



**ASSESSMENT AND ANALYSIS
OF THE STATUS OF
URBAN SERVICE DELIVERY &
URBAN INFRASTRUCTURE
SECTOR REFORM
IN INDIA**

USAID/NEW DELHI

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TCG International, LLC

Executive Summary

This report analyzes the status of urban service delivery and infrastructure sector reforms in India. The assessment leads to the identification of new strategic opportunities in the urban sector. More specifically, it will contribute to the development of an urban strategy document for USAID/India for 2003-2008. Possible areas of intervention and a strategy for USAID/India to address urban constraints and deficiencies relate to the following four aspects of urban service delivery:

- i) Urban physical environment*
- ii) Urban governance*
- iii) Urban infrastructure finance*
- iv) Contribution of urban services to economic growth and poverty reduction*

Status of Indian Urbanization

The 285 million people who live in Indian cities represent almost 30 percent of the national population. This figure is expected to grow by nine million annually through 2021, resulting in an urban population of 405 million, 42 percent of the national population. Despite the severe lack of basic urban services in India, urban areas produce over 60 percent of GDP. Urban poverty is estimated at 32 percent, with a slum population growing five-fold between 1981 and 2001. The urban centers are contributing more than 90 percent of government revenues. However, in 1994 municipal revenues were only 4.6 percent of central government revenues and 8.5 percent of state revenues.

The total investment required for urban infrastructure projects has been estimated at 28 to 40 billion rupees (US\$600 to US\$850 million)¹ per annum, but existing funding sources only provide a fraction of this need at approximately 5 billion rupees (US\$106 million). After years of inadequate investment and a rapidly growing urban population, the estimated funding resource gap for 2000-2005 for urban infrastructure ranges from 185 billion rupees (US\$3.9 billion) for operating expenses to 1.25 trillion rupees (US\$26.6 billion) when capital improvement needs are added. The organized domestic capital market amounts to 524 billion rupees (US\$11.1 billion), out of which only 12.8 billion rupees (US\$272 million) (less than three percent) is invested in infrastructure.

The ability of local governments to respond adequately to this supply and demand mismatch in urban infrastructure services remains weak. The current deficient physical environment, inadequate administrative structure and resources, and inability to access private sector funds or participate in capital improvements continues to limit necessary urban development.

Progress of Urban Reforms

The 74th Constitutional Amendment Act of 1992 delegated the primary responsibilities of urban affairs, i.e. functions, powers and financial resources, from state to local governments. Since then, the Government of India (GoI) has supported decentralization efforts by formulating guidelines for urban development plans in 1996, promoting improved financial management planning and capital borrowing, exemplified by authorizing the use of tax-free municipal bonds for urban infrastructure projects.

¹ Based on an exchange rate of 47 Indian rupees = US\$1.

By 2001, there is a consensus among the GoI, state governments and external agencies for the direction of needed reforms, especially in terms of emphasizing long-term systemic change to improve Urban Local Bodies (ULBs). The core issue is the establishment of financial discipline in municipalities. For many years ULBs have been operating with a cash accounting system and have not seriously looked beyond the current year since infrastructure was funded (or not funded) out of current revenues. As a result, there is a lack of longer term financing arrangements.

Several states and municipalities have advanced urban development in isolated pilot projects to increase local tax revenues, to finance slum upgrading, to improve staff management and restructure operations. However, these projects in states, such as Andhra Pradesh, Tamil Nadu, Uttar Pradesh and Gujarat, are not easily replicated and widely implemented throughout the country.

During the last ten years, external agencies have provided significant support to Indian urban sector reforms. In terms of financial assistance, loan-financed investment projects from external agencies totaled 132 billion rupees (US\$2.8 billion) since 1989. Grant-financed projects supporting the urban sector amount to 24.4 billion rupees (US\$519 million) since 1988, while grant-oriented technical assistance valued at 5.2 billion rupees (US\$111 million) supported these efforts (see Annexure 5).

USAID has supported urban sector reforms primarily through the Debt Market component of the Financial Institutions Reform and Expansion (FIRE D) project. The FIRE D project's goal is to assist municipal, state, and central governments in India to develop sustainable urban environmental services (water, sewerage, and solid waste) and to ensure that the poor have access to these services. Over the past seven years, the FIRE project has supported Indian cities with project development and financing, resource mobilization, decentralization, capacity building and training. The USAID FIRE D project works with all three tiers of government in India, central, state and municipal bodies. Its policy work with state and central agencies aims to create a supportive environment for cities to make needed changes.

As of 2001, FIRE D's accomplishments include:

- Acceptance of the concept of commercial viability in delivery of urban infrastructure services
- A proven structure is in place for municipalities to access domestic capital markets and finance infrastructure projects by issuing municipal bonds
- Introduction of financial management and accounting reforms
- Development of a state-level policy framework for water and sanitation services and a national policy framework for improving solid waste management
- Sharing lessons learned through a training network, study tours, city managers associations and the dissemination of reports through the Internet.

The **Asian Development Bank** (ADB) has mobilized private capital to finance urban infrastructure and environmental services. The principal ADB project is the Integrated Urban Development Project (IUDP), which is linked with an infrastructure investment fund. Selection of states and municipalities is based on willingness to implement policy reform and execution is through existing institutions. Supporting activities involve transportation systems management (TSM), institutional strengthening, and financial reforms.

World Bank (WB) assistance for the Indian urban sector has focused on water supply and sanitation (WSS) allocating approximately 60 percent of its urban investment funds. The WSS strategy emphasizes private sector involvement in development and delivery. As such, World

Bank investments would only be with private sector participation (PSP) and include institutional development, project development and regulatory facilities.

This strategy has identified certain reforms focused on improving service delivery towards meeting the challenges of this sector and improving its performance. These reforms focus on providing managers with autonomy to operate in a commercial environment in a sustained basis. Key reforms measures as detailed in the strategy include:

- Establishing new independent regulatory entities,
- Reforming the institutional framework to promote the creation of commercial water utilities;
- Reducing price distortions and increasing tariffs,
- Implementing new approaches to sanitation and
- Substantially increasing PSP in the urban WSS sector.

In addition to the WSS sector, the World Bank Urban Strategy focuses on the reduction of urban poverty as its core objective. Activities supporting this objective include empowerment, protection and security mechanisms, and asset and income generation opportunities for the poor. Supporting these activities, the World Bank has provided technical assistance to prepare urban planning documents, which include capital investment plans for approximately ten ULBs.

In addition to external agencies, several financial institutions have assumed roles in the urban infrastructure sector especially during the last decade and involved themselves in the promotion of urban reforms, focused primarily on urban infrastructure financing.

- *Infrastructure Development Finance Company Limited (IDFC)* promotes private infrastructure financing supplemented by project finance with credit enhancements, such as guarantees, bridging finance, risk participation, and refinancing. Its operational mandate is three-fold: lend private capital to commercially viable infrastructure projects; provide policy advice to the Government; and develop and strengthen the linkages between markets, institutions, and infrastructure projects. Its financial performance has been impressive, exemplified with a net income of \$37 million in 2001, representing a return on assets of 11 percent.
- *Housing and Urban Development Corporation Limited (HUDCO)* promotes housing and urban development, particularly for the benefit of the low-income groups and economically weaker sections of society. HUDCO has been actively assisting its borrowers in developing instruments for cost recovery in urban and environmental infrastructure projects, particularly water supply, sewerage, solid waste management, and urban transport.
- *ICICI Limited* is a commercial financial institution with operations in project finance, corporate finance, leasing and other types of financial and advisory services. ICICI's objective in the urban sector is to become the market leader among private sector financial intermediaries in financing urban and environmental infrastructure projects in the medium term future. At the moment ICICI's urban sector activities include (i) promoting and establishing the Tamil Nadu Urban Development Fund to finance municipal projects in the state of Tamil Nadu; (ii) establishing a joint venture with Kerala Industrial Infrastructure Development Fund for developing private sector infrastructure projects; (iii) establishing a joint venture with West Bengal Industrial Development Corporation for infrastructure development; and (iv) negotiating a Rs. 3 billion (US\$64 million) loan to Pune Municipal Corporation in Maharashtra for water treatment and sewerage development.
- *Infrastructure Leasing and Financial Services, Ltd (IL&FS)* is specifically mandated to implement infrastructure projects without government support in the form of budgetary allocations. IL&FS works with state governments and municipalities in various roles for the

development of projects to position them for commercialization. IL&FS' role in the sector transcends several levels, ranging from project sponsor, to developer, to advisor and lender. Working in water supply, power, telecommunications, industrial parks, surface transport and ports, the Company focuses on creating replicable prototypes, which would enable it to deliver comprehensive solutions to the sector.

Emerging Issues

With the background of the extensive efforts of Indian and external organizations to improve the urban sector, substantial opportunities still exist for future undertakings in this sector. These opportunities are labeled as 'emerging issues' and have been analyzed according to three major categories: 1) policy (managerial and regulatory), 2) financial, and 3) technical.

Policy (Managerial) Issues. The managerial issues include: poorly trained municipal staff, absence of information systems, lack of coordination among ULBs, absence of guidelines and policies for ULB administration, lack of planning and budgeting, and limitations of resource allocation and prioritization.

Policy (Regulatory) Issues. The regulatory issues largely pertain to the service quality standards, economic tariff regulations, licensing regulations, and coordination among regulatory agencies. In addition, ULBs lack a manner to collect and disseminate urban service information towards achieving improved urban governance and urban life through the informed participation of civil society.

Financial Issues. The financial issues that ULBs currently face include: mismatch between assigned functions and availability of resources, absence of demand-driven investments, poor collection efficiency, non-responsive accounting and financial systems, unclear state-local relations, limited access to capital markets, and poor enhancement of service delivery in the urban local bodies. These issues, in conjunction with inadequate private partnerships and poor cost recovery practices, further weaken the financial health of ULBs.

Technical Issues. Technical issues in urban service delivery are largely identified with inefficient system management, difficulties in adaptation of localized solutions, limited technical capabilities at the local level in project development, procurement, execution and implementation,, inability of the private sector to identify business opportunities, and poor coordination among sector agencies and staff of ULBs.

Proposed Interventions

USAID has a unique opportunity at this time to build on its successful experience in bringing about systemic change through the FIRE D project. A strong partnership between the US and India can be further developed through crucial assistance in areas characterized by extensive U.S. experience and Indian interest, such as the environment, public participation, urban management, environment, economic development, and finance.

Interventions to optimize this opportunity span all government layers – local, state, and center. They also can be categorized by sub-sectors, which could be developed within a USAID strategic objective. These sub-sectors are finance, governance, municipal project development and economic growth. Specific examples of potential USAID interventions to consider going forward include, but are not limited to, the following:

- Develop pooled financing resources.
- Increase public participation, accountability and transparency.

- Build professional associations for municipal staff to promote training and information sharing – this effort in conjunction with distance learning and certification programs for municipal employees.
- Build a networking association for elected officials.
- Form state regulatory authorities and policy/research units for water, wastewater and solid waste services.
- Generate a market for private sector participation in municipal procurements

One of the key finance interventions exemplifies an option for USAID as it develops its urban strategic objective. The GoI has proposed the inclusion of small and medium cities in long-term infrastructure financing from the private sector through bond pooling. Developing the proper structure and management of this program will require considerable effort from the Ministry of Urban Development (MoUD), which has limited experience in this area. Considerable support will be needed in developing and implementing the bond-pooling program at the state level through coordination of state boards and agencies. The required minimum package of activities will focus its main attention and resources at the state level in the Department of Local Government, Urban Development Department, Finance Department, and the State Finance Commission.

The proposed ‘menu’ of interventions, listed in full in Section 5.2 is followed by a ranking methodology. This methodology outlines such factors as the likelihood of systematic impact, the ability to demonstrate replication, existence of strong Indian interests and partners, and the institutionalization of its interventions, for USAID to finalize its urban sector plan and activities and go forward.

The Assessment contains five chapters described as follows.

Chapter 1 provides a brief background and introduction to the scope of the assessment.

Chapter 2 highlights the current state of urbanization in India; status of the urban service delivery system (demand and supply in terms of resources and institutions); stakeholders and their roles; deficiencies and inadequacies in service provision; and the status of urban reforms in India. This results in a comprehensive analysis of the problems, practices, and performance of urban services, especially water supply, sewerage, solid waste, and roads.

Chapter 3 presents an overview of the urban reforms propagated by the 74th Constitutional Amendment Act of 1992; the urban agenda, its progress, and current generation reforms; strategies and interventions of external organizations in urban service provision and the reform process, especially aided by the FIRE D Project of USAID.

Chapter 4 identifies emerging issues, gaps, and constraints in urban service delivery and reforms. This chapter highlights the need for continued support for urban sector reform in India and culminates with a listing of the key interventions to pursue to address the issues identified.

Chapter 5 outlines possible areas of intervention and strategies to address the constraints to improve urban infrastructure and services. Two perspectives of a proposed interventions list illustrate the options USAID/India should consider in developing its urban agenda. The first perspective displays the interventions relevant to local, state, and central government levels. The second perspective, in contrast, examines how these interventions could fit in the USAID strategic planning framework, with proposed intermediate results for finance, governance,

municipal project development, and economic growth. This section also provides a methodology to rank potential USAID interventions.

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- Annex 6: USAID FIRE (D) Project Interventions
- Annex 7: ADB Interventions

List of Abbreviations

74 th CAA	74 th Constitutional Amendment Act - 1992
ADB	Asian Development Bank
BOT	Build Operate and Transfer
C&AG	Comptroller and Audit General
CBOs	Community Based Organizations
DFID	Department for International Development
FDI	Foreign Direct Investment
FIPB	Foreign Investment Promotion Board
FC	Finance Commission
FIRE (D)	Financial Institutions Reform and Expansion (Debt Market) Project
FYP	Five Year Plan
GDP	Gross Domestic Product
GoAP	Government of Andhra Pradesh
GoG	Government of Gujarat
GoI	Government of India
GoM	Government of Maharashtra
GUDCO	Gujarat Urban Development Company
HDFC	Housing Development and Finance Corporation
HR	Human Resource
HUDCO	Housing and Urban Development Corporation Limited
ICAI	Institute of Chartered Accountants India
IDFC	Industrial Development and Finance Corporation
IDSMT	Integrated Development of Small and Medium Towns
IFC	International Finance Corporation (World Bank)
IUDP	Integrated Urban Development Project
INR	Indian Rupees
KUIDFC	Karnataka Urban Infrastructure Development and Finance Corporation
LIC	Life Insurance Corporation of India
MoF	Ministry of Finance, Government of India
MT	Metric Tonne
MUD&PA	Ministry of Urban Development and Poverty Alleviation, Government of India
NGOs	Non-Government Organizations
NHB	National Housing Bank
NHHP	National Housing and Habitation Policy - 1998
NIPFP	
NIUA	National Institute of Urban Affairs
O&M	Operation and Maintenance

OECF	Overseas Economic Cooperation Fund, Government of Japan
PFDF	Pooled Finance Development Fund
PPF	Project Preparation Facility
PPP	Public-Private Partnerships
PSP	Private Sector Participation
SFC	State Finance Commission
SPV	Special Purpose Vehicle
SWM	Solid Waste Management
TA	Technical Assistance
TCGI	TCG International, LLC
TNUDF	Tamil Nadu Urban Development Fund
TSM	Transportation Systems Management
UDPFI	Urban Development Plans Formulation and Implementation Guidelines
UfW	Unaccounted for Water
ULBs	Urban Local Bodies
ULCRA	Urban Land Ceiling and Regulation Act - 1976
USAID	United States Agency for International Development
US\$	United States Dollar
WB	World Bank
WSS	Water Supply and Sanitation

Introduction

This chapter highlights the background and purpose of the assessment, composition of assessment team, objectives and tasks of the assignment, and its expected outcome.

1.0 Background

The United States Agency for International Development's (USAID) response to India's need on urban infrastructure service delivery was the Financial Institutions Reform and Expansion (Debt Market) project (FIRE-D), launched in 1994 with the objective of institutionalizing the delivery of commercially viable urban environmental infrastructure. Since 1994, FIRE(D) has recorded important achievements in terms of policy advocacy and public awareness. A municipal credit rating system has been introduced and many municipal bonds have been successfully issued, leading towards integration of urban finance into India's financial markets. A number of urban management initiatives have also been initiated. In the remaining period of FIRE(D), the project will continue its focus on urban infrastructure project development, policy and regulatory reforms at the state government level, and capacity building of urban local bodies (ULBs).

After several years of involvement in the urban finance sector under the FIRE(D) project, the Indo-USAID Mission has undertaken an assessment of its involvement in light of significant changes in the Indian urban sector. This broad assessment of the urbanization process and status of service delivery in India identified the areas where USAID has been able to contribute, where support is needed, and finally, where USAID can contribute during 2003-2008. The result of this assessment is the identification of strategic options on the potential niche that will keep the USAID program on the cutting edge of activities in the sector and require a more extensive involvement than in the past.

The FIRE(D) project was developed as the Government of India (GoI) began to reduce its control over the Water Supply and Sanitation (WSS) sector with a goal of improving WSS delivery at the municipal level on a sustainable basis. The FIRE(D) project's six main tasks were to i) assist in the expansion of the roles of the private sector, NGOs and CBOs in the development, delivery, and operation and maintenance (O&M) of urban environmental infrastructure, ii) increase efficiency in the O&M of existing water supply and sewerage systems, iii) strengthen financial management systems at the local level, iv) develop policy and regulatory frameworks at the state level, v) continue implementation of the 1992 74th Constitutional Amendment Act (74th CAA) and vi) develop an urban management training network. These objectives are to be achieved through various interventions in terms of revision of municipal acts, policy support, studies and technical assistance.

Urbanization in India has been the impetus for the overall growth of the nation's economy with a contribution of more than 60 percent of Gross Domestic Product (GDP) of the country. Realizing the huge potential of urban India, the GoI has removed many obstacles to good governance at the local level over the past decade along with many other needed reforms at the state level through several reform measures to promote growth in the urban sector. These reforms mainly focussed on improving the urban infrastructure, financing and decentralizing in terms of governance and

decision-making. Some of the states—Tamil Nadu, Maharashtra, Gujarat, Madhya Pradesh, and Andhra Pradesh—have been proactive towards these initiatives. Once these reforms have been undertaken, implementation of well-established local government management activities can begin in a sustainable and large-scale manner.

With this background, USAID is seeking to identify new strategic opportunities in the urban infrastructure sector and contribute to development of USAID India's country assistance strategy document for the period 2003-2008, has contracted TCG International (TCGI), Washington to undertake an assessment and analysis of the status of Urban Service Delivery and Urban Infrastructure Sector Reform in India.

1.1 The Assessment

The Assessment team comprised of Mr. H. T. Scott Gibbons (Senior Urban Policy Specialist) and Mr. C. Baskaran (Senior Urban Policy Specialist) and commenced its tasks from October 1, 2001. The team held several meetings with the officials of the GoI, state governments (Tamil Nadu, Maharashtra, and Gujarat), donor agencies, financial institutions, research and consulting organizations, non governmental organizations, and other stakeholders and opinion makers.

