Design of

Basic Services to Urban Poor (BSUP) Fund

Study Report

Assigned by

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Foreword

Centre for Good Governance (CGG), Hyderabad was established in 2001 as an autonomous institution in Andhra Pradesh with the assistance of Department for International Development (DFID), United Kingdom to support governance reform initiatives.

CGG undertakes action research, provides professional advice and conducts change management programmes for government departments and agencies in order to implement reforms successfully so that the public service delivery programmes are implemented efficiently and effectively.

Urban poverty is increasingly becoming an imporant issue to adress, given the rising levels of urbanisation across the country. Urban poverty is no longer viewed as a simple issue of adequate income, but it is viewed as an issue with multiple dimensions - entitlements, livelihoods, protection against exploitation, public services and community organisation etc.

Finance as an input is viewed as an important means of addressing the problems of urban poor and Urban Poor Fund of South Africa is an example of how it can be used for poverty alleviation even on a global scale. Jeffry Sachs, in his famous book “The End of Poverty: Economic Possibilities for Our Time” has mentioned that leveraging various sources of finance itself would provide adequate resources for targeting poverty alleviation at global level.

This Study was essentially aimed at designing such a ‘Fund’ in India to cater exclusively to urban poor. The Basic Services to Urban Poor (BSUP) Fund is one such instrument to address urban poverty. This Fund is expected to leverage both internal and external resources of all three tiers of government to mop up a sizeable amount of financial resources.

This report lays down the need for such a Fund, the funding requirements at large, the institutional architecture of BSUP Fund and its implementation plan at three tiers. The resource mobilisation instruments for leveraging the finances for the benefit of urban poor are also discussed.

It is hoped that this report, which was prepared at the initiative of the Ministry of Housing and Urban Poverty Alleviation (MoHUPA), would lead to the creation and management of an umbrella BSUP Fund for improving the living conditions of urban poor.

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1. INTRODUCTION

1.1 URBANIZATION IN INDIA

1. India has been experiencing rising levels of urbanization at different scales and pace. As per the Census of India 2001, total urban population of the country and the share of urban to total population attained the levels of 285 million and 27.78% respectively. While the Census population figures for the recent years are yet to become available, the recent McKinsey report (2010) has estimated the total urban population in 2008 at 340 million and it projected about 590 million living in urban areas by 2030. The absolute rise of urban population has been phenomenal – from 62 million in 1951 to 285 million in 2001; however, the relative share of urban population has been slowing down in the last few decades by hovering around 25%.

2. The growth rates of urban population tell another story. The average annual growth rate of urban population remained high in 1951 (3.47%) followed by the peak attained in 1981 (3.83%); the urban population growth went down during 1951-81 and 1981-2001, which is still not fully explained in terms of causative factors (Hashim 2009). Definitely, there is a concern that the urban areas lost their attraction, advantages and absorption capacity (Sivaramakrishnana and Kundu 2007), and that there was a lot of restructuring taking place within the various classes of cities during the period. The number of towns/cities grew by almost 50% during 1951-2001, but the proportionate share of population growth rate has been in favour of large cities leading to the decline of small and medium towns. Unlike the past when much of urban population growth was due to large-scale migration from rural to urban areas, substantial amount of growth is now due to natural growth of existing cities and migration from small towns.

3. It is well laid down that (population and economic) growth enabling conditions – infrastructure conditions and industrial as well as investment policies – were not very conducive to the growth of urban areas and that created some depressive effect on the growth prospects of Indian cities – both in terms of economic activities as well as employment formation (Sivaramakrishnan and Kundu 2007). The rising urban population only made the condition of basic civic amenities to deteriorate further, as they were not given adequate attention in the planning and resource allocation at Central and State governments. Apart from uneven population growth over time and across town classes, there was a bias existing against urban areas, which led to lesser and lesser amount of resources spent on cities and their infrastructure. Such bias has

led to the perpetuation of slum formation and to the persistence of urban poverty in the coming decades.

4. It is now well recognized that the urban areas are not mere 'concentrations of population' but 'engines of economic growth', with their contribution rising from 40% of GDP in 1990s to 50% by 2005, which is further expected to rise upto almost 70% by 2030 as per the estimates of McKinsey report (MGI 2010). With greater economic value addition of urban areas, more resources need to be deployed so that they are not only replenished to meet the needs of current urban population but also support to future urban population. The population living in slums and squatter settlements require a particular attention with regard to provision and maintenance of services.

1.2 URBAN POVERTY & ITS MEASUREMENT

5. An accompanying pattern with the increasing levels of urbanization is the rise in poverty or the concentration of poor population living in urban areas. It is this rise that led to the experts commenting that rural poverty has been shifting to and resurfacing as urban poverty, thereby changing the nature and type of problems associated with prevalence and persistence of urban poverty and the factors underlying it (Kundu 2009). Poverty in general and Urban Poverty in particular are still high in India despite achieving an impressive economic growth in the last two decades. An estimated 250 million people are below the poverty line and approximately 25 per cent of them are in the urban areas. It is also highly variant across the Indian States. Table 1 shows the poverty levels across the Indian States.

Table 1 Urban Poverty in Indian States (based on Head Count Ratio)

State	Number of Persons below Poverty line (Lakhs)		Proportion of Persons below Poverty line (Urban) (%)	
State	1993-94	2004-05	1993-94	2004-05
Andhra Pradesh	74.47	61.40	38.33	28.00
Assam	2.03	1.28	7.73	3.30
Bihar	42.49	45.62	34.50	28.68
Delhi	15.32	22.30	16.03	15.20
Goa	1.53	1.64	27.03	21.30
Gujarat	43.02	27.19	27.89	13.00
Haryana	7.31	10.60	16.38	15.10

Himachal Pradesh	0.46	0.22	9.18	3.40
Jammu & Kashmir	1.86	2.19	9.18	7.90
Karnataka	60.46	63.83	40.14	32.60
Kerala	20.46	17.17	24.55	20.20
Madhya Pradesh	82.33	93.50	48.38	41.91
Maharashtra	111.90	146.25	35.15	32.20
Orissa	19.70	26.74	41.64	44.30
Punjab	7.35	6.50	11.35	7.10
Rajasthan	33.82	47.51	30.49	32.90
Tamil Nadu	80.40	69.13	39.77	22.20
Uttar Pradesh	108.28	125.88	35.39	30.95
West Bengal	44.66	35.14	22.41	14.80
ALL INDIA	763.36	807.97	32.36	25.70

Source: India Urban Poverty Report 2009

6. The methods of measuring poverty differ from country to country. The Planning Commission of India estimates the proportion and the number of poor separately for rural and urban India at the national and state levels based on the recommendations of the Task Force on ‘Projections of Minimum Needs and Effective Consumption Demands’ (1979). The Task Force had defined the poverty line (BPL) as the cost of an all India average consumption basket at which calorie norms were met. The norms were 2400 calories per capita per day for rural areas and 2100 calories for urban areas. If the person is unable to get that minimum level of calories is considered as being below poverty line. It is based on the the calorie intake by consuming food items, the minimum income required to attain ‘food consumption’ is estimated in order to determine the ‘income poverty’, which measures the poverty in terms of deprivation to food caused by economic factors.

7. Economic measure of poverty is very common across several nations and holds valid to a good extent in rural areas but its validity to urban areas is not satisfactory. More than food costs, the ‘non-food’ monetary costs of avoiding poverty are generally higher in urban areas than in rural areas, as access to housing, transport, resources and services are monetized – and usually particularly expensive in larger or more prosperous cities. But very few nations have income-based poverty lines that vary from place to place, reflecting differences in the income needed to avoid poverty.

Where there is provision for this, it usually focuses on variations in the cost of food or variations in what the poorest 20 per cent of households spend on non-food items, which is not the same as the income level they need to avoid deprivation. Establishing an appropriate poverty line to monitor changes in income poverty is also difficult. A poverty line should be set which reflects the income needed to avoid deprivation within each local context.

8. As India steps forward to become a country with more urbanized population with an expected 40% of total population by 2030, the bigger cities are growing faster than smaller towns. India's mega-cities have the highest percentage of slum-dwellers in the country. This indicates that as big cities grow even larger, their slums will swell. While slums have become an important place to reach the urban poor, even though all the urban poor do not live in slums. The slum population is estimated to be half of the urban poor population in India. For urban poverty, at the very least it should reflect the income needed not only to purchase sufficient food but also to obtain a secure shelter with adequate quality water, sanitation and garbage collection, transport, education for children and to afford health care and medicines when needed. Therefore, estimation of urban poverty has to move away from narrow measures based on either food consumption or income levels to the multiple sources and factors of deprivation of poor people living in urban areas, particularly slum settlements. The recent report of the UN - OPHI (2010) on multi-dimensional measures of poverty in Indian states clearly shows that poverty and deprivation levels are much higher than official estimates of poverty in several states.

1.3 URBAN POVERTY AND PROBLEMS

9. People in urban areas are homeless and slum households are deprived of good housing, they do not have access to clean water, hygienic systems of waste disposal and live in polluted and degraded environments. Urban poverty is easily discernible through lack of security of land tenure, access to affordable shelter and basic amenities, particularly, health, education and social security. Urban poverty is linked to the aspects of social inclusion, city-wide infrastructure and basic service delivery systems, opportunities for skill development and employment, responsiveness of local governance structures and policies and programmes impacting on urban environment, development and management. The bulk of the urban poor live in extremely deprived conditions with insufficient physical amenities like low-cost water supply, sanitation, sewerage, drainage, community centres and social services relating to health care, nutrition, pre-school and non-formal education.

10. Workers engaged in the urban informal sector form the bulk of urban poor. Workers in this sector get low wages or if they are self-employed, their income is meager. This implies that their living conditions are low and their wages are less than the stipulated minimum wages. There are hardly any regulations on their working conditions and their social security is virtually non-existent. A large section of this population consists of low-skilled migrants from villages and smaller towns. Hence, for these people, right from the time of their entry to the city they become a part of the informal sector as they have neither the skills nor the opportunities to enter better-paid and more secure formal sector jobs. They thus move from one level of poverty, at their place of origin, to another level of poverty, at their destination. At the same time there is a growing section of workers in the formal sector who have lost their jobs and are compelled to work in the informal sector. For these people and their families this change means a reduction in their standard of living and insecure, unregulated employment.

1.4 THE MULTI-DIMENSIONAL NATURE OF URBAN POVERTY

11. While the recent report of the UN - OPHI (2010) on poverty in Indian states has clearly brought emphasis on poverty not only measured by income deprivation but due to the poor level of other services and security, they were echoed in the programmes of international donor agencies like DFID, GTZ and SIDA. Therefore, urban poverty is usually characterised by multiple sources of deprivation such as:

i. **Inadequate household income** (resulting in inadequate consumption of basic necessities), sometimes exacerbated by an uneven distribution of consumption within households, between men and women and between adult men and children.
ii. **Limited asset base** for individuals, households or communities (including both material assets such as housing and capital goods, and non-material assets such as social and family networks and ‘safety nets’).
iii. **Inadequate provision of ‘public’ infrastructure and services** (piped water, sanitation, drainage, health care, schools, emergency services, etc.)
iv. **Inadequate protection by the law** – for instance, regarding civil and political rights, health and safety in the workplace, environmental legislation and protection from violence.
v. **‘Voicelessness’ and powerlessness** within the political system – no possibility or right to receive entitlements, make demands within political systems or get a fair response.
vi. **Exploitation and discrimination** (often on the basis of gender, caste, age, ethnicity, etc.)

1.5 REDUCING URBAN POVERTY THROUGH PROVISION OF BASIC SERVICES

12. Urban poverty alleviation assumes greater importance in the context of rapid pace of urbanization in India. As per the latest NSSO survey reports, urban poverty in India is about 25.7 percent (2004-05) i.e. over 80 million poor are living in urban areas of India. However, if the measures of multi-dimensional poverty, as used by the UN - OPHI, are applied this figure may substantially go up. 'Urbanization of Poverty' is critical given the fact that urban India caters to about 55 percent of the national GDP and that 41 percent of India's population (over 575 million people) is estimated to live in urban areas by the year 2030. Provision of basic services to the urban poor can lead to significant improvement in their living conditions. Although 2001 Census had indicated better levels of access to civic amenities in urban areas on the whole – about 91% with access to water supply; 88% to sanitation and 74 % to electricity, the conditions of poor people living in slums of urban areas is dismal – only 15% of them have access to drinking water, electricity and toilet facilities.

13. Though most governments and international agencies target income poverty by promoting income generation activities or employment generation, there are many other ways of reducing poverty. For instance, improved access to and provision of good quality basic infrastructure/civic services like water and sanitation can result in savings in poorer groups' expenditure, who otherwise pay 10-30 per cent of their income to water vendors or kiosks and payas; besides, they avoid any treatment of water and use the saved time in income generation activities. Good quality water and sanitation can also increase real incomes by greatly reducing the amount that was previously spent on health care and medicines (80% of the global diseases are water borne resulting from consumption of non potable water). Housing schemes that really respond to the needs and priorities of low-income households can also reduce poverty. However, 'poverty-reducing' measures outside the economic growth depend on local institutions that can 'deliver' for the poor on different aspects of poverty. The form of local institutions that can do so varies a lot with context; they can be - community organizations, federations of community organizations, local NGOs, local foundations, municipal authorities or even, on occasion, national government agencies or local offices of international agencies.

14. Since independence, the Government of India (GoI) has undertaken numerous poverty reduction programmes starting with 'Economically Weaker Section Housing' in 1952. The Nehru Rojgar Yojana (NRY), a centrally sponsored scheme of GoI, was launched during the seventh five year plan focusing on employment generation to the urban poor. Urban Basic Services for the Poor (UBSP) was a major initiative of GoI

launched in the eighth five year plan with the specific objectives of effective achievement of - social sector goals; community organization, mobilization and empowerment; and convergence through sustainable support system. Swarnajayanti Shahari Rojgar Yojana (SJSRY) is a convergence programme of UBSP and NRY, while the shelter programs of NRY and other initiatives are merged with National Slum Development Programme (NSDP) initiated during the ninth five year plan. Valmiki Ambedkar Awas Yojana (VAMBAY) was later mooted as an urban housing programme for the low income and economically weaker sections of population.

15. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is the single largest reform-linked urban initiative ever launched by the Government of India to address the problems of urban infrastructure and services in general; it also envisages their provision to the urban poor in a holistic manner. JNNURM envisages reform driven, fast track and planned development of identified cities, with focus on efficiency in urban infrastructure/ service delivery mechanism, community participation and the accountability of ULBs towards citizens. The Basic Services for the Urban Poor (BSUP) and Integrated Housing & Slum Development Programme (IHSDP) under JNNURM aim at integrated provision of basic amenities and services to the urban poor, especially to slum dwellers in the identified cities, comprising:

- Security of tenure at affordable prices
- Improved housing
- Water supply
- Sanitation
- Education
- Health
- Social security

16. Securing effective linkages between asset creation/formation and asset management is a must in order to ensure optimal outcomes from the use of resources. The JNNURM in this process aims to achieve the outcomes that would lead to optimal resource utilisation. Revolving fund mechanisms have been built into JNNURM programme for achieving the above objective and to sustain the operation and maintenance of services. Fund based approach to urban poverty alleviation is a new approach that compliments the programmatic approach laid down under JNNURM and that can lead to long-term sustainable financing mechanism to deal with urban poverty.

17. The GoI-UNDP Project "National Strategy for Urban Poor (NSUP)" aims to build multi-pronged strategies for the reduction of urban poverty. It has selected 13 cities for the preparation of Urban Poverty Reduction Strategy (UPRS) for the respective cities. It is also in the process of preparing a common National Strategy, based on the above 13 UPRSs as well as the prevalent international best practices. It is under the NSUP that the "Design of BSUP Fund" has been contemplated for the benefit of urban poor as a complimentary measure to the JNNURM mission ending by the year 2012. This report provides a conceptual framework for the design of BSUP Fund so that it can be operationalized in the course of JNNURM.

18. The current chapter has already provided necessary background to the study and outlined the need to address urban poverty through Fund-based mechanisms, with specific focus on basic urban services. In the following chapters of the report, the conceptual design of the BSUP Fund is provided covering the following areas:

    a. The review of fund-based approaches to urban services
    b. The proposed constitution of BSUP Fund
    c. The means of utilizing resources under BSUP Fund
    d. The implementation structure of BSUP Fund
    e. The resource mobilization issues and methods

19. As a part of the Study, several existing models of financing urban infrastructure/ basic services have been examined and the major models of financing poor have also been reexamined in detail. These models have long been existing in several countries and running successfully; some of them have also been implemented in the Indian states The Annexures of this report also detail the existing models – both national and international - for setting up a Fund in similar but other contexts as well as for financing poverty alleviation programmes (oriented towards service provision). Some of the major poverty alleviation programmes have also been described in the Annexures so that the learnings from them may be used appropriately.

2. FINANCING OF URBAN SERVICES PROVISION & POVERTY ALLEVIATION – A REVIEW

20. Both nationally and globally, fund-based approach towards the financing of infrastructure service provision has been gaining momentum during the past few decades, and there have been some attempts to apply these models to poverty alleviation. The potential uptake and relevance of fund based approaches to finance infrastructure services, including that for urban poor, has been gaining more ground in urban areas. There are several successful models of financing urban services through intermediation across the world, which will be reviewed in the following sections. Some of the existing models of funding the urban services to the poor are also reviewed subsequently. The study of such best practices provides inputs to conceptualize the proposed BSUP Fund. A quick review of the same is provided below. Annexures I and II provide further details of each of such best practices.

2.1 FINANCIAL INTERMEDIATION FOR PROVISION OF URBAN SERVICES

21. Financial intermediation approach to the urban services rests on the foundation that smaller municipal entities may find it difficult to borrow directly from market at a lower interest rate, whereas a strategically placed and well structured intermediary would be in a position to do so on their behalf by pooling risks and ensuring commercial viability. Successful borrowing through institutional intermediaries will have following objectives:

- Supply of funds at lower interest rates
- Commercialization of urban infrastructure projects
- Strengthening and creditworthiness of urban local bodies
- Improvement in accounting and disclosure practices
- Improved delivery of urban services
- Structuring of debt instruments backed by credit enhancement
- Development of local credit institutions that lend to urban sector

22. Financial intermediation for the provision of urban services has been taking place in different forms in different countries and this route has also been used to a limited extent in India. The major forms of financial intermediation include:

a. Specialized Banks/ Financial Institutions

b. Specialized Development/ Infrastructure Funds

c. Municipal Bond Markets

2.1.1 Municipal Bank/ Financial Institutions Lending Model

23. The municipal bank lending approach is well-illustrated by the specialty Municipal Banks established to provide capital and affiliated services to local governments. The largest of the specialty Municipal Banks in the world is Credit Local de France, now the core of the Dexia Group. In recent years Dexia has merged with, or taken equity positions, in other municipal banks throughout the Europe, including Belgium, Spain, and Italy, establishing itself as a pan-European specialized municipal lender. It has also advocated the municipal banking model in Eastern Europe, purchased an equity position in a new specialized municipal lending institution in South Africa, and provided advisory services to Pudong Development Bank of Shanghai. Variants of Municipal Banks can be found in many other countries. The Municipal Bank philosophy can be summarized in three principles:

- ***Relationship Banking:*** Under this, a Municipal Bank strives to establish permanent, partnership relations with its local clients. Most of the European banks have a history of specialized collaboration that dates back a century or longer. They provide a range of services to complement their lending activity.
- ***Delegated Monitoring:*** Municipal Banks perform what is called "delegated monitoring". Municipalities and other borrowers could, in principle, deal directly with individual lenders, by borrowing investment funds from large financial institutions like pension funds or insurance companies and even borrow from individual savers. However, unless the loan at stake is large, it is inefficient for each saver to try to monitor financial condition and all other factors affecting loan payment. A bank performs this intermediation and monitoring function.
- ***Bundled Services and Bundled Pricing:*** In a sheltered market, the bundled services that Municipal Banks offer are rarely broken out or priced to correspond with incremental costs for a particular service. The "price" of a bundle of services may be combined into the interest rate spread between the Bank's cost of funds and its lending rate. Or some of the costs may be subsidized by government as a type of public good. Price differentiation of any kind by Municipal Banks in developing countries is unusual, even in lending activity.

24. The Municipal Finance Company (MUFIS) of the Czech Republic introduced a system of competition among banks for lending to local infrastructure projects. MUFIS provides loans to commercial banks for on-lending to municipalities. It can also finance the purchase of bonds. Commercial banks perform all credit analysis and assume all credit risks from the outset. They must repay their loans to MUFIS, in full and on schedule, whether or not they are paid by municipal borrowers. Once the initial lending met with success, the banks quickly began to lend municipalities from their

own funds. It is now a routine for the Czech commercial banks, which have access to long-term savings (more than 15 years), to make intermediate term (8-12 years) loans from their own funds under competitive market conditions. All the largest banks make infrastructure loans to local governments and most of the cities have also floated bonds, which led to mature credit markets in urban areas of the country towards financing urban infrastructure services.

25. Territorial Financing Institution of Colombia (FINDETER) in Colombia was an independent parastatal institution owned by government and local authorities as the source of credit to municipalities. FINDETER was started as an infrastructure financing window within the National Mortgage Bank. It evolved into a development bank for the municipal sector, working through the commercial banking system. FINDETER refinances 85% of commercial bank's loan to a municipality to finance projects examined by it from techno-economic and development view point. The commercial bank performs its own financial analysis and assumes all credit risk, including the risk on loan portion refinanced by FINDETER. A borrowing municipality has to set up a special account into which inter-government revenue-sharing payments flow. The lender has first claim on the resources in this intercept account, as long as loan payments are due. Initially, commercial banks made municipal loans subject to refinance facility by FINDETER. However, good credit experience of banks led them to commit their own resources. Competition within the sector has reduced bank margins and lengthened the lending period for commercial financing of infrastructure projects. The role of FINDETER has shrunk gradually and bond issues have become important sources of city infrastructure financing.

2.1.2 Development/Infrastructure Fund Model

26. The lending vehicle that has proved most popular in the developing countries is the Municipal Development Fund (MDF). MDFs are special funds established through public sector intervention to make loans to local governments or government enterprises and help finance infrastructure investment. Lending is sometimes supplemented by Grants and technical assistance for capital projects. MDFs operate out of many different institutional settings, including central government ministries, special development banks, state government companies or metropolitan development authorities. Irrespective of the institutional arrangement, they obtain funds from government or from private sources with government assistance, then re-lend the same to local authorities for infrastructure projects with a small spread.

27. Infrastructure Finance Corporation of South Africa (INCA) is an impressive local credit intermediary of the developing world. It was formed by a private-sector financial group as a specialized municipal lender, and has grown to the point where it finances more than half of municipal credit in South Africa. It has been able to consistently earn return on equity in excess of 20% while charging spreads of 50 to 100 basis points between its own cost of capital, raised primarily through bond issues, and its municipal on-lending rate. INCA of South Africa enjoys no government-supported loan security. However, its small staff contacts each borrower every week. Most repayment problems are headed off at this early stage. If a problem should persist, INCA's practice is to obtain within days of any missed or late loan payments a court order authorizing the seizure of loan collateral. With the court order in hand, INCA then negotiates with the municipality a specific loan work-out that will avoid the seizure of collateral.

28. Tamil Nadu Urban Development Fund (TNUDF), India was established in 1996 by the conversion of the Municipal Urban Development Fund (MUDF), created under the World Bank-supported Tamil Nadu Urban Development Project. MUDF remained in existence for 8 years and had extended loans of about Rs.200 crores to 74 Urban Local Bodies (ULBs). TNUDF was established as a Trust under the Indian Trusts Act. It is managed by the Tamil Nadu Urban Infrastructure Financial Services Ltd. (TNUIFSL), a joint venture asset management company between the Government of Tamil Nadu and three participating financial institutions – ICICI, IL&FS and HDFC. TNUIFSL develops and manages the portfolio of the TNUDF according to a lending strategy and policy determined by its Board of Trustees and following specific lending procedures. In addition, TNUIFSL also manages the Grant Fund of the Government of Tamil Nadu, meant for supporting poverty alleviation, resettlement and rehabilitation, etc. TNUDF extends long-term loans to creditworthy municipalities, public undertakings and private investors, for the financing of urban infrastructure that will contribute to improved living standards for urban populations. TNUDF's experience reveals the significant potential of financial intermediation mechanisms to meet the resource requirements of urban infrastructure.

2.1.3 Municipal Bond Model

29. Municipal Bonds are of two types: (a) General Obligation Bonds, where repayments are predicated on the general fiscal strength of the issuer; and (b) Revenue Bonds, where repayments are linked to project revenues (user fees and service charges), generated by the bond-financed infrastructure facilities. The general obligation bonds are secured by the full faith and credit of the borrower derived from its taxing powers

and its general revenue-raising capabilities. Sometimes, 'Hybrid Bonds' are specially structured to suit local situations. The alternatives for these hybrid bonds include: (i) General Obligation Bonds with project-specific utilisation and (ii) Revenue Bonds with general obligation covenants. The general revenues of the borrowing authority and the revenue-generating potential of the projects supplement each other to improve the marketability of the bond instruments. Often, the municipal bonds need to be structured with credit enhancement and risk-mitigating mechanisms so as to satisfy the investors regarding the application of their funds. Local capital financing through the issuance of municipal bonds offers a different approach to the three principles underlying Municipal Bank lending as follows:

(a) Competition, not Relationship Banking

30. Municipal bond underwriters try to achieve a long-term working relationship with their municipal clients. However, the essence of a bond issue is (or, should be) that it is freshly competed on each occasion. Neither institutional nor individual purchasers of bonds need to have a long-term relationship with the issuer. For seasoned and sizable issuers, market competition of this kind, focused on the cost of capital, is likely to produce savings. However, it leaves behind an unfilled niche for smaller and less experienced local governments. This niche can be partially filled by pooling arrangements, like bond banks in the United States, which allow smaller cities to join in combined bond issuance, through an experienced intermediary. A bond bank can provide the relationship stability for infrequent issuers that otherwise would be missing from the bond model.

(b) Public Monitoring, not Proprietary Monitoring

31. Whereas banks typically seek to build loan departments that possess proprietary information and proprietary methods of analyzing creditworthiness, in a municipal bond market, information on local financial conditions is provided by issuers to the market at large. Bond markets rely on public disclosure of municipal financial information for effective functioning. Most of the financial systems utilizing bond issues have extensive public disclosure requirements that the issuers must comply with; also, they have requirements specifying accounting standards and independent audits of financial statements. Credit rating firms have developed a presence in every municipal bond market of significant size. They report the content of their credit analyses publicly, and exert considerable influence over the market, including the risk premium that municipalities have to pay for borrowing based on their financial condition and credit history.

(c) Unbundling of Services

32. A municipal bond market does unbundling of the various support functions that a municipality can receive from a Municipal Bank. Local governments can make separate decisions about where to maintain their liquid deposits and where to obtain financial advisory services or technical assistance on project design. Bidding for each of these support activities can be competed separately in a sub-market of its own. Unbundling services and subjecting them to competition is likely to lower total costs. However, unbundling may deprive municipalities of the benefits of having a comprehensive partner, who is familiar with how a municipality's financial activities fit together.

