Impact of World Bank Credit on Urban Institutions and Policies

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PREFACE

With concentrated urbanisation pressures remaining unabated, metropolitan cities in India are continuing to grow at an alarming rate. It is being widely recognised that the framework of organisations and institutional support performs a crucial role not only in promoting urban development but also in effective management of the urbanisation process. Equally, it is now a well accepted proposition that adequate responses to the growing urban challenges in terms of better investment management, more flexible and responsive institutional, as well as, financial arrangements, are essential for more satisfactory economic and social development. These constitute also major prerequisites for ensuring the viability, sustainability and developmental effectiveness of urban projects which are required to adequately cope with the emerging challenges and opportunities of the 1990s.

Beginning in the early 1970s, the World Bank recognised the significant role of urban planning and development in India and with the launching of the Calcutta Urban Development Project (in 1973) the Bank has been involved in a number of projects to develop urban infrastructure in the three major metropolises of India - Calcutta, Madras and Bombay. While the initial efforts of the Bank were guided by an overriding imperative of improving existing urban service delivery performance, over the years there has been a reorientation in approach, with the Bank's emphasis now shifting to institutional issues and managerial approaches to their solutions.

The NIUA organised during 1986-87 a series of seminars centering on the World Bank assisted urban projects in India. The seminars, apart from helping to exchange experiences with Bank aided projects, also reviewed the role and initial impact of World Bank credit on the evolution of urban institutions and policies. NIUA now believes that it is time - after nearly two decades of Bank involvement with the urban sector - to examine the performance of urban management, in the broadest sense, of the Bank's pioneering urban projects in the country. Hence, the Institute welcomed the initiative of the Ministry of Urban Development, when it suggested that a study may be done of the impact of World Bank credit on urban institutions and policies in India.

The present study indicates that there can be little doubt that World Bank assisted urban projects have made a valuable contribution in the evolution of improved institutional and financial framework for urban management in the country. The setting up of new municipal urban development funds; project appraisal, monitoring and evaluation units; as well as, systematic devolution of fiscal resources and responsibilities to the local bodies, have introduced a substantial element of professionalism in the Bank-assisted urban projects. Secondly, these projects have introduced major changes in the area of financial management including improved commercial accountancy and tendering procedures. Finally, this study notes that the World Bank urban projects have shown a high degree of sustainability through improved cost recovery and project replicabillity.

While these are significant achievements to its credit, the World Bank assisted urban projects in India have not been as successful in addressing a critical impact area, namely, provision of basic services, particularly to the urban poor. In Bank-assisted shelter projects, including both sites and services as well as slum upgrading projects, in the three cities, the present study finds that service delivery performance to the urban poor has not been satisfactory.

How can systemic distortions be checked and what role can such Bank aided urban projects play in a framework of greater decentralisation of financial resources, investment decisions and implementation responsibilities? In order to further assist developing countries to cope with urban challenges and opportunities in the 1990s and beyond, a rethink on these crucial issues is urgently needed.

This research study has been conducted by Anil Rai, Research Fellow, at this Institute. He has designed the study, collected the material, analysed the same and prepared the final report. I would like to compliment Anil Rai for doing an excellent job on this study. He has displayed a very good understanding of what

is involved in World Bank assisted urban development projects, and what kind of an impact have these projects made on urban institutions and urban concepts. I would also like to thank Nand Lal, Research Investigator in this Institute for providing assistance on this study.

I would like to take this opportunity of placing on record the very valuable and insightful comments made by Dr. Rakesh Mohan, Economic Advisor, Ministry of Industry, Government of India, and Dr. V.K. Phatak, Chief, Planning Division, Bombay Metropolitan and Regional Development Authority, Government of Maharashtra, on the first draft of the study. I would also like to thank Dr. Tapan K. Banerjee, Joint Director, Institute of Local Government and Urban Studies, Calcutta, Shri S.K. Roy, Director-General, Planning and Development Wing in the Calcutta Metropolitan Development Authority and Shri L.K. Tripathi, Member Secretary, Madras Metropolitan Development Authority for their assistance. Without their cooperation this project would not have been possible. I would like to thank the Ministry of Urban Development for the financial support given for undertaking this study.

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INTRODUCTION

Background and Context

A major feature of the second half of the present century is the unprecedented growth of urbanisation notably in the large megacities of developing countries. At the same time the difference in economic opportunities between urban and rural areas has widened thus encouraging large numbers of people to move to urban areas in the expectation of higher paid jobs and better access to services.

Even in countries where urban growth rates are relatively low, the absolute numbers are staggering. As an illustration, it is estimated that in India, which had 160 million urban residents in 1981 and an annual growth rate of 3.8 per cent in 1971-81, about two thirds of its population increase from 1980 to the year 2000 is expected to occur in urban areas, which means adding about 175 million people to the urban sector.

This disproportionate increase in the urban as compared to total population in most developing countries is only partly because of the increase in industrial activity : many biases in policy have created strong incentives to expand economic activity in urban rather than rural areas. As a result, far more people have migrated to urban areas than could be absorbed, and despite large investments in urban infrastructure, a severe strain on urban services and labour markets has taken place.

In most developing countries, this strain is reflected in highly dualistic urban systems, where islands of high income "modernity" coexist with shanty towns and slums. Municipal financing and management have not received the attention they need. As a result, little has been done either to deal with the appalling inadequacy of essential services, such as sanitation and urban water supply, or to assist the large part of the urban economy that consists of small scale and informal production activities, which operate at low levels or productivity.

While the problems of unplanned urbanisation in developing countries, hence, are easily apparent, solutions are not. Urban growth requires large investments in infrastructure and these compete with alternative uses of scarce investable resources.

Over the years, the World Bank has emerged as an important international development institution and one of the principal catalysts of economic assistance to developing countries. The International Development Association (IDA), is the leading soft-loan agency of the Bank. In 1980, IDA credits[1] exceeded US $ 1.5 billion, roughly three-quarters of the total going to developing countries with the lowest per capita incomes ($ 360 a year or less).

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1 IDA usually extends credits for a period of 50 years, with a 10 year grace period, at an annual interest rate of 0.75 per cent as a "service charge", plus 0.5 per cent a year on the unused part of the credit.

India is a significant beneficiary of World Bank assistance on soft terms and the Bank has assisted diverse sectors of the Indian economy. Apart from providing sustained support to the development of infrastructure such as power generation and rail transport, the Bank has, since the launching of the Calcutta Urban Development Project in 1973, provided increasing assistance for financing urban sector projects. These projects range from single-city projects such as the Bombay Water Supply and Transport Projects, multi-sectoral single-city projects (Calcutta, Madras and Bombay), and multi-sectoral, multi-city projects (Tamil Nadu Urban Development Project III and Gujarat and Madhya Pradesh Urban Sector Projects). Till March 1988, the World Bank had committed US $ 1335 million and US $ 326 million, net of cancellations, in Credits and Loans respectively to support 22 urban and water supply projects in India.

While assistance of the World Bank and its affiliates to the Indian urban sector appears to be relatively small in quantitative terms, its impact on the evolution and shaping of urban institutional and policy issues have been fairly significant.

The Bank's principal objectives in the urban sector are two-fold, namely :

a. to increase the prodicivity of cities; and

b. to providie, at an affordable cost, the needs of a growing urban population particularly of the urban poor.

In this context, the development framework of World Bank lending recognises that the foundations of urbanisation in developing countries would be strengthened by establishing local development agencies and institutions for mobilisation and utilisation of resources for investment. As such the Bank has supported local initiatives to strengthen the functioning of urban institutions involved with the delivery of urban services and the implementation of urban investment programmes. At the same time, the Bank's urban sector approach has emphasised the need for achieving integrated solutions to urban problems with appropriate pricing and better cost recovery, than approaching each subsector separately.

The Bank clearly recognised that the effectiveness of urban policies depend critically on the capacity of appropriate institutions to address urban investment needs, on the one hand, and improving coordination among the different urban sector agencies on the other. Conversely, the Bank considered strengthening the urban institutions as imperative, for effective programme implementation and better financial mechanisms, for improved cost recovery thus enabling urban programmes to be replicated on a scale that compared favourably with the pace of urban growth.

The planning and implementation of World Bank assisted urban projects in India have yielded valuable experience. Apart from directly dealing with the problems of shelter, services and institutional management, these projects have helped to bring about major changes in at least three areas. <u>First</u> relates to the institutional changes and institutional revamping. New institutional arrangements have come about in the concerned States as a result of the World Bank credit. Alongwith these changes, financial innovations have also been introduced in some of the States (e.g. the new Municipal Urban Development Fund in Tamil Nadu).

A <u>Second</u> area where the World Bank assisted projects have made signficant contribution, in terms of the concept as well as replicability on a wider scale, is the cost recovery and self-financing of urban projects. Where self financing or full cost recovery has proved to be difficult, the concept of cross subsidy has been built in and utilised to recover project costs.

<u>Thirdly</u>, considerable innovations have been made in the area of accounting systems, procedures and tendering (e.g. the Revised Grant Structure for Municipal Accounting in West Bengal).

<u>Aim and Objective</u>

The aim and objective of the present study is to assess in a broader context the impact of World Bank credit on evolution of urban institutions and policies in India. The study has attempted to do this by focussing specifically on the following aspects in the World Bank assisted urban projects in three metropolitan cities : Calcutta, Madras and Bombay.

i. The institutional mechanisms and systems introduced for urban project preparation, implementation, management and monitoring;

ii. The cost recovery systems and methods;

iii. Accounting systems, procedures, and methods of procurement/ tendering in World Bank projects.

Methodology

With a view to addressing the study aim and objective, a case study methodology incorporating detailed discussions with concerned officials of World Bank assisted urban projects in Calcutta, Madras and Bombay was adopted. The case studies were supported by relevant quantitative information and data based on a structured questionnaire prepared for the purpose.

Study Design

The present research study is organised as follows. In Section II we highlight the World Bank's role and strategy for urban development. This section also reviews the major typologies of urban projects in the Bank's urban lending programme. Section III deals with the evolution and initial response of World Bank assisted urban projects in India, with particular reference to the three metropolitan cities : Calcutta, Madras and Bombay. This section attempts a systematic documentation of various initiatives and reforms undertaken in the three cities. In Section IV, we take up for consideration the World Bank's "Project Cycle" and the institutional mechanisms introduced, in the context of Bank-assisted urban projects in the three case studies cities. A major financial concern of development projects is to recover an appropriate portion of the in major sector components including shelter, water supply, transport and urban renewal. Section VI focuses attention and addresses issues related to the acounting systems, procedures and methods of procurement/tendering in World Bank projects. The final Section summarises the conclusions of this study.

II

THE WORLD BANK AND URBAN DEVELOPMENT

World Bank's Urban Strategy

Until the end of the 1960s, the World Bank had almost no interest in the urban sector of the developing countries. The first explicit response to the increasingly conspicuous urban problems in developing countries came from the Bank's President, Robert McNamara who observed, while addressing the Bank's Board of Governors in Copenhagen in 1970, that :

> "We do not want simply to deplore over-rapid urbanisation in the primary cities. We want the most accurate and careful studies of internal migration, town formation, decentralised urbanism and regional balance"

The Bank recognised the increasing significance of urbanisation in the developing countries at the beginning of the 1970s, and set out its theory of urban and housing policies in three key publications - Urbanisation,[2] Sites and Services Projects,[3] and Housing.[4] The Bank began providing loan assistance for urban investments in 1972.

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2. World Bank, Urbanisation, Washington DC., World Bank, 1972.

3. World Bank, Sites and Services Projects, Washington DC., World Bank, 1974.

4. World Bank, Housing, Washington DC., World Bank, 1975.

The World Bank formulated its framework and guidelines for the urban development and housing programmes within its theory of affordability - cost recovery - replicability. This theory was elaborated in the years 1972-74. Within a decade, beginning in 1972, the World Bank made over 50 project loans in some 35 countries. These projects included slum upgrading, sites and services, "integrated" urban projects (being mainly basic utilities and infrastructure), urban transport, and regional development. By 1980 the housing components of the World Bank's urban programmes were absorbing some 60 per cent of the total loans.

The Bank's strategic involvement with the urban sector in developing countries varied according to the different country situations in which the urban lending programme evolved. Four major project types may be identified in the Bank's urban lending programme : Shelter, urban transport, integrated urban project, and regional development projects.

Table 2.1 presents the distribution of World Bank urban projects according to typology over time.

Table 2.1

Typology of World Bank Urban Projects

Fiscal year	Shelter	Urban	Integrated	Regional	Total
1972	2	-	-	-	2
1973	1	1	-	-	2
1974	2	2	1	-	5
1975	5	-	-	1	6
1976	2	1	-	-	3
1977	2	1	2	-	5
1978	7	2	4	-	13
1979	3	1	4	-	8
1980	7	1	1	1	10
1981	5	1	1	1	8
Total	36	10	13	3	62

Source : World Bank.

The above table reveals that the emphasis during the initial years of the Bank's urban lending programme was on shelter and urban transport projects and demand for such projects continued during the entire period 1972-81 under consideration.

Table 2.1 further reveals that during the period 1977-79 an increase in the number of integrated urban projects took place in the Bank's urban programme. These projects usually financed city-wide investments or were typically multi-sectoral projects including transport and business support components. As may be observed from the table, ten projects of this type were approved during 1977-79 marking a shift towards addressing urban problems and issues through a multi-sectoral programme within individual cities.

Urban Shelter Projects

The urban shelter projects of the Bank are conceptualised on the premise that local government agencies are generally not able to produce sufficient housing units at costs which the poor can afford. They are designed to address two fundamental problems : the need for new shelter units and the need to improve the environment and access to utilities in the existing substandard units. The first problem was addressed through the sites and services concept which involved the provision of serviced land, including roads, water supply, sanitation, drainage, electricity, construction loans for housing, and social services. The second problem was addressed through the concept of slum improvement or slum upgrading, which assumed that households would be permitted to stay in their existing settlements and with minimal demolitation and relocationl; infrastructure networks including water supply, sanitation, roads, footpaths, drainage and electricity, would be extended into the settlements.

