

PN-ACC-125

**FINANCIAL INSTITUTIONS
REFORM AND EXPANSION PROJECT**

Debt Market / Infrastructure Component

**PRE-IDENTIFICATION REPORT FOR URBAN
ENVIRONMENTAL INFRASTRUCTURE
PROJECTS UNDER FIRE(D)
Water Supply and Sanitation**

(Draft)

**February 15, 1995
New Delhi**

**Community Consulting International (CCI)
in association with
Technical Support Services (TSS)**

Funded by
United States Agency for International Development

Pre-Identification Report for Urban Environmental Infrastructure Projects Under FIRE(D)

The Debt Market/Infrastructure component of the INDO-USAID, **Financial Institutions Reform and Expansion (FIRE)** program, is designed to assist the Government of India in expanding the debt market through the development and financing of commercially viable urban environmental infrastructure projects. This component is under the auspices of Union Ministry of Urban Affairs and Employment with USAID support targeted to the National Institute of Urban Affairs (NIUA), the Housing and Urban Development Corporation Limited (HUDCO) and the Infrastructure Leasing and Financial Services Limited (IL&FS) as well as to selected local entities.

The FIRE-D program will channel up to \$125 million in USAID Housing Guaranty (HG) loans, combined with grant funds for technical assistance and training, to FIRE-D participating institutions as well as to selected local entities to assist in financing commercially viable urban environmental infrastructure projects. This \$125 million in loan guarantees must be matched with capital investment to be raised through the Indian debt market.

HUDCO and IL&FS, acting as financial intermediaries, will make loans to selected municipal corporations, state boards and authorities, and private enterprises which have formed partnerships with municipal entities. Eligible projects include water supply, sanitation, solid waste management, and integrated area development schemes. USAID Housing Guaranty (HG) Program resources will be used to finance no more than 50 percent of an approved project, and, at least half of the project beneficiaries must be below median income households.

In this perspective, *commercially viable projects would essentially be those for which it would be possible to raise resources from the capital markets on a commercial basis.* This necessitates a market rate of return on investment and market acceptable security and credit structures. It would also necessitate a review of the present security structures which essentially rely on state government guarantees, letters of credit from commercial banks or mortgage of assets. New security structures could be developed that may be linked directly to specific revenue sources and legally acceptable covenants and credit enhancement arrangements.

Project development in a commercial format to raise market capital is a very resource intensive exercise. It is thus essential to assess whether a given project presents adequate potential for devoting resources for commercial structuring. The enclosed format for a project report solicits basic information for proposed water supply projects. This report facilitates the analysis required for assessing the commercial potential of the projects. It focuses on aspects which are critical for commercial viability. If the basic fundamentals that emerge from the pre-identification stage appear strong, it would be advisable to pursue project development further and conduct a more detailed financial viability and institutional analysis at the pre-feasibility stage.

Report Structure

1. Scope of the project

- a. Describe the need and priority of the project in relation to overall city priorities
Indicate existing and proposed levels of service
Also indicate the current status of the development of the proposed project.
- b. Give details of each of the components of the project in terms of magnitude, type, capacity, location, etc. Components for water supply may include source development, transmission lines, treatment plant, reservoirs and distribution network.
- c. If a study on important technical/engineering aspects has been produced, include a copy of the report and name of the consultants who have done the study.

2. Project Costs

- a. Base costs of project : Land acquisition, source development, transmission, treatment, reservoirs and distribution network
Clearly indicate the basis for cost estimation and the year for which the prices relate to.
- b. Implementation plan in terms of expected year for starting and completing the project.
Indicate the detailed phasing, if available
- c. Give details of estimated project finance from agency's own revenue surpluses.
- d. Details of any possible up front capital contributions from major consumers like industries or other institutions for a share in total capacity.