33. Municipal bond has increasingly been experimented as a new source of financing urban infrastructure in India, although it has long been a highly potent source in many developed countries like the United States. During the period of 1997-2002, eight Municipal Corporations in the country have raised funds from the market through municipal bonds. The municipal bonds issued prior to 2002 were taxable bonds. After the provision of income tax exemption coming into existence, Ahmedabad and Hyderabad Municipal Corporations were able to issue tax-free bonds. Table 2 shows the salient features of the municipal bonds issued in the country during 1997-2002.

Table 2 Issuance of Municipal Bonds in India (1997-2002)

Year	*Municipal Corporation*	*Amount (Rs. in Crores)*	*Bond Tenor (Years)*	*Annual Interest (%)*	*State Guar-antee*	*Credit Rating*	*Project Purpose*
1997	Bangalore	100	7	13.00	Yes	CRISIL A (SO)	Water, Roads & Drains
1998	Ahmedabad – I	100	7	14.00	No	CRISIL AA (SO)	Water Supply & Sanitation
1999	Nashik	100	7	14.75	No	CRISIL AA (SO)	Water Supply
1999	Ludhiana	10	7	13.5 - 14.00	No	ICRA LAA -(SO)	Water Supply & Sanitation
2000	Nagpur	50	7	13.00	No	ICRA	Water Supply

						LAA -(SO)	
2001	Madurai	30	15	12.25	No	ICRA LA + (SO)	Inner Ring Road
2001	Indore	10	7	11.50	Yes	CRISIL A (SO)	City Roads
2002	Ahmedabad - II	100	10	9.00	No	CRISIL AA (SO)	Water Supply & Sanitation
2002	Hyderabad	82.5	7	8.50	No	CRISIL AA+(SO) ICRA LAA+(SO)	Roads & City Decongestion

Sources: Pradhan (2002); Bagchi and Kundu (2003)

2.2 FUND BASED APPROACHES TO POVERTY ALLEVIATION/ SERVICES TO URBAN POOR

34. Over the past few decades, few Social Funds for Poverty Alleviation have been set up across the world by International Donor/Lending Agencies, National Governments as well as non-profit organizations. These Funds are essentially financing mechanisms established to channel the funds for poverty alleviation programmes. Although the specific focus, objectives and mechanisms vary depending upon the actors and objectives, they share some common design elements, including:

    a. Focus on community empowerment
    b. Targeting the poor communities alone
    c. Direct financing of community projects
    d. Community participation in planning, design, implementation, and operation and maintenance
    e. Community contribution in cash or kind
    f. Quick disbursement procedures that avoid red-tape and delays

35. The finance/Fund based models of poverty alleviation can be categorized into:

    a. Municipal Development Funds
    b. Social Development Funds
    c. Micro Finance Based Models

2.2.1 Municipal Development Funds

36. Municipal Development Funds (MDFs) are financial intermediaries focusing on municipal credit that lend to local governments for infrastructure investments. They are designed to remedy some of the typical constraints of local government e.g., lack of institutional capacity, limited resource mobilization and limited access to long-term financing for investment programs, while preparing them to borrow in capital markets, while preparing them to borrow in capital markets. MDFs can have special windows for poverty alleviation projects and act as financing tool to achieve poverty reduction through basic infrastructure services. There are two types of MDFs:

1. *Those that act as channel for government capital grants, which combine subsidized loans with grants.*
2. *Those that serve as bridge to private credit market*

37. The first type of MDFs supply capital through MDFs at below-market rates, often combining subsidized loans with grants. Typically, MDFs of this type have a monopoly in lending to the municipal sector. They exploit the favourable terms of their loans to impose stricter standards of project preparation on localities and to incorporate central or state government investment priorities in determining which projects should be funded. ***Credit Local de France*** and several other MDFs in Western Europe have evolved through financial deregulation from closed-circuit lending institutions, which obtained capital at below-market rates (from state grants) and lent to municipalities at below market rates, to institutions that compete freely with private-sector lenders.

38. The second type of MDF is intended to prepare the municipal and financial sector for private lending to municipalities. They lend at market rates of interest, allocate capital through arm's length decisions of commercial banks or other private sector lenders, require that private lenders assume the credit risk of municipal loans, and try to establish a track record of municipal creditworthiness. ***FINDETER*** in Columbia is an example of market-oriented MDF that operates as a rediscount facility for commercial bank lending to municipal sector. It supplements the bank's project appraisal capacity and thus improves the technical quality of lending, but banks take the commercial risk. Unlike some other MDFs, FINDETER has a poverty alleviation mandate that it has tried to fulfill by giving particular attention to institutionally weak small towns and by favouring investments in essential services – mainly water and sanitation.

2.2.2 Social Development Funds

39. Social Development Funds (SDFs) are non-governmental intermediaries that normally channel grant resources according to the predetermined eligibility criteria, to small-scale projects for poor and vulnerable groups. The projects are proposed, designed and implemented by private and public agencies, such as local governments or NGOs, or by the community groups themselves. These funds are vested with investment programming powers and enjoy special status, such as exemption from prevailing public-sector rules and regulations relating to procurement and hiring. SDFs grant fund transfers to municipalities or any other implementing agency or NGOs or communities directly.

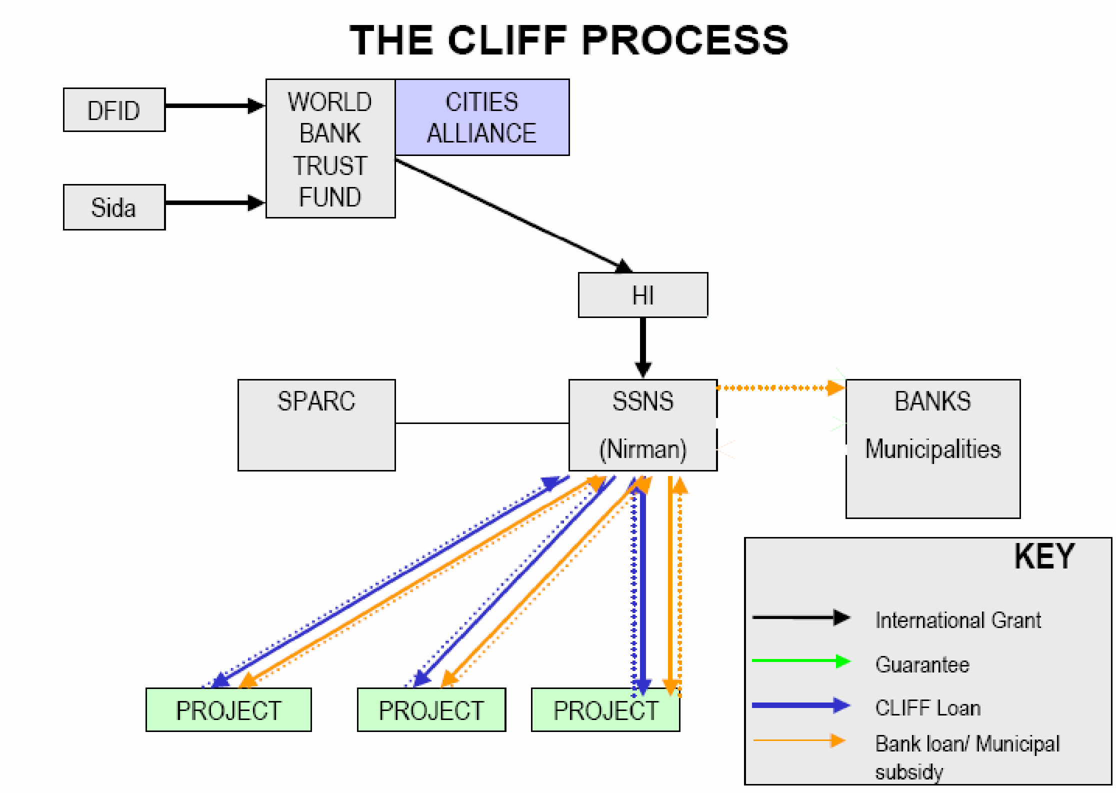
40. SDFs are usually aimed at (i) increasing sustained access of the poor to local services and infrastructure, and (ii) empowering communities through participation in the selection, implementation and on-going operation and maintenance of development projects. They target resources by providing direct financing for community projects designed to have a quick impact on improving basic services and reducing poverty. Since 1987, the World Bank alone had approved about 100 social –fund type projects in 60 countries. Typically, the objectives of SDFs are:

    a. Financing urban services sub-projects through an enclave agency
    b. Providing funds for investments on competitive basis, according to rules and eligibility criteria
    c. Generating temporary urban employment through developing community facilities and infrastructure

41. ***Community Led Infrastructure Financing Facility (CLIFF)*** is a unique financing model aimed at reducing urban poverty through financing of housing and urban infrastructure services to the urban poor living in slums. It was developed as a financing facility mechanism for assisting the urban poor to carry out successful community-driven infrastructure, housing and urban services initiatives at city level, in conjunction with municipalities and private sector. It was proposed to develop a sustainable financing vehicle (CLIFF1) in India and a sustainable in-country financing vehicle (CLIFF2) in another country with the support of Department for International Development (DFID), UK. The facility mechanism in India would extend loans, guarantees and grants to the organizations of urban poor. The forms of assistance available are - bridging loans, hard currency guarantees, technical assistance grants, knowledge grants and grants for development & running costs.

42. The CLIFF process builds on collective organizational capacity of the communities through community based organizations of the urban poor. Apart from DFID, the World Bank and SIDA also contributed to the facility created and Cities Alliance provided technical support. The main partners of the initiative are – Homeless International (implementing agency), Society for Area Promotion and Resource Centre (SPARC) and SPARC Samudaya Nirman Sahayak (SSNS) (local development partner in India). The following figure shows the operational process of CLIFF.

Figure 1 CLIFF Implementation Process



43. The ***Urban Poor Development Fund (UPDF) in Cambodia*** is another good example of fund-based mechanism to support urban poor by financing community development projects. UPDF was formed as a revolving fund through a joint venture of Phnom Penh's network of community savings groups, the Municipality of Phnom Penh and the Asian Coalition for Housing Rights (ACHR). It provides soft loans and grants to urban poor communities for their housing, welfare, income generation and other entrepreneurial initiatives as decided by the communities. The fund supports a development process that starts from people and builds working partnerships with them for long term development. *The poor communities are now better organized, have enhanced capacities to negotiate with local government, share a common vision of development.*

44. The ***Urban Community Development Fund (CDF)*** model has been working in Thailand and other Asian countries for more than 15 years and it emerged as a very powerful development mechanism to address urban poverty at a national scale. The CDF supports poor communities in organizing savings groups and improves their capacity to manage their fund or loans for community development activities. It is a mechanism that enables urban poor organizing to tap into resources directly by building up their own capacities and allows communities to decide and design various development activities. The Urban Community Development Office (UCDO), which was set up the Thai Government in 1992, was made to administer the CDF and provided with an initial capital fund of Thai Baht 1250 million (USD 35.7 million). This capital was to would provide loans to organized communities for a variety of activities like housing, land acquisition and income generation. The loans were given at lower than market rates, yet the income from loan operations was sufficient to cover organization administration costs.

45. The objective of the third ***Pakistan Poverty Alleviation Fund (PPAF)*** project is to reduce poverty of targeted poor and empower them with increased incomes, improved productive capacity, and access to services to achieve sustainable livelihoods. It helps poor people to gain access to earn an income and to develop projects aimed at improving their lives. The PPAF was created with World Bank credit and an endowment from the Government of Pakistan, The focus components are

- Social mobilization and institution building
- Livelihood enhancement and protection
- Micro credit access
- Basic services and infrastructure
- Project implementation support

46. ***Japan Fund for Poverty Reduction (JFPR)*** was established to support the Asian Development Bank's (ADB's) fight against poverty. Japan contributed about US$90 million to establish the Fund, which provides ADB's developing member countries (DMCs) with grants to support innovative poverty reduction and related social development activities that can add substantial value to ADB projects. The Fund is expected to support ADB's poverty reduction strategy, approved in November 1999, which elevates poverty reduction to the main goal of its operations. JFPR assists ADB clients to provide direct relief to the poorest and most vulnerable segments of society while building up their capacities for self-help and income generation. JFPR is an investment grant fund, financed by the Japanese Government that will significantly help ADB reach its goal of decreasing by half the proportion of poor people in Asia and the Pacific by 2015. This Fund aims to provide grants in relation to ADB's loans

to reduce poverty, and also to support capacity-building efforts. NGOs will be the main partners in implementing the approved projects.

47. ***United Nations Trust Fund (UNTF)*** project aims to strengthen the self-confidence, competence and dignity of the urban poor by reducing poverty, vulnerability and social exclusion through direct empowerment of communities and improved access to affordable basic services and better living environments. The project will also seek to foster voluntary relocation schemes that benefit poor families in a sustainable manner, while also supporting urban upgrading efforts that create employment opportunities for community members.

2.2.3 Micro-Finance Models

48. Micro-finance schemes are very popular and widely prevalent models that target low and moderate income households who do not quality for formal/ traditional credits. They may operate at smaller scale but have shown the potential to network and scale up if they are provided with adequate policy support and enabling environment. NGOs are the key actors in micro-finance funds that package small loans by mobilizing savings of the members. Loans can be given to communities or individuals for any purposes - both consumption as well as income generation. The support of Government or donor agencies or commercial banks may come in as an advantage to do on-lending to the needy communities that are outside the reach of formal credit.

49. The emergence of micro-finance is largely due to the failure or limitations of the formal sector banking and finance to reach out to the needs poor households. Although the Government of India attempted to ensure credit flow to rural poor through priority sector lending to agriculture and by mandating a good proportion of the lending by nationalized banks and their network of regional rural banks to the rural poor, the results have not been encouraging due to inherent problems of repayment of loan and high transaction costs. The emergence of Self-Help Groups (SHGs), particularly those that of women, has transformed the scenario, as they became another intermediary which would ensure supply of credit and its recovery while undertaking the record of transactions. SHGs became viable and credible channels for lending by banks/ FIs.

50. The key advantages of micro-finance lending through SHGs are:

- it enables low and moderate income households to improve their living conditions e.g., housing and other basic services, as well as income generation

- it increases the productivity and efficiency of construction i.e., in the absence of complementary inputs, households' stocks of building materials often deteriorate or are diverted/ stolen
- loans permit households to save, invest and use assets more efficiently
- monitoring and accountability are built into organization/ group

51. While community based micro-financing models have been widely prevalent in various parts of India, a big impact has been made by the Bangladesh Grameen Bank that showed the way to several such financial institutions in South Asia e.g., BASIX. Private micro-financing enterprises/ agencies have also been picking up well in the recent past by offering a variety of loan products to the poor communities and individuals. They have been able to re-finance these loans to formal market lenders at a premium through the packaging/ bundling of loan products. SKS Microfinance, one of the very successful micro-finance enterprises, had gone for the issue of equities to general public and raised a good amount of equity capital, based on its credentials in the recent past.

2.3 FINANCING FRAMEWORK FOR URBAN POVERTY REDUCTION

52. Even though urban poverty is a larger problem that requires institutions, finances and mechanisms operational at levels/tiers of government, addressing it through these systems is not given specific attention. The 74th Constitutional Amendment Act, 1992 categorized 'urban poverty alleviation' as an Urban Local Body (ULB) function, but it failed to provide for adequate finances to meet the challenges through devolution of funds to ULBs. The ULBs are largely institutions of State government, and dependent on it in terms of financial position as well as technical capacity; the initiatives of State governments influence their functioning to a good extent. Larger changes towards making 'autonomous bodies of local self-government' would require some sweeping changes in the technical and financial capacity of the ULBs.

53. The problems of municipal finances are well known and they were revisited in an assessment framework in the RBI-DRG (2007) Report. While the development agencies complain that there is a poor absorption capacity for utilizing funds by ULBs due to the lack of technical and financial capacity, it is also a matter of fact that there is unanimity on the imperatives of urban fiscal reform. These include: revenue improvement and management, expenditure management and controls, financial accounting and budgeting, fiscal autonomy and transfer, capital investment planning, debt financing and market borrowing.

54. Currently, all government-led urban poverty alleviation programmes are financed as either plan allocation to the states (or their nodal agencies) or through direct market borrowing by the local bodies. A review reveals that the programme performance depends on how competently the states and their instrumentalities access, manage and facilitate debt financing, both at the macro and micro levels (ADB 2009). Experience suggests that the lack of support from financial institutions has constrained the absorption of markets funds for poverty reduction initiatives, even though a larger percentage of low income households are willing to access market funds. Similarly, project design and development capacity constraints limit the loan absorption capacities of ULBs, thereby leading to the lack of demand for project finance.

55. Further, most of the central assistance to States, other than plan grants, is structured as loan and grant mix in the ration of 70:30 (ADB 2009). The central government provides these funds from a central pool of resources created through multilateral and bilateral agencies and other market borrowing. The cost of funds is a concern for the states in financing poverty reduction programmes, where the returns are spread thinly over longer time periods. Programme performance can improve if the ULBs have flexibility to use a blend of own resources, loans and fiscal transfers together with such assistance. Also, innovative financing mechanisms are required for capacity building/ enhancing efforts of ULBs and their personnel.

56. While strong ULBs are encouraged to access market funds to finance urban poverty reduction programmes through a combination of cost-recovery and cross-subsidisation strategies, institutionally and financially weak local bodies need both financial and technical assistance (including project development capacity). Efforts at reducing urban poverty therefore require a combination of growth and distribution strategies as well as a judicious mix of grant and market-based financing arrangements. Besides, there is a need to develop community institutions at various levels of governance and improve the capacities of various stakeholders to design, implement and monitor community development projects, so that the benefits reach the needy poor.

57. It is recognized that designing suitable financial mechanism to take care of the needs of the urban poor while ensuring adequate cost recover to meet the recurring expenses is much more challenging. The cost and terms of funds, and the institutional flexibility to determine the structure and form of funding mechanisms are critical concerns. A pro-poor financing mechanism should include provision for ‘revolving funds’ based on the demand principle, local capacity building vehicle for process and project management, and risk mitigation channels for providing for financial losses and safety

nets (ADB 2009). This requires the prevailing covenants governing banking loans and regulatory structures such as loan underwriting guidelines and prudential norms re restrictive and require amendment. Developing a community fund to link community development societies with financial institutions is one such alternate funding mechanism.

58. Broadly, a financing framework for poverty reduction should be based on the following tenets (ADB 2009):

- *First*, improving market based linkages of the urban poor for
  (a) micro-credit,
  (b) social and economic infrastructure
  (c) micro-enterprises, and
  (d) shelter
- *Second*, improving the affordability of financial intermediation by reforming the legal and regulatory systems, both at the state and local levels
- *Third*, enhancing institutional and financial sustainability of poverty reduction programmes through:
  (a) community based lending and savings initiatives
  (b) leveraging internal resources and budgetary funds
  (c) building partnerships between stakeholders, and
  (d) enhancing community empowerment
- *Fourth*, rationalizing subsidies in order to
  (a) increase borrower options
  (b) co-financing community infrastructure, and
  (c) stimulate household savings and investments
- *Fifth*, encourage participatory approaches to:
  (a) attract private investments
  (b) reduce service delivery and transaction costs
  (c) build consensus among various stakeholders, and
  (d) strengthen their capacities to identify and implement sub-projects.

3. FUNDING REQUIREMENTS OF BASIC URBAN SERVICES & BSUP FUND

3.1 FUNDING REQUIREMENTS OF URBAN SERVICES

59. Urban Services connote different meaning to different people in different contexts. It primarily includes infrastructure and other services required in a city from habitability point of view. Even the word 'infrastructure services' has different definitions. The India Infrastructure Report 2001 (also known as Rakesh Mohan Committee Report), broadly defines infrastructure as - the physical framework through which goods and services are provided to the public. While the broader categories of infrastructure include power, telecommunications, ports, highways and urban infrastructure, 'urban infrastructure' would cover:

(a) *utility infrastructure* like water supply, sewerage, drainage, solid waste management, street lighting, roads, bridges, flyovers and other transportation infrastructure

(b) *economic and commercial infrastructure* like markets, shopping centres, office complexes, industrial parks, trade centres, technology parks, tourism infrastructure etc

(c) *social infrastructure* like health, education, cultural and recreational amenities, including parks, water bodies, urban forests, playgrounds, stadiums etc.

(d) *area development infrastructure* covering a range of major infrastructure facilities in new townships/growth centres.

60. An alternative perspective is to look at urban infrastructure from the functions of Urban Local Bodies (ULBs). The Constitution (74th Amendment) Act, 1992, provides an illustrative list of functions of Municipalities in the 12th Schedule, which includes (among other things):

- Roads and bridges
- Water supply for domestic, industrial and commercial purposes
- Public health, sanitation, conservancy and solid waste management
- Fire services
- Urban forestry and protection of the environment
- Slum improvement and upgradation
- Provision of urban amenities and facilities such as parks, gardens, playgrounds;
- Burials and burial grounds; cremation ghats/grounds and electric crematora
- Public amenities including street lighting, parking lots, bus stops and public conveniences

61. The funding requirements of the creation and maintenance of urban infrastructure services is very large, given the growth rate of population in urban areas, whereas the actual investments tend to fall short of requirements, leaving a large backlog. Table 3 gives some estimates of financial resource requirements for infrastructure service provision in Urban India based on national studies.

Table 3 Estimate of Resource Requirement for Urban Infrastructure

Source	**Services/Infrastructure Covered by the Report**	**Period**	**Resource Requirements (Rs Crores)**
Reserve Bank of India Development Research Group (RBI-DRG) Study	(a) Urban basic services - water supply, sanitation/ sewerage, construction of roads and paths, street lighting and solid waste management (b) Mass urban transport (c) Road infrastructure	2004-2013	6,28,210
Eleventh Plan Document	Urban water supply, sewerage & sanitation, drainage and solid waste management	2002-2007	1,27,025
India Infrastructure Report, 1996 (Rakesh Mohan Committee)	Various urban infrastructure such as capital costs as well as O&M needs	2000-2005	1,25,000
Zakaria Committee Norms (1963) updated to 1997-98	Water supply, sewerage/ sewerage disposal, storm water drainage, construction of roads and paths, street lighting and electricity distribution – O&M	2000-2005	72,099

Source: (i) RBI-DRG (2007) (ii) Government of India, Eleventh Finance Commission Report, August 2000 and (iii) Tenth Five Year Plan, Planning Commission, Government of India, 2002.

62. In addition to the infrastructure needs, Urban India also faces massive funding needs for housing. The estimates by Ninth Plan Working Group on Housing reveal that an amount of Rs 304 billion would alone be required per year to meet the needs of urban housing. Against this, only one fourth is available from the formal sector sources.

63. The past trends in budgetary allocations reveal that neither the Government of India nor the state governments have been able to channelise sizeable budgetary resources for urban infrastructure in the presence of other priorities. For example, the flow of funds under the Central Plan for urban development, in general, and urban infrastructure, in particular, has been quite small compared to the allocation for rural development. Table 3 shows the allocations made to housing and urban development sector in successive Five Year Plans. The Central and state governments have not been in a position to maintain even half of the share of plan outlay. Thus, there is no reason to believe that the budgetary allocations for urban infrastructure from central and state sources will increase substantially in the near future. Hence, there is a need to

search for innovative institutional and market sources of funds for meeting the funding needs of urban infrastructure.

Table 4 Flow of Funds for Housing and Urban Infrastructure

(Rs. in Million)

	Total Outlay	*Housing and Urban Development*	*Percentage share in Total Plan Outlay*
First Plan	20688	488	2.1
Second Plan	48000	1200	2.5
Third Plan	85765	1276	1.5
Annual Plan (1966-69)	66254	733	1.1
Fourth Plan	157788	2702	1.7
Fifth Plan	394262	11500	2.9
Annual Plan (1977-80)	121765	3688	3.0
Sixth Plan	975000	24884	2.6
Seventh Plan	1800000	42295	2.3
Annual Plan (1990-92)	1338350	3001	2.2
Eighth Plan	4341000	105000	2.4
Ninth Plan	8592000	134622	1.6
Tenth Plan	8931830	121680	1.4

Source: Ministry of Urban Development & Poverty Alleviation, Government of India

64. Private investment flows have been taking place in major infrastructure projects that have strategic economic importance like highways, power generation, telecommunications and airports in the form of BOT, BOOT and BOLT models. However, in case of urban local infrastructure like water supply and sanitation, improvement of local road network, storm water drainage, solid waste management, street lighting, etc., private investment is not forthcoming on account of the following:

- It is difficult to projectise individual infrastructure investment in the form of separately identifiable cost and revenue streams (e.g., investments in storm water drainage);
- It is also not possible to charge user fees for certain types of infrastructure due to their non-exclusive nature and the fact that the measurement of services to beneficiaries is difficult;
- Equity considerations often call for subsidies, and therefore public support, for provision of basic services like water supply and sanitation. These services are closely linked to basic public health and safety considerations and non-provision to certain sections affects the entire population.

65. Nevertheless, borrowing is important for financing local urban infrastructure since large capital investments are required to be made in a relatively short period of time, the benefits of which are, however, derived over a long period. Long term municipal bonds have, therefore, been used in the United States for financing municipal infrastructure. However, in developing countries like India, the largest part of infrastructure finance is provided by central and state governments. The central government makes direct investments in urban infrastructure as well as provides project-specific grants to state and local governments under plan and non-plan

schemes. These projects may come under centrally-sponsored schemes or schemes of state governments. Some of the schemes under Government of India include:

- Integrated Development of Small and Medium Towns (IDSMT)
- Mega city scheme
- Schemes for the National Capital Region Planning Board (NCRPB)
- Accelerated Urban Water Supply Programme
- Low Cost Sanitation Scheme
- Urban Transport

66. The state governments and their local bodies are required to make provision for basic urban infrastructure and civic services such as water supply, sewerage, drainage, solid waste management, street lighting, and road transport facilities. In majority of the states, the state governments themselves undertake the provision of urban infrastructure through their public health and engineering departments. In some states, the governments undertake capital investments through statutory boards, leaving the local governments to discharge only the operation and maintenance functions. In general, most civic infrastructure and services have been provided by pooling multiple resources; revenues from the state and local governments have been augmented by the funds transferred from the central ministries, including external sources.

67. This model of finance has never been fully satisfactory, as attested by the large (and growing) infrastructure deficits in cities and towns. The main constraints to the flow of funds into the urban services are institutional. Local authorities and parastatals suffer from weak financial management and lack of technical capabilities in areas like structuring of financial instruments, implementation of projects and recovering of costs through direct and indirect methods. Although there have been some instances of borrowing by the issue of debt instruments by selected Municipal Corporations, they have largely been confined to government-guaranteed borrowings from institutional sources. Due to weak secondary market for such debt instruments, the response of the investing community to make resources available for urban sector projects on a large scale is likely to be lukewarm, at least for the present. However, in the long term, the local authorities will need to tap the sources of institutional finance more effectively. They will also need to access the vast pool of capital market finance through instruments. For commercial lending to the urban sector to occur on a significant scale, borrowers must become creditworthy for which there has to be substantial reform.

