JANAAGRAHA

Janaagraha Centre for Citizenship & Democracy

Role of Urban Infrastructure Development and Finance Corporations in Financing Urban Infrastructure

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Introduction

India's cities house approximately 400 million people currently and the figure is expected to touch 600 million by 2030 and 800 million by 2050[1]. The demographic spread of this population is unique and consists of 3-4 tiers of cities.

As per Census 2011, there are 4,041 statutory towns and 3,892 census towns in India. Statutory towns further, themselves vary vastly in population. Of the 4,041 statutory towns, 3,507 (87 per cent) have a population less than 1,00,000 each and an average population of less than 30,000. These 3,507 statutory towns, combined with 3,892 census towns constitute over 40 per cent of the urban population, making them a "long tail" of urban India.

Table 1: Categories and population of statutory towns

Particulars	No.	Population (millions)	% of urban population	Average population
Municipal Corporations	147	160	*42%*	10,88,435
Municipalities				
Population > 100,000	328	59	*16%*	1,79,878
Population <=100,000	3,507	101	*27%*	28,799
	3,835	160	*42%*	41,721
Cantonment Boards	59	2	*1%*	33,898
Census towns	3,892	54	*14%*	13,874
Total	**7,933**	**377**	***100%***	

Source: Census 2011

India's cities need an estimated USD 1.2 trillion in capital funding by 2030. However, the current level of capital expenditure is, approximately, 7 times below the required levels[2]. Urban local bodies in India are financially weak with insufficient own source revenues and unpredictable government transfers. Therefore, the states and ULBs need to leverage market-based financing mechanisms including municipal bonds.

While the largest 8-9 cities or possibly million-plus cities have the economic impulse or potential to raise their own resources, the next tier would require some degree of handholding and the third tier requires substantial handholding or support from state and central governments.

Our research has led us to four prioritized solutions that focus on catalyzing the municipal bond market in India, in addition to the medium- and long-term reforms that are needed and often repeated.

These four catalytic reforms are:

1. Providing end-to-end support to select, capable city agencies to issue bonds

[1] World Urbanisation Prospects 2018, United Nations
[2] Ibid

2. Creating a marketplace for information sharing between investors and city agencies
3. **Creating or repurpose special purpose vehicles (SPVs) to facilitate uptake of bonds and pooled finances**
4. Establishing guidelines and incentives to encourage responsible debt uptake[3]

The objective of this paper is to explore the third catalytic reform and the possibility of state finance intermediaries' role in it with the chief aim of raising capital for medium and small-sized cities.

It focuses on the establishment or repurposing a state-level SPV to support urban local bodies and city agencies in individual and pooled bond issuances. The entity would be involved in selection of eligible urban local bodies and providing support to make them market-ready. This would include preparing fiscal plans, standardization of accounts and infrastructure plans. Further, the SPV would be responsible for securing any credit enhancement and bond rating, matching with prospective investors and ensuring distribution, collection and servicing of the debt.

Urban development and finance corporations in India provide a much-needed link between urban infrastructure planning and financing. Urban Infrastructure Development and Finance Corporations (UIDFCs) were set up with the purpose of developing and financing infrastructure projects in urban areas undertaken by urban local bodies, statutory bodies, public sector undertakings and private investors and inter alia provide technical, financial, consultancy and other assistance for development, schemes, implementation of master plans. With the overall arc of stimulating quality of life in urban centers to make them places of prosperity, comfort and economic activity, these agencies also function as the intermediary for mobilization of funds received from schemes such as SMART Cities Mission, AMRUT and JnNURM.

They incorporate a mechanism for "whole-selling" urban investment and vary from country to country. UIDFCs in India take the form of municipal development intermediaries (MDIs) which control and channel the flow of funds/grants.

[3] Roadmap for Municipal Bond Markets in India, Janaagraha Centre for Citizenship and Democracy

Urban Infrastructure and Finance Institutions in India

There are currently 11 states in India which have urban infrastructure and finance institutions in some form. Most institutions are formed as companies under the aegis of the Companies Act 1956 and 2013 and are fully owned by the respective state governments. Different structures can be seen in Maharashtra and Odisha, where they are in the form of trust funds, and West Bengal, where it operates as a Non-Banking Financial Institution (NBFC) but continue to remain under the umbrella of the state. Tamil Nadu Urban Infrastructure and Finance Services Limited (TNUIFSL) is a one of kind public-private partnership in the state urban infrastructure space. The company enjoys equity participation from private players including ICICI Bank, HDFC Ltd and IL&FS in addition to the Government of Tamil Nadu.

