INSTITUTIONAL ASSESSMENT

I. OVERVIEW OF URBAN INSTITUTIONS IN TAMIL NADU

1. Urban administration responsibilities in Tamil Nadu are shared by two state-level departments, the Municipal Administration and Water Supply Department (MAWS) and the Housing and Urban Development Department (HUD) (HUD is not involved in Tamil Nadu Urban Flagship Investment Program [program]). The MAWS oversees urban services functions (water supply, sewerage, solid waste management, urban roads etc.) and municipal administration. The HUD oversees urban planning and housing functions. Figure 1 provides a summary of key departments and agencies in the urban sector in Tamil Nadu.

2. The HUD oversees the following sub-departments and Government bodies; the Directorate of Town and Country Planning (DTCP) is responsible for preparation of regional plans, master plans or new town development plans and detailed development plans. It is also responsible for approval of large size layouts and constructions. Its mandate covers the entire state except the Chennai metropolitan area. The Chennai Metropolitan Development Authority (CMDA) is responsible for master planning and infrastructure development in Chennai metropolitan area. The Tamil Nadu Housing Board (TNHB) is responsible for provision of housing and the Tamil Nadu Slum Clearance Board (TNSCB) is responsible for redevelopment of slums and housing for the poor.

Figure 1: Key Urban Sector Departments and Agencies in Tamil Nadu

[Diagram showing the structure of urban institutions in Tamil Nadu with key roles and responsibilities described in the text]
3. The MAWS oversees the following sub-departments and government bodies. The Commissionerate of Municipal Administration (CMA), under MAWS, is responsible for supervising the functioning of all municipalities and municipal corporations (except the corporation of Chennai). The Directorate of Town Panchayats (DTP) is responsible for supervising town panchayats, which are areas transitioning from rural to urban. The Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB), under MAWS, is responsible for providing water supply and sewerage services in the Chennai metropolitan area. The Tamil Nadu Water Supply and Drainage Board (TWAD), under MAWS, is responsible for planning and construction of water supply and sewerage schemes and provision of water supply. Its mandate covers the entire state except the Chennai metropolitan area. Previously TWAD was the sole agency responsible for construction of water supply and sewage schemes while operations and maintenance were the responsibility of the respective urban local body (ULB). Over a period of time, larger ULBs (municipal corporations) have been given the responsibility to implement water supply projects on their own. At present, water supply and sewerage projects are implemented by TWAD as well as many ULBs.

4. The Tamil Nadu Urban Development Fund/Tamil Nadu Urban Infrastructure Financial Services Limited (TNUDF/TNUIFSL) and Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO) are responsible agencies for managing external finance for the ULBs. They function under MAWS.

II. INSTITUTIONS RELEVANT TO THE TAMIL NADU URBAN FLAGSHIP INVESTMENT PROGRAM

4. The MAWS, TNUIFSL, CMA, ULBs, TWAD, and CMWSSB are the institutions relevant for the program. MAWS acting through TNUIFSL will be the executing agency. A program management unit (PMU) for the program, headed by the Managing Director, TNUIFSL acting as Program Director will be established within TNUIFSL for overall management, planning, implementing, monitoring, reporting, and coordinating the program. The CMA will act as the Deputy Program Director in the PMU. The project ULBs, represented by respective Municipal Commissioners, will be the implementing agencies for works in cities/towns and will establish program implementing units (PIUs) headed by a municipal engineer as full-time Project Manager. PIUs will comprise of dedicated staff responsible for overseeing implementation of projects on a day-to-day basis. The PIUs will be supported by a contract management and supervision consultant (CMSC) recruited by TNUIFSL. The ULBs under the program with less project implementation experience may utilize implementation support from the TWAD to strengthen implementation capacity. In such cases, TWAD will establish a PIU and the ULB will appoint counterpart staff to coordinate implementation activities. For sewerage and water supply works in Chennai, CMWSSB, represented by its Managing Director, will be the implementing agency and establish a PIU headed by a superintending engineer as full-time Project Manager. For the institutional capacity, public awareness, and urban governance component, CMA acting through its Commissioner, will be establish a PIU and appoint a governance improvement and awareness consultant (GIAC) responsible for supporting these activities.

5. The participating institutions have prior experience in implementing externally financed Projects and Government of India programs of approximately $5 billion as summarized in Table 1.

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1 Both agencies also function as fund managers for financial intermediaries to mobilize commercial finance.
### Table 1: Projects Implemented by the Participating Institutions