The objective of the Assessment is to conduct an analysis of urban service delivery and infrastructure sector reforms in India in order to identify new strategic opportunities in the sector and contribute to the development of USAID India's Strategy document for the period 2003-2008. The scope of this Assessment Mission is included in Annex 1.

The report makes suggestions for possible areas of intervention and a strategy by USAID/India to address the constraints and the gaps in the following four aspects of urban service delivery: i) improving the urban physical environment, ii) improving urban governance, iii) improving urban infrastructure finance, and iv) improving the contribution of urban infrastructure in service to economic growth and poverty reduction.

Mr. James Stein, Mr. N. Bhattacharjee and Mr. David Hessen joined the team for discussions and guidance in New Delhi, while Mr. Charles Billand and Mr. Chris Ray of the TCGI, Washington provided technical input.

The Mission would like to express its thanks to all officials and other stakeholders for their support and valuable information that facilitated the work. This report contains the views of the Assessment team and all recommendations are subject to USAID/India approval.

Review of the Urban Sector - Service Delivery

This chapter highlights analysis the current state of urbanization in India, status of urban service delivery system (demand and supply in terms of resources and institutions), stakeholder agencies and their role, deficiencies and inadequacies in the service provisions, cross cutting parameters, and status of urban reforms in India.

2.0 Urban Scenario in India

A century of industrialization and technical advancement has brought rapid urbanization to India. If urbanization as a phenomenon has registered a steady progress among the developed nations, an “urbanization explosion” is taking place in the developing countries. Urban growth and its associated problems are a major concern to planners and governments around the world. The proportion of urban population in India has increased from 11 percent in 1901, to 18 percent in 1951, and to 28 percent in 2001 (Please refer to [Annex 2](#)). According to the 2001 census, the urban population in India is approximately 285 million, distributed in nearly 4,000 towns and cities across the country. With the increase in urban population, many metro cities (population of more than one million) are emerging in the country. According to the 2001 census, 35 metro cities with populations of approximately 28 million make up about 37.8 percent of urban India. Presently, there are six mega cities with populations of more than five million. Urbanization trends indicate that the urban population will continue to grow at the rate of about 3 per cent per year in the next few decades.

2.1 Structure of the Indian Urban Sector

Despite the severe lack of basic urban services in India, urban areas produce over 60 percent of GDP. Urban poverty is estimated at 32 percent with a slum population growing from 20 million to 100 million between 1981 and 2001. The urban centers contribute more than 90 percent of government revenues, however in 1994, municipal revenues were only 4.6 percent of central government revenues and 8.5 percent of state revenues.

The total investment requirement for O&M of urban infrastructure including mass transit has been estimated at INR 28 to 40 billion (US\$596 to US\$851 million) per annum, but existing funding sources including institutional lending can provide only to the tune of INR 5 billion (US\$106 million). After years of inadequate investment and a rapidly growing urban population, the estimates by the Rakesh Mohan Committee predict a funding resource gap for 2000-2005 for urban infrastructure ranges from INR 185 billion (US\$3.9 billion) for just O&M to INR 1250 billion (US\$26.6 billion) for capital and O&M improvements. The Ministry of Urban Development and Poverty Alleviation (MUD&PA) estimates the investment resource gap in the water supply and sanitation (WSS) sub sector alone to be INR 170 billion (US\$3.6 billion). The organized domestic capital market amounts to INR 524 billion (US\$11.2 billion) out of which only INR 12.8 billion (US\$272 million) or 2.4 percent is invested in infrastructure.

2.2 Financial Position of the ULBs

Until the early 1990s, there was a high demand for subsidized infrastructure and services that were often supply driven. ULBs lacked financial discipline and resources for O&M. Since then, government funds have been declining and more responsibility has been given to the ULBs. However, the financial position of most ULBs has worsened, as they need to access commercial funding for long-term investments. Commercial capital funding requires ULBs to achieve a greatly improved financial and management performance. Even though there has been some improvement in making specific urban infrastructure projects commercially attractive, as in the WSS and solid waste management (SWM) sub sectors, the private sector has taken a limited interest because of the otherwise poor financial position of the ULBs. Even with improved regulation and performance public-private partnerships will be required in order to make investment viable until the needed reforms are complete and municipalities can attract adequate private funds.

Some of the domestic public sector financing agencies like Life Insurance Corporation (LIC) of India and Housing and Urban Development Corporation (HUDCO) provide loan assistance for urban infrastructure and are usually within the national budget or through government programs. After the 1996 India Infrastructure Report by the Expert Group on Commercialization of Infrastructure Project, the GoI set up the Infrastructure Development and Finance Corporation (IDFC) to lead private capital into infrastructure. IDFC has made significant progress, but mainly in non-urban infrastructure investments.

2.3 Administrative Structure

The MUD&PA prepares the government budget for the sector and provides policy guidance to the states. States set up the policies and legal framework for developing and financing projects. States have formed boards, authorities, and other agencies to implement urban activities financed by the government as well as other institutions, leaving little scope for the local governments except in O&M. Urban infrastructure services are provided by local governments and agencies with funds generally provided by central and state governments in the form of grants and loans. Local governments' own resources are insufficient even for O&M. Urban services are treated as public services without the concept of cost recovery or commercial viability. Previously, loans were treated as book adjustments or paid out of state grants. Even when user charges were used the amounts were less than the variable cost of services.

2.4 Status of Urban Delivery System

It is quite clear that in recent years, urban population growth has been fuelled by prospects of higher incomes. It is unfortunate that cities failed to deliver the promise of a better quality of life.

Despite the higher incomes of urban populations, the quality of basic services remains poor resulting in the deterioration of the physical environment and quality of life caused by the widening gap between demand and supply of essential services and infrastructure. The urban poor often lack adequate access to services like water supply, sewerage, transportation, etc. Thus, the urban population in general and the population living in the slum settlements in particular have been most adversely affected by urban service deficiencies.

Water Supply: Traditionally, the state government played a dominant role in the provision of services, leaving the delivery and O&M to the local bodies. After the 74th Constitutional Amendment Act (CAA), local bodies are to provide services. About 85 percent of households (65 percent in slums) have access to piped water supply. Though the supply level has been estimated at 140 lpcd, the level of service is poor due to low pressure, supply interruptions to manage demand, a non-demand driven ad-hoc approach to water pricing, and a relatively higher percentage (30-50) of unaccounted for water (UfW). The short-term planning approach and lack of focus on future needs, sustainability and availability of resources are also impinging on the service levels. The latest estimates calculate a need of INR 1410 billion (US\$30 billion) for provision, operation, and maintenance to reach desired levels. Budget allocations meet just about 10 percent of this figure.

Sewerage and Drainage: Old networks, faulty alignment and the laying of water and sewer lines in the same trench are the prime causes for poor sanitary conditions in urban India. The institutional arrangements are similar to that of water supply and are lacking managerial and organization structure. With about 70 percent of the population having access to excreta disposal and 48 percent for sewerage system, only about 26 percent of wastewater undergoes treatment before disposal causing damage to the micro as well as macro environment. The situation is grim in the slums with only about 46 percent having access to shared toilet facilities. The investment needs to improve the situation is estimated at INR 1645 billion (US\$35 billion).

Solid Waste Management: Urban India is generating about 0.1 million metric tons (MT) of waste every day with collection efficiency from as low as 50 percent to as high as 90 percent. An average of about 65 percent of waste is transported every day and dumped untreated. Collection and transportation systems are primitive and disposed without proper treatment. Municipal solid waste is one of the most neglected services according to the Mid-Term Appraisal of the 9th Five Year Plan (FYP). Main issues for the sector include lack of financial resources, inadequate manpower, fragmentation of responsibilities, and non-involvement of the community. Recently, the percentage of plastic is increasing in Indian urban waste, which causes serious concern among the waste managers.

Urban Transportation: Public transport systems are lacking in the metro cities and inadequate in the mega cities leading to heavy pollution due to increasing individual vehicles. Two-wheelers are contributing 78 percent of vehicular pollutants in urban India. Where public transportation is available the commute to work is often in excess of two hours each way.

A detailed review of status of urban infrastructure provision and delivery system in urban India is attached in [Annex 3](#).

2.5 Potential for Commercialization

The decentralization measures initiated through 74th CAA in the 12th Schedule provides for the local bodies to mobilize resources (both from within and from outside) independent of the state governments for provision and O&M of urban services. First round reforms are focusing on technical and financial decision-making in project planning including size, cost and design, source and conditions of finance, execution, and quality control. There is an increasing pressure on tariff rationalization for making the provision and delivery of urban services economically viable and self-sustaining.

With the decline in the amount and quality of urban services, a high-cost, informal parallel service delivery system is emerging. A commercial approach to service provision in the formal sector would also respond to the actual and not the anticipated demand in order to provide cost recovery and financial viability. Recent technological and organizational changes have changed the situation to allow for more focused investments, coordination and varied service standards with more opportunity for user charges. Operational costs can be reduced with the use of improved technology, maintenance, regulation of use and efficient institutional arrangements for provision of services. With improved urban management, the costs of services can be more effectively communicated to taxpayers.

Efforts to privatize the urban services have made little progress due to highly subsidized rates and marginal efforts for cost recovery. Lack of technical, financial, and legal assistance is also aggravating the problems. Efforts are underway to privatize select urban services in Tamil Nadu, Maharashtra, and Gujarat with reasonable success and FIRE(D) is working towards developing a framework for privatizing the urban services in India. A large number of initiatives with public-private partnerships (PPP) arrangements have been initiated in the water supply, solid waste, and wastewater management areas and are listed in [Annex 4](#).

Realizing the need for transparency in financial, managerial, and administrative aspects to attract private sector investment in urban services, various financial and accounting reforms were introduced including developing accrual-based double entry accounting system and management information system.

Innovative resource mobilization schemes are also underway such as tapping the capital market or improving the internal efficiency to mobilize resources and municipal bonds. The government has also been proactive, initiating tax-free status to the municipal status and state pooling of finances for urban infrastructure and services.

Urban Reforms Situation and the Donor Interventions in the Reform Process

This chapter overviews the urban reforms propagated by the 74th Constitutional Amendment Act, the urban agenda, its progress, current generation reforms, strategies and interventions of external organizations in the urban service provision and the reform process, especially aided by USAID's FIRE(D) project.

3.0 Background

To meet the challenges of the urban infrastructure delivery system and improve its performance, reform needs to focus on improving service delivery. Changing management incentives is key, since sustained improvements in service delivery will not be achieved without this additional financing to public institutions. Reforms must therefore focus on providing managers with autonomy to operate in a commercial environment in a sustained basis. Some of the key reform measures include:

- ❑ Establishing new independent regulatory entities;
- ❑ Implementing new approaches towards sustainability;
- ❑ Reducing price distortions and increasing tariffs;
- ❑ Reforming the institutional framework to promote the creation of commercial entities; and
- ❑ Substantially increasing private sector participation in the provision, delivery, and operation and maintenance of services.

The key objective of the reforms is to improve the quality of life of the urban population in India through improving the access to basic services and increasing incomes. This is a central focus of the proposed reforms, which will be delivered through partnerships involving both public and private partners.

The development of a more private sector-orientated environment will require the reassignment of responsibilities to the different public, private, and community parties involved. New partnerships need to be developed to improve the efficiency of service delivery; public bodies need to act as policy makers and regulators; international firms would bring new management systems and additional financial resources; local firms should provide capital and local knowledge; and CBOs would assist in community education and extending services to the poor.

3.1 Progress of Reforms

Significant reforms began under the 9th Five Year Plan (FYP) when the government role was modified to manage the urban development process. The 1997 India Infrastructure Report (Rakesh Mohan Committee) found that urban infrastructure bottlenecks were constraining increased productivity due to changed GoI policies and the 74th CAA.

ULBs had been in existence before the 74th CAA and devolution of functions and powers had been done by the states. The 74th CAA looked toward local self-government through elections and the devolution of financial resources the sharing of taxing power and revenues between the

state and the State Finance Commission (SFC). In addition, the ULBs themselves could now prepare development plans. Implementation of actions other than elections has been slow.

The MUD&PA has not given guidance on the detailed unit costs of the various local functions, nor on ways to increase the overall consolidated funds of the states. States have also not given recommendation on augmenting the consolidated funds. SFC recommendations could not be used, as they were not comparable or consistent. An NIPFP study indicated a range of requirements from INR 69.07 to 325.98 billion over five years, but made no recommendation on the measures needed by the state or ULBs to cover it.

The 11th Finance Commission (FC) made recommendations for augmenting revenues:

- land tax lease rent revision,
- surcharge on state taxes,
- a professional tax,
- standardization of method, reduced delays and inefficiency, release from rent control and collection from occupant for property/house tax
- replacement for octroi
- improvement of accounting systems with standardized procedures for all states in coordination with the Comptroller and Audit General (C&AG).

No centralized and standardized database is available and hence realistic estimate of needs is not possible. Such a national database should be established with C&AG monitoring. The estimated cost for all states is only INR 29.4 million. Grant is 20 percent based on decentralization, and 10 percent on the revenue increase effort. Framework, regulations and orders for transfer of powers need to be issued. District and metropolitan planning committees need to be set up. User charges are appropriate for state and central properties. In order to achieve meaningful reforms modifications are needed in land acquisition, rent control, stamp acts and the foreclosures law.

Various GoI programs have been initiated to support reforms and critical needs. The Mega City and Integrated Development of Small and Medium Towns (IDSMT) Scheme emphasizes the provision of services and economic opportunities to the poor and intergovernmental partnerships to leverage funds from various sources. Other GoI programs are the recently started Good Urban Governance Campaign, the National Slum Development Policy, and the Ambedkar Housing Plan. Some of the implemented urban sector reforms include:

- ❑ GoI has initiated the urban sector reforms by passing the 74th CAA, empowering the local governments, within the limits of law, to regulate and manage major urban affairs with financial resources in line with the State and Central FCs.
- ❑ To streamline the process of reforms, the GoI formulated guidelines entitled *1996 Urban Development Plans Formulation and Implementation (UDPFI) Guidelines* including innovative fiscal mobilization approaches. The suggestions included reduced dependency on budgetary allocations, rationalization of subsidies, exploring existing potentials like land, local taxation, etc. and developing commercially viable projects for urban development.
- ❑ To attract public/private investment for urban development projects, the GoI has announced tax-free municipal bonds for commercially viable urban infrastructure projects, made available for the local bodies and development authorities. Supporting the initiative, the Ministry of Finance (MoF) has extended several fiscal incentives in the 2001-02 budget including five years tax holiday for all the income (interest, dividends, capital gains, etc.) for investments on development (capital investment) and O&M of water supply, sanitation, and sewerage projects.
- ❑ The Foreign Investment Promotion Board (FIPB) is facilitating foreign direct investment (FDI) in providing urban services on a case-to-case basis. The facility is available for developing integrated townships, regional level urban services, mass rapid transit system, etc. However, the FDI requires

- prior government approval and achievement of necessary guidelines/norms related to minimum capitalization, minimum land area, etc.
- To attract private investments in urban services and to provide reliable municipal information and detailed financial information, conversion of cash based single entry accounting system to accrual based double entry accounting system has been introduced. The Institute of Chartered Accountants India (ICAI) has prepared a Technical Guide on Accounting and Financial Reporting by the ULBs in October 2000 with this effect.

3.2 Urban Agenda

The GoI urban agenda as stated in the 1998 National Institute of Urban Affairs (NIUA) India's Urban Sector Profile is to increase economic growth, expand infrastructure services with a framework for sustainability, commercialize infrastructure operation, improve opportunities for the poor, protect the environment, and provide effective government. Recommendations to achieve this agenda included a number of broad policies such as making urbanization a state subject, developing regional growth centres and giving priority to small, medium sized and satellite towns, encouraging non-administrative employment through supporting industrial location policy, and charging the full costs of services. This strategy will require a step-by-step implementation with management support and a package of development activities, which are cost-based, but include some subsidies.

In order to implement these policies, local bodies would have to be effective and financially viable as envisioned in the 74th CAA. This would require increased emphasis on infrastructure, transportation, and land use through structure planning, mapping, and database development. The needs of the poor have to be viewed in global terms and addressed through resources of the community, as well as from the general public. New aspects of reform include improved demand and waste management, vehicle technology and more effective use of land as a financial resource.

Improved financial management and planning is needed not just in the municipalities, but also at the state and national levels in order to rationalize intergovernmental transfers, establish an urban infrastructure development fund, develop a national urban infrastructure debt market, and improve urban land assembly procedures. Capital borrowing with repayment based on cost recovery from user charges should be established by separating capital investment plans from operating budgets. A capital fund at the municipal level is needed to leverage other funds needed for infrastructure. Any project assistance will require support for integrating and sustaining activities at state, national, and local levels.

A more rationalized urban management structure along with increased public participation would lead to accountability of government officials, and require professional managers, meaningful training, and staffing. Until now the only significant project that has been implemented in coordination with policy reforms was the Tamil Nadu Urban Development Project (with Municipal Urban Development Fund) where services are to be provided by local authorities and not by autonomous agencies. Even as late as 2001, there was little information on the national urban or urban transport policy, and no urban transport capacity at MUD&PA. State level planning capacity was also weak.

3.3 Second Generation Reforms of GoI

In 1996, additional reforms were initiated aimed at improving the financial autonomy and flexibility of municipalities. Rationalizing grants and subsidies, and encouraging a commercial approach to urban infrastructure development supplemented the spirit of the 74th CAA. By 2000, significant progress had been made at the national government level in encouraging more efficient urban service delivery. Guidelines for municipal bond tax exemption were issued and Ahmedabad had been the first to take advantage of the

opportunity with a 100 crore-bond issue. The Income Tax Act was amended to allow tax-free income from a broader definition of municipal infrastructure investments. The GoI has provided extra funds to ULBs, allowed stamp duty exemption and repealed the ULCRA. One hundred percent FDI is not allowed for integrated urban development projects. Improved accrual accounting is being developed under Comptroller and Audit General (C&AG.) Some of the proposed urban sector reforms in pipeline are as follows:

- ❑ State level pooled financing structure linked with national level infrastructure development fund with INR 2 billion as seed money to leverage about INR 30 billion for urban infrastructure per annum (withdrawal demand only INR 17 billion per annum). If implemented methodically, one can guess the result of this reform with the back up of the success of FIRE(D).
- ❑ Cities Restructuring - City Challenge Fund to support broad upgrading of municipal performance with supplemental funding to be tested for urban governance in Hyderabad as a city (with support from DFID) and for regional coordination in Karnataka (WSS)
- ❑ Regulatory framework for urban service delivery and finance
- ❑ Model Legislation (municipal act) to allow private sector entry and cost-recovery
- ❑ PPP guidelines assist municipalities and the private sector in developing new structures for urban service provision

Coordination of Efforts: By 2001, a greater consensus existed between the GoI, states, and external agencies as to the direction of needed reforms. However, since external aid is limited, it must be focused and coordinated in order to facilitate sustainability. At the same time, there is shift from project to program assistance to support critical changes needed for long-term systemic change. The core issue to be addressed is the establishment of financial discipline in municipalities. For many years they have been operating with a cash accounting system and have not seriously looked beyond the current year since infrastructure was funded (or not funded) out of current revenues. As a result, there is a seven-year deficit.