68. A clear need thus arises for examining alternate mechanisms of urban infrastructure financing and arrangements that can sustain the infrastructure investment needed to support urban development in the long run. Some of the options that have been

identified and are widely debated include self-financing through tax reforms, user fees, use of land as a resource including the tapping of land value gains, direct borrowing and borrowing based on the mechanism of institutional intermediation. The intermediation approach rests on the foundation that smaller municipal entities may find it difficult to borrow directly from the market at a lower interest rate while a strategically placed and well-structured financial intermediary would be in a position to do so on their behalf by pooling risks and ensuring commercial operations. Successful borrowing through intermediaries for urban infrastructure would serve the following objectives:

- Supply of funds to small local bodies at low interest rates;
- Commercialisation of urban infrastructure projects;
- Development of strengthened and creditworthy local entities;
- Improvements in local accounting and disclosure practices;
- Efficient and effective creation of urban infrastructure;
- Expanded delivery of urban basic services;
- Structuring of appropriate debt instruments backed by credit enhancement mechanisms, ultimately leading to the emergence of municipal bonds as a major source for urban infrastructure financing; and
- Development of local credit institutions providing full access to the capital markets to serve the needs of the urban sector.

69. Financial intermediation can take the form of a variety of institutional and financial arrangements to ensure that local authorities have access to medium-term and long-term credit for their capital investment requirements. Most countries in Western Europe and Japan have well-established financial institutions catering to local government needs while the experience of developing countries is more recent. More than 50 countries in the developing world have set up credit intermediaries in the form of specialised institutions or municipal fund arrangements to overcome the constraints posed by the needs of local infrastructure investments [Peterson (2000)].

70. In India too, some successful experiments of financial intermediation for urban infrastructure have emerged. These include[1]:

a. Tamil Nadu Urban Development Fund (TNUDF)
b. Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO)
c. Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC)
d. Andhra Pradesh Urban Finance and Infrastructure Development Corporation (APUFIDC)
e. Rajasthan Urban Finance and Infrastructure Development Corporation (RUFIDCO)
f. Madhya Pradesh Urban Finance and Infrastructure Development Corporation (MPUFIDC).

[1] The details of some of the above institutional finance models have been provided in the Annexure of report.

3.2 FUNDING REQUIREMENT OF BASIC SERVICES TO URBAN POOR (BSUP)[2]

71. Whereas the estimates of funding requirements of infrastructure services in general and that of urban infrastructure services in particular are readily available for reference and have been estimated from time to time, similar estimates of funding requirements for the provision of infrastructure services to the urban poor are neither readily available nor estimated at any periodicity even at macro level. Therefore, an attempt is made hereunder to estimate the funding requirement of providing basic urban services to the urban poor, which also forms the basis for estimating the corpus of BSUP Fund.

72. Based on the projected urban population for the year 2011 and using various unit costs or available estimates, it is estimated that a total of Rs 341,332 Crores (excluding the requirements of project development fund) may be used as broad funding requirement for select components of urban poverty alleviation in India. The service-wise breakup of this estimate of resource requirement together with method of estimation used is presented below.

(a) Housing for the Urban Poor[3]:

73. As per the 'India Urban Poverty Report 2009' published by MoHUPA in partnership with UNDP, the urban population of India by the year 2011 has been estimated at 357.8 million. About 89.45 million urban population constitute urban poor (assuming 25 percent of the urban population as urban poor, as estimated under BPL surveys of 2004-05). The housing requirement of urban poor in India by the year 2011 is estimated at 17.89 million dwelling units, while assuming a household size of five and all urban poor face housing shortage.

74. It may be noted that there is an increase of four million urban poor each year. The average unit cost of each dwelling unit for the urban poor is estimated at Rs 1,56,900[4]. Therefore, the total estimated resource requirements to meet the cost of housing urban poor in India works out to about Rs 280,690 Crores for the year 2011. This estimate does not take into account for the backlog of housing of the urban poor.

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[2] *These are ball park figures of broad estimate of financial requirements.*

[3] *The resource estimates of housing urban poor do not include the cost of urban land, which is highly variant across cities. It is assumed that in-situ housing is developed and that the land is provided by the Government in case of relocation, where in-situ housing is not possible*

[4] *This is based on the averaged estimated cost of dwelling units for urban poor of plinth area varying between 225 sft – 275 sft in three cities namely Vadodara, Mumbai and Faridabad as reported by Mahadevia (2009) in India Urban Poverty Report 2009*

(b) Protected Drinking Water Supply for the Urban Poor:

75. As per the 54th round of National Sample Survey, about 70% urban households have access to tap water. However, the majority of the remaining 30% could be from the urban poor. Assuming about 75% of the urban poor do not have access to safe drinking water/ piped water supply within their premises, and based on the estimates of urban poor for the year 2011 made earlier, about 13.4 million urban poor households will require new connection/ access to safe drinking water. If the unit cost of providing access to water supply is assumed at Rs 2,000 per household (which is a subsidized rate for BPL families), the estimated amount of finances for water supply service to urban poor works out to Rs 26,835 Crores.

76. Also, the 11th five year plan estimated Rs 53,666 Crores required for providing access to safe drinking water supply to 100% urban population. Though the urban population is 25 percent of the total urban population, majority of the above requirement is by the urban poor. Assuring 60% of the estimate is for the water supply in urban areas and further assuming 90 percent of it is for the urban poor, Rs 28,980 Crores may be the funds required for water supply to urban poor. As an average of the two estimates, about Rs 27, 907 Crores is required for providing water supply to urban poor.

(c) Sanitation/ Toilet Facilities for the Urban Poor:

77. It is estimated that about 75 percent of the urban poor do not have access to toilet/ sanitation, and often resort to open defecation resulting in unhygienic and unsanitary conditions. Accordingly, about 13.4 million households of urban poor need sanitation facilities. Assuming an average unit cost of Rs 10,000 per household for construction of toilet facility, an estimate of Rs 13,417 Crores of funds are required for attaining zero open defecation of urban poor in India for the year 2011.

(d) Urban Sewerage and Sewerage Treatment:

78. As per the estimates of 11th five year plan, about Rs 53,168 Crores is required to achieve 100% underground sewerage system in urban India. As more than 90% of the population in cities/ towns do not have sewerage system coverage in India, the whole amount is required for reaching target. The proportionate share of the urban poor (at 25% as per BPL survey of 2004-05) works out to Rs 13,292 Crores, which is the broad fund requirement for bringing the urban poor under sewerage system coverage.

(e) Skill Development for Livelihood Improvement:

79. About 27 percent of the India population falls in the age group of 25-44, the potential age seeking livelihoods and improvements. Accordingly, out of the estimated urban poor population of 89.45 million by 2011, about 24.15 million urban poor would fall within the age group of 25 – 44 (27% of urban poor). On an average, about half of this population would require skill development[5] i.e. about 12 million. Assuming fifteen

[5] Skill development has three broad categories: (a) Skill Development (b) Skill Improvement (c) Skill Change

days of skill development programme, on an average, for each individual at the rate of Rs. 5000/- per person, a corpus of Rs 6,000 Crores is required.

(f) Capacity Building for Poverty Reduction:

80. There are about 5000 ULBs in India. Out of these, 63 are JNNURM mission cities, 380 are class I towns, 496 are class II towns and the remaining 4000 plus are Class III and below towns. Assuming ten persons per ULB (that includes municipal administrative and political functionaries and civil societies), a total of 50,000 personnel would participate in the capacity building programme for poverty reduction. A two day programme/ workshop per person would require a corpus of about Rs 25 Crores[6]. Apart from the above, a two day national level workshop on poverty reduction for civil servants representing states (2 officials for each state representing 29 states) would require a corpus of about Rs 15 lakhs.

(g) Project Development and Management on PPP:

81. Eleventh five year plan focuses on private sector participation in delivering basic civic services aimed at improved efficiency. Project development process and project structuring are key to attract private sector investments. Hence, project development and management is identified as one of the key areas under the BSUP Fund. Five percent of the infrastructure development costs towards basic amenities (like water supply and sanitation) and other urban infrastructure like parks, playgrounds, leisure and entertainment, etc. may be allocated under this head. The projects would be structured taking the poor into consideration.

3.3 SETTING UP BSUP FUND - RATIONALE

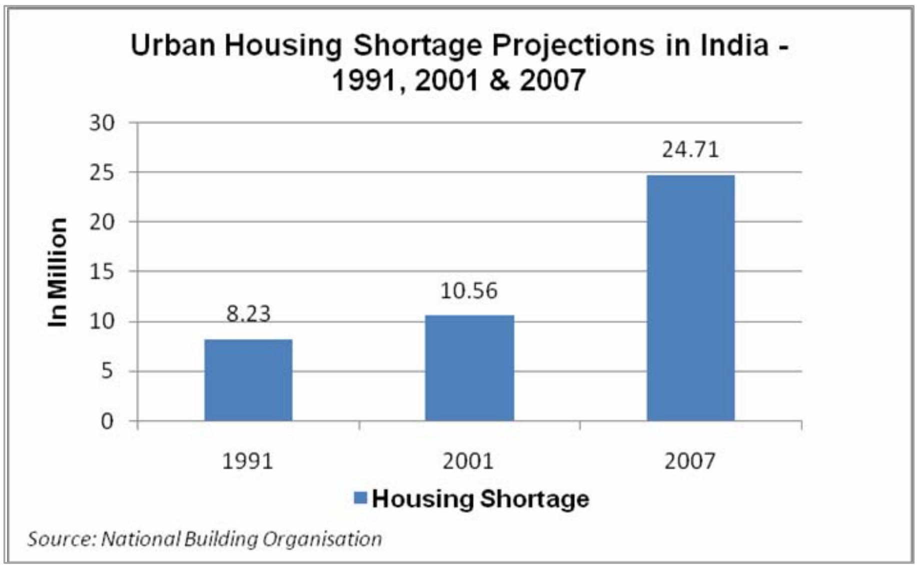
82. Whereas, the various poverty alleviation programmes resulted in gradual and consistent reduction of poverty (both rural and urban) in India, the population below the poverty line (BPL) increased from 76.34 million in the year 1993-94 to 80.78 million in 2004-05though there was a reduction in its proportion of total population from 32.36% to 28.3% during this period. These measures of poverty are based only on the household economic needs of minimum calorie intake vis-à-vis household income. However, poverty is increasingly viewed as multi dimensional in nature with reference to deprivation on account of shelter and access to basic civic services.

83. Rapid urbanization, transformation of rural areas into urban, and urbanization of poverty have all been leading to the rising needs of urban housing/ housing shortage in

[6] *This figure does not include travel costs*

urban India as shown in figure 2[7]. In order to address the huge and increasing demand for urban housing, GoI has been undertaking sector specific projects. To meet the fiscal requirements, the Government has leveraged finances from public sector banks, established government institutions like HUDCO and fiscal support from donor agencies under various poverty reduction initiatives. Two Million Housing Programme in Urban India was one such initiative. The programme could leverage about Rupees 50,000 Cr. from public sector banks alone during the decade from 1998 – 2008 for constructing over 1.5 million dwelling units. Urban Permanent Housing (UPH), VAMBAY, IHSDP under JNNURM are the other urban housing schemes of GoI.

Figure 2 Urban Housing Shortage in India



84. While estimating the financial resource requirements of housing and basic urban services, it was rather evident that the service deficits/gaps were very large to the urban poor, and any attempts to filling them through relevant projects and programmes would require a good amount of financial resources to be dispensed. The service coverage targets for urban poor need to be laid down, which would be attained over a period of time.

[7] It is mentioned in the 11th planning commission report that 99 percent of the 24.71 million housing shortage is from EWS and Low Income Groups – means urban poor. On the other hand, the total urban poor population as per 2004-05 BPL survey is 80.79 million that works out to be about 16.15 million households (assumed average five persons per family) which is far less than the total housing requirement of 24.46 million houses. Hence, considering the above, it may be rational to take total urban poor into consideration in estimating the urban housing requirement.

85. Table 5 gives an illustration of the targeted status of basic urban services.

Table 5 Basic service provision parameters and targets

Water supply (per cent)			*Sanitation (per cent)*		
Item	2010	2015	Item	2010	2015
Coverage	75	100	Coverage	80	
Access	75	100	Access	60	
Supply (hrs/day)	12	24	Treatment & disposal	50	
Quantity (lpcd)	160	160	Recycling	30	
Non-revenue water	30	30	Cost recovery	80	
Cost recovery	80	80			
Solid Waste Management (%)			*Storm Water Drainage (%)*		
Item	2010	2015	Item	2010	2015
Door to door collection	100	100	Coverage	80	100
Source segregation	30	100	Total network area	50	100
Treatment & Disposal	85	100	Canal reclamation	75	100
Cost recovery	50	100	Roadside drainage	75	100
Private sector participation	50	100			

Source: India Urban Poverty Report 2009

86. Given the magnitude of increasing number of urban poor without access to basic civic services and urban housing, it is contemplated to set up the BSUP Fund to provide dedicated fiscal support mechanism to accelerate the urban poverty alleviation. It is through the funding to be made available under the BSUP Fund to various specific initiatives of service provision that the urban service targets outlined above can be met over a period of time. In the next chapter, the proposed framework of the BSUP Fund is discussed and then the operational plan as well as implementation arrangements for the same.

4. BSUP FUND – PROPOSED FRAMEWORK

87. The BSUP Fund would target the urban poor and primarily strive towards provision of basic civic services as a means of urban poverty alleviation. It may play the role of a central umbrella fund that disburses the funds to the state agencies, which will in turn disburse to Urban Local Bodies (ULBs) as well as Special Purpose Vehicles (SPVs) formed in partnership with or supported by State Governments for undertaking urban poverty alleviation programmes/ projects by bringing in private sector participation – private investments, technologies, efficiency and performance.

88. Drawing from the assessment of various urban poverty alleviation funds and urban infrastructure services funds, based on the guidelines provided by the Ministry and in consultations with various stakeholders, the following framework may be considered appropriate in structuring the proposed BSUP Fund to target urban poverty alleviation in an efficient and sustainable manner. The proposed framework of BSUP Fund with the Objectives, Focus Areas, Fund Structure, Target Groups and Regions, Corpus Requirements, Disbursement Mechanism, etc. are presented below.

4.1 BSUP FUND - OBJECTIVES

89. The BSUP Fund has been conceived to meet the huge fiscal needs of urban poor towards housing, basic services for the urban poor, capacity building of local authorities and political functionaries, civic societies and skill development requirements towards urban poverty alleviation in India. BSUP Fund is envisioned as an instrument that would:

(a) Funding for improved access to urban basic services for the urban poor
(b) Provide long term capital to the projects aimed at urban basic services to the urban poor
(c) Catalyze formulation and implementation of poverty reduction strategies by the State and City Governments
(d) To mobilize the funds of national, state and local governments as well as other agencies towards urban poverty alleviation
(e) To leverage private sector financing for providing basic urban services to the urban poor
(f) Provide support to entities involved in this sector and increase their implementation capacities.

90. The BSUP Fund may consider a blend of grant/concessional and commercial funding to meet the varied funding requirement of such projects during different stages of development and implementation. The BSUP Fund's approach to project financing coupled with its technical and institutional capabilities, would enable it to address the above mentioned issues inherent in the urban poverty sector.

4.2 BSUP FUND - TARGET GROUPS

91. The BSUP Fund can have maximum impact in financing urban basic services the poor projects that fall within the purview of certain target groups. It is proposed that BSUP Fund specifically support:

- State Government/ Parastatal Agencies concerned
- Urban Local Bodies (ULBs)
- Non Governmental Organizations working for improved urban basic services to the Poor
- Urban Poor Communities in their efforts to improve urban basic services.

4.3 BSUP FUND – FOCUS AREAS

92. The focus areas of the Fund to address urban poverty alleviation in India would be:

i. Public/Social Housing
ii. Basic Civic Infrastructure – Water Supply, Sanitation, Sewerage, etc.
iii. Project Development and Management for promoting Public Private Partnerships
iv. Capacity Building of civic and political functionaries
v. Skill Development for Livelihood Improvement of the urban poor

93. It is equally important to have efficient systems and institutional arrangements in place to address the core issues of poverty on a sustainable basis. Capacity building for improved Project Management & Governance may also be identified as the key component under this fund. Public Private Partnership is recognized as one of the key instruments for achieving sustained poverty reduction. Bringing in expertise, finance,

technology and performance from private sector for poverty eradication programmes like affordable housing, etc. may be considered as one of the focus areas of the Fund.

4.4 BSUP FUND APPROACH

94. The Fund would seek to achieve its objectives by adopting the following approach:

(a) Funding Support: BSUP Fund would provide a mix of funding for supporting projects and initiatives proposed by the target groups that meet Fund's focus areas.

(b) Capacity Building: The Fund would serve as a mentor to strengthen skills at institutions and intermediaries by offering education and training. It will function as an arranger of funds when projects/programmes will fall within its scope of activities.

(c) Project Development: To the required extent, the BSUP Fund would also provide financing for project development activities for projects falling under its purview.

95. Towards improving the competitiveness of the states for attaining improved focus on urban poverty alleviation, the States and cities may be made eligible under the 'BSUP Fund' subject to the fulfillment of the following criteria

i. State level policy for achieving 'Slum Free Cities' and strategy for urban poverty reduction
ii. An action plan to achieve 'Housing and Basic Services for All of the Urban Poor' including leveraging of resources
iii. State/ City level policy framework/ guidelines for 'Beneficiary Identification' through a participatory mechanism at the community level that is transparent and inclusive.

4.5 BSUP FUND – CONTRIBUTORS

96. The Fund would provide credit for the projects aimed at providing basic services to urban poor falling under focus areas defined above in the form of long term soft loans of 20 years and above. The corpus of the Fund would be

- Initial equity capital contributions by the Government of India

- Loans taken from multilateral agencies and financial institutions such as the World Bank, Asian Development Bank, National Housing Bank, India Infrastructure Finance Corporation Limited, etc.
- Donor countries, bilateral, NGOs and corporates working on urban poverty alleviation could also be targeted as potential contributors.

97. It is envisaged that over time, the objectives of the Fund would evolve and therefore certain flexibility will need to be maintained to address the changing needs of the hour. Therefore contributions to the Fund would be structured in the form of investments in specific Units issued by it to expand its Contributor base as it evolves.

98. The BSUP Fund can leverage funding available from international donors and developmental agencies that have been supporting multiple poverty programmes at the national, state and city level. Andhra Pradesh Urban Services for the Poor (APUSP) and Kolkata Urban Services for the Poor (KUSP) of DFID, Water and Sanitation sector initiatives supported by WSP-SA of World Bank, Capacity building of city functionaries, political representatives and other key stakeholders by the World Bank Institute (WBI) are few such examples.

4.6 BSUP FUND - CORPUS REQUIREMENTS[8]

99. Based on the projected urban population and urban poor for the year 2011, a total of Rs 341,332 Crores (excluding project development fund) is estimated as broad requirements for the select components of basic services and urban poverty alleviation in India. The detailed workout of the estimate was already presented in earlier Chapter.

100. The below outlined potential features of the Fund may be recommended:

(a) Target Size: Rs 342 000 Crores

(b) Initial Contributor: GoI and multilateral agencies and private sector.

(c) Investment/ Asset Manager: Outsourced, to be decided

(e) Fund Tenor : 20 – 25 years

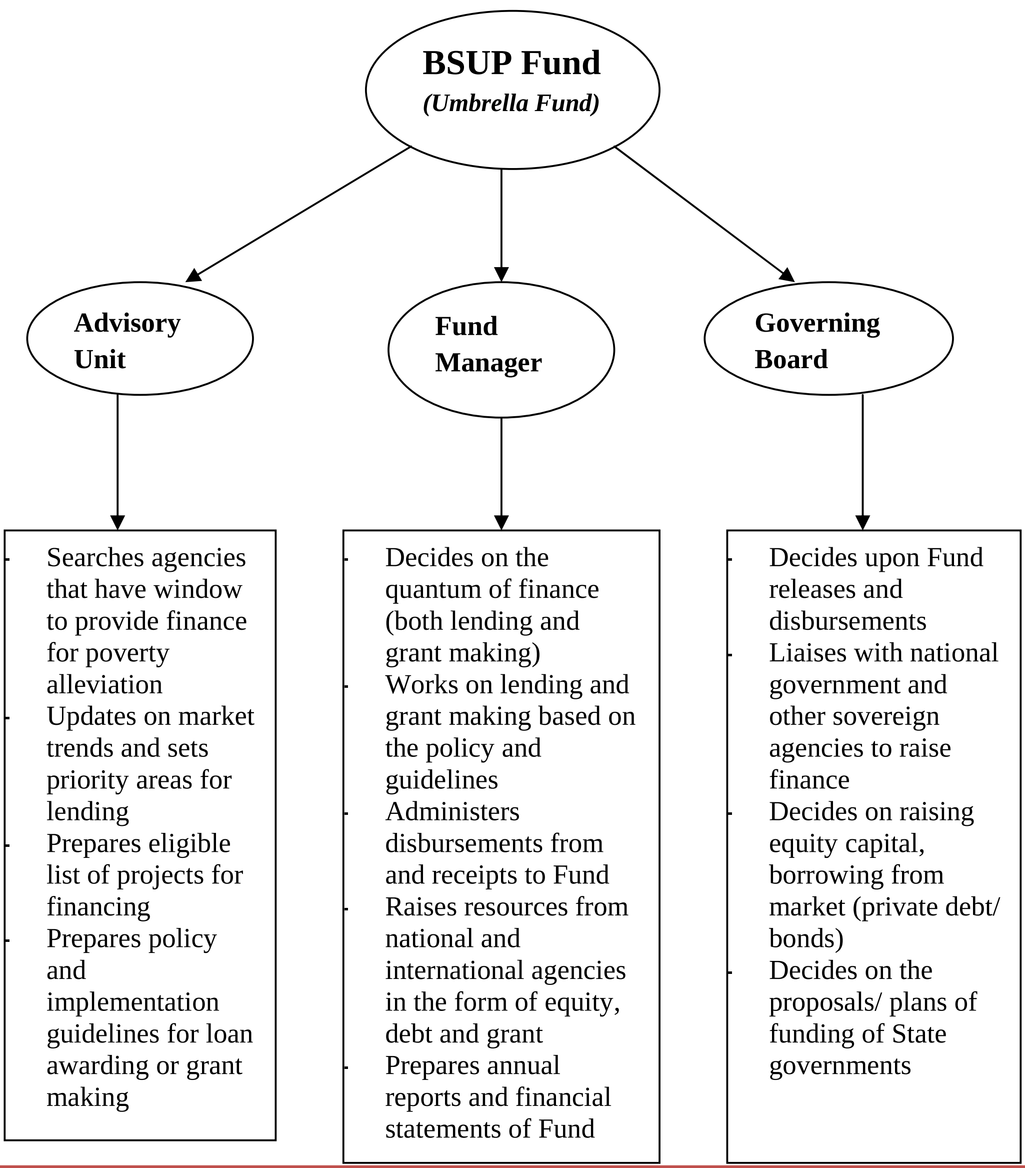
(g) Contributions : The Fund would invite contributions from domestic and international institutions, GoI and private sector.

[8] *These are only ball park figures/ broad corpus requirements.*

4.7 BSUP FUND MANAGEMENT

101. The BSUP Fund shall be managed by a Fund Manager, which may be set up separately with a team of professionals well versed with the sector. As the primary objective of the Fund is to provide long term finance on favourable terms to State governments, Parastatals and ULBs, the day to day operations and asset management pertaining to disbursements may be left to a Fund Manager which may be a major competent public/private/joint sector institution acting as asset manager of large assets for several years. Figure 3 shows the proposed fund management structure.

Figure 3 BSUP Fund Management Structure



102. The project appraisals and other related technicalities required for disbursement could be outsourced to private sector, as it deems fit, or a separate Advisory Unit may be set up for taking care of this function. The Advisory Unit may also work on establishing working relationships with State governments and international agencies. The nodal agency for the funding arrangement and the disbursement mechanism established under JNNURM may be considered for the BSUP Fund.

4.8 BSUP FUND GOVERNANCE

103. BSUP Fund may be set-up as a Trust Fund governed by a Board with members representing the Central Government, and Equity participating Public and Private Institutions. Fund management may be left to any major financial institutions acting as asset managers of large assets for several years. The said asset managers would be selected both from public and private domain through a transparent mechanism based on their competencies.

104. To have an efficient management system, the Fund shall have an exclusive institutional set up at national level. The Fund will review and scrutiny all proposals received to ensure that they contribute to poverty reduction to the maximum and the best possible level. The project funding proposals may also be subject to the social and environmental appraisals, before they are approved. The Fund shall employ the best accounting and audit systems – computerized accrual based accounting mechanism.

105. The city/ town level project proposals prepared by the ULBs and/ or the SPVs shall be appraised by the ‘State Level Nodal Agencies (SLNA)’ of JNNURM, or Special Poverty Alleviation Missions (SPAM) set up by some State government. Further, the SLNA/SPAM shall forward the appraised proposals to the Central Committee on BSUP Fund for further process.

4.9 BSUP FUND IMPLEMENTATION DESIGN – THREE TIER STRUCTURE

106. A three tier structured framework proposed (shown in Figure 4) may be considered in the design of the BSUP Fund. The Fund would be formulated at the National Level, State Level and City Level with the following framework.

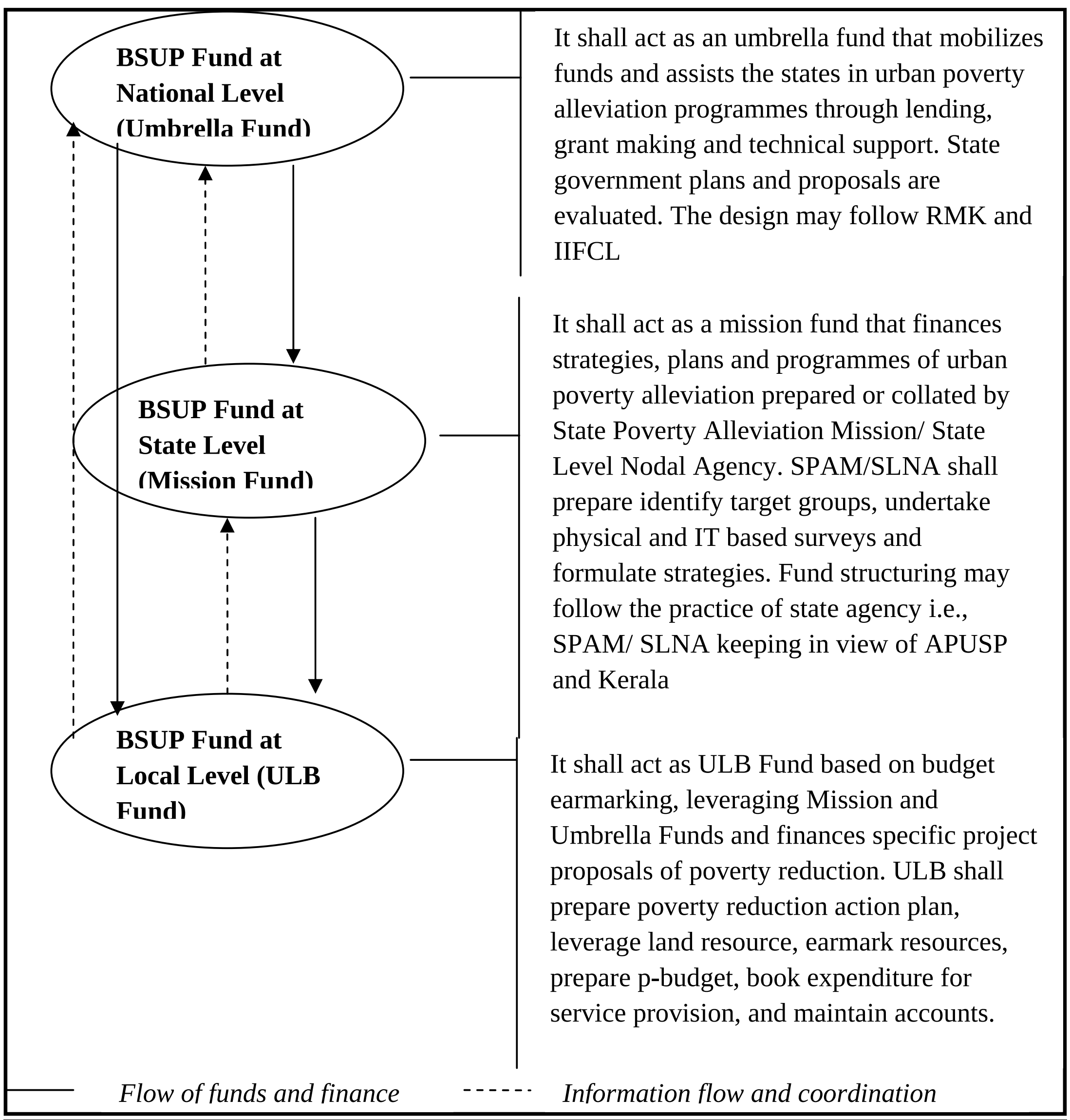
(a) The BSUP fund at national level may provide financial support of up to 80 percent of project cost identified and sanctioned under the poverty sector.