<table>
<thead>
<tr>
<th>Project</th>
<th>Funding agency</th>
<th>Year of approval</th>
<th>Design outlay (in current exchange rates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil Nadu Urban Development Project I</td>
<td>World Bank</td>
<td>1988</td>
<td>$420.3 million</td>
</tr>
<tr>
<td>Tamil Nadu Urban Development Project II</td>
<td>World Bank</td>
<td>1999</td>
<td>$205 million</td>
</tr>
<tr>
<td>Tamil Nadu Urban Development Project III</td>
<td>World Bank</td>
<td>2005</td>
<td>$434 million</td>
</tr>
<tr>
<td>JNNURM</td>
<td>Government of India</td>
<td>2005</td>
<td>$1.03 billion</td>
</tr>
<tr>
<td>Tamil Nadu Urban Infrastructure Project</td>
<td>JICA</td>
<td>2008</td>
<td>$54 million</td>
</tr>
<tr>
<td>Sustainable Municipal Infrastructure Financing in Tamil Nadu</td>
<td>KfW</td>
<td>2008</td>
<td>$78 million</td>
</tr>
<tr>
<td>Hogenakkal Water Supply and Fluorosis Mitigation Project</td>
<td>JICA</td>
<td>2008</td>
<td>$300 million</td>
</tr>
<tr>
<td>Sustainable Municipal Infrastructure Financing in Tamil Nadu – II</td>
<td>KfW</td>
<td>2013</td>
<td>$90 million</td>
</tr>
<tr>
<td>Tamil Nadu Sustainable Urban Development Project</td>
<td>World Bank</td>
<td>2015</td>
<td>$600 million</td>
</tr>
<tr>
<td>AMRUT</td>
<td>Government of India</td>
<td>2015</td>
<td>$1.74 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$4.96 billion</strong></td>
</tr>
</tbody>
</table>


Note: For JNNURM and AMRUT, TUFIDCO functioned as the state level nodal agency, coordinating with CMA, ULBs, CMWSSB, TWAD and other agencies.

## III. INSTITUTIONAL ASSESSMENT OF THE PARTICIPATING INSTITUTIONS

6. The MAWS is responsible for steering the project; obtaining fund releases from Government; facilitating administrative sanctions from the government; inter-departmental coordination and for monitoring of program implementation. MAWS has the mandate for these functions as the department of Government of Tamil Nadu (GOTN) responsible for municipal administration and for the municipal services relevant to the program. It has past experience in coordinating investment programs to the extent of $5 billion, as summarized in Table 1. It is already coordinating the implementation of AMRUT. All the participating institutions in the program administratively report to MAWS.

7. The TNUIFSL has extensive experience with managing externally aided projects and gained through three World Bank supported programs, two KfW supported programs and a Japan International Cooperation Agency (JICA) supported program with investments of $1.46 billion, covering responsibilities similar to that under the program. The TNUIFSL is staffed adequately with a senior officer of the Indian Administrative Services as the Managing Director. The senior management of TNUIFSL has prior experience in implementing in externally financed projects. A background of TNUIFSL is provided as Annexure 1.

8. The CMWSSSB will be the implementing agency for water and sewerage projects in Chennai. It has the mandate for water supply and sewage project implementation and service delivery in Chennai metropolitan area and has been functioning since 1978. The CMWSSSB has sufficient project implementation capacity with external funds as gained from three World Bank supported water supply projects for Chennai metropolitan area; it has also implemented subprojects related to Chennai metropolitan area under various World Bank supported urban Development projects; it has also implemented sub projects under Jawaharlal Nehru National...
Urban Renewal Mission (JNNURM) and Atal Mission for Rejuvenation and Urban Transformation (AMRUT).

9. The ULBs will also be implementing subprojects under the program. The experience and capacity of ULBs vary. In water supply and sewerage, TWAD had been functioning as implementing agency in the past. Projects were implemented by TWAD and the assets were then taken over by the ULBs for operation and maintenance. TWAD also operated bulk water assets in some cases. Since the launch of JNNURM, larger ULBs have taken up implementation responsibilities for water supply and sewerage. Therefore, smaller ULBs may require technical support in their implementation activities. Recognizing this, the program leverages technical support from TWAD for such ULBs requiring support. Where ULBs with insufficient implementation experience seek its support, TWAD will establish a PIU and the ULB will appoint counterpart staff to coordinate implementation activities and manage fund flow payments to contractors. The TWAD has a mandate for water supply and sewerage project implementation in areas other than Chennai. It has functioned as an implementation agency for JNNURM and AMRUT projects and for subprojects under World Bank, JICA and KfW programs. It has also implemented the JICA supported Hogenakkal Water Supply and Fluorosis Mitigation Project.

10. The Engineering Wing of the Commissionerate of Municipal Administration (CMA) is responsible for supporting ULBs in planning, designing, coordinating and supervising implementation of civic infrastructure in ULBs except the Corporation of Chennai. The capacity of the CMA to support ULB was adequate when investments were only in the water and sewage sectors, where agencies like TWAD were responsible for project implementation. As mentioned above, larger ULBs are implementing water supply projects. Investments in sectors such as solid waste management, urban transport and fecal sludge management are increasing. This has increased the demand for project preparatory and implementation capacity. Since the year 2009-2010, the budget for capital expenditure for ULBs financed through the MAWS Department has grown at a compounded growth rate of 21.9% per annum. Strengthening of CMA is required to enable it to support ULBs under the program as well as to develop and manage future projects. A capacity development technical assistance (CDTA) has been proposed to support CMA new project design and management cell (PDMC) to be established under the program. Existing staff will be assigned to work in the PDMC; they will be trained and provided exposure to international best practices; standard manuals and technical processes will be developed. Annexure 2 provides further details of PDMC and the CDTA support.