The US experience in municipal finance can be adapted to Indian conditions in setting up the institutions, mechanisms and guidelines for managing the Pooled Finance Development Fund (PFDF) in Andhra Pradesh, Gujarat, Maharashtra, Rajasthan, and Uttar Pradesh. Initially, an escrow of one to two years would be established, and the state would cover any missed payments by the municipality from a debt service reserve fund. The GoI wants to use developed systems and approaches and access the best available resources.

Training needs to be broad based and requires the right programs and institutions. Management institutes should also be involved. Until now training was treated as a routine or specialized administrative activity. Training and broad upgrading is needed in order to ensure sustainability and replication. Visible successes are needed through a national approach undertaken by the states according to their ability and not with separate approaches for individual cities.

State and Municipal Actions: The National Slum Dwellers Federation in Pune has developed a program of providing community toilets under contract with the municipality. The Cities Alliance is addressing broader governance issues in Ludhiana and Sangli with citywide efforts, and Ahmedabad is using a Special Purpose Vehicle (SPV) to finance slum upgrading. The Government of Andhra Pradesh established a development charge process. The Government of Gujarat has established project development assistance for smaller cities. Ahmedabad increased its local revenues by 80 percent from 1994 to 1997. The small city of Mirzapur, Uttar Pradesh was able to triple its tax revenues from 1996 to 2000 through computerization and improved staff management. Hyderabad is establishing a transactions manager to restructure the municipal operations and spin off profit centers. This will provide opportunities for applying user charges and some private sector involvement in areas such as water management with the support of the state government. Such best practices within India can be promoted through an urban information clearinghouse/advocacy center.

These pilot demonstrations have been accepted, but the mechanism for sustainability and replication still needs to be developed by broadening the definition of urban management and administration. The ADB investment in Rajasthan of INR 500 per capita per year in WSS provides O&M support and training and project implementation assistance, but this isn't the same thing as sustainability or urban management capacity building. Moreover, the willingness to undertake reforms and actually implementing and institutionalizing them are two different things.

3.4 Review of Reform Process

In Tamil Nadu, successful work was done through state level reforms and partnerships with other donors. Only after this hurdle was overcome could projects be developed effectively in pilot cities. The major achievements assisted by the project were a Build Operate Transfer (BOT) project in Tiruppur, and increased acceptance of cost recovery, private sector participation (PSP), and capital market financing as viable options for infrastructure financing in better off municipalities. At its start, the FIRE(D) project was the main promoter of market-oriented urban infrastructure finance, but other organizations are also involved now. Even though the project was formally associated with the MUD&PA, the key issues were finance related. That does not seem to have hampered the effectiveness of the project since the ministry maintains strong communication with the Ministry of Finance (MoF.)

In its second phase, the FIRE(D) project expanded its coverage of assisting in PSP, project development, and document preparation to include more than twenty cities and towns. At the state level, it is assisting the Government of Maharashtra (GoM) in implementing urban sector reforms proposed by the Sukhthankar Committee, where 30 percent of grant allocation to the municipalities will be based on reform actions. FIRE(D) is assisting reform implementation in smaller cities such as Sangli through the development of management contracts. Guidelines for providing financing through the US Development Credit Authority are being developed.

Earlier activities were focussed mainly at policy level reforms, but current activities are addressed at achieving successes under the existing system. This is being attempted for cities in Madhya Pradesh, Andhra Pradesh, and Punjab where assistance is being provided to develop action plans to improve municipal finances, including resource mobilization and utilization of municipal properties. At the state level in Uttar Pradesh, Madhya Pradesh, and Gujarat, legislative reform and training programs through NIUA and state level institutes are being supported. In Maharashtra, reforms are being assisted at the policy and implementation level based on the Tamil Nadu Urban Development Fund (TNUDF) model. Since there are limited successful models that can be replicated, a search and study of activities such as the *Mirzapur Model City Programme* is being conducted.

The reforms encouraged by the FIRE(D) project have now been broadly accepted, but their impact has been on a limited range of necessary urban management issues such as commercialization of WSS activities and solid waste management (SWM) in a certain cities. Despite assistance with supporting improvements such as improved financial accounting, significant replication in other cities has yet to occur. Moreover, in addition to the WSS and SWM, the ULB has the responsibility for a number of other services as well as its local government function. It is now clear that reforms must address the basic municipal administrative and management issues in order to achieve sustainable improvements in urban governance.

Innovative financial arrangements and PSP may help, but will not be sufficient to address the gap between revenues and necessary expenses at the local and the state level. Either state subsidies for key social services or substantially increased local municipal revenues will be required. To achieve this public administration in at least some areas requires reform, based on objective analysis and the creation of a database of human resource (HR) needs and resources. In order to make use of PSP and innovative financing, financial forecasting and budget analysis must be introduced and made available to the public.

3.5 Overview of the External Organizations' Activities in the Urban Sector

Several external organizations are actively involved in Indian urban sector service provision and reforms. An analysis of these agencies' ongoing programs in the urban sector and their likely impact on the achievement of reform in urban service delivery in India is undertaken in this section. USAID's on-going FIRE(D) project is also reviewed in terms of its broad achievements, taking into account the FIRE(D) workplan for the period up to September 2003, with the aim of identifying the achievements likely to be achieved by the end of the project period. The analysis is intended to determine areas of intervention and a strategy to address the constraints and the gaps in the following four aspects of urban service delivery: a) improving the urban physical environment, b) improving urban governance, c) improving urban infrastructure finance, and d) improving the contribution of urban infrastructure in service to economic growth and poverty reduction.

A review of the international agencies' role in the urban sector as documented in the World Bank's (WB) Urban Strategy reveals that the international assistance constitutes only a small proportion of total assistance and investments in the sector in India, bringing in a clear opportunity for new thinking, innovation and access to international experiences. The World Bank had the largest level of assistance, despite its relatively low presence in the sector, compared to other agencies active in the urban sector, such as the ADB, Department for International Development (DFID) of UK, USAID, and the Overseas Economic Cooperation Fund (OECF) of Japan. The WB's lending to the sector reduced sharply, due to poor performance of earlier urban project during the 1990s. The relatively poor performance of the WB's urban projects in India in the past is explained by factors such as:

- Highly complex nature of projects in relation to local client capacities and their reluctance to use external consultants;
- Lack of ownership of projects and associated covenants; and
- Weak municipal capacities compounded by difficulties with land acquisition, procurement and corruption.

Various interventions of external agencies in the urban sector during the last ten years have brought considerable synergy for a reform based institutional functioning towards an efficient urban service delivery. To illustrate further, a list of interventions to the urban sector in India (1989-2000) under external assistance is given in [Annex 5](#).

3.6 Financial Institutions Reforms Expansion (FIRE -D) Project

The goal of the Debt Market component of the FIRE(D) project is to assist municipal, state, and central governments in India to develop sustainable urban environmental services (water, sewerage, and solid waste) and to ensure that the poor have access to these services. The project aims to achieve this goal through the following objectives:

- Increasing participation of municipalities, the private sector, and community organizations in the development and delivery of commercially viable urban infrastructure services;
- Increasing the capacity of municipal and state governments and other urban professionals to manage urban growth, mobilize resources, and improve infrastructure services; and
- Supporting development of an urban infrastructure finance system.

The USAID FIRE(D) project works with all three tiers of government in India, central, state and municipal bodies. Its policy work with state and central agencies aims to create a supportive environment for cities to make needed changes. Partners include the Ministry of Urban Development and Poverty Alleviation of the Government of India (MOUD), the National Institute of Urban Affairs (NIUA), the Housing and Urban Development Corporation (HUDCO), and Infrastructure Leasing and Financial Services, Ltd. (IL&FS). These, and many other partnerships some of which are described below, help ensure that the lessons learned in initiatives supported by FIRE(D) will be institutionalized and spread nation-wide.

Results (For more details, see Annex 6)

- Acceptance of the concept of commercial viability in delivery of urban infrastructure services
- A proven structure is in place for municipalities to access domestic capital markets and finance infrastructure projects by issuing municipal bonds
- Introduction of urban management reforms, particularly financial management and accounting reforms
- Development of a state-level policy framework for water and sanitation services and a national policy framework for improving solid waste management
- Sharing lessons learned through establishment of a training network, study tours, support of city managers associations, creation of a website, and support of studies and reports to strengthen cities.

Weaknesses

- Limited progress on systematic results achieved, but models developed
- NIUA is the designated policy agency, but not ideal for financial market/instrument work
- Weak links with Ministry of Housing

Future Directions

The FIRE(D) project will continue to play a cutting edge role in helping create livable cities by improving municipal governance and introducing reforms in the delivery of urban services. The project aims to deepen and spread innovations and apply lessons that are being learned. With its many partners, the project will continue to meet the challenges presented by urban growth and the 74th Constitutional Amendment in six ways.

1. *Helping cities develop sustainable environmental infrastructure services by introducing a consumer and commercial orientation.* Introducing a consumer and commercial orientation will require cities to improve the efficiency of their operations, shift their focus from being providers to facilitators, create autonomous and accountable utilities, and involve the private sector. FIRE(D) is working in all these areas. FIRE(D) efforts to help selected cities develop private sector participation projects to improve their services now stress three- to four-year management contracts with private companies and community contracting. In Sangli and elsewhere, the intention is to move from management contracts to long-term concession contracts with private companies to improve infrastructure services.

2. *Strengthening municipal financial viability with an emphasis on resource mobilization of tax and non-tax internal resources.* FIRE(D)'s experience encouraging cities to finance infrastructure projects has led it to focus on strengthening the municipal revenue base, a precondition for cities' assuming debt for infrastructure services. In turn, this leads to addressing improved financial management of municipal funds, better collection of taxes and tariffs, and budgeting and accounting changes. FIRE(D) will continue to support ICAI's efforts to develop accounting standards for local governments and to assist states, starting with Tamil Nadu and Maharashtra, to develop accrual-based accounting manuals. Future new efforts will assist cities to introduce independent audits and to commercialize under-utilized municipal assets.

3. *Demonstrating a targeted strategy to improve access of the poor to urban infrastructure services.* The project will strive to ensure that the poor benefit from urban services within the context of developing commercially viable infrastructure services. FIRE(D) will work in partnership with the multi-donor Cities Alliance to achieve the goal of "cities without slums," starting in Ludhiana and Sangli. The three-track approach consists of: mobilizing demand in under-served settlements; helping the urban local body improve service provision and provide secure land tenure; and coordinating internal and external resources to finance the required infrastructure provision. In addition, the FIRE(D) project will support the training institutions in the NIUA network to develop the capacity of local officials to improve access of the poor to urban services.

4. *Promoting complementary state and central level policy reforms.* FIRE(D) state-level policy efforts will focus on water and sanitation reforms, chiefly through restructuring water boards, establishing regulatory frameworks for tariff setting and service standards, and creating new incentives for urban reforms. The purpose of these reforms is to create a sustainable structure for a new consumer and commercial orientation at the local level. The project will also advocate for policy changes to fully

implement the 74th Constitutional Amendment to improve municipal governance through greater accountability, transparency, and efficiency. Examples are preparing guidelines for state finance commissions and promoting a model Municipal Act to be enacted by states to clarify municipal powers and responsibilities and to permit urban reforms under decentralization. At the central level, FIRE(D) will continue to work with the TAG to implement the advisory group's recommendations on solid waste management.

5. *Expanding the market-based infrastructure financing system.* FIRE(D) will continue to support the national government in developing long-term, market financing for the sector. On the state level, it will support the establishment of new financial entities and restructuring of existing financial intermediaries, such as the Tamil Nadu Urban Infrastructure Development Fund, to facilitate cities' obtaining financing directly from the capital market, including pooling arrangements for small and medium towns. It will support development of market-based credit enhancement measures, including guarantees and measures to lengthen the term of the instrument. These activities will be supported by USAID's Development Credit Authority guaranty program. The FIRE(D) project will continue its efforts at the state and national levels to improve the regulatory framework for municipal borrowing.

6. *Expanding efforts to strengthen municipal capacity and disseminate lessons learned.* FIRE(D) will continue to work with NIUA to expand its ongoing initiatives to build municipal management capacity. It will strengthen the network of regional training institutes and help extend its reach, for example, by developing materials and training of trainers courses. It will support the growth of city managers' associations in other states, building on its relationship with the City Managers Association of Gujarat. It will support NIUA's efforts to expand the online India Urban Information Resource Center by incorporating information from partner organizations and state and local officials. It will continue to produce periodicals, policy reports, and project studies as well as support NIUA's quarterly and case studies. These information exchanges will save cities scarce time and resources and help them to avoid reinventing the wheel. They will also help disseminate the FIRE(D) agenda and lessons learned.

Results were new private sector entry into infrastructure finance, development of local partnership arrangements to facilitate this, revised tariffs, state level financial partnerships, tax incentives, recommendations by the GoI for direct municipal borrowing, state level reforms, 74th CAA, improved debt market and municipal credit ratings.

3.7 Urban Sector Strategy of Asian Development Bank (ADB)

An overview: In India, the ADB provides support for urban infrastructure, transportation, housing, basic services for the informal sector, and environmental management. Currently, six projects are underway in Karnataka, Madhya Pradesh, Rajasthan, and Gujarat with an investment of US\$1.5 billion. Special assistance is given for mobilizing private capital to finance urban infrastructure and environmental services, and as loans to institutions for low-income housing. The principal type of project is the Integrated Urban Development Project (IUDP), which is linked with an infrastructure investment fund. Selection of states and municipalities is based on willingness to implement policy reform and execution is through existing institutions. Supporting activities involve transportation systems management (TSM), micro-credit for housing finance, institutional strengthening, and financial reforms.

Key Weaknesses: The crucial challenge is how to remove these difficulties so that private investment can play a more important role in financing urban infrastructure. In Orissa even when private participation was organized for electric distribution, theft could not be reduced. Even after attracting private investment to a project, there is a further need to strengthen administrative enforcement and the sanctity of legal contracts. Needed legal changes for the ADB program in Karnataka could only be implemented after five years.

Because HUDCO withdrew due to problems in disbursing funds for urban infrastructure, the HF II Project has not moved ahead. This highlights one of the key problems in implementing urban

projects. A two-year start up time is needed by the municipalities to get ready to implement the project. Aside from the initial one-year project preparation technical assistance, ADB does not provide for this additional support. In Calcutta there is a project preparation facility (PPF) to hire consultants. ADB does not give any concession for poverty alleviation components. The difficulty in urban project development has made it difficult to negotiate with Indian government.

The current program in Gujarat provides technical assistance for recruitment of consultants and will reduce hiring time. It will allow all the initial preparation to be completed by the time of the loan, which is good for the Ministry of Finance. The preparation of procurement packages and documents through detailed design assistance (partial PPF) is needed so that the government is ready to hire the consultant and issue tenders. It would be useful if USAID coordinated its cities with ADB in providing assistance in commercialisation of municipal operations and in providing short-term advisers for small ULBs.

The Calcutta capacity building project with a budget of US\$42 million will provide long-term support for implementation. Highlights of other interventions of the ADB in India are documented in the [Annex 7](#).

3.8 The World Bank

The World Bank (WB) is currently involved in the states of Tamil Nadu, Andhra Pradesh, Gujarat, Karnataka, and Uttar Pradesh to provide assistance in preparing projects for PSP as well as pilot and major projects. Development of new India urban sector and WSS strategies is in progress. About 60 percent of the bank's urban investment is in WSS. The strategy is oriented to the overall environment rather than just a sector approach with the CDS as the basis for ID of investments. The new WSS strategy would emphasize private sector involvement in development and delivery. The urban sector strategy would focus on decentralization, good governance, management improvement, and developing conducive financing arrangements. Investments in the WSS would only be with PSP, and include institutional development, project development, and appraisal facilities.

A model for this approach is the TNUDF, whose assistance in project development has resulted in start up of 70 percent of the projects it has prepared. As a result of this and other successful development in the financial sector, the WB is no longer supporting government sector financial intermediaries. WB project development is done through a project development facility.

The bank provides capacity building assistance to all including poor performing ULBs, however a mechanism to evaluate municipal performance is needed. Outside agencies such as Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC), and Gujarat Urban Development Company (GUDCO) are used to provide institutional development, which is needed at the state level also. GUDCO is also identifying investment needs at a state level.

In Tamil Nadu, Gujarat, and Andhra Pradesh, there is strong interest in developing a bond bank. Tamil Nadu has implemented an asset management study and there is a need for more involvement in upstream activities such as setting up asset management monitoring agency. Design/supervision/management support is provided in PPF to allow local government to choose an agency for implementation in Gujarat.

The Water and Sanitation Policy of the WB

The WB's strategy on WSS is based its country assistance strategy (CAS) for India which has identified the urban WSS as a key sector. The objective of the WSS Strategy of the WB is to assist in alleviating poverty in the country by improving the quality of water supply and sanitation services in urban areas and ensuring that such improvements are sustainable, by promoting

institutional and regulatory reforms in the urban water supply and sanitation sector. This will mainly help to improve performance and attract the finance necessary for investment.

The strategy identifies certain main sector issues ranging from inadequate service coverage, poor quality of services, weak institutional performance, and deteriorating environmental conditions, while estimating the sector investment requirements. The WB has supported about 14 water supply and sewerage/sanitation projects in the country. Its past strategy has involved support to investment by large public sector institutions. The strategy also observes that the WB's investment programs have been accompanied by measures to achieve efficiency improvements, including improved metering, billing and collection, tariff increases and restructuring, but that they have been largely unsuccessful. The sector institutions have been biased towards construction rather than strengthening operational and financial performance. It also observes that there has been political opposition to increasing tariffs and a general lack of commitment on the part of the borrower. Thus the WB has recognized that its past strategy has failed to meet the objectives of alleviating poverty and expanding service coverage, identifying the need for a new strategy.

