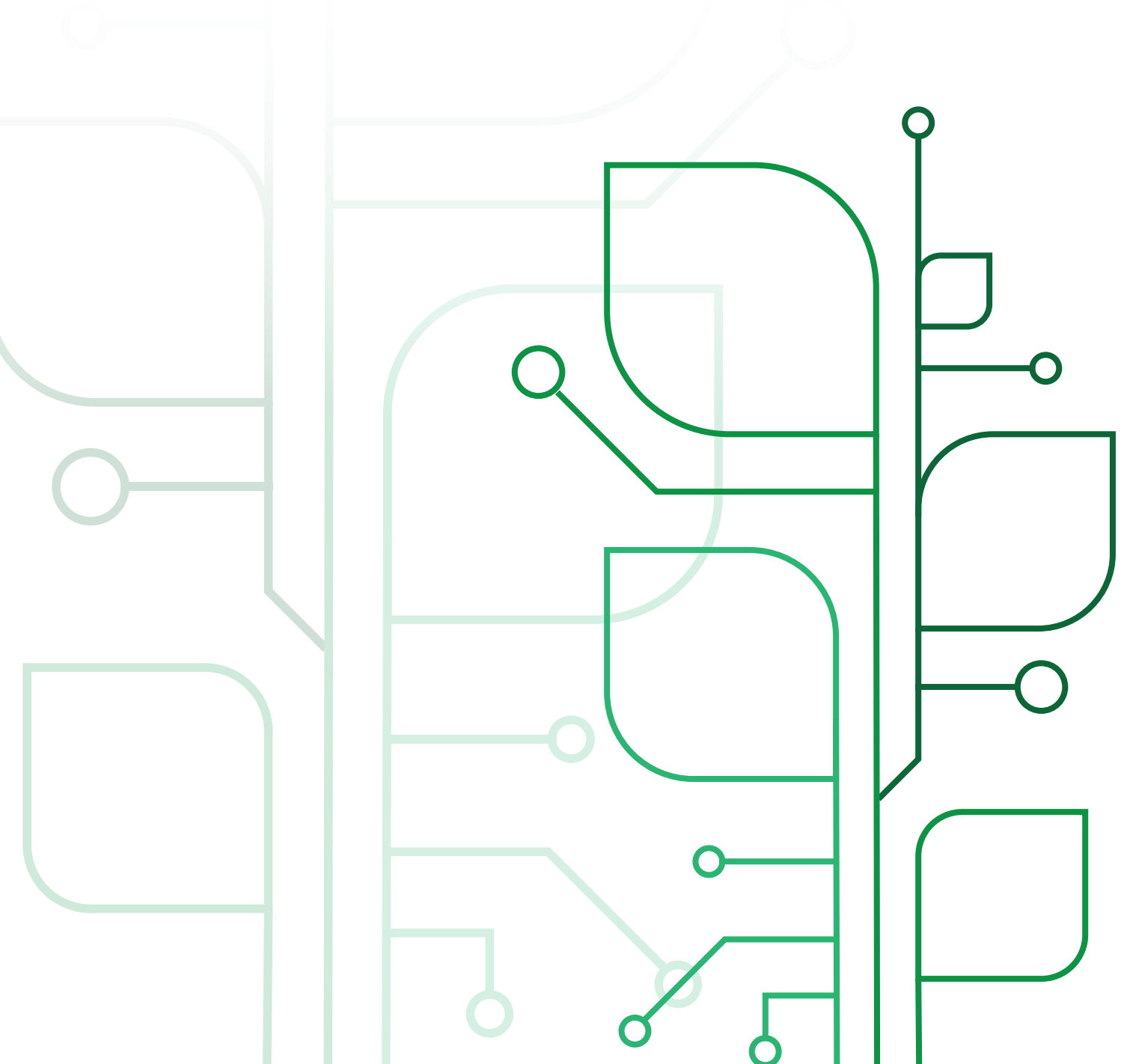




# Program to fund Smart City projects through a Challenge Process







# CONTENTS

1. Introduction.....	5
2. Program Principle and Thematic Areas .....	5
3. Coverage and Duration.....	6
4. Strategy and Components .....	6
5. Selection Process.....	6
6. Program Financing.....	7
7. Funds Release .....	7
8. Program Monitoring .....	9
9. AFD Conditions for Funding the Program .....	9
10. Loan Repayment Process .....	10







