

Financial Implications of Project on Urban Local Bodies Funded by Asian Development Bank in Karnataka

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Introduction

Urbanization is a relatively recent but by far the most dominant social transformation of our times. From an overwhelmingly rural, the world has fast transformed itself into an urban society. Urbanization is likely to “Overshadow” the other upcoming changes and transformations. Industrialization and urbanization are the twin phenomena becoming the hallmarks of independent India. There has been a large-scale migration of people from the rural areas to cities in search of jobs. The pace at which urbanization took place was quite slow in the earlier days and it has gained momentum during the 90s. Urban development is so fast paced in the cities and metropolises that the cities have increased their areas many folds with exponential growth of population.

Urbanization in India

The most impressive feature of India’s urbanization is its massive size. In numerical terms, India’s urban population is the fourth largest in the world, and is higher than the total urban population of all countries put together barring China, USA and earlier Soviet Union. What distinguishes India most from many countries in the world is its long tradition of urbanization. The tradition goes back to nearly five thousand years when the Indus Valley civilization saw birth of some of the earliest settlements in human history.

The pace of urbanization in India has been rapidly increasing, especially in the last four decades. Population of India has increase from 361 million in 1951 to 1210 millions in 2011 and the urban population increased from 62 million to 377 million in 2011. Ratio of Urban population to Total population increased from 17 % in 1951 to 31%in 2011. Growth of the urban population is 32% in the last decade. Number of Towns /Urban agglomerations increased from 2843 in 1951 to 5480 as per census 2011.

The massive size of India’s urban population, coupling with staggering regular increments to it, has put a severe strain on urban resources. Strain is evident particularly in housing, transport, water supply, sanitation, power and employment sectors giving rise to the much-talked about notion that India is “Over Urbanized”.

Urban Governance

The urban governance is mainly handled by urban local bodies (ULBs). These ULBs are vested with a long list of functions by the state government under the ULB Act through Constitutional (Amendment) Act, 1992. These functions include urban planning, including town planning; regulation of land use and construction of buildings; planning for economic and social development; roads and bridges; water supply for domestic, industrial, and commercial purposes; public health, sanitation, conservancy, and solid waste management; fire services; urban forestry, protection of the environment, and promotion of ecological aspects; safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded; slum improvement and up-gradation; urban poverty alleviation; provision or urban amenities and facilities such as parks, gardens, and playgrounds; promotion of cultural, educational, and aesthetic aspects; burials and burial grounds; cremation grounds and electric crematoria; cattle pounds; prevention of cruelty to animals; vital statistics, including registration of births and deaths; public amenities including street lighting, parking lots, bus-stops and public conveniences; and regulation of slaughterhouses and tanneries.

The sources of revenue of these ULBs are listed in below.

Sources of revenue for ULBs

Source	Major Components
(A) Internal Sources:	
Tax Revenue	Property taxes; tax on vehicles, animals, trade, show tax, advertisement tax, etc.,
Non-Tax Revenue	Rents, user charges, fees, fines, etc.,
(B) External Sources:	Various grants
Grants-in-Aid	Entertainment tax, motor vehicle tax, land revenue, profession tax, etc.,
Shared Taxes	

Source: National Institute of Public Finance and Policy [2000].