Both types of shelter projects helped to provide affordable housing and infra-structure to low-income residents by mobilising their own savings together with institutional credit. Both approaches required that households be provided security of tenure as an incentive for investing their savings.

The design of Bank-assisted urban shelter projects vary according to the income level of the beneficiary households. As such in both cases, the affordability criterion was of crucial significance. Under the Bank's schemes, therefore, households were required to pay for infrastructure provided (by public sector agencies) and to finance their own housing through mobilisation of savings and self-help efforts.

Cost recovery is an important goal of sites and services projects of the Bank because it is perceived that without this, replicability of housing solutions on a large scale is not possible. Complete cost recovery, however, is not always feasible and most Bank-assisted urban projects visualise reasonable cost recovery as an essential element of the Bank's approach in the sector. For this it is necessary to cost accurately all the components of a project if cost recovery and replicability are to be achieved.

Unless real costs are identified and calculated, a rational pricing policy which seeks to retain a maximum feasible level of cost recovery cannot be formulated.[5] Such a policy, based upon real costs and the household's ability to pay will require a cross subsidisation structure, reflecting differential land values and standards of development in the shelter projects, thus enabling subsidies to go to the most appropriate group. Differential pricing permits charging more to higher-income families, thereby generating surpluses that can be used to subsidise services for the poorer residents.

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5. Elements of real project costs often not reflected in sites and services costing policies include market land price, off-site infrastructure, administrative overheads, interest on beneficiaries loans, and cost contingency.

Between mid- 1972 and mid - 1980, the World Bank helped twenty-nine developing countries to provide approximately 310,000 lots through the sites and services projects and to improve some 780,000 lots through urban upgrading efforts.[6] Assuming a conservative estimate of ten people per lot, it is to be observed that more than 10 million people benefitted from the Bank's shelter projects at a total project cost of about US $ 2.5 billion (or an estimated per capita cost of US $ 250/- only).

The available data indicate that the Bank's shelter projects were able to reach considerably poorer groups than did conventional housing programmes. However, in both the sites and services and slum upgrading projects, some leakage of project benefits to households with higher income, was observed. It is estimated that, on the average, about 20 per cent of plots in the sites and services projects have gone to such households.[7] While some leakage must be expected to continue even with the most careful control measures, it is encouraging to note that measures such as improved procedures for selecting applicants to the sites and services projects are being incorporated in current projects, with good results, to limit the extent to which the higher-income groups pre-empt benefits.

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6. Warren C Baum & Stokes M. Tolbert, Investing in Development-Lessons of World Bank Experience, Oxford University Press, 1985, P.296.

7. J. Linn, Cities in the Developing World p.170

Urban Transport Project

Urban transport projects constitute an important component of World Bank urban lending. In the initial phase of Bank involvement in this sector, transport projects were almost exclusively focussed on road construction and traffic management. Following the Bank's Urban Transpsort Policy Paper in May 1975, transport investments witnessed a shift in emphasis towards improving the use of existing facilities. In addition, the principles of affordable, low-cost solution and cost recovery are being applied with reasonable success.

The Bank's approach to the urban transport sector is reflected in the attention devoted to management questions. A significant number of Bank-assisted urban transport projects have involved traffic control measures, improved financial management of bus transport corporations, more efficient programming of road investments and attention to the recurrent budget implications of transport investments.

Integrated Urban Projects

The integrated urban projects of the World Bank consist of a range of sub-sectoral components, including various combinations of shelter, water supply and sanitation, transport, business support, health and education. They were intended to provide broad improvements on a city-wide basis and were presented as a "desirable, multi-faceted approach recognising the many inter-relationships within the urban system".[8]

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8. Board discussion of the Madras Urban Development Projects, SD-77-16, of March 28, 1977, p.10.

The Bank's rationale for an "integrated" city-wide approach is based on the principle of externalities which suggests that project impact on urban development would be greater if the investments are planned in a complementary manner. This approach took sometime in developing and requires for its success a high degree of institutional coordination among individual local agencies. As a result recent Bank-assisted urban projects are paying special attention to strengthening city-wide institutional structures, in particular, by strengthening municipal agencies through technical assistance and training in operations, maintenance, and financial management.

Regional Development Projects

Regional development projects extend the multi-sectoral approach of integrated urban projects beyond individual cities to a region as a whole. A regional project usually covers several secondary cities located in a common agricultural hinterland or industrial region, and is intended to have a broad multisectoral impact on regional development.

Regional projects have a vital role to play in improving efficiency and stimulating growth in a region regarded as having a longterm economic potential. The Bank's approach to regional development needs to be further developed and urban lending requires to be more closely linked to sectoral activities (having major regional impacts such as agriculture, industry and transportation), as part of a comprehensive approach to regional development.

III

WORLD BANK ASSISTED URBAN PROJECTS IN INDIA - EVOLUTION AND RESPONSE

World Bank and India's Urban Sector

The Bank's support for urban development in India has concentrated over the past decade on three of India's largest cities - Calcutta, Madras and Bombay. The initial Bank-supported urban projects, in Calcutta and Madras, financed integrated packages of urban services (i.e. sites and services, slum upgrading, water supply, sanitation and transport). Follow up projects have continued this pattern which indicates the Bank's continuing involvement in these cities. At the same time the scope of World Bank's urban development activities has now been broadened to include medium cities, in line with the GOI emphasis on development of small and medium towns.

The Bank's involvement in India's urban sector started with the US $ 35 million first Calcutta Urban Development Project (CUDP) in 1973. This was followed in 1977 by the only direct World Bank loan of US $ 52.5 million for the Bombay Urban Transport Project, and the first Madras Urban Development Project (MUDP) with a credit of US $ 25 million. A much larger credit of US $ 87 million for CUDP followed in 1978 and in 1980, the International Development Agency (IDA) - World Bank's soft loan affiliate - provided a credit of US $ 56 million for the Calcutta Urban Transport Project. Madras received a second credit of $ 42 million in 1981 and the Third Calcutta Urban Development Project for US $ 105 million was approved in 1983. The largest World

Bank credit of US $ 138 million for the Bombay Urban Development Project (BUDP) was sanctioned in 1985.[9]

World Bank's urban projects may be categorized as :

i. multi-sectoral urban development projects like CUDP;

ii. urban development projects with a shelter and municipal services bias as in MUDP and BUDP;

iii. regional urban projects with a spatial and sectoral spread as in Madhya Pradesh and Gujarat;

iv. urban transport projects with a sectoral emphasis as in Calcutta and Bombay;

v. city level water supply and sewerage projects as in Bombay; and

vi. state level water supply projects with major urban components as in Uttar Pradesh.

A review of World Bank investment in three metro-cities in India illustrates the changes that have in two important areas-institutional & financial impinging on urban sector projects.

<u>Calcutta Urban Development Project</u> (CUDP)

The World Bank's involvement with urban planning in India commenced in 1973, as noted, when the International Development Association (IDA) - the Bank's affiliate - agreed to participate in the Calcutta Metropolitan Development Authority's (CMDA) urban

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9 The other Bank-assisted urban projects included an IDA credit of US $ 20 million in 1982 for the Kanpur Urban Development Project (KUDP), and a first credit for a regional urban project in Madhya Pradesh. The most recent project approved for funding by the Bank is the Gujarat Regional Urban Development Project (1988).

development programme for the Calcutta Metropolitan Area (CMA) and selected to finance 44 out of the 100 on-going urban infrastructure projects. Under this loan, known as CUDP I, the IDA provided US $ 35 million equivalent of assistance over 5 years. A second IDA credit of US $ 87 million was granted in 1977, which apart from supporting the earlier infrastructure projects, also included projects identified by the Planning Directorate of CMDA in its Development Perspective Plan (DPP) of 1976, in particular those relating to socio-economic initiatives such as small scale employment creation, preventive health, primary education and training programmes. Such programmes were included in CUDP II (1978/79 to 1982/83) which was finalised at Rs.278 crores (US $ 292 million) of which IDA contributed US $ 87 million. The institutional arrangements of CUDP II remained the same as for CUDP I, with CMDA the major executing agency supported by other agencies and State Government departments. In May 1983, the third CUDP commenced with a total CMDA Programme outlay of Rs.330 crores (US $ 347) million of which the Bank's investment credit amounted to US $ 147 million.

A major institutional response of CUDP I & CUDP II was to assist the consolidation of CMDA's position by first enabling the Authority to take over many responsibilities from the other agencies in CMA - there were more than 50 agencies in the early 1970s - and later to develop its own capacity for executing large scale engineering projects, CMDA's budgeting, accounting, appraisal and financial management systems were also strengthened.

CUDP II marked the beginning of a systematic and planned approach to the development of Calcutta and its surrounding areas. It introduced the first step towards decentralisation of investment away from the metro core through the Municipal and Anchal Development programme. This programme was targetted at basic water supply, drainage and sanitation and local road investment in the outlying areas of the CMA. It was administered by the CMDA through a dialogue with the local bodies, and proved so successful that the original programme allocation of Rs. 5 crores was increased to Rs. 9 crores under CUDP II.

An outcome of CUDP I and CUDP II having far reaching implications for urban management and finance, are the series of initiatives and reforms introduced at various levels of state and metropolitan government which form the basis of the Municipal Development Programme (MDP) under CUDP III (discussed later).

During CUDP I and CUDP II several major institutional changes were introduced to increase the financial resources of municipalities and agencies; to improve planning and control of land use; and to strengthen local government. Some of these changes summarised below :

i. The West Bengal Central Valuation Board Act (1978) provided for a Central Valuation Board to be set up in 1979. The Board improves valuation of lands and buildings in West Bengal to increase property tax revenues. According to available information, the Board has so far completed valuation of land and properties in 40 of the 61 municipalities in the State.

ii. The West Bengal Town and Country (Planning and Development) Act, 1979, which was enacted in January 1982, provides for comprehensive planning and control of land use in the Calcutta Metropolitan Area (CMA). This Act, among other things, specifies explicitly that the CMDA is the planning and development authority for the area.

iii. the provisions of the Bengal Municipal Act of 1932 were significantly amended in 1980 in order to strengthen the constitutional and financial base of the CMA municipalities. In particular provision was made for the municipal elections, and fiscal autonomy of the municipalities was strengthened.

iv. The Calcutta Municipal Corporation Act (1980) and the Howrah Municipal Corporation Act (1980) provide tools for the local bodies to improve their financial management and operations and to open up opportunities for new revenue sources, such as taxes on professional services and a surcharge on the property tax.

v. The Calcutta Thika Tenancy (Acquisition and Regulation) Act, 1981, provides for the acquisition of bustee or <u>Khatal</u> (buffalo holding) lands held in lease by thika tenants in Calcutta and Howrah. Under this Act, the State government is empowered, after acquisition of the land, to collect money from the thika tenant to maintain civic services.

Madras Urban Development Project (MUDP)

The Madras Metropolitan Development Authority (MMDA) has carried out two city-wide multi-sectoral urban projects with emphasis on low cost solutions to the problem of shelter for the economically weaker section (EWS) inclusive of social facilities, water supply and sewerage, road and traffic improvement and bus transport. MUDP I further aimed at strengthening development planning, capital programming, project monitoring and evaluation, and municipal administration and finance functions within the MMDA and Madras Corporation. The first project MUDP I (1977-82) involved an investment of Rs.575.1 million of which the World Bank's share was US $ 24.0 million. The second project MUDP II (1979-86) envisaged an investment of Rs.779.9 million with World Bank assistance amounting to US $ 42.0 million. The investments under the various sector components are provided in table 3.1 below.

Table 3.1

Madras Urban Development Project:
Sector Components and Investment

Sector		Investment (Rs.in million)		
		MUDP I	MUDP II	Total
A.	Sites & Services	151.7	272.3	424.0
B.	Slum Improvement	56.3	200.6	256.9
C.	Water Supply & Sewerage	118.2	-	118.2
D.	Road & Traffic Improvement	150.1	66.6	216.7
E.	Bus Transport	57.1	129.8	186.9
F.	Technical Assistance	5.8	12.6	18.4
G.	Small Scale Business	27.4	47.9	75.3
H.	Maternal & Child Health	8.5	19.3	27.8
I.	Solid Waste Management	-	30.8	30.8
	Total	575.1	779.9	1355.0

Source: MMDA.

As may be observed from this Table, the most important sector component in Madras, accounting for more than half the total investments under MUDP I & II (50.25 per cent) was the shelter programme which included sites and services and slum improvement. The objectives of this shelter programme which was targetted to serve the city's population between the 10th and 47th percentile income are :

i. to help develop and promote low cost solutions to Madras problems in shelter and infrastructure services particularly to make the investments responsive to the needs of the urban poor on a replicable basis;

ii. to facilitate access to shelter to new existing EWS households through limited public investment;

iii. to achieve a significant and continuous reduction in population living in unserviced hutment areas, thereby conserving and improving the existing housing (hut) stock;

iv. to reduce the level of subsidy in shelter programmes and increase cost recovery so as to maintain future level of investments in shelter programmes.

The institutional arrangements for MUDP I and II (here after referred to as MUDP) envisaged a significant role for MMDA in the field of planning and monitoring metropolitan development. The Authority was entrusted with supervising the execution of urban development projects sponsored by the Bank. While MMDA was not responsible for the actual routing of funds to the various agencies or to exercise any administrative control over them, its supervisory function enabled MMDA to promote metropolitan management and improve the financial administration of the agencies.

