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# STATE REVOLVING FUNDS

## THE INDIAN CONTEXT



# SCHEME OF PRESENTATION

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- BACKGROUND
- ISSUES
- PROSPECTS

# BACKGROUND

## Until now, since the 50's

- Institutional Borrowings by Governments from LIC / Hudco on basis of Guarantees.
- Project Implementation by Parastatals / Cities
- Under investment in Urban.
- User charges rarely covering even O & M

## Lending now:

- Potential drying up of institutional sources based on State Guarantees on account of ceilings on contingent liabilities.
- Limited low cost / equity / grant type funds.
- Excess supply of commercial funds such HUDCO / IDFC and MLA's.

## BACKGROUND : Demand - Supply Gap

### Primary Infrastructure Requirement

- Water supplies vary from 34 lpcd in Town Panchayats to 74 lpcd in Corporations, significantly below the state norm of 90 lpcd.
- Only 57% of population in Corporation areas, 32% in Municipalities and 16% in Panchayats have access to sanitation.
- Sector wise break up of investment needs indicates that 64% of the requirements is for water and sanitation sector, followed by 31% for roads, drains & lighting.

## ISSUES: Basic Principles

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- Stable regulatory framework for debt finance.
- Mechanisms for ensuring predictability of revenue flows.
- Transparent procurement process to minimise implementation gaps and improve contestability of capital costs.
- Acceptance of pricing through political consensus.

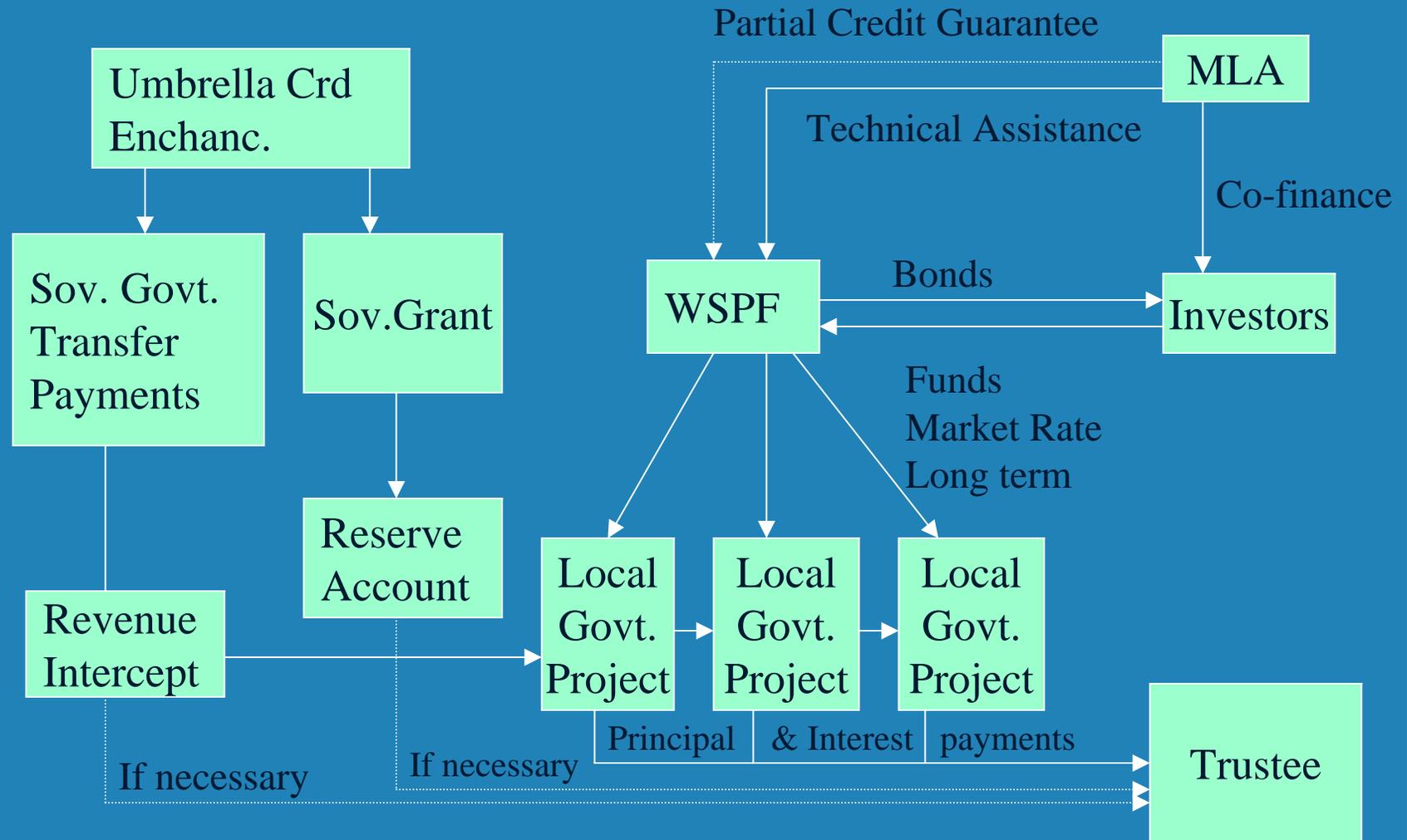
## ISSUES : Need for Water Sanitation Funds

