

Urban Infrastructure

42. The recent years have seen a rapid increase in the demand for urban infrastructure services in the country on account of growing urbanisation. Urban infrastructure includes (i) Physical infrastructure (water, sanitation, solid and liquid waste management, drainage, sewerage, electricity, roads, bridges and flyovers, transport including Local Rapid Transit System (LRTS) and Mass Rapid Transit System (MRTS), dryport, airport, seaport, waterways, etc.) and (ii) Social infrastructure (education, health, housing, community centres, recreational centres, sports complexes, etc.)

43. Development of urban infrastructure is a state subject. However, the Central Government provides technical and financial support to state governments. Two major problems currently faced by this sector are (a) poor financial health of municipalities and (b) lack of private sector participation due to high capital content, long gestation period, high risk, lack of affordability of a majority of urban users, etc.

44. Apart from the budgetary support extended by the Central and State Governments, the major agencies involved in financing urban infrastructure are HUDCO, LIC and Infrastructure Leasing & Financial Services Ltd (IL&FS). The funds released by HUDCO for urban infrastructure

schemes have steadily increased from Rs.125 crore during 1991-92 to Rs.560 crore in 1996-97. Loans from HUDCO are utilised by the State Urban Finance Corporations, Water Supply and Sewerage Boards, New Town Development Agencies, National Capital Region (NCR) Planning Board, Municipal Corporations/Councils, Improvement Trusts and Private Companies/Agencies. LIC presently is investing Rs.100 crore per annum for urban water supply and sewerage schemes. Financial support to urban infrastructure projects is also provided by the IL&FS.

45. The responsibility for provision of most urban infrastructure services rests with Municipalities/Urban Local bodies (ULBs). The 74th Amendment of the Constitution lays emphasis on greater participation of municipalities in the provision of urban infrastructure and services. In 1997-98, the policy focus has been on completion of election of ULBs and constitution of District and Metropolitan Planning Committees.

46. Lately municipal bonds have emerged as an important instrument for mobilising private resources for funding urban infrastructure projects. The requisites for the development of an efficient municipal bond market in the country and its main features are highlighted in Box 9.5.

BOX 9.5

Development of Market for Municipal Bonds

- Municipal bonds are issued by local governments who finance, construct and deliver a variety of urban infrastructure projects and services.
- The Municipal bond market has been well developed in USA and finances over 70 per cent of its urban infrastructure development.
- Municipal bonds act as an effective instrument for mobilising adequate resources in order to enable municipalities to meet their financial needs of infrastructure development and basic amenities.
- Municipal bonds can either be General obligation bonds where all legally permitted taxes and general revenue of local authorities can be used for debt servicing or Revenue bonds which rely on specified sources of revenue from facilities or services financed from bond proceeds.
- Development of a healthy Municipal bond market depends on the presence of a strong legal foundation and authority to Municipalities; Urban Development Authorities, Waste and Sewage Boards etc to incur and repay debt; adopt economic pricing approach aimed at cost recovery from users of services; carry out comprehensive reforms of accounting practices; professionalisation of municipal management for critical appraisal of projects; suitable fiscal incentives to encourage investors, transparency of regulatory mechanism and an improved market image of the urban infrastructure sector to instill confidence in investors.
- Some states including Maharashtra and Gujarat have explicit legislative provisions for local authorities to undertake open market borrowings. The Ahmedabad Municipal Corporation is the first in Asia to get its bonds rated and the second to raise funds through such bonds. These bonds are listed on the Ahmedabad Stock Exchange and National Stock Exchange. An escrow account has been created to protect investors.
- Other States should empower their local authorities to issue bonds. The Local Authorities Loans Act, 1914 would need to be amended to foster growth of the municipal bond market.
- Development of a full fledged municipal bonds market in the country requires a regime of fiscal concessions to induce individuals / institutional investors to invest in bonds, a package of regulatory measures for bond guarantee / insurance etc. and a specific role for SEBI or a similar regulatory authority which has to be put in place.