(b) The State Government may contribute 10 to 15 percent as its share.

(c) The City Government/ ULBs will have to contribute the remaining 5 to 10 percent of funds to the poverty programmes/ projects identified and proposed.

(d) If an SPV/ private sector is the implementing agency of a particular poverty programme, then the share of ULB along with that of the State and Central Governments' to the extent possible (based on the commercial viability of the project) will be absorbed by the SPV/ Private sector. In such a scenario, the share from the BSUP Fund will be towards viability gap funding of the project.

Figure 4 Three-tiered structure of BSUP Fund



(a) *BSUP Fund at National/ GoI level*

107. The BSUP Fund at the National Level may be constituted with Equity Capital contribution from GoI and from Public Sector Financial Institutions such as

- India Infrastructure Finance Corporation Limited (IIFCL)
- National Housing Bank (NHB)

108. The above equity capital of the BSUP Fund can be used to leverage funds flow in the form grants/ loans from:

- International development agencies World Bank, ADB, JBIC, IMF, etc.
- International donor agencies DFID, Ford Foundation, USAID, EU, etc.
- International assistance agencies UNDP, UNESCO, UNICEF, ESCAP, etc.
- Public charitable trusts - Melinda Gates Foundation, Bill Clinton Foundation

109. The BSUP Fund at the national level can further access funds as Debt Capital from long term investments held under the following sources

- Provident Funds
- Pension Funds
- Insurance funds
- Funds from Savings' investments

110. The BSUP Fund at the national level can explore the possibility of accessing funds from Private Institutions like ICICI, IDBI, HDFC, IDFC, IL&FS, etc.

(b) *BSUP Fund at State level*

111. The State level Funding mechanism will be an intermediary arrangement to represent the ULBs and their funding requirements to the BSUP Fund at the National level. This would also act as a channel for disbursement of funds from the national level Fund to the ULBs and SPVs at the city level. The repayment of the contributions made by the GoI to the extent of loan component shall be the responsibility of the State Governments on behalf of ULBs and SPVs of that State.

112. The nodal agency for the funding arrangement and the disbursement mechanism established under JNNURM may be considered for the BSUP Fund. The BSUP Fund at State level may have contributions from

- ***Land as a resource:*** Utilizing the proceeds from (i) either sale or lease or transfer or development of land, (ii) taxing of vacant urban land or peri-urban land (iii) Betterment levies, development charges and penalization
- ***Budgetary Support:*** Generating budgetary support from (i) Internal earmarking of ULB budgets (at least 25%) (ii) Earmarking of non-tax

resources e.g., advertisement fee, license fee, user charges, surcharge on tax (iii) State government budgetary support to urban poverty alleviation schemes (iv) Central government plan grants for poverty alleviation

(c) ***BSUP Fund at ULB Level***

113. The development of BSUP Fund through internal earmarking at City level has already been contemplated as a separate project and the findings from the same may be suitably implemented. Conceptually, the BSUP Fund at city level may be formed through the internal earmarking of ULB funds[9] with fund contributions coming from:

- Transfer of Revenue Surplus funds of ULB budget
- Earmarking of non-tax resources e.g., user charges/levies
- State/Central grants for poverty alleviation
- Earmarking of municipal expenditure on Basic Services to Urban Poor
- Utilizing alternate sources e.g., TDR, fees, levies & charges, Land pooling
- Levy of additional cess/ fee/ charge on various revenue sources

[9] *It is assumed that the user fee mechanism may not work in the case of the projects, as the target beneficiaries are urban poor. Therefore, repayment of borrowed funds by the ULB may be structured and met from the above said sources.*

5. BSUP FUND – IMPLEMENTATION PLAN

114. The BSUP Fund proposed to be constituted at three tiers of government – national, state and city levels - needs to be implemented almost similar to a funded urban poverty alleviation programme, which will have an elaborate implementation design in terms of the objectives, action plan, required resources and organization systems in place. The BSUP Fund shall create such an umbrella framework for undertaking and implementing urban poverty alleviation programmes aimed at the provision of basic services to urban poor, particularly to those living in slum settlements. Therefore, before discussing an implementation plan for BSUP Fund, a review of implementation plans of some major urban poverty alleviation programmes in the country is useful.

5.1 POVERTY ALLEVIATION PROGRAMME IMPLEMENTATION – A REVIEW

115. In the following sections, we will review four such major programmes[10], namely:

a. Urban Basic Services for Poor

b. Andhra Pradesh Urban Services for the Poor

c. Kudumbashree (Kerala)

d. Pro-poor Budgeting (West Bengal)

116. ***Urban Basic Services for Poor (UBSP)*** is a major urban poverty eradication programme of the Ministry of Urban Affairs and Employment that reached an estimated 10 million urban poor. A unique feature of UBSP is its participatory process of planning and action with women from poor neighbourhoods to improve health, education, environment, access to credit, and improved incomes and other basic rights for themselves and their families. It created community mobilization framework i.e., Community Based Organizations (CBOs) and their network, for effective implementation of programme. UBSP was executed under partnership between city, state and national governments as well as NGOs, CBOs and voluntary women community. The programme was financed under partnership of 60:40 between GoI and States with city or community contributions. It influenced the design of implementation of social development programmes of other donor/ funding agencies.

[10] The details of these programmes are provided in the Annexures to the Report

117. ***Andhra Pradesh Urban Services for Poor (APUSP)*** is an innovative partnership initiative of Department for International Development (DFID), UK and Government of Andhra Pradesh (GoAP), India aimed at sustained reduction of poverty and vulnerability in the State over seven year time horizon. It was undertaken with an outlay of Rs 1500 Crores with equal contribution of DFID and GoAP. APUSP provided for integrating municipal reforms, infrastructure improvement and raising community voice through respective components under the programme. It provided an operational framework for prioritizing slum settlements through 'poverty – infrastructure deficiency matrix' through Municipal Action Plan for Poverty Reduction (MAPP), the preparation of which was done in a participatory manner involving elected representatives, municipal functionaries, citizens, community organizations.

118. ***Kudumbashree*** is another poverty reduction initiative of Government of Kerala with the unique features of bottom-up planning and integrating the needs of all vulnerable groups into the programme. It is implemented after integration of all related programmes of different departments with regular annual budgetary support of the State government while using the Government of India funds for that purpose. It incorporated the targeting of poor households through prioritization based on their vulnerability, which is assessed using a simple risk index comprising nine risk indicators. The programme got strengthened after regular implementation over years.

119. ***Pro-poor Budgeting*** initiative of West Bengal is aimed at ensuring that municipal budget would incorporate and integrate all the civic service requirements of urban poor, thereby improve the quality of living of slum dwellers and urban poor. Under this initiative, primary accounting codes were given to all civic urban services and a development plan with reference to these services were to be prepared by all urban local bodies. Earmarking of the expenditure incurred on civic urban services was mandated, and municipal revenues would ensure this allocation met. An accounting codification structure was developed, which would book expenditure incurred on basic urban services to the poor based on an apportionment criteria developed.

5.2 IMPLEMENTATION PLAN OF BSUP FUND

5.2.1 BSUP Fund at National Level

120. BSUP Fund at National level shall primarily act like an umbrella fund that provides funding/ financing support to urban poverty alleviation activities of both State and urban local governments as well as registered non-government/ non-profit

organizations, charitable trusts and joint venture companies. It may follow the models of India Infrastructure Finance Corporation Limited and Rashtriya Mahila Kosh, which have been set up for financing infrastructure and micro-finance activities. The activities that may be supported by BSUP Fund include but not confined to:

a. Establishment of poverty alleviation missions by State governments
b. Urban infrastructure projects in slum/poor settlements of cities
c. Social infrastructure services in slum/poor settlements of cities
d. Livelihood/income generation programmes with city wide coverage
e. Micro-credit organizations lending towards access to civic amenities

121. While the BSUP Fund is constituted with initial equity capital contribution from Government of India, a commitment of regular financial support is required for long term sustainability of the Fund. It needs to be provided regular and recurring annual budgetary support from Government of India and participating State governments (contribution as a proportion of total budget support given to housing, urban development and poverty alleviation activities in Central and State budgets). The BSUP Fund may also be allowed to raise loans/grants from international agencies in domestic or foreign currency units without any guarantee of payment by Government, as they are offered by international agencies at a nominal rate. Besides, the BSUP Fund may raise capital from long term investments under provident funds, pension funds, insurance funds and private savings/ investments held by PSU banks.

122. The BSUP Fund may be managed by a Board of Trust headed by Chairperson, which will take decisions on behalf of Fund. The exact composition of Trust Board i.e., number and position, may be decided by the Government but it shall have representation of (a) Central government (b) State governments (c) Banks/ Financial Institutions (d) Non-profit/Non-government organizations (e) Eminent Individuals. An asset management company (AMC) is required to make decisions on various project proposals, carry out the operations of the Fund and perform all transactions.

123. While the Board of BSUP Fund may take key legal and policy decisions like lending/grant making activities and terms, the BSUP Fund may either constitute an advisory unit within it or handover to an outside agency to function as an AMC, which will undertake the activities like:

a. setting priority areas for lending and appropriate mix of lending/granting,
b. establishing eligibility criteria for each lending areas

c. inviting project proposals/ expressions of interest from eligible agencies

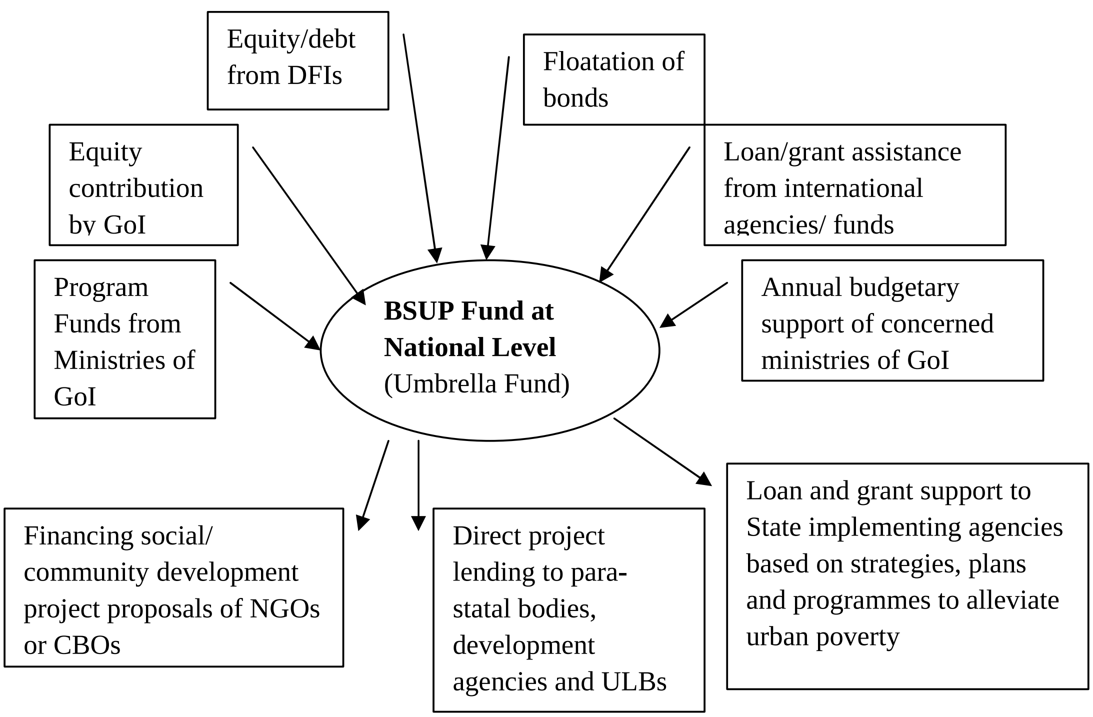
d. appraising the project plans/ proposals on technical and financial merits

e. negotiating with state and local governments or agencies

f. The financing/ funding support could be in the form of (i) loans at prime lending rates (ii) loans at subsidized lending rates (with subsidy borne by government) (iii) interest free loans of limited tenure (iv) grants with conditions (v) grants without conditions

124. The BSUP Fund may also provide/earmark some of its funds towards (a) project development activities (b) capacity building, so that the users/clients will become aware of preparing project proposals and meeting the criteria set by the BSUP Fund. Project development unit may also scout various poverty alleviation projects that have been implemented successfully and prepare an inventory or a list of projects that can be funded/ financed. The cost of project development activities may also be partly recovered from the project proposals, where it may be feasible. The capacity building unit may identify and prepare capacity development needs of the poverty alleviation missions/ organizations and facilitate through funding of the capacity development proposals through a separate funding channel. Figure 5 shows the implementation design of BSUP National Fund

Figure 5 Implementation design of BSUP National Fund



5.2.2 BSUP Fund at State Level

125. The BSUP Fund at State level may operate like an urban infrastructure development fund existing in several States, but the financial contribution to State level Fund may primarily come from national umbrella fund and from pledging of annual budgetary support from respective State government. It may also seek equity/fund contributions and loans/ grants from domestic and international finance agencies operating in urban infrastructure and poverty alleviation. The BSUP Fund at State level may also provide matching contributions or provide counterpart finance on behalf of State government in order to access aid/grants towards poverty alleviation and/or infrastructure service provision coming from national and international aid/donor agencies. Figure 6 shows the implementation design of BSUP Fund at state level.

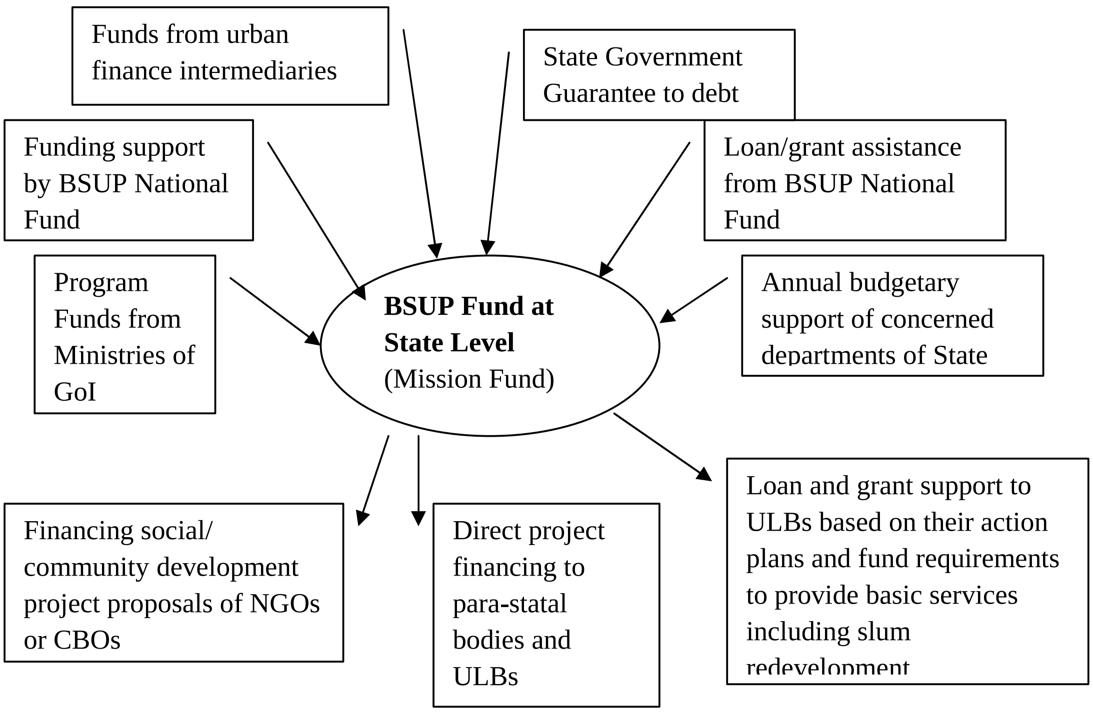
126. State governments have better understanding of their priorities and may have a strong say in the areas to be financed by the BSUP Fund in the State. The BSUP Fund may be managed by the public corporations/ financial intermediaries set up for urban infrastructure development/ finance purpose in respective States. Otherwise, the State Level Nodal Agencies of JNNURM shall become the managers of Fund. The Board of the State Financial Intermediary or State Level Nodal Agency shall take decisions with regard to funding of project proposals from Urban Local Bodies (ULBs) and non-government/ non-profit organizations including micro-credit and voluntary groups.

127. The BSUP Fund at State level will primarily act as a conduit for the flow of finances from umbrella fund at national level and State government funds (both Central and Own funds) allocated for urban poverty alleviation and related activities. It can, however, access local credit markets i.e., banks and financial institutions, for raising any loan/ debt for any contingency payments. For meeting the expenses of fund administration by the Fund manager, certain proportion of the amount to be disbursed to the ULB/NGO may be earmarked as commission/fee, which may also vary with reference to the kind of project proposed and the implementing agency.

128. The Fund Manager of the BSUP Fund has to play an important role in providing effective oversight of the projects undertaken by the ULBs and NGOs through development of various guidelines that ensure effective utilization of funds. Some of the areas where the guidelines may be issued to the ULBs include:

a. Identification/Targeting of the Urban Poor
b. Forming Action plans for Poverty Alleviation
c. Establishing principles for utilizing the BSUP Fund
d. Instituting mechanisms for accounting, budgeting and accountability

Figure 6 Implementation design of BSUP State Fund



(a) Identification of Urban Poor

<u>(i) BPL Measurement</u>

129. BPL survey has not been carried out exclusively for urban areas so far. Based on the conceptual basis provided for its measurement in rural areas in the BPL Survey 2009, a criteria has been worked out, by Mehrotra and Mander (2009), which comprises:

(a) Social Vulnerability
   a. Single women headed household
   b. Disabled bread earner
   c. Old person headed household
   d. Bread earner with HIV/AIDS, leprosy, mental illness
   e. Disabled dependent

(b) Occupational Categories
   a. rag pickers, casual daily wage workers, rickshaw pullers, porters, construction workers, street vendors, hawkers and domestic help

(c) Residential Categories
   a. Shelterless people
   b. Dwellers of unauthorized slums
   c. Dwellers of authorized slums and resettlement colonies

130. Although BPL measurement appears straight forward, it is fraught with too many political risks and interventions, and unintended or non-targeted population may be included through collusions. Even when BPL criteria are used in the identification of urban poor, it needs to be checked further with either participatory assessments or biometric assessments for better targeting.

(ii) Participatory Poverty Assessments

131. The ULBs may opt for participatory poverty assessments (PPA) to address this issue. Under PPA, the beneficiary is identified based on the relevant measures identified for carrying out the poverty assessment and carried out in the presence of local community. The original survey forms may be similar to those used in the BPL surveys i.e., list of parameters, weightages, responses and scores, but alternative approaches like the pictorial method of poverty assessment is increasingly becoming popular as it is easy to understand and user friendly in implementation.

132. Based on the poverty assessment household surveys of various slum and poorer settlement areas of the city, prioritization may be done so as to cover them in a phased manner with the first preference given to the most deserving. Poor settlements in the town are ranked in a matrix or any other method like participatory mapping. Here, the concept of vulnerability is used through a combination of poverty and infrastructure deficiency. Under the APUSP, poverty-infrastructure deficiency matrices were prepared and, based on them, the vulnerable poor settlements were prioritized to be covered. The poverty criteria included (a) BPL Population and (b) SC/ST Population, whereas the infrastructure deficiency criteria included the deficiency in terms of: (a) Water supply (b) Roads (c) Drains.

(iii) Technology based Targeting

133. The new methods of urban poor household identification that use modern Information technologies (lT) have been gaining popularity among the ULBs, as they offer technological features that prevent mis-information, fraudulent listing, history record and database, search and matching options for verification. Before undertaking such surveys and using such methods for identifying the urban poor, socio-economic surveys of household are also carried out to compare and match the data base. Utilization of such technologies is also gaining popularity in the large public programmes like food security, public distribution system and employment guarantee schemes.

(b) Urban Poverty Alleviation Strategy

134. After identifying the urban poor a medium -term strategy for poverty alleviation needs to be prepared by the ULBs. An Urban Poverty Reduction Strategy (UPRS) defines broad strategic framework for operationalising poverty alleviation in an urban area based on the understanding of development and poverty issues of a city, and upon a review of the existing programmes and institutional arrangements. The preparation of UPRS involves applying participatory/ consultative methods involving various tasks

and activities that lead to formulation of a strategy. Figure 7 outlines the process under which the execution of the UPRS is envisaged.

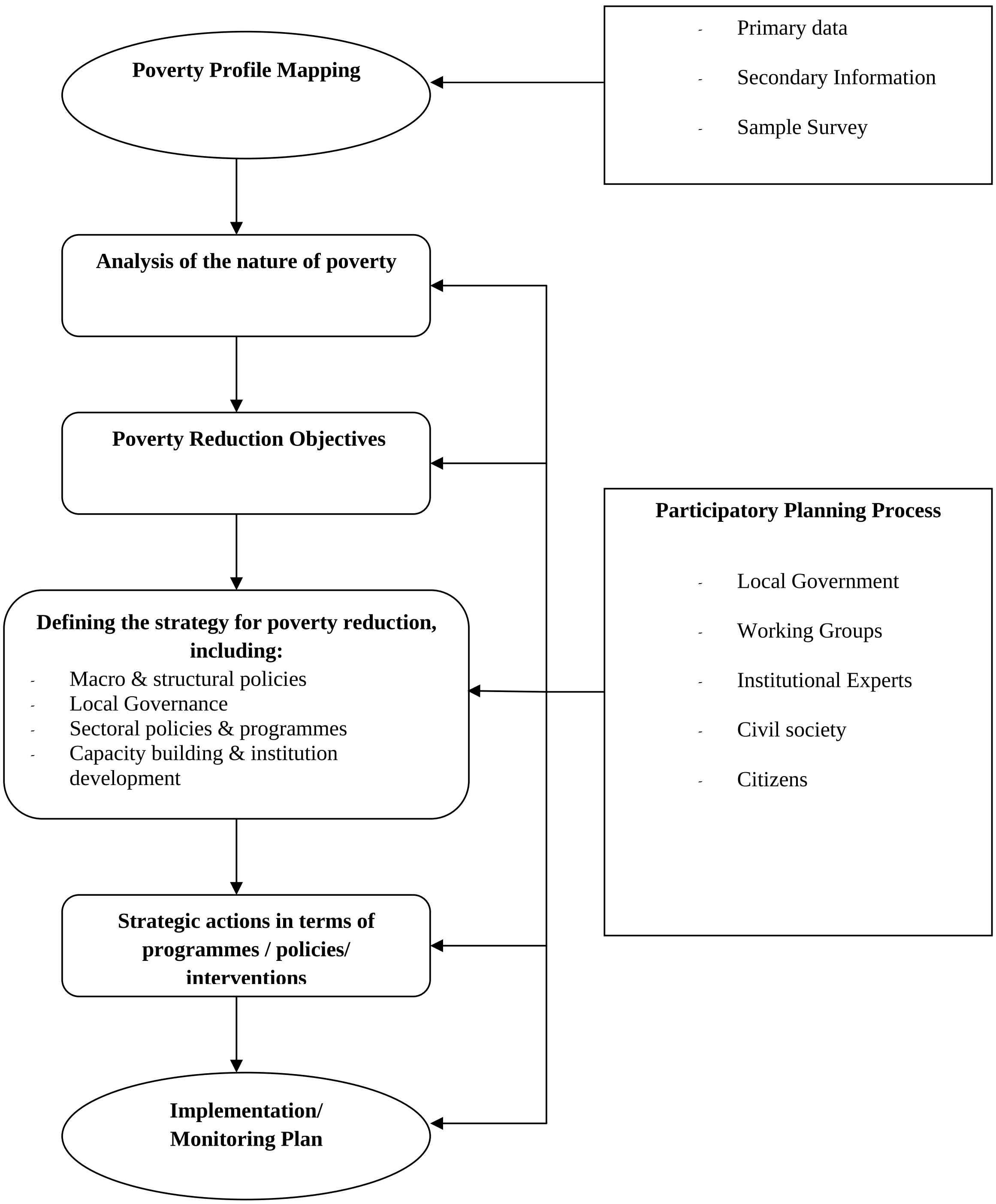


Figure 7 Urban Poverty Reduction Strategy Process

(c) Poverty Alleviation Budget

135. Poverty alleviation programmes and plans/strategies cannot be effective if the systems of implementation, monitoring, reporting and evaluation at the ULB level are not well designed. However, they also need to be well integrated with the ULB budget process so as to provide effective reflection of assessment of poverty alleviation programme needs in the ULB budget. The activity and conceptual plans under poverty alleviation strategy and action plan need to be translated into fiscal plan in terms of the expenditure needs of those activities and developments, which need to be further recast into the budget under a separate head of Poverty alleviation Budget (or P-Budget).

136. P- Budget is an approach for integrating planning and budgeting as outlined in the framework under Figure 8. Poverty reduction using pro-poor budgeting will be based on the strategy and action plan and earmarking of municipal funds.

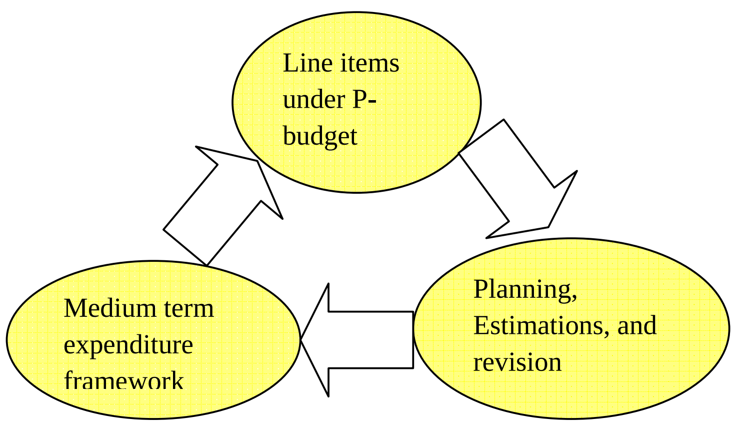


Figure 8 Integrating planning and budgeting

137. The P-Budget can be developed in two stages:

First, as Programme budget, using the Medium Term Expenditure Framework (METF) concept of budget planning based on urban poverty alleviation strategy prepared for the city, which also gives direction to the development of an annual rolling plan. The estimates made under it may be ball park figures and give a sense of financial needs over a time span varying from 3-5 or even 5-10 years.