## 1. Introduction

- 1.1 One of the key objectives of the Smart Cities Mission is to execute projects that provide core infrastructure and give a good quality of life to citizens, create a clean and sustainable environment and promote application of 'Smart' Solutions. The focus is on sustainable and inclusive development and the idea is to look at compact areas and create a replicable model which will act like a light house to other areas in the city and other aspiring cities.
- 1.2 The Smart Cities Mission aims to set examples that can be replicated both within and outside the Smart City, catalysing the creation of similar Smart Cities in other regions and parts of the country. The total investment proposed in the 100 Smart Cities is INR 2,05,018 crores (approx. USD 31 billion). The proposed initiative 'Program to fund Smart City projects through a Challenge Process is designed to leverage additional funding for innovative projects under the Smart Cities Mission.
- 1.3 The program would not only strengthen the implementation of Smart City Proposals (SCPs) by providing funds for innovative projects, which are either a part of or are strongly linked to the approved SCPs, but will also make available international expertise over the program period.
- 1.4 The program aims at putting in place complementary instruments for the Smart Cities Mission to provide financial incentives and technical support to demonstrative projects selected through a challenge process. Built through a multilevel governance approach, the program has three components namely – CITIIS (City Investments To Innovate, Integrate and Sustain) at City Level; Capacity Development activities at State Level; and Promotion of Integrated Urban Management at National Level.
- 1.5 The implementation agency for this program is National Institute of Urban Affairs (NIUA) with a dedicated Program Management Unit<sup>1</sup> (PMU).
- 1.6 This program is financed by the French Development Agency (AFD) and supported by the European Union (EU) with Smart City Special Purpose Vehicles (SPVs) as the primary beneficiaries at city level.

## 2. Program Principle and Thematic Areas

- 2.1 The core principle of the program is to promote sustainability, innovation and participation in Indian Smart Cities. It supplements the Smart Cities Mission by supporting Smart City SPVs in design, project development (maturation) and implementation for the projects selected under this program through a challenge process.
- 2.2 The program is envisaged to highlight and address specific issues faced by cities across India in developing innovative approaches for urban renewal projects.
- 2.3 Four urban themes are targeted under this program: Sustainable Mobility, Public Open Spaces, Urban E-Governance and ICT, and Social and Organizational Innovation in Low-Income Settlements.

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<sup>1</sup> One staff will be made available to the partner State for coordinating the State component





### 3. Coverage and Duration

3.1 The program will cover all Smart Cities and its duration will be three years (FY2018-19 to FY2020-21).

### 4. Strategy and Components

4.1 The strategy is to provide financial and technical support over a period of three years to develop projects that reflect an innovative and participatory urban approach, mitigate environmental and social risks as well as implement results-based management tools.

4.2 Following are the three components which are derived through the multilevel governance approach adopted by the program.

4.2.1 Component 1: CITIIS<sup>2</sup> (City Investments To Innovate, Integrate and Sustain) – is the main component of the program and intends to bring financial and technical support to approximately 15 selected Smart City projects across India under four thematic areas. This will be operationalized through:

4.2.1.1 City Innovation Challenge also referred as ‘CITIIS Challenge’

4.2.1.2 Tailor-made Mentoring Program

4.2.2 Component 2: Capacity Development activities at State level – intends to create a State capacity development plan to share good practices and enhance the replicability of integrated urban projects. This will be operationalized through:

4.2.2.1 Smart Cities Networking & Peer-Learning

4.2.2.2 State Level Advisory Services

4.2.3 Component 3: Promotion of Integrated Urban Management at National level – will aim at optimizing and strengthening the monitoring and evaluation system of the Smart Cities Mission. This will be operationalized through:

4.2.3.1 Results-based Management tools

4.2.3.2 Knowledge Management

### 5. Selection Process

5.1 Component wise selection parameters are:

5.1.1 Component 1: Under CITIIS component, up to 15 projects will be selected through ‘The City Innovation Challenge’.

5.1.1.1 Only cities with State Government Orders endorsed by State Finance Department indicating agreement to the condition of sharing the repayment of loan with Gol at 50:50 ratio will be eligible for participation in challenge.