3. Consumers in Service Area

Past

- a. Water Connections : Number of connections across user groups (domestic, industrial commercial, etc.) and/or size of connection, for last three years
- b. If possible, indicate the consumption across user groups in terms of percentage distribution of supply across user groups such as domestic, industrial and commercial
- c. Bulk consumers: Details of major non-domestic bulk consumers and their level of consumption for last three years

Future

- e. Expected new connections: By different user groups (domestic, industrial commercial).
- d. Expected Consumption: By different user groups, if such estimates are available.
- e. Details of future bulk supply or major non-domestic bulk consumers envisaged under the project

4. Service Related Costs

Past

- a. Total production of water

- b. Give details of expenditure for last three years. The categories of expenditure may include,

Salaries for service staff
Electricity
Chemicals
Minor/Major Repairs
Debt servicing
others (please specify)

Future

- c. Give details of any major changes in the expenditure pattern for the proposed service if any changes envisaged (eg: expected salary revision, increase in staff strength, expected revision in electricity prices, new debt servicing, major repairs, etc)

5. Service Charges and Revenues

Past

- a. Give details of existing rates and total revenue from sources such as water tax, water charges and connection charges for last three years.
b. Give details of collection performance of revenues (current demand and arrears separately) from property tax and water charges for the last three years
c. Give details of revision in water charges for last five years.
d. Give details of the prices/costs of water supplied to industries and households by private water tankers, if any.
e. Give details in terms of the amounts generated from the charges such as advance registration charges, betterment levies and development charges, if any.

Future

- f. Give details of proposed revision in charges including advance registration charges.
g. Do you expect any other general revenues to be dedicated/allocated for this project. If yes, please give details of the source for last 3 years and the extent of allocation envisaged.

6. Service Authorities

- a. Give description of institutions involved in service provision.
b. Details of envisaged institutional structure for the proposed project. For example, the implementation may be proposed to be done by agency itself or by a separate company.

7. Agency's Financial Position:

- a. Give details of outstanding loans by purpose, amount, year of loan, repayment period and interest. Also indicate the overdue towards principal and interest repayments for last three years.
b. Give details of income (property tax, octroi and other taxes, non-tax revenues and

transfers from state government, if any) and expenditure by major categories for the agency for the past three years

c. Details of a five year capital investment plan, if it has been made by the agency

8. On-Going/Recently Completed Projects by Agency

a. Give details of all on-going and recently completed projects including the nature of project, magnitude, total cost, implementation period, sources of finance and current status.

9. Available Documents with the Agency

a. Attach a copy of any of the following documents available with the agency

Annual accounts for last 3 years

Annual budget reports for last 3 years

Master plan/Development plan

Consultancy reports on projects

Any other reports and studies which may relevant for the above aspects.

**FINANCIAL INSTITUTIONS
REFORM AND EXPANSION PROJECT**

Debt Market / Infrastructure Component

**PRE-IDENTIFICATION REPORT FOR URBAN
ENVIRONMENTAL INFRASTRUCTURE
PROJECTS UNDER FIRE(D)
Solid Waste Management**

(Draft)

**February 15, 1996
New Delhi**

**Community Consulting International (CCI)
in association with
Technical Support Services (TSS)**

***Funded by*
United States Agency for International Development**

5

Pre-Identification Report for Urban Environmental Infrastructure Projects Under FIRE(D)

The Debt Market/Infrastructure component of the INDO-USAID, **Financial Institutions Reform and Expansion (FIRE)** program, is designed to assist the Government of India in expanding the debt market through the development and financing of commercially viable urban environmental infrastructure projects. This component is under the auspices of Union Ministry of Urban Affairs and Employment with USAID support targeted to the National Institute of Urban Affairs (NIUA), the Housing and Urban Development Corporation Limited (HUDCO) and the Infrastructure Leasing and Financial Services Limited (IL&FS) as well as to selected local entities.

The FIRE-D program will channel up to \$125 million in USAID Housing Guaranty (HG) loans, combined with grant funds for technical assistance and training, to FIRE-D participating institutions as well as to selected local entities to assist in financing commercially viable urban environmental infrastructure projects. This \$125 million in loan guarantees must be matched with capital investment to be raised through the Indian debt market.