At the same time the implementation experience of MUDP was instrumental in building up MMDA's capacity for formulating, implementing, monitoring and co-ordinating the urban development plans and projects. MMDA has also developed sectoral planning capabilities covering the physical, social and economic aspects of development. More importantly MMDA has gained acceptance on the part of all agencies, as a facilitator in the urban planning process.

Based on the experience of MUDP the state government undertook measures to strengthen state institutions and improve resource mobilisation and utilization for the Tamil Nadu Urban Development Project (TNUDP) 1987-92, launched with World Bank assistance to cover the cities of Madras, Madurai, Coimbatore, Tiruchi, and Salem at an estimated cost of Rs.632.6 crores (US $ 443.7 million) of which the IDA component is US $ 300.2 million or about 68 per cent of the project budget. TNUDP focuses on three key areas:

i <u>Institutional Development</u> - the project would improve the state government's capacity for efficient management of urban and economic development by strengthening financial and functional capabilities of urban institutions. For this purpose, a new source of municipal funding - the Municipal Urban Development Fund (MUDF) of Rs. 167.2 crores (US $ 127.0 m) was established in April 1988, under which municipalities could apply for funding assistance for capital projects in the range of Rs. 10-300 lakhs without restriction to the type of project.

ii. <u>Shelter</u> - the project would increase the supply of legal, environmentally acceptable and affordable private and public serviced land by a large scale extension of sites and services and slum improvement schemes.

iii. Transport - the project would strengthen the procedures and institutions for revising bus fares, enhance the accountability of the Pallavan Transport Corporation (PTC) with a view to generate internal financing of 20 per cent of the Corporation's bus operations investments programme and to improve the cost effectiveness of urban road and traffic management schemes.

Bombay Urban Development Project (BUDP)

Starting with the first Bombay Water Supply and Sewerage project in 1974, the World Bank has followed a sectoral approach, largely due to the strength of urban sector institutions and the lack of a strong regional development authority to prepare and coordinate a multi-sectoral project. The initial projects in Bombay focused on transport and traffic management, water supply and sewage disposal, including two projects for the Bombay Municipal Corporation (BMC) Area and another for Kalyan - Thana expansion area adjacent to BMC. Apart from targetting for a raise in the level of urban services provided to the population, each of the Bank supported urban project aimed at also strengthening urban planning and service delivery institutions, particularly those of local government, and to improve the use of available resources and local resource mobilisation.

In view of the critical problem of providing environmentally acceptable shelter at affordable cost in Bombay and the inadequate response of existing agencies in this regard, the World Bank in 1979, identified "Land Infrastructure and Shelter

Development" as a major sectoral component requiring urgent attention. In this context BUDP, representing one of the largest urban shelter projects ever funded by the Bank, was formulated within the framework of Maharashtra Government's "Affordable Low Income Shelter Programme (ALIS) for the Bombay Metropolitan Region (BMR)".

BUDP commenced under retroactive financing arrangement in January 1984. The Project agreement was signed in March 1985 and credit became effective in Auguest 1985. The project is currently being implemented in the BMR at an estimated total project cost of Rs.282.33 crores. Out of this, the IDA contribution works out to Rs.151.0 crores or approximately . 58 per cent of the project cost (net of taxes and duties). However, the Government of India onlends 70 per cent of the IDA credit to the Government of Maharashtra. A novel feature of this project is the use of contribution by beneficiaries in the form of down payments and outright purchase of plots. This contributes 26 per cent of the resource requirements. Remaining funds are made available by the state government through Plan resources.

The objective of BUDP is to secure a better match between the resources realistically available for land, infrastructure and shelter investment and the need for environmentally acceptable legal land and shelter for new BMR households and existing slum households. The project aims at providing economic viability by ensuring affordability, full cost recovery and replicability of the project.

The principal components of the project, the expected financial and physical targets and the agencies responsible for their implementation are presented in Table 3.2.

Table 3.2

Bombay Urban Development Project : Sector Components

		MHADA	BMC	CIDCO	Net Outlay (Rs.in crores)
A.	Land Infrastructure Servicing Programmes (LISP)	40000 serviced sites in BMC and and 25000 sites in TMC/KMC	Offsite Infrastructure in BMC area	20000 sites in New Bombay	133.00
B.	Slum Upgradation Programme (SUP)	80000 Households on Govt. and Private Lands	20000 Households on BMC Land	-	37.40
C.	Local Govt. Finance Administration and Services (LOGFAS)	-	-	-	20.20
D.	Technical Assistance (TATE)	-	-	-	1.60
				Total	192.20
	(Add. for physical contingencies, price contingencies and design supervision)				90.10
				Total	282.30

Source : BMRDA

IV

INSTITUTIONAL MECHANISM FOR WORLD BANK ASSISTED URBAN PROJECTS

The Emerging Framework for Urban Management

The institutional mechanism for implementation of Bank-assisted urban projects in India have undergone restructuring and progressive refinement since the Bank's involvement. This has set in motion a process of better investment management and improved project viability with more rigorous project selection, clearer setting of objectives, greater care in project preparation, more efficient implementation and quicker adjustment when problems are identified.

In this Chapter we take up for consideration the World Bank's "Project Cycle" and the emerging institutional framework and mechanism for urban management in the context of World Bank assisted urban projects in Calcutta, Madras and Bombay.

The Bank's Project Cycle

A major proportion of World Bank and IDA loans and credits are for specific projects. In deciding whether it is advisable to finance a specific project, the Bank follows a three-stage procedure. The first stage of the analysis is meant to decide whether the branch of the economy in which the investment is to be made is particularly important from the stand point of the countries', overall development. The second stage is meant to decide whether the projected investment will help to develop that branch of the economy. The purpose of the third stage is to determine the most effective technical solution of the problem.

The projects for investment are usually identified in the course of the Bank mission's work in the host country before the signing of an official credit agreement. The missions can introduce changes in the projects prepared by the potential borrower. Where a developing country is itself unable to draw up a well-substantiated proposal on the project of financing, the whole preparatory work can be done by the Bank's experts. Only when the proposed project gets a favourable assessment, the Bank informs the potential borrower of its readiness to start official negotiations concerning a loan. Each loan goes through a series of six stages, which the World Bank calls the "Project Cycle":

Identification

In this preliminary stage of the cycle, selection is done by the Bank and borrower of suitable projects that support national and sectoral development strategies and are feasible according to the Bank standards. The projects are then incorporated into the lending programme of the Bank for a particular country.

Preparation

Under this phase, the Bank assists the borrower to identify and prepare projects that the Bank would consider suitable for financing. Project selection is made within the context of the Country Economic Surveys prepared by the Bank for each borrowing country, which identify the priority sectors for investment.

Appraisal

In this stage, Bank staff review comprehensively and systematically all aspects of the project. This may take three to five weeks in the field and covers four major aspects : technical, institutional, economic and financial. An appraisal report is prepared on the return of Bank staff to headquarters and is reviewed extensively. This report serves as the basis for negotiations with the borrower.

Negotiations

This stage involves discussions with the borrower on the measures needed to ensure success for the project. The agreements reached are embodied in loan documents. The project is then presented to the Executive Directors of the Bank for approval. After approval the loan agreement is signed. The project can now go into its implementation stage.

It is at this stage that the World Bank secures commitments from the borrowing government on such matters as the pricing of inputs for and outputs of the project (utility rate tariffs are a good example), government actions or guarantees that are considered necessary for the success of the project, special covenants for the project etc.

Implementation and Supervision

The borrower is responsible for implementation of the project that has been agreed with the Bank. The Bank is responsible for supervising that implementation, through progress reports from the borrower and periodic field visits. An annual review of Bank supervision experience on all project underway serves to continually improve policies and procedures.

During this stage the Bank has the dual function of : (a) ensuring the proper use of the proceeds of the loan, including supervision of international competitive bidding or other procurement procedures and (b) working with the implementing agency to identify and solve problems that threaten the timely execution of the project.

Evaluation

This is the last stage. It follows the final disbursement of Bank funds for the project. An independent department of the Bank, the Operations Evaluation Department, reviews the completion report of the Bank's projects staff, and prepares its own audit of the project. This ex-post evaluation provides lessons of experience which are built into subsequent identification, preparation or appraisal work.

Once the project is completed, the Bank seeks to establish long-term relations (for a period of 15-20 years) with the borrowing country. With this aim in view, the Bank can extend additional loan for adjusting the project's design or expanding its capacity. While the loan is being repaid, the Bank is entitled to send monitoring missions to the host country, with a view to keeping itself well informed about the state of affairs in the borrower country.

Calcutta Urban Development Project

When CUDP-I was initiated, there was a lack of planning and implementing capacity in Calcutta metropolitan district (CMD), despite the existence of the abundant public institutions and agencies. Conscious efforts were made to strengthen the management of CMDA and also to improve the financial performance of the agencies in CMD. At the sametime CMDA took over many responsibilities of other agencies and thus CUDP-I became a project that helped CMDA grow from a co-ordinating and financing organisation into an implementing agency.

The second IDA loan to Calcutta Urban Development Programme (CUDP-II) was approved in 1977. During the project preparation and implementation, changes were made in the CMDA's management structure. The issue of accountability was stressed, and clearly defined responsibilities were assigned to senior project management in areas of operations, planning, administration, and finance. Progress was also made in revised CMDA budgeting, accounting, appraisal and financial management system.

The CUDP-III which was approved by the Bank's management in 1983 and scheduled to be completed by March 1988, was far more ambitious and complex than CUDP-I and CUDP-II. Based on technical characteristics and institutional responsibilities for planning and implementation, the project was organised into four sub-programmes : Municipal Development Programme (MDP), Transmunicipal Infrastructure Programme (TRIP), Calcutta-Howrah Investment Programme (CHIP), and CMD-Wide Complementary Programmes (See Table 4.1). It was expected that about 6 million people would benefit directly from these investments; about 60 per cent of the beneficiaries were in "economically weaker sections".

Table 4.1

Calcutta Urban Development Project (CUDP-III) :
Sector Components

Programme Component	No. of sub-programmes	Total investment (US $ million)
Water supply	17	62.00
Drainage/Sewerage	9	30.55
Sanitation	6	61.81
Bustee Improvement	4	19.19
Transport Infrastructure	14	45.92
Area Development	13	35.89
Health	1	9.11
Small Scale Enterpreneur	1	2.63
Technical Assistance and Training	1	4.43
Design and Supervision	-	31.57
Total investment programme	66	303.10

Source : The World Bank.

The implementation of CUDP-III required a redefinition of the responsibilities of CMDA and municipalities. The predominant role of CMDA was restructured, while its co-ordinating,monitoring and evaluating functions were to be strengthened. Strengthening local governments' management capacity and financial position were treated as an essential task for the improvement of the institutional framework. In the context of these principles, the following actions were taken in CUDP-III :

Within CMDA

i. the Programme Management unit (PMU) has been made responsible for monitoring and reporting on the physical and financial implementation of project schemes;

ii. the Appraisal, Monitoring and Evaluation Unit (AMEU), has been strengthened and made responsible for the appraisal of the Municipal Development Programme (MDP), which was allocated a total outlay of Rs.94 crores (45 $ 98.9 million) out of the CUDP III investment budget of 330 crores (US $ 347.3 million), for monitoring and evaluating programme and institutional performance; and

iii. a new MDP Directorate has been created within CMDA technical with and accounts staff to guide and assist the local bodies in drawing up detailed plans and estimates once their overall sector investments have been appraised by the AMEU. A special Shelter, Urban Renewal, and Area Development (SURAD) Unit has also been established to address the problem of Shelter. The Directorate will also assist PMU in monitoring the physical and financial implementation of MDP.

<u>Within Calcutta Municipal Corporation</u> (CMC)

The CMC's internal organisation, management and finance systems have been further strengthened. New accounting, stores control and management information systems have been introduced. Critical staffing requirements have been met specifically relating to :

i. financial management, particularly in the area of property tax (3 position);

ii. management of a metering programme, including surveys (9 position); and

iii. two key staff for stores inventory and control.

Municipalities

Under the Bank-assisted CUDP, the municipalities were accorded an expanded role in capital budgeting and in selecting their priority schemes within broad guidelines (technical and financial) set out by CMDA. The municipalities constitute the main executing agencies for the MDP which seeks to deliver basic municipal services to the most deprived areas in each of 37 municipalities, the CMC and Howrah Municipal Corporation (HMC) with a range of service delivery norms and physical design standards, recommended by CMDA and which are affordable, and acceptable to IDA. Municipalities are also vested with the responsibility of carrying out detailed planning of selected schemes and for implementation, operation as well as maintenance of investments in their respective areas.

Within the State Government

i. The Directorate of Local Bodies (DLB) under the Local Government and Urban Development Department (LGUDD) has been strengthened to provide additional staff requirements of the local bodies required to implement CUDP. The DLB is responsible for monitoring and reporting on annual municipal revenue and expenditure performance against present annual targets.

ii. In order to strengthen the existing institutional capacity of local government, the State Government set up the Institute of Local Government and Urban Studies (ILGUS) under the LGUDD in 1982. The Institute has organised several training programmes, workshops and seminars with reference to MDP.

An innovative financial adjustment mechanism emerging from the experience of CUDPI & II is the Revised Grant Structure (RGS). This was introduced with effect from April 1983 to coincide with the beginning of CUDP III. The RGS follows a reward and penalty principle. The State Government has defined a set of norms for property tax and other revenue collection, and maintenance of assets. On the basis of projection of revenue and expenditure, the revenue gap is worked out and this is bridged by grants from the state. The municipal body that reduces the actual gap by a much better performance than projected is entitled to a capital grant equivalent to a difference between the projected and the actual gap. However, if a local body's actual gap exceeds the projected gap, its subsequent capital grant is held back till its performance improves.