11. The CMA is also responsible for implementing the urban governance improvement component of the program. For the institutional capacity, public awareness, and urban governance components, CMA acting through its Commissioner, will establish a PIU and appoint a governance improvement and awareness consultant (GIAC) responsible for supporting these activities. The CMA has the mandate to undertake these activities as the sub department responsible for municipal administration. It functioned as the implementing agency for institutional capacity building activities under the World Bank supported urban development projects. It also coordinated implementation of reforms at ULB and State level under JNNURM and AMRUT. Tamil Nadu has been ranked second nationally under JNNURM and fourth under AMRUT. The CMA is implementing E-Governance across all the ULBs in Tamil Nadu. The first phase which focusses on accounting, revenue and financial management activities is nearing completion in all the ULBs.

12. The CMA is also responsible for implementing the Urban Governance Component of the World Bank supported Tamil Nadu Sustainable Urban Development Program. The CMA evaluates and provides results-based grants to three ULBs under this component, which is
similar, but limited in coverage as compared to the Governance Reforms Component (GRC) under the program.

13. While CMA has adequate capacity to implement the responsibilities assigned under the program, it will be expected to take up additional responsibilities in the future. On completion of the first phase of E Governance reforms, all financial transactions of ULBs will be carried out through a web enabled software with a centralized database. As a result, revenue and finance information would be available centrally and the underlying revenue databases will also be centrally available. With availability of good quality revenue and accounting information, the state would be well positioned to progress to the next step of actionable research which could be used to support ULBs and for inputs into state policy.

14. Performance based grants are increasingly becoming common in the urban sector in Tamil Nadu. Twenty percent of the 14th Central Finance Commission (14th CFC) are linked to meeting governance conditions. In the last three years of AMRUT, performance incentives will be provided for implementing five reform areas (trust and verify for online services; land titling; credit rating and municipal bonds; value capture finance; and professionalization of municipal cadre). The GOTN also has an awards program for ULBs that is based on a performance scorecard. The Fifth State Finance Commission of the GOTN has also recommended performance linked grants under which 2.5% of grants would be disbursed to ULBs that demonstrate improvements in property tax collection. The World Bank supported Tamil Nadu Sustainable Urban Development Project (TNSUDP) provides performance linked grants for three towns in Tamil Nadu. In total, the outlay for performance linked grants to ULBs in Tamil Nadu (excluding the World Bank program which is limited to three cities) is likely to be of the order of $86.5 million per year. The increasing outlays for performance linked grants underscore the need for systematic performance assessment and improvement of ULBs; partly to cater to the requirements of the reform or performance linked programs and also to mainstream performance linkage in the policy decisions of the GOTN.

15. The program will support the CMA in establishing an Urban Data and Governance Improvement Cell (UDGIC). The role of the cell will include: (i) review of information quality within the ULBs, (ii) analysis of finances and financial plans, (iii) recommendations to ULBs on financial improvements, (iv) inputs to state policies on financial management, (v) review of governance improvements in ULBs, and (vi) administration of performance/results-based grants programs.

16. The cell will initially focus on implementing the GRC for which it will receive support from the program for hiring of consultants and for independent verification of governance improvements. During Tranche 2 of the program, the activities of the Cell will be scaled up to undertake analysis of financial performance of ULBs and administration of all performance/results-based grants. Annexure 2 provides further background on UDGIC.

17. **Summary.** The key institutions participating in the program are MAWS, TNUIFSL, CMA, CMWSSB, ULBs and TWAD. All the participating institutions administratively report to MAWS. They have prior experience in implementing investment programs and institutional capacity building activities, both under external financing (World Bank, JICA and KfW) as well as under Government of India programs (JNNURM and AMRUT). The TWAD will provide technical support to ULBs that have insufficient project implementation experience. It is a specialized agency for project implementation and service delivery in water supply and sewerage. A CDTA will support

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2 In 2018-2019 considering average allocation towards performance grants of the respective programs. Allocation in a particular year may vary.
CMA in establishing a PDMC which will technically support ULBs in future project preparation and implementation. The program will also support CMA in establishing an UDGIC to meet the anticipated demand for financial analysis and performance management activities.
A NOTE ON TAMIL NADU URBAN INFRASTRUCTURE FINANCIAL SERVICES LIMITED

A. Legal structure and ownership

1. The Tamil Nadu Urban Infrastructure Finance Services Limited (TNUIFSL) is a company incorporated under the Companies Act. It was registered on 7 November 1996. It is jointly owned by Government of Tamil Nadu (GOTN) (48.97% equity shareholding) and three private sector financial institutions (51.03% equity shareholding). The private sector shareholders are IL & FS Financial Services Limited (16.99%), Housing Development and Finance Corporation Ltd (14.99%) and ICICI Bank Limited (18.99%). It is classified as an Indian Non-Government Company as per the Companies Act 2013.¹

B. Principal business

2. Its principal business is classified as “other financial service activities, except insurance and pension funding activities.” The objects of the Company² are (i) management of trust funds and other funds and to acts managers, consultants, advisors, administrators, attorneys, agents, or representatives of or for any funds; and (ii) to act as consultants, financial advisors and investments advisors and to render such consultancy, financial and investment advisory services.