The strategy has identified that certain reforms are to focus on improving service delivery towards meeting the challenges of the urban WSS sector and improving its performance. Changing incentives on management assumes importance under the new strategy, since without this additional financing to public institutions will not lead to sustained improvements in service delivery. These reforms therefore focus on providing managers with autonomy to operate in a commercial environment in a sustained basis. Key reforms measures as described in the strategy include:

- establishing new independent regulatory entities,
- reforming the institutional framework to promote the creation of commercial water utilities;
- reducing price distortions and increasing tariffs,
- implementing new approaches to sanitation and
- substantially increasing PSP in the UWSS sector;

Thus, the overall strategy of the WB Group builds on the reform agenda of the 1998 Water Sector Review undertaken jointly by the WB and the GoI and is linked to the WB's new urban strategy. The strategy, which will form an integral part of the WB's lending programs in India, has been developed jointly by the WB, the IFC and MIGA. The strategy includes:

- making the introduction of PSP a central part of the Bank's work with water and sanitation providers in India;
- refocusing the Bank's lending programs to promote PSP, and support the design of the necessary legal and regulatory frameworks;
- making complementary interventions aimed at servicing the poor through demand driven community-based projects, and promoting low cost technologies and innovative solutions;
- only lending to those utilities and states with a demonstrable commitment to reform and that have already implemented measures to address existing weaknesses in incentives and management;
- ending loans to those utilities with persistent problems of under-performance; and
- assisting in forming the Water Utility Partnership for Capacity Building in South Asia, as a vehicle to increase capabilities and knowledge sharing in the region on institutional development and implementation of reforms in the urban water supply and sanitation sector.

The proposed strategy suggests a major shift in the emphasis of its work, from the reform of public utilities to sector reform and the introduction of PSP. Its implementation will focus on three-main strands namely 1) public awareness, 2) limited financing to pilot PSP and 3) large-scale financing only to reforming states.

These three strands are to be implemented with flexibility to make them suitable to the states' specific conditions. Large-scale commitments for infrastructure development will only be made to governments with clear reform goals that have been formulated with the World Bank. In these cases, the WB will provide support to the introduction of PSP, as well as loans for new investment and purchases.

The Urban Strategy of the WB

The primary objectives of the Urban Sector Operational Strategy are to contribute to urban poverty reduction through enhanced opportunities for supporting urban economic development and improving the quality of life of all urban dwellers, especially the poor. The intermediary objectives include:

- i) strengthening the decentralization process initiated under the 74th Constitutional Amendment Act,
- ii) improved urban governance and management to support urban economic development and poverty reduction and
- iii) evolving more commercially oriented urban financing systems.

The strategy also reviewed the urban sector and identified low quality services that have failed to keep pace with the growth in population and incomes, mounting backlog of urban investment requirements, and continued problems of access for the poor to the limited services available. Urban poverty declined from 38.2 percent in 1987-88 to 32.4 percent in 1993-94. However, besides such income linked poverty estimates, adequate information and analysis are not available for other important dimensions of poverty as reflected in poor living conditions, poor performance on social indicators, and a lack of security and opportunity for the disadvantaged.

The strategy also acknowledges that despite the poor status of urban India over the last half a decade, new opportunities exist in the sector. A focus on democratic decentralization under the 74th Constitutional Amendment Act, with an emerging emphasis on improved urban governance and management, possibilities of private sector and community participation in organizing service delivery, new opportunities to link the sector to financial markets, and a renewed focus on urban poverty reduction by the Government of India and some of the state governments provide the setting for a new strategic approach to the sector in India.

The urban sector strategic focus area remains as the reduction of urban poverty and as the core objective of the proposed strategy, with a focus on empowerment of the poor, protection of the most vulnerable through security mechanisms and creating opportunities for the poor by building their assets and enabling the markets to work for them. The WB's approach to poverty reduction in this strategy is based on the premise that poverty reduction requires both indirect measures, which contribute to overall economic development and direct poverty targeted approaches. The strategy within this overarching framework of urban poverty reduction, identifies three strategic focus areas to address the urban sector issues for India, namely, i) strengthening decentralization, ii) improving urban governance and management, and iii) developing conducive financing arrangements for urban infrastructure. The WB's strategy approach includes i) local empowerment, ii) sustainable intermediation, iii) focus on sector reforms.

The strategy implementation will be to evolve a state level and market based mechanisms, which provide support and incentives for

- local reforms,
- improved urban governance and project development, and
- self-selection of cities for investments in citywide infrastructure investments within a City Development Strategy (CDS) framework.

The Cities Alliance has been actively involved in supporting the preparation of CDS through public consultation process leading to further preparation of City Corporate Plan (CCP) including a Five-Year Capital Investment Program (CIP). Such exercises have been successfully demonstrated with the active support of USAID for the urban areas of Coimbatore and Tiruppur. The TNUDP-II, funded by the WB has further prepared CCPs for 9 more ULBs while the GoTN has committed preparation of CCPs for all its ULBs.

The various members of the WB GROUP, such as the World Bank, IFC, MIGA and the World Bank Institute, will jointly implement the strategy. Implementation of the strategy is envisaged through three main strands of activities to match key elements of strategy approach. These include:

- i) managing knowledge,
- ii) supporting innovations at the local level, and
- iii) implementing policy reforms at the state level.

3.9 Department for International Development (DFID), UK

DFID no longer has an urban poverty team or a national program. The activities in four states of the country, namely, West Bengal (WB), Orissa, Andhra Pradesh, and Madhya Pradesh have been restructured from a sector to a state assistance strategy. There is a separate program for each state with a limited national program team that deals with health and other non-state issues. The United Nation's (UN) strategy is the DFID approach for its worldwide activities. Its country strategy will be modified to incorporate various sector strategies.

Activities have moved toward management and system reform. Previous slum improvement efforts did not address poverty as a whole so the efforts have moved toward urban management improvements with revenue enhancement, planning, and community involvement. This requires improved urban governance and redefinition of state and local relationships, improved economic development through a City Development Strategy (CDS), and a regional urban development plan. Past experience has shown that pilot efforts, which have been scaled up, have not been effective in India and have required various project extensions. The program needs strong links with the state program and policy and there was a desire to distance the Department for International Development (DFID) office from micro management. There has been a recent shift in the urban ministry's interest to interact with external organizations in urban sector reform. Various reforms have been developed such as the City Challenge Fund to reward reforms in big cities. DFID is providing technical assistance for various reforms items, but start up and transition activity support is weak. There is a great need for a management cadre with performance criteria.

3.10 Role of Financial Institutions in Providing Infrastructure Services

India's growth composition has been peculiar for its own stage of economic development in the past decade. Several financial institutions have assumed a committed role in the urban infrastructure sector especially during the last decade and involved themselves in the promotion of urban reforms guided financing of urban infrastructure.

Infrastructure Development Finance Company (IDFC) Limited:

IDFC was incorporated in January 1997 with an authorized capital of Rs. 50 billion (\$1.2 billion). In March 1998, IDFC was capitalized with Rs. 10 billion (\$231 million) of equity, which was subscribed by the Government, Reserve Bank of India (RBI), Industrial Development Bank of India (IDBI) (40 percent); other domestic financial institutions (20 percent); and international investors (40 percent). In addition, the Government and RBI provided IDFC with a subordinated debt of Rs. 6.5 billion (\$150 million).

IDFC's major objectives are to:

- (i) lend private capital to commercially viable infrastructure projects in India;
- (ii) provide policy advice to the Government to meet the above objective; and
- (iii) develop and strengthen the linkages between markets, institutions, and infrastructure projects.

IDFC's operations are divided into four operational groups: transportation, energy, telecommunication and information technology, and urban infrastructure. The operational strategy of IDFC is to direct private capital to infrastructure financing through supplementing project finance with such financial support as guarantees, bridging finance, risk participation, and refinancing. IDFC has been following a prudent financial management strategy. IDFC sets its capital adequacy ratio at 16 percent, higher than the RBI's revised target of 9 percent. Apart from complying with RBI's guidelines on capital adequacy, income recognition, assets classification, and provisioning for non-performing assets, IDFC also sets prudential indicators on capital gearing and liquidity ratios. With growing lending to infrastructure projects, IDFC is currently developing an integrated project monitoring and management information system. In FY2000, IDFC achieved remarkable financial performance in its first two years of operations. In FY2000, IDFC has realized a total income of Rs3.1 billion (\$72 million) and a net income of Rs 1.6 billion (\$37 million). This represents a return on assets of about 11 percent.

Following are the specific activities of the IDFC in the Urban Infrastructure sector:

- IDFC concluded an agreement with the ADB for a line of credit amounting to US\$30 million for financing urban and environmental infrastructure projects,
- IDFC is playing a key role in the "Committee for Operation and maintenance of Rural and Urban Water Supply Schemes" organized by the Government of Maharashtra. The committee would inter alia suggest a comprehensive package of reform measures, including a road map for private sector participation in water supply and sewerage in the state. To begin with, the committee has identified some districts in the state where private sector participation will be solicited in operations and maintenance of water supply,
- IDFC participated in setting up two infrastructure funds – the Feedback Infrastructure Fund (FIF) and the Gujarat Infrastructure Fund (GIF). The FIF is expected to finance infrastructure project development activities in the country, thus addressing a major gap in infrastructure development. By participating in equity of the asset management company of GIF, IDFC intends catalysing infrastructure projects in Gujarat, which is one of the leading investment destinations in the country,
- IDFC, in association with the Indian Institute of Management, Ahmedabad, is advising the Chennai Metropolitan Water Supply and Sewerage Board on tariff indexation in respect of water supply.

IDFC is striving to build commercial frame of mind in the urban infrastructure sector. Its involvement in the of Water Regulatory Bodies, creation of a proper database, and participation in the institutional reforms will help in organizing the supply chain and create more intervention and funding of commercially viable urban infrastructure projects. To facilitate the same, IDFC also undertake advisory role through technical studies. It is eager to participate in the pool financing initiative as a leading financial institute and inculcate as a model with set responsive financial discipline. IDFC is also committed to building institutional capacity by adopting high-

tech measures for developmental issues, recruiting expertise, and responding as a catalyst in the provision of urban infrastructure.

Housing and Urban Development Corporation Limited (HUDCO)

HUDCO was incorporated in April 1970 as a government-owned company to promote housing and urban development, particularly for the benefit of the low-income groups and economically weaker sections of society. HUDCO currently has an authorized capital of Rs. 12.5 billion (\$288.7 million) and paid-in capital of Rs. 5.8 billion (US\$135 million). At the end of FY 2000, the paid-in capital was increased to about Rs. 9.0 billion (US\$207.9 million). Since its inception and up to September 1999, HUDCO has sanctioned 14,516 projects costing Rs. 425 billion (\$9.8 billion), with HUDCO financing Rs. 250 billion (\$5.8 billion) of the total cost. These projects have resulted in about 8.7 million dwelling units, 0.5 million developed plots, 4.8 million sanitation units, and 747 urban infrastructure projects. Its current operations are divided between housing and urban development.

HUDCO's urban infrastructure activity began in 1989 when a special urban infrastructure finance wing (UIFW) was established. HUDCO's urban infrastructure operations cover a wide range of sub sectors such as utility infrastructure (water supply, on-site centers, educational institutions, parks, and playgrounds); commercial infrastructure (markets, shopping centers, commercial complexes, and office buildings); and integrated area development. Water supply projects accounted for about 40 percent of HUDCO's urban infrastructure financing.

As a government-owned public financial institution, HUDCO has been performing many social welfare functions for the government, and is mandated to lend at least 55 percent of its housing loans to the low-income groups and economically weaker sections. In recent years, HUDCO has been actively assisting its borrowers in developing instruments for cost recovery in urban and environmental infrastructure projects, particularly water supply, sewerage, solid waste management, and urban transport. In addition, commercialization of urban infrastructure development and revising water tariffs policies has been proposed in a study financed by the World Bank.

Environmental and social aspects of urban infrastructure project have been an integral part of HUDCO's project appraisal. Like many other financial intermediaries, HUDCO in the past mainly relied on independent consultants to assess the environmental implications of a project but at present, HUDCO has developed in-house environmental and social appraising capacity and procedures which was fully implemented in early 2000. HUDCO has approved the establishment of a community development fund, and has allocated 2.5 percent of its annual net profit into this fund.

ICICI Limited:

ICICI was set up in 1955 through the initiatives of the government, the World Bank, and representatives of Indian industries. As of August 31, 1999, its current major shareholders include Indian insurance companies (25 percent), other government controlled institutions (6 percent), the general public (17 percent), international investors (19 percent), foreign institutional investors and non-resident Indians (16 percent), Unit Trust of India (7 percent), and Indian corporations and other (10 percent). Over the years since its inception, ICICI has emerged into a universal banking group with eighteen subsidiaries and affiliates. As of March 31, 1999, the total shareholders funds were Rs. 65 billion (\$1.5 billion) and total assets (gross of current liabilities) were Rs 585 billion (\$13.5 billion), representing 23 percent and 27 percent growth, respectively, over the previous year. The principal business of ICICI include medium and long-term project finance, corporate finance, leasing and other types of financial and advisory services.

Until recent years, ICICI's operations were concentrated on project-based lending to the manufacturing sectors. By the end of FY 1996, manufacturing projects accounted for almost 70 percent of its lending

portfolio. The economic deregulation and opening since the early 1990s have placed India's manufacturing sectors under increasing competition. Meanwhile, the financial institutions have also been facing growing competition. In response to the changing economic and financial environment, ICICI has taken steps to diversify its operations with an increasing focus on corporate and infrastructure financing. The share of manufacturing projects in total loan approvals declined from 60 percent in FY 1997 to 19 percent in FY 1999, while the shares of corporate and infrastructure finance have increased from 12 percent and 16 percent each to 33 percent and 29 percent, respectively. As a result, the share of manufacturing projects in the portfolio has declined from 70 percent in FY 1997 to 40 percent in FY 1999.

As part of its diversification drive in 1996, ICICI set up the infrastructure industry group, a separate division with about 50 staff, to take up the business opportunities in the infrastructure sectors, including urban and environmental infrastructure development. ICICI's objective in the urban sector is to become the market leader among private sector financial intermediaries in financing urban and environmental infrastructure projects in the medium term. It envisages its role in the urban sector to include (i) direct financing of large projects in selected municipalities, (ii) setting up state level intermediaries in selected states in cooperation with state governments to finance smaller projects, and (iii) facilitating municipalities to access capital markets. In addition, its advisory and consultancy services group also provides policy advice at the sectoral, state, and project levels. At the moment ICICI's urban sector activities include (i) promoting and establishing the Tamil Nadu Urban Development Fund to finance municipal projects in the state of Tamil Nadu; (ii) establishing a joint venture with Kerala Industrial Infrastructure Development Fund for developing infrastructure projects in the state of Kerala with private sector participation; (iii) establishing a joint venture with West Bengal Industrial Development Corporation for infrastructure development in the state of West Bengal; and (iv) negotiating a Rs. 3 billion loan to Pune municipal corporation for water treatment and sewerage development in Pune, the state of Maharashtra.

The proposed environmental and social policy of ICICI has five guiding principles:

- Conserving nature and natural resources through maintaining ecological equilibrium and biogeochemical cycles and preserving biodiversity;
- Promoting environmentally sustainable development through incorporating environmental and social management into the project cycle;
- Protecting environmental quality by selecting appropriate project location and clean technologies, avoiding or minimizing discharge of pollutants to the environment, and minimizing safety and health hazards;
- Minimizing social impacts by avoiding or minimizing displacement of people, protecting the interests of project-affected persons, incorporating resettlement action plans if necessary into the project cycle; and
- Encouraging socially acceptable development projects through associating project-affected people with the entire project cycle. Based on these policies, a detailed environmental and social assessment procedure has been established and will soon be incorporated in its project appraisal procedures.

Emerging Issues of Urban Service Delivery and Urban Infrastructure Sector Reforms

This chapter identifies emerging issues, gaps, and constraints in the urban service delivery and reforms highlighting the need for continued support for urban sector reform agenda in India.

4.0 Background

The issues that emerged from the assessment of the urban service delivery situation and urban infrastructure sector reforms in India have been analyzed according to three major areas: 1) policy (managerial and regulatory;) 2) financial; and 3) technical. These issues are highlighted in the following sections in terms of their potential for the proposed USAID assistance for the urban service delivery and urban infrastructure sector reforms in India. Following the summary of issues by these categories, a comprehensive list of issues, several of which have policy, regulatory, financial and/or technical components, are aligned with an appropriate intervention for USAID to consider. These interventions are further developed in Chapter 5 of the Assessment.

4.1 Policy-Related Issues

The major policy-related issues pertain to managerial and regulatory aspects. The managerial issues include the “equilibrium trap” in which the sector institutions are trapped by the capabilities of the municipal staff, absence of database, lack of coordination among urban local bodies, absence of charter of functions for city manager and other staff, lack of planning and budgeting, and limitations of resource allocation and prioritization including timely devolution of the funds and limited civil society participation.

4.2 Regulatory Issues

The regulatory issues largely pertain to the quality of service, economic regulation of tariff, regulation of licenses, coordination among the regulators and collection, and dissemination of sector information towards achieving improved urban governance and urban life.

4.3 Financial Issues

Certain key financial issues have been impacted by the declining fiscal base of the ULBs, mismatch between assigned functions and availability of resources, absence of demand driven decisions on investments, poor collection efficiency, non-responsive accounting and financial system, unclear state-local fiscal relation, absence of scientific investment planning, limited access to capital markets, and poor enhancement of service delivery in the urban local bodies. These issues supported by non-responsive pricing of services, inadequate private partnerships in investments, and poor cost recovery practices are further complicating the financial health of ULBs.

The FIRE(D) project has been actively involved in addressing certain key financial issues to strengthen the system of accounting, credit rating, project preparation, financial instruments and awareness leading to an expansion into bond pooling, and project development. However, the current FIRE(D) project is limited in its ability to link its activities to actual project finding.

4.4 Technical Issues

Technical issues in urban service delivery are largely identified with inefficient system management, O&M, difficulties in adaptation of localized solutions, limited technical capabilities at the local level in project development, procurement, execution and O&M, and poor coordination among sector agencies and staff of ULBs.

4.5 Issues and Proposed Interventions

The following table provides a comprehensive list of the emerging issues in the urban sector. Many of these issues contain policy, regulatory, financial and/or technical components. Therefore, no particular order is attempted at this stage. However, Chapter 5 summarizes and consolidates the proposed interventions of this table to provide USAID/New Delhi with a menu of interventions to consider.