In other words, the RGS basically sets out annual current account performance targets which are individually set out for each local body. The achievement of the performance targets then triggers the subsequent years' MDP capital account allocation with over and under achievement of the performance targets being rewarded and penalised respectively, according to a "trigger mechanism by which each subsequent year's MDP investment provision is allocated to individual local bodies.

The RGS induces the local government to improve their fiscal management by making approval of funds for a new year contingent upon its raising revenue levels to cover operations and maintenance requirement for the previous year's investment. It compels the local bodies to separate capital from revenue expenditure so that the later is not unduly inflated. The virtue of the RGS is not only in the fiscal system. It is having a far-reaching effect on the quality of municipal administration, as it is part of a package of decentralised urban management.

Madras Urban Development Project (MUDP)

The valuable experience of MUDP I and II assisted the State Government to introduce measures to strengthen institutional arrangements and create a mechanism to ensure adequate planning, coordination and management of the continuing project (now TNUDP). This mechanism consists of a High Powered Policy Committee chaired by the Chief Secretary and a State level Coordination Committee chaired by the Secretary of Housing and Urban Development, as well as City Management Committees for each project city. A Project Management Group (PMG) was set up in December 1987 to monitor over-all project implementation on the basis of information provided by City Management Committees. It would be responsible to the Secretary of Housing and Urban Development.

The PMG was made responsible for management of the new Municipal Urban Development Fund (MUDF) policy and the Chairman of the PMG (Secretary HUD) was made head of the Fund Management Committee. The Directorate of Municipal Administration was made responsible for disbursements from the Fund as well as receive payments of interest and principal from municipalities. MUDF was allocated an outlay of Rs.167.2 crores (US $ 127 million). The project was also provided technical assistance - Rs.13.7 crores (US $ 9.6 million) - for developing the Fund's and municipalities management information and accounting systems. MUDF finances municipal projects as a loan/grant mix varying from 100% loan upto 25% loan and 75% grant, the mix depending upon each municipality's resource base and resource generation effort and service needs.

In the shelter sector a new feature was that guidelines were laid down under TNUDP for a special project - Guided Urban Development (GUD) wherein private land owners and developers within the Madras Metropolitan Area (MMA) would develop residential and non-residential plots substantially for the EWS households with incomes below Rs.700 a month and LIG households below Rs.1500 a month.[10] The MMDA was made responsible for administering GUD including reviewing applications and making loans to the low income families, as well as collaborating with the Tamil Nadu Slum Clearance Board (TNSCB), for negotiating land sharing/readjustment schemes. The other main implementing agencies in this sector included the Tamil Nadu Housing Board (TNHB) for the (LAND) Sites and Services component of the project, and the TNSCB for the slum improvement component.

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10 On exchange rates in January 1987 of US $ 1 equal to Rs.12.5.

In the transport sector, the Pallavan Transport Corporation (PTC) was made responsible for the bus component. The State Government created a Bus Fare Expert Committee in order to improve the procedures and institutions for fare revision and PTC accountability for achieving its revenue and operating productivity targets. As per the Bank covenant the PTC was required to :

i. maintain an average operating ratio of less than 0.98;

ii. fund in excess of 20% of its annual average investment programme from internal cash generation;

iii. be reinbursed in two installments each year by the State Government, for its losses on subsidised student tickets at the rate of 70 per cent of PTC's estimate of the revenue loss on students; and

iv. aim to pay principal and interest due on all its outstanding debt.

Bombay Urban Development Project (BUDP)

The institutional framework for implementation of BUDP has undergone several improvements :

i. BMRDA was restructured for better planning, coordination, monitoring and evaluation of BMR development programmes. This reorganisation was undertaken in July 1983 and its strengthened BMRDA's Planning Division, thus making the Authority a more effective planning body;

ii. Recognising the new approach to shelter provision embodied in BUDP, the key implementing agencies for the Land Infrastructure Services Programme (LISP), viz., Maharashtra

Housing and Area Development Authority (MHADA) and The City and Industrial Development Corporation (CIDCO) were also strengthened. An executive order of July 1983 created a BUDP implementation wing in MHADA which included Administration, Estate Management and Finance Sections. A Community Development Wing was also established in MHADA to assist the implementation of the Slum Upgrading Programme (SUP) component, CIDCO was made directly responsible for implementing about 12% (Rs.34 crores) of BUDP Projects (LISP) consisting of about 20,000 sites and services plots in New Bombay. For this CIDCO has expanded its departmental staff in technical and engineering areas.

iii. New Municipal Corporations were created in Thana and Kalyan and a Municipal Corporation for New Bombay is under active consideration following preliminary notification to this effect by the State Government. These initiatives would considerably assist in increasing the local government institutional capacity to manage, finance and maintain essential services.

iv. Performance-oriented Development Control and Building Regulations (DCB Rs.) were adopted and incorporated in BUDP in 1984 for LISP with a view to achieve efficient layouts which, in turn, shall facilitate cost recovery at affordable prices. These DCBRs were intially only applicable to BUDP.

v. A new scheme under the Urban Land Ceiling Act (ULCA) was formulated in 1983 with fresh guidelines being issued in August 1986. This scheme intends to provide land for public sites and services development and allow private development to recommence following strictures against private housing development under the ULCA.

Rent control and property tax reforms constitute areas of concern for the World Bank. Such reforms are perceived, and rightly so, as being essential for improving the maintenance of rental housing, encouraging private investment in housing and for increasing local government resources for maintenance and delivery of urban services which are not directly covered by user charges.

In its negotiations for BUDP, the Bank suggested rent control and property tax reforms in BMR. The Government of Maharashtra informed IDA during negotiations that Government of India regards rent control as sectoral issue on which a uniform national policy is being developed. Though actively considering rent reforms the State Government refrained from giving any commitment to IDA regarding the timing, scope and contents of such reforms. It was agreed in the negotiations that the Government of Maharashtra will keep IDA informed of any changes in this regard. In the meanwhile, on amendment to the BMC Act was passed in 1986.

The salient features are :

i. No provision made for increase in rent of existing tenanted properties.

ii. Five years 'Rent Holiday' for premises constructed/ reconstructed on or after the Act comes into operation.

iii. At the end of five years, Standard Rent would be fixed at 15 per cent net return on investment in land and building plus all the outgoings.

iv. Short term licences have been made feasible by enabling flat owners to claim repossession of premises by applying for summary eviction.

v. Introduction of provision which permit landlords to increase rent for different types of repairs renovations, special additions etc.

Under BUDP, a Revolving Fund has been set up by transfering to this fund 45 per cent of the repayment due by the implementing agencies to Government of Maharashtra. The fund has been set up in BMRDA. This fund seeks to ensure replicability of the project. Details regarding application of the fund are given in Annexure A-4.

V

COST RECOVERY MECHANISM FOR WORLD BANK ASSISTED URBAN PROJECTS

Bank's Criteria for Cost Recovery

The emphasis on cost recovery is a significant policy element underlying World Bank assisted projects. Partly this is because commercial profitability is an important criterion used by the Bank to appraise financing of a project. More importantly cost recovery is considered essential in order that project sustainability and replicability on a large scale can take place, ultimately on a self-financing basis.

Three necessary criterion require to be fulfilled for a sound cost recovery policy :

i. Economic efficiency - that is, ensuring that the goods and services produced by the project are utilised efficiently;

ii. Income distribution - that is, recovering project costs in such a way that promotes a more equitable distribution of income;

iii. Revenue generation - that is, enabling the realisation of increased net benefits from the project, for funding future investments in the same sector or elsewhere.

Calcutta Urban Development Project (CUDP)

Under CUDP direct cost recovery measures were applied to the following sectors : (a) Water Supply; (b) Area Development; and (c) Urban Renewal.

Water Supply

Calcutta Municipal Corporation (CMC) which is the main implementing agency for water supply has adopted a strategy for cost recovery aimed at recovering all expenditures for operations, maintenance, purchase of bulk water (from CMWSA), and charges for a reserve fund equivalent to depreciation by 1987/88. Till then, for its water supply operations, CMC generated revenues at not less than the following percentages of its revenue expenditure for the water supply operations : 1983/84 - 48%; 1984/85 - 63%, 1985/86 - 87%. In order to achieve the overall targets by 1987/88, the following measures were introduced :

i. The water tariffs for metered non-domestic users was increased from Rs.5 per 1000 gallons* to Rs. 11 per 1000 gallons;

ii. A graduated rate for domestic unmetered connections based on ferrule size was introduced;

iii. CMC introduced annual licensing for all new private tubewells;

iv. With the assistance of private contractors, CMC undertook a time-bound programme for all industrial, commercial and institutional users, and also to introduce prodution meters and zonal meters;

v. CMC introduced a proper meter reading, billing, collection and repair programme to ensure proper cash flow;

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* 1 gallon = 4.55 litres

vi. In order to improve credit effectiveness for bulk supplies, the CMWSA introduced the following bulk supply rates; Rs. 1.25 per 1,000 gallons and Rs. 3.00 per 1000 gallons for the municipalities and CMC respectively.

Shelter and Area Development

Cost recovery in shelter and area development was undertaken according to the following mechanism : first a "floor price" is determined based on the principle of full cost recovery plus the need to generate additional surpluses to replicate and expand the shelter programme. Having thus arrived at "floor prices" a premium is charged on the floor prices ranging from 10% above floor price for MIG (Middle Income Group) category to 75% above floor price for commercial plots. No premium is levied on EWS and LIG plots. The above mechanism is aimed at not only full cost recovery for area development schemes but will generate a net surplus - estimated at between 6-8% of capital investments, depending on the mix of plot and the extent of cross-subsidization.

Urban Renewal

The cost recovery policy adopted for investments in urban renewal schemes is to auction 'development rights'. The agencies primarily responsible for executing urban renewal schemes (such as CMDA, CIT and HIT) will invest in providing minimum infrastructured facilities and then auction the rights for further development to private developers based on a minimum reserve price set to recover all costs. While 50 per cent of all net surpluses (half of the total auction price minus all costs of development) will be retained by the agencies concerned and reinvested, 50 per cent would be contributed to CMDA towards investments in shelter and area development schemes for the EWS and LIG categories. The financial impact of urban renewal on property tax in CMC and HMC is estimated to be significant.

Madras Urban Development Projects (MUDP)

Cost recovery from beneficiaries is one of the main objectives under MUDP. The underlying principle is that in a situation where a resources constraints exists, projects cannot be replicated unless there is full or substantial cost recovery. Cost recovery can be : (i) direct - through appropriate charges from the beneficiaries; and indirectly through taxes or user charges.

The cost recovery mechanism incorporated under MUDP in respect of different components is provided in Table 5.1 below.

Table 5.1

MUDP Cost Recovery Mechanism

	Component	Cost Recovery Mechanism
1.	Shelter	
a.	Sites and Services	
	Land	Plot pricing
	On-site infrastructure	Plot pricing
	Off-site infrastructure	Partially recovered from user charges
	On-plot development	Plot pricing
	Shelter loans	Loan charges
	Community facilities	Plot pricing recovered from agencies and the balance from Govt. grants

Component	Cost Recovery Mechanism
b. Slum Improvement	
Land	Plot pricing
On-site infrastructure	Plot pricing (Partial)
Off-site infrastructure	Partially recoverd from user charges
Home Improvement loans	Loan charges
Community facilities	Plot pricing recovered from agencies and the balance from Govt. grants
2. Transport	
PTC buses	Bus fares
PTC civil works	But fares
Road Improvement & Inner Ring Road	Government grants.

Source : MMDA

Cost recovery, under the TNUDP, is being undertaken through direct user charges for plots and loans in the sites and services and slum upgrading components, through fares in the bus component and through municipal loan payments to the Urban Development Fund. Sixty six per cent of TNUDP project costs are estimated to be directly recovered (Table 5.2). Nine per cent are to indirectly recovered and twenty five per cent would not be recovered as they represent grants provided under the Urban Development Fund.

Table : 5.2

TNUDP : Cost Recovery Plan @

(Rs. in crores)

Component		Recovered				Not Recovered		Total	
		Directly		Indirectly		Rs.	%	Rs.	%
		Rs.	%	Rs.	%				
LAND	: Sites and Services	202.4	82	40.1	16	4.0	2	246.5	39
GUD	: Guided Development	9.5	70	3.7	28	0.3	2	13.5	2
SIP	: Slum Improvement Programme	35.04	76	10.3	22	0.7	1	46.4	7
TRAMP	: Traffic Management and Transport	0.0	0	0.0	0	100.3	100	100.3	16
PTC	: Pallavan Transport Corporation	58.2	99	0.0	0	0.6	1	58.8	9
MUDF	: Municipal Urban Development Fund	112.0	67	0.0	0	55.2	33	167.2	26
Total		417.5	66	54.1	9	161.1	25	632.7	100

@ Numbers may not tally exactly due to rounding.

Source : MMDA.

Cost recovery installments in sites and services schemes have been fixed taking into account the levels of income of the various categories of the allottees. Over 70 per cent of the plots are for EWS and another 24 per cent for LIG. The rest are for higher income groups. While each scheme as a whole would recover the full costs, the plots for the economically weaker sections were fixed below cost. For LIG and higher income categories as well as commercial/industrial plots the prices of plots were fixed above actual costs so as to generate net surpluses to undertake cross-subsidization of EWS plots.

Bombay Urban Development Project (BUDP)

In the case of overall BUDP, cost recovery is sought to be achieved in the following manner[11]

The entire cost of land, on-site infrastructure, core houses and Home Improvement (HI) loans are to be directly recovered from beneficiaries through lease rent for land, downpayment on plot and repayment of loans. The cost of off-site infrastructure, community facilities and maintenance & equipment etc. are to be recovered by general taxation by the local governments (i.e. BMC, TMC and KMC). Only one per cent of the project cost - for technical assistance and training - would not be recovered. An exception has been made in the case of New Bombay, where in the absence of a local government to take care of off-site infrastructure cost, the entire cost of the project is to be recovered from the beneficiaries.