Second, as Annual budget, using the framework of line item estimates under conventional budget process based on the urban poverty alleviation action plan, while keeping the METF in mind. The expenditure estimates may also be some kind of calculations based on the unit costs or any other thumb rules as the case may be, when detailed action plans do not prevail.

(d) Creation of Budget Heads

138. Once BSUP Fund is created, it is important to prepare a budgetary framework for utilizing resources under the Fund through annual budget. The method of poverty sub-plan preparation and preparing budget based on the poverty alleviation plan/ strategy has already been discussed. It is also important to ensure that the budget heads are created for utilizing annual allocations for spending on the urban poor from the Fund.

139. Budget heads for the transfer of earmarked funds and that of the schemes/grants subsumed may be identified and sub-heads may be created further. The guidelines laid down under the National Municipal Accounting Manual (NMAM) need to be kept in view while preparing the budget heads and sub-heads. Sub-heads may be created separately for major functions delivered by ULB viz.,

- Basic Physical Amenities
  - Housing, Water, Drainage, Sewerage, Solid Waste Management, Street Lighting, Toilets,
- Basic Social Amenities
  - Educational Facilities, Health Facilities, Welfare Institutions – Hostels, Old Age Homes etc.
- Livelihoods Facilities
  - Common Work Places, Vocational Centres, Common Facility Centres, City/Community Service Centres, Livelihoods Centres, Training Centres, Informal Sector Markets, Animal Pens etc.
- Beneficiary-oriented Programmes
  - Skill Development
  - Income Generation
  - Welfare Benefits – Old Age Pension, Widow Pension, Disabled Pension, General Insurance, Health Insurance etc.

(d) Accounting for P-Budget

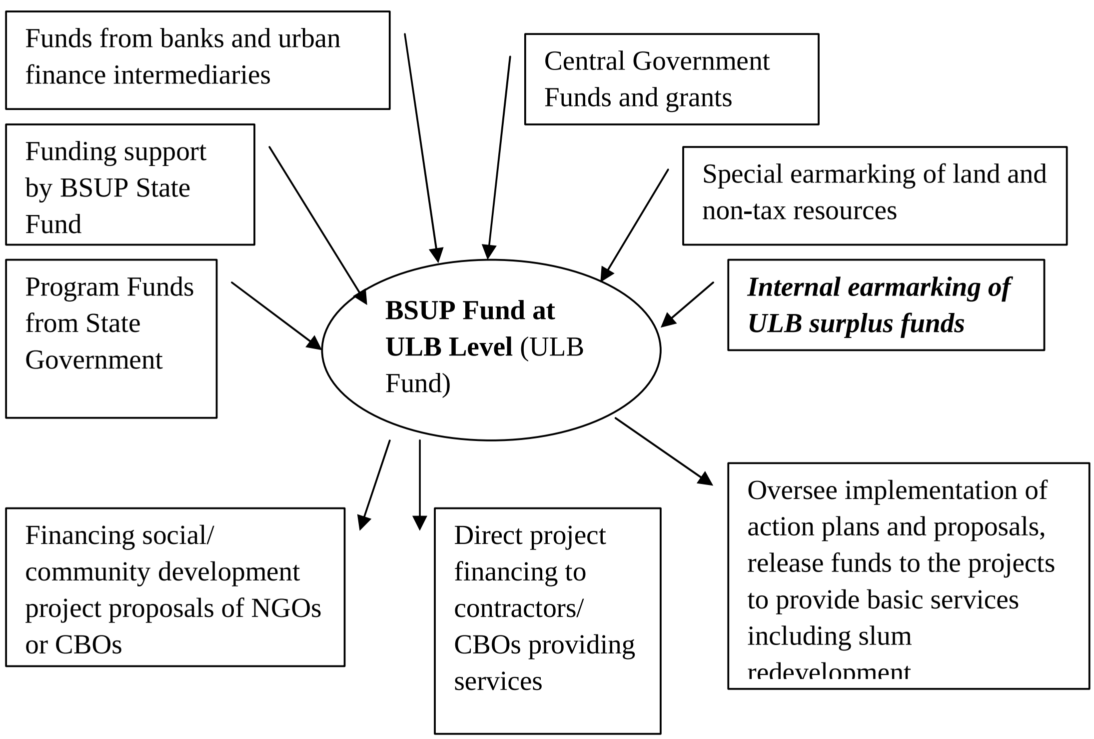
140. Accounting for the P-Budget needs to be carried out in the same way as it is done in the case of Municipal budget or as it is done in the case of other Funds within the Municipal budget. BSUP Fund would become a minor Fund within the major Funds of the Municipal body. Municipal accounting has to follow the Codification Procedure laid down under the National Municipal Accounting Manual (NMAM) or the State Municipal Accounting Manual prepared by the respective States with a detailed lists of major, minor and detailed account heads.

141. Detailed Guidelines with regard to P-budget preparation procedures need to be prepared and accounting heads at all levels need to be listed separately with the involvement of Professional Accountants. The expenditure provisions under the P-Budget need to be properly monitored, for which Internal Control Mechanisms may be required. Standing Committee on Urban Community Development may be established in all ULBs to perform oversight of the provisions made the P-Budget.

5.2.3 BSUP Fund at ULB Level

142. The BSUP Fund at ULB level shall be constituted primarily through (i) internal earmarking of municipal budget for providing basic services to urban poor (ii) channeling of all State and Central government funds towards poverty alleviation. The financial support from the State level BSUP Fund to the proposed projects also needs to flow into the BSUP Fund established at ULB level. Wherever it is possible, the ULB may also seek equity/fund contributions through various schemes and raise loans/ debt from banks and financial institutions. Figure 9 shows the implementation design of BSUP Fund at ULB level

Figure 9 Implementation design of BSUP Fund at ULB level



143. Urban local governments have better understanding of the priorities of the city and better knowledge of spatial spread of urban poverty and vulnerable communities. However, for effective utilization of the BSUP Fund, the ULBs need to be well prepared in terms of action plans, p-budgeting, earmarking of expenditure and

accounting of funds. The method of instituting BSUP Fund at ULB level through internal earmarking and management of its funds have been extensively documented in another study report entitled "Development of BSUP Fund through internal earmarking of ULB budgets". This document may serve as a reference document.

(a) Mapping of Poor and Vulnerable Communities

144. The ULBs need to use modern Geographic Information System (GIS) tools to map the slum settlements that are occupied by the poor on a digital map that gives geo-referenced location of slums. GIS survey may make use of the spatial data available from various sources – mapped city plans, satellite images etc, - and non-spatial data available from ULBs e.g., community infrastructure and SHGs, which can be integrated for prioritizing and ranking the slum settlements in a city for undertaking improvement works and for providing a wide range of services and benefits as identified under the action plan.

145. Also, with the advancement of satellite remote sensing technology, satellite data products are now easily available at a very high resolution that give more accurate details of settlements. This spatial data may be used together with non-spatial data existing in municipal records and other sources in order to generate spatial database that can form basis for information building and decision making on the infrastructure deficits and relative ranking for the prioritization of slum settlements to be covered in a phased manner.

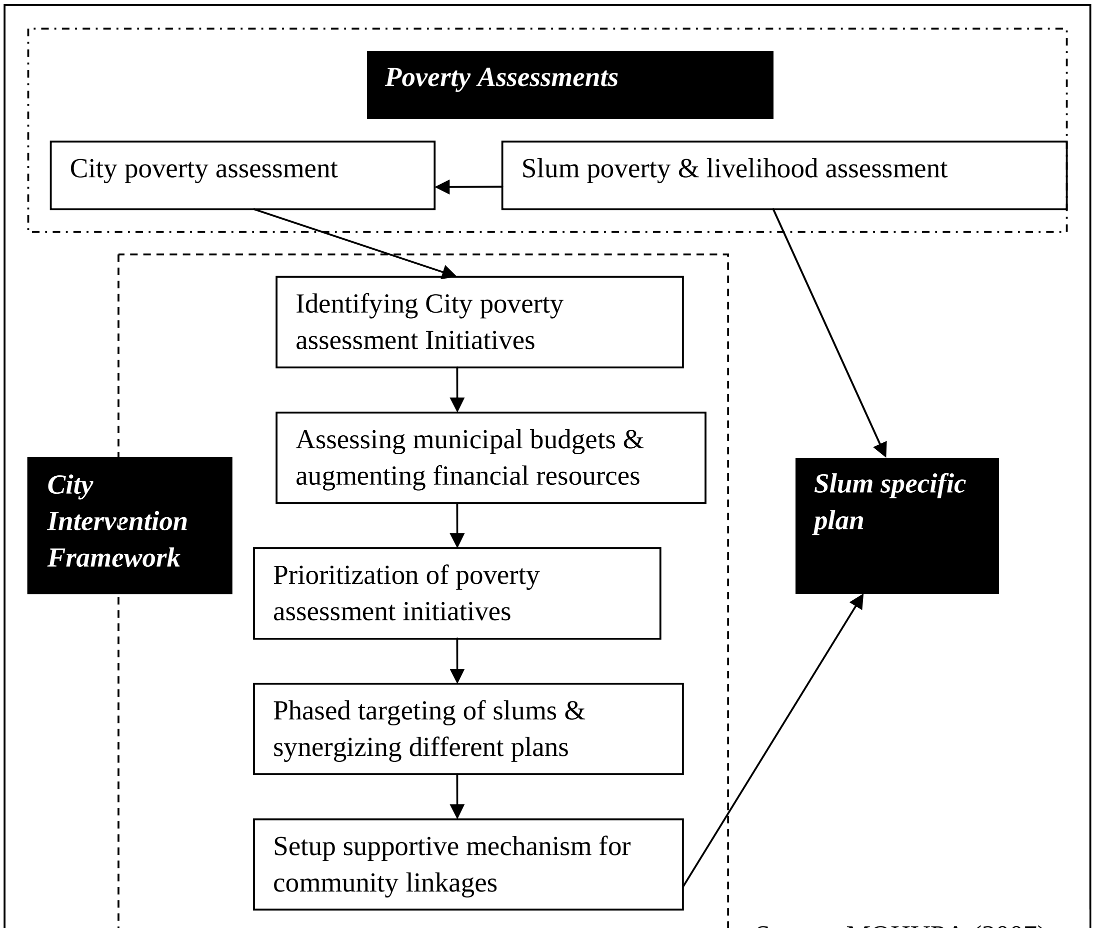
146. GIS based slum mapping may also be used to provide crucial information on the infrastructure deficits and allows to readily calculate the funding needs e.g., costs of housing space, water connection network etc, so that this information would be used better in providing link between community needs and city budget for the urban poor. Before undertaking such GIS surveys and using such methods, the ULBs need to make a good study of the cost of such undertaking as well as the costs of its continuity in the form of technical and manpower requirements.

(b) Urban Poverty Alleviation Action Plan

147. An Urban Poverty Alleviation Action Plan is an important component that comprises identifying the poverty levels, service deficiencies, identification of projects and prioritization of investment. The cost of the plan proposals shall determine how they will be undertaken in a phased manner with the amount available limited by the municipal budget allocation for poverty alleviation or the programme budget of the

donor/sponsor agency. The process of preparing urban poverty alleviation action plan is shown in Figure 10.

Figure 10 Urban poverty alleviation plan process



Source: MOHUPA (2007)

148. The preparation of a poverty alleviation action plan would involve two-step implementation process[11]:

- *First*, a rigorous door-to-door household surveys need to be conducted in the city of concern to understand the service deficit, poverty levels and types as well as the skills that are in demand. For this, Slum Survey, Household Survey and Skill Needs Survey need to be carried out.
- *Second*, identification of infrastructure and development needs of urban poor in consultation with the associations of the urban poor. This can be carried out in the form of 3-tiered plans:

[11] The Urban Poverty Alleviation Toolkit published by the MoHUPA in particular would be very useful, as it also lists down the various formats for surveys and action plans.

- Mini-Plan at Neighbourhood Level
- Micro-Plan at Community level
- City Plan at City level

(c) Pro-poor Expenditure Identification

149. The preparation of Poverty alleviation plan has to be followed by budgetary allocations in the municipal budget, which lead to the Poverty alleviation budget (P-budget). As the revenue aspect is already covered under the constitution of BSUP Fund, it is an important to identify and book expenditure as laid down under the UPRS and UPAP, so that the funds are utilized for the planned and intended purposes in the process of internal earmarking of municipal funds. Currently, there are few frameworks, methods and guidelines for undertaking this particular task. There are three major strands taken towards the identification of pro-poor expenditure in municipal budgets:

  - Area-based approach,
  - Sector-specific approach
  - Beneficiary-oriented approach

Area-based approach

150. Under this approach, the expenditure being incurred/ planned in all Notified/Non-notified (Recognized) Slums in a ULB is estimated through the Preparation of Area Development Plans. These Area Development Plans shall have specific proposals for the development of slum areas i.e., basic civic infrastructure, livelihoods and support services. The area development plans can be prepared at municipal ward level or at city level depending upon the geographical area and population of the city and the slum areas. The area development plans at sub-city level i.e., ward or any other area, need to be aggregated into one plan – both physical and financial – so that the same can be used in the subsequent phases.

Sector-specific approach

151. In a sector-specific approach, the pro-poor expenditure is identified by the means of the type of service on which expenditure is made by the municipality/ municipal corporation. The services to slums may be categorized into two types:

- *Internal Infrastructure in Slums/Low-income Settlements* primarily meant for the in-situ servicing of slum settlements and it includes both basic infrastructure as well as support services. As they provide full service benefits to the slums, expenditure is marked 100% and there is no need for apportionment. The infrastructure services include:

- Water,
- Drainage,
- Sewerage,
- Internal Roads,
- Toilets,
- Street Lighting,
- Transformers,
- Sub-stations,
- Overhead Reservoirs,
- Parks,
- Playgrounds,
- Community Infrastructure including Livelihood Infrastructure

- *Part of Connectivity Infrastructure* or external infrastructure, which is also important to slum settlements so as to relate themselves to the city and also from the view point of scale economies in the provision of some services at large scale to entire population. With the slums settlements being not the full beneficiaries of the city-wide external infrastructure, only part of the expenditure can be attributed to the slum settlements. Therefore apportionment of expenditure becomes necessary, for which the local government or state government may issue guidelines. The external infrastructure services may include:

- Approach Roads,
- Water Trunk Connectivity,
- Sewer Trunk Connectivity,
- Storm-water Drainage Trunk Connectivity,
- Electrical Installations etc.

Beneficiary-oriented approach

152. Under this approach, pro-poor expenditure is identified in terms of beneficiary categories and expenditures are identified with respect to the separate Sub-Plans or Special Component Plans prepared for that group. etc. Here, the focus is made on programmes of skill development, employment generation & social welfare/security. Already Tribal sub-plans are prepared by several states and local bodies, which may be supplemented by the inclusion of all vulnerable sections whom the poverty alleviation programmes target. The beneficiary groups may include the following:

- Schedule Castes (SC),
- Scheduled Tribes (ST),
- Differently-abled,
- Poor Women
- Vulnerable Groups

(d) Accounts and audit

153. Day-to-day checks of the P-Budget provisions may be made by Municipal Chief Executive Officer, and periodic examination of the same may be provided by the ULBs to the State Municipal Administration Department or a Specially Constituted Poverty Alleviation Authority. The ULBs may be encouraged to provide budget documents and accounting statements to the State Municipal Administration Departments at a designated frequency of once in every 3 to 6 months. The guidelines for spending and reporting provided in the Government Order of AP may be considered for this purpose .

154. Financial Audit Procedures need to be established to promote financial accountability for the BSUP Fund in line with similar procedures established for the Municipal budget or its components. Social Accountability mechanisms for BSUP Fund may also be established so as ensure that the BSUP Fund utilization meets the objectives of the Fund and that the P-budget information may be shared with the Community/Civil Society Organisations for better understanding, transparency and accountability.

6. RESOURCE MOBILIZATION FOR BSUP FUND

155. An important aspect of BSUP Fund is its sustainability – not only from the returns/ repayments but also the swelling of capital through regular fund inflows to the Fund from the GoI, State Government and Local Governments. At the National level, the Central government can contribute to the Umbrella Fund in different ways:

- Equity capital contribution to the establishment of BSUP Fund
- Provide annual budgetary support for the swelling of BSUP Fund
- Channel the funds for poverty alleviation to State and local governments through BSUP Fund
- Earmark certain proportion of the programme funds of JNNURM (BSUP) and other such schemes like SJSRY, NSDP, RAY to the BSUP Fund
- Support the floatation of bonds for raising resources.

156. While the Central government provides support to the flow of funds to BSUP Fund at national level, the State Governments have to pledge budgetary support to such initiatives/ programmes that converge with basic services for urban poor and provide for the same on a regular basis. Apart from Central government earmarking of JNNURM and other scheme funds, the State governments could also earmark certain proportion of the funds received by them to create and sustain BSUP Fund at State government level. The State development financial institutions could also contribute to the equity and debt capital of the BSUP Fund.

157. For the BSUP Fund at local level, the Urban Local Bodies (ULBs) have to find resources from their own sources, upper tier grants and other sources. The RBI – DRG Study (2007) pointed that tax and non-tax resources have not been tapped upto their potential by several ULBs in India, for which reform initiatives need to be undertaken. While raising resources for urban development and for infrastructure service delivery to the poor, the golden rules of Bahl and Linn (1992) shall be referred:

- *Where benefits and beneficiaries are identifiable, levy user charges*
- *Where benefits are identifiable and beneficiaries are not identifiable, levy benefit taxes*
- *Where neither benefits nor beneficiaries are identifiable, levy general taxes*
- *Where administration and other expenses are involved, levy fees & charges*
- *Where long gestation capital works are undertaken, use bonds/ debt*

158. The provision of public infrastructure services involves incurring expenditure that requires adequate sources of funds to finance it. Table 6 shows the (revenue) sources and use of funds (expenditure).

Table 6 Sources and Use of Funds in ULBs

Sources of funds (Revenue)	***Use of funds (Expenditure)***
1. Operating budget surplus	1. Infrastructure investment (a) water and sewer (b) drains and roads (c) other basic services
2. Capital revenues: (a) capital grants from higher level of government, (b) betterment levies (c) impact fees and developer contributions, (d) municipal asset sales	2. Other capital improvements
3. Borrowing	3. Investments in economic development activities
4. Capital contributions from public-private partnerships	4. Capital contributions to public-private partnerships

Source: Peterson (2009)

6.1 FINANCING FROM REVENUE SURPLUS OF ULBS

159. The major categories of fund flows to ULBs include: (a) grant or development funds from upper tiers of government, (b) own revenue sources like tax and non-tax sources, (c) land and other resource based revenue, and (d) resources from private sector. Table 7 shows category-wise sources of revenue of ULBs in India. Most of the ULBs use tax sources and grants, while ignoring or not tapping the potential of other revenue sources. Property tax, for example, is an important tax resource which has huge revenue potential but reforms to improve its base and levy method have been limited. User charges are yet to rise to the level that they contribute significantly to the resource base of ULBs. Public debt in market – from institutional and individual/retail investors – is rarely accessed to finance the creation of urban infrastructure.

Table 7 Revenue sources of ULBs

Revenue Head/ Category	*Sources of revenue*
Tax revenue	Property Tax, Octroi, Advertisement Tax, Tax on Animals, Vacant Land Tax, Taxes on Carriages and Carts
Non-Tax revenue	User Charges, Municipal Fees, Sale & Hire Charges, Lease amounts
Other receipts	Sundry receipts, Law charges costs recovered, Lapsed deposits, Fees, Fines & Forfeitures, Rent on Tools & Plants, Miscellaneous Sales etc.
Assigned (Shared) revenue	Entertainment Tax, Surcharge on Stamp duty, Profession Tax, Motor Vehicles Tax
Grants-in-aid	(i) Plan Grants made available through planned transfers from upper tier of Government under various projects, programmes and schemes (ii)Non-Plan Grants made available to compensate against the loss of income and some specific transfers
Loans	Loans borrowed by the local authorities for capital works etc. – HUDCO, LIC, State and Central Governments, Banks and Municipal Bonds

Source: Mohanty (2003)

160. The RBI-DRG Study (2007) pointed to several inadequacies in raising resources by the Urban Local Bodies (ULBs). The finances of ULBs clearly reflect a sorry state of affairs – the revenue receipts grow at a slow pace with a declining contribution of own sources, whereas the total expenditure grows at the rate equal or more than revenue. Much of the expenditure (almost 50-60% of total) goes towards staff salaries and O&M expenses[12]. Several ULBs do not have any revenue account surplus to transfer funds to the capital account. This situation needs to be corrected through augmentation of resources at ULB level. It is imperative that the ULBs themselves need to make special efforts to mobilize the available resources within their jurisdiction and channel them effectively towards laying down the urban infrastructure services and their maintenance.

[12] RBI-DRG (2007)

161. Resource mobilization requires not only strengthening existing revenue sources but also using other innovative sources of revenue. Therefore, both conventional and non-conventional sources need to be tapped to the extent possible within the City. The ULBs may benchmark their tax levy and resource utilization with reference to the better performing peers within State as well as outside it. Table 8 shows conventional and non-conventional resources that can be tapped by ULBs.

Table 8 Conventional and non-conventional revenue sources

Revenue Type	*Conventional Source*	*Non-Conventional Source*
Property related	Composite Property Tax	Vacant Land Tax, Service Taxes, Surcharge on Land Registration Duty
Water Supply Related	Water Charges	Water Supply Donations, Water Supply Connection Charges, Water Benefit Tax, Water Cess
Sewerage Related	Sewerage Charges	Sewerage Donations, Sewerage Connection Charges, Sewerage Benefit Tax, Sewerage Cess
Solid Waste Management Related	Conservancy Charges	Bulk Garbage Collection Charges
Engineering Related	No Sources	Road Cutting Charges, Street Tax, Frontage Tax, Cess on Infrastructure, Motor Vehicle Tax/Surcharge on Tax on Petrol and Diesel
Trade Licensing Related	Trade Licensing Fee	Business License Fee
Advertisement Related	Advertisement Tax	Hoarding Charges, Advertisement Placement Fees, Cable TV Fee, TV Advertisement Charges
Shops and Establishment Related	Shop Room Rent	Royalty on Auctions

Source: Mohanty (2003)

6.2 LAND BASED RESOURCE MOBILISATION BY ULBS

162. The revenue surplus of ULBs may have some limitations to finance basic services in terms of the council sanction of tax base/ rate, legislative requirements of balanced budgets and far different ground conditions than that prevalent. The conventional as well as non-conventional resources (which may be linked to conventional sources) may also have some limitation in raising resources. It is here that the ULBs can exploit land based resources to finance the capital expenditure of infrastructure

services. The potential of land based instruments may be large in a city which has large amount of land vested in the hands of local government and where development pressures on land are very high.

163. The ULBs need to exploit various land based revenues, which have greater implication to urban growth and development and concomitant problems like slum formation, redevelopment, rehabilitation and resettlement. The funds realized from land based revenue sources can be effectively deployed for the improvement of urban poor living in slum areas. Several of these sources may already exist in ULBs but their potential may not have been exploited to fullest extent. Also, there are several other forms of land based resources that are yet to be tapped/ exploited. Table 9 lists out various land related revenue sources that can be exploited by the ULBs for mobilizing funds.

Table 9 Land related finance sources

Tax Variant	*Base of Source*
Site Value Tax	Current land rental or capital value of land
Land Gains Tax	Land capital gains – accruals in land Values
Betterments or Special Assessments	Increment in land values due to specific public expenditures including infrastructure
Development Gains Tax/Conversion Tax	Change of "Lower" to "Higher" land use (Once–and–for-all levy)
Purchasable Development Right	Purchase of development right in market
Auctionable Development Right	Purchase of development right in open auction – Land with FSI in auction in centres
Development in Kind/ Incentive Zoning	Obligation on Developers to install infrastructure or make certain land/facility available for community purpose e.g. Free land assignment
Land Transfer Tax	Stamp Duty connected with change of 'ownership' rather than change of `use'
Vacant Land Tax	Capital value of land not used for any purpose
Property Tax	Rental value or capital value of property – Self-Assessment

Source: Mohanty (2003)

164. While the above is a list of potential avenues, some of the instruments have a wider application on ground than others. Some of the land related financial instruments that

have been widely applied in both developed and developing countries include (Peterson 2009):

- (a) Developer exactions
- (b) Sale or lease of public land
- (c) Public-private partnership (leveraging land to induce private investment into infrastructure
- (d) Impact fees
- (e) Betterment levies, and
- (f) Acquisition and sale of excess land.

165. Table 10 shows a comparison of the above instruments of municipal finance.

6.3 RESOURCE MOBILISATION OF ULBS: EXPERIENCE OF SOME STATES

166. Few municipal corporations in India have managed to turn around their financial position and positioned themselves as successful cases that are emulation worthy. The attempts of these cities/ states to mobilize financial resources may be useful pointers for others to emulate the same. The following is a brief review of such attempts by some ULBs of the cities.

Accessing private debt through municipal bonds

167. Ahmedabad Municipal Corporation was the first ULB in India to raise resources to the tune of Rs 100 crores through a general obligation bond. It has streamlined its octroi operations and reformed property tax levy in order to back up the debt service obligations of the bond. Though the resources raised from bond remained idle for two years due to procedural bottlenecks, the work tenders have shown a 10-15% decline in the costs quoted that resulted in some savings.

Undertaking municipal reforms

168. Indore Municipal Corporation has prepared a city development strategy and undertaken a series of reform measures to raise revenues, particularly the property tax revenue, which helped it to turn around from a losing municipal corporation. The reform initiatives of Indore Municipal Corporation were largely kept simple but doable. Also, it focused on the management innovations, such as better decisions based on information systems, which made a quality difference.

Table 10 Comparison of various land related financial instruments

Instrument	*Description*	*Key requirements*	*Overall difficulty*
Developer exactions	Developer installs on-site and neighbourhood-scale infrastructure at own expense	Clear regulations; planning and implementation capacity to link developer's infrastructure to public systems	Relatively straightforward
Sale or lease of publicly held land	Public land assets are sold, with proceeds used to finance infrastructure investment	Inventory of land assets, market valuation and strategic decision about best use; open auctions for disposing of land that is sold	Technical competence neded for initial inventory and appraisal; can be institutionally difficult when land holding agency does not directly benefit from the sale
Public-private partnership: private investment in 'public' infrastructure	Developer installs public infrastructure in exchange for land	Same information and analysis for land sale; can accelerate private investment in key growth poles; competitive selection procedures become critical	Simpler than many other forms of public-private partnership; danger of non-transparent or corrupt deals between public sector and developer
Betterment levies	Public sector taxes away a portion of land-value gain resulting from infrastructure projects	Difficult and costly to administer on parcel-by-parcel basis; simplified approach adopted by Bogota hold great promise	Most appropriate for countries with a history of betterment levies
Impact fees	Developers pay the cost of system-wide infrastructure expansion needed to accommodate growth	Strong planning and analytical capacity needed to identify infrastructure cost implications of development at different locations; strong execution of public investment plans	Need to develop simplified that capture the core concept of recovering off-site costs of growth without overwhelming technical demands
Acquisition and sale of excess land	Public sector acquires land surrounding the infrastructure project and sells land at a profit when project is completed and land value has been enhanced	Social agreement needed on who should benefit from land value gains resulting from public infrastructure: the original land owner, the public fiscal authority, displaced occupants and other claimants	Technically one of the most straight-forward options; the difficulty is to reach agreement on the proper exercise of eminent domain.