Issue	Intervention
Lack of financial consequences assessment per 11th Financial Commission	Improve financial capacities and information management; increased public participation, accountability and transparency
Lack of City Development Strategy (CDS)	Improve planning skills and information management
Reliance on grant funding weakens reliance on self generated revenues	Competition for grant funding including required leverage
State control over municipal staffing	Capacity, cadre and association building for municipal staff
No meaningful control over staff performance	Capacity, cadre and association building for elected officials
Limited management and governance experience of elected officials	Capacity, cadre and association building for elected officials
Inability to demonstrate financial viability for long-term finance	Improve financial capacities and information management
Lack of financial devolution from state to municipality	Increased public participation, accountability and transparency
Lack of performance standards for municipal staff	Distance learning and certification on municipal employees
Lack of municipal performance standards	Increased public participation, accountability and transparency; Improved information management
Lack of planning, assessments, and budgeting	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Limited database availability	Improved information management
Limited experience of municipal staff	Distance learning and certification on municipal employees
Limited identification of resources	Improved financial and economic development capabilities
Limited management analysis	Distance learning and certification of municipal employees
Limited project development expertise	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Limited information for public decision making	Improved information management; Increased public participation, accountability and transparency
Limited public input into project selection and service standards	Improved information management; Increased public participation, accountability and transparency

Issue	Intervention
No assured, regular intergovernmental transfers	Increased public participation, accountability and transparency; Improved information management
No control or accountability over state assigned revenues	Increased public participation, accountability and transparency; Improved information management
No Management Information System	Improved information management
No advanced planning and priority setting	Distance learning and certification of municipal employees
Poor provision of services (vicious circle)	Increased public participation, accountability and transparency; Improved information management
Limited financial responsibilities and structure	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Limited role of SFC in reforms	Form state policy and research unit to support regulatory authority development
Inadequate funds and technical resources from state to municipality	Increased public participation, accountability and transparency; Improved information management
Poor training due to lack of staff needs assessment and performance standards	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Weak capability of municipal staff	Distance learning and certification of municipal employees
Lack of implementation plan to respond to SFC recommendations on O&M and capital investment	Form state policy and research unit to support regulatory authority development
Limited guidelines for public-private partnerships	Form state policy and research unit to support regulatory authority development
No performance standards for municipalities	Form state policy and research unit to support regulatory authority development
No rational rate setting mechanism for public services	Form state policy and research unit to support regulatory authority development
No standards for public service delivery	Form state policy and research unit to support regulatory authority development
Difficult to increase charges for existing services	Increased public participation, accountability and transparency
Existing infrastructure requires extensive rehabilitation and augmentation	Increased public participation, accountability and transparency
Focus on private sector finance requirements can continue with refinement of highly visible activities - but actual impact on urban services may be low	Increase municipal capacity to deliver services through: Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Inadequate and declining state revenues	Increase municipal revenue generation capacities through: Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Inadequate local revenues	Increase municipal revenue generation capacities through: Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Limited commercially-viable projects mainly new services in new areas	Increase municipal capacity to deliver services through: Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Limited project development capacity	Improve municipal capacity to procure project development services; generate market place for municipal procurements
Local government function has limited cost recovery potential in the short term	Improve financial management capacity; develop new sources of revenue; develop pooled financing resources
Most municipal services not commercially viable at this time with the current structure	Competition for grant funding; Improve municipal capacity to deliver services
Need new structure, continued subsidy from other than municipal sources or dramatic increase in local revenues	Competition for grant funding; Improve municipal capacity to deliver services; develop new revenue sources

Issue	Intervention
Need to increase both local and state revenues	Improve financial management capacity; develop new sources of revenue; develop pooled financing resources
Non-commercial funding needed for most municipal expenses	Improve municipal capacity to deliver services; develop new revenue sources
Private sector financial institutions only interested in well-developed projects	Improve municipal capacity to deliver services
Public private partnerships not likely to play major role in next 5 to 10 years.	Improve municipal capacity to deliver services
Skills do not match work duties	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Skill and experience retention poor	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Resistance to localized and simple technical solutions	Increased public participation, accountability and transparency
Poor supervision, assessment skills and accountability	Increased public participation, accountability and transparency; Capacity, cadre and association building for municipal staff
No demand responsive urban services program	Increased public participation, accountability and transparency
No demand reduction achievements	Increased public participation, accountability and transparency
Limited management capability	Capacity, cadre and association building for elected officials
Lack of technical capabilities for project formulation, development, procurement, execution and O&M	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Lack of proper coordination and sequencing of technical interventions with requirements	Capacity, cadre and association building for municipal staff; Distance learning and certification on municipal employees
Emphasis on new infrastructure instead of efficiently managing existing	Increased public participation, accountability and transparency
Absence of cost-recovery service provision	Increased public participation, accountability and transparency

4.6 Summary of Issues

The overriding problem areas identified in this assessment are: the absence of a comprehensive urban governance and service delivery program with less dimensional improvement; weak links between various levels of government; and deficient urban management performance monitoring. Key observations include:

- Improvement only piecemeal assistance and investments are not dependent on systemic reforms;
- Weak link between central, state, and local reforms;
- Weak link between local reforms and actual project funding;
- Many individual and ad hoc experiments and sector interventions have little replication;
- Insignificant progress in improving the basic urban management performance; and
- No comprehensive program for urban governance service delivery.

Strategies and Recommendations

This chapter outlines possible areas of intervention and strategies to address the constraints to improving the urban physical environment, urban governance, urban infrastructure finance and urban infrastructure services in relation to economic growth and poverty reduction. A working hypothesis of the proposed interventions in terms of policies (managerial and regulatory), financial and technical aspects is suggested towards evolving a comprehensive urban sector program. The exercise also provides a ranking methodology for potential USAID interventions.

5.0 Need to Reorient GoI's Urban Priorities

The USAID/India Urban Goal

Partnering with India to improve prosperity, health, and access to basic services.

The rapidly growing urban population in India and its predominant role in the country's economic development have made it necessary to reorient past priorities in order to maintain and improve the quality of life for the country's population. This reorientation was long overdue and a huge investment of resources is now required in order to bring the sector performance up to a satisfactory level. The GoI has initiated many reforms in the urban sector and state governments are beginning to follow that lead. However, the resources of all levels of government are severely constrained and adequate attention cannot be paid to the reform needs of the state and local governments at this critical time. Although the resources needed are huge, India is the world's second most populous country with a population of about one billion. The benefits, both direct and indirect, of the implementation of a successful package of municipal support activities will be measured in multiples of the investment.

USAID has a unique opportunity at this time to build on its successful experience in bringing about systemic change through the FIRE(D) project in infrastructure finance and earlier work in the housing sector with HUDCO. However, for the first time the GoI is proposing a broad urban sector approach, which seeks to remove the obstacles that prevent good urban management. This is an ambitious program, but it is an honest and serious attempt to identify and resolve problems in the sector as a whole instead of in sub sector pieces. Although the activities needed for successful reform in the urban sector cut across other sectors, the package of activities must be specifically tailored for the urban sector in order to support the government reforms.

A strong partnership between the US and India can be developed through crucial assistance at this time in areas where there is extensive US experience and Indian interest such as in the environment, public participation, urban management, economic development, and finance sub sectors.

Promoting public participation, accountability, transparency and sustainability are key themes for the reorienting the sector towards an effective partnering in improving the urban service delivery and through urban infrastructure sector reforms.

Implementation of the desired reforms will lead to a greatly improved urban quality of life through the provision of urban services, improved urban environment, and enhanced economic opportunities. The goal of the reforms is to establish good governance, but this is not merely a concept. The package of reforms is designed to actually bring about results rather than a concept. Systematic state level policy implementation should be addressed in four key areas: municipal administration, public participation, finance, and information management. The first priority must be to establish a database that is adequate for informed discussion and decision-making. Administrators and elected officials will require the training necessary for understanding and using this information. Effective dissemination of this information is critical in developing the transparency and accountability needed to allow meaningful public participation, which will lead to support for decisions that affect their services and costs. Only through this process can needs be identified to be eligible for financing.

5.1 Analysis of Potential Interventions for Improved Urban Governance

Background on the limitations and weaknesses in the sector:

- (a) Finance: Existing urban infrastructure in India requires extensive rehabilitation and augmentation, but there are inadequate local and declining state revenues, both of which need to be increased. Efforts to dramatically increase taxes and charges for existing services have had limited results. Commercially viable projects have developed mainly for new services in new areas, with little improvement in areas of existing poor service. Local and state governments have limited capacity to develop even these projects since private sector financial institutions are only interested in well-developed projects. There has been little progress in financing improvements to the huge stock of existing services, or to improving the performance of the basic local governance function.
- (b) Management: The vicious circle of low taxes and poor provision of services has resulted in the limited experience and capability of municipal staff and the alienation of the public from the municipality. The limited database availability and management analysis make it difficult to identify resources, to plan, to assess O&M, and to prepare realistic budgets. The lack of capital funds has resulted in limited project development expertise in municipal staff and the inability to demonstrate long-term financial viability. The lack of financial devolution from the state and continued grant funding weakens the municipalities' reliance on self-generated revenues. Lack of control over and uncertainty of the timing of intergovernmental transfers results in poor accountability. The lack of performance standards for municipal staff along with continued state control over staffing mean that elected representatives have no meaningful control over staff performance. Moreover, elected officials have limited management and government experience. Training programs for municipal staff are fragmented and not directly related to practical implementation due to the lack of needs assessment and urban management performance standards. The lack of a meaningful municipal database and management structure (MIS) for using it prevents informed debate on municipal budgets, the initiation of a City Development Strategy (CDS), opportunities for advance planning or prioritization and public input into project selection and service standards. The State Finance Commissions (SFCs) have played a limited role in municipal reforms. Partly as a result, the proper financial structure and responsibilities have yet to be defined and implemented for actual transfer of powers, and the states have yet to devolve adequate funds and technical resources to the municipalities for carrying out their duties as defined under the 74th Constitutional Amendment. The 11th Financial Commission found that the states had not assessed the financial consequences of devolution.
- (c) Regulatory: There are no standards for delivery of public services, or they cannot be measured or evaluated. There is no objective and rational rate setting mechanism for public services. With no measurement responsibilities for action it has not been possible for the municipalities to prepare an implementation plan to respond to Finance Commission recommendations on O&M and capital

- investment. There is confusion over the roles and responsibilities among the urban local bodies. Even while much thought has been given to identification of projects with potential for public-private partnerships, little guidance is available for action development and implementation.
- (d) Technical (Project Development): The lack of a cost-recovery relationship between service charges and their cost has prevented the development of urban services that respond to the actual demand as reflected in public willingness to pay. Moreover, there has been no incentive to reduce demand without strongly controlled municipal service provision. Emphasis has been on building new infrastructure rather than on efficiently managing the existing facilities or using localized and simple technical solutions. The limited management capability in the municipalities results in poor supervision, assessment skills, and accountability. Skills don't match work duties and as a result, skills and experience retention is poor. The broad weakness in planning capability and funds results in poor coordination and sequencing of technical interventions.

Potential Actions to Address the Critical Problems

The GoI has removed many obstacles to commercial financing of urban infrastructure and related public private partnerships (PPP). Supporting procedures and limited project preparation have been assisted by the FIRE(D) project. Further development of private sector financing opportunities is needed, but its actual impact on the vast market of urban service provision will be low.

Most municipal services are not commercially viable within the current state-municipal administrative structure. As a result, PPPs are not likely to play a major role in urban service delivery in the immediate future and non-commercial funding will be needed for most municipal expenses. For this, municipalities will require either a new operational structure, continued subsidy from non-municipal sources, a dramatic increase in local revenues, or some combination of the three.

Despite recent reforms, little significant progress has been made in improving basic urban management performance. Many individual and ad hoc experiments and sector interventions have failed to achieve systemic replication. This is largely because there was no complete program for urban governance and service delivery improvements. Now there is a need for a minimum package of activities that will coordinate central, state, and local reforms and training with follow on instead of up front project funding.

The GoI has proposed the inclusion of small and medium size cities in long-term infrastructure financing through bond pooling. Developing the proper structure and management of this program will require considerable effort from the Ministry of Urban Development (MoUD), which has limited experience in this area. Once this program is set up, there should be little need for support at the national level.

Considerable support will be needed in developing and implementing the program at the state level through coordination of state boards and agencies. The required minimum package of activities will focus its main attention and resources at the state level in the Department of Local Government, Urban Development Department, Finance Department, and the SFC.

Support at the municipal level will be in the form of assistance in preparing financial records and project proposals. This promising effort must be supported by substantial improvement in urban management since it is difficult to separate profitable activities from the general performance of the municipality. Improvement in the general performance of municipalities will not be possible overnight even with major efforts to set up a structure with adequate financing and technical assistance.

One example of this is the time required for updating the local tax base through routine administrative procedures. Even with focused efforts, fundamental and long-term revenue

improvement is likely only after two to three years. This makes involvement of the public in a city development strategy (CDS) / City Corporate Plan (CCP) preparation process critical. This process should not only develop a consensus for long-term investments, but also identify interim actions that can be taken to improve urban services. An interesting example of such actions is the contracting out of management, regulation, and technical assistance in Bhuj, Gujarat in order to deal with earthquake rehabilitation. The poor performance of municipalities should be seen as an emergency as well and may open the way for contracting out various activities for which there is no local capacity. In addition to this community-based service delivery through NGOs such as EXNORA in Chennai, demand management techniques and community co-financing as used in Mirzapur, UP can help to establish improved civic spirit and a momentum for future investments.

Detailed activities in each sub sector are outlined below:

- (a) Finance: Timely state transfer of funds to municipalities is essential for any proper financial management. Statewide accounting reforms are needed for the state government and the municipalities in order to integrate their systems and institutionalize the use of meaningful financial planning and reporting. Development of an improved municipal database is needed for various uses by the state government including the SFC. The addition of a subsidy report will help to determine service costs, revenues, and subsidies. Various rules, orders, and actions are needed to develop an enabling environment for municipal financing options. For example, state agency capacity needs to be developed for bond pooling. Support will continue to be necessary for development of financial institutions.
- (b) Management: Reform of the municipal staff structure, organization, and performance standards is necessary and may identify the potential for contracting out or a performance-based rewards system. Coordination and development of a results-oriented state-wide municipal staff training program addressing both new and current staff is critical for improving staff skills that can be retained and used. Development of basic databases and evaluation capacity with the officers is the first step toward improved municipal management. This should be supported by enabling rules, laws (amendments to the act), etc. that will institutionalize planning and budgeting processes and allow development of PSP. The state should determine its devolution goal and implement it with adequate resources and facilitating arrangements. Improved databases will make it possible to prepare municipal O&M and capital budget estimates that the SFC can use in developing its recommendations for the state budget. Ultimately, the responsibility of local self-government rests with the elected municipal officials who must be assisted in developing management and decision-making skills. The public must also be assisted in providing input to a consultative decision-making process (CDS) through public information access.
- (c) Regulatory: Development of a model municipal act is needed to support the changed performance requirements for municipalities. State regulatory mechanisms for ensuring quality of services, setting tariffs, granting licenses, and setting environmental standards will provide a missing link between the state and municipal governments. These mechanisms should facilitate coordination with other stakeholders for the collection and public dissemination of sector information. In addition to the municipalities, there are other sector institutions in the state government, which require reforms, support mechanisms and incentives for reforms. One of these is the SFC which itself requires performance guidelines.
- (d) Technical (Project Development): A serious effort should be made to identify the actual technical expertise needs at various levels in the municipality and a capacity building program developed which is tailored to those needs (efficiency management, demand reduction, financial control, etc.). Building on this, the potential for contracting out various services and the related supervisory skills needed can be assessed. At the state level, the development of a monitoring and reform implementation structure (technical cell) at the existing local government divisions is needed. This would facilitate the plan and schedule for the devolution of staff and financial resources from the state to the municipalities in an efficient and timely manner. The technical cell would maintain the institutional capacity for developing various financing options and assisting with credit rating, bonds, bond pooling, preparing PSP projects, etc.

5.2 Menu of Interventions

This section highlights the proposed interventions for USAID/New Delhi to consider, as listed previously in Section 4.4, from two perspectives. First, a breakdown of the interventions is provided by government level – local, state, and center. Several of the listed interventions also highlight possible activities or intended outcomes from the intervention. Second, the interventions are listed by sub-sectoral areas, which assists USAID to develop a framework for intermediate results.

By Government Level:

Local level

- Improve financial management capacities (e.g., commercially-oriented systems – accounting, performance-linked budgeting)
- Improve information management (e.g., assistance in database management; institutionalisation of annual review of service delivery)
- Increase public participation, accountability and transparency (e.g., citizens’ grievance response system; ‘Municipal Zone’ concept to develop effective governance with citizen involvement)
- Build professional associations for municipal staff: training and information sharing (e.g., city manager’s association)
- Build networking associations for elected officials: training and information sharing
- Distance learning and certification on municipal employees
- Increase municipal capacity to deliver services
- Improve municipal capacity to procure project development services (e.g., assistance with restructuring projects to contract out to private sector)
- Improve financial and economic development capabilities
- Increase and develop new sources of municipal revenue generation (e.g., model tariff guidelines for municipal services and separate accounts; formats for property tax reforms)
- Coordinate land use planning with capital planning and budgeting
- Promote economic development planning at the state and local level
- Coordinate economic development planning with land use and capital planning and budgeting (e.g., city consultations for City Development Strategy preparation)
- Respond to competition for grant funding including leverage requirements

State Level

- Form state policy and research unit to support regulatory authority development (e.g., state level policy support from C&AG and IICA; state level training program and institutes)
- Form and develop state regulatory authorities for water, wastewater and solid waste (e.g., development of state-wide performance standards; benchmarking performance to monitor and compare service delivery)
- Develop pooled financing resources
- Create competitive grant funding programs (i.e. schedule for state transfers and grants and incentives for performing “candidates”; support City Challenge Fund (Model City Program) for infrastructure and administrative improvements; revision of state budgets and reporting procedures to include subsidy report)
- Generate market for municipal procurements (e.g., state level framework for resource mobilization, policy and project development and private sector management)
- Improve regulatory framework (e.g., develop PPP guidelines, city level economic forecasting model legislation – town planning act)

Center Level

- Develop pooled financing policies and mechanism for generating resources (e.g., debt market assistance; review of lending institutions; private sector participation)
- Promote competitive grant funding policies and programs
- Promote state policy and research units to develop regulatory authorities

- Improve policy framework
- Resolve delegation of authority and responsibilities among urban local bodies

The same interventions, reorganized by sub-sectoral areas, provide a different perspective that can lead to the development of intermediate results.

By Proposed Intermediate Results

Finance

- Improve financial management capacities
- Improved financial and economic development capabilities
- Develop pooled financing resources
- Promote competitive grant funding policies and programs
- Improve policy framework at the center level
- Improve regulatory framework at the state level

Good Governance

- Improve information management at the municipal level
- Increase public participation, accountability and transparency
- Build professional associations for municipal staff: training and information sharing
- Build networking associations for elected officials: training and information sharing
- Promote distance learning and certification among municipal employees

Municipal Project Development

- Improve policy framework at the state level to stimulate municipal project development
- Increase municipal capacity to deliver services
- Improve municipal capacity to procure project development services
- Form state regulatory authorities for water, wastewater and solid waste
- Form state policy and research unit to support regulatory authority development
- Generate market place for municipal procurements
- Resolve delegation of authority responsibilities among state and urban local bodies
- Coordinate land use planning with capital planning and budgeting

Economic Growth

- Increase municipal revenue generation capacities
- Develop new sources of revenue
- Promote economic development planning at the state and local level
- Coordinate economic development planning with land use and capital planning and budgeting

5.3 Selection Criteria for Ranking Interventions

The aforementioned interventions should be ranked based on the following selection criteria for effective program administration.