Table 2: State urban infrastructure and financing institutions

Organization	Year of Establishment	Structure	Ownership
Andhra Pradesh Urban Finance and Infrastructure Development Corporation (APUFIDC)	1993	Company	State Government
Bihar Urban Infrastructure Development Corporation Ltd (BUIDCO)	2009	Company	State Government
Goa State Infrastructure Development Corporation Ltd (GSIDC)	N/A	SPV	State Government
Jharkhand Urban Infrastructure Development Company Ltd (JUIDCO)	2013	Company	State Government
Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC)	1993	Company	State Government
Kerala Urban and Rural Development Finance Corporation (KURDFC)	1970	Company	State Government
Maharashtra Urban Infrastructure Fund (MUIF) / Maharashtra Urban Infrastructure Development Co Ltd (MUIDCL)	2002	Trust / Company	State Government and MMRDA
Odisha Urban Infrastructure Development Fund (OUIDF)	2013	Trust	State Government
Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO)	1990	Company	State Government
Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL)	1996	Company	State Government, ICICI Bank, HDFC Ltd and IL&FS
Telangana Urban Finance and Infrastructure Development Corporation (TUFIDC)	2014	Company	State Government
West Bengal Infrastructure Development Finance Corporation Ltd (WBIDFC)	1997	NBFC	State Government

In other states, the Urban Development Department and Finance Department at the state level and urban development authorities at the city level undertake design, formulation, implementation and financing of infrastructure projects.

1. Genesis

Urban infrastructure development and finance institutions in India have evolved and grown based on plans, policies and directions of the government. The five-year plans in India have highlighted policies relating to housing, rehabilitation, regional planning, and spatial and demographic development.

The first state-level agency in India concentrating on urban development was the Kerala Urban and Rural Development Finance Corporation Limited which was incorporated as a private limited company in 1970. The Corporation extended its services including loans and advances to all three tiers of government in 2004. The Calcutta Development Project launched in the 1980s was the first attempt in India to use a development loan fund to finance urban infrastructure. The second generation of funds was on the lines of the Tamil Nadu Urban Development Fund (TNUDF) which acts as a lender to municipalities and civic agencies. These funds, in addition to providing loans and grants, also provided technical assistance and advice on project implementation, pricing and feasibility. With more power and responsibility devolved to urban local bodies through the 74th Constitution Amendment in 1992, state level urban infrastructure and financing corporations were set up in Karnataka (1993) and Andhra Pradesh (1993) with the aim to aid project planning, implementation and financing.

The India Infrastructure Report (1996) asserted the need to promote privatization and commercialization of the infrastructure sector as a means to achieve improvement in efficiency and service quality in India. The Group recommended the following[4]:

i. The Urban Local Body (ULB) be responsible for providing all urban infrastructure in the city area.
ii. A state level Nodal Infrastructure Financing Corporation be set up to channelize funds available from various sources and under various programmes to smaller municipalities
iii. Setting up of Infrastructure Funds for the transition period till the debt market is developed.
iv. Setting up a facility to provide guarantee to the private sector may also be set up.

All these measures have pushed for incorporation of independent agencies to promote and finance infrastructure projects which would entail providing information about cost, pricing and technology of various projects, preparation of feasibility reports and providing consultancy to ULBs for project design, formulation and implementation.

2. Overview of role and functions

UIDFCs have an overarching role to enable an integrated environment for urban development by improving access to funds, building expertise and create a shelf of bankable projects. They act as the channelizing agency to help urban local bodies and other agencies in planning and

[4] A Review of Urbanisation and Urban Policy in Post-Independent India, Lalit Batra

developing infrastructure for promoting economic progress and improving the quality of life in urban areas. They also play the role of nodal agency in many cases whereby they provide financial assistance in the form of loans, grants and aid in mobilizing public funds to implement potential infrastructure projects. Their principal roles include:

i. Act as the **nodal agency** for implementation of various infrastructure development project in their respective states. Meeting the unprecedented growth in demand for urban services requires improving the financial capacity of urban local bodies in areas of planning, development, financing and implementation of urban projects. UIDFCs, through their professional management and capabilities, provide such support.
ii. Function as a **financial intermediary** to procure funds from union and state governments, multilaterals and markets and provide financial and technical assistance to ULBs and other agencies. UIDFCs obtain funds under various missions including Smart Cities Mission and AMRUT Missions and channelize them towards project implementation. It is however imperative to understand that these organizations largely act as pass-through organizations for government and multilateral grants and have taken a minor role with respect to raising funds from the markets through various instruments.
iii. Act as **facilitator and coordinator** for development of urban infrastructure financial markets. They guide urban local bodies through capacity building and aiding ULBs identify market-ready projects. However, a functioning market for urban infrastructure financing continues to remain in a nascent stage.
iv. Function as **project managers and consultants** to help in the preparation, formulation and implementation of infrastructure projects on behalf of ULBs and agencies.

