CHAPTER 6

PROJECT FINANCE

i) Available Windows:

3.6.1. The capital investment needs of the local bodies, especially for water-supply and sanitation is supplemented by way of loans from LIC and Government. These loans are raised on behalf of the local bodies by TWAD, on Government guarantees. Besides, the Urban local bodies are supported by a mixture of loans and grants from the Municipal Urban Development Fund (MUDF). Under the scheme, the Fund provides a performance and need based capital grants, which in case of a deserving local body could be as high as 75% of the capital cost of a service scheme. In this, a Financial Operating Plan is prepared covering five years of past financial history of the local body and it presents a five year forecast of the situation under alternative assumptions of revenue collection, rate revision measures and capital investment decisions. This fund is coming to a close by September, 1996 and it is proposed to upgrade MUDF into a Financial Institution called the Tamilnadu Urban Development Fund. This will have two streams - the loan funds and the grant funds. The grant fund will be targeted towards local bodies with a weak resource base and service levels. These Funds will be managed by an Assets Management Company, with participation from Infrastructure Leasing at Financial Service (ILFS), Industrial Credit and Investment Corporation of India (ICICI) and Housing Development Finance Corporation (HDFC), apart from equity from the Government of Tamilnadu. In case of small Municipalities and the Town Panchayats, loan based assistance is available from the centrally sponsored Integrated Development of Small and Medium Towns (IDSMT) Programme. Similarly, TUFIDCO, an institution created under the Companies Act in 1989, supports investments in programmes targeted towards lower income areas. It has a share capital of Rs.10 crores and the Government of Tamilnadu has an equity of 51% and the rest are with some local bodies and Housing and Urban Development Corporation (HUDCO). Currently the programmes financed are Low Cost Sanitation, Urban Poverty Alleviation Programme, NRY and associated sub-components. This agency channelises HUDCO loans for these projects. In case of local bodies within the Chennai Metropolitan Area, Metropolitan Infrastructure Development Corporation (MIDC), has been created in 1996, to provide financial support in implementing projects under the Mega City Project. It provides finances to the extent of 50% of the project cost, and offers a 10% subsidy for any service scheme. MIDC is planning to support the entire cost of the project and having been created under the Companies Act, there is no restriction on this agency from borrowing from the capital markets.

ii) Power to raise Resources:

3.6.2. The Central and State borrowings are governed by the Public Debt Act of 1944 and Public Debt Rules of 1946. At the local levels, the borrowings are governed by the Local Authorities Loan Rules, 1937, amended to date. Chennai Corporation is empowered by Chennai City Municipal Corporation (CCMC) Act 1919, to raise resources, by way of debenture or otherwise on security of all or any of the taxes, duties, fees and dues, any sums of money required for construction works, land acquisition, to pay off Government dues or to repay loans previously raised. But the essential condition is that the previous sanction of the State Government is necessary, particularly the terms and conditions, date of flotation , time and method of repayments needs to be approved by the State. Similarly, the Metro Water Board (Section 32 of Madras Metropolitan Watersupply and Sewerage (MMWS) Act, 1978) and Tamilnadu Watersupply and Drainage (TWAD) Board (Section 34 of TWAD Act) have the power to borrow and raise funds from the Institutions as well as markets with the guarantee by Government.

iii) Guarantee Procedures:

3.6.3. Guarantees are provided for activities related to public interest i.e. for approved public developmental purposes when borrowed from Financial Institutions, Banks or from the Public, mostly for the capital expenses. The proposals of guarantee amounts to a contingent liability and are normally reviewed at the same level as loan. In view of the increasing contingent liability and for the fact that they have been evoked in the past for small sums, G.O.Ms.No.552, Finance Department dated 6-7-1994 stipulates that Government guarantee need not be given in cases, where the activity is purely on a commercial or self-sustaining basis, and also opines that to the extent possible, loan or credit should be against the assets created by the project; the question of guarantees arise only if this is not feasible. In case an organization is financially sound, the Government indicates that the agency could credit rate itself so that need for the Government guarantee is minimized.

3.6.4. The Finance Accounts 1993-94, Government of Tamilnadu below reveals the amount guaranteed and the outstanding principal. These statements have to be necessarily placed before the legislature during the budget session.

Table: 3.50 Government Guarantee and Principal Outstanding

Rs. in Crores

	Agency	Amount Guaranteed	Outstanding Principal
1.	Total	6303.23	3537.70
2.	Chennai Corporation	36.00	36.00
3.	MMWSSB	54.58	12.42
4.	TWAD:		
	a) from LIC,	300.13	240.30
	b) from HUDCO	37.30	27.35
5.	MMDA	4.05	0.60
6.	Coimbatore Corporation	11.68	10.54

3.6.5. Any development proposal for credit or loan generally involves revision of tariffs and rates, and some may even involve levy of new taxes or rates. In the case of Property tax, which is the most important source of revenue for the Urban local bodies, as per the existing rules, it will have to be revised once in every five years; it is another matter that the revision is not being done so. Similarly, in case of environmental services, local authorities can frame bye-laws to levy or raise the user charges. For example, one of the convenants of the World Bank aided TNWSSP was in terms of revision of Water Rates in the project towns. In lines with the agreement, the rates were revised in the project towns of Madurai, Coimbatore and Salem. Whenever a project is sent to finance for guarantees on line with the appraisal methodology, any commitment in terms of revision of tariff and rates is generally accorded priority, as non-commitment would add to the burden of the State in terms of guarantees.

Table 3.51 Financing of Projects (Capital Investment for achieving normative Core Civic Services (at 1995-96 price level)

(Rs. in Crores)

Sector	Corporations	Municipalities	Town Panchayats	Panchayat Unions	Village Panchayats	Total
Water Supply	416.23	168.78	133.39	—	198.24	916.64
Sewerage and Sanitation	697.26	414.74	100.97	—	257.46	1470.43
Solid Waste Management	32.31	25.91	18.75	—	22.40	99.37
Roads	229.23	99.43	153.34	756.79	1376.18	1858.17
Storm Drains	268.55	157.28	49.12	—	191.56	666.51
Street Lighting	20.96	16.82	49.90	—	150.52	238.20
Total	1664.54	882.96	505.47	756.79	2196.36	5249.32

3.6.6. The above table indicates the capital needs for the core civic services. In earlier pages we have rephased this investment over a period of five years (1997-2002) providing for inflation. In case of Corporations, which are mostly viable, we can go for Public Issues of Equity or Bonds or go for Institutional finance. This is also true for the Municipalities that are well off. Depending on the financial position, the Corporations and the Municipalities can go for a mix of Remunerative and Service projects. In case of not so well off Municipalities and the Town Panchayats, we can suggest a mix of loan which can be repaid over a period and grants from the Government. Village Panchayats, whose repayment capacity is poor, will have to depend to a greater extent on Government assistance. In all those, cost recovery by way of user charges atleast towards O&M, can be tried and privatization wherever possible can be taken-up. These concepts and the need for a Capital Fund have been dealt with separately.