- (a) Fit with other USAID/India/SO programs: Nearly all the areas of interest to USAID such as governance, economic growth, effective resource mobilization, provision of urban services, increased access for the poor, opportunities for private and NGO sector participation, environmental quality, and public health depend on an effective and publicly supported local government. Even though urban management overlaps with various sub sectors, it is a separate sector in itself. It is not an upscaling of the FIRE(D) project, although it incorporates elements of the finance sub sector (including the continuance of the financial institutional reforms). The focus is on urban management to improve economic performance and

- environmental quality. The thrust is on a comprehensive demonstrative / model initiative at the local level with more reform facilitative interventions at the state level and continued guidance from the center level.
- (b) Likelihood of systemic impact within five years: Results from project activities should be measurable directly and by their systemic impact. The desired outcomes, not just actions, should be identified at the design stage. Success of the project will be demonstrated by achievement of those outcomes by the end of the project. For example, improved urban management and local governance would be the ultimate desired outcome. An activity will not be a condition. Establishment of a municipal database would be successful if the database were used to prioritize investments, to develop public support for increased taxes, or to revise staff job activities.
 - (c) Previous successful USAID experience with similar activities in the urban sector: The strong reputation of USAID based on its previous involvement in supporting systemic change through the FIRE(D) project and support to urban housing prepares the mission to undertake this work with credibility.
 - (d) Strong Indian interests and partners: The GoI has progressively implemented reforms and now is at the stage of initiating a strong urban sector thrust for which support will be welcome. A number of states are also investigating and undertaking various reforms.
 - (e) Strong US interests and partners: The US/India relationship will deepen as efficient urban management improves the use of economic resources. More and more institutions and population will become involved in decision-making creating demands for additional and improved services, and encourage much stronger US – India cooperation. US organizations and institutions have extensive experience in areas such as urban management, long-term municipal finance, development of debt market instruments, infrastructure planning and privatization, public-private partnership structures, urban transport, environmental planning and mitigation, public participation to decision-making, and economic development.
 - (f) The institutionalization and sustainability of the activities: Activities desired by the partner organization should be supported in their start up by the project, but there should be a clear program for gradual long-term institutionalization during the project period. This will not only ensure sustainability, but also ownership and continued benefits.
 - (g) The need to demonstrate replication outside of the project: Since only several states and a limited number of municipalities would be supported under the project, the desired outcome would be to create a visible and replicable model in local governance and urban management that would have clear value to other municipalities and states. At a minimum, it is expected that there would be an interest by the state in starting up additional activities outside of the project.

5.4 An Illustrative Strategic Objective and Intermediate Results Framework

Program Objective: To establish an improved quality of life for men, women and children in selected states through model city program representing full range of urban structures through implementation of 74th Constitutional Amendment-inspired urban reforms for improving the urban physical environment, urban governance, urban infrastructure finance and contribution of urban infrastructure services to economic growth and poverty reduction.

Program Approach: Transparency, Accountability, Participation, and Sustainability.
To clarify the minimum level of municipal performance needed to provide essential services with public support and to identify and provide the support the support needed to achieve success.

Program Methodology

- Prepare program document elaborating local governance, financing, project development and regulatory framework components, their appropriate timeframe and the technical assistance required.
- Select states representative of different characteristics needed for success.
- Select municipalities representing a range of urban development characteristics and sector agencies from the selected states.

Strategic Objective 5: Governance at the local level: Transparency, accountability public participation for a better quality of life

- IR 5.1: Basic urban services have improved in the entire city including areas serving the urban poor, improving productivity and urban resources
- IR 5.2: Access to services is improved through a reformed distribution system
- IR 5.3: Decision-making is more transparent, efficient and sustainable with public participation
- IR 5.4: Improved resource mobilization by municipalities to stimulate economic growth and productivity and
- IR 5.5: Water, solid waste and traffic management is improved, conserving energy in the process and improving public health

Constraints to the USAID Response: The need to show meaningful results within five years (Project design should be limited to five years for management and evaluation), and a relatively smaller program budget of US\$ 3-5 million are the key constraints to the proposed reoriented priorities of the USAID interventions, as activities in a number of urban sub sectors will entail greater expenditure than previous projects. An urban sector technical assistance and training budget of this size will engage several states with a small number of municipalities to implement state-initiated reforms. It is important to plan for a Development Credit Authority initiative to support the technical assistance and training activities. Capital assistance strategically combined with technical assistance and training will achieve significantly more results than either one separately.

5.5 Next Steps: Program Document

A comprehensive program document has to be prepared for the urban sector considering relevant principles identified in other sector objectives including the economic growth, public health, governance, access to services, etc. and the cross cutting themes of gender equity and modalities for program implementation. The ongoing interventions of the financial institutions reforms in the form of FIRE(D) project including its agenda of i) Expansion of the Roles of the Private Sector, NGOs and CBOs in the Development, Delivery, Operation and Maintenance of Urban Environmental Infrastructure and Increase Efficiency in the Operation and Maintenance of Existing Water Supply and Sewerage System, ii) Development of Policy and Regulatory Frameworks at the State/Center Level, iii) Strengthened Financial Management Systems at the Local Level and iv) Continued Implementation of the 74th Constitutional Amendment Act and Decentralization including Accessing Capital Markets/Municipal Resource Mobilization, may be suitably integrated and merged under this urban sector intervention along with the other key aspects involving Policy/Regulatory, Financial and Technical parameters.

A new set of activities under the comprehensive program has to be developed as indicated in the results framework, to support the achievement of the new urban sector strategic objective. Necessary vetting and consultative process would help evolve necessary indicators.

The following is the suggested structure of the Urban Sector Program Document under USAID/India:

- Context
- Program justification (Problems to be addressed, Program duration, Beneficiaries, Institutional arrangements and USAID assistance)
- Objectives
- Outputs
- Activities (for improving the urban physical environment, urban governance, urban infrastructure finance and contribution of urban infrastructure services to economic growth and poverty reduction at i) National, ii) State and iii) Local levels, support activities of training, awareness campaigns, participation of NGOs, etc. and Research, monitoring and evaluation)
- Program Implementation Strategy
- Inputs, Assumptions and Risks
- Program organization and management (Community participation and NGO involvement, Program management and staffing and Committees)
- Indicators, Monitoring and evaluation
- Finance (Budgeting and Accounting)
- Program implementation schedule

ANNEX 1

The Scope of Work for the Assessment on Urban Service Delivery and Urban Infrastructure Reforms in India

Title

Assessment and Analysis of Status of Urban Service Delivery and Urban Infrastructure Sector Reform in India.

Objective

The objective is to conduct an analysis of urban service delivery and infrastructure sector reforms in India to identify new strategic opportunities in the sector and contribute to development of USAID India's Strategy document for the period 2003-2008.

Statement of Work

A) TASKS:

The contractor shall assess and analyze the current state of urbanization and the current status of urban service delivery and infrastructure sector reform in India. Specifically the contractor shall cover all urban environmental services that are the responsibility of local governments, focusing on the FIRE-D, services of water, sewerage and solid waste, as well as roads and associated services. Transport, power, telecommunications and the social services (health, education) would not be covered in as much depth. Shelter would not be included. Areas for investigation will cover the economic and policy reform context, urbanization, urban governance, the extent and nature of urban poverty, the urban environment, and municipal finance, as well as infrastructure and service delivery systems.

The contractor shall become familiar with USAID's ongoing FIRE (D) project in terms of its broad achievements, taking into account also the FIRE (D) workplan for the period up to September 2003, with the aim of identifying the achievements likely to be achieved by the end of the project period. The contractor shall also analyze other bilateral (e.g. DFID, GTZ) and multilateral (e.g., World Bank, Asian Development Bank) donors' ongoing programs in the urban sector and their likely impact on achievement of reform in urban service delivery in India, based on the above analysis, the contractor shall identify potential. Gaps in technical and financial assistance for improved urban service delivery, including the need for continued support to the urban infrastructure reform agenda in India. Based on the above analysis, the Contractor shall also suggest possible areas of intervention and a strategy to address the constraints and the gaps in the following four aspects of urban service delivery: a) improving the urban physical environment, b) improving urban governance, c) improving urban infrastructure finance, and d) improving the contribution of urban infrastructure ~service~ to economic growth and poverty reduction.

B) TEAM COMPOSITION:

The analysis and recommendations shall be conducted by a team of individual urban infrastructure Policy experts (consisting of one U.S.-based expert and one India-based experts) with wide experience in the field of urban policy and infrastructure service delivery.

C) APPROACH

The contractor shall start by assembling and reviewing recent reports and studies covering the subject areas. The contractor's team will review reports by and for NIUA, Times Research Center and USAID/New Delhi on urban services, governance. Environment and related subjects. The will further familiarize themselves with FIRE-D project reports and work plans. As well as with USAID/India documents (e.s. R4) . The contractor will approach some of the major donors before starting work in India, in order to determine the perspective of their headquarter offices. This initial review will enable the contractor to identify critical gaps in its own knowledge of the current status of the urban sector, and on expectations and plans for the future by Indian and foreign agencies. The contractor's team will also identify areas in which it will need clarifications of data, forecasts and proposals for change. This understanding will help shape its interview schedule and protocols. The contractor's team will interview key urban players in Delhi, Mumbai, and two other urban centers (perhaps Ahmedabad and Chennai). Interviewees will include representatives of local governments and the finance sector, academics, consultants and NGOS, as well as representatives of donors including the World Bank, ADS. UN agencies active in the sector, and, of course, resident members of the FIRE-D team. It will seek to fill in the gaps in its understanding of the urban sector as required by the Scope of Work. The contractor's recommendations will cover subjects including the urban physical environment, urban governance, urban infrastructure financing as well]. as economic growth and poverty reduction. The contractor's team will present to USAID/New Delhi a menu of possible areas for intervention rather than a single set of recommendations. The final report will, of course, also be accompanied by annexes (e.g., Statistical data analysis. A summary description of the programs of other donors).

Deliverables

The contractor shall:

- 1) Conduct document reviews and interviews.
- 2) Brief USAID/India on the initial findings by the end of seven-work days in-India.
- 3) Present to selected USAID/India personnel: a) an oral briefing and b) a written draft report containing an outline of the findings, conclusions, and recommendations covering the points described under TASKS above (section v. (a) cy the end of eighteen work days in India.
- 4) Submit a final report (not to exceed 25 pages) with an Executive Summary (not to exceed five pages) no later then five-work days after receipt of comments from USAID On the draft report.

ANNEX 2

URBANIZATION TREND IN INDIA URBAN POPULATION 1901-2001

Years	Urban Population (Million)	Percentage of Urban to Total Population	Decadal Growth Rate (percent)
1901	29.9	10.8	--
1911	25.9	10.3	0.4
1921	28.1	11.2	18.3
1931	33.5	12.0	19.1
1941	44.2	13.9	32.0
1951	62.4	17.3	41.4
1961	78.9	18.0	26.4
1971	109.1	19.9	38.2
1981	159.5	23.3	46.1
1991	217.6	25.7	36.4
2001	285.0	25.7	31.2

Source: Census of India; 1991 and 2001

ANNEX 3

Status of Infrastructure and Services - Provision and Delivery System in Urban India

Sl. No.	Infrastructure Component	Stakeholding Agencies	Demand – Supply Gap Analysis	Issues / Crosscutting Parameters
1.	Water Supply	<ul style="list-style-type: none"> <input type="checkbox"/> State Government plays dominant role in provision and local government for delivery of services <input type="checkbox"/> With the 74th CAA, focus is now shifting towards ULBs 	<ul style="list-style-type: none"> <input type="checkbox"/> Gap in coverage of piped water supply - 15% <input type="checkbox"/> Supply on an average in Class I cities is about 140 lpcd <input type="checkbox"/> Budgetary allocation meets about 10% of the resource requirements <input type="checkbox"/> Need to reduce unaccounted for water to 20-25% 	<ul style="list-style-type: none"> <input type="checkbox"/> Coverage of piped water supply - 85% <input type="checkbox"/> Poor level of service and quality of deliverables <input type="checkbox"/> Low pressure and contamination due to back-siphonage <input type="checkbox"/> Ad-hoc approach - Non- demand driven <input type="checkbox"/> Short-term planning and augmentation <input type="checkbox"/> Lack of focus on future needs, sustainability and availability of resources <input type="checkbox"/> Very high percentage of unaccounted for water - 30-50 percent <input type="checkbox"/> Poor financial position and very low tariff levels <input type="checkbox"/> Deficiency in management and organization structures <input type="checkbox"/> Deteriorating of environmental conditions <input type="checkbox"/> Investment needs estimated at US\$30 billion for next 10 years
2.	Sewerage and Drainage	<ul style="list-style-type: none"> <input type="checkbox"/> State Government plays dominant role in provision and local government for O&M of services <input type="checkbox"/> With the 74th CAA, focus is now shifting towards ULBs 	<ul style="list-style-type: none"> <input type="checkbox"/> Gap in coverage of adequate excreta disposal system - 30% <input type="checkbox"/> Gap in coverage of sewerage system - 52% <input type="checkbox"/> 74% of wastewater are collected and rest undergoes treatment before disposal <input type="checkbox"/> Budgetary allocation meets about 10% of the resource requirements 	<ul style="list-style-type: none"> <input type="checkbox"/> Access to adequate excreta disposal system - 70% <input type="checkbox"/> Access to sewerage system - 48% <input type="checkbox"/> Poor sanitary conditions especially in slums leading to outbreak of cholera <input type="checkbox"/> Total wastewater generation in urban India is about 15.8 mld <input type="checkbox"/> Ad-hoc approach, sort-term planning and augmentation <input type="checkbox"/> Old network and faulty alignment <input type="checkbox"/> Poor financial position and very low tariff levels <input type="checkbox"/> Deficiency in management and organization structures <input type="checkbox"/> Deteriorating of environmental conditions <input type="checkbox"/> Investment needs estimated at mammoth US\$35 billion for next 10 years
3.	Solid Waste Management	Urban local bodies are responsible for collection, transportation, treatment and disposal of solid waste generated within the administrative limits	<ul style="list-style-type: none"> <input type="checkbox"/> Deficiency in collection and transportation is to the tune of 45% <input type="checkbox"/> Treatment of wastes are not in place <input type="checkbox"/> Waste management is very primitive and is not in conformity with the international practices 	<ul style="list-style-type: none"> <input type="checkbox"/> Per capita generation of the wastes range from 200 - 600 grams per day <input type="checkbox"/> Larger cities generate more wastes due to socio-economic and behavioural aspects of the population <input type="checkbox"/> Total waste generated in urban India is about 1 lakh MT per day <input type="checkbox"/> Collection efficiency varies from 50 - 90 percent, vary from city to city <input type="checkbox"/> Average wastes collected and transported is about 65% <input type="checkbox"/> Collection system is primitive in nature, operated without any safety measures

Sl. No.	Infrastructure Component	Stakeholding Agencies	Demand – Supply Gap Analysis	Issues / Crosscutting Parameters
	(Solid Waste Management -- cont'd.)			<ul style="list-style-type: none"> <input type="checkbox"/> Open transportation system adopted in many cities <input type="checkbox"/> Non-conventional and unscientifically designed temporary waste storage points <input type="checkbox"/> No treatment facilities in majority of the urban areas and wastes are just dumped at the disposal site <input type="checkbox"/> Poor implementation of legislative instruments provided by the MoE and MoUD&PA <input type="checkbox"/> All the ULBs to prepare solid waste management master plans by the end of year 2002 <input type="checkbox"/> Poor financial position and no tariff regime <input type="checkbox"/> Deficiency in management and organization structures <input type="checkbox"/> Successful efforts in privatisation in Rajkot and Chennai
4.	Urban Transportation	<ul style="list-style-type: none"> <input type="checkbox"/> City Transport Corporations <input type="checkbox"/> State Transport corporations <input type="checkbox"/> Private Transport Services <input type="checkbox"/> Regional Transport Offices <input type="checkbox"/> Traffic Police 	<ul style="list-style-type: none"> <input type="checkbox"/> Most of the Indian cities do not have adequate public transport services <input type="checkbox"/> Most of the urban roads are overloaded and many bad traffic junctions exist in the city <input type="checkbox"/> Lack of Transportation Management Plan 	<ul style="list-style-type: none"> <input type="checkbox"/> 9 percent of total population of India living in million plus cities own 33 percent of total vehicles in the country <input type="checkbox"/> two-wheeler population in most of the cities of urban India account for 60-80 percent of the total number of motor vehicles <input type="checkbox"/> the principal public transport mode available to commuters in majority of the cities is bus and to some extent the mini-bus <input type="checkbox"/> pollution caused by motor vehicle in metropolitan cities account for 78% by two-wheelers and 12% by cars <input type="checkbox"/> Significant reduction of public sector busses from 43% in 1980-81 to 23% in 1996-97 <input type="checkbox"/> Many cities are preparing Comprehensive Traffic Management Plan (CTMP) - New Delhi, Bhopal, Gwalior, Bhavnagar, Jamnagar, to mention a few
5.	Housing	<ul style="list-style-type: none"> <input type="checkbox"/> State Housing Boards <input type="checkbox"/> Housing and Urban development Corporation <input type="checkbox"/> Ministry of Urban Development <input type="checkbox"/> Financial Institutions <input type="checkbox"/> Private Developers/ Builders 	<ul style="list-style-type: none"> <input type="checkbox"/> Urban housing deficit is estimated at 6.64 million units <input type="checkbox"/> Assuming an average household size of 5 persons, about 11.65 urban households do not have access to proper housing 	<ul style="list-style-type: none"> <input type="checkbox"/> The National Housing and Habitat Policy (NHHP) - 1998 aims at providing 'Housing for All' <input type="checkbox"/> NHHP to address issues of sustainable development, infrastructure and strong public-private partnerships in shelter delivery <input type="checkbox"/> Housing is a state subject - State Governments to play major roles <input type="checkbox"/> 73.10% of urban population has access to pucca house - varies from state to state <input type="checkbox"/> The repeal of ULCRA - 1976 last year is expected to provide stimulus for promotion of housing sector

ANNEX 4

Selected Water Supply, Solid Waste and Wastewater Management Projects -- Public-Private Partnership (PPP) Arrangements