While functions are known to vary from institution to institution, primary functions cover the following areas:

i. Provide technical or other assistance and guidance relating to implementation of projects by urban local bodies
ii. Provide financial assistance
iii. Facilitate external financing for urban local bodies
iv. Act as consultants, financial advisors and investment advisors for urban local bodies and agencies
v. Assist in implementation of infrastructure projects envisaged by the urban local bodies

3. Sectoral Focus

UIDFCs primarily focus on areas which contribute to improvement in urban quality of life. The list below is not exhaustive but rather illustrative of the larger sectors UIDFCs in India work in:

i. Water Supply & Sanitation
ii. Solid Waste Management (including segregation, recycling and reuse centres, dump yards)

iii. Slum Development, Rehabilitation and Informal Settlements
iv. Climate Adaptation Measures including storm and flood water drains
v. Rainwater harvesting
vi. Roads and roadside drains
vii. Urban Transportation
viii. Municipal facilities, including complexes, markets, bus stands etc.
ix. Urban Governance through institutional and financial frameworks
x. Central and State government infrastructure schemes including SMART Cities Mission, AMRUT etc.

It should, however, be noted that sectoral focus varies from organization to organization based on multiple factors including the state in question, level of economic activity and urbanization of the state.

4. Organisation structure

UIDFCs in India come under the purview of the state and are governed and managed by a board of directors who are elected by state governments. Board of directors are in most cases representatives from urban development and finance departments of the state, bureaucrats and in certain conditions commissioners of ULBs. Management, while varying from state to state, is mostly comprised of bureaucrats or representatives of the state government.

Table 3: Governance structures of UIDFCs

Organization	Management	Board of Directors	Board of Trustees	Independent directors
APUFIDC	Municipal Administration & UDD	Yes	Yes	No
BUIDCO	Independent MD & Management team	Yes	No	Yes
GSIDC	MD & Management team under the Chairman	Yes	No	Na
JUIDCO	Chairman-cum-MD from the IAS cadre & a team of IAS officers from various state departments	Yes	No	No
KUIDFC	MD from the IAS cadre, assisted by a team of professionals and officers from state cadre	Yes	No	No
KURDFC	Director of Urban Affairs and other state government representatives	Yes	No	Na
MUIF	Maharashtra Urban Infrastructure Development Co Ltd	Yes	Yes	No
OUIDF	Housing and Urban Development Department	Yes	No	Yes
TUFIDCO	MD from the IAS cadre	Yes	No	Yes
TNUIFSL	MD from the IAS cadre	Yes	No	Yes
TUFIDC	Not available	Yes	No	No
WBIDFC	Finance Department, Government of West Bengal	Yes	No	Yes

For the purpose of our study, we have undertaken an in-depth analysis of Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) and Odisha Urban Infrastructure Development Fund (OUIDF).

KUIDFC has been appointed as the Nodal Agency for Karnataka for implementation of urban infrastructure development projects in the state and has also secured the status of State Level Financial Institution from the Government of India. It is a fully owned Government of Karnataka company. OUIDF, on the other hand, forms part of an overarching urban development programme undertaken by the Government of Odisha to initiate reforms at the urban local body level and aid in infrastructure financing.

A deep-dive into Karnataka Urban Infrastructure Development and Finance Corporation

KUIDFC was incorporated in 1993 as a public limited company under the Companies Act 1956 with the object of preparation, formulation and implementation of projects, schemes and programmes in relation to urban infrastructure development. While KUIDFC is not a financial intermediary, it has undertaken one-time land-based financing initiatives and pooled debt issuances.

