The key to financing the massive investment required in urban infrastructure, particularly in the water and sanitation sector, is to develop linkages between financial agencies, technical organizations working in the sector and municipal decision makers.

This information note designed by the Urban Think Tank, will provide you with pointers towards this goal and help you in your quest to finance vital urban services. We at the Ministry of Urban Affairs & Employment feel that the note is a useful source of information. You may, therefore, like to get associated with the Think Tank. You may like to contact the Think Tank or the agencies listed directly.
The Urban Think Tank

The Regional Water and Sanitation Group-South Asia (RWSG-SA) of the UNDP-World Bank Water and Sanitation Program has been hosting regular meetings of the Urban Think Tank since December 1994.

The Urban Think Tank brings together practitioners working in the various areas of provision of water supply and sanitation for an informal discussion on a wide range of issues.

The Fifth Urban Think Tank was organised in Delhi on the 9th of June. It was the first in the series of Urban Think Tanks to directly focus on Municipal Managers and is a collaborative effort of the RWSG-SA and the Department for International Development (DFID).

It is now customary for the Urban Think Tank to produce an information note such as this for dissemination to municipalities all over India.

The Fifth Urban Think Tank focused on “Financing Options for Water and Sanitation”, and the output of the Think Tank is this information note which was produced by the participants. The intention of this information note is to provide brief information on those domestic agencies which municipalities can approach to finance provision of water supply and sanitation services.

The Urban Think Tank is a participatory forum and we will appreciate receiving your comments and suggestions on topics that you feel are important for managers of urban local bodies such as yourselves. Please write back to us, particularly if you wish to participate in the Think Tank.

The Think Tank has been kindly invited to Nagpur by the Nagpur Divisional Commissioner, and the Sixth Think Tank will be held on September 17, 1998 in Nagpur.

Key Financing Institutions: A Profile

Ministry of Urban Affairs and Employment (MUA&E)

Water supply and sanitation is a state subject and the Department of Urban Development of the Ministry of Urban Affairs and Employment (MUA&E) assists the state governments in their programmes by way of formulating broad policy framework, providing legislative support, providing central assistance through centrally sponsored schemes, providing technical guidance, organising training workshops, sponsoring research and development projects and processing assistance from bilateral and multilateral international institutions for state government projects.

The Ministry runs the following centrally sponsored schemes for urban water and sanitation:

Low Cost Sanitation for Scavengers

It finances conversion of existing dry latrines into low cost water seal pour-flush latrines and construction of new sanitary units where none exist, to prevent open defecation. The scheme is operated by providing subsidy from the MUA&E and loans from the Housing and Urban Development Corporation (HUDCO) in a synchronized manner so that the conversion/construction of low cost sanitation units and liberation of scavengers is done on a whole town basis.

Accelerated Urban Water Supply Programme

This scheme is funded by the central and the state governments in the ratio of 50:50 to provide safe and adequate water supply facilities to entire population of towns having population less than 20,000 in the country.

Public Health Engineering Training

Development of trained manpower is one of the thrust areas of the Ministry. The Central Public Health Environmental Engineering Organisation (CPHEEO) organises various training courses through academic institutes and field departments. Grants are provided to recognised engineering colleges and training institutions for conducting post-graduate, short-term and refresher courses.

Source: Ministry of Urban Affairs and Employment, Annual Report 1996-97

<table>
<thead>
<tr>
<th>Agencies eligible for loans from HUDCO</th>
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<tbody>
<tr>
<td>• State Urban Finance Corporations</td>
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<tr>
<td>• Water Supply and Sewerage Boards</td>
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<tr>
<td>• Development Authorities</td>
</tr>
<tr>
<td>• State functional agencies for Housing and Urban Development</td>
</tr>
<tr>
<td>• New Town Development Agencies</td>
</tr>
<tr>
<td>• National Capital Region Planning Board</td>
</tr>
<tr>
<td>• Municipal Corporations/Councils</td>
</tr>
<tr>
<td>• Improvement Trusts</td>
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<tr>
<td>• Private Companies/Agencies etc.</td>
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</tbody>
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Housing and Urban Development Corporation (HUDCO)