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11 V.K. Phatak & S. Gandhi-Vakil "Bombay Urban Development Project, Lessons of Experience", BMRDA, 1987, pp. 19-23.

In the case of individual LISP sites, plots are priced according to size, neighbourhood, regional location and availability of amenities. Larger residential plots, commercial uses and non-essential services like cinema plots in better locations are priced close to their market value. Amenities plots are to be sold to various government agencies at average cost of development. This principle of location and amenity pricing (or differential pricing) thus helps achieve the dual objective of affordability and full cost recovery.

In the case of SUP, in view of wide variations in cost of upgradation, the pricing is related to slum location, size of the hut and the use to which it is put. The entire area of Bombay is divided into three zones and prices are determined separately for each zone. These rates are so devised that overall cost recovery is ensured.

About Seventy five per cent of overall BUDP costs, ninety eight per cent of LISP costs and ninety four per cent of SUP costs were proposed to be recovered directly as per the above mechanism. Available data suggests that till August 1989 direct recovery under LISP was ninety four per cent.

With reference to the water supply and sewerage component, the Bank's agreement provided for the Bombay Municipal Corporation (BMC) - the principal executing agency - to meet 40 per cent of the capital expenditure incurred during each year out of its revenue surplus and also to undertake annual review of water tariffs to provide revenues sufficient to meet operating expenses and debt services, so as to make the project financially viable. New water and sewerage benefit taxes were introduced at the instance of IDA in order to generate BMC's internal cash surplus.

In the transport sector the method of cost recovery for various sub-components of the BUTP were as follows :

i. Commuter rail transport - Passenger fares and general revenues of the Railways;

ii. Passenger Bus Transport - Bus fares and other revenue of BEST;

iii. Road Projects - General tax revenue of local authorities, direct road-user charges and tolls and a development cess on vehicle users;

iv. Inland water transport faciliites - Passenger fares plus common use of terminal facilities by goods and passengers and charges on use of terminal facilities by goods transport.

VI

ACCOUNTING SYSTEMS AND PROCUREMENT IN WORLD BANK - ASSISTED URBAN PROJECTS

The Bank and Commercial Accountancy

The accounting practices, conventions and tendering procedures in World Bank projects are undertaken with a view to achieving commercial and financial viability and are expected to be consistent with development objectives of the Bank.

Bank lending operations, which may also involve co-financiers, vary widely in nature, scope and objectives. The activities which are financed extend to different forms of capital infrastructure projects ranging from power stations, irrigation systems and agricultural development; as well as services designed to improve the conditions of the poor, including education, health and low cost housing and urban services.

As a consequence of the wide variations in the Bank's lending activities, both the arrangements for accountability of resources and for the accounting systems to be used for projects also vary widely. These arrangements and the specific accounting requirements are carefully considered during project preparation and appraisal to ensure accountability and adequate financial management of the project.

The Bank considers it necessary to ensure that the proceeds of loans are used with due attention to economy and efficiency, and only for the purpose for which the financing was provided. This necessitates the installation of adequate records consistently maintained in accordance with sound accounting practices from the start of the project and which are subject to satisfactory control and verification.

In general, the Bank is concerned with the efficient use of resources in project implementation, which will require the provision of accurate and timely data, derived from appropriately designed financial management and accounting systems. The Bank, consequently, seeks assurances at loan negotiations that regular financial reports of an agreed form and content will be made available during a project's implementation period.

While the Bank does not define or codify the various accounting policies to be applied in projects, it prefers, to the extent possible, that the project accounts are maintained in accordance with generally accepted international standards. The Bank requires that the following fundamental principles be applied to all project accounting :

i. Full accountability for all funds of the borrower, other lenders, and the Bank;

ii. Adequate disclosure in the financial statements of all material information;

iii. A true and fair view of financial performance and status presented by the financial statements;

iv. A clear statement in the financial statements of accounting policies adopted; and

v. An independent review of the accounts and systems.

Further, a borrower may be requested by the Bank to prepare and attach to the annual financial statements supplementary items of information that differ from those generally required by local accounting practices. For example, the Bank may equire periodic revaluation of assets, including adoption of accounting methods to reveal the impact of all changes in prices; or the disclosure of deferred liabilities. These variations from local practice may be necessary to provide an adequate illustration of the financial performance and status of the project.

The Bank expects a borrower to engage an auditor to provide an opinion and report of high quality as to whether or not the annual financial statements and supporting information of a project fairly present the financial position and the results of operations for the period covered by the audit. Supplementary auditing procedures may be requested by the Bank, if necessary, to confirm accountability and financial performance of Bank-assisted projects.

Tendering in World Bank Projects

The World Bank's procurement policy is governed by three basic considerations :

i. The need for efficient and economical execution of the project;

ii. The need for providing an equal opportunity to compete to qualified firms in all member countries of the Bank; and

iii. The need for encouraging the development of local manufacturers and contractors in the borrowing country, through the use of preferential measures in bidding and contracting.

A wide variety of procurement methods under IBRD loans and IDA credit are used in developing countries.[12] These include

i. International Competitive Bidding

ii. Limited International Bidding

iii. Local Competitive Bidding

iv. Direct Purchase

v. International and Local Shopping, and

vi. Government Contracting

For all types of procurement that use bidding/tendering procedures, the principal steps in the procurement process, in the sequence in which they occur, are :

- Preparation of tender documents
- Advertising, prequalification, and issuance of tender documents
- Bid preparation
- Receipt and opening of bids
- Bid Evaluation, recommendation and review
- Contract Award.

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12 Details of the procurement methods and procedures are set forth in the World Bank, Guidelines for Procurement Under IBRD Loans and IDA Credits, Second Edition (Washington, D.C., 1984).

Calcutta Urban Development Project (CUDP)

Accounting System

Comprehensive accrual accounting system for CMDA and CMC were first designed and implemented during CUDP II (1978-82). This was considered necessary as the earlier accounting system, during CUDP I, based on cash accounting did not provide an adequate picture of the financial performance of the project to the management.

It is necessary to explain the difference between accrual accounting system and cash accounting system. In accrual system, the transaction is recorded the moment it takes place irrespective of the fact whether actual cash is reeived or not or actual cash is paid or not. In cash accounting system on the other hand, the transaction itself is recorded only when the actual cash is either paid or received. As per the cash accounting system therefore we may not get an exact idea of the actual transactions that have taken place during the accounting period and hence a correct financial picture is not revealed to the project managers.

As the designated funding agency for CUDP III, CMDA manages and accounts for all funds received from the state government, plus its own market borrowings. Further CMDA releases funds in installments to local bodies and implementing agencies and accounts for repayments to itself on debt servicing obligations of these local bodies. For the Transmunicipal Infrastructure Programme (TRIP) and Calcutta Howrah Improvement Programme

(CHIP) which it itself implements, CMDA undertakes detailed project cost accounting. On completion of TRIP and CHIP schemes, the created assets are proposed to be transferred to the operating agencies in accordance with proper asset accounting and transfer procedures agreed with IDA.

CMC, CMWSA, CIT and HIT are also adequately equipped to account for their activities, both capital and operating. From June 1983, CMWSA is implementing an accrual accounting system especially designed for a water authority. All municipalities are expected to separately identify project related transactions within their normal accounting and financial reporting systems. However, as financial management and accounting in the municipalities is generally weak, it was agreed during negotiations that accounting firms would be retained for at least three years to assist in posting the accounts and year end closing.

Procurement

The total cost of civil works under CUDP III is US $ 215 million - of this civil works under the TRIP and CHIP programme total US $ 108 million, while under the Municipal Development Programme (MDP) and CMA - wide Complementary Programme (CMACP) components, the total cost of civil works is of the order of US $ 107 million, including contingencies. Of the total civil works about 17% (or US $ 36 million) would be procured through international competitive bidding (ICB), in accordance with the Bank's Guidelines. Bulk of the civil works under CUDP III would not interest foreign bidders as these works are widely dispersed over area and time, and will result in a large number of small contracts. Experience of ICB under CUDP II and III clearly indicates that the contracting procedures have encouraged and promoted local industry.

With reference to procurement of plant, equipment and vehicles under CUDP III also, international competitive bidding under IBRD/IDA Guidelines show a preference for domestic manufactures[13] of equipment, who are eligible for a preference in bid evaluation of 15 per cent or the prevailing level of import duty, whichever is lower.

Madras Urban Development Project (MUDP)

Accounting System

Under MUDP, accrual accounting systems and related management information systems were introduced in the Tamil Nadu Housing Board (TNHB) and the Madras Municipal Corporation (MMC). Improvements in the accounting system for water supply and sanitation operations in 3 of the 4 largest project cities involved in the Bank-assisted project (TNIDP), were undertaken by the Tamil Nadu Water Supply and Sanitation Project. On the basis of consultant studies, measures to improve the Tamil Nadu Slum Clearance Board's (TNSCB) management information and accounting systems were initiated.

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13 Domestic manufactures are defined as those with a local value added of at least 20 per cent.

Under the TNUDP all implementing agencies were required to maintain separate project accounts, including accounts of the Municipal Urban Development Fund and of Guided Urban Development transactions. The Project Management Group (PMG) and the City Management Committees (CMC) and MMDA in each project city were entrusted with the responsibility of keeping consolidated accounts of all expenses connected with the project.

The TNHB and TNSCB were required to maintain revolving funds for sites and services and slum improvement schemes created under MUDP and to utilise these funds for the above schemes.

Procurement

The local competitive bidding (ICB) and international competitive bidding (ICB) procurement procedure under MUDP have been satisfactory. However, the average size of procurement contracts is still small compared to procurement "packages" offered for bidding in other major infrastructure projects despite increases in MUDP II contract package sizes.

Due to the relatively small value of individual procurement packages in all the components of TNUDP, their dispersal over a large number of sites in 10 cities and several implementing agencies, the labour intensive construction methods as well as low cost technology .pa involved, foreign bidders are not being attracted and bulk of civil works are being contracted on the basis of local competitive bidding procedures acceptable to IDA.

While local competitive procedures similar to those of MUDP have been found generally acceptable, IDA has proposed several modifications under TNUDP including the following :

i. increasing the financial authority of various grades of engineers in the TNHB and TNSCB and other implementing agencies;

ii. replacing the present system of open tenders with a system of selective tenders (short listing) for contracts valued at more than Rs. 60 lakhs; and

iii. creating an additional category of contractors financially and technically eligible to execute contracts valued at greater than Rs. 60 lakhs and amending the current category of contractors qualifying for contracts in excess of Rs. 25 lakhs to make them eligible for contracts in the range of Rs. 24-60 lakhs.

Bombay Urban Development Project (BUDP)

Accounting System

All executing agencies of BUDP maintain separate project accounts which are audited by independent auditors acceptable to IDA. Each agency is to prepare for submission to IDA annual financial statements for the whole of their activities as well as the project, accompanied by a report on the accounts and audit statements and through BMRDA submit these to IDA within nine months of the close of each financial year. The BMRDA is responsible for reviewing and coordinating project accounts for expenditures made by the implementing agencies.

A model accounting system based on commercial accounting which is under operation in the BUDP is the accounting system for the Water Supply and Sewerage Department (WSSD) in the Bombay Municipal Corporation (BMC). This accounting system incorporates a separate Budget 'G' which came into existence from April 1974 under Chapter IX and X of the BMC Act.

The accounting system for Budget 'G' provides an improved and simplified method for recording and controlling receipt and payment transactions at the unit level and also suggests measures to enable the Additional Chief Accountant's Central Office to gain effective control over the operation of the decentralised accounting unit. The main aspect of this accounting system is that it is decentralised and exercises effective control of the receipt transactions at unit level. The system is designed in such a way that it gives within a short period accurate and relevant information to the management to exercise effective control and facilitate the process of quick decision making. (Operational details of Budget 'G' are provided in Annexure A-5).

Procurement

The total estimated cost of civil works contracts, including contingencies and excluding taxes would be about us $ 195 million (Rs. 214 crores) of which US $ 158.7 million (Rs. 175 crores) is for the LISP schemes. The average contract value for the LISP civil works package is about US $ 0.6 million (Rs. 0.7 crores) although a few larger contracts are valued at up to US $ 1.1 million (Rs. 1.2 crores). The value of the largest contract under LOGFAS and SUP components is estimated at US $ 270,000 (Rs.

30 lakhs). The relatively small scale and value of individual contract packages, their dispersion in a large number of project areas and labour intensive construction methods as well as low cost technology involved make them unattractive to foreign bidders and hence the civil works contracts under LISP, SUP and LOGFAS are being awarded on the basis of local competitive bidding acceptable to IDA.

Procurement contracts totalling approximately US $ 8.4 million (Rs. 9.2 crores) for packages of major items under the LOGFAS component, such as bulldozers and front end loaders, were to be awarded on the basis of international competitive bidding (ICB) in accordance with the IDA Guidelines. Domestic suppliers of plant and equipment under ICB would be allowed a margin of preference of 15% or the applicable customs duty, whichever was lower. It was not considered possible to group all plant and equipment into sufficiently large packages to interest foreign suppliers and small contracts for equipment and related spares totalling approximately US $ 4.5 million (Rs. 5.0 crores) were to be given out on the basis of local competitive bidding.

VII

Summary and Conclusion

During the 1990s, the trend towards rapid urbanisation in the developing countries is likely to accelerate with rising numbers and shares of the population living in urban areas. While continued rapid urbanisation in developing countries poses major development challenges, adequate responses in terms of better investment management and resource use in developing countries, are essential for more satisfactory economic and social development. More attention needs to be given to the development of appropriate urban infrastructure and service facilities particularly housing, transport, water supply and sanitation, as well as energy, health and education.

