Officials, and also collated the best practices from different cities in the country and suggested a roadmap for reforms.

Shri Ajay Shankar, Secretary, DIPP, in his address stated that in the economic landscape of India and its growth rate was steadily rising. In regard to the foreign direct investment, life of entrepreneurs should be made easy by adopting adequate policy/ procedural reforms in acquiring land, building approval, etc.

Dr. Debolina Kundu, Project Coordinator, NIUA delivered a presentation wherein she mentioned purpose, aim and objectives, methodology, scope, analysis of procedures, time and cost of dealing with



Mr. Ajay Shankar and Dr. Rajat Kumar sharing their views

licenses, and registering properties, along with guidelines /roadmaps for ULBs and development authorities in the country. She also mentioned that it was the first study of its kind in India.

In Registering Property the e-stamping process has started in Pune.

Issues and Recommendations

The following were key issues and recommendations:

- Statutory limits of building plan approval -takes long time for clearances, the procedures are not very clear.
- Building byelaws need to be improved as they are outdated and disseminated.
- Building byelaws for Delhi under the draft Delhi Byelaws Bill can be taken as guidelines.
- Procedures of single window system for approval should be made available on the websites and widely publicized at the local level.
- Transparency of procedures/ checklist of documents should be submitted.
- Listing of properties using GIS should be introduced.
- Software should be developed to strengthen the e-governance initiative of ULBs.
- Corruption has to be controlled.

While reducing the cost, the quality of regulation has to be maintained.

Supporting Capacity Building for Decentralized Urban Governance

As a part of the GOI-UNDP Capacity Building for Decentralized Urban Governance project, NIUA is helping the MoUD in completing the Devolution Index study component of the project.

The 74th Constitution Amendment Act mandated the state governments to devolve a number of functions to the ULBs. In order to find out the extent to which this devolution has taken place, the study will develop a Devolution Index and field test it in eight cities of Kerala, Orissa, Rajasthan and Uttar Pradesh.

Training Needs Assessment for Surat Municipal Corporation

The Surat Municipal Corporation (SMC) has been regarded as one of the models of excellence in urban management. The Corporation has given high priority to implementing managerial and administrative reforms and hence had taken the initiative to undertake training needs assessment exercise for its elected members and officials.

NIUA in association with the Urban Management Centre (UMC), Ahmedabad conducted the study. In order to capture both the qualitative discussions and the individual capacity of the SMC, the study team used the Strengths, Weaknesses, Opportunities, and Threats (SWOT) tool and conducted comprehensive individual questionnaire. Detailed discussions with several officials were conducted. The departments consulted were planning & engineering; social infrastructure; finance and administration. Elected members were also consulted separately, to get their specific inputs on the study. Individual meetings were conducted with key decision makers. Additionally few officials and elected members filled up a self-administered structured questionnaire. Respondents were selected by SMC by position and their responsibility and also by ensuring appropriate women representation.

Some of the main training provision recommendations are:

- Form a dedicated training cell within the Personnel and Establishment Department with a full time training manager who would be responsible for a holistic capacity development of SMC.
- Introduce mandatory induction training for all the staff in the first year.
- Introduce pre-retirement training for officials more than 55 years of age to prepare them for post-retirement options and to assist them in finding a new vocation.
- Make a policy to allocate a percentage of revenue earned in a year for training and capacity building. The report suggests 2%, as a guiding principle, which could be reviewed.
- Most respondents mentioned that they would like to receive training in areas of urban planning,

financial management, contract management and slum upgradation, which are also priority sectors for successful implementation of the JNNURM projects.

- Make training to be a pre-requisite for promotion. SMC may initiate a process of accreditation whereby employees who have undergone training get some points for promotions or salary upgrades.
- Introduce internal staff newsletters to help in information dissemination within SMC. They are a tool for imparting information on upcoming trainings, best practices from other municipal corporations, articles on self help, personal development etc.
- SMC should develop a simple and universal criterion for merit-based selection to nominate staff for long-term training programs.
- SMC's training department should keep parent departments informed of participant's progress, based on the performance evaluation.
- SMC should enter into partnership with training organizations to ensure that training is demand driven and specific.
- Methodologies for provision of training must have a balance of classroom training, group-work and exercises, case studies, films, audio visual aids, oration and presentation.

The report further details out specific training modules for specific class officials of key departments. It also provides a comprehensive list of training providers-their contact details, areas of expertise as well as training modules for few key areas.

Knowledge Exchange Series-II

egov in association with NIUA and FIRE (D) project organized a Knowledge Exchange Series on 'Local Governments in South Africa- its Context, Reforms and Knowledge Sharing for Indian Urban Local Bodies' on 5 September, 2008.

Dr. Michael Sutcliffe, City Manager, and Mr. Krish Ashwanth Kumar, Deputy City Manager, Treasury, e-Thekwini Project, Durban, South Africa were the key speakers in the forum.