In order to supplement the efforts of the government for urban development, including the improvement of services, the Government of India decided to entrust the task of urban infrastructure financing to the Housing and Urban Development Corporation (HUDCO). HUDCO has a separate Urban Infrastructure Finance Wing to process loan proposals from public and private agencies, including Municipal Corporations/Councils. The schemes eligible for HUDCO financing include water supply, sewerage, drainage and solid waste management, especially in small and medium towns with a population of less than 10 lakhs. The objectives of the Urban Infrastructure Wing in HUDCO are:

a) to increase the supply of capital available to local authorities to finance urban infrastructure projects;

b) to help cities of all sizes, especially small and medium towns, to provide adequate urban services by providing long term finance for urban projects;

c) to help in the channeling and monitoring of funds in a systematic manner for development activities through State/Regional/City level agencies and private companies;

d) to offer technical assistance in project preparation, installation of viable low-cost infrastructure and in the adequate pricing of services;

e) to offer consultancy services for formulation of infrastructure projects; and

f) to encourage development of new towns.

Water and sanitation schemes come under the category of Urban Infrastructure Schemes for which financing is structured as shown below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Repayment Period</th>
<th>Extent of Finance (%)</th>
<th>Net Rate of Interest (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Supply, Sewerage, Drainage, Solid Waste Management, Integrated Water Supply</td>
<td>Upto 10 years*</td>
<td>70</td>
<td>15</td>
</tr>
<tr>
<td>Low Cost Sanitation (upto Plinth)</td>
<td>Upto 7 years</td>
<td>EWS LIG MIG HIG</td>
<td>50 60 75 75</td>
</tr>
<tr>
<td>Low Cost Sanitation (Superstructure)</td>
<td>Upto 15 years</td>
<td>EWS LIG MIG HIG</td>
<td>95 85 75 60</td>
</tr>
</tbody>
</table>

* Note: Repayment of 15 years can be considered in exceptional cases on payment of 1% higher rate of interest. (EWS = Economically Weaker Sections, LIG, MIG, HIG = Low, Middle and High Income Groups respectively)

For more information, contact:

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Contributed by: Mr. Ramanath Jha,
Metropolitan Commissioner,
Mumbai Metropolitan Region
Former Municipal Commissioner, Pune
Infrastructure Leasing and Financial Services (IL&FS)

IL&FS has taken up the challenging task of developing infrastructure projects on a commercial basis. IL&FS envisages that the participation of the private sector in delivering a safe and reliable water supply to domestic consumers and industry could be commercially viable. Moreover, it is felt that private sector participation will reduce, if not completely remove, the existing systemic and operational inefficiencies, which currently prevail in the water supply and sanitation sector in the country. The objectives of IL&FS for the water sector are:

(a) to provide much needed investment and meet the Government's goal to rehabilitate and expand the water supply and sewerage systems;
(b) to facilitate additional funds flow into the water sector through international and national capital markets; and
(c) to build capacity and commercialise water utilities, to meet the needs of the customers and improve the internal cash generation capability of the sector.

IL&FS can participate in the water sector by:

(a) entering into a Build-Operate-Own-Transfer (BOOT) contract to finance, design, build, own and operate assets for a fixed period; transferring the assets back to the Government at the end of that period;
(b) entering into or facilitating service or management contracts with State Governments, Municipal Authorities and State Water Supply Boards; and
(c) appointing contractors through an international bidding process for construction, operation and maintenance of water pumping stations, treatments, and maintenance of reservoirs.

In the provision of water supply and sanitation services the perceptible risks of private sector involvement for both the government as well as the private sector are quite high. Therefore, IL&FS has adopted an approach which requires both the public sector and the private sector to participate on an equal footing. Hence, IL&FS uses the option of private-public partnership. Under this format IL&FS has been incorporating special purpose vehicles in the form of limited companies, with joint ownership between government and private sector partners. The role of the ‘special purpose vehicle’ is to enter into a concession agreement with the Government to:

(i) act as the BOOT contractor with full responsibility for financing investment, design, construction, operation and maintenance; and
(ii) transfer assets back to the Government at the end of the agreement period.

IL&FS's first initiative to bring about private sector participation in the water and wastewater sector was the Tirupur Area Development Programme (TADP). To implement the TADP, IL&FS incorporated a limited company named as the New Tirupur Area Development Corporation Ltd. (NTADCL) in joint association with the Ministry of Commerce (Government of India), the Tamil Nadu Corporation for Industrial Infrastructure Development Limited and the Tirupur Exporter’s Association. NTADCL will be responsible for successful implementation of the TADP program on a commercial basis (BOOT format). The IL&FS has also undertaken the role of merchant banker to the project and shall be responsible for raising the requisite resources. The IL&FS is also currently implementing a water supply program in Dewas, Madhya Pradesh along
similar public-private partnership line as well as the Vishakapatnam Industrial Water Supply Project.