HUDCO and IL&FS, acting as financial intermediaries, will make loans to selected municipal corporations, state boards and authorities, and private enterprises which have formed partnerships with municipal entities. Eligible projects include water supply, sanitation, solid waste management, and integrated area development schemes. USAID Housing Guaranty (HG) Program resources will be used to finance no more than 50 percent of an approved project, and, at least half of the project beneficiaries must be below median income households.

In this perspective, *commercially viable projects would essentially be those for which it would be possible to raise resources from the capital markets on a commercial basis.* This necessitates a market rate of return on investment and market acceptable security and credit structures. It would also necessitate a review of the present security structures which essentially rely on state government guarantees, letters of credit from commercial banks or mortgage of assets. New security structures could be developed that may be linked directly to specific revenue sources and legally acceptable covenants and credit enhancement arrangements.

Project development in a commercial format to raise market capital is a very resource intensive exercise. It is thus essential to assess whether a given project presents adequate potential for devoting resources for commercial structuring. The enclosed format for a project report solicits basic information for proposed solid waste management projects. This report facilitates the analysis required for assessing the commercial potential of the projects. It focuses on aspects which are critical for commercial viability. If the basic fundamentals that emerge from the pre-identification stage appear strong, it would be advisable to pursue project development further and conduct a more detailed financial viability and institutional analysis at the pre-feasibility stage.

Report Structure

1. Scope of the project

- a. Describe the need and priority of the project in relation to overall city priorities
Indicate existing situation of service in terms of amount of waste generated, collected, disposable option, frequency, trips, vehicles, bins and staff.
Details of proposed levels of service along with technology option.
Also indicate the current status of the development of the proposed project. If there are any MOUs signed, include the details of them
- b. Give details of each of the components of the project in terms of magnitude, type, capacity, location, etc. Components for solid waste management may include disposal option, equipment and vehicles, bins, etc
- c. If a study on important technical/engineering aspects has been produced, include a copy of the report and name of the consultants who have done the study.

2. Project Costs

- a. Base costs of project : Land acquisition, disposal, equipment, vehicles, bins, etc
Clearly indicate the basis for cost estimation and the year for which the prices relate to.
- b. Implementation plan in terms of expected year for starting and completing the project.
Indicate the detailed phasing, if available
- c. Give details of estimated project finance from agency's own revenue surpluses.
- d. Details of any possible up front capital contributions from major consumers like hospitals, hotels or other institutions for a share in the project.

3. Consumers in Service Area

Past

- a. Waste generators : Number of households, industrial, hospitals, hotels(rooms, occupancy rates), markets, institutions, etc for last three years
- b. If possible, indicate the amount of waste generated and collected across these groups.
- c. Major waste generators: Details of major waste generators such as hospitals, hotels including their level of generation for last three years
- d. If the assessment of composition of waste (in terms of organic, hazardous and inorganic) has been done, include the details.

Future

- d. Expected growth in waste generators: By different groups (domestic, industrial, hotels, hospitals, commercial, etc).
- e. Expected Generation: By different groups, if such estimates are available.

4. Service Related Costs

Past

- a. Give details of expenditure for last three years. The categories of expenditure may include,
- Salaries for service staff
 - Fuel
 - Maintenance of vehicles and equipment
 - Minor/Major Repairs
 - Debt servicing for solid waste
 - others (please specify)

Future

- c. Give details of any major changes in the expenditure pattern for the proposed service if any changes envisaged (eg: expected salary revision, increase in staff strength, expected revision in fuel prices, new debt servicing, major repairs, etc)

5. Service Charges and Revenues

Past

- a. Give details of existing rates and total revenue from sources such as conservancy tax, solid waste rates for hospitals, markets, etc
- b. Give details of collection performance of revenues (current demand and arrears separately) from conservancy tax
- c. Give details of the charges and extent of community organisations involved in collection and disposal of solid waste
- d. Give details of extent, rate and revenue generation from compost/manure

Future

- e. Do you expect any other general revenues to be dedicated/allocated for this project. If yes, please give details of the source for last 3 years and the extent of allocation envisaged.
- f. Are there any plans of introducing the new taxes/charges or revision in existing taxes for solid waste management.
- g. If the studies on market for compost has been done, give details of them.