1. Roles & Functions

KUIDFC was incorporated with the following main functions:

i. Preparation, formulation and implementation of projects, schemes and programmes relating to infrastructure development in urban areas of the state particularly land development, sanitation, road management, transportation and inter-connected subjects.
ii. Provision of technical and other assistance to urban bodies for development, schemes, including implementation of master plans.
iii. Extend financial assistance by way of loans and advances to urban bodies such as corporations and municipalities, urban development authorities and other local bodies and institutions based on communication from the state government for their developmental schemes.
iv. Provision of assistance and consultancy services to local bodies, authorities, urban development bodies and such organizations for improving their technical and internal capacities and financial resources.

2. Sectoral Focus

Historically KUIDFC has actively undertaken projects in the following sectors:

i. Water Supply, Sewerage and 24x7 portable water
ii. Environmental sanitation
iii. Solid Waste Management
iv. Urban Transport
v. Municipal Facilities – including strengthening financial and institutional framework for urban service delivery

3. Organisation Structure

KUIDFC is managed by a Managing Director, part of the IAS cadre, and is assisted by a team of professionals and officers from the state cadre. The organization further has to report to an extensive board of directors. The board consists of representatives from various state government departments, city parastatals and nominees from state government.

Table 4: Board of Directors of KUIDFC

Designation	Type of Director
Minister of Urban Development & Housing, GoK	Chairman
Additional Chief Secretary, Urban Department, GoK	Nominee Director
Secretary to the Government, Municipal & Administration, Urban Department, GoK	Nominee Director
Secretary, Housing Department, GoK	Nominee Director
Chairman, BWSSB	Nominee Director
Secretary (Expenditure), Finance Department, GoK	Nominee Director
Directorate of Municipal Administration	Nominee Director
Metropolitan Commissioner	Nominee Director

4. Sources of Finance

KUIDFC is the nodal agency for implementation of various Government of India urban renewal/rejuvenation missions and projects such as JnNURM, UIDSSMT and state urban infrastructure projects in Karnataka.

i. **Contribution from government and multilaterals** - Most financing follows a pass-through mechanism, where multilaterals and banks including World Bank and ADB sanction loans to Government of India or Government of Karnataka which is subsequently passed on to KUIDFC. KUIDFC uses it directly for implementation of projects and there is no mechanism for direct transfers to urban local bodies for implementation of specific projects.

ii. **Revolving Funds** - KUIDFC also has two revolving funds, a state-level urban infrastructure development fund and a fund to receive funds ploughed back by the ULBs. These funds continue to grow YoY and are growing sources of financing.

iii. **Trust Fund** - KUIDFC also maintains a trust with 50% contribution from GoK and balance amount being raised through pure debt term loans from associated banks.

iv. **Alternative sources of financing** – KUIDFC has participated in alternative financing opportunities in the form of land monetization and pooled debt issuances. However, these avenues continue to remain largely unexplored.

Table 5: Externally aided projects undertaken by KUIDFC

Project	External institution	Project cost (INR in lakhs)	Cumulative expenditure (INR in lakhs)
KUDCEMP	Asian Development Bank	996	1,001
NKUSIP	Asian Development Bank	1,980	2,046
KIUWMIP	Asian Development Bank	1,462	254
KUWASIP	The World Bank	237	215
KMRP	The World Bank	1,364	1,362
KUWSMP	The World Bank	1,809	27
TOTAL		**7,848**	**4,905**

Sources: KUIDFC Annual reports

KUIDFC received funds to the amount of INR 1,678 crores during the FY17-18 from GoK (INR 1,576 crores), internal funds from urban local bodies (INR 88 crores) and other schemes (INR 14 crores).

5. Financial statements

The Company has adopted and structured its accounting in a manner where the operational expenses/costs and connected revenue receipts are charged to the project concerned or taken to the appropriate revolving funds, where beneficial holding rests with GoK. Therefore, KUIDFC is technically left with only operating funds to carry out its functions which are charged and set off against the budgetary grants allocated by GoK leaving a "no profit no loss" status in its Income & Expenditure account.

i. Analysis of Income and Expenditure

KUIDFC operates under the auspices of the Government of Karnataka and does not charge any fees for the services provided. It receives "management fees" equal to the employee-related and operational expenses from Government of Karnataka which enables it to maintain a no profit no loss position.