3. It functions as an asset manager for the various municipal development funds and grant funds established by the Government of Tamil Nadu, such as Tamil Nadu Urban Development Fund (TNUDF), Water and Sanitation Pooled Fund (WSPF) and various government grant funds. The TNUIFSL undertakes the functions of project development, project appraisal, project structuring, resources mobilization and fund management. It is not a lender by itself, but advises the loan and grant funds established by the Government.

C. Historical background

4. The TNUIFSL was set up as a part of restructuring of the Municipal Urban Development Fund (MUDF) of the GOTN. The MUDF was set up as part of the World Bank supported Tamil Nadu Urban Development Project (TNUDP) in 1988. It operated as an incorporated fund managed by the project management group of TNUDP. By 1996, the MUDF had provided support to 94 of the state’s 109 municipalities and municipal corporations for over 500 subprojects; generated profits; and achieved high rate of loan repayment.³ However, it needed to overcome some constraints including (i) dependence on public financing, (ii) administrative control by GOTN with a potential for political risks and (iii) rigid staff compensation and transfers. Therefore, GOTN restructured MUDF into TNUDF, an autonomous financial intermediary with private sector participation in 1996. The GOTN contributed to 70% of the fund, and private sector financial institutions (ICICI, HDFC and IL&FS) contributed 30% of the fund. Subsequent contributions have been solely by the GOTN. As a result, the share of private sector contribution in TNUDF has reduced to 2.77% of total liabilities, as on 31 March 2016.

5. The GOTN setup TNUIFSL as a fund manager to TNUDF. To overcome limitations and risks of Government ownership, GOTN invited the three private sector financial institutions who participated in TNUDF to take a majority shareholding of (51.03%) in TNUIFSL. The Managing

Annexure 1

Director of TNUIFSL has been appointed by the GOTN and is an officer of the Indian Administrative Service. In addition to the Managing Director, the GOTN appoints four more directors to the Board of TNUIFSL and the private sector shareholders appoint four directors, thus resulting in 5:4 ratio of Board of Directors in favour of the GOTN. Over a period of time, TNUDF received loan funds from other programs supported by World Bank, Japan Bank for International Cooperation (JBIC) and KfW. Grant funds linked to these programs were also set up. TNUIFSL has been appointed as a fund manager for these also. These include Water and Sanitation Pooled Fund, Tamil Nadu Urban Road Infrastructure Fund, JBIC Grant Fund, KfW Grant Fund, etc.

D. Operating arrangements

6. The GOTN provides loan funds to TNUDF and also sets up other grant funds. TNUIFSL operates TNUDF under a fund management contract with TNUDF. It also has fund management arrangement for other grant funds it manages. While TNUIFSL is the fund manager, the Board of Trustees (BOT) of TNUDF determines the funding, lending and operating policies of TNUDF. TNUIFSL develops and manages the portfolio of TNUDF according to the lending strategy and policy determined by the BOT and following specific lending procedures. The BOT approves the business and financial plans proposed by TNUIFSL and loans above a predetermined threshold limit. The relationship between TNUDF, TNUIFSL and the ownership arrangements are summarized schematically below.

Figure A1.1: Ownership of Tamil Nadu Urban Development Fund and Tamil Nadu Urban Infrastructure Finance Services Limited

GOTN = Government of Tamil Nadu, TNUDF = Tamil Nadu Urban Infrastructure Fund, TNUIFSL = Tamil Nadu Urban Infrastructure Financial Services Limited, TNUITC = Tamil Nadu Urban Infrastructure Trustee Company, ULB = urban local body.

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Which in itself is a company, Tamil Nadu Urban Infrastructure Trustee Company (TNUITC), to avoid legal complications. The Trustees of TNUDF, if individuals, have unlimited liability in law and also raise issues of succession in case of retirement from Government positions.
E. Institutional Positioning in municipal finance

7. There are two channels for municipal finance activities in Tamil Nadu, (i) TNUDF and other grant funds managed by TNUIFSL, and (ii) Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO), which is 96.4% GOTN-owned company\(^5\) incorporated under the Companies Act in 1990. Even though TUFIDCO was in existence at the time of formation of TNUDF, it could not be restructured to allow private sector participation, which was an objective of GOTN. The then prevalent rules and policies were not conducive to dilution of Government equity in TUFIDCO and therefore TNUDF/ TNUIFSL arrangement was set up.

8. Broadly, urban financing activity in Tamil Nadu is divided between TNUDF/ TNUIFSL and TUFIDCO as follows. TNUIFSL manages loan funds, multilateral and bilateral program funds, linked grant funds and market borrowings. It also advises ULBs on project structuring, PPPs and market borrowing. TUFIDCO manages funds from the grant programs of Government of India and own funds borrowed from commercial banks. Grant funds of GOTN are allocated to both TUFIDCO and TNUIFSL.

9. All the entities operate under the administrative oversight of the Municipal Administration and Water Supply Department of the Government of Tamil Nadu. The Principal Secretary of the Department is a Director in the Board of TNUFIDCO, and is the Chairperson of both TNUIFSL and Tamil Nadu Urban Infrastructure Trustee Company (TNUITC).