For more information, contact:

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Key Non-Financing Institutions: A Profile

Financial Institutions Reform and Expansion (FIRE) Project

The Indo-US Financial Institutions Reform and Expansion (FIRE) project is funded by the U.S. Agency for International Development (USAID). One of the components of the FIRE project (FIRE-D) is to support the Government of India in strengthening and expanding the debt market by financing affordable urban services on a full-cost recovery basis through sponsoring of municipal councils and authorities. This Debt Market/Infrastructrue component (FIRE-D) falls under the auspices of the Union Ministry of Urban Affairs and Employment with USAID support to the National Institute of Urban Affairs (NIUA), HUDCO and Infrastructure Leasing and Financial Services (IL&FS), as well as to selected local entities. HUDCO and the IL&FS, acting as financial intermediaries, make loans to selected municipalities, state boards and authorities and private enterprises which have formed partnerships with municipal entities. Eligible projects include water supply, sanitation, solid waste management and integrated area development schemes. The NIUA acts as the advocate for policy change and the coordinator for delivery of technical assistance and training directed at the development of local government capacity.

For more information, contact:

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Project Manager
The FIRE(D) Project Office
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Human Settlement Management Institute (HSMI)

Human Settlement Management Institute (HSMI) is involved in providing training to professionals and functionaries of Urban Local Bodies, Urban Development Authorities, Local and State Level Agencies dealing with water supply/sanitation, housing, slum improvement, NGOs and CBOs operating in the field of urban infrastructure and housing.

The HSMI provides Delhi based class-room training, as well as on-the-job training. Five decentralized training centers transfer HSMI courses to the regional context for wider dissemination. These training centers are located at UP Academy of Administration, Nainital; Administrative Training Institute, Mysore, Karnataka; HCM Rajasthan Institute of Public Administration, Jaipur; Professional Development Centre, Pune, Maharashtra; and Kerala Institute of Local Administration, Thissur, Kerala.
Programmes and other activities being carried out by HSMI which may be of interest in the context of financing of water and sanitation services are: urban infrastructure planning and management for municipalities; urban infrastructure project formulation, appraisals and financing; improving municipal services - focus on low cost infrastructure; solid waste management and low cost sanitation; public private partnerships for provision of urban services; legal issues in financing of housing and urban infrastructure projects; community participation in shelter and urban infrastructure; environmental impact assessment; financial management of urban local bodies; resource mobilization of urban local bodies; leadership and management for local elected representatives from the south Asian region; and international training programme on urban development management.

For further information, contact:

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National Institute of Urban Affairs (NIUA)

National Institute of Urban Affairs (NIUA) is a premier institute for research, training and information dissemination in urban development and management. Established in 1976 as an autonomous body under the Societies Registration Act, the Institute enjoys the support and commitment of the Ministry of Urban Affairs and Employment, Government of India, State Governments, urban and regional development authorities and other agencies concerned with urban issues.

The thrust areas of NIUA's research are: urbanization and urban policy, urban planning and development, infrastructure and services, poverty, environment, transport, shelter, municipal finance, the informal sector and urban governance. The research on urban infrastructure and services has focused on financing of urban infrastructure, accessing capital markets, pricing and cost recovery in municipal services, public private partnerships, and private sector investment in urban infrastructure and services. Research on municipal finance covers the status, structure and trends in municipal finance, local financial resource mobilization, municipal budgeting and accounting, municipal taxation and its administration, municipal governance, 74th Constitution Amendment Act and its implications for municipal governance, and state-local government fiscal relations.

The main aim of NIUA's training activities, conducted under the FIRE-D project and Urban Basic Services Programme, has been capacity building of municipal bodies and infrastructure agencies. Under the FIRE-D project, training is being imparted to top and middle level functionaries of these agencies on: municipal finance and accounting, management of urban environment, management of services, financing of infrastructure, resource mobilization, privatization, pricing and cost recovery of services, valuation and assessment of property tax, and project formulation for urban infrastructure.

For more information, contact:

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