- Urban Infrastructure, especially water and sanitation investments require long term debt on account of externalities over time and space, severe fiscal constraints on the supply of equity from State and local Governments for new investments and substantial low income population constraining the ability to pay for high financing costs.
- Consequently, the need to link city infrastructure financing requirements with domestic capital markets is well understood.
- Debt finance is a pre-requisite for undertaking essential civic investments, and in the long run, domestic savings through capital markets would have to be, predominant source of supply.
- The need for an institutionalised mechanism to raise low cost funds for water and sanitation is clear cut with the US Bond Bank as a potential model.

# PROSPECTS : Linking Markets & Cities with Intended Use Plans

- Creation of a revolving fund by GoI - States
- Tax concessions for municipal bonds by GoI
- Structure a statutory framework to manage the fund
- Borrowing eligibility criteria to be established
- Project implementation procedures including rational & quick procurement
- Framework for tariff setting - through a democratic process
- Fixation of rational levels of upfront contribution by the community / local body
- Capacity building for the raters/Merchant Bankers

# PROSPECTS - Institutional Positioning of Pooled Finance Framework





# ACHIEVEMENTS – Water and Sanitation Pooled Fund

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- A Pooled entity namely, a Trust called Water and Sanitation Pooled Fund (WSPF) has been registered.
- Objective is to link civic financing needs with the capital market.
- The use of DCA as a market creation tool.

# ACHIEVEMENTS – Water and Sanitation Pooled Fund

The terms of the issue are as follows:

Issue	Water and Sanitation Pooled Fund
Tenor	15 years
Put / call option	At the end of 10 <sup>th</sup> year
Redemption	In 15 equal annual instalments
Interest payment	Annually in diminishing balance
Face Value of a Bond	Rs.1,00,000/-
Credit Rating	AA (SO) by ICRA, Ind AA (SO) by Fitch Ratings
Guarantee	50% of the principal guaranteed by USAID and GoTN has undertaken to top up the shortfall through interception of State Finance Commission Devolution
Debt Service Reserve Fund	Rs.6.90 crores to be invested in highly secured and liquid investments in the name of Bond Service Fund.

# ACHIEVEMENTS – Water and Sanitation

## Pooled Fund

<b>LIST OF POOLED PROJECTS</b>				
Rs. In lakhs				
S.No.	Particulars	Project Cost	Loan amt sanctioned	Loan disbursed
	Water Supply Schemes:			
1	Ambattur Municipality	336.56	67.32	67.32
2	Tambaram Municipality	182.00	109.20	109.20
3	Madhavaram Municipality	325.00	195.00	105.75
4	Rajapalayam Municipality	85.00	51.00	51.00
	<u>Adjacent Urban Areas - AUA</u>			
5	(I) Alandur Municipality	427.00	403.00	403.00
6	(ii) Pammal Municipality	378.00	357.00	357.00
7	(iii) Ankapathur Town Panchayat	188.00	178.00	178.00
8	(iv) Ullagaram Town Panchayat	298.00	281.00	281.00
9	(v) Porur Town Panchayat	579.00	547.00	547.00
10	(vi) Maduravoyal Town Panchayat	146.00	138.00	138.00
11	(vii) Valsaravakkam Town Panchayat	189.00	179.00	179.00
12	(viii) Meenambakkam Town Panchayat	17.00	16.00	16.00
	Under Ground Drainage:			
13	Madurai Corporation	1407.00	500.00	325.00
		<b>4557.56</b>	<b>3021.52</b>	<b>2757.27</b>