

**EXTERNAL SOURCES OF FINANCING
FOR URBAN DEVELOPMENT IN INDIA.**

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1.1 AN OVERVIEW

Financing urban development in India has primarily been a domestic affair. However we have looked to external sources for financing and it has financed 10-12% of domestic investment. The assistance we have been receiving from foreign bodies has been steadily increasing over the years. In the past most of the external programs were not directed at the urban area but now with concentration on areas such as environment, health, micro credit and small scale industries they are more urban oriented. Urban India like other urban parts of the world is characterized by a high concentration of population and also concentration of development in a few areas. Urban development has become a major priority in the agenda of international agencies. Several bilateral and multi-lateral agencies still do not have an urban department. This is due to the low priority given to urban affairs. However these international agencies mainly differ in terms of three areas (a) setting priorities (b) identifying projects and partners, (c) Launching projects and monitoring. Most of the above activities mentioned (a) to (c) Tend to take place in the beneficiary countries. The international agencies continue to be diverse in their urban development strategies.

The contribution of developed countries to Development Aid seems to be declining

in real terms. After the Second World War most of the member countries of OECD(Organization for Economic Co-operation and Development) made a resolution at the United Nations to set aside 0.7 % of the GDP every year as development aid. However it is only the Scandinavian countries that meet this target and none of the other countries. In India's domestic Economy also inspite of an increasing level of urbanisation most attention is paid to rural perspective has forced the planners to formulate development objectives insuch a way that allocation for the urban sector has remained low.

SOURCES AND NATURE

Investable resources for public purposes are far short of demand so it is important for sectoral privatisation in keeping with development objectives. Keeping in mind these considerations substantial increase in plan allocation for the urban sector is not predicted though Ninth Plan has made considerable increase in expenditure for urban development .The overall resource for plan consists of (1) Budgetary resources of the centre including central assistance for states. (2) Internal and External Budgetary Resources (IEBR) and the Central Public Sector Enterprises (CPSEs) and (3) own resources for the plan depends on the excess of the aggregate projected sum of receipts comprising (a) Balance from Current Revenues (BCR) (b)borrowings and other liabilities (c)other capital receipts including recovery of loans and advances and disbursement and (d)external grants over non-plan capital expenditure

1.2 SOURCES OF EXTERNAL ASSISTANCE

(1) MULTILATERAL ASSISTANCE

(2) BILATERAL ASSISTANCE

(3) LOANS FROM WORLD BANK

(4) EXTERNAL COMMERCIAL BORROWINGS

(1) MULTILATERAL ASSISTANCE

Major partners for multilateral programs in India are the international agencies like the

(a) International Bank for Reconstruction and Development (IBRD)

(b) The International Development Association (IDA)

(c) Asian Development Bank

(d) Overseas Program For Economic Co-operation (OPEC)

The World Bank, which lends from both International Bank for Reconstruction and Development (**IBRD**) and International Development Agency (**IDA**) resources, provides support mainly to agriculture, social sectors (family welfare, health, nutrition and primary education), and infrastructure (power, and transport) and

financial sectors. **World Bank** has also provided support for forestry and water supply projects, including in Madhya Pradesh and Kerala. In response to a decision by the World Bank's management to increase IBRD lending to India to about \$3 billion per year and to harden the terms of its overall assistance by achieving an

While there is complementarity between **ADB** and World Bank in several key sectors(especially power and transport), ADB has taken the lead in state level support. To increase the developmental impact of its assistance, the World Bank has also begun channeling a portion of its lending operations to more focused state-level operations. In discussion with the Government, ADB and the World Bank are coordinating on an appropriate geographical focus for each institution's state-level operations. ADB has commenced state-level operations in both Gujarat and Madhya Pradesh, and has received Government support for initiating work on Kerala as the third focal state. The World Bank has so far concentrated its operations on the power sector in Haryana, Orissa, and Rajasthan, and on more comprehensive support including public finance reform in Andhra Pradesh and Uttar Pradesh. ADB is expected to play a lead role in policy development for railways, urban development, housing finance, as well as debt market development. Regular consultations between ADB and the World Bank at the headquarters level have also been institutionalized.

The **Asian Development Bank** has agreed to provide a **technical assistance grant Of US\$800,000** equivalent to help the Indian Government prepare a project for environmentally sound and sustainable urban development in the coastal districts of Karnataka State. The coastal districts of Dakshina Kannada and Uttara

Kannada are between the steep, densely forested Western Ghats and a narrow coastal belt along the Arabian Sea. Rapid growth of the coastal urban centers has caused excessive strain on basic services and has degraded valuable resources such as mangrove forests, estuaries, beaches and coastal forests. The technical assistance is expected to lead to a project with investments in environmental management to control coastal erosion, reduce industrial pollution and manage urban waste. Investment will also be needed to upgrade roads and provide water supply and sanitation facilities and truck and bus terminals.

The **Karnataka Urban Infrastructure Development and Finance Corporation** will be the executing agency for the technical assistance, which will be implemented over ten months.

(2) BILATERAL ASSISTANCE

India receives bilateral assistance in the form of grants from countries such as **U.K., U.S.A., Canada, France** etc. Major part of this aid goes for local cost expenditure in social sector projects.

The **United Kingdom**, through its **Department for International Development (DFID)**, has a large aid program to India, focusing on poverty reduction through support for social sector initiatives. The program also seeks to support sustainable economic growth through support for economic reforms, particularly in fiscal policy and the power sector. DFID is concentrating its assistance to selected states, including Madhya Pradesh, Andhra Pradesh, and West Bengal, and is collaborating and coordinating activities with ADB in the areas of mutual interest such as support for power sector reforms, urban water supply and sanitation and

slum improvement. ADB's efforts to strengthen the poverty focus of its portfolio and the supporting TA program provide further cooperation opportunities.