Table 6: Overview of income and expenditure

	In INR Lakhs			
Particulars	**FY14-15**	**FY15-16**	**FY16-17**	**FY17-18**
Management Fees	676	599	711	745
Other Income	15	18	62	636
Revenue	**691**	**618**	**773**	**1381**
Employee benefit expenses	(244)	(218)	(341)	(342)
Other Costs	(397)	(350)	(354)	(474)
EBITDA	**50**	**50**	**78**	**565**
Depreciation and amortization	(50)	(50)	(78)	(565)
Finance Cost	-	-	-	-
EBT	**-**	**-**	**-**	**-**
Deferred Tax Asset / (Liability)	-	-	(19)	68
Profit for the period	**-**	**-**	**(19)**	**68**

a. **Revenue:** Revenue generated by KUIDFC primarily relates to management fees representing the reimbursement received from GoK for operational costs incurred. Other income primarily pertains to rent, miscellaneous receipts, documentation charges and interest from deposits. These sources have seen a steady increase YoY. A significant increase in other income in FY17-18 is primarily on account of deferred income on grant assets amounting to INR 562 lakhs.
b. **Costs:** KUIDFC does not have full-time employees and their staff includes contractors and state employees deputed from various departments. Employee benefit expenses pertain to salaries & wages, contribution to provident funds and other staff welfare expenses.

Other costs primarily relate to external consultancy charges, electricity, generator and water charges, equipment maintenance, office maintenance and service charges for engineering and other departments.

c. **Profits:** Due to project-based accounting, the books of accounts show a no profit no loss position before taxes. Any profit or loss is on account of creation of a deferred tax asset or liability respectively.

ii. **Analysis of Assets and Liabilities**

The balance sheet of KUIDFC largely consists of grants/loans received and disbursed and current assets and liabilities relating to operational expenses.

Table 7: Overview of assets and liabilities

		In INR Lakhs			
	Particulars	**FY14-15**	**FY15-16**	**FY16-17**	**FY17-18**
A1	Tangible and intangible assets	1,381	1,235	3,897	3,486
A2	Loans & Advances (Net)	22,908	69,446	66,212	109,430
A3	Current Assets	14,452	13,526	13,888	8,533
A4	Provisions	(31)	(34)	(35)	(90)
A5	Current Liabilities	(197,728)	(230,819)	(253,750)	(296,232)
	Working capital	**(159,018)**	**(146,647)**	**(169,788)**	**(174,873)**
A6	Cash & Bank	163,252	150,748	176,643	179,118
	Net worth	**4,234**	**4,101**	**6,855**	**4,245**
	Equity	806	806	806	806
	Reserves & Surplus	3,427	3,295	6,049	3,439
	Net worth	**4,234**	**4,101**	**6,855**	**4,245**

a. **Working Capital:** Tangible assets in the books relate to corporate assets and project-specific assets. Project-specific assets are limited to office equipment, furniture and fixture, computers and peripherals and vehicles. The assets pertaining to the projects being funded lie with the entity accepting the loan/grant. Intangible assets relate to various software programs.

   Loans and advances (long and short term) relate to loans and advances received from the government of Karnataka, World Bank, ADB and various ULBs and loans and advances disbursed for various projects in Karnataka. Current assets largely relate to interest receivable on fixed deposits, advances, subscription of shares and TDS refunds.

   Provisions relate to provision for taxation and leave salaries. Current liabilities include outstanding professional and consultancy charges, principal and interest payments to Government of Karnataka, outstanding management fees and other payables.

b. **Cash & Bank:** KUIDFC maintains large reserves of cash and bank which has increased YoY.

6. Financing urban infrastructure in Karnataka and KUIDFC's role

In 2005, the Government of Karnataka along with KUDIFC set up the Karnataka Water and Sanitation Pooled Fund for a pooled debt issuance amounting Rs 100 crore and an additional issuance of Rs 300 crore in 2010. However, Karnataka has seen no other activity since.

Based on the information shared by MoHUA, 27 AMRUT cities in Karnataka has been credit rated. Interestingly, 24 AMRUT cities have an investment-grade credit rating of BBB- and above. However, it is important to note that very rarely do investors invest in debt instruments with ratings below AA-.