Source: Peterson (2009)

Pooled finance mechanism

169. The states of Tamil Nadu and Karnataka have come out with different institutional set-ups that leveraged the strengths of a pooled finance mechanism in order to raise resources through the issuance of bonds that helped them in successfully undertaking the water supply and sanitation projects and in meeting with the stipulated terms of the bond issuance.

Land pooling schemes for development

170. The Gujarat experience has shown that (a) land being a scarce but important resource may be mobilised through the award of development rights which are transferable, town planning schemes (TPS), plot/layout readjustment and additional development density (FSI/FAR),(b) land needs to be used efficiently which is ensured by the way of levy of various taxes, fees and charges for financing the development. Under the TPS of Gujarat state, more than 250 schemes were implemented, in which land acquisition was made on awarding compensatory value of land – either land /development rights or money/ cash.

Innovative instruments

171. Andhra Pradesh state used innovative instruments for resource mobilization to finance urban development projects. A new but simplified system of property tax, based on 5 major parameters, was adopted; vacant land tax, development charges, impact fee and goodwill auctions were also used widely to generate additional resources for the urban local bodies. Recently, based on the success of APUSP, Indira Kranthi Patham (IKP) Urban was launched that focuses on resource mobilization for the urban poor organized under SHGs through bank linkages.

Development of land capital

172. Maharashtra has a depth of experience with respect to mobilization of resources to finance urban development. Land banking model was developed by Magarpatta city with the active participation of the citizens, under which they would surrender land in lieu of an equal share of the development company, which would develop and sell land for various uses and it utilizes the proceeds for further development of infrastructure. Pune has used transferable development rights (TDR) for acquiring land for development, which is modelled on the already successful experience of using TDR in Mumbai for wide range of purposes like road/ reservation/ slum development.

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ANNEXURES

I – URBAN INFRASTRUCTURE DEVELOPMENT FUNDS

I-1 PARANACIDADE in Brazil

Objective

PARANACIDADE is a successful example of an intermediary between the state government and municipalities in Brazil. It was set up as an independent, non-profit institution by the government and mandated to manage the government's public fund for urban development. Though starting with a matching grant facility, its focus was on building the capacity of municipalities and move to a credit based devolution system from the government.

Operations

PARANACIDADE provided tremendous support to municipalities for project formulation, and concentrated on evolving appropriate systems and intercept mechanisms for credit facilities. It worked largely at the municipal level and has been able to develop their capacity through technical support. Its credit mechanism provided loans to municipalities usually with an automatic intercept of value added transfers from state to local government, to be made by the state bank.

Performance

Evolving as a capacity enhancing agency, PARANACIDADE now lends to local bodies and has a negligible default rate. It has been able to accelerate the urban development process and increased coordination and efficiency in use of public funds. It also generates resources, promoting investment by one municipality into another, through the fund.

Although most funds are promoted by government support, its success is measured by the amount of funds and interest it can generate outside the government funding

I-2 FINDETER of Columbia

Objective

Territorial Financing Institution of Colombia (FINDETER) began as an infrastructure financing facility within the National Mortgage Bank, but has evolved into a national level refinancing facility for the municipal sector, working through the commercial banking system in Colombia.

Operations

FINDETER is managed professionally and provides wholesale credit facilities to the urban sector. It has a rigorous project evaluation system after which it agrees to refinance upto 85 percent of the lending made by commercial banks. The banks carry out their own assessment, assume all credit risk and have to service its debt to FINDETER regardless of their own repayment. Security is provided through a voluntary intercept guarantee of inter-governmental tax sharing transfers.

Performance

FINDETER is one of the most successful funds in the world with a non performing ratio of less than 2 percent. Its success has encouraged banks to lend directly to local bodies and helped in evolving a credit market for municipal projects. Larger municipalities are now securing loans directly from commercial bank at competitive terms, while smaller bodies rely on the FINDETER support to access the market.

I-3 **Municipal Finance Company of Czech Republic**

Objective

Municipal financing in the Czech Republic commenced in 1991 with the Czech Saving Bank’s (CS) facility. MUFIS was set up in 1994 to reduce the monopoly of CS and provide a rapid competitive supply of municipal finance in the country.

Operations

MUFIS plays a hands-off role and only refinances commercial banks which themselves assess, provide finance and assume credit risk for municipal loans. The system does not have an intercept guarantee mechanism but municipal property is commonly used as collateral by the commercial banks. Its clear focus enables MUFIS to act very fast with an average processing time of only 17 days.

Performance

Although occupying a relatively small niche in the Czech municipal credit market, MUFIS has been very successful in its objective. With zero non-performing assets, it has succeeded in enlarging the market and promoting investment efficiency in infrastructure funding in the country.

I-4 Municipal Infrastructure Investment Unit in South Africa

MIIU was set up as a company in South Africa to develop a market for technical assistance for project preparation in municipal infrastructure and services.

Objective

The objectives of MIIU are the followings:

- Encourage and optimise private sector investment in core local authority services, on a basis that is sustainable for local authorities and at a national level.
- Assist the development of an established market containing informed local authority clients, private sector advisers, and private sector investors and service providers.

Operations

These activities are being undertaken with local authorities that are developing project proposals involving private sector investment. The investments can take any of a broad range of forms, including among others, the following:

- Private sector financing of municipal debt.
- Contracting out the management of services.
- Concessions to operate a local authority’s assets over a defined period.
- Contracts requiring the private sector to design, build, finance and operate assets to deliver services for the local authority.
- Privatisation (sale) of assets and services.

The MIIU’s scope of activities includes:

- Providing grant funding to local authorities on a cost-sharing basis to contract in expertise for project preparation assistance from the private sector (Up to initial MSP project implementation stages).
- Assisting local authorities in the process of contracting in private sector consultants.
- Assisting local authorities to manage contracts with the private sector.
- Marketing and publicising the MIIU’s services.

I-5 India Infrastructure Finance Company Ltd

India Infrastructure Finance Company Ltd (IIFCL) was set up in January 2006 as a wholly owned Government of India company to provide long term financial assistance to various viable infrastructure projects in the country. It was set up to catalyse development of infrastructure under a Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle (SPV). IIFCL was formed with authorised capital of Rs 20 billion and paid-up capital of Rs 10 billion. Apart from the equity holding, the IIFCL raises long term debt from bilateral and multi-lateral institutions and in foreign currency through external commercial borrowings. The borrowings of the company may be backed by sovereign guarantee.

Eligible borrowers

IIFCL shall finance only commercially viable infrastructure projects. The eligibility criteria for funding include:

- The project shall be implemented by: (a) a public sector company (b) private sector company selected under Public-Private Partnership (PPP) initiative (c) a private sector project which fulfils terms of:
  - having undertaken a project where the service to be provided is regulated, or
  - the project is being set up under MoU arrangement with Central & State government or a Public Sector Undertaking
  - total lending for such projects shall not exceed 20% of the lending programme of the company in any accounting year
  - the tenor of IIFCL lending should be larger than that of the longest tenor commercial debt by at least two years.
- The project should be from one of the following sectors: (a) roads and bridges, railways, seaports, airports, inland waterways, other transportation projects (b) power (c) urban transport, water supply, sewage, solid waste management and other physical infrastructure in urban areas (d) gas pipelines (e) infrastructure projects in SEZs and (e) International convention centres and other tourism infrastructure projects.
- Projects which are set up on 'non-recourse' basis would only be eligible for financing by IIFCL

Lending Terms

The project activities are provided lending support subject to following terms:

- IIFCL may fund viable infrastructure projects through the following mods

  - Long term debt
  - Refinance to banks and financial institutions for loans with tenor of more than 10 years, granted by them
  - Any other mode approved by Government of India
- Total lending to any project by IIFCL shall not exceed 20% of the total project cost subject to exposure of IIFCL being less than that of the lead bank.
- Disbursement of loans by IIFCL is subject to the appraisal being done by reputed appraising institutions and the lead bank accepting and adopting the same. IIFCL shall disburse the loan only after getting the sanction from the lead bank.
- IIFCL would not normally carryout any independent appraisal of the project
- The lead bank shall be responsible for regular monitoring and periodic evaluation of compliance of the project with the agreed milestones.

The lending to PPP projects is based on:

- A project awarded to private sector company through PPP shall be accorded priority for lending by IIFCL
- A PPP project has been defined under the Scheme as a project based on a contract or concession agreement between a government or a statutory entity on one side and a private sector company on the other side, delivering an infrastructure service on payment of user charges.
- In case of PPP projects, the private sector company shall be selected through a transparent and open competitive bidding process.
- PPP projects based on standardised/ model documents duly approved by the respective government would be preferred.

Performance

- Within a short span of its inception, IIFCL has expanded its activities and has sanctioned financial assistance of Rs 187.6 billion to 107 project involving a total project cost of Rs 1492.03 billion as on March 21, 2009.
- Of the 107 projects which have been sanctioned, 88 projects have achieved financial closure and documents have been executed
- The 107 assisted projects are spread across 19 states of the country
- In 77 cases, disbursements have been made to the tune of Rs 48.81 billion involving a project cost of Rs 1076.57 billion

I-6 Tamil Nadu Urban Development Fund, India

Tamil Nadu Urban Development Fund (TNUDF) was established in 1996, as a trust under The Indian Trust Act 1882, for development of urban infrastructure in the state of Tamil Nadu. TNUDF was formed by conversion of Municipal Urban Development Fund (MUDF), with contribution from Government of Tamil Nadu along with all India financial institutions viz., ICICI Bank Limited (formerly ICICI Ltd), Housing Development Finance Corporation Limited and Infrastructure Leasing and Financial Services Limited. TNUDF is the first public-private partnership providing long term debt for civic infrastructure on a non-guarantee mode. TNUDF is managed by a Corporate Trustee viz., Tamil Nadu Urban Infrastructure Trustee Company Limited (TNUITCL). The Board of Trustees periodically review the lending policies and procedures. Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL) is the Fund Manager of TNUDF.

Fund Objectives

The objectives of the fund are:

- Fund Urban Infrastructure projects, which improve the living standards of the urban population
- Facilitate private sector participation in infrastructure through joint venture and public-private partnership
- Operate a complementary window, the Grant Fund, to assist in addressing the problems of the urban poor
- Improve the financial management of urban local bodies enabling them to access debt finance from markets

Eligible borrowers and sectors:

Eligible borrowers to the TNUDF include: ULBs, statutory boards, PSUs and private corporates. Eligible sectors include water supply, sanitation (sewerage and drainage), solid waste management, roads/bridges, transportation, sites and services and integrated area development.

Fund Management

Since the Fund has corporate participation in the corpus, it has a corporate trustee "Tamil Nadu Urban Infrastructure Trustee Company Limited" (TNUITCL), which approves the lending policies and procedure of the fund.

Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL), an asset management company, has been formed with the shareholding pattern, viz. GoTN (49 percent), ICICI (21 percent), HDFC (15 percent) and IL&FS (15 percent) to manage the mandate of the TNUDF. This is akin to Mutual Fund industry where for due diligence purposes, the owner of the Fund is different from the manager of the Fund.

Performance of the Fund:

Size of the Fund: The TNUDF consisted of a World Bank line of credit for US$ 60 million, mobilization by the Fund for US$ 25 million, co-financing by the participating FIs for US$ 25 million and contribution by GoTN and the ULBs for US$ 48 million amounting to US$ 173 million. This is in addition to the unit capital contribution of the participating FIs for US$ 10 million. In terms of lendable resources for ULBs in Indian currency, this amounted to approximately INR 8 billion. In the course of operations, the co-financing component of the FIs was substituted for ULB contribution to sub-projects either from the general budget or as public equity for the projects.

Project Approvals: The Fund has so far approved 179 projects (1997-2004) at a total project cost of INR 6.75 billion. The Fund used the cash resources available with it to prepay costlier MUDF assets to the GoTN. The projects appraised by TNUDF primarily include core civic amenities like storm water drains, sewerage, sanitation and solid waste management schemes, water supply, roads etc. as well as revenue generating commercial complexes, wholesale markets, bus stands etc. Performance of the Fund has been good with project loan recoveries close to 100 percent (99.75 percent to be precise) of the schedule repayments. The Fund returned a surplus distribution of INR 790 million to the contributors during the operating period from 1999 to 2003 on a unit capital base of INR 1.96 billion.

Performance against Objectives: Measured against each objective, the Fund and AMC together have ensured that the experiment has been beneficial to all parties concerned.

a) The Fund assisted investments in ULB infrastructure for the five-year period 1997-2002 was a sizeable INR 6.7 billion of which assistance from the Fund was INR 3.5 billion. In the initial stages, roughly 65 percent of the loan outstanding accounted for roads and associated works, 25 percent accounted for water supply, sewerage and sanitation projects, the rest being distributed among remunerative projects like bus stations. However this portfolio changed with prepayment of loans disbursed for road and associated projects by the ULBs and with the disbursement of loans for underground sewerage projects under the National River Conservation Project. As on date, roughly 50 percent of the loan outstanding is accounted by sewerage and sanitation projects;

b) The Fund through the AMC assisted the ULBs in concluding fruitful public-private partnerships and BOT projects such as the Alandur STP (BOT - INR 70 million) the Karur Toll Bridge (BOT - INR 152 million), Madurai Toll based Ring Road (BOT - INR 430 million);

c) The Fund provided a total grant assistance of INR 220 million providing access to civic infrastructure for the poor during this period;

d) The AMC provided project development and implementation assistance (DPRs, PMC etc.) for 32 large underground sewerage projects in ULBs;

e) The Fund mobilised counterpart funds to the extent of INR 1.4 billion. It also provided advisory services for a pooled fund floated by 13 ULBs for INR 290 million, a tax-free bond issue by a water authority for INR 420 million, a bank-consortium led financing of bonds worth INR 290 million for a toll road project; and

f) The AMC successfully collaborated with all the ULBs in introducing accounting reforms such as introduction of double entry accrual based system of accounting, e-governance systems for effective tax administration, registration for births and deaths, solid waste management, complaint registration and redress etc., Some of the ULBs prepared city corporate plans.

In addition to lending operations, the TNUDF also monitors the entire project cycle from project preparation to project completion. The AMC of the TNUDF, TNUIFSL has conceptualized and successfully floated the Tamil Nadu Water Supply and Sanitation Pooled Fund (TNWSSPF). Under this arrangement, 13 ULBs (both weak and strong) were grouped together, rated and based on their combined credit worthiness, successfully went to the market for resources and mobilized INR 3.04 billion at a most competitive rate. This Fund is wholly owned by the GoTN and managed by the AMC (TNUIFSL) and the involved ULBs successfully utilized the mobilized funds for financial reengineering/ substituting their high cost debts.

In addition, the TNUIFSL had also helped Madurai Corporation and the Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) to access the market for their development projects. As a whole, TNUIFSL has facilitated mobilization of INR 2.1 billion from the capital markets to fund urban infrastructure and the TNUDF has approved loans of INR 60.48 billion as at the end of FY 2003-04.

Assessment of Private Participation in the Fund and the AMC

The design of the Fund ownership accommodated private sector financial institutions such as the ICICI, HDFC, ILFS etc. This was expected to provide the necessary edge for raising counterpart funding for projects by accessing the debt market and in introducing professional outlook in appraisal of projects and ensuring sustainability of the project funding structure. The Fund kept up this commercial focus on sanctioning project finance. The participation of the financial institutions in the AMC brought positive outcomes for all the parties concerned. Following are some of the positive results of private sector participation in the AMC:

a) It resulted in a professional and self-motivated staff in the AMC;

b) Appropriate HR policies incorporating rewards and incentives based on performance was a welcome change in the otherwise staid personnel structure seen in the government departments and PSUs; and

c) Preparation of manuals for project appraisal, inclusion of environmental and social impact assessments in the project design and execution, advisory services to ULBs in financial accounting reforms, successful award and management of consultancies for project preparation and implementation by the ULBs brought financial and project discipline to be enforced as a matter of policy.

Policy Options for the Future

The financial intermediation already introduced has produced positive results:

a) It has established an alternative funding mechanism apart from state budget grants for urban projects;

b) Concept of self-sustainability in project financing has gained acceptance among all the user agencies;

c) Tolls and user charges and upfront user contribution for project equity are some of the concepts popularized by this process; and

d) This experiment has also enhanced the confidence levels in the urban local bodies to access debt markets on their own or in association with other local bodies as a pool finance arrangement.

I-7 Karnataka Urban Infrastructure Development Finance Corporation, India

Karnataka Urban Infrastructure Development Finance Corporation (KUIDFC), was set up by the Government of Karnataka (GoK) in 1993 under Indian Companies Act, 1956. The company is managed by its Board of Directors drawn from various departments of Government of Karnataka.

Objectives of the company

The primary objective is to help formulate, assist, advice the urban local bodies (ULBs) for various urban infrastructure (UI) services. It is also the nodal agency for routing external assistance for urban infrastructure projects.

Eligible borrowers:

All Urban Local Bodies and statutory bodies are eligible to borrow from the company.

Performance of the company

KUIDFC has already implemented Karnataka Urban Infrastructure Development Project (KUIDP) an Asian Development Bank (ADB) assisted UI project covering 6 towns with an investment of INR 4.40 billion. It is now implementing a second ADB project called the Karnataka Urban Development and Coastal Environment Management Project (KUDCEMP) covering 10 coastal towns where the project cost is INR 10.60 billion. KUIDFC is also the nodal agency for the Mega City Scheme of the Government of India for Bangalore.

KUIDFC has recently concluded conceptualization of a project for providing improved levels of water supply services using private sector participation (PSP) to three North Karnataka towns with World Bank assistance. The strategy here is to set up demonstration zones, establish quality water services through a PSP operator and then extend the improved level of services to the entire area of the project towns after having established credibility.

KUIDFC is now formulating the Karnataka Municipal Reform Project (KMRP) with the assistance of the World Bank where the outlay is expected to be INR 15.00 billion. This covers a reform component, underground drainage and road restoration component for Bangalore. The reform component estimated to cost INR 6.00 billion covers areas like capacity building of ULBs, institutional development, improvement in financial management, providing technical assistance, etc. This is of a long tenure. KUIDFC is also now in the process of formulating a project for north Karnataka where UI services are to be provided using private investment and private O&M services. This project is currently under examination with the ADB.

The Greater Bangalore Water Supply project which covers water and sanitation to the Greater Bangalore area is facilitated by KUIDFC. The water component envisages an outlay of INR 3.60 billion. About 35 percent of the investment is proposed to be raised by Beneficiary Capital Contributions from the potential users. 28 percent of the contribution (INR 1.00 billion) is proposed to be raised through market borrowings under a pooled finance mechanism wherein the borrowing entities are the 8 ULBs around Bangalore where the project is being implemented. Market Borrowings are through bonds and will be raised by a GoK Trust called Karnataka Water Supply Pooled Fund (KWSPF). The Trust has appointed KUIDFC as Fund Manger. The UGD component and road restoration component are being examined by the WB for funding under the KMRP.

KUIDFC does not have its own permanent establishment. It has inducted persons with domain knowledge in various UI areas from various government institutions on a deputation / contract basis. KUIDFC outsources technical and management resources wherever necessary from the best available private agencies through procurement procedures that are transparent and acceptable to external funding agencies.

I-8 Andhra Pradesh Urban Infrastructure Fund

"Andhra Pradesh Urban Infrastructure Fund (APUIF)" is a fund under Indian Trust Act, 1882. The Chairman of the Fund is the Chief Secretary of the State. The Fund Board has following other members *termed as the Board of Trustees/Board of Management:*

- The Principal Secretary (MA&UD);
- The Principal Secretary (Planning);
- The Principal Secretary (Finance); and
- Commissioner & Director of Municipal Administration
- Director of Town and Country Planning
- Managing Director, Hyderabad Water Supply and Sewerage Board.
- Managing Director, APUFIDC

Eligible Borrowers:

All Urban Local Bodies and the statutory Boards are eligible borrowers and all sectors covered by urban local bodies are eligible for funding.

Fund Manager

APUFIDC, which is a state owned public sector company, has been made as Asset Management Company. The management and control of the AMC is vested with its Board of Directors. The objective of the AMC is to manage the financial assets of the Fund and the deployment of the resources of Fund as per the investment and lending policies and procedures of the Fund based on a Management Contract. In addition to this the AMC will provide the following services:

- Project advisory services;
- Financial advisory services;
- Develop appropriate sustainable financing mechanism for projects; and
- Act as a catalyst in the overall local self-government development with the help of the Administrative department in Government.

I-9 Madhya Pradesh Urban Infrastructure Fund

The Madhya Pradesh Urban Infrastructure Fund (MPUIF) is structured as a Trust under the Indian Trusts Act, 1882. The funds contributed to the revolving fund of the Trust would be refundable.

Objectives

The key objectives of MPUIF are:

- Identify and finance the development of bankable urban infrastructure projects
- Facilitate ULB access to Central Government Funds for urban infrastructure viz, JNNURM, PFDF and others, and also to external institutional finance and/or capital markets for increased investment in urban infrastructure without the support of GoMP guarantees
- Offer appropriate credit enhancement measures to ULB's external borrowings to enable a reduction in cost of capital and increase in tenor of borrowing
- Facilitate improvement of creditworthiness of ULBs in MP in long run
- Promote private and community sector participation in delivery and financing of services with focus on the consumer
- Provide support to GoMP to identify and monitor implementation of reforms in policy, operations, finances and structures of ULBs in MP

Implementation model

The MUIF is a fund geared to support development of viable, bankable urban infrastructure projects in Madhya Pradesh, and it supports ULBs not only through development finance but also offer project development expertise, through retaining a professional Project Development Company (PDC) to work with ULBs to develop these projects. In addition, the MPUIF also extends credit enhancement support to ULBs to enable them to access external capital markets for funding these urban infrastructure projects. Further, MPUIF's credit enhancement would also enable ULBs secure funds for longer tenors and at lower costs

The MPUIF has two components (i) *Project Development Fund (PDF),* which is aimed at funding the conceptualization, technical and financial structuring and feasibility assessment, design and detailed engineering, preparation of DPR and assisting ULBs of MP in achieving financial closure of projects (ii) *Credit Enhancement Fund (CEF),* aimed at enhancing the quality of credit of ULBs accessing external capital markets for funding urban infrastructure projects. The funds from the CEF would be utilized to enhance the borrowing's credit rating, thereby enabling ULBs to mobilize resources at lower cost and for longer tenors.

II – URBAN POVERTY ALLEVIATION FUNDS

II-1 Urban Poor Development Fund in Cambodia

The Urban Poor Development Fund (UPDF) was set up in March, 1998, as a joint venture of Phnom Penh’s network of community savings groups, the Municipality of Phnom Penh and the Asian Coalition for Housing Rights (ACHR). The idea was to create a revolving fund to provide soft loans to poor communities for their housing and income generation initiatives, through their savings groups, and to use the fund to pool efforts in partnership and development in the city. The UPDF remains the only ongoing support system for the urban poor in Phnom Penh, and it is also playing the role of “big sister” to poor community networks and spin-off development funds in a growing number of provincial cities around the country.

Objectives

The fund aims at finding ways to develop the urban poor's capacity to control their own development process. It provides low-interest loans for housing, settlement improvement and income generation to urban poor communities that are actively involved in a community savings process. Loans are made only to communities, not to individuals, through their savings groups and community federations. Besides providing a much-needed source of affordable credit, the UPDF offers a support system for the poor in several ways: adding capital to community savings to help people work beyond their financial limitations, supporting community innovations in housing, settlement improvement and tenure negotiations which demonstrate fresh solutions and test new kinds of institutional set-ups. The fund provides development "short cut" which allows people to do things neither their own nor the city's resources can immediately support, without bureaucracy, the fund can link needy groups to resources for house-building, water supply, income generation or welfare.

Fund management

The UPDF operates independently, but under the umbrella of the Phnom Penh Municipality, which provides office space, staff support and has actively supported the fund from the start. The UPDF is governed by a “mixed” board (which includes a majority of community leaders, with representatives from the Municipality, ACHR, NGOs and other development agencies) and managed by a small staff, with as little bureaucracy and as much flexibility as possible. The governing body appoints a fund management team, develops policies for the fund's use, reviews its operation, sets loan terms and interest rates and raises funds. The following is the fund size:

UPDF CONTRIBUTORS	US$
Solidarity and Urban Poor Federation	3,000
Municipality of Phnom Penh	10,000
ACHR (SDI, Selavip Caritas, HI)	50,000
MISEREOR (Germany)	40,000
TOTAL	103,000

Outcomes

When the UPDF began in 1998, it started with zero. After decades of war and upheaval, there were practically no real "communities" in the city - just groups of very poor people, without any strength or unity, living in squalor and insecurity in shacks and dilapidated rooms. Many saw the problems the city's poor were facing and realized there was no institution to help them solve their problems of housing, tenure security, jobs and welfare. At the same time, neither the national government nor the Municipality of Phnom Penh had any resources or vision about how to accommodate the poor in their city. As a result, eviction became the de-facto way of resolving conflicts between the city's development and the poor's housing needs. Today, the powerful forces of land speculation and unbalanced urban development are still there, and the city's poor communities remain as vulnerable to eviction as ever. But there are many important differences:

- The city's poor communities are now much better organized, and through their ongoing projects and their ongoing dialogue with their local government officials at ward, district, city and national levels, they have demonstrated that they are not adversaries of urban development but viable development partners.
- Through an ongoing series of UPDF-supported exposure visits to other Asian countries, community leaders and government officials at ward, district, city, provincial and national level now have a common vision and a much broader set of options about how to deal creatively with the housing needs of the urban poor - without evicting them.
- Ideas of land-sharing, community upgrading, community-managed resettlement and resettlement-with compensation are all now well-known concepts in Cambodia, while dozens of UPDF-supported housing and settlement upgrading projects have given concrete form to these ideas and set precedents which show that partnership and compromise can create "win-win" solutions for the city and for the poor.

II-2 Community Led Infrastructure Finance Facility (CLIFF)

The Community Led Infrastructure Finance Facility (CLIFF) is a unique financing model to reduce urban poverty through the financing of housing and basic services to the urban poor living in slums. It was designed on the basis of findings from the DFID sponsored research project – "Bridging the Finance Gap in Housing and Infrastructure". The Department for International Development (DFID) was an active and interested partner that provided corpus, which was followed by the contributions from the World Bank and Swedish International Development Agency (SIDA). The aim of the finance facility mechanism was to support the means for reduction in urban poverty by strategic investment in precedent-setting infrastructure and housing initiatives that have the potential for scaling up.