F. Operations of TNUIFSL

10. **Management of loan funds.** The TNUIFSL initially managed the restructured funds of MUDF and private sector contribution into the TNUDF Trust. Since then, TNUDF has received loan funds from three more World Bank programs, a Japan International Cooperation Agency program and two KfW programs. Key statistics of TNUDF are provided in A1.1 below.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative disbursements</td>
<td>₹24.3 billion ($378 million at current exchange rate).</td>
<td>Since 1998</td>
</tr>
<tr>
<td>Total asset size</td>
<td>₹20.46 billion (₹315 billion)</td>
<td>As on 31 March 2016</td>
</tr>
<tr>
<td>Recoveries (both interest and principal)</td>
<td>100%</td>
<td>2007-2016</td>
</tr>
<tr>
<td>Average spread on loan</td>
<td>0.60%</td>
<td>2014-2016</td>
</tr>
<tr>
<td>Non-performing assets</td>
<td>0%</td>
<td>31 March 2016</td>
</tr>
</tbody>
</table>

11. **Program Management.** The TNUIFSL acted as executing agency for multilateral and bilateral programs. These are summarized in Table A1.2 below.

<table>
<thead>
<tr>
<th>Project</th>
<th>Funding agency</th>
<th>Year of approval</th>
<th>Design outlay (in current exchange rates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil Nadu Urban Development Project II</td>
<td>World Bank</td>
<td>1999</td>
<td>$205 million</td>
</tr>
<tr>
<td>Tamil Nadu Urban Development Project III</td>
<td>World Bank</td>
<td>2005</td>
<td>$434 million</td>
</tr>
</tbody>
</table>

\(^5\) Remaining shareholding is owned by local bodies and Housing and Urban Development Corporation Limited, a Government of India owned institution.
<table>
<thead>
<tr>
<th>Project</th>
<th>Funding agency</th>
<th>Year of approval</th>
<th>Design outlay (in current exchange rates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil Nadu Urban Infrastructure Project</td>
<td>Japan Bank for International Cooperation</td>
<td>2008</td>
<td>$54 million</td>
</tr>
<tr>
<td>Sustainable Municipal Infrastructure Financing in Tamil Nadu</td>
<td>KfW</td>
<td>2008</td>
<td>$78 million</td>
</tr>
<tr>
<td>Sustainable Municipal Infrastructure Financing in Tamil Nadu - II</td>
<td>KfW</td>
<td>2013</td>
<td>$90 million</td>
</tr>
<tr>
<td>Tamil Nadu Sustainable Urban Development Project</td>
<td>World Bank</td>
<td>2015</td>
<td>$600 million</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$1.46 billion</strong></td>
</tr>
</tbody>
</table>

12. **Management of grant funds.** The programs managed by TNUIFSL also includes grant funds for capital investments and for technical assistance. TNUIFSL also acts as manager for these funds. In addition to management of grants, TNUIFSL also administers technical assistance activities. These include supporting ULBs in: (i) preparation of city corporate plans and business plans, (ii) preparation of detailed project reports, (iii) integrated solid waste management plans, and (iv) energy efficiency measures etc. The TNUIFSL also manages grant funds provided by the GOTN.

13. **Supporting urban local bodies (ULBs) and urban agencies in commercial borrowing/public-private partnerships (PPPs).** One of the major mandates of TNUIFSL is to support ULBs in commercial borrowing and structuring of projects with private sector participation. Key TNUIFSL achievements in this area are:

   (i) Supporting Karur ULB in structuring a bridge on Build-Operate-Transfer basis;
   (ii) Supporting Alandur ULB in structuring an underground sewerage project with commercial borrowing, user contribution and PPP;
   (iii) Supporting Madurai ULB in issuing a municipal bond;
   (iv) Supporting Chennai Corporation and Chennai Metropolitan Water Supply and Sewage Board in issuing bonds;
   (v) TNUDF own bond issue to raise resources; and
   (vi) Pooled bond issue to raise resources from the market for the Water and Sanitation Pooled Fund to refinance borrowings of 13 ULBs.

G. **Policies and Procedures**

14. Operationally, TNUIFSL relies on two key steps: (i) a strong appraisal system that assesses the sustainable borrowing capacity of urban local bodies and the revenue improvements they can undertake to increase repayment capacity, and (ii) a strong recovery system that constantly interacts with the local bodies, alerts them on repayment schedules and ensures timely recoveries.

15. The appraisal and lending procedures cover: (i) eligibility conditions for borrowers, (ii) eligibility criteria for projects, (iii) loan coverage, (iv) single borrower exposure limits, (v) eligible and ineligible items for financing, (vi) security requirements, (vii) screening and appraisal procedures, (viii) covenants, procurement conditions, disbursement conditions and (ix)...

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6 Reference to TNUIFSL in this section also includes the policies and procedures of TNUDF which are applied by TNUIFSL in its operations.
standardized loan agreements. The TNUIFSL also monitors the financial conditions of the ULBs and the payment record closely to trigger advance actions to ensure recovery.