EVENTS Organized/Supported by NIUA

✧ Second meeting of High Powered Expert Committee on Investment Requirements for Urban Infrastructure in India

Second meeting of the High Powered Expert Committee (HPEC) under the chairmanship of Dr. Isher Ahluwalia, Chairman ICRIER for estimating the investment requirements for Urban Infrastructure Services was held at NIUA on August 8, 2008. The meeting was attended by Dr. Isher Judge Ahluwalia, Prof. O.P. Mathur, Professor NIPFP, Dr. Nachiket Mor, President ICICI Foundation, Dr. M. Vijayanunni, Former Chief Secretary Kerala, Mr. Sudhir Mankad, Former Chief Secretary Gujarat, Mr Hari Sankaran, MD IL&FS, Mr. Ramesh Ramanathan, Janagraha, Mr P.K.Srivastava, Joint Secretary, MoUD & Mission Director (JNNURM), and Prof. Chetan Vaidya.



Dr. Isher Judge Ahluwalia chairing the HPEC meeting

Mr. Anwarul Huda, Member, Planning Commission also attended the meeting.

In this meeting presentations were made on estimating investment requirements in urban infrastructure in India; need for capturing value of land through cluster approach- a case study of Gujarat International Finance Tech-city (GIFT) near Ahmedabad, financing of existing cities as well as providing support to emerging small and medium towns, and urban governance.

✧ Roundtable on Primers for Mandatory Reforms under JNNURM

A roundtable on mandatory reforms under JNNURM was organized by MoUD, Indo-US FIRE(D) Project and NIUA on August 25, 2008 at NIUA. The meeting was attended by Prof. O.P. Mathur, Mr. P.K. Srivastava and representatives of FIRE Project, State Governments and Research Institutions. Mr. P. K. Srivastava gave a

background of the primers and Mr. Lee Baker, Chief of Party, FIRE Project presented a brief about the approach and status of primers. The draft primers cover rationale, objectives, implementation process, outcomes and timelines.

Participants gave their comments and suggestions on the draft primers. Based on the comments and suggestions, FIRE Project will be finalizing the draft primers for distribution by the Ministry to the State Governments, JnNURM cities, State Level Nodal Agencies, training institutes, etc.



Roundtable on Primers for Mandatory Reforms in progress

Supporting the Jawaharlal Nehru National Urban Renewal Mission

NIUA is supporting MoUD to plan and implement JNNURM. It is one of the agencies to appraise City Development Plans (CDPs) and is presently reviewing New Raipur CDP. NIUA is also one of the three agencies to evaluate reforms in selected cities. It has completed evaluation of the reforms till March 31, 2008 in cities of Andhra Pradesh, Gujarat, Punjab, Chandigarh, Assam, Nagaland, Tripura, Manipur and Mizoram. MoUD has recently engaged NIUA to prepare primers for optional reforms under JNNURM. These reforms are:

- ✧ Introduction of property title certification system;
- ✧ Revision of building byelaws to streamline approval process;
- ✧ Revision of building byelaws to make rainwater harvesting mandatory in new buildings;
- ✧ Earmarking 20-25% of developed land in housing projects for EWS/LIG;
- ✧ Simplification of frameworks for conversion of agricultural land to non-agricultural use;
- ✧ Introduction of computerized process for registration of land and property;
- ✧ Byelaws on reuse of recycled water;
- ✧ Administrative reforms;
- ✧ Structural reforms; and
- ✧ Encouraging public private partnership.

NIUA is providing secretarial and research support to the National Technical Advisory Group (NTAG) under JNNURM from September 2008. The NTAG consists of Mr. Ramesh Ramanathan (Janagraha), Prof. Om Mathur (NIPFP), Mr. K.C. Sivaramakrishnan (CPR), Ms. Sheila Patel (SPARC), Mr. M. P. Vasimalai (Dhan Foundation) and Mr. R. V. Rama Rao (IDPS).

NIUA is the National Co-ordinator for the Peer Experience and Reflective Learning (PEARL) Program under JNNURM.

✧ Visit of the Norwegian Committee to NIUA

Mr. Olav Akselsen, MP and Speaker of Committee on Foreign Affairs, Norwegian Parliament and Chairman of the International Committee of Labour Party, Norway along with eleven members visited NIUA on September 11, 2008. Prof. Chetan Vaidya, made a presentation on "Challenges and Opportunities of

India's Urbanisation". The Committee members had an interesting discussion with NIUA faculty on level of urbanization, urban poverty, SEZ policy, heritage city development, etc. Two members of the Committee represented local governments in Norway and raised specific questions regarding urban local governance in India.



Prof. Usha Raghupathi, NIUA greeting Mr. Olav Akselsen of the Norwegian Committee

SUBSCRIPTION

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