5.1.1.2 At least one project would be selected from North Eastern and Himalayan States

<sup>2</sup> Refer to CITIIS Guidelines available on [smartnet.niua.org/citiis](http://smartnet.niua.org/citiis) for the application and selection process





- 5.1.2 Component 2: This will be initiated after the selection of projects under component 1. Under this component States will be identified for partnership with this program based on their interest shown through letter of intent and performance of their cities in City Innovation Challenge.
- 5.1.3 Component 3: Results-based management will first be operationalized in cities selected under component 1 during implementation phase of projects. This will be followed by scaling to all smart cities through capacity building and peer-learning exercises during the program period with the Smart Cities Mission support.

## 6. Program Financing

- 6.1 External aid to the tune of EUR 100 million<sup>3</sup> (INR 735.5 Cr. loan by AFD to GoI) would be provided to selected CITIIS projects in the form of grant. The repayment of the principle and interest would be equally shared by the Central Government and State Government.
- 6.2 External aid to the tune of EUR 6 million<sup>4</sup> (INR 44.1 Cr. Grant from European Union to GoI through Asia Investment Facility) would be made available for technical support through the Program Management Unit (PMU) at NIUA.

## 7. Funds Release

### 7.1 Funding pattern:

- 7.1.1 The transfer of the allocated fund will be as per total projects selected under a particular State and shall be made available by the MoHUA to the State Government. The amount will be given to SPVs as grant by the State Government. However, the repayment of loan will be shared between the Central and State Government on 50:50 basis.
- 7.1.2 Each of the awarded CITIIS projects will benefit from a grant ranging from INR 20 Cr. to INR 80 Cr. The CITIIS grant is expected to cover from minimum 50% up to 80% of the project cost subject to a maximum of INR 80 Cr. and additional funding amounting to at least 20% shall be secured by the awarded cities through its own resources. However, in case of North Eastern and Himalayan States, where the SPV is unable to raise 20% funding through own revenue, the State Government could provide 20% funding to the Project.
- 7.1.3 Selection criteria for projects includes mobilization of funds through other financing sources including co-financing. Higher weightage would be awarded to projects which mobilize funds from innovative financing mechanisms such as municipal bonds, value capture finance, public-private-partnership. The level and allocation of financial support may be adjusted<sup>5</sup> during the selection process and project development (maturation) phase.

<sup>3</sup> at Exchange rate of 1EURO = INR 73.5

<sup>4</sup> at Exchange rate of 1EURO = INR 73.5

<sup>5</sup> Subject to maximum project costs allowed under CITIIS





- 7.1.4 The State Government will commit to releasing the funds as grant to the SPVs within a maximum of 14 working days. The Program Management Unit (PMU) within NIUA is responsible for monitoring the progress of activities under the scheme and advises MoHUA on the release of the funds.
- 7.2 Number of installments:
- 7.2.1 First installment – This first disbursement will consist of an advance to cover expenses related to the project development (maturation) phase representing up to 10% of the total CITIIS project costs<sup>6</sup>. Conditions for release of this installment are signed award letter and tripartite agreement between selected Smart City SPV, corresponding State Government and Ministry of Housing and Urban Affairs.
- 7.2.2 Second installment – The second disbursement shall represent up to 40% of the allocated CITIIS Grant. Condition for release of this installment is the submission of approved DPR as well as Environment and Social (E&S) safeguards documents indicating completion of the project development (Maturation) phase. PMU would assess the request.
- 7.2.3 Third installment – The third disbursement shall represent up to 40% of the allocated CITIIS Grant. The disbursement will be based on requests from SPVs for the release of funds. PMU would assess the request based on the initial financing plan of the project and the achievements of conditions noted below:
- 7.2.3.1 Timely submission of the updated project dashboard to be made available at Smartnet every quarter;
- 7.2.3.2 Satisfactory physical and financial progress, indicating utilization of at least 80% of the second disbursement and 100% utilization of the first installment;
- 7.2.3.3 Timely submission of the SPV annual report including the SPV annual CITIIS project report and the annual audit of the project expenses.
- 7.2.4 Fourth installment – The fourth disbursement shall represent balance fund of the allocated CITIIS Grant based on requests from SPVs for the release of funds. PMU would assess the request based on the initial financing plan and the achievements of conditions noted below:
- 7.2.4.1 Timely submission of the updated project dashboard to be made available at Smartnet every quarter;
- 7.2.4.2 Satisfactory physical and financial progress, indicating utilization of at least 80% of the third disbursement and 100% utilization of the first and second installment;

<sup>6</sup> Fully covered by CITIIS Grant first installment







- 7.2.4.3 Timely submission of the SPV annual report including the SPV annual CITIIS project report and the annual audit for the project expenses.