16. In addition to the appraisal and lending procedures, TNUDF follows an accrual accounting system with applicable accounting standards issued by the Institute of Chartered Accountants of India. It is regularly audited by an independent auditor and publishes its financial statements. The TNUDF voluntarily applies the income recognition, asset classification and provisioning norms prescribed by Reserve Bank of India for All-India Financial Institutions.

17. TNUIFSL carries out the appraisal and provides its recommendations to the Board of Trustees of TNUDF which takes the decision on approving (or otherwise) of the loan. TNUIFSL follows procurement guidelines, environmental and social safeguards, which are in conformance with the funding agencies, Government of Tamil Nadu and Government of India requirements.

H. Financial Performance of TNUIFSL

18. TNUIFSL is not a lender itself and therefore relies on fee income on the funds managed. Major expenditure heads are employee expenditure and establishment expenditure. In the last four years, TNUIFSL has been profitable, achieved growth in net worth every year and has maintained a net profit margin above 30%. Key financial parameters of TNUIFSL are summarized in Table A1.3 below.

**Table A1.3: Key Financial Parameters of Tamil Nadu Urban Infrastructure Finance Services Limited**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income and Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>1.69</td>
<td>1.08</td>
<td>1.55</td>
<td>1.39</td>
</tr>
<tr>
<td>Expenses</td>
<td>0.84</td>
<td>0.61</td>
<td>0.55</td>
<td>0.56</td>
</tr>
<tr>
<td>Profit or Loss before Tax</td>
<td>0.85</td>
<td>0.46</td>
<td>1.00</td>
<td>0.82</td>
</tr>
<tr>
<td><strong>Profit After Tax</strong></td>
<td>0.58</td>
<td>0.33</td>
<td>0.68</td>
<td>0.56</td>
</tr>
<tr>
<td>Net Profit on Income (%)</td>
<td>34.3%</td>
<td>30.2%</td>
<td>44.2%</td>
<td>40.7%</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
</tr>
<tr>
<td>Reserves and Surplus</td>
<td>3.97</td>
<td>3.45</td>
<td>3.18</td>
<td>2.55</td>
</tr>
<tr>
<td>Non-current Liabilities</td>
<td>0.11</td>
<td>0.07</td>
<td>0.05</td>
<td>0.04</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>0.15</td>
<td>0.14</td>
<td>0.14</td>
<td>0.13</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>4.39</td>
<td>3.82</td>
<td>3.53</td>
<td>2.88</td>
</tr>
<tr>
<td>Non Current Assets</td>
<td>0.62</td>
<td>0.61</td>
<td>0.58</td>
<td>0.57</td>
</tr>
<tr>
<td>Current Assets</td>
<td>3.77</td>
<td>3.21</td>
<td>2.95</td>
<td>2.31</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4.39</td>
<td>3.82</td>
<td>3.53</td>
<td>2.88</td>
</tr>
</tbody>
</table>
References


Government of Tamil Nadu. 2016. Municipal Administration and Water Supply Department Policy Note 2016-17. India


Krishnan, L. 2005. Tamil Nadu Urban Development Fund. India


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BRIEF NOTE ON PROJECT DESIGN AND MANAGEMENT CELL, URBAN DATA AND GOVERNANCE IMPROVEMENT CELL

1. Institutional development in the program will focus on the following two aspects:
   (i) Strengthening project design and management capacity of Commissionerate of Municipal Administration (CMA), by establishing an Project Design and Management Cell (PDMC); and
   (ii) Strengthening data analysis and research capacities of CMA; and mainstreaming performance assessment of urban local bodies (ULBs) in Tamil Nadu, by establishing an Urban Data and Governance Improvement Cell (UDGIC) in CMA.

A. Project Design and Management Cell

2. The Engineering Wing of the CMA is responsible for planning, designing, coordinating and supervising all the civic infrastructures in Municipalities and Municipal Corporations in the state except the Corporation of Chennai. Depending on the size of ULBs, the responsibility of the Engineering Wing varies. For large municipal corporations, the responsibility is primarily review and technical appraisal, whereas for small ULBs the responsibility will include active assistance in design, procurement and implementation. To discharge these functions, there are only three officers at or above the level of Executive Engineer; there are eight other junior positions.

3. In an environment where bulk of the investments were financed through multilateral or bilateral projects or when parastatals where responsible for design and implementation activities, such a structure was adequate and sustainable. However, in the last decade, investments are being financed through national grants like Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Atal Mission for Urban Rejuvenation and Transformation (AMRUT), Smart Cities, Rajiv Awas Yojana (RAY), and Swachh Bharat Mission. New sectors like solid waste management, fecal sludge management, urban transport, etc. which are not in the domain of parastatal agencies are being taken up. Further, even in sectors like water supply, the responsibility for project implementation is being transferred to larger ULBs. These trends will intensify in the future. This has increased the demand for project preparatory and implementation capacity. Since the year 2009-10, the budget for capital expenditure for ULBs financed through the Municipal Administration and Water Supply Department has grown at a compounded growth rate of 21.9% per annum.