Table 8: Credit ratings of Karnataka's AMRUT cities

Rating	No. of Cities
A	2
BBB	6
BBB-	16
BB+	1
BB	2
Total	**27**

Despite none of the ULBs have a credit rating above AA-, Karnataka's healthy fiscal deficit percentage of 2.3 per cent renders tapping into the capital market a real possibility. However, the state has not witnessed any issuance since the 2010 pooled debt issuance. Therefore, it is imperative that KUIDFC provide end-to-end support to ULBs and play a larger role than it does currently. The envisaged functions include:

i. Carrying out a detailed study on the financial health of ULBs in Karnataka to evaluate the urban financing need for the state, individual ULBs and project
ii. Assessing the funding gap to be met from private capital
iii. Evaluating various modes of meeting this gap with the assistance of appointed experts
iv. Providing assistance in identifying and structuring commercially viable projects
v. Securing credit enhancement, if required, and assisting in obtaining credit rating
vi. Conducting match making roadshows with prospective investors
vii. Ensuring the distribution, collection and servicing of the debt

A deep-dive into Odisha Urban Infrastructure Development Fund (OUIDF)

With the assistance of KfW, Germany, the Government of Odisha set up the Odisha Urban Infrastructure Development Fund to promote the development and financing of environmentally sustainable infrastructure projects in urban centers in the state of Odisha. The Fund is registered as a Trust under the Indian Trust Act 1882, under the Housing & Urban Development Department of the state government.

1. Roles & Functions

OUIDF was incorporated with a vision to be a sustainable intermediary that improves flow of private capital to urban sector in the state and further aiding urban local bodies to become more capable, self-sustainable and provide the highest quality of urban amenities. The primary functions carried out by OUIDF include the following activities:

i. Catalyze development of a pool of well-structured and bankable projects
ii. Build capacity with respect to project conceptualization, appraisals and selection and resource mobilization
iii. Provision of financial and other assistance to urban local bodies, statutory boards and departments, PSUs or setting up infrastructure projects in Odisha. It aims to become a self-sustaining financial institution of debt financing.
iv. Borrow / Raise money or loans or receive grants from external parties
v. Act as guarantors for performance of any contract or obligations to further the objectives of the fund

2. Sectoral Focus

OUIDF was set up with the objective of aiding urban local bodies in their projects relating to the following sectors:

i. Water Supply and Water Supply Improvement Schemes
ii. Underground Sewerage Schemes
iii. Solid Waste Management (including landfills, waste to energy, segregation, recycling and reuse, larger compost yards/dump sites)
iv. Climate Adaptation Measures including stormwater and flood drains
v. Slum development, rehabilitation, provision of basic amenities to informal settlements

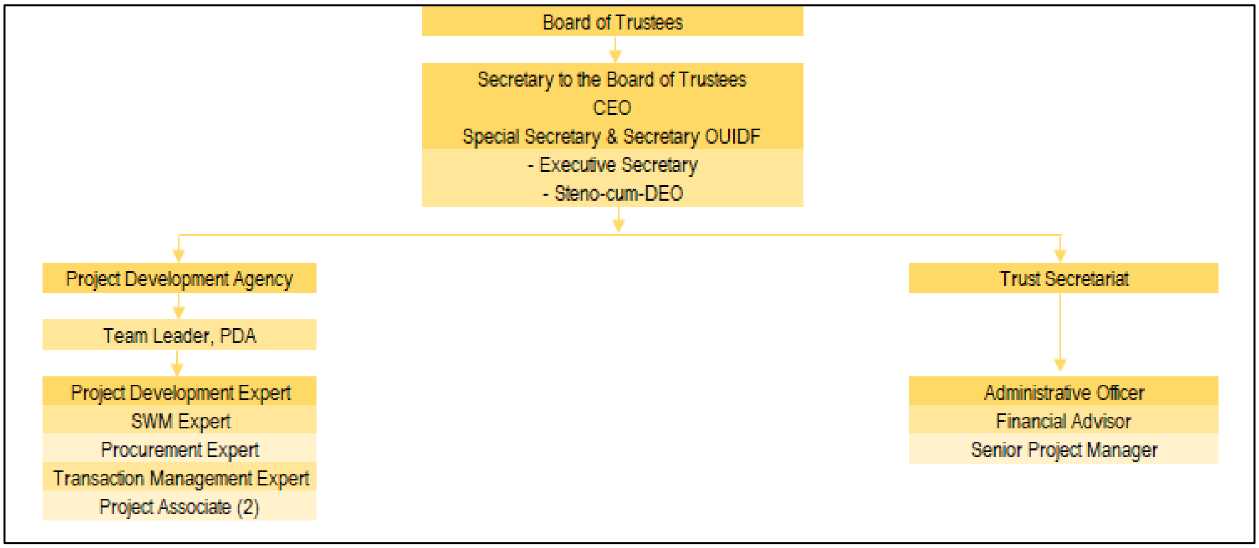
While OUIDF has set out specific areas within which to operate, as a nodal agency for AMRUT cities in Odisha, the sector focus also expands to include AMRUT linked projects.