Sl.No.	Agency (Project)	City, State	Components	PPP Arrangements	Estimated Costs	Remarks
Water and Wastewater						
1.	New Tiruppur Area Development Corporation Limited (NTADCL), water and sewerage components in Tiruppur Area Development Project	Tiruppur, Tamil Nadu	Water source development, transmission, distribution for industries, water distribution and sewage collection network within the town, low-cost sanitation and sewage treatment plants	<ul style="list-style-type: none"> Concession (30 years) with joints sector special purpose vehicle/NTADCL Construction and operation and maintenance (O&M) contracts with private sector contractor and NTADCL. Agreement between NTADCL and municipality and industries. NTADCL to raise a majority of financing at a debt equity ratio of 2.6:1 from domestic and international agencies. Contractor to participate in equity and mobilize suppliers' credit Bidding process was initiated in December 1995. 	Initial estimate of total cost was Rs. 5.89 billion (1997). Revised estimate after the bid and all added costs is Rs. 13.5 billion for implementation during 1999-2005.	Procurement through international competitive bidding route is in progress. Two bids were received, of which one was rejected on technical considerations. Final negotiations going on with the selected bidder.
2.	Bangalore water Supply and Sewerage Board (BWSSB), Cauvery Water Project-Stage-IV-Phase-II.	Bangalore, Karnataka	Water source development, transmission, water treatment plant, pure water mains.	Project to be implemented on a build-operate-transfer (BOT) basis. The bidding process was initiated in August 1997.	Initial estimate Rs. 8.0 billion (1997) for base costs. Revised estimate after the bid Rs. 16 billion (1999).	In January 1999, BWSSB selected a consortium for implementation of the project.
3.	Ahmedabad Municipal Corporation (AMC), Water and Sewerage Project.	Ahmedabad, Gujarat	Water source development, transmission, distribution, sewage collection and conveyance system.	Project is being implemented by AMC. Program management consultant for implementing the project is proposed. Attracted private capital through municipal bonds.	At total cost of Rs. 4.89 billion over a three-year period from 1998 to 2001.	Part of the project is under construction. Program management consultant has not been appointed, leading to delays in implementation.
4.	Hyderabad Metro Water Supply and Sewerage Board (HMWSSB), Augmentation of Sewage Treatment Plant at Amberpet.	Hyderabad, Andhra Pradesh	Sewage treatment plant between 100 to 250 million liters per day (mld) capacity.	Project is to be implemented under a build-own-operate-transfer (BOOT) arrangement. HMWSSB had advertised but did not receive adequate interest as full details were not worked out and given further assessment and studies for demand for the effluents have been done later.	Not available.	Detailed project proposal has been prepared. HMWSSB plans to re-advertise after getting the approval from its board.
5.	BWSSB	Bangalore, Karnataka	Sewage treatment plant at KC Valley (recycling of 50 mld of wastewater and supply to industries).	Project to be implemented on a BOT basis. The bidding process was initiated in November 1997.	Initial estimate Rs. 0.56 billion (1997).	Expression of interest invited in November 1997; of 21 responding firms 10 were short-listed. Tender documents issued and bids have been received in January

Sl.No.	Agency (Project)	City, State	Components	PPP Arrangements	Estimated Costs	Remarks
						1999.
6.	BWSSB	Bangalore, Karnataka	Sewage treatment plant at Hebbal (recycling of 20 mld of wastewater and supply to industries).	Project to be implemented on a BOT basis. The bidding process was initiated in November 1997.	Initial estimate Rs. 0.43 billion (1997).	Expression of interest invited in November 1997; of 21 responding firms 10 were short-listed. Tender documents issued.
7.	BWSSB	Bangalore, Karnataka	Sewage tertiary treatment plant at V. Valley (recycling of 60 mld of wastewater and supply to industries).	Project to be implemented through a turnkey construction contract. Funding arrangement through French assistance and the Megacity scheme. Specific industries identified to receive water.	Initial estimate of Rs. 0.52 billion	Bidding open to French companies only.
8.	BWSSB	Bangalore, Karnataka	Sewage tertiary treatment plant at Yalahanka (recycling of 10 mld of wastewater and supply to industries).	Project to be implemented through a turnkey construction contract. Funding arrangement through French assistance and the Megacity scheme. Specific industries identified to receive water.	Initial estimate of Rs. 0.39 billion.	Bidding open to French companies only.
9.	BWSSB	Bangalore, Karnataka	Water supply distribution system (with 7 reservoirs) and sewerage system (8 sewage treatment plants, 4 intermediary pumping stations, and rehabilitation of sewerage lines).	Project is expected to be implemented through BOT. Financing to be mobilized by a private group.	Initial estimate of Rs. 5.1 billion (1997)	Under development.
10.	BWSSB	Bangalore, Karnataka	Rehabilitation and remodelling of the overall existing water supply and sewerage system.	Project is expected to be implemented through a rehabilitate-operate-transfer contract. Financing to be mobilized by a private group. Initial phase will involve a detailed feasibility study.	Initial estimate of Rs. 8.0 billion (1997)	Initial advertisement in July 1998 Private firms have been short listed and bid preparation is in progress.
11.	Chennai Metro Water Supply and Sewerage Board (CMWSSB)	Chennai, Tamil Nadu	Water treatment plant (0.15 mld) through desalination using reverse osmosis technology.	Project to be implemented through a turnkey construction contract and an O&M contract for three years. Planned to be procured through competitive bidding on a lump sum rate for construction and a monthly rate for the O&M contract.	Not known	Initially advertised in 1998 and some bids were received. However, all were found to be far in excess of the estimated cost. Thus. CMWSSB now plan to do the work on its normal pattern.
12.	Alundur Municipality with Tamil Nadu Urban Development Fund (TNUDF)	Alundur, Tamil Nadu	Sewerage network, sewage pumping stations, and sewage treatment plant.	Construction and O&M management contract for sewerage system and BOT contract for sewage treatment plant. Project management consultant to be appointed.	Initial estimate of Rs. 0.47 billion (1998).	Documentation is under preparation.
13.	Tambaran Municipality with TNUDF	Tambaran, Tamil Nadu	Sewerage network, sewage pumping stations, and sewage treatment plant.	Project management consultant to be appointed	Initial estimate of Rs. 0.41 billion (1998).	Documentation is under preparation.
14.	Pallavaram Municipality with TNUDF	Pallavaram, Tamil Nadu	Sewerage network, sewage pumping stations, and	Construction and O&M management contract for sewerage system.	Initial estimate of Rs. 0.36 billion (1998)	Documentation is under preparation.

Sl.No.	Agency (Project)	City, State	Components	PPP Arrangements	Estimated Costs	Remarks
			sewage treatment plant.	Project management consultant to be appointed.		
15.	Erode Municipality with TNUDF	Erode, Tamil Nadu	Sewerage network, sewage pumping stations, and sewage treatment plant.	Construction and O&M management contract for sewerage system. Project management consultant to be appointed.	Initial estimate of Rs. 0.52 billion (1998).	Documentation is under preparation.
16.	Karur Municipality with TNUDF	Karur, Tamil Nadu	Sewerage network sewage pumping stations, and sewage treatment plant.	Construction and O&M management contract for sewerage system and BOT contract for sewage treatment plant. Project management consultant to be appointed.	Initial estimate of Rs. 0.27 billion (1998).	Documentation is under preparation.
17.	Dewas Industrial Water Supply Company (DIWScO) Limited with Infrastructure Leasing and Financial Services Limited (IL&FS)	Dewas, Madhya Pradesh	Industrial and domestic water supply; industrial wastewater collection, treatment and disposal system for industries; and sludge collection, treatment, and disposal system.	Project to be implemented on a build-own-operate (BOO) framework with a joint sector special purpose vehicle-DIWScO to enter into a concession (30 years) with the government of Andhra Pradesh Consultants appointed for preparation of a detailed feasibility and investment banking report.	Base costs of Rs. 1.69 billion at 1997 prices.	Bidding process began in 1999.
18.	Pune Municipal Corporation	Pune, Maharashtra	Water treatment, transmission, and distribution. Sewage collection and conveyance system and treatment.	Construction, O&M contract for bulk facilities, and billing and collection contract. Attracted funding commitments from general financial institutions such as ICICI Limited. Part of the funding also expected from contractor. Bidding process initiated in March 1997.	Total cost estimate of Rs. 7.35 billion(1998) for implementation period from 1998 to 2001.	Bidding process cancelled in October 1998 pending review by the council.
19.	Vishakapatnam Industrial Water Supply Company (VIWSC) with IL&FC	Industrial estates near Parvada and Vishakhapatnam, Andhra Pradesh	Industrial and domestic water supply for about 178 million gallons per day by 2010. Rehabilitation of existing reservoir and transmission, and distribution for industries.	Project to be implemented through a BOT framework with a joint sector special purpose vehicle /VIWSC entering into a concession with the government of Andhra Pradesh. consultants appointed for project preparation with assistance from the World Bank.	Base costs of Rs. 7.79 billion at 1997 prices.	Documentation is under preparation.
20.	TNUDF with Coimbatore Municipal Corporation (CMC).	Coimbatore, Tamil Nadu	Underground sewerage network to cater to 60,000 connections in one zone with rehabilitation of one sewage treatment plant.	Turnkey construction contract with a private project management consultant, to assist CMC in design, bid preparation, bid selection, and project implementation management. Repayment of debt through sewerage connection fees and a sewage charge of about Rs. 140 per month per household. A management contract for O&M may be considered.	Total costs of Rs. 0.475 billion at 1998 prices.	Bids for the appointment of project management consultants received.
21.	TNUDF with Tamil Nadu Water Supply and Drainage Board	Villapuram-Cuddalore Area, Tamil Nadu	Water treatment plant and transmission mains for bulk supply of 180 mld water.	Long-term concession under a BOOT arrangement with detailed designs for the components to be given. Private consultants appointed for detailed design. Will also appoint project management consultants to assist with the overall process of bidding, selection, and supervision of implementation.	Estimated base costs at Rs. 2.5 billion at 1998 prices.	Detailed documentation is under preparation.
22.	Government of Goa	South Goa	Source development and	Project was envisaged to be implemented on a	Estimated cost of Rs.	Bids were invited

Sl.No.	Agency (Project)	City, State	Components	PPP Arrangements	Estimated Costs	Remarks
	(Augmentation of Salaulim Water Supply Scheme)		water treatment plant for 165 mld and transmission.	BOOT basis.	2.0 billion at 1995 prices.	through an advertisement in 1997, without pre-qualification. Two bids were received. No action taken.
23.	Delhi Jal Board (Okhla Water Treatment Plnat)	Delhi	Water source development for 40 million gallons per day.	Project is expected to be developed on a BOT basis through a global tender.	Not known.	Under development.
24.	Kerala Water Authority	Cochin, Kerala	Water source development for city and industrial units.	Project was planned to be implemented in BOT format.	Not known	At development stage.
25.	Private sector with Haldia Development Authority	Haldia (Calcutta), West Bengal	Water source development of 130 mld.	Project to be implemented on a BOOT basis or through a turnkey contract with an O&M management contract.	Not known	A feasibility study for all towns has been submitted for consideration by the state.
26.	Karnataka Urban Water supply and Sewerage Board with international water company	Mysore, Hubli-Dharwad, Mangalore, and belaoon, Karnataka,	O&M of existing water and wastewater system, with system improvements as appropriate and necessary.	A three-year management contract for O&M of the entire system, to be followed by a longer tern lease arrangement with possible investment for system improvements.	Not Known.	A feasibility study for all towns has been submitted for consideration by the state.
27.	International water company	Kakinada, Andhra Pradesh	O&M of existing water and wastewater system, with system improvements as appropriate and necessary,	A long-term concession contract for the O&M of the entire water and wastewater system along with system improvements.	Not known.	A proposal has been developed by a private sector group for consideration by the state.
Solid Waste Treatment and Disposal Facilities						
1.	Mumbai Municipal Corporation (Amboli)	Mumbai, Maharashtra	Solid waste treatment and disposal plant for 300 tons per day (tpd) producing compost.	Implementation through a BOO (Fixed period) arrangement with Excel Industries.	Rs. 40 million	Operating.
2.	Pimpri Chinchwad Municipal Corporation	Pimpri Chnchwad, Maharashtra	Solid waste treatment and disposal plant for 100 tpd producing energy and compost.	BOT basis for 30 years.	Initial cost estimate of Rs. 0.184 billion (1998).	Under negotiation stage.
3.	Chandigarh Municipal Corporation	Chandigarh, Maharashtra	Solid waste treatment and disposal plant for 300 tpd producing compost.	Implementation through a BOO arrangement with SPJ Bio Agro Industries in association with Excel Industries.	Rs. 45 million	Project is under implementation and is expected to be operational by end 1999.
4.	Thane Municipal Corporation	Thane, Maharashtra	Solid waste treatment and disposal plant for 300 tpd producing energy and compost.	Implementation through a BOO arrangement with Leaf Biotech Ltd. In association with Excel Industries.	Rs. 48 million	Operational since November 1998.
5.	Kolhapur Municipal Corporation	Kolhapur, Maharashtra	Solid waste treatment and disposal plant for 150 to 220	BOT basis for 30 years. Zoom Developers in association with Larsen Engineering	Initial cost of Rs. 0.05 billion (1998).	Contract to be signed shortly.

Sl.No.	Agency (Project)	City, State	Components	PPP Arrangements	Estimated Costs	Remarks
			tpd producing compost.	Consultants of the United States of America has been selected.		
6.	Municipal Corporation of Delhi (Azadpur)	New Delhi, Delhi State	Solid waste treatment and disposal plant for 600 tpd producing compost.	Implementation through a BOO arrangement with Khurana Group in association with Excel Industries.	Rs. 75 million	Operational since March 1999.
7.	Calcutta Municipal Corporation	Calcutta, West Bengal	Solid waste treatment and disposal plant for 600 tpd producing compost.	CMC has entered into an agreement with the Eastern Organic Fertilizers Pvt. Ltd. (in association with Excel Industries) on a BOOT basis. Land to be given by the Corporation on a long-term lease.	Rs. 75 million	Operational since December 1998.
8.	Ahmedabad Municipal Corporation	Ahmedabad, Gujarat	Solid waste treatment and disposal plant for 500 tpd producing compost.	Implementation through a BOO arrangement with Excel Industries.	Rs. 65 million	Operational since January 1999.
9.	Bhopal Municipal Corporation	Bhopal Madhya Pradesh	Solid waste treatment and disposal plant for 100 tpd producing compost.	Implementation under a BOOT arrangement by the Madhya Pradesh State Agro Industrial Development Corporation in association with the Excel Industries.	Rs. 15 million	Operating since October 1995.
10.	Kanpur Municipal Corporation	Kanpur, Uttar Pradesh	Solid waste treatment and disposal plant for 200 tpd producing compost.	Implementation through a BOO arrangement with private industries in association with Excel Industries.	Not known	Being finalized.
11.	Hyderabad Municipal Corporation	Hyderabad, Andhra Pradesh	Solid waste treatment and disposal plant for 500 tpd producing compost	Implementation through a BOO arrangement with private industries in association with Excel Industries.	Not known	Being finalized
12.	Gwalior Municipal Corporation	Gwalior, Madhya Pradesh	Solid waste treatment and disposal plant for 100 tpd producing compost	Implemented under a BOOT arrangement by the Madhya Pradesh State Agro Industrial Development Corporation in association with the Excel Industries.	Rs. 18 million	Operating since April 1996
13.	Bangalore Municipal Corporation	Bangalore, Karnataka	Solid waste treatment and disposal plant for 300 tpd producing compost	Implementation through a BOO arrangement with Sunrays Compost Ltd. In association with Excel Industries.	Rs. 40 million	Operating since October 1997.
14.	Mysore Municipal Corporation	Mysore, Karnataka	Solid waste treatment and disposal plant for 200 tpd producing compost	Implementation through Excel Industries under a build-operate agreement. Financing and ownership of the plant with the municipal authority.	Rs. 20 million	Project under construction stage and expected to be operational by February 2000.
15.	Calicut Municipal Corporation	Calicut, Kerala	Solid waste treatment and disposal plant for 300 tpd producing compost.	Implementation through Excel Industries under a build-operate agreement. Financing and ownership of the plant with the municipal authority.	Rs. 45 million	Project is under implementation and is expected to be operational by end 1999.
16.	Kochi Municipal Corporation	Kochi, Kerala	Solid waste treatment and disposal plant for 300 tpd producing compost	Implementation through Excel Industries under a build-operate agreement. Financing and ownership of the plant with the municipal authority.	Not known.	Project is under implementation.
17.	Puri Municipality	Puri, Orissa	Solid waste treatment and disposal plant for 100 tpd producing compost	Implementation through Excel Industries under a build-operate agreement. Financing and ownership of the plant with the municipal authority.	Rs. 22.5 million	Operational since October 1998.

Sl.No.	Agency (Project)	City, State	Components	PPP Arrangements	Estimated Costs	Remarks
18.	Trivandrum Municipal Corporation	Trivandrum, Kerala	Solid waste treatment and disposal plant for 300 tpd producing compost	Implementation through Excel Industries under a build-operate agreement. Financing and ownership of the plant with the municipal authority.	Not known.	Being finalized.
19.	Kannur Municipality	Kannur	Solid waste treatment and disposal plant for 100 tpd producing compost.	Implementation through Excel Industries under build-operate agreement. Financing and ownership of the plant with the municipal authority.	Not known.	Being finalized.
20.	Jaipur Municipal Corporation	Jaipur, Rajasthan	Solid waste treatment and disposal plant for 500 tpd producing compost	Implementation through a BOO arrangement with private industries in association with Excel Industries.	Not known.	Being finalized.
21.	Mumbai Municipal Corporation (Deonar)	Mumbai, Maharashtra	Solid waste treatment and disposal plant for 600 tpd producing compost	Implementation through a BOO arrangement with private industries in association with Excel Industries.	Rs. 75 million	Project under construction and is expected to be operational by end 1999.
22.	Shimla Municipal Corporation	Shimla, Himachal Pradesh	Solid waste treatment and disposal plant for 100 tpd producing compost.	Implementation through a BOO arrangement with private industries in association with Excel Industries.	Not Known.	Being Finalized.
23.	Tirupathi Municipality	Tirupathi, Tamil Nadu	Solid waste treatment and disposal plant for 100 tpd producing compost	Implementation through a BOO arrangement with private industries in association with Excel Industries.	Not known.	Being finalized.
24.	Vizag Municipal Corporation	Vizag, Andhra Pradesh	Solid waste treatment and disposal plant for 300 tpd producing compost	Implementation through a BOO arrangement with Bommidala Group in association with Excel Industries.	Rs. 45 million	Project under construction and is expected to be operational by end 1999.
25.	Nasik Municipal Corporation	Nasik, Maharashtra	Solid waste treatment and disposal plant for 300 tpd producing compost	Implementation through a BOO arrangement with Leaf Biotech Ltd. In association with Excel Industries.	Rs. 45 million	Project under construction and is expected to be operational by December 1999.

Source: A Review a Public-Private Partnerships in Water and Environmental Sanitation Sector in India, Department of International Development, June 1999.

ANNEX 5

Interventions in the Urban Sector in India (1989-2000) under external assistance.