Over the years, the World Bank has emerged as an important international development institution and one of the principal catalysts of economic assistance to developing countries. India is a significant beneficiary of World Bank assistance on soft terms. Apart from providing concessional credit to diverse sectors of the India economy, in particular power generation, agriculture and rail transport, the Bank has, since the early 1970s, provided increasing assistance for financing urban sector projects in India.

The Bank has played a significant role in the establishment and strengthening of local development institutions for resource mobilisation, and utilisation for urban investment. The Bank's strategic involvement with the urban sector has varied according to the different country situations and four major project types may be identified in the Bank's urban lending programme : <u>shelter</u>, <u>urban transport</u>, <u>integrated urban project</u>, and <u>regional development projects</u>.

The Bank formulated its framework and guidelines for the urban development and housing programmes within its theory of affordability - cost recovery - replicability. By 1980 the housing components of the Bank's urban programmes were absorbing about 60 per cent of the total loans.

Between mid-1972 and mid-1980, on the basis of a conservative estimate, more than 10 million people in twenty-nine countries benefitted from the Bank's shelter projects at an estimated per capita cost of about US $ 250. The available data indicate that an emerging constraint in the Bank's shelter projects is that in both the sites and services and slum upgrading projects, leakages of project benefits to middle and higher income households have been observed. It is estimated that, on an average, about 20 per cent of plots in the sites and services projects have gone to such higher income households.

It is, however, encouraging to note that measures such as improved procedures for selecting applicants to the sites and services projects are being incorporated in current projects, with good results, to limit the extent to which the higher - income groups pre-empt the benefits from the Bank's shelter projects.

While the Bank's support for urban development in India has largely concentrated on three of India's largest cities - Calcutta, Madras and Bombay - the nature and scope of World Bank's urban development activities is increasingly being enlarged to include medium - sized cities, which is consistent with the Government of India's policy emphasis on development of small and medium towns since the Fifth Five Year Plan (1974-79).

The institutional mechanism for implementation of Bank assisted urban projects in India have undergone restructuring and progressive refinement since the Bank's involvement. This has set in motion a process of better investment management and improved project viability with more rigorous project selection, clearer setting of objectives, greater care in project preparation, more efficient implementation and quicker adjustment when problems are identified.

CUDP marked the beginning of a systematic and planned approach to the development of Calcutta and its surrounding areas. In the course of CUDP I and CUDP II, CMDA's institutional capabilities were substantially strengthened with its management structure becoming increasingly competent in planning and executing large investment programmes. CMDA's budgeting, accounting, appraisal and financial management systems were also strengthened. The municipalities were given an expanded role in capital budgeting and in setting priorities within broad technical and financial guidelines set out by the CMDA.

Under CUDP I and CUDP II several major legislative, institutional and financial changes were introduced, to increase the financial resources of municipalities and agencies; to improve planning and control of land use; and to strengthen local government.

A major development initiative of CUDP was the introduction of the Municipal Development Programme (MDP) which decentralised investment away from the city's metro core, under CUDP III. An important prerequisite for MDP's success was the delegation of specific responsibilities for investment planning and implementation, as also increased financial autonomy to the local bodies, while simultaneously maintaining overall programme control and coordination at the Metropolitan/state level.

An innovative financial adjustment mechanism emerging from CUDP I and II experience was the Revised Grant Structure (RGS) for urban local bodies. RGS operates a "trigger mechanism" which allocates subsequent years' MDP investment provision to individual local bodies taking into account their performance in achieving project targets. The RGS has induced improved fiscal mangement by local bodies and is having a far reaching effect on the quality of municipal administration.

Cost recovery constitutes a significant policy element underlying Bank-assisted projects and is considered essential to ensure project sustainability and replicability and for promoting more equitable income distribution.

Under CUDP direct cost recovery measures were applied to the following sectors : (a) Water Supply; (b) Area Development and (c) Urban Renewal. The strategy for cost recovery for water supply aims at recovering all expenditures for operations, maintenance, purchase of bulk water (from CMWSA) and charges for a reserve fund equivalent to depreciation by 1987/88. Cost recovery in shelter and area development utilises a "floor price" mechanism and cross-subsidization to achieve full cost recovery and net surplus generation. The cost recovery policy for urban renewal schemes is to auction 'development rights'. The financial impact of urban renewal on property tax in CMC and MMC is estimated to be significant.

Under the Bank-assisted MUDP, the valuable experience of MUDP I and II assisted the State Government to introduce measures to strengthen institutional arrangements and create a mechanism to ensure adequate planning, coordination and management of the TNUDP.

A new source of municipal financing was introduced by the establishment of the Municipal Urban Development Fund (MUDF) and the Project Management Group (PMG) was made responsible for management of the MUDF policy.

In the shelter sector, a new feature was that guidelines were laid down for a special project under TNUDP - Guided Urban Development (GUD) - wherein private land owners and developers within the Madras Metropolitan Area would develop residential and non-residential plots substantially for the economically weaker section households.

In the transport sector, the Pallavan Transport Corporation (PTC) was made responsible for the bus component. The State Government created a Bus Fare Expert Committee in order to improve the procedures and institutions for fare revision and PTC accountability for achieving its revenue and operating productivity targets.

Cost recovery under the Bank-assisted TNUDP is being undertaken through direct user charges for plots and loans in the sites and services and slum upgrading components; through fares in the bus component and municipal loan payments to the MUDF. It is estimated that 66 per cent of TNUDP project costs would be directly recovered 9 per cent would be indirectly recovered and twenty six per cent of project costs would not be recovered as they represent grants under MUDF.

The institutional framework for implementation of BUDP has undergone several improvements. BMRDA's Planning Division was strengthened to make the Authority a more effective planning body. An executive order of 1983, created a BUDP implementation wing in MHADA which included Administration, Estate Management and Finance Sections. A Community Development Wing was established in MHADA to assist in the implementation of SUP. New Municipal Corporations were created in Thane and Kalyan and a preliminary notification for a New Bombay Municipal Corporation, has been issued by the State Government and is under active consideration.

Performance-oriented Development Control and Building Regulations (DCBRs) were adopted and incorporated in BUDP in 1984, for LISP, with a view to achieve efficient layouts and facilitate cost recovery in New Bombay where these DCBRs were to be initially applicable.

Under BUDP, a Revolving Fund was set up by transferring to this Fund 45 per cent of the repayment due by the implementing agencies to the Government of Maharashtra. The Fund which has been set up in BMRDA seeks to ensure replicability of the Project.

The cost recovery mechanism under BUDP is based on cross-subsidization for the shelter component, annual review of the tariff structure for water supply, new water and sewerage benefit taxes as well as bus fares and user charges for the transport sector.

It is estimated that 75 per cent of total BUDP (1983-90) project costs; 98 per cent of the Land Infrastructure Servicing Programme (LISP) costs; and 94 per cent of the Slum Upgrading Programme (SUP) costs would to be directly recovered from beneficiaries through lease rent for land, cash downpayments on plot and repayment of HI loans through monthly installments spread over a 20 year period. Available data indicates that till August 1989 direct cost recovery under the LISP component of BUDP was 94 per cent.

The accounting practices, conventions and tendering procedures in World Bank assisted projects are undertaken with a view to achieving commercial and financial viability and are expected to be consistent with the broader development objectives of the Bank.

The Bank requires that the following fundamental principles be applied to all project accounting :

i. Full accountability for all funds of the borrowers, other lenders and the Bank;

ii. Adequate disclosure in the financial statements of all material information;

iii. A true and fair view of financial performance and status presented by the financial statements;

iv. A clear statement in the financial statements of accounting policies adopted; and

v. An independent review of the accounts and system.

The World Bank's procurement policy is governed by three basic considerations :

i. The need for efficient and economical execution of the project;

ii. The need for providing an equal opportunity to compete to qualified firms in all member countries; and

iii. The need for encouraging the development of local manufacturers and contractors in the borrowing country, through the use of preferential measures in bidding and contracting.

Comprehensive accrual accounting system for CMDA and CMC were first designed and implemented during CUDP II essentially because the earlier accounting system based on cash accounting did not provide an adequate picture of the financial performance of the project to the management.

As the designated funding agency for CUDP III, CMDA manages and accounts for all funds received from the state government, plus its onw market borrowings. For the Transmunicipal Infrastructure Programme (TRIP) and Calcutta-Howrah Improvement Programme (CHIP) which it itself implements, CMDA undertakes detailed project cost accounting. From June 1983, CMWSA is implementing an annual accounting system especially designed for a water authority.

Bulk of the civil works under CUDP III have not interested foreign bidders as these works are widely dispersed over area and time and cover a large number of small contracts. The experience of international competitive bidding under CUDP indicates that the contracting procedures have encouraged and promoted local industry.

Under MUDP, accrual accounting systems and related management information system were introduced in the Tamil Nadu Housing Board (TNHB) and in Madras Municipal Corporation (MMC). During this period, improvements in the accounting system for water supply and sanitation operations in 3 of the 4 largest

TNUDP project cities and measures to improve the Tamil Nadu Slum Clearance Board's (TNSCB) management information and accounting system were also initiated.

While local competitive bidding procedures under MUDPI and MUDP II have been largely satisfactory, the World Bank has proposed modifications under TNUDP with a view to improving project efficiency. These are as follows :

i. increasing the financial authority of various grades of engineers in the TNHB and TNSCB and other implementing agencies;

ii. replacing the present system of open tenders with a system of selective tenders (Short listing) for contracts valued at more than 60 lakhs; and

iii. redefining the executive powers of contractors with regard to contracts of different values.

All executive agencies of BUDP maintain separate project accounts which are audited by independent auditors acceptable to the World Bank. The BMRDA is responsible for reviewing and coordinating project accounts for expenditures made by the implementing agencies. A model accounting system based on commercial accounting was introduced by the Water Supply and Sewerage Department in the BMC. This is a decentralised accounting system designed in such a way that it gives within a short period accurate and relevant information to the management to exercise effective control and facilitate the process of quick decision making.

In conclusion, the experience of World Bank assisted urban projects in India present a mixed picture. There can be little doubt that these projects have made a valuable contribution in the evolution of improved institutional and financial framework of urban management in the country. Secondly, urban projects financed by the Bank have introduced major changes in the area of financial management including improved commercial accountancy and tendering procedures. Also the Bank's urban projects have shown a high degree of sustainability through improved cost recovery and project replicability.

While these are major achievements to its credit, the World Bank has not been as successful in addressing a critical impact area - which represents one of the Bank's principal objectives in the urban sector - namely, to provide at an affordable cost, the needs of a growing urban population particularly of the urban poor. As the present study indicates, in both the Sites and Services and Slum Upgrading projects, having a direct bearing on the urban poor, the urban service delivery performance of the Bank has been far from satisfactory.

How can systemic distortions be checked and what role can the Bank play in a framework of greater decentralisation of financial resources, investment decisions and implementation responsibilities? In order to further assist developing countries to cope with urban challenges and opportunities in the 1990s and beyond, a rethink on these crucial issues, as well as a reorientation in the Bank's approach to urban planning and development is urgently needed.

Annexure A-1

Covenants of the Calcutta Urban Development Project (CUDP)

Institutional

1. The CMDA shall on-lend at the prevailing commercial rate for urban renewal schemes and at not less than 8.25% per annum for other investments.

2. The CMDA shall review annually the interest rebate feature in the small-scale entrepreneur component of the Project to determine its effectiveness.

3. The CMDA shall submit, by September 30, 1983, for the IDA's review and approval, a draft copy of its administrative, operational and financial guidelines for implementing the shelter and area development program of the Project and these shall incorporate costing and pricing formula, maintenance charges, the criteria for beneficiary selection, conditions of lease and terms and conditions of loans for the sites and services beneficiaries.

4. The CMDA shall submit : (i) by September 30, 1983, for the IDA's review and approval, a draft copy of administrative, operational and financial guidelines for implementation of the Urban Renewal schemes under the Project, and these shall incorporate the costing and pricing formula for the sale of development rights, the terms and conditions of sale by auction of leasehold rights, the terms and conditions of rental facilities, and the accounting and placement of all funds generated in urban renewal schemes; (ii) for prior review by the IDA of an appraisal of each urban renewal

scheme to be carried out under the Project, and only schemes yielding an estimated financial rate of return in excess of the prevailing commercial cost of capital shall be implemented; and (iii) for review and approval by the IDA a pricing and cost recovery analysis for each urban renewal scheme to be implemented under the Project prior to announcing the auction of development rights.

5. The CMDA shall update at six month intervals the individual sub-project implementation schedules, and said schedules thall be included in the quarterly progress reports to the IDA.

6. The CMDA shall allocate capital resources in accordance with the requirements resulting from the annual review of revenue grant and capital grant requirements pursuant to Section 3.09 of the West Bengal Agreement.

7. The CMDA shall furnish quarterly progress reports to the IDA within 60 days of the close of each quarter.

8. The CMDA shall arrange for regular inspections of key installations as agreed with the IDA by suitable agencies on such intervals as the IDA may request, and commencing September 30, 1984, copies of these reports shall be made available to the IDA.

9. The CMDA shall, at six month intervals, furnish to the IDA progress summaries of appraisals, field surveys, and other activities carried out by the Appraisal Monitoring and Evaluation Unit (AMEU), and every twelve months beginning April 1, 1984, shall furnish to the IDA a copy of AMEU's annual report and recommendations.

10. For the purpose of carrying out the shelter and area development component of the Project, the CMDA shall establish and maintain an Area Development Account in a commercial bank.

11. Upon completion of the facilities included under the Project, the CMDA shall transfer the assets to the appropriate operating agencies.