## 8. Program Monitoring

- 8.1 National Level – An Apex Committee, headed by the Mission Director, Smart Cities Mission, MoHUA, and comprising of the NIUA Director, the CITIIS Program Coordinator (NIUA), a representative of the French Development Agency (AFD) and the Delegation of the European Union (as an observer), shall meet periodically. The Apex Committee will provide overall guidance to the Program. The main responsibilities of the Apex Committee are given below:
  - 8.1.1 Review the proposals evaluated by an independent Jury and issue of the award letters to successful applicants (refer CITIIS Guidelines);
  - 8.1.2 Approve the release of each fund installment of the project;
  - 8.1.3 Review the activities of the scheme including budget, implementation and co-ordination with the Smart Cities Mission;
  - 8.1.4 Guide the selected SPVs and PMU to meet the expected outcomes as defined in the program document and CITIIS Guidelines.
- 8.2 State Level – A High Powered Steering Committee (HPSC) chaired by the Chief Secretary formed as part of Smart Cities Mission will be monitoring the program at State level. Its main responsibilities are given below:
  - 8.2.1 HPSC would ensure all mandatory approvals and clearances are arranged and submitted along with application form. In case any further requirements are identified in winning proposals, SPVs would need to arrange the necessary approvals or clearances during project development phase (maturation phase) of this program to be eligible for any further disbursement;
  - 8.2.2 Endorse the projects proposed by SPVs w.r.t adherence to this program guidelines for submission of application to City Innovation Challenge;
  - 8.2.3 Release the funds at each installment of the project to SPVs;
  - 8.2.4 Review the activities of the projects funded under this scheme.

## 9. AFD conditions for funding the program

- 9.1 In addition to the eligibility and selection criteria, the MoHUA and NIUA shall ensure that the SPVs and selected projects:
  - 9.1.1 Comply with all the terms of conditions of the Program Document and CITIIS Guidelines;
  - 9.1.2 Implement the Program in accordance with the generally accepted safety principles and in accordance with technical standards in force;
  - 9.1.3 Maintain the Program assets in accordance with all applicable laws and regulations and in good operating and maintenance conditions and use such assets in compliance with their purpose and all applicable laws and regulations;





- 9.1.4 Ensure that the funds used for the implementation of the program are not of an illicit origin, and ensure that the Program shall not give rise to any Act of Corruption, Fraud or Anti-Competitive Practice;
- 9.2 In order to promote sustainable development, MoHUA, NIUA and AFD have agreed that it is necessary to promote compliance with internationally recognized environmental and labour standards, including fundamental conventions of the International Labour Organization (“ILO”) and the international environmental laws and regulations. For such purpose, the PMU will ensure that the selected projects proposed by the SPVs shall:
  - 9.2.1 Comply with international standards for the protection of the environment and labour laws, particularly the fundamental conventions of the ILO and the international environmental conventions, in accordance with the applicable laws and regulations;
  - 9.2.2 Include in the procurement contracts, and, as the case may be, in the bidding documents, a clause whereby the contracting parties and their sub-contractors (if any) agree, to comply with such standards as stated in 9.2.1 in accordance with the applicable laws and regulations of India;
  - 9.2.3 Put in place appropriate mitigation measures specific to the selected projects as defined within the context of the environmental and social risk management policy of the project and described in the Environmental and Social Commitment Plan (ESCP);
  - 9.2.4 Require that the Contractors appointed for implementation of the selected projects, apply the mitigation measures set out in the ESCP and procure that their subcontractors (if any) comply with all such measures and take all appropriate steps in the event of a failure to put in place such mitigation measures;
- 9.3 AFD will perform a third party technical evaluation within two years after the closure of the program.

## 10. Loan Repayment process

- 10.1 The repayment conditions of AFD loan agreement with Government of India shall be applicable back to back to the State Government for 50% of the transferred funds.
- 10.2 For each selected project, a tripartite agreement will be signed between the Ministry, the State Government and the awarded SPVs, including details on the repayment conditions for the State and the Government of India.

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<sup>6</sup> Fully covered by CITIIS Grant first installment







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