Objectives

The finance mechanism has the following objectives:

- Develop a financing facility mechanism for assisting organizations of the urban poor to carry out successful community-driven infrastructure, housing and urban services initiatives at city level, in conjunction with municipalities and the private sector;
- Develop a sustainable financing vehicle (CLIFF1) in India to continue the provision of specislist financial services to the urban poor after the conclusion of the project stage;
- Develop a sustainable in-country financing vehicle (CLIFF2) in at least one other country to replicate the concept in different institutional setting and to benefit additional communities/ cities if further funds can be attracted.

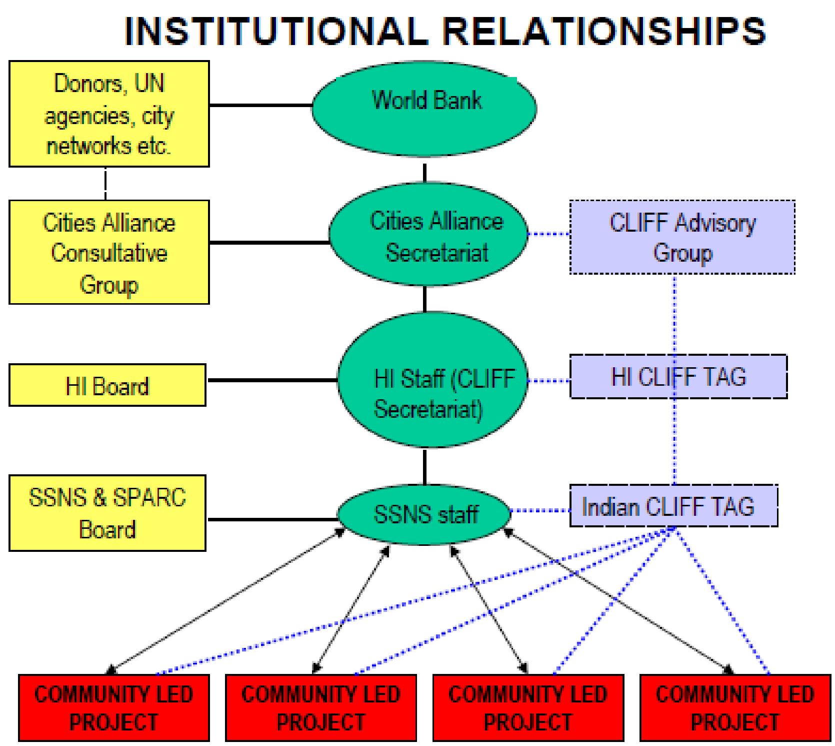
Implementation process

The CLIFF has mobilized initial finance capital from donor agencies and it provides finance to the implementing agencies, which also leverage finance from banks, municipalities and financial institutions. The capital mobilized is used to finance specific community level projects particularly housing and basic services. In the process of mobilizing and using funds, it uses a variety of financial instruments to meet the requirements viz.,

- bridging loans to kickstart scaleable infrastructure, upgrading and resettlement projects

- hard currency guarantees to secure bank financing for projects
- technical assistance grants to get projects to the stage where they are ready for financing
- knowledge grants to ensure the learning is shared by communities, municipal officials, technical professionals and policy makers etc.
- grants for development and running costs to Homeless International and SSNS

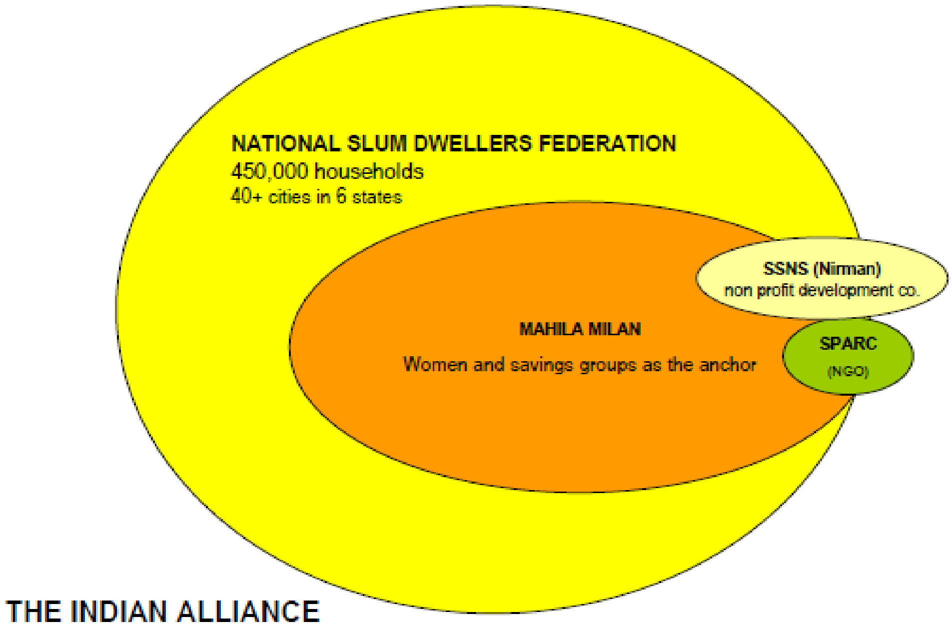
The CLIFF project would provide finances in the form of bridging loans, guarantees and technical assistance to initiate medium scale urban rehabilitation. It works in partnership with CBOs and NGOs that have a track record in the delivery of urban rehabilitation. This mechanism seeks to attract commercial, local and public sector finance for assisted schemes so that it can accelerate or scale up the response to the challenge of urban renewal. The following diagram shows institutional structure.



Implementation structure

CLIFF establishes local CLIFF agencies that can operate as sustainable local institutions. The CLIFF India project, for example, is designed to be implemented in a partnership model (Figure 2 shows the alliance) and the main partners are:

– Homeless International (HI) (the implementing agency)
– Society for Area Promotion and Resource Centre (SPARC) (local partner)
– SPARC Samudaya Nirman Sahayak (SSNS) (local development parner)

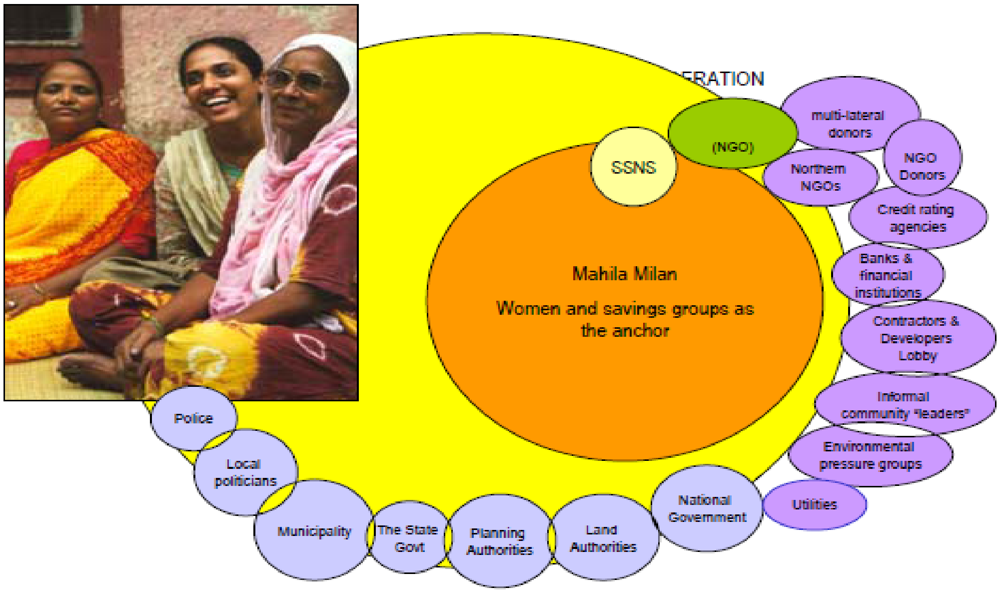


The project selection is done in the following steps:

– The National Slum Dwellers Federation (NSDF) assesses opportunities and identifies flagship projects.
– Technical assistance is organized through SSNS to make the projects bankable
– Local Technical Advisory Group (TAG) and HI TAG review projects proposed by SSNS staff for financing and make recommendations to SNS and HI Boards
– CLIFF loans are extended and negotiations begin for guaranteed loans from banks
– Progress of project and the loan portfolio as a whole is monitored by the Federation, SSNS and HI
– Learning emerging from the projects is shared throughout the Federation and with other interested parties

Outcomes

The CLIFF process was built on the collective organizational capacity of poor communities that has been developed through (a) establishment of savings and loan groups (b) carrying out enumerations and settlement mapping (c) participating in housing and sanitation modeling and exhibitions (d) sharing learning with other through community-to-community and city-to-city exchanges. The networking of organizations and leveraging resources through these relationships is an outcome of this project, which is also implied in following diagram.



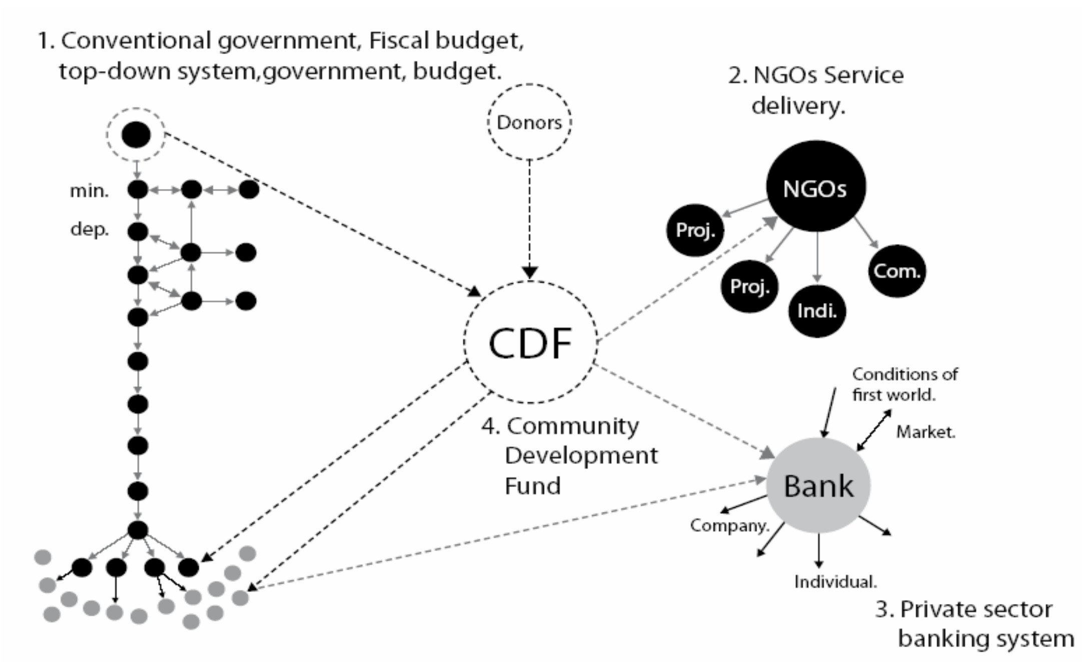
The Alliance and its local relationships

II-3 Urban Community Development Fund in Thailand

Urban Community Development Fund (CDF) was set up in Thailand based on an extensive study of current models to address poverty alleviation, which included several consultations with variety of stakeholders representing urban community. It was set up with a seed capital of Thai Baht 1250 million (UD 35.7 million) to be made available through Urban Community Development Office (UCDO) set up in 1992 as an independent body to work on community development activities. The administration of CDF by UCDO was advantageous as it had institutional capacity (both technical and administrative) to undertake such activity based on its experience of community building and the needs of urban poor.

Implementation Structure

Figure 1 shows the Community Development Fund model.



The UCDO acts as fund manager with an independent Board of Directors, comprising four government representatives, four elected community leaders and three professionals representing NGOs and private sector. The revolving Fund model gave flexibility to management development process led by the community, as they could access Fund directly without undergoing negotiation with government department and bureaucratic procedure. This offered an alternative to the conventional, expensive and externally managed development for the urban poor which very often meant long delays before funding was made available and a need to spend money quicker than required.

Lending terms and structure

UCDO offered three kinds of loans to community savings groups (not to individuals): (a) Loans for community revolving fund that are flexible to the needs of community (b) Income generation loans that are made available for income generation activity of the community and (c) Housing loans for building, repaid, extension, installation and upgradation. Table 1 shows the features of these different types of products offered by the UCDO.

Type of Loan	*Purpose of Loan*	*Annual Interest Rate*	*Maximum Term*
Revolving funds	Used as revolving fund to a saving group	10 per cent	1 year
Income generation	Individual or group business investment	8 per cent	5 years
Housing (project)	Housing project for a community with immediate problems of purchase of land and house building	3 per cent for < Baht 150,000 8 per cent for > 300,000	15 years
Housing improvement (non-project)	For repair, renovation and extension of house and utilities	10 per cent	5 years

Access criteria and lending rate

Besides lending rates and terms, certain other eligible criteria were also drawn in order to avail loan facility: (a) Community organisations should have organised savings activities and put in place accurate and reliable accounting and financial management systems for at least six months; more the savings more could be borrowed (b) Ceilings were imposed on as the multiples of savings amount that can be borrowed. The Board had calculated that it would be self-sustaining with an annual average interest rate of seven per cent with the structure as follows:

- four per cent for administration and development activity costs
- one per cent for bad loan reserve
- one percent for special community activities
- one percent to go back to the Fund

Besides various community loans, the UCDO worked with other development organisations that offer development grants for to community organisations such as (a) USD 1.3 million grant program for community managed environmental improvement projects from Danish Government (b) Social Investment Fund to support community welfare in the form of loans/grants or partial loans

II-4 Pakistan Poverty Alleviation Fund

The World Bank funded Pakistan Poverty Alleviation Fund (PPAF) Project was designed to reduce poverty and empower the rural and urban poor in Pakistan. It provides access to much-needed micro-credit loans and grants for infrastructure and capacity building. The PPAF project aims to help the rural poor in Pakistan get out of a cycle of misery, and get into a virtuous cycle of opportunities. The Pakistan Poverty Alleviation Fund (PPAF) was created as an autonomous body working with local partners to provide loans, grants and technical assistance to the poorest individuals and communities in the country. The PPAF was funded by a US$ 90 million World Bank credit and an endowment of US$ 10 million from the Government of Pakistan in 2000. The PPAF has, as of now, a resource base of US$ 500 million.

Objective

The Pakistan Poverty Alleviation Fund (PPAF) is an innovative model. As the lead/ apex institution of the country wholesaling funds to civil society organizations, the PPAF forms partnerships on the basis of rigorous criteria. Before finalizing partnerships, the PPAF ensures that the partners have well targeted community outreach programs that are committed to enhancing the economic welfare and income of the disadvantaged peoples.

Beneficiaries

The target population for the project is poor rural and urban communities, with specific emphasis being placed on gender and empowerment of women. Benefits accrue directly to the vulnerable through income generation, improved physical and social infrastructure, and training and skill development support.

Women and girls in particular have benefited, since they bear a higher share of the burden of poverty because of fewer economic opportunities and lower endowment of land and other income-generating assets. PPAF focuses on improving the lives of women by ensuring that community projects and loans responding to their priorities, and designed with their participation, take precedence over others.

Approach

PPAF envisions itself to be the vanguard of civil society endeavors for achieving a decisive impact on poverty by building human, social and economic capital and moving towards a long term integrated program. It has enhanced public awareness through community participation. The experiment was so successful that there has not been any default, and the communities are willingly contributing to the infrastructure and training programs of the partner organizations. The timely completion of the projects is improving the quality of life of the beneficiaries. Partner organizations are engaged and have been finding their individual solutions to indigenous problems and challenges. This creates a framework of shared values and mutual trust, which in turn allows for partner organizations to reach new levels of understanding and maturity.

Impact

The PPAF completed two project cycles - first phase with investments of US$ 107m in 2004; second phase with investments of US$ 238 million. All targets and forecasts were surpassed well before time, and the project was evaluated as "highly satisfactory". PPAF worked with 56 partner organizations in 96 districts of Pakistan with total disbursements crossing the Rs10 billion mark. With over 40,000 new community organizations that were formed (which could transform into Citizen Community Boards) at the lowest tier of local government in Pakistan, more than 8,000 infrastructure schemes have been initiated of which 5,500 stand completed. Micro credit lending has exceeded the Rs 6 billion figure with 100% recoveries, and over 100,000 community members and staff of partner organizations have participated in trainings facilitated by the PPAF.

II-5 Rashtriya Mahila Kosh (RMK), India

The National Credit Fund for Women or the Rashtriya Mahila Kosh (RMK) was set up in March 1993 as an independent registered society by the Department of Women and Child Development in Government of India’s Ministry of Human Resource Development with an initial corpus of Rs 310 million. It was set up in response to the long time felt need of credit availability to poor women, which was not catered to by the formal financial institution and which led to vast gap between demand for and supply of credit in this sector. RMK is a national level apex organisation providing micro-finance services for women in India. The micro-finance services comprise the activities of:

- *Micro-credit activities* – Small loans, primarily for income generation activities, but also for consumption and contingency needs;
- *Micro-savings activities* – Thrift or small savings from borrowers’ own resources

Objectives

The main objectives of RMK are:

- To provide or promote the provision of micro-credit to poor women for income generation activities or for asset creation
- To adopt a quasi informal delivery system, which is client friendly, uses simple and minimal procedures, disburses quickly and repeatedly, has flexibility approach, links thrift and savings with credit and has low transaction costs both for the borrower and for the lender
- To demonstrate and replicate participatory approaches in the organisation of women’s groups for thrift and savings and effective utilisation of credit
- To use the group concept and the provision of credit as an instrument of women’s empowerment, socio-economic change and development
- To cooperate with and secure the cooperation of the Government of India, State Governments, Union Territory administrations, credit institutions, industrial and commercial organisations, NGOs and other in promoting the objectives of the Kosh
- To disseminate information and experience among all the above agencies in the Government and non-government sectors in the area of microfinance for poor women

- To receive grants, donations, loans etc for furtherance of the aim and objectives of the Kosh

Implementation structure

The Office of the Kosh is centrally located in New Delhi with an Executive Director managing the affairs. The Executive Director is the chief executive officer of the Kosh and functions under the overall supervision, direction and control of the Governing Board. The Governing Board comprises 16 members, consisting of senior officers of the Government of India and State Governments, specialists and representatives of NGOs activities in the field of micro-finance for women. The Governing Board is chaired by the Minister in charge of the Department of Women & Child Development in the Government of India with following composition:

1. Secretary, Ministry of Women & child welfare, Government of India (Ex-officio member)
2. Secretary, Ministry of Rural Development, Government of India (Ex-officio member)
3. Secretary, Ministry of Urban Development, Government of India (Ex-officio member)
4. Secretary, Planning Commission, Government of India (Ex-officio member)
5. Additional Secretary, Banking Division Government of India (Ex-officio member)
6. Two Secretaries of State Government in-charge of Welfare and Development of Women (By rotation as may be nominated by Government)
7. Specialists and representatives of Government in-charge of Welfare and Development of Women (By rotation as may be nominated by Government)
8. Executive Director, RMK (Ex-officio Member Secretary)

The Governing Board meets at a periodicity and takes major decisions. The protocol followed by the Board is laid down. The Board can also appoint sub-committees to seek advice as appropriate and amend bye-laws/procedures. There is a Central Advisory Committee comprising subject specialists that provide assistance and advice with to broad policies and programmes and new directions for development of Kosh activities. Government has a right to issue suitable directives on broad questions of policy and matters of general interest to the Kosh.

The General Body of the RMK consists of (a) permanent members (sponsors), (b) all members of the Governing Board, (c) institutional members (financial institutions, banks/ corporate bodies, public charitable trusts, benevolent societies, academic bodies, research institutions, institutions or bodies set up by state or central government or other agencies for the purpose of upliftment of women) and (d) individual members (experts, individual beneficiaries, groups/ federations). The terms of membership are well laid down and so also the meeting dates of the Body.

Roles of RMK

The RMK has three main roles:

a. *Wholesaling Role* – It acts as a wholesaling apex organisation for channelising funds from government and donors to retailing intermediate micro-finance organisations (IMOs)

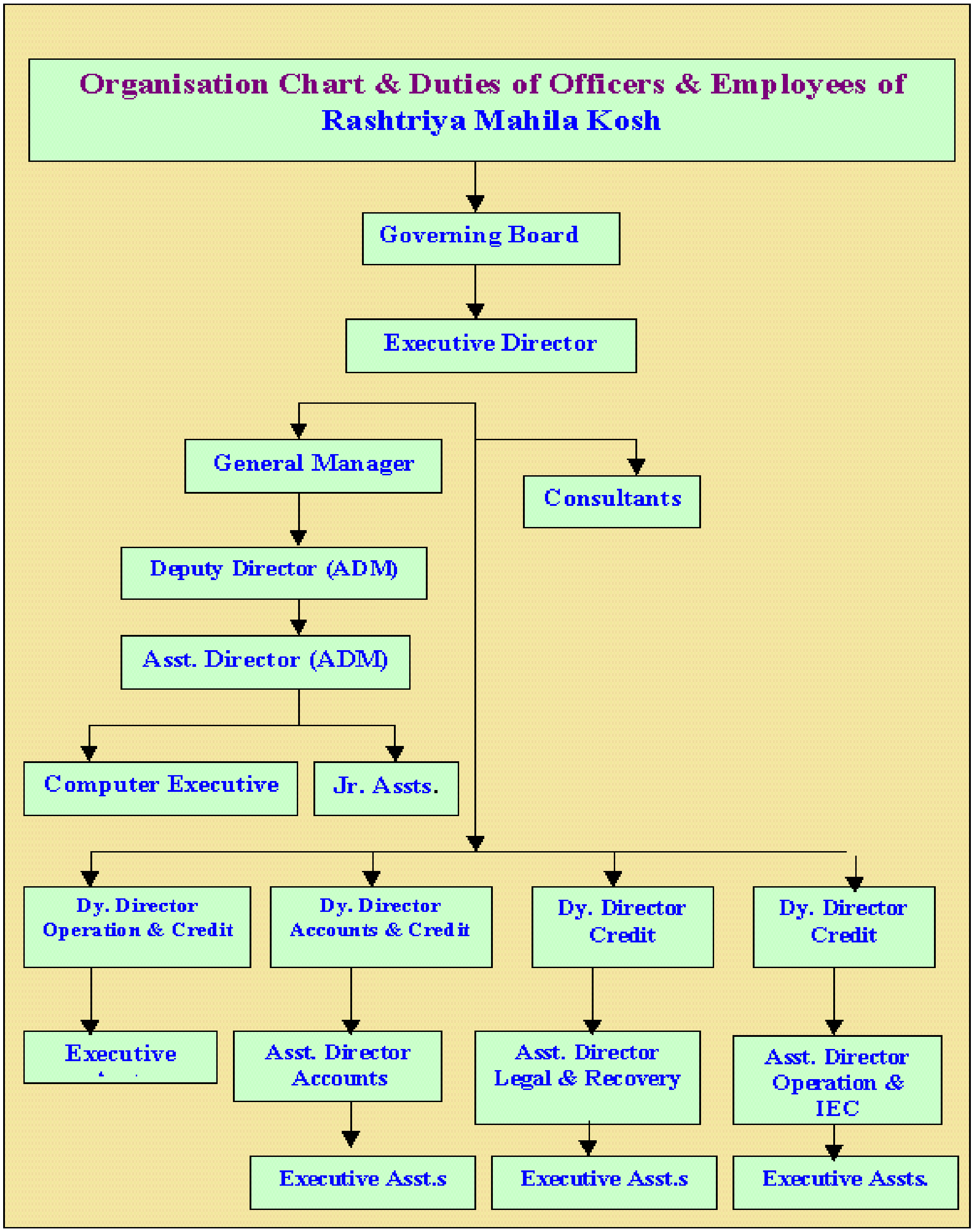
b. *Market Development Role* – It develops the supply side of the micro finance market by offering institution building support to new and existing-but-inexperienced IMOs by structures of incentives, transfers of technology, training of staff and other non-financial services

c. *Advocacy Role* – whereby it acts as an advocate or agent for influencing development and micro-finance policy and creating a more enabling policy and legal environment for the spread of micro-finance activities in India.

Achievements

RMK has developed an organisational structure to perform the various functions, with its staff comprising (a) the officers on deputation (b) regular staff and (c) contractual officials. They handle all types of loans and schemes for various beneficiaries, and maintain accounts and audit. The Funds of the Kosh consist of:

- Grants received from sponsors or members
- Grants received from Central and State Governments, Other Trusts, Socieites and Foundations, and international bodies
- Donations or contributions from person or bodies
- Income from investments
- Income from other sources
- Loans raised by the Kosh
- Membership fee



RMK had sanctioned a total of Rs 294.74 crores and disbursed Rs 239.33 crores to 1442 NGOs, 67,415 SHGs and 674,150 beneficiaries during 1993-2010. Its assistance is well spread across all Indian States. It now offers wide range of finance products – loans, revolving fund, housing loan, gold credit loan, refinance scheme, franchisee scheme and working capital term loan. It also organised 14 awareness-cum business development workshops, capacity building and skill development programmes during the year 2008-09 at various locations in India.

II-6 United Nations Trust Fund

Objective

This project aims to strengthen the self-confidence, competence and dignity of the urban poor by reducing poverty, vulnerability and social exclusion through direct empowerment of communities and improved access to affordable basic services and better living environments. The project will also seek to foster voluntary relocation schemes that benefit poor families in a sustainable manner, while also supporting urban upgrading efforts that create employment opportunities for community members.

Operations

- Support the establishment of Community Human Security Funds and Action Plans.
- Provide vocational and skills training to reduce poverty, improve income generation and increase productivity.
- Promote voluntary relocation schemes that benefit the poor economically, socially and environmentally.
- Develop slum upgrading pilot projects to foster pro-poor policies and more cost-effective approaches to delivering shelter and services for the urban poor.

Beneficiaries

People and communities in informal settlements and urban slums in the Municipality of Phnom Penh, as well as local district and municipality officials, community representatives and NGOs are the key stakeholders of the Fund.

Outputs

- As part of Phase I of the project, over 30 hectares of land were secured in various districts to support voluntary relocation of over 1,000 families.
- Drains, community roads, and water and sanitation infrastructures were built and/or upgraded in 7 communities, benefiting over 2,000 families in different informal settlements across Phnom Penh.
- 69 local community organizations accounting for 6,000 families have been supported to form one community institution, as part of Phase II of the project, which has also further replicated the establishment of Action Plans and Community Human Security Funds.
- Slum upgrading efforts have benefited more than 12,000 cumulative families through the construction of community infrastructures such as foot bridges, drains, latrines and water systems, throughout Phase II.
- Strengthening of urban poor community groups has also empowered the more vulnerable to participate in municipal planning and voice problems and priorities in the development of urban policies.

II-7 Japan Fund for Poverty Reduction

The Japan Fund for Poverty Reduction (JFPR) was established to support the Asian Development Bank's (ADB) fight against poverty. It provides ADB's developing member countries (DMCs) with grants to support innovative poverty reduction and related social development activities that can add substantial value to ADB projects. JFPR is an investment grant fund financed by Japanese Government to significantly help ADB reach its goal of decreasing by half the proportion of poor people in Asia and the Pacific by 2015. From an initial contribution of $90 million by Japanese government, the Fund now stands at well over $360 million, of which $224 million has been committed.