<table>
<thead>
<tr>
<th>Year</th>
<th>Budgeted capital expenditure of ULBs financed through Government of Tamil Nadu budget (in Rs Cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2010</td>
<td>1,192</td>
</tr>
<tr>
<td>2017-2018</td>
<td>5,803</td>
</tr>
</tbody>
</table>


4. However staffing rules and procedure within the government make it difficult to induct capacity. Further, since investments are supported with government finances, the need for appraisal and approval capacity within CMA has also increased.

5. In response to this, CMA has proposed setting up a dedicated PDMC which will be responsible for supporting CMA in its supervisory role as well as the ULBs in their implementation role. The PDMC will be responsible for supporting ULBs in planning, design, supervision and
project management. It will be initially staffed by redeploying engineering staff in the CMA and the ULBs. The program will support CMA in establishing the PDMC.

B. Data Analysis and Research

6. The Government of Tamil Nadu (GOTN) is in the process of implementing E-Governance initiatives at a large scale across the ULBs. The first phase which focusses on accounting, revenue and financial management activities is nearing completion in all the ULBs; the second phase will cover other activities such as Human Resource.

7. On completion of the first phase, all financial transactions of the local body will be carried out through a web enabled software with a centralized database. As a result, revenue and finance information would be available centrally and the underlying revenue databases will also be centrally available. With availability of good quality revenue and accounting information, the state would be well positioned to progress to the next step: (i) benchmarking of financial performance, (ii) actionable research and analysis of urban finance, and (iii) supporting ULBs on enhancing revenue generation and financial performance.

8. Urban Data and Governance Improvement Cell will systematically analyze the information and support ULBs in financial planning. Its role will be the following:

   (i) Review quality and completeness of data that ULBs maintain (assets, customers, properties, accounts and revenue, service delivery);
   (ii) Analyze financial position, investment capacity (annual assessments on data quality, financial management, revenue achievement and financial position);
   (iii) Review financial plans and investment plans prepared by ULBs;
   (iv) Provide recommendations to cities on revenue improvement, financial operating plan and investment plans; and
   (v) Provide inputs to state policies on financial management, revenue improvement and capital investment planning.

C. Mainstreaming performance assessment of ULBs in Tamil Nadu

9. Performance based grants are increasingly becoming common in the urban sector. The 13th Finance Commission of the Government of India mainstreamed conditional grants approach. The grants were split into basic grants and performance grants. The performance grants were made conditional on ULBs meeting nine performance conditions. This approach has been continued under the 14th Central Finance Commission (14th CFC) and 20% of grants are linked to meeting conditions.

10. The Government of India, under the AMRUT allocated 10% of the mission outlay as performance linked grant. This was preceded by JNNURM which was originally designed as a reform linked grant program. Both JNNURM and AMRUT advocated a wide set of reforms. ULBs were expected to implement 13 reforms under JNNURM, while AMRUT specifies 54 reform milestones in 12 areas (some of which are the responsibility of the state Government). However, AMRUT will narrow its focus to five reform areas (trust and verify for online services, land titling, credit rating and municipal bonds, value capture finance, and professionalization of municipal cadre) in the last three years of the mission. In addition, participation in programs like Smart Cities is also being linked to past performance of ULBs.
11. The GOTN also has an awards programme for ULBs that is based on a performance scorecard. The proposed Tamil Nadu Urban Flagship Investment Program (program) includes a Governance Reforms Component which will provide performance linked grants to ULBs which achieve reform milestones. The Fifth State Finance Commission (SFC V) of the GOTN has also recommended performance linked grants under which 2.5% of grants would be disbursed to ULBs that demonstrate improvements in property tax collection. The World Bank supported TNSUDP project provides performance linked grants for three towns in Tamil Nadu (Model towns).

12. In total, the outlay for performance linked grants to ULBs in Tamil Nadu (excluding the World Bank program which is limited to three cities) is likely to be of the order of ₹556 Cr per year.

Table A2.2: Average Annual Outlay for Performance Linked Grants

<table>
<thead>
<tr>
<th>Program</th>
<th>Performance linked grants Rs Cr per annum for Tamil Nadu</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMRUT</td>
<td>225.5</td>
</tr>
<tr>
<td>TN SFC V</td>
<td>122.8</td>
</tr>
<tr>
<td>14th CFC</td>
<td>162.9</td>
</tr>
<tr>
<td>Tamil Nadu Urban Flagship Investment Program</td>
<td>44.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>555.9</strong></td>
</tr>
</tbody>
</table>


Source: Respective Mission Guidelines and reports.

13. The increasing outlays for performance linked grants underscore the need for systematic performance assessment and improvement of ULBs; partly to cater to the requirements of the reform or performance linked programs and also to mainstream performance linkage in the policy decisions of the Government of Tamil Nadu. The Program will support the CMA in establishing performance management activities under the Urban Data and Governance Improvement Cell. Its role will be:

(i) Integrating administration of performance based grants
   (a) Develop a single window approach for administering all performance linked funds, such as baseline data, annual data collection calendar, procurement of consultants for field verification, identify changes required in data collection and information technology systems, online tools for data uploading by ULBs, verification etc.;
   (b) Carryout annual performance assessment of ULBs in the state as required by performance linked programs; conduct regular experience sharing and learning workshops among ULBs; support ULBs not drawing incentives to improve performance; and
   (c) Manage state level performance linked incentive funds – data gathering, verification, performance scoring, fund disbursal advice, monitoring use of funds, reporting to grantors etc.