6. Service Authorities

- a. Give description of institutions involved in service provision.
- b. Details of envisaged institutional structure for the proposed project. For example, the implementation may be proposed to be done by agency itself or by a separate company or by a joint venture with the private sector.

7. Agency's Financial Position:

- a. Give details of outstanding loans by purpose, amount, year of loan, repayment period and interest. Also indicate the overdue towards principal and interest repayments for last three years.
- b. Give details of income (property tax, octroi and other taxes, non-tax revenues and transfers from state government, if any) and expenditure by major categories for the agency for the past three years
- c. Details of a five year capital investment plan, if it has been made by the agency

8. On-Going/Recently Completed Projects by Agency

- a. Give details of all on-going and recently completed projects including the nature of project, magnitude, total cost, implementation period, sources of finance and current status.

9. Available Documents with the Agency

- a. Attach a copy of any of the following documents available with the agency

Annual accounts for last 3 years

Annual budget reports for last 3 years

Master plan/Development plan

Consultancy reports on projects

Any other reports and studies which may relevant for the above aspects.

Community Consulting International (CCI)

1012 N Street, NW

Washington DC 20001-4297, USA

in association with

Technical Support Services (TSS)

1012 N Street, NW

Washington DC 20001-4297, USA

The FIRE(D) Project Office

E - 3/4, Vasant Vihar

New Delhi-110 057, India

Tel.: 91-11-6149836/6143551

Fax: 91-11-6141420/6144480

Email: fired@giasdl01.vsnl.nct.in

THE FIRE(D) PROJECT

The objective of the Indo-US Financial Institutions Reform and Expansion (FIRE) project, funded by the U.S. Agency for International Development (USAID), is to support the Government of India in its efforts to strengthen domestic capital markets to enable them to serve as efficient sources of development finance. One of the components of the FIRE project seeks to expand the debt market through the financing of commercially viable urban environmental infrastructure projects, defined as those which result in the provision of affordable urban services on a full cost-recovery basis by their sponsoring municipal corporations and authorities. This Debt Market/Infrastructure component, (FIRE-D), is under the auspices of the Union Ministry of Urban Affairs and Employment with USAID support targeted to the National Institute of Urban Affairs (NIUA), the Housing and Urban Development Corporation Limited (HUDCO) and the Infrastructure Leasing and Financial Services Limited (IL&FS) as well as to selected local entities.

The FIRE-D Project is designed to foster the development of a commercially viable infrastructure finance system by channelling USAID Housing Guaranty (HG) funds to selected demonstration cities and states to assist in the financing of urban environmental infrastructure projects. HUDCO and IL&FS, acting as financial intermediaries, make loans to selected municipal corporations, state boards and authorities and private enterprises which have formed partnerships with municipal entities. Eligible projects include water supply, sanitation, solid waste management, and integrated area development schemes. NIUA acts as the advocate for policy change and the coordinator for delivery of technical assistance and training directed at the development of local government capacity in the areas of identification, development and management of commercially viable urban environmental infrastructure projects; pricing and cost recovery for urban services; and financial management systems to support accessing of capital markets. It is expected that the participating institutions will be able to replicate the policy changes and project development initiatives beyond the demonstration states and municipalities to other areas throughout India.

This USAID-funded program will make available up to \$125 million from US capital markets in loans, combined with grant funds for management support, technical assistance and training. Loan guarantees must be matched with capital investment raised in the Indian debt market through FIRE's creation of innovative financial instruments.

Technical assistance, training and research support is provided by a consortium of US firms led by Community Consulting International (CCI) in association with Technical Support Services (TSS). Principal partners in the consortium include the Wall Street investment banking firm of Grigsby Branford and Company (GB&C) and the Government Finance Officers Association (GFOA) of the USA and Canada.

For more information on the FIRE(D) Project, contact the project office at the address mentioned above.