The **United States Agency for International Development (USAID)** has focused its program inter alia on population stabilization; provision of health care, including HIV/AIDS control; environmental protection and pollution control, particularly in urban areas; and support for energy conservation and demand side management. USAID also provides extensive food aid.

The **Canadian International Development Agency (CIDA)** has been active in support for state power sector reforms. In its preparatory work for power sector reforms in Kerala, the ADB is already drawing upon work being prepared by CIDA-financed consultants. The ADB and CIDA are also closely collaborating on power sector reforms in Madhya Pradesh.

The priorities of Germany's assistance are the infrastructure (power) and social sectors, including water supply, urban waste management, housing, and health.

The **Netherlands** is providing assistance mainly for social sector interventions, as well as in support of local governance and effective decentralization. One of its focal states is Kerala.

The **European Union (EU)** provides assistance under two broad categories: **development assistance and economic cooperation**. The former is directed towards improving the quality of life of the poorest and is providing grants for rural development, as well as primary education and health.

EU's economic cooperation program mainly comprises technical assistance and

training support.

(3)LOANS FROM WORLD BANK

The Bank's first population project in India started in 1972, by which time the country's approach to family planning was firmly entrenched. Thus, the Bank could not do much by way of shaping policy. Although it played only a low-key role, the Bank had several criticisms of the Indian program for e.g., excessive focus on sterilization which ignores spacing need excessive centralization and reliance on a single delivery system and ignoring the NGO and private sector; insufficient attention to program operations and quality (as opposed to program expansion); and neglect of factors that can influence demand.

Consequently, the Indian government made efforts to address the criticisms made by the Bank. This was subsequent to the Bank's emphasis on research, and the publication of papers that developed a strategic image of what the Bank felt need to be done. Thus, there was an Indian government policy shift in focus on priority program components at the state level, support for NGOs and social marketing of contraceptives. There is evidence of the Bank's desire to increase its influence in this sphere. India's Eighth Plan allocates \$2.7 billion to the Family Welfare Program, and the Bank indicated its willingness to increase its commitments to nearly 10% of this amount.

This project encourages NGOs in health service delivery, social marketing of contraceptives targeted to urban slums, and investment of the private sector.

Projects funded in the post-1988 period reflect the Bank's emphasis on strengthening the GOI's goal of bringing down the fertility rate. A loan of \$79 million was extended for a Family Welfare Project (1993-99) for Urban Slums in Delhi, Hyderabad, Bangalore and Calcutta with the objectives of expanding service delivery, improving the demand for quality family welfare services. This, through an expanded program of information, education and communication, strengthening the management & administration of municipal health departments, and female education. It proposes to encourage private voluntary organizations in health service delivery, social marketing of contraceptives targeted at urban slums, and encourage private investment in this market.

(THE FOLLOWING IS A CLIP FROM 'THE HINDU')

According to Mr. Robert Maurer and Mr. Jan Janssens, World Bank specialists in urban sector development and urban water supply and sanitation, Andhra Pradesh had shown its commitment to bring about reforms for the success of future strategies for reliable basic civic services. The experts, who took part in a workshop on Urban Development and Urban Water supply and Sanitation Strategies, said it was important to make the existing systems efficient before reforms and capacity-building exercises with huge investments could be undertaken to meet the challenges. During a media-interaction, they said the World Bank would not be averse to offering support to projects in other parts also, if State Governments were committed to reforms. As part of the strategy, initiatives would

be taken to create an awareness and make politicians, decision-makers and NGOs commit themselves to improving the efficiency of the existing network and curbing the huge distribution losses. At the same time, demand and supply would have to be managed effectively. For sustainable development corrective measures should be adopted by making these projects revenue generating and self-sustaining. This would also result in private participation. In certain areas like public health and sanitation, the public sector would have to continue subsidising creation and sustenance. To consolidate and supplement the resources, innovative technologies would have to be adopted. In coastal areas, though the technologies was expensive, desalination of brackish or sea water could be resorted to rather than bringing water from far-off places at a huge cost, the experts said, suggesting implementation of pilot projects that could serve as models.

The HUDCO Chairman and Managing Director, Mr. V. Suresh, said there were Three or four sources available for funding project studies. These could be utilised for bringing about efficiency and creation of new capacities. On sourcing funds for projects, the experts said a proper climate should be created.

(4) EXTERNAL COMMERCIAL BORROWINGS

ECB is permitted by the government for providing an additional source of funds for Indian Corporate for financing expansion of capacity as well as for fresh investment, to augment the resources available domestically and at the same time to take advantage of the relatively lower interest rate prevailing in the international market. ECB is approved within annual ceiling, consistent with prudent debt management, keeping in view the balance of payments position and

level of foreign exchange reserves.

1.3 IMPORTANT ASPECTS TO BE LOOKED INTO WHILE CONSIDERING URBAN DEVELOPMENT FINANCING-

- *Transparency and consistency in sponsor selection process
- *Legal and Institutional arrangements
- *Track record of the sponsors participation in urban infrastructure development
- *Risk involved
- *Internal and external politic and economic environment

1.4 WHY BIGGER URBAN AREAS ARE PREFERRED TO SMALLER URBAN AREAS IN TERMS OF FINANCING?

- *Greater institutional capacity-Larger urban areas have a greater institutional capacity than smaller areas which permits them to garner a larger amount of financial and administrative resouces
- *Greater activity-Larger urban areas have a greater amount of commercial activity taking place which requires them to have more urban infrastructure.

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