3. Organisation Structure

OUIDF operates under a Board of Trustees which includes representatives from the Government of India, GoO (including representatives from the departments of finance, housing and urban development and development commissioner) and independent nominees.

A project development agency has been set up for the management of funds which is led by a team leader. The Project Development Agency (PDA) would be responsible for development, appraisal, financing and monitoring of the projects.

Figure 1: Organisational structure of OUIDF



4. Sources of Finance

OUIDF was set up as a trust with the assistance of KfW (Government of Federal Republic of Germany) for an initial grant of Euro 52.5 million for a period of 15 years starting 2009 at an interest rate of 1.875% pa. A second loan agreement for Euro 62.5 million has also been approved. The loan financing is managed in three funds each having its own objective:

i. **Urban Loan Fund** – Provides concessional loan to the environment-related urban infrastructure sub-projects. Loan maturities and grace periods are project-based.
ii. **Grant Support Fund** – The fund supports projects with capital grants as viability gap funding where necessary. These projects must attain economic viability within a certain period in order to be eligible for the grant.
iii. **Project Development Fund** – The PDF provides project developmental support and capacity building to various entities including ULBs, developmental authorities etc. It also funds pre-feasibility and feasibility studies, detailed project reports and transaction advisory services.

5. Financial statements

The financial statements of OUIDF have been maintained in accordance with the provisions of the loan/financing agreement and been duly audited up to 2016-17.

i. Analysis of Income and Expenditure

OUIDF is a smaller fund when compared to KUIDFC but was profitable up to 2016-17 when it registered a loss of INR 2.98 crores.

Table 9: Overview of income and expenditure

	In INR Lakhs			
Particulars	**FY13-14**	**FY14-15**	**FY15-16**	**FY16-17**
Interest from bank account	302	772	1,013	210
Interest on loan fund	-	204	618	1,109
Other income	-	1	49	-
Revenue	**302**	**977**	**1,681**	**1,320**
Project Development expenses	(29)	(41)	(160)	(219)
Salary & remuneration	(13)	(26)	(23)	(22)
Other expenses	(12)	(26)	(22)	(26)
EBIDTA	**248**	**884**	**1,476**	**1,052**
Depreciation and amortization	(2)	(12)	(11)	(10)
Finance cost	(238)	(712)	(953)	(1,341)
EBT	**9**	**159**	**512**	**(298)**

a. **Revenue:** OUIDFC does not charge any management fees or fees for services provided. Revenue earned by OUIDF is in the form of interest on the various types of loans and grants received from KfW. Interest from a savings bank account with SBI accounted for a significant portion (in the range of 60-100%) of revenues of OUIDF up to Mar16 after which such interest declined by 79%. The decline in FY16-17 was due to a significant decline in cash as c. INR 8,620 lakhs worth of funds were granted to participating ULBs. With the inflow of loan fund component amounting to INR 612 million in FY14-15, interest component regarding such loan fund is seen increasing YoY.
b. **Costs:** The largest cost incurred by OUIDF is on account of interest of 1.875% pa on the loan received from KfW. The large interest payment of INR 1,341 lakhs is primarily responsible for the loss incurred in FY16-17. Other costs include project development (c. 10% of revenue) salary and remuneration (c. 2% of revenue) and other general expenses.
c. **Profit:** OUIDF operates as a trust and while profit is not a measure of performance for such organizations, OUIDF has registered profits in 3 out of the last 4 years. A loss amounting to INR 298 lakhs was registered in FY16-17.

ii. **Analysis of Assets and Liabilities**

a. **Working Capital:** Due to the nature of operations of OUIDF, the trust has a large balance of loans and advances. OUIDF increased disbursements of loans and grants from FY15-16 which led to a significant decline in such asset/liability in the books.
   Current assets include interest on multi-option deposit scheme which is outstanding as of each balance sheet date. Provisions in the books largely comprise provisions for income taxes and against the loans received from KfW to cover any potential default amounts.
   OUIDF has consistently maintained negative working capital YoY due to the nature of operations.

b. **Cash & Bank:** OUIDF has invested in a multi-option deposit scheme with SBI which accounts for c. 98.48% on average over the last 5 years.
c. **Equity:** OUIDF does not have share capital/equity infusion from any of the stakeholders including state and central government.

