
PROJECT FINANCING PROCESS OF URBAN LOCAL BODY -CASE OF SURAT

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Abstract: Project Financing of Urban Local Body in India is studied with an important economic centre in the South Gujarat Region - *Surat*. The *Surat* Municipal Corporation is well-known for its work efficiency and won many awards for utilizing the allocated funds from the central and the state government as well as for generation of self capital for investment in the various service projects. Various Projects (completed, under construction and proposed) from last ten years by SMC are listed. Among which the potential projects are identified. Detailed mapping of financing of identified projects is done. The paper ends with the experience of *Surat*, which shows that urban local governments in the developing countries have the capacity to increase the self capital to face the challenges of rapid urbanization and improved quality of life. Study has considered projects before Smart city mission.

Keywords: Project Financing, Public-Private-Participation, Resources, Urban Local Body.

Surat Municipal Corporation (Hereafter SMC): With rapid urbanization, SMC has adopted a systematic process to upgrade infrastructure, both quantitatively as well as qualitatively. The city governance has come to be recognized as an example of good governance system. *Surat* prepared its City Corporate Plan (CCP) in 1999, and drew up the Vision 2020 for *Surat* 'Global City - Global Standards' in 2004. Under the JnNURM, the City Development Plan (CDP) was prepared in 2006. *Surat* Municipal Corporation along with *Surat* Urban Development Authority are trying to cope up with providing basic services to the urban areas with aim of decreasing gap between demand and supply of the urban basic services. *Surat* stands in the list of leading cities in implementation of JnNURM projects worth Rs. 2428.99 Crore. *Surat* has been in the forefront of implementing the urban reforms to improve urban governance and responsiveness to citizen needs. These include reforms in finance and taxation, administration, e governance, operations and accountability. *Surat* has formulated an integrated slum rehabilitation policy aimed at creating a slum free city and ensuring decent quality of habitat and living conditions for all urban poor. A Comprehensive Mobility Plan was also formulated in 2008 with a focus on increased connectivity, integrated transport systems, new parking projects and policies, and provision for pedestrian and cycle users. The city has also developed waste to energy projects, energy efficiency systems and environment enhancements measures to create an enviable range of sustainability initiatives.

Project Financing in SMC:

General Procedure Followed for the Project Financing by SMC:

SMC is well known for doing best efforts for providing basic services and improved quality of life to the citizens. As the city of *Surat* is urbanizing day by day, the corporation has to increase its financial resources to fulfill the gap of demand and supply and of the services and amenities. SMC have adopted various administration and finance reforms to increase its capital income, which can be utilized for the project financing. Project financing in SMC is mainly done by the central and the state government grants under various schemes and by self funding from revenue surplus.

1. Government Grants:

From last ten years SMC was availing government grants mainly under following three schemes:

- a) **Jawaharlal Nehru National Urban Renewal Mission (JnNURM):** Under this program central and the state governments shares the total grants mainly for the basic services projects. In which, the share of the central, state and local government is 50%, 30% and 20% respectively. For the grant,

proposal of the project is brought from the local body. Among total grant 25% fund is given for each project separately at the beginning stage. Rest of the grant will be given as per the work completion and 10% of fund made pending which will be released after project completion. The 20% funding of the total cost of the project is done by local body itself from its revenue surplus. If the local body does not have the surplus amount to fund the project, it has to take loan from various institutions like banks, Government, HUDCO, NHB, ILF, IDFC, etc. *Surat* stood in the list of leading cities in implementation of JnNURM projects worth Rs. 2428.99 Crore. *Surat* has been in the forefront of implementing the urban reforms to improve urban governance and responsiveness to citizen needs. These include reforms in finance and taxation, administration, e governance, operations and accountability.

- b) **Swarnim Jayanti Mukhya Mantri Shaheri Vikas Yojana (SJMMSVY):** It is a Gujarat state government scheme under the Gujarat Municipal Finance Board. The scheme is to provide infrastructure facilities in private societies on a participatory basis, urban mobility, social infrastructure, affordable housing, e- governance, mission mangalam (urban), employment oriented skill development program, basic civic facilities like pay & use toilets. SMC has availed total grant of Rs. 1500 crore for various projects since 2007.
2. **Affordable Housing:** Housing projects are funded under various *avas yojanas* by government of Gujarat. In these schemes, corporation has to give land and total cost of initial construction is provided by SMC from its own surplus capital. Identification of owners is done by SMC by draw system for the housing. State Government will give Rs. 100000 SMC for each owner. Owner himself has to bear Rs. 75000 and have to give to the SMC. Rest of the money is given to SMC by State bank of India (SBI) as loan to the owner.
3. **Own Projects/Self Funded:** Property Tax, User charges, Octroi (canceled since ten years), Professional Tax, Theater tax, Advertisement and hoarding tax, effluent collection charge, etc are the sources of revenue generation of SMC. SMC has funded many commercial projects from the revenue surplus totally and has partially contributed in many service projects by the same.