Project	Year Approved	Source	Amount (\$million)
A. Investment Project-Loan Financed			
Housing Development Finance Corporation	1989	Germany	13.37
Hyderabad Water Supply and Sanitation	1990	World Bank	100.00
Urban City Water Supply Project	1992	Japan	62.45
Yamuna Action Plan Project	1992	Japan	134.00
Financial Institutions Reform and Expansion Program Urban	1994	USAID	125.00
Infrastructure Development	1995	World Bank	61.00
Second Chennai Water Supply Project	1995	Japan	64.91
Lake Bhopal Conservation and Management Project	1995	Japan	157.30
Chennai Sewerage Renovation and Functional Improvement Project	1995	ADB	105.00
Karnataka Urban Infrastructure Development	1995	Japan	261.76
Bangalore Water Supply and Sewerage	1996	France	6.30
Setting up of a Water Treatment Plant	1996	France	4.20
Master plan, leakage study, ground water recharge study	1996	World Bank	192.00
Mumbai Sewage Disposal Project	1996	Japan	96.00
Urban Water Supply and Sanitation Improvement Project	1996	Japan	110.37
Kerala Water Supply Project	1997	ADB	300.00
Housing Finance Project	1997	ADB	250.00
Rajasthan Urban Infrastructure Development	1998	France	7.00
Setting up of a water Treatment Plant	1999	ADB	175.00
Karnataka Urban Development and Coastal Environmental Management	1999	ADB	200.00
Project	1999	France	4.76
Urban and Environment Infrastructure Facility	1999	France	13.72
Setting up of Dam Fuse gates	1999	France	4.44
Improvement of Water Supply and Network Rehabilitation	1999	France	0.63
Setting up of a Water Treatment Plant	1999	France	5.04
Groundwater Study	1999	France	2.52
Pilot Project for Rehabilitation and Improvement of Calcutta Network	2000	ADB	300.00
Study on Impact of Mining Activities on the Catchment Area of the Subarnarekha			
Housing Finance II			
Total (A)			2756.77
Project	Year Approved	Source	Amount (\$million)

Project	Year Approved	Source	Amount (\$million)
B. Investment Project – Grant Financed			
Vizakapatnan Habitat Improvement Project	1988	United Kingdom	16.07
Hyderabad habitat Improvement Project	1989	United Kingdom	24.59
Urban Basic Services	1990	United Nations	19.00
Calcutta habitat Improvement Project	1990	UNICEF	22.18
Indore Habitat Improvement Project	1990	United Kingdom	25.31
Vijaywada habitat Improvement Project	1990	United Kingdom	26.70
Hyderabad Waster Management Project	1995	Ausaid	4.38
Keshopur Sewage Management Project	1997	Ausaid	0.39
Cuttack Urban Services Improvement Project	1998	United Kingdom	15.12
Calcutta Slum Improvement Project	1998	United Kingdom	2.80
Cochin Urban Poverty Reduction Project	1998	United Kingdom	14.20
Urban Environmental Sanitation: Capacity Building for Municipal and National Decision Makers	1998	UNDP/World Bank	1.00
Strategic Sanitation Planning	1998	UNDP/World Bank	1.00
Strategic Planning for Solid Waste Project in Kuppam	1998	UNDP/World Bank	0.25
Participatory Learning Assessment with Dutch Assisted Water supply and Sanitation Project	1998	UNDP/World Bank	0.01
Public Private Partnership in Water Supply and Sanitation Management Project in Meerut District	1998	UNDP/World Bank	0.01
Community Based Sustainable Portable Drinking Water in West Bengal	1999	UNDP./World	0.02
Environment and Sanitation	1999	Bank	0.02
Small Grants Facility to Support Initiatives in the Water & Environmental Sanitation Sector	1999	UNICEF	0.16
Municipal Services for Urban Poor, Hyderabad, Andhra Pradesh	1999	UNDP	15.20
Andhra Pradesh Urban Services for the Poor	1999	UNDP	3.00
UNICEF/Government of India, Child’s Environment: Hygiene, Sanitation and Water Supply Programme	1999	UNDP/World Bank	0.08
Maharashtra Water and Environmental Sanitation Project	1999	United Kingdom	177.48
Translating RWSS Policy Reforms into Reality: A Strategy for Change	1999	United Kingdom	26.86
Bangalore Water Supply and Environment Sanitation Master Plan	1999	United Kingdom	118.50
	2000	UNDP/World Bank	1.39
		Ausaid	3.96
Total (B)			518.67

Project	Year Approved	Source	Amount (\$million)
C. Technical Assistance – Grant Financed			
Uttar Pradesh Water Supply VI Community Participation	1989	Netherlands	04.6
Environmental/Sanitary Kanpur/Mizapur Phase II	1989	Netherlands	4.60
Andhra Pradesh Sanitation	1989	Netherlands	1.74
Informal Sector in an Urban Economy	1990	Canada	0.02
Indo-German bilateral project, Watershed Management	1990	GTZ	8.82
Housing Finance Development Fund and Miscellaneous Activities	1991	Netherlands	1.02
Housing Finance System Expansion Program	1992	United states	4.30
Management Development for Senior Urban Public Health Officials	1993	United Kingdom	1.26
Urban Infrastructure Development	1993	ADB	0.60
Urban Sector Profile	1994	ADB	0.40
Capacity Building for Improved Infrastructure Development in selected Municipalities in Karnataka State	1994	ADB	0.60
Indo-German Changer Eco-Development Project	1994	GTZ	7.84
Watershed Development Programme Maharashtra, Phase 1	1994	KFW	6.00
Low Maintenance Waste Water Treatment Systems.	1995	Euro Commission	1.03
Domestic Waste Management in a Basti, New Delhi	1995	ADB	0.07
	1995	ADB	0.10
Institutional Strengthening of Karnataka Urban Infrastructure Finance Corp.	1995	ADB	0.30
	1995	United Kingdom	0.60
Resource Mobilization Study for Local Governments in Karnataka	1996	CIDA	1.11
Rajasthan Urban Infrastructure Development	1996	ADB	1.44
SCF-Kalahandi Water and Development Project	1996	DANIDA	0.10
Water Resource Development and Energy conservation for Sustainable Management of the Environment	1996	CIDA	10.01
	1996	United Kingdom	2.29
Housing Finance Facility Project	1997	NDA	7.74
Water and Sanitation Project	1997	NDA	10.16
Coastal Wetlands Mangrove Conservation and Management	1997	NDA	1.28
UNICEF Control of Diarrhoeal Diseases CDD-WATSAN Project	1997	KFW	1.44
Ghogha Regional Water Supply and Sanitation Project	1997	GTZ	12.50
Local Water Supply and Sanitation Project, Viziagram	1997	CIDA	1.86
Socio Economic Unit Foundation	1997	ADB	0.70
Watershed Development Programme Maharashtra, Phase 2	1997	ADB	0.80
Slum Improvement Project	1997	ADB	0.40
Integrated Watershed Management and Water Storage in Pushkar Lake, Ajmer District	1998	WHO	0.60
	1998	WHO	0.08
Karnataka Coastal Environment Management and Urban Development	1998	WHO	0.13
Urban and Environmental Infrastructure Fund			
Strengthening Housing Finance Institutions			
Urban Community Water Supply and Sanitation			
Healthy Cities			

Project	Year Approved	Source	Amount (\$million)
<i>(Cont'd. Technical Assistance – Grant Financed)</i>			
Promotion of Chemical Safety & Promotion of Environmental Epidemiological Studies	1998	WHO	0.18
Support to Hospital Waste Management	1998	WHO	0.38
Improvement of Low Income Settlements	1998	USAID	0.01
Low Income Community Baseline Health Information	1998	USAID	0.04
Community Based Environmental Improvement Program	1998	USAID	0.01
International Post Graduate Course in Hydrology	1998	UNESCO	0.01
Mitigation of Land and Water Salinity in the Gujarat Coastal Region	1998	UNESCO	0.01
Indo-German Watershed Development Programme, Ahmednagar, Maharashtra	1998	GTZ	1.61
Sustainable Development and Water Resources Management of Loktak Lake	1998	CIDA	3.32
Environment Regeneration Project	1998	CIDA	0.06
Restructuring State-level Housing Institutions	1998	ADB	0.05
Calcutta Environmental Improvement	1998	ADB	1.00
UNDP/World Bank Water and Sanitation Programme	1998	United Kingdom	1.26
Gomti River Pollution Control Project in Lucknow	1998	CIDA	7.90
Sustainable Drinking Water Supply in the Humid Tropics of Kerala	1998	ADB	1.19
Community Participation in Urban Environmental Improvement	1998	ADB	0.15
Strengthening Micro Finance Institutions for Urban and Environment Infrastructure Finance	1998	ADB	0.05
Strengthening Institutional Capacities for Urban Infrastructure Finance and Development	1999	ADB	0.05
Capacity Building to formulate City Development Strategy for Ahmedabad and Bangalore	1999	Ausaid	0.03
	1999		
	1999		
	2000		
Total (C)			111.06

UNCEF = United Nations Children's Fund;

USAID = United States Agency for International Development;

WHO = World Health Organization

ANNEX 6

SUMMARY OF USAID FIRE (D) PROJECT INTERVENTIONS

Goal and Objectives of the Indo-USAID FIRE (D) Project:

The FIRE project's goal is to assist municipal, state, and central governments in India to develop sustainable urban environmental services (water, sewerage, and solid waste) and to ensure that the poor have access to these services. The project aims to achieve this goal through the following objectives:

- *increasing participation of municipalities, the private sector, and community organizations in the development and delivery of commercially viable urban infrastructure services;*
- *increasing the capacity of municipal and state governments and other urban professionals to manage urban growth, mobilize resources, and improve infrastructure services; and*
- *supporting development of an urban infrastructure finance system*

Projects/Achievements

- A. Expansion of the Roles of the Private Sector, NGOs and CBOs in the Development, Delivery, Operation and Maintenance of Urban Environmental Infrastructure and Increase Efficiency in the Operation and Maintenance of Existing Water Supply and Sewerage System
1. **Tiruppur** - US\$ 300 Million BOT for water supply and sewerage
 - Private companies involved - Bechtel and United Utilities
 - Notice to Proceed (NIP) achieved
 - Awaiting the approval of Government of Tamil Nadu
 2. **Kolhapur** - 30 year BOT for solid waste treatment and disposal through composting
 - Private companies involved - Zoom Developers and Larsen Engineering
 - Contract signed in September 2000
 - Ground works (surveys) have been completed
 - Project designs have been approved
 3. **Kolhapur** - Pilot leak detection and energy management project
 - Project is under conceptualization stage
 - Recent transfers of the Commissioner slowed progress
 4. **Vijayawada** - Project structuring and procurement for 32 MLD sewage treatment plant
 - Project is under conceptualization stage
 - Documentation for procurement is in progress
 - Recent transfers of the Commissioner and Chief Engineer has placed doubt in progress of the project
 5. **Ludhiana** - Explore options for PSP in water supply and sewerage projects
 - Project is under conceptualization stage
 - Scoping exercise is completed
 6. **Ghandhinagar** - Support GIDB in project structuring and procurement
 - Supposed to be India's first full privatization of solid waste management
 - Project is under conceptualization stage
 7. **Hyderabad** - Explore in collaboration with WSP, technology options and institutional arrangements for solid waste management
 - Project is under conceptualization stage
 8. **Sangli** - Support State Departments in approval and structuring of management contract for water and wastewater project
 - IL&FS received approval for project development funding for development of water and wastewater projects with PSP under capital grants program
 - MoU has been signed with IL&FS
 9. **Sangli and Ludhiana** - Collaborate with World Bank Cities Alliance Programme to develop projects for provision of infrastructure services to slum dwellers
 10. **Jabalpur** - Assist to develop and implement a comprehensive programme of technical support

11. **Technical Support to six cities** (Hyderabad, Calcutta, Ludhiana, Jabalpur, Sangli and Bhopal) in collaboration with ICLEI - Process of mitigating greenhouse gas emission
12. **Surat and Nagpur** - Enhancing access by the urban poor to environmental infrastructure and services
 - Baseline surveys documenting the beneficiaries are submitted
 - NIUA is reviewing draft report on 'Benchmark Study in Nagpur'
 - Additional time required for data collection

B. Development of Policy and Regulatory Frameworks at the State/Center Level

1. Government of **Maharashtra** - Department of Water Supply and Sanitation with implementation of Sukhthankar Committee recommendations
 - Report has been finalized
 - Consultative workshop was organized to discuss the draft report
 - Marathi translation is under progress
 - Report has been operationalize through restructuring capital grants program for urban water supply based on creation of incentives for efficiency improvements
2. **Government of India** - Prepare guidelines for implementation of Supreme Court Solid Waste Manual in small and medium towns for Ministry of Urban Development
3. Government of **Gujarat** - Institutional strengthening with reconstruction initiative for urban infrastructure in earthquake affected districts
4. Government of **Gujarat** - Collaborate with World Bank Cities Alliance Program in Development of Slum Upgradation Policy

C. Strengthened Financial Management Systems at the Local Level

1. **ICAI** - Support on Accounting Reforms for ULBs
 - ICAI is circulating Technical Guide for accrual based accounting system for ULBs
 - ICAI's sub-committee on municipal accounting reforms is due for implementation of recommendations
2. Government of **Maharashtra** - Support Director, Municipal Administration to develop and implement revised municipal accounting code for introduction of accrual based accounting system to Class A, B and C Municipal Councils
 - Developed ToR for accrual accounting manual for State's 230 Municipal Councils and Municipal Corporations except Mumbai and Nagpur
 - Short-listing of CA firms for 2 Municipal Councils (Mira-Bhayandar and Islampur) and 2 Municipal Corporations (Navi Mumbai and Sangli) is over
3. Government of **Tamil Nadu** - Support develop and implement new accrual based accounting for all ULBs of the State
 - Most successful State-wide reforms, first time in India
 - Project Note prepared and widely circulated
4. **Ludhiana** Municipal Corporation - Assist in implementation of an accrual accounting system

D. Continued Implementation of the 74th Constitutional Amendment Act and Decentralization including Accessing Capital Markets / Municipal Resource Mobilization

1. **Government of India** - Structuring of pooled finance mechanism to access domestic capital markets to fund environmental infrastructure projects for small and medium towns using new USAID DCA for Ministry of Urban Development
 - Formulated proposals for TNUDF and IDFC for accessing DCA
2. Government of **Maharashtra** and **MMRDA** - Setting up of an Initiative Development Fund for project development and financing
3. **Indore** Municipal Corporation - Several initiatives to enhance local resource mobilization and to commercialize municipal physical assets
 - Rapid assessment of recently introduced accrual based double entry accounting system
 - Commenced procurement of consultants
 - To launch environmental mapping exercise
4. **Karnataka** Urban Infrastructure Development and finance corporation - Restructuring initiative to include financial intermediation as part of its functions

5. Government of **Madhya Pradesh** - Operationalize municipal reforms of the 74th CAA including guidelines for Second State Finance Commission and options for amending existing municipal acts or for enacting new ones.
 - NIPFP finalized guidelines to operationalize Second State Finance Commission
 - To identify one or two states for implementation

- E. Capacity Building through the Development of an Urban Management Training Network
 1. **National Institute of Urban Affairs** - Design and implementation of information clearinghouse and website
 - NIUA has published two editions of quarterly Urban Finance Newsletter
 - Newsletter has been well received by readership
 - Website designed by FICCI has been evaluated
 - Database development and updating is under progress
 2. **National Institute of Urban Affairs** - Establishing and operationalizing a regional training network comprising 13 training institutions
 - Training trips to US for FIRE Project counterpart institutions was organized

Future Activities

- *Helping cities develop sustainable environmental infrastructure services by introducing a consumer and commercial orientation.*
- *Strengthening municipal financial viability with an emphasis on resource mobilization of tax and non-tax internal resources.*
- *Demonstrating a targeted strategy to improve access of the poor to urban infrastructure services.*
- *Promoting complementary state and central level policy reforms.*
- *Expanding the market-based infrastructure financing system.*
- *Expanding efforts to strengthen municipal capacity and disseminate lessons learned.*

ANNEX 7

Highlights of recent ADB interventions in India

1995 – Rajasthan: This project supports capacity building and community participation in order to promote the devolution of urban management through good governance. The project focuses on the largest cities in the state in order to stimulate the maximum economic benefits. Policy reforms at the local level are supported for improving services and to provide demonstration effects. There are five parts to the project: capacity building and community participation, water supply, urban environmental quality improvement, urban transportation and implementation assistance. 25 year bank financing will be matched from the state and local governments and implemented through a project management unit (PMU) with state and local steering committees. Special attention is paid to providing services to the urban poor.

The GOR urban development policy emphasizes the development of regional growth centres and state planning legislation. It has increased efforts at revising and improving revenue collection through various measures.

Karnataka: The ADB has been involved in Karnataka since 1993. Previous experience demonstrated the need to avoid project implementation delays by ensuring strong project management, to gain local ownership of the project, to strengthen local management capacity and to introduce market discipline into project development.

Strengthening local revenue generation and management is critical to this project. Tax sources will be broadened, urban land used as a source of funding urban services, autonomy and efficiency at the local level increased, development of a municipal bond market supported and benefits identified to allow for user charges. Regulatory reforms in WSS will provide at least O&M coverage from user charges and later capital costs, although some cross subsidy will be retained in the charge structure. Both the community and small industry will be involved to improve the environment. The poor are seen as a source of economic energy for development.

Municipal staff requires skill upgrading performance and rationalizing qualifications for urban management functions performance and elected representatives also require training. State to strengthen local capabilities and increased water tariffs. SFC recommendation to share 0.5% state taxes and also selected taxes with the ULBs.

Only 30% of O&M and none of capital costs of water supply are currently recovered due to poor administrative arrangements. There is a shortage of trained municipal staff, equipment along with poor accounting and database systems. This will be addressed in capacity building component. Statewide financing facility and programme to institutionalise community participation programmes is needed. The cost of the WSS improvements is less than 6% of household income, but community willingness to pay is limited.

HDFC 1995: UIDP in Karnataka for urban services in growth centres was developed to reduce development pressure on Bangalore. The project included a loan to HDFC for low-income housing finance, capacity building for sustainability of interventions, WSS, roads/terminals, slum upgrading, industrial development and implementation assistance. Charges collected by the municipalities ranged from 40-80% in the project cities, resulting in substantial arrears. Development of planned industrial areas was poor. In order to address these and other issues a sub regional plan for Bangalore was needed.

The Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC) and DHUD through a PMU implemented the project. The establishment of KUIDFC was a major step by the state to provide urban policy reform support to local governments. A number of other steps such as recommending capital based property tax assessment have also been taken.

HDFC handled the housing loan component and a planning unit was established within the BMRDA. The project provided assistance in developing a comprehensive training plan for the state and strengthening of the KUIDFC. Town coordination committees supported implementation at the municipal level.

ADB Karnataka Urban Development and Coastal Management Project – 1999: This project included support for the establishment of improved environmental planning and management capacity at the local level. Sustainable CBOs would be established for the design and implementation of poverty reduction subprojects. The project would provide practical training in implementation and O&M, so that work could be conducted through the municipality to the extent possible.

States were selected for development potential of planned activities, which need improved urban services, the likelihood of a significant demonstration effect and advanced project preparation.

Recent TA design for MP, and urban finance institutions since 1999 has changed some in focusing on support to progressive and financially strong municipal governments in order to tap capital resources for infrastructure, support to reform-oriented large urban areas with long term finance through national financial intermediaries, supporting reforming small and medium cities through state level financial institutions, supporting local and state capacity building for developing viable projects, supporting removal of capital subsidies and promoting local ownership. In addition, TA support would be provided to integrate micro-finance with urban infrastructure development. Support for financial management capacity building is also included.