Accounts and Audit

12. The CMDA shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

13. The CMDA shall :

(a) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the IDA;

(b) furnish to the IDA as soon as available, but in any case not later than nine months after the end of each such year, (i) certified copies of its financial statements for such year as so audited, and (ii) the report of such audit by said auditors, of such scope and in such detail as the IDA shall have reasonably requested; and

(c) furnish to the IDA such other information concerning said accounts, financial statements, records and expenditures, as well as the audit thereof, as the IDA shall from time to time reasonably request.

14. The CMDA shall consult with the IDA on any major changes proposed to its investment program for the period April 1, 1983 through March 31, 1988.

Procurement and Tendering

15. Contracts for civil works and pumps, pipes, cars/jeeps and miscellaneous solid waste equipment may let on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the IDA.

16. To the extent possible, works referred to in paragraph 15 above shall be grouped in packages estimated to cost the equivalent of Rs. 25,000,000 each or more and bidding shall be advertised on all-India basis.

17. Small contracts for equipment anod materials estimated to cost the equivalent of Rs. 100,000 or less may be let after obtaining three quotations provided that the aggregate of such contracts shall not exceed the equivalent of Rs. 15,000,000.

18. Review of prequalification : The CMDA shall, before qualification is invited in respect of works inform the IDA in detail of the procedure to be followed, and shall introduce such modifications in said procedure as the IDA shall reasonably request.

19. Review of invitations to bid and of proposed awards and final contracts :

With respect to all contracts for civil works estimated to cost the equivalent of $500,000 or more and for equipment and vehicles estimated to cost the equivalent of $200,000 or more :

(a) Before bids are invited, the CMDA shall furnish to the IDA, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the IDA shall reasonably request. Any further modification to the bidding documents shall require the IDA's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, the CMDA shall, before a final decision on the award is made, inform the IDA of the name of the bidder to which it intends to award the contract and shall furnish to the IDA, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, and such other information as the IDA shall reasonably request. The IDA shall, if it determines that the intended award would be inconsistent with the Guidelines of this Schedule, promptly inform the CMDA and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the IDA's concurrence, materially differ from those on which bids were asked or prequalification was invited.

(d) Two conformed copies of the contract shall be furnished to the IDA promptly after its execution and prior to the submission to the IDA of the first application for withdrawal of funds from the Credit Account in respect of such contract.

Annexure A-2

Covenants of the Madras Urban Development Project (MUDP I and II) and Tamil Nadu Urban Development Project (TNUDP)

A. The covenants under MUDP I and II include the following :

i. Tamil Nadu to employ consultants for Technical Assistance and Training;

ii. TNHB to limit its annual investment in housing for income groups other than EWS (55% maximum);

iii. Tamil Nadu to construct housing to meet physical standards as agreed to by the IDA;

iv. TNSCB to limit annual expenditure on slum clearance-cum-tenement programme;

v. sites/services criteria, terms and conditions to be acceptable to the IDA;

vi. Tamil Nadu to recover slum improvement costs and assess charges satisfactory to IDA;

vii. revenue from sale of developed sites to be deposited in Sites & Services Revolving Fund;

viii. revenue from slum improvement schemes to be deposited in Slum Improvement Revolving Fund;

ix. audit accounts and reports to be submitted to IDA not later than 10 months after each fiscal year;

x. PTC's current assets to current liabilities ratio to be maintained at 1.5:1;

xi PTC's operating costs not to exceed 95% of operating revenue;

xii. No more longterm debt for PTC unless real debt services coverage is atleast 1.5 times;

xiii. Madras Corporation to increase its revenue by atleast 8% annually;

xiv. Madras Corporation's debt service payments in any financial year not to exceed 20% of revenue until 31.3.86; and

xv. Madras Corporation to furnish to the IDA the proposal of the Corporation for improving property tax collection.

2. The covenants under TNUDP include tho following :

1. Terms and conditions of Municipal Urban Development Fund lending to municipalities would be satisfactory to IDA.

2. The qualifications of consultant and advisors and terms and conditions of their employment would be satisfactory to IDA.

3. (LAND) sites and services schemes would be implemented only on sites which are satisfactory to IDA.

4. About 10% of the slum improvement component would be implemented for households on privately owned land.

5. Plans, layouts, engineering designs/ standards and development/building regulations applied in sites services, guided urban development, and slum improvement schemes would be acceptable to IDA.

6. In respect of sites and services, guided urban development, and slum improvement schemes, Tamil Nadu would recover fully all chargeable costs. Terms and conditions of leases and of home improvement loans as well as beneficiary selection procedures would be satisfactory to IDA.

7. The Government of Tamil Nadu would maintain the Empowered Committee, Project Management Group, and City Management Committees throughout the period of project execution.

8. The Pallavan Transport Corporation would maintain an average operating ratio of less than 0.98; fund 20% of its average annual investment program from internal cash generation; be reimbursed two times per year at the rate of 70% by the Government of Tamil Nadu, for its losses on subsidized student riders; would pay principal and interest due to GTN

loans funded by IDA and could, if necessary, treat existing GTN non-IDA loans as permanent loans on which only interest would be paid.

9. Accounts and Audit

(i) Project implementing agencies would have their accounts and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to IDA, except that only the project accounts of implementing agencies other than TNHB, PTC, Madras and Coimbatore Municipal Corporations, and Madurai, Salem and Trichy Municipalities would be audited; (ii) For expenditures qualifying for reimbursement against SOE, independent auditors acceptable to IDA would annually certify that the underlying documentation fully supports disbursement requests; and (iii) audit reports, including audits of SOE, and financial statements, except for those of municipalities other than Madras, Madurai, Salem, Trichy and Coimbatore would be submitted to IDA within 9 months of the end of each fiscal year.

10. Procurement and Tendering

(i) All bidding packages and bid evaluations for civil works estimated to cost US$650,000 equivalent or more (Rs. 85 lakhs) and for equipment and materials estimated to costs US$200,000 equivalent (Rs.85 lakhs) or more, would be received and reviewed by IDA prior to bid issuance and award of contract; (ii) bid evaluations for civil works contracts valued at US$450,000 - 650,000 (Rs. 60 - 85 lakhs) would be received by IDA prior to award of contract; (iii) each agency would submit the contract documents and bid evaluation for the largest contract valued under Rs. 60 lakhs and awarded during each quarter to IDA for review; and (iv) the balance of contracts would be selectively reviewed after contract award by IDA. All contracts would be reviewed by the PMG and CMC in conformity with the provisions for IDA review and such other additional arrangements which GTN may choose to make. Agencies would adhere to the above provisions for procurement review during the period of retroactive financing.

11. Full review of about 30% of the value of civil works and equipment and materials contracts and partial review of an additional 15% of the value of civil works contracts would

be less than the suggested guidelines. However, further aggregation of works contracts is precluded by the project's programmatic nature, its geographical dispersion and the varied nature of works by several agencies. The relatively low value of thoe substantial but manageable number of LCB contracts to be reviewed is therefore considered acceptable.

12. Tamil Nadu will carry out the project substantially in accordance with the Operational Action Plan.

Annexure A-3

Covenants of the Bombay Urban Development Project (BUDP)

Institutional

1. For the purposes of carrying out the Project, GOM shall designate BMRDA as the principal coordinating agency.
2. Selection of sites for the land and infrastructure service programme and the slum upgrading programme and their plans, layouts, designs and standards shall be satisfactory to the IDA.
3. GOM will aim to implement about 10% of the slum upgrading with households located on privately owned land.
4. The scope and time frame in respect of a programme of municipal services and improvements in the development control and building regulations shall be implemented only after the recommendations of the consultants for such programme have been jointly reviewed and agreed upon among the Borrower, GOM and the IDA.
5. GOM shall cause to be established in BMRDA a revolving fund which shall be credited with 45% of the principal amounts repaid to GOM by the Implementing Agencies in repayment of amounts on-lent to them by GOM to implement the Project, said funds being treated as non-refundable loans. Said revolving fund shall be used for financing similar programmes in future.
6. Except as the IDA may otherwise agree, GOM shall cause MHADA to : (i) limit new investments in housing schemes (excluding repairs, reconstruction and slum improvements) outside the

Project to be carried out through Bombay Housing and Area Development Board to Rs. 100,000,000 per year during the peak period of the implementation of the Project, and the layouts, standards and superstructure if provided in any new schemes undertaken by said Board outside the Project shall be based substantially on the building and development control regulations prescribed for land infrastructure servicing schemes under the Project; and (ii) design housing schemes other than those included in the Project (excluding schemes executed on deposit) to :

a. minimize the average cost per household for land development and housing construction; and

b. maximize the percentage of households with incomes at or below the absolute poverty level in Bombay (estimated to be about Rs. 880 per household per month in 1983) in the range of 55% to 75% of all beneficiary households.

7. GOM shall cause CIDCO and MHADA to aim to achieve the following performance targets by fiscal year 1987/88:

a. design, supervision of construction and management costs, including cost of support services (administration, finance and accounts) but exclusive of .pa estate management and interest charges, not to exceed 12% of annual construction costs;

b. accounts receivable for hire purchase and rental properties not to exceed an average of 3 months billing; and

c. estate management costs not to exceed 4% of rentals and installments receivable.

8. In respect of land infrastructure servicing to be carried out under Part A of the Project, GOM will aim to recover fully all chargeable costs, and target beneficiary selection criteria, and terms and conditions of sales and leases for

residential, commercial small industry and other plots, and for home improvement loans shall be as agreed upon among the Borrower, GOM and the IDA.

9. In respect of slum upgrading to be carried out under Part B of the Project, GOM will aim to recover all chargeable costs and terms and conditions of leases and that of home improvement loans, and user charges for maintenance and utilities, shall be as agreed upon among the Borrower, GOM and the IDA.

10. On-lending terms to beneficiaries for serviced plots, housing loans and slum upgrading under Parts A and B of the Project shall be satisfactory to be IDA, which shall include, *inter alia*, that interest shall be charged at not less than 12% per annum.

11. GOM shall cause BMRDA to :

    i. prepare and furnish to the IDA not later than December 31 each year an annual report on the progress of the Affordable Low Income Shelter Programme (ALIS) for that year together with proposals for actions required to be taken to meet the targets for said Programme for the following year; and

    ii. review every six months the availability of materials and financial requirements.

12. GOM shall cause the Implementing Agencies to provide each year sufficient budgetary provisions for adequate services and maintenance in areas benefited by the Project.

Accounts and Audit

13. GOM shall cause its departments and other agencies and authorities responsible for carrying out the Project or any part thereof to: (i) maintain separate records and accounts

adequate to reflect, in accordance with sound accounting principles and procedures consistently applied, its resources, expenditures and operations related to the Project; and (ii) furnish to the Association copies of their accounts and financial statements related to the Project for each fiscal year, certified as to their accuracy and authenticity by an independent auditor acceptable to the IDA, as soon as available but in any case not later than nine months after the end of each such year.

14. GOM shall cause its departments and other agencies and authorities responsible for carrying out the Project or any part thereof to : (i) have their accounts and financial statements related to the Project for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors to the IDA; (ii) furnish to the IDA immediately following its finalisation, the report of such audit by said auditors, of such scope and in such detail as the IDA shall have reasonably requested; and (iii) furnish to the Association such other information concerning said accounts and records, financial statements and the audit thereof as the IDA shall from time to time reasonably request.

Procurement and Tendering

15. (a) Contracts for civil works, and for small packages of equipment estimated to cost the equivalent of $200,000 each or less up to an aggregate equivalent of $4,500,000 may be let on the basis of competitive bidding advertised locally in accordance with procedures satisfactory to the IDA.

(b) Contracts for small items estimated to cost the equivalent of $100,000 each or less up to an aggregate equivalent of $1,100,000 may be let through limited bidding procedures on the basis of evaluations and comparisons of bids invited from at least three qualified suppliers eligible under the Guidelines.

16. IDA will be provided the opportunity to review :

(a) all contracts for civil works and equipment estimated to cost the equivalent of $800,000 and $300,000 or more, respectively;

(b) all contracts for civil works estimated to cost the equivalent of more than $500,000 but lett than $800,000.

Annexure A-4

Bombay Urban Development Project - Revolving Fund Regulations, 1988

WHEREAS the Project Agreement for Bombay Urban Development Project entered into between the International Development Association and State of Maharashtra, dated March 1, 1985 requires that -

Maharashtra shall cause to be established in BMRDA a revolving fund which shall be credited with 45% of the principal amounts repaid to Maharashtra by the Implementing Agencies in repayment of amounts on lent to them by Maharashtra to implement the project, said funds being treated as non-refundable loans. Said revolving fund shall be used for financing similar programmes in future.

WHEREAS the Agreed Minutes of negotiations for the said Project have recorded that -
with reference to Item 5 of Schedule 2 of the Project Agreement, Maharashtra confirmed that the Association will be kept informed of the guidelines and rules to be framed for the adminstration off the Revolving Fund.

AND WHEREAS Government of Maharashtra has included relevant clauses in its Circular;ar. Housing & Special Assistance Department No. WBP-1083/1187(72)X, dated 22.11.84 read with Circular, Housing & Special Assistance Department of even number, dated 19.8.85, and Subsidiary Loan Agreements entered into between Government of Maharashtra and City and Industrial

Development Corporation for the contribution to the Revolving Fund.

NOW THEREFORE in exercise of powers conferred by sub-sec. (1) of Sec. 12 read with Sec.50 of the Bombay Metropolitan Region Development Authority hereby makes the following Regulations:

1.0 Short Title and Commencement :

1.1 These Regulations may be called Bombay Metropolitan Region Development Authority (BUDP - Revolving Fund) Regulations, 1988.