(ii) Mainstreaming performance focus in GOTN initiatives
   (a) Support GOTN in developing a performance framework for ULBs in tune with legal requirements, governance, service delivery and financial performance;

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1 In 2018-2019 considering average allocation towards performance grants of the respective programs. Allocation in a particular year may vary.
(b) Develop a platform for disclosure and public analysis of performance information;
(c) Support ULBs in performance improvement, either in response to the needs of a performance linked Program or in relation to the overall performance framework of the state;
(d) Support GOTN in mainstreaming performance focus in its policy decisions and financial support; and
(e) Support other institutions such as State Finance Commission, Central Finance Commission etc. in performance analysis.

D. Institutional Positioning of New Initiatives

14. **Legal structure.** All the three activities are integrated with the planning and administrative activities of the CMA. Therefore the best institutional positioning for these activities would be as dedicated cells or wings within the CMA. An independent legal structure outside the CMA (or) attaching this activity to another organization is not advisable.

15. The data analysis and performance management are analytical activities with finance, systems and information technology skills. There are many commonalities in skills and the nature of activities. Therefore, they are proposed to be integrated as an UDGIC within the CMA.

16. **Reporting.** The heads of both cells will report to the CMA.

E. Key success factors

17. **Role definition.** The role of PDMC should be formalized as part of the definition of financial and technical powers of the CMA and the ULBs. For smaller ULBs, PDMC is likely to be responsible for support in design, procurement and supervision. For larger ULBs, PDMC’s role may be limited to review and revisions. The PDMC will also execute the appraisal and approval responsibilities that CMA has. The role of PDMC with respect to parastatals in overlapping sectors (water and underground drainage) should be clarified. These roles should be formalized and made part of the delegation of financial and technical powers.

18. **Integration with ongoing activities.** The UDGIC will need to work with ongoing initiatives in Tamil Nadu. It will work with various investment programs to integrate the performance based approach. It will also work with E-Governance and reform implementation initiatives to receive data from the ULBs and also to provide feedback on changes and revisions that may be needed in data collection systems.

19. **Internal capabilities vs outsourcing.** The UDGIC needs a compact structure with analytical staff in finance and information technology. The existing personnel policies of the GOTN may not provide adequate flexibility to hire staff with such skills. Outsourcing the entire activity through a consultant firm may bridge the skill gap but would make the cell dependent on external support. A previous attempt at establishing a debt monitoring cell within the CMA could not be mainstreamed due to this reason. As a workable alternative, an existing urban institution (like TNUIFSL) can be tasked with providing staff to the cell on contractual basis after the program support winds down. The institution would contract the staff, but place them in the cell to work within the CMA. The staff would report to the head of the cell and thereafter to CMA. A longer tenure can be offered to contractual staff through this option. Institutions like TNUIFSL may have a higher level of flexibility to hire contractual staff with skills required in the cell. This avoids the drawbacks of creating staff positions within the Government which may not be approved. It also
avoids the drawback of engaging a consulting firm whose mandate may expire without a viable alternative. CMA can renew the contract every five years (indicative) with the institution. Multiple funding sources such as: (i) budgetary support from GOTN, (ii) allocation from the State Finance Commission for CMA level activities, (iii) multilateral or bilateral investment programs, or (iv) contribution by ULBs could be explored and finalized as the program support winds down.

20. The PDMC would be staffed with engineers within the CMA and the ULBs to begin with. Since the urban sector in Tamil Nadu would have a continuous need for engineering staff, the required staff positions for PDMC can be planned as a part of the engineering staff recruitment.

21. **Key capabilities to be built up.** The staff identified for PDMC are likely to have core design, supervision and implementation skills. But it will be important for PDMC to develop a systematic approach to engineering activities. It needs to establish strong processes and technical standards. Therefore, in the initial years, in addition to project related work, it should also focus on setting up work processes, systems and standards within the cell.

22. The UDGIC’s success will depend on how quickly it can support CMA in (i) administering performance linked grants, and (ii) make use of data coming through the E-Governance program to assist ULBs and GOTN. Therefore its initial focus must be on execution, especially (i) governance reforms component, and (ii) clear analytical outputs on revenue improvement and financial management. Building up staff strength should also be its priority.

F. **Program Support to Institutional Development**

23. The Program will provide support to establish the UDGIC. The support in tranche 1 would cover:

(i) Financing the cost of contractual staff; and
(ii) Recurring independent verification of performance.

24. During Tranche 2, the activities of UDGIC are expected to be scaled up.

25. A separate linked capacity building technical assistance is expected to support the establishment of PDMC. The support would cover:

(i) Training of PMDC staff in key skills: technical, project management and procurement aspects;
(ii) Cost of exposure visits, best practices study tours;
(iii) Consultancies to develop work processes and systems; and
(iv) Hardware and systems required for establishing the PMDC.