Table 10: Overview of assets and liabilities

	In INR Lakhs			
Particulars	**FY13-14**	**FY14-15**	**FY15-16**	**FY16-17**
Tangible and intangible assets	3	91	82	75
Loans & Advances (Net)	(6,301)	(7,668)	(52)	(752)
Current Assets	244	620	815	1,295
Provisions	(258)	(970)	(1,924)	(3,264)
Current Liabilities	-	-	-	-
Working Capital	(6,311)	(7,928)	(1,078)	(2,647)
Cash & Bank	6,561	8,766	2,574	4,324
Net Worth	6	218	681	383
Equity	-	49	-	-
Reserves & Surplus	6	169	681	383
Net Worth	6	218	681	383

6. Financing urban infrastructure in Odisha and OUIDF's role

The state of Odisha has not witnessed any municipal bond issuance. This is hardly surprising as only two of its AMRUT cities have investment-grade ratings. However, Bhubaneswar and Cuttack will not attract investors with their respective ratings of BBB+ and BBB-. The low ratings more or less rule out ULB level bond issuances. However, the state's healthy fiscal deficit percentage of 2.1 per cent ensures the possibility of a state-guaranteed pooled debt.

Table 11: Credit ratings of Odisha's AMRUT cities

Rating	No. of Cities
BBB+	1
BBB-	1
BB	2
BB-	1
B+	3
B	1
Total	**9**

Currently, there is no dearth of funds for projects. The issues revolve around the lack of investible projects to which the funds can be channelled. Therefore, in a scenario where individual ULBs are rated poorly and there is an evident absence of investible projects, the OUIDF has to move beyond being a mere intermediary routing fund from KfW.

OUIDF may play a more active role and don the role of the state's one-stop-shop for urban infrastructure projects and provide end to end support to ULBs. It may carry out a detailed study to assess the nature of urban projects that the state requires and extensively handhold ULBs in project identification, structuring and debt servicing. Further, OUIDF may also assess and evaluate the need to look beyond KfW as the sole source of finance and consider other sources.

Exploring UIDFCs future potential

Internationally, more than 60 countries have established financial intermediaries that provide finances, technical knowledge and strategic advice to players in the urban infrastructure space. The earliest municipal financial intermediaries, especially across Europe, were created with the objective of encouraging private investment in financing public investment. These funds have evolved over the years to act as pathways to preparing self-sustaining urban local bodies and aid them to tap domestic and international markets for their funding requirements. They aim to build a stable supply space for municipal borrowings but also contribute towards building a stable demand space through appraisal of projects, financing, project preparation and implementation, provide technical and financial assistance where required. A similar outlook is very much needed for the Indian context as well.

In India, the principal roles dictate that the UIDFCs act as nodal agencies for urban infrastructure projects, as financial intermediaries for the ULBs, provide them with various financing options, provide technical assistance etc.

However, the current state of affairs leaves much to be desired. They are largely dependent on state and central governments for funds and are often reduced to institutions through which funds of government schemes are routed. The dependency has resulted in them being embroiled in a local governance ecosystem that dilutes decentralization. Finally, the capital market remains largely untapped despite these institutions being envisaged as professional and technical institutions that would enable ULBs to access to the capital market.

On the basis of our research discussed in earlier sections, UIDFCs in India must undertake the following to meet their potential in the future. They should:

i. **Diversify stakeholder engagement**
UIDFCs in their current structure are largely state institutions which strengthen state government's control over city infrastructure and effectively weakens the decentralization accorded to municipalities by the 74th Constitutional Amendment Act.

Representation of ULBs and private sector in the board of directors and in management can ensure that systemic financing challenges are addressed.

ii. **Diversify sources of funding**
UIDFCs provide much required technical and professional capabilities to ensure responsible and accountable usage and allocation of funds. These institutions further enable a smooth transfer of funds from multi-laterals and governments to municipalities.
In order to tap into more funds and ensure adequate funding required by the ULBs is duly met, UIDFCs can build up verticals to encourage and tap into alternative sources of financing including municipal bonds, term loans, refinancing opportunities and pooled

debt issuances to raise finance for infrastructure.
This could also include onboarding public banks to accelerate public bank lending to municipalities.

iii. **Onboard urban infrastructure financing specialists**
Currently, the management and administration of UIDFCs are looked after by bureaucrats. There is an urgent need to supplement the existing expertise and skillsets with those of urban infrastructure and finance specialists.

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