1.2 These shall come into force from the 1st March, 1989.

2.0 Definitions

a. 'Act' means Bombay Metropolitan Region Development Authority Act. 1974.

b. 'Agreement with a Borrower' means an agreement entered into and in force between the Authority and a Borrower for purposes of BUDP: Revolving Fund.

c. 'Authority' means the Bombay Metropolitan Region Development Authority constituted under the Act;

d. 'Bank' means on or more of the Banks referred to in section 18(2) of the ACt;

e. 'BMC' means the Bombay Municipal Corporation established under the Bombay Municipal Corporation Act, 1988.

f. 'BUDP' means the Bombay Urban Development Project described in the Development Credit Agreement, dated March 1, 1985 between Government of India and International Development Association.

g. 'Chief Accounts Officer' means the Chief Accounts Officer of the Authority;

h. 'CIDCO' means the City and Industrial Development Corporation of Maharashtra Limited a Government company registered under the Companies Act, 1956.

i. 'Executive Committee' means the Executive Committee constituted under Section 7(1) of the Act.

j. 'Financial Adviser' means the Financial Adviser appointed by the State Government under section 11 A of the Act.

k. 'Implementing Agencies' include BMC. Authority, CIDCO, KMC, MHADA, NBMC and TMC.

l. 'Installment in connection with the repayment of advances means:

(a) equal yearly or half-yearly installments of principal (in these regulations referred to as fractional installments) or

(b) such installments of principal as when combined with interest on the portion of the advance which is outstanding will cast as nearly as may be an equal burden on each year or half-year of the unexpired portion of the period of the advance (in these Regulations referred to as 'annuity installments');

m. 'KMC' means Kalyan Municipal Corporation, established by Maharashtra Government under the Bombay Provincial Municipal Corporation Act, 1949.

n. 'Metropolitan Commissioner' means the Metropolitan Commissioner appointed by the State Government under Section 11(1) of the Act.

o. 'MHADA' means the Maharashtra Housing Area Development Authority established under the Maharashtra Housing and Area Development Authority Act, 1976.

p. 'NBMC' means New Bombay Municipal corporation, being established by Maharashtra Government under the Bombay Provincial Municipal Corporation Act, 1949 pursuant to its preliminary Notification dated November 18, 1983;

q. 'Subsidiary Loan Agreement' means Agreement between Government of Maharashtra and BMC, and Government of Maharashtra and City and Industrial Development Corporation pertaining to Sec.201(b)(i) of the Project Agreement entered into between International Development Association and State of Maharashtra dated March 1, 1985.

r. 'TMC' means the Thane Municipal Corporation, established by Maharashtra Government under the Bombay Provincial Municipal Corporation Act, 1949;

s. 'Year' means the financial year ending on the 31st day of March.

The words and expressions used in these Regulations but not defined therein shall have the same meanings assinged to them in Maharashtra Regional & Town Planning Act, 1966, Bombay Metropolitan Region Development Authority Act, 1974 and regulations made thereunder.

3.0 Powers of Interpretation

If any question arises on the meaning of any of the clauses of these Regulations, such questions shall be resolved by the Executive Committee whose decision shall be considered final and binding.

4.0 Sources of Fund

The sources of fund shall be as follows :

(i) Contribution by the Implementing Agencies of Bombay Urban Development Projects per Government Circular, Housing & Special Assistance Department No. WBP-1083/1187(72)X, dated 22.11.84 read with Circular, Housing & Special Assistance Department of even number, dated 19.8.85, and the Subsidiary Loan Agreements entered into between Government of Maharashtra and City and Industrial Development Corporation.

(ii) Repayment of loans including interest thereon advanced by the Revolving Fund.

(iii) Any other receipts including borrowings from the approved financial institutions.

5.0 Application of Fund

The proceeds of the fund shall be applied for financing following programmes and activities undertaken in Bombay Metropolitan Area.

(i) co-financing of projects similar to Bombay Urban Development Project.

(ii) Low Income Housing by Maharashtra Housing and Area Development Authority, City and Industrial Development

Corporation or any other public agencies in the form of Sites and Services projects with standards of development, costs and pricing similar to those implemented under Bombay Urban Development Project.

(iii) Guided land Development by private land-owners which would produce Sites and Services type of development at standards, costs and prices similar to projects implemented under Bombay Urban Development Project.

(iv) Slum-upgrading projects by Maharashtra Housing and Area Development Authority. Bombay Municipal Corporation and other local authorities involving infrastructure improvement, home expansion loan, and grant of land-tenure to slum-dwellers similar to those implemented under Bombay Urban Development Project.

(v) Improvement in Local Government Services including procurement of plan, equipment, vehicles and related civil works for the following civic services:

- Roads and Storm water drains
- Sewerage
- Water Supply
- Solid Waste Management and
- Fire Services

(vi) Technical assistance for project formulation and for improvement in project monitoring and administration systems.

(vii) Equity participation in remunerative projects which have a potential for high rate of returns.

(viii)Administration of the Bombay Urban Development Project-Revolving Fund.

6.0 Eligibility for Assistance from BUDP-Revolving Fund

All the Implementing Agencies of Bombay Urban Development Project, other local Authorities, functioning in BMR and private land onwers participating in Guided Land Development Scheme shall be eligible for assistance from the BUDP-Revolving Fund for activities listed under APPLICATION OF FUND.

7.0 Nature of Assistance

7.1 When the fund is being applied for co-financing a project the nature and terms and conditions of the financial assistance to be made available from BUDP-Revolving Fund will be decided jointly with the other lending agencies. Deviations from the conditions stipulated below, will, therefore, be allowed in such cases.

7.2 Assistance in the form of grant will be available for technical assistance mentioned at 5.0 (vii) subject to conditions mentioned in para 10.5.

7.3 Financial assistance from BUDP-Revolving Fund shall be extended by way of loan for applications mentioned under 5.0(ii) to (vi).

8.0 Land Policy

8.1 The applications for loan assistance shall be carefully appraised by the Committee comprising the Chief, Planning Commission, the Chief Engineer and the Chief Accounts Officer. The appraisal shall cover -

- technical feasibility and costs of proposed investments.
- pricing and cost-recovery mechanisms proppposed
- beneficiary profiles and affordability of prices proposed where relevant, general financial position of the borrowing agency reflected in its 5 year financial forecast.

8.2 Based on the appraisal of loan request, the terms and conditions of the loan shall be determined. However, in no case the interest rate shall be less tan 9% per annum, and the repayment period longer than 15 years. Moratorium on repayment of loan shall be considered only when essential, but shall not exceed three years in any case. Interest during the period of mortorium shall be capitalised and repayment schedule worked out accordingly.

8.3 Minimum amount to be lent from the Fund shall be Rs. 5 lakhs.

8.4 The amount of loan for the purposes other than the one mentioned at para 5.0 (iii), mentioned above, shall not exceed 90% of the total project cost requiring that at least 10% of the project cost be borne by the borrower.

The assistance to be extended in case of Guided Land Development by the private land owners shall be in accrodance with the Rules governing the sanction and implementing of such Guided Land Development Schemes.

8.5 Where the loan amount is less than Rs. 50 lakhs, the loan shall be disbursed in two tranches. The first tranch not exceeding 40% of the total amount shall be disubursed at the time of entering into agreement and the remaining 60% on satisfactory completion of 50% of the works. Where the loan amount exceeds Rs. 50 lakhs, the loan shall be disbursed in three or more tranches related to the physical progress of the work.

8.6 Residual loan amount that may remain undisbursed on physical completion of the project shall be canceled.

8.7 In case of projects that have a distursement schedule extending beyond one year, a commitment charge at the rate of 1% per annum on the undisbursed amount of loan shall be levied.

8.8 The appraisal report on the loan-request received including the terms and conditions proposed for grant of loan shall be placed before the Executive Committee for approval.

8.9 After the approval of the Executive Committee, the loan shall become effective only when the necessary agreement is entered into between the BMRDA and the borrower.

8.10 The loan shall stand conceled if the borrower fails to enter into the agreement with the BMRDA within three months of approval by the Executive Committee.

9.0 <u>Promotion Policy</u>

The authority shall actively help the potential borrowers in identifying appropriate projects. For this purpose, grants as mentioned above shall also be made available to the borrowing agency for the purposes of project formulation. Such grants on request from the potential borrowing agency shall be advanced in suitable installment on approval from the Executive Committee.

10.0 Administration and Management

10.1 A separate Revolving Fund account styled as 'BUDP-Revolving Fund' comprising income and expenditure account and balance sheet forming part as one of the various accounts shall be maintained by the Authority.

10.2 (i) A register of Advances showing in respect of each loan, its amount, purpose, the period of repayment the date of each disbursement and corresponding schedule of repayments shall be maintained.

(ii) Where the schedule of repayment is changed, such revised schedule of repayment shall also be recorded in the Register of Advances.

10.3 Ways and means advances can be received by the BUDP-Revolving Fund from other Funds of the Authority, or ways and means advances can be granted from BUDP- Revolving Fund to other Funds of BMRDA provided that these are made good during the same financial year.

10.4 Quarterly financial accounts shall be submitted to the Executive Committee in accordance with the BMRDA Financial Regulations, 1976. In addition management report covering,

(a) details of loan agreements finalised;

(b) repayment performance of borrowers; and

(c) promotional activities

shall also be submitted to the Executive Committee along with the quarterly accounts.

10.5 Annual accounts of the BUDP Revolving Fund shall be distinctly shown in the Annual Accounts of Authority (BMRDA) and same will also be submitted to the State Government.

10.6 The total amount of grants sanctioned during the year from the BUDP - Revolving Fund shall not exceed 5% of the total anticipated disbursements of the year.

10.7 Other matters not specifically provided in these Regulations, shall be governed by the various Regulations that are in force.

Annexure A-5

Bombay Water Supply and Sewerage Project :
Accounting System of 'G' Budget

1. For ensuring secure and proper implmentation of the Bombay Water Supply and Sewerage Project with assistance from the World Bank, the BMC Act was amended suitably under Section 126(e) and separate Water Supply and Sewerage Department (WSSD), with a separate budget 'G' came into existence from April 1974 under Chapter IX & X of the BMC Act. The opening balance of Budget 'G' as on 31.3.74 and Balance sheet as at 31.3.74 stands carved out of Budget 'A'.

2. Taking into consideration the conveniences of this new department and to achieve the coordination between various divisions of WSSD, Budget 'G' is divided into 4 Executive divisions and four General Divisions as under :-

<u>General Divisions</u>

i. General Management

ii. Finance & Administration

iii. Common Services

iv. Statutory Audit.

<u>Executive Divisions</u>

i. Water Operation

ii. Water Project

iii. Sewerage Operation

iv. Sewerage Project

3. Budgetary Operation is divided into the following major expenditure heads :

   i. Employee Cost

   ii. Utilities, Services and Inventory & Stores

   iii. Depreciation

   iv. Repairs & Maintenance

   v. Interest, equity payment and financing charges

   vi. Administration & General Expenses

   vii. Payment to Govt.

   viii. Abnormal losses.

4. Besides above the Budget 'G' of WSSD also provides for Advance & Suspense A/c. for

   i. Sundries Advances

   ii. Advance department works

   iii. Advance private party works and

   iv. Advancoe for conversion of Basket privies.

5. Salient features of Budget 'G' -

   i. The accounts of Budget 'G' are maintaineid on commercial basis and on the lines of public utility concerns.

   ii. Fixed asset accounting system is introduced under Budget 'G' which was not present under Budget 'A'.

   iii. The concept of charging interest during construction for works-in-progress is newly introduced.

   iv. Budget 'G' financial capital expenditure system is to be carried over within a fixed period which was not under Budget 'A'.

   v. Concept of financing 40% from internal generation i.e. from revenue surpluses is yet another fact of Budget 'G's operations.

   vi. Under Budget 'G' there is no sinking fund but deficit if any is recouped from C.L.F. Account and therefore it is not charged undero revenue account.

vii. There is a responsibility code structure andoi Account Code Structure which was devised in such a way that the system was smoothly switched over to the computer.

viii. Completing the closing of accounts and audit there of annually within specified period and forwarding the same to World Bank for their review.

6. Decentralised Accounting System

The main aspect of this accounting system is that it is decentralised and exercises effective control of the receipt transactions at unit level. There are accountwise unit banking account anod the unit receipt and payment account have been introduced. Under the system all the receipts are to be remitted to 'SBI' account and on no account receipt should be appropriated against payments. All receipts/payment transactions should be first entered in the cash/bank receipt/payment book which are to be daily balanced. From this book entries are to be posted in the general ledgers which arte maintained responsibility codewise. For adjustment rectifications, transfer, or closing entry the general vouchers are used and entries are then posted in general ledgers. Totals of general ledger are taken at the end of month and monthly trial balancei is prepared anod sent to A.C.A.'s office. The system also suggests suitable measures for treatment of dishonoured cheques and control for budgetary grant. Under the system, all cheques received in account units are to be remitted to A.C.A.'s office. Similarly monthly statement of cheque issued is to be sent to A.C.A.'s officeowi alongwith the trial balance. Then all these trial balances are consolidated to arrive at an overall picture of 'G' Budget upto that part of the year.

For meeting day to day requirements, unit accountant has to draw cheque in favour of Addl. Chief Accountant and collect the cash from A.C.A.'s office or cash vans are sent to accounts unit offices under proper security twice in a month. This sytem also envisages maintaining bank account by A.C.A.'s head office only and units are not allowed to have approach to the bank account and instead of the bank account they have to operate dummy unit banking account which is ultimately controlled by A.C.A.'s head office. Generally, unit office of Budget 'G' are to cater for the services of the operation side as well as project completion side. Operation side involves ward level management of water supply and sewage disposal. The offices of the two officers incharge of these activities are located in the ward offices under one roof and as such unit office of Budget 'G' is also established usually in the ward office except outside city limits, in order to provide unit offices services as near as possible to executiv+e division and sub-offices.