Table 1: Mapping of Project Financing in Surat Municipal Corporation

Sr. No.	Department	Projects	Project Cost (Rs. in '000)	Year	Status	Revenue Surplus	Grant			Loan			PPP	Equity shares
							Affordable housing (GOI)	JnNURM (GOI & GOG)	SJMMS VY (GOG)	Bank	Go v.	HUDCO/ NHB/ ILF/IDFC		
1	Traffic Cell	Construction of RCC kerb type road divider from Sachin- Magdlla highway 45 mt VIP road in south west	55068	2014-2015	Proposed	100%	-	-	-	-	-	-	-	-
2	Buildings Department	Construction of Mayor Bungalow on F.P. No.57, T.P.S.No.5 Umara north South west Zone <i>Surat</i>	250000	2013-2014	Under construction	100%	-	-	-	-	-	-	-	-
3	Housing/ E.W.S	Rajiv Awas Yojana (RAY)	50000	2013-2014	Under construction	Initial construction cost	Rs.50000/ unit + Owner Rs.50000	-	-	SBI to owner (Money to SMC)	-	-	-	-
4	Affordable housing	Construction of houses for LIG under mukhya mantri GRUH scheme	5901183	2014-2015	Proposed	Initial construction cost	Rs.100000/ unit + Owner Rs.50000	-	-	SBI to owner (Money to SMC)	-	-	-	-
5	Bridge Cell	Construction of bridge across river Tapi joining Athwa & Adajan	889459	2010-2011	Completed	Approx. 20% + 10% (if cost increases than the proposal or if the 100% grant is not approved)	-	50% (GOI) + 30% (GOG)	-	-	-	-	-	-
6	Road development dept.	Resurfacing the existing roads by "ACC MARG" Tech.	70000	2010-2011	Completed	100%	-	-	-	-	-	-	-	-
7	Flood protection scheme	Construction of retaining wall at Rander	197100	2014-2015	Proposed	100%	-	-	-	-	-	-	-	-
8	Tapi river front	Tapi river front development from swami Vivekanand bridge to wvirum causeway on west bank of river Tapi	140000	2014-2015	Proposed	100%	-	-	-	-	-	-	-	-

9	Central science centre	Textile Gallery and other galleries	3500	2013-2014	Completed	100%	-	-	-	-	-	-	-	-
10	Conservation & heritage	Conservation & development Heritage.	173500	2012-2013	Completed	100%	-	-	-	-	-	-	-	-
11	Urban transport	Construction of BRTS road at Surat-Navsari road.	1200000	2011-2012	Completed	Approx. 20% + 10% (if cost increases than the proposal or if the 100% grant is not approved)	-	50% (GOI) + 30% (GOG)	-	-	-	-	-	-
12	Fire-fighting department	Hydraulic Platform 1 Nos. for High-rise building / structure Fire Fighting & rescue purpose.	130000	2013-2014	Under construction	100%	-	-	-	-	-	-	-	-
13	Public-lighting dept.	Supply erection, testing and commissioning of street light system at airport to Langar road	13760	2014-2015	Proposed	100%	-	-	-	-	-	-	-	-
14	Hydraulic water source	392 MLD capacity Intake well near Variav for New West & South-West area	166100	2013-2014	Completed	Approx. 10% (if cost increases than the proposal or if the 100% grant is not approved)	-	-	100%	-	-	-	-	-
15	Drainage department	Providing & laying drainage pipe line & repairing of Manhole on various T.P.S roads of Limbayat Zone.	2500	2013-2014	Under construction	Approx. 10% (if cost increases than the proposal or if the 100% grant is not approved)	-	-	100%	-	-	-	-	-

Observations: SMC has adopted various administrative and finance reforms since last ten years and able to avail major amount from the upper tier of the governments especially under the JnNURM program. Financial practices of the SMC have been recognized as one of the best in the country by the Institute of Chartered Accountants of India (ICAI) and SMC awarded for excellence in financial reporting. SMC manages to increase its revenue surplus capital for financing of various projects and does not required loan or borrow the capital for external resources. Since many years SMC has no dept. The main sources of revenue income were octroi and property tax for the SMC among which octroi is canceled by the government and now in future to meet the demand of services SMC may need to take loans from various institutions for different projects. *SMC had not financed any of projects with public private partnership (PPP) till date. It may possible that SMC is enough capable to self funding the projects but the utilization of public capital for the project financing can be proved more beneficial and efficient financing for developmental project.*

Recommendations: Urban government should always give priority to social or public benefits. SMC is able to manage huge surplus every year. But, it is able to avail more amounts from loans on its surplus capital and go for financing more developmental projects in a year than present which can help to improve the quality of life of the citizens of *Surat* city. All resources need proper planning and control in their utilization to satisfy the public interest. Financial management initiatives include effective controls over receipts, expenditures, funds, property and other government assets. Local body should ensure that funds are spent according to their intent, in an economic and efficient manner and produce the intended results. Proper public expenditure management at any level of government should: Adequately control the total level of revenue and expenditure, appropriately allocate public resources between sectors and programs, and Ensure that governmental institutions operate as efficiently as possible. Financial practice should aim to ensure financial sustainability of urban local bodies. The generation of recurrent surplus is thus one of the key indicators of financial sustainability.

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