Objectives

JFPR assists ADB clients to provide direct relief to the poorest and most vulnerable segments of society while building up their capacities for self-help and income generation. It aims to provide grants in relation to ADB's loans to reduce poverty, and also to support capacity-building efforts. The Fund's objectives are:

- To support well-targeted poverty reduction and social development activities that have a direct impact on the poor and on socially or economically excluded or vulnerable groups,
- To stimulate the poor's self-help capacities,
- To stimulate widespread stakeholder participation at the community level, and
- To provide a systematic impact on DMCs' operations and approaches toward sustainable poverty reduction.

Eligible proposals

Proposals for JFPR funding must meet certain criteria viz.

- have a direct impact on poverty reduction for the poor communities/ individuals
- show innovative conceptual links to existing ADB loans
- promote civil society involvement, including implementation through NGOs
- guarantee sustainable poverty reduction impact at the household and macro levels
- not replace traditional ADB or government financing

Beneficiary activities

Examples of the types of activities the Fund will support include:

- small-scale, basic economic, and social services for the poor;
- social development fund activities that channel funding to small-scale projects targeted to benefit the poor;
- NGO activities that support poverty reduction and social development; and
- capacity building for local government, and for community-based organizations for enhancing effectiveness and sustainability of DMCs' poverty reduction efforts.

III – URBAN POVERTY ALLEVIATION PROGRAMMES

III-1 Urban Basic Services for Poor

Urban Basic Services for Poor (UBSP) is a major component as well as the pivot of Urban Poverty Eradication Programme of the Ministry of Urban Affairs and Employment, operational across India reaching an estimated 10 million urban poor. One unique feature of UBSP is its participatory process of planning and action with women from poor neighbourhoods to improve health; education; environment; access to credit and improved incomes and other basic rights for their children themselves and their families. Over 130,000 poor women served voluntarily, working in partnership with city, state, national Government, NGOs and UNICEF.

(a) UBSP Strategy

Urban Basic Services for the Poor (UBSP) is a strategy for the involvement of the urban poor especially women in improving their communities and situations within their families towards overall neighbourhood and ultimately city improvement. The approach has evolved from efforts in urban community development in the 1960s covering 20 cities, to the cost-effective, adaptable approach and then implemented across India in over 465 cities and towns reaching around 10 million urban poor with a momentum which had doubled coverage in a two-year period.

Since 1992, UBSP had grown from a handful of cities and women participating to a network in 25 States and Union Territories and over 130,000 women volunteers organized in 30,000 neighbourhood associations, recognized by the Government. Many of these women have said that before UBSP they were in their homes and could not interact with outsiders. Now, through the training and guidance provided, they are more confident, articulated and unafraid to make their needs and demands known both within and outside their homes. Over 100 of these volunteers have contested municipal elections (1995) with over 60% elected. One of the UBSP cities, Alleppey in Kerala received the UN "We the Peoples' Award" in 1995 (September) for its remarkable achievements in women's organization for children and women's needs.

At the national level, UBSP is one of several programmes with specific objectives of women's empowerment; attainment of social sector goals; and convergence with other Government schemes for long-term sustainability. State

Urban Development Agencies or Cells managed the programme with structures also at the district level, especially those which had many cities and towns.

Within this overall national framework, the community organizational system is what makes UBSP a unique government effort for facilitating peoples participation, beginning in urban poor neighbourhoods. One (or more) RCVs (Resident Community Volunteers) are elected by her neighbours (15-40 households) as a focal point for communication and interaction forming a Neighbourhood Group (NHG). Units of NHGs (around 10 groups) form Neighbourhood Committees, where mini plans are prepared, resources mobilized, and action taken. When formally registered, they may receive programme resources for direct management of activities. In some States, Community Development Societies (CDS) at city or ward level are registered for advocacy, planning and resource mobilization especially for thrift and credit. Through UBSP, one paid Community organizer is generally available for initial organizational and planning work for 2000 households (10,000 persons), expected to work intensively in the communities for several years, helping the women towards self-reliant action. After some time, Community organizers initiate efforts in other neighbourhoods, often with the help of RCVs. At city level, Urban Poverty Alleviation Committees/Units are formed for convergence among departments and overall management.

Management systems and decision making processes: Through broad national guidelines (revised 1994), UBSP was managed and monitored by the then MOUAE, at the national level. State Governments were encouraged to work towards the overall programme goals through systems appropriate to their needs and resources, with a range of institutional arrangements at State and District levels. Greatest flexibility is noted at city and community levels, with the neighbourhood associations of women directly involved in preparing community mini-plans which are reviewed, culminating in a city plan which links community needs with both sector and UBSP resources.

Through systems at national, state and city levels, training, exchange visits, meetings, and communications efforts to strengthen the programme were undertaken. As a needs based programme without a set package of inputs, it is a difficult programme to manage particularly at city and community levels. However, the flexibility which was encouraged yielded positive results in better reaching the urban poor.

Legislation/Regulatory frameworks: UBSP is the only centrally-sponsored programme which clearly and specifically targeted all the urban poor. Two States have forged close links between community structures under UBSP and the representative structures under newly enacted 74 (Constitutional Amendment) Act in statewide legislation, also bringing together all urban poverty programmes with UBSP, by establishing state and city level Urban Poverty Alleviation (UPA) Cells and Funds. The women groups emerging under UBSP are encouraged to formally register as NGOs, important for access to other public resources with over 400 registered groups established.

Social/sector policies: The National Commission on Urbanization (1988) recommended that urban community based programmes be universalized. Therefore, since 1990, UBSP was an integral component of the Government's Poverty Alleviation Programme, with the community systems available to all government programmes as a channel for planning, implementation and feedback. UBSP was referred as a strategy towards achievement of national goals outlined in the National Plan of Action for Children as well as state specific plans arising. Through city planning efforts underway in UBSP cities, sector specific strategies and programmes are being reviewed to meet the community demands generated with over 100 pro-poor city plans of action in place. In the banking sector, National Bank for Agriculture in Rural Development (NABARD) for the first time provided concessional loans to the urban poor, reporting full recovery in the pilot state programme through UBSP.

Access to Shelter: The Government has many programmes to help the poor improve their housing. UBSP groups help to identify beneficiaries. Through the formation of thousands of Thrift and Credit units, the credit-worthiness of many of those who are in need was enhanced. Data from one State, clearly showed the linkage of Thrift and Credit to housing with over 25,000 improved homes in a 2-year period. In Andhra Pradesh, over 70,000 credit groups have been formed mobilizing USD 1.6 million in two years. This, combined with the State's decision to provide land tenure to thousands of poor households, has resulted in home improvements on a large scale.

Poverty Reduction: UBSP had a direct impact on poverty reduction, focussing on the effects of poverty and underlying causes; illiteracy, lack of information, lack of access to services, etc. The community structures and collective actions undertaken help in building confidence, promoting a self-reliant direction for community and individual change. More directly, UBSP made available programmes for skill development. Revolving funds for small loans were administered directly by the NHCs. With the recent introduction of thrift and credit, the previously untapped savings potential among these women is now emerging.

Partnerships: UBSP was a partnership financed 60:40 between GOI and States, with city or community contributions, underway in atleast 50% of cities. Each of the participating states had its unique experience in this programme. Over 100 NGOs are involved, providing technical and mobilization support. UNICEF was a partner, providing support towards training, management, research, communications, demonstration activities and NGO collaboration. The philosophy of UBSP was seen in programmes of other donors such as ODA-UK, Integrated Population Projects (World Bank) among others.

(b) Sustainability

The UBSP approach proved to be a cost-effective community organizational system which is staff and time intensive, until groups are formed and understand their potential and undertake successfully collective action (time frame 12-36 months). A network of both Government and NGO Training Centres evolved in 16 states for UBSP, extending to neighbourhood level through city-based resource teams. Over 130,000 volunteers, and thousands of functionaries involved were trained. This network of experienced trainers and centres with direct community linkages is an asset for future expansion.

Since 1994, UBSP has widened its vision from a "slum pocket/project approach" to the ultimate goal which is poverty eradication within a total city perspective. It views the programme as beneficial for the urban poor, as well as to the entire city. This strategic vision supported by Government, sectoral departments, cities and communities is a strong foundation for reaching those yet unreached, urban poor.

III-2 Andhra Pradesh Urban Services for the Poor

Andhra Pradesh Urban Services for the Poor (APUSP) is an innovative partnership initiative of Government of Andhra Pradesh (GoAP) and DFID with the overarching goal of sustained reduction of poverty and vulnerability in the State. The project is undertaken with an outlay of Rs 1500 Crores. Government of UK has provided a grant of Rs 745 crores. The purpose is to benefit the poor from improved access to more appropriate and sustainable services. The Project aims to:

- Stimulate reforms for performance improvement in the identified urban local bodies.
- Provide environmental infrastructure based on the needs of the poor, and strengthen the civil societies to participate in municipal governance and contribute to poverty Alleviation.
- Improve municipal governance so that they become responsive and efficient to the needs of people- poor in particular
- To improve environmental infrastructure for poor in a sustainable way
- Undertake poverty reduction measures with active participation of poor and civil society

(a) Key features

A significant feature is its commitment for participatory processes in planning and implementation. The Project involves a broad range of civil society organisations and promotes links between municipal government, Civil Society and NGOs. The Project incorporates the challenge fund concept. There is no automatic entitlement for project funds. Access to funds depends on performance. The project provides incentives for towns to set their own targets and to improve their performance. The challenge for ULBs is to effectively use the incentives to get access to progressively higher levels of funding.

Continuous capacity building is another key feature. The significant and key features of the project are preparation of Municipal Action Plan for Poverty Reduction (MAPP), preparation of poor settlement matrix prioritizing the slums, micro planning, and convergence.

(b) Components

APUSP comprises three distinct linked and complementary components: *Component 1* deals with reforms in the areas of policies, management practices, institutional structures, participatory planning process, strengthening municipal resources, capacity building and human resource development, effective service delivery, accountability and increase municipal responsiveness to community needs.

Component 2 envisages provision of water supply, drainage, roads, streetlights, sanitation and solid waste management in poor settlements. There is also provision to link the infrastructure in the poor settlements with the citywide infrastructure. *Component 3* aims at strengthening civil societies to enable them to become partners in city management and governance.

(c) Municipal Action Plan for Poverty Reduction (MAPP)

Preparation of a Municipal Action Plan for Poverty Reduction (MAPP) in a participatory and transparent way by the Municipality is an essential condition for accessing Project funds. It is a framework for improved performance and service delivery. The MAPP is led by the municipality and brings citizens into decision-making and implementation through participatory and consultative processes. The MAPP is an action plan for municipalities to improve planning, financial and management functions with a view to improving services for the urban poor.

The MAPP incorporates proposals to improve municipal capacity to address community needs, identify sub-projects for poverty reduction and to develop responsiveness towards community needs. The basic principles of MAPP are political and executive support; consultation with poor communities; and transparency and accountability. Initially MAPP is prepared with simple reforms and aim at provision of infrastructure in few settlements. In the second stage a 3-5 years rolling plan is prepared incorporating major reforms and provision of more services. *Preparation of a Municipal Action Plan for Poverty Reduction (MAPP) in a participatory and transparent way by the Municipality is an essential condition for accessing Project funds.*

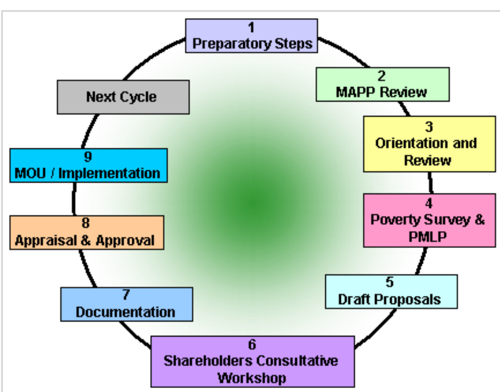


Figure 11: MAPP Process

The preparation of MAPP involves a nine-stage process in a participatory and transparent way. Community involvement is very extensive in the first five stages and the remaining stages involve preparation of MAPP document, appraisal and approval, preparation of detailed estimates, review and fund release.

(d) Preparation Poor Settlement Matrix

The heart of APUSP is preparation of a poor settlement matrix for all the slums in the city. It is prepared based on poverty and infrastructure deficiency in the slums. Deficiency is measured on two criteria viz., poverty and infrastructure.

Ranking of slums is based on the above criteria. For measuring poverty BPL population in the sum and the number of SC and ST population is taken into consideration. Similarly, for measuring infrastructure deficiency, provision and access to environmental infrastructure like water, roads, drains, etc., in the slum are taken into consideration.

All the poor settlements in the city are ranked in order of priority in the matrix giving weightage to each parameter. For purposes of the matrix, the slums are classified into three categories viz., (i) those with more poverty and extreme deficiency of infrastructure, (ii) with medium poverty and medium deficiency of infrastructure and (iii) those with less poor and less infrastructure deficiency. The categorisation is relative. This exercise is undertaken by the communities with the help and support of the municipal officials who provide data on the status of infrastructure including deficiency and poverty status in each slum. As the communities are involved in its preparation, there is greater ownership and acceptability to the prioritisation. Once the matrix is approved by the municipal council, slums are selected for investments and development from the matrix based on availability of the financial resources. This process is objective, participatory and transparent. A sample matrix is given below.

Poverty and EID Matrix

Poverty →

SCORE	**1**	**2**	**3**
1	**1/1**	**2/1**	**3/1**
2	**1/2**	**2/2**	**3/2**
3	**1/3**	**2/3**	**3/3**

↓ Infrastructure

Deficiency

(e) Micro-planning

As the local bodies do not have basic data on the poverty situation in the city, the community teams, supported by the municipal teams, also conduct surveys to develop database on each slum, both on infrastructure and social development aspects, as part of micro planning. The municipal teams prepare survey report and it is shared and discussed with the communities. There will be extensive discussions on the status of education, health, livelihoods, SHGs, vulnerability, etc. Later the report is approved by the community and finalised.

Community groups undertake planning exercise on infrastructure and human development aspects including education, health, livelihoods, SHGs, vulnerable groups, etc. They identify the problems and prepare draft settlement action plan for infrastructure provision and human development. They also discuss available resources of the community, municipality including sponsored schemes and convergence departments. Based on these discussions a draft action plan is prepared by the municipal teams and the same is discussed with the communities. It is finalised based on the feedback from the communities. The micro-plans of different poor settlements are consolidated at the city level to make city level action plan for poverty reduction.

(f) Livelihood Development

Livelihood development is an important component of APUSP. This is being undertaken through a programme called UPADHI – urban programme for advancement of household incomes. One significant feature provision of livelihoods is the market scan, which surveys the local economy, skill requirements of the local economy and available skills in the communities. The skill training is imparted based on employment potential and local market needs. While selecting the people for training poorest of the poor are given priority. Another project taken up is strengthening self-help groups and providing linkages with the banking institutions to support livelihood activities and micro-enterprises. This contributed to develop sustainable programmes.

(g) Impacts and Outcomes

The project made significant impact on the local institutions and poverty. Reforms streamlined the financial management including audit and accounts, improved finances of the municipalities; improved the capacities of the officials, elected functionaries and communities. Extension of the MAPP process – participatory planning, matrix preparation, micro planning, UPADHI, etc., - to the entire local bodies in the state is a significant contribution. Closed decision making gave way to transparent and participatory decisions; resource allocation based on analysis and prioritization than patronage and political pressures; active civic engagement in city governance, etc., are the other significant contributions of the project. The Andhra Pradesh poverty reduction strategy, which is based on the APUSP experience, is holistic, participatory, convergent and process oriented.

III-3 Kudumbashree (Kerala)

A multi-pronged bottom up approach to poverty reduction was initiated in Kerala which evolved into Kudumbasree – considered to be the best practice in poverty alleviation by the United Nations.

The roots of the initiative can be traced to the joint programme, called Urban Basic Services, launched by the GoI and UNICEF in 1986 with the objective of lives of those living in slums based on the principles of community participation in planning, implementation, monitoring and feedback. As part of this initiative a Community Based Nutrition Program was launched in Allapuzha municipality in 1991 to improve the health and nutritional standards of the children and women. Inspired by the positive experiences of Aalapuzha, the experiment was extended to Malappuram district covering both urban and rural areas in 1993.

The state government scaled up this programme as a poverty strategy in 1998 as Kudumbasree with the objective of eradicating poverty. Kudumbasree - prosperity of the family – is acclaimed as the Magna Carta of the poor. It was envisaged as a Mission for eradication of poverty in the state.

(a) The Mission

"To eradicate absolute poverty in ten years through concerted community action under the leadership of Local Governments, by facilitating organisation of poor for combining self help with demand led convergence of available services and resources to tackle the multiple dimensions and manifestation of poverty holistically".

(b) Strategies

Convergence of various government programmes and resources, participatory anti-poverty planning and implementation, formation of thrift and credit groups and development and nurturing of micro-enterprises is central to Kudumbashree strategy. The details of the strategy include:

- Formation of women collectives.
- Training to share experiences and to broaden outlook on health, education, social and economic status.
- Skill upgradation to facilitate economic development and livelihoods
- Providing skill upgradation trainings, self-employment opportunities and infrastructural development through wage employment schemes are the preparing grounds for further development of successful micro enterprises.
- Thrift - credit operations and 24 hour banking system.

- Small savings generated at the families are pooled at various levels as thrift and used to attract credit from banks, which will operate as 24-hour bank for the poor, acting as a sub-system of the formal banks.
- Better living conditions - Infrastructure facilities.
- The micro-plans formulated by the Neighbourhood Groups (NHGs) are integrated into mini plans at ward level and action plan at city level. This will be the anti-poverty sub plan of the local body and this will facilitate convergent delivery of Government programmes meant for the poor.
- Kudumbashree promotes self-help approach for building houses, toilets, water and sanitation facilities etc. Individual facilities are supported and strengthened by the common infrastructural facilities.
- Micro-enterprises for sustainable economic development.
- Kudumbashree gives necessary resource support and facilitate forward/backward linkages to promote micro-entrepreneurship among poor women.

(c) A Convergent Model

One of the significant features of Kudumbasree is that it is a convergent programme. Convergence is achieved in planning and implementation through community based organizations. It mobilizes resources and other inputs from several convergent departments and agencies as shown in the diagram.

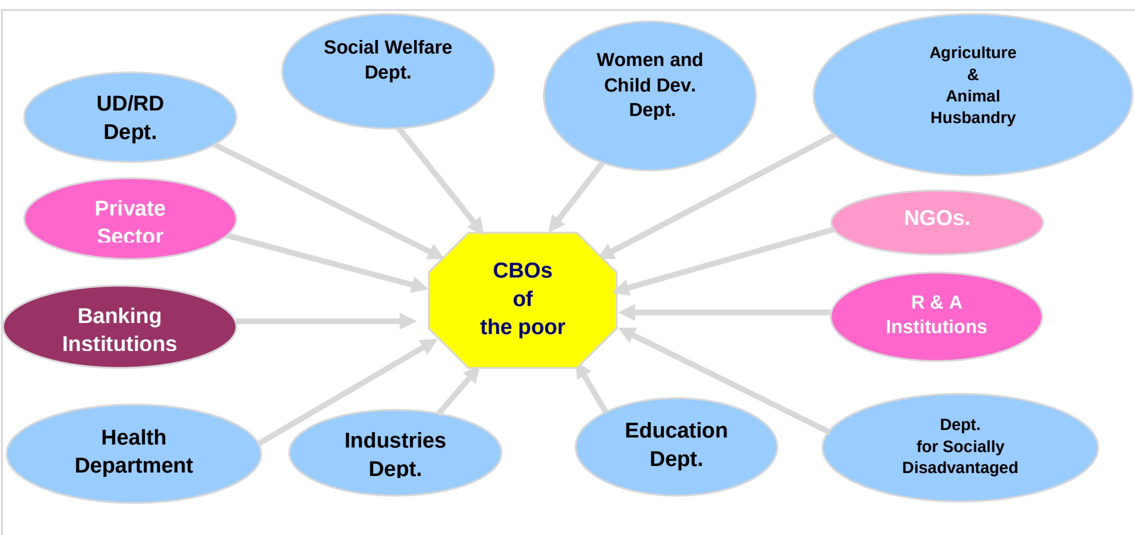


Figure 12: Kudumbasree Convergent Model

(d) Risk Indictors

The risk index was initially developed in Alappuzha and the beneficiaries that belonged to risky families were identified based on a nine point criteria. The risk index was modified and refined to meet the needs of the entire state and the indicators are revised periodically based on needs. The transparent and non-economic nine risk indicators are:

- Landless
- Houseless
- Without access to drinking water
- Without access to toilet
- Women headed households
- Unemployed
- Belonging to S C/ST
- Physically/mentally challenged person (at least one member)
- Illiterate adult member (at least one member).

The risk index is simple, inclusive, and takes into consideration non-economic criteria, and it also includes various manifestations of deprivation. The families with more than four points are identified as families in risk, which need support. At present, all the risk elements are given equal weightage. Efforts are being made to prioritise these risk elements and give weightages to each element so that the beneficiaries can be better identified and targeted.

(e) Impact and Outcomes

Kudumbasree enabled the communities, particularly women, to participate actively and effectively in the development process; particularly poverty reduction. The development plans prepared by the communities are based on local needs and priorities through a bottom up participatory process and they are consolidated at municipal and district levels with inputs on capabilities for local economic development, institutional finance and access to higher level s of human development.

Kudumbasree facilitated convergence of resources and services and their integration into anti-poverty plans. Another aspect of the programmes is the community monitoring of the implementation of plans. The programme brought the local political functionaries, community based organizations and the poor into partnership. Scientific principles and norms gave way to patronage in the prioritization of needs and identification of beneficiaries. Both infrastructure and human capital development are accorded high priority in the plans and the marginalized are included. Interaction in women collectives helped them to have a better understanding of the local situation contributing to the emergence of leadership. A large number of women trained in the Kudumbasree are getting elected to the urban local bodies. The other impacts of Kudumbasree include:

- Improved access to services and programme benefits due to increased awareness;
- Confident women capable voicing their needs and priorities;

- Generation of savings and through thrift and credit societies and attracting credit facilities through banks;
- Development of individual and group micro-enterprises;
- Potential for public action against social and economic injustices like domestic violence through collective action;
- Development of culture of learning through doing and reflection;
- Women empowerment; and
- Universal coverage of the poor.

Kerala unique context and decentralisation are central to Kudumbasree and it is the catalyst for the sustainability. Government ownership of the initiative, vision of a few government functionaries facilitated the conception and sustained working of the anti-poverty programme like the Kudumbasree. Empowerment of women and the poor for driving their own development process is the anti-poverty strategy of Kutumbasree.

III-4 **Pro-poor budgeting for Urban Services (West Bengal)**

The Government of West Bengal has taken the decision to address the needs of urban poor and raise their minimum quality of life through earmarking a certain minimum percentage of own source revenue and total expenditure of ULB are spent exclusive on urban poor and slum dwellers residing within the urban areas. *It has asked each ULB to ensure at least 25% of the ULBs total annual expenditure that shall include ULB's own source of revenue are spent for the poor/ slum area located within the ULB's jurisdiction.*

(a) Expenditure booking

An indicative list of poverty issues to be addressed under the annual development plan and budget of ULBs is provided in as below:

Theme/ Sector to be addressed	**Indicative issues of poverty**
Livelihood	Rehabilitation, skill upgradation, employment for persons/ community engaged in hazardous occupations (like scavengers)
	Thrift & Credit Groups and DWCUA Group Activities
	Vocational Training
	Micro enterprise development
	Wage employment promotion and development
	Community engagement in livelihood promotion
	Market analysis for livelihood promotion
	Livelihood promotion for livelihood scanning
	Local economic development esp skill training and improvement for unorganized sectors
Health	Improvement in functioning of activities in health blocks, sub-centres and HAU
	Improvement of RDC, ESOPD and Maternity home
	Strengthening of activities of health functionaries
	Reproductive and child health initiatives

	Family planning
	Adolescent care
	Geriatric care
	Hygiene promotion e.g., prevention of open defecation, hand washing before eating, institutional delivery etc
	Vector control in slums
	National preventive health care programmes e.g., HIV/ Aids, Malaria and Leprosy
	Curative service & referral system for the poor
Education	Improvement in pre-schooling activities for poor households
	Improvement in primary, higher and vocational schooling for the poor
	Adult & continuing education for the poor
	Measures to address Drop out students and non-enrolment of poor children
	Book purchasing and library for poor children/ adult
	Scholarships for poor students
	Mid-day meals, health check-ups for poor students etc
Vulnerability	Women empowerment – legal or other awareness camps
	Measures to mitigate child labour
	Addressing problems of old age people
	Addressing problems of disability
	Addressing problems of commercial sex workers
	Trafficking of women & children
	Addressing the problems of excluded / marginalised groups of people e.g., squatters, pavement dwellers, beggar, rag picker etc
Environment	Solid waste management in poor areas
	Liquid waste management in poor areas
	Cleaning of area, pond, drain etc in poor areas
	Disaster preparedness, mitigation and relief in poor areas
	Dog/ cattle pound in poor areas

	Stoppage of open urination & defecation in poor areas
	Water quality maintenance in poor areas
	Greenery and urban forestry in poor areas
Civic amenities	Access to water supply – drinking and bath water
	Access to latrine and bath room
	Access to all weather roads
	Access to Drain – proper, functional and outlet connected drainage
	Street lighting in poor areas
	Electricity – Presence of legal electricity connection at house
	Cooking energy – availability of cooking energy withour hampering environment / ecology
	Gap assessment of civic infrastructure according to standard norm
Shelter	Tenure security
	Housing improvement and construction for the poor
Food security	Public distribution of food grains for poor and disadvantaged people
	Food during disasters for poor people

(b) Expenditure booking

The Government has specified a Field-level code for booking expenditure relating to slums in the guidelines of the Double entry Accounting System in order to identify pro- poor expenditure. It also gave detailed list of sub-heads of pro-poor capital and revenue expenditure alongwith respective Function and Accounting codes. The list will act as guidelines especially when pro-poor expenditure is not directly identifiable and are shown in the table below. If any additional item of expenditure comes up in course of implementation of pro-poor activities, new sub-heads may be created with appropriate accounting codes by the ULBs with prior approval of Municipal Affairs Department, Government of West Bengal.

Sub-head of expenditure from revised budget estimate	*Basis of apportionment*	*Estimated expenditure on service delivery to urban poor (as per revised budget) (Rs lakhs)*	*Total budget expenditure as per revised budget (Rs lakhs)*	*Percentage of expenditure on service delivery for urban poor to total budget expenditure (%)*
Revenue Account (Expenditure)				
Public health & convenience				
Water supply				
Medical service				
Heath service				
Health establishment				
Conservancy				
Drainage & sewerage				
Vaccination				
Registration of birth & death				
Burning ghat				
Public works				

Public instruction				
Any other service expenditure				
TOTAL REVENUE EXPENDITURE				
Capital Account (Expenditure				
Public health & convenience				
Water supply				
Medical service				
Heath service				
Drainage & sewerage				
Burning ghat & burial ground				
Public works				
Public instruction				
TOTAL CAPITAL EXPENDITURE				