Urban Development in Karnataka

Karnataka's urban population has grown at the rate of 28.85% in the last decade. 34% of Karnataka in terms of population and 1.62 % of the state in terms of area is officially classified as 'urban' as defined in the Census of India. As per the 2001 census Karnataka had 270 census towns. Population of Karnataka as per census 2011 is 61.13 millions. Karnataka's population rose 15.7% in the past decade (2001-2011) compared with 17.5% increase from 1991 to 2001. As per the 2011 census Karnataka has 220 statutory towns, 24 urban agglomerations and 127 census towns. As per census, constituents of urban area are Statutory Towns, Census Towns and Outgrowths. This definition of urban areas and their classification is however not followed in most state government classifications. For purposes of planning and fund allocation etc. state governments tend to follow definitions based on their own legislations. Karnataka has 226 statutory towns. Provision of municipal services to citizens, such as water supply, roads, solid waste management and street lighting is one of the fundamental responsibilities of the Urban Local Bodies (ULBs). Though these are obligatory services of the ULBs, until now, there has been no concerted effort to assess either the quality of infrastructure or the service provided. As a result, the ULBs and other government agencies do not possess the adequate data, necessary to review and evaluate the status of infrastructure and service provision on both qualitative and quantitative parameters. While there is indeed a general perception that urban infrastructure services have not been keeping pace with the increasing needs of the citizens, the lack of relevant data has to a large extent hampered the ability of the ULBs and other decision-making bodies in taking the necessary actions to address and set right these deficiencies.

The Emerging Trend

In the midst of this financial crisis faced by the ULBs, the international institutions have taken keen interest in financing the infrastructure development in India through the provisioning of loans. These international institutions are popularly labeled as donors.

There are three types of donors providing assistance in India: multilateral donors; bilateral donors; and foundation assistance. The multilateral donors are the Asian Development Bank (ADB), the World Bank (WB), the United Nations (UN), and the European Union (EU). The types of assistance include market rate loans, various concession loans, and grants. The World Bank group, consisting of IBRD, IDA, IFC and MIFA; the Asian Development Bank (ADB), European Union and United Nation have a large number of subscribing member countries, their subscriptions being in huge sums of money. They also borrow in the international capital market. These monies are then lent to member-countries who want them for investment in development projects. Loans extended by ADB and the WB have long-term repayment and grace periods. Among the agencies of United Nations, the United Nations Development Program (UNDP) constitutes the largest source of assistance. The EU extends grants and has recently focused on the environment sector with thrust on training and capacity Building for government and non-governmental organizations. The United Kingdom's Department for International Development (DFID) and the United States Agency for International Development (USAID) are the two major bilateral donors in the urban sector. DFID has historically been a large assistance provider to India. Since the 1990s, DFID's focus has been on the alleviation of poverty through Slum Development Programs, which also has a strong component on improving environmental health. DFID's program has two separate policies covering 'environment': the Water and Sanitation Policy, and the Urban Poverty Alleviation Policy. The Japanese Bank for International Cooperation (JBIC) provides project-tied aid in the form of soft loans at a low rate. Though JBIC assists infrastructure projects, environmental considerations are a priority. A recent

World Bank Study shows that the external assistance for environment improvement has totaled US\$ 9.9 billion for the years 1995-2000. Of this, about US\$ 2.7 billion (28 percent) has been for urban infrastructure, of which US\$ 2.2 billion (81percent) goes to water and sanitation projects, while US\$ 525 million (19 percent) goes to slum up-gradation. Countrywide or multi-state projects get the maximum share (29 percent) followed by Tamil Nadu, Maharashtra and Karnataka (15 percent each). Since 1990s, the Government of India has treated external assistance to states as “additionality” over the plan allocations. This assistance is channeled based on a 70:30 loan/grant ratio at a fixed interest rate. The foreign exchange risk is borne by the Government of India. ADB’s involvement in India’s urban sector began in 1993 with a technical assistance (TA) to prepare an urban infrastructure project in Karnataka. Since then ADB has provided 25TA grants totaling US\$ 11.35 million to prepare projects and support capacity building.

Statement of the Problem

The ULBs in India are constantly failing to deliver the services for which they have been established. The resource crunch has limited them to tackle the day-today issues and the long term issues were out of the purview of them. The vicious circle of no-development to no-revenue generation resulted in degeneration of the quality of service to the citizens. The state governments used the EAPs as a tool to break this circle. The assistance was sought to create the infrastructure in the ULBs.

Karnataka Urban Infrastructure Development Project (KUIDP) was the first Asian Development Bank assisted urban infrastructure project in Karnataka. The objective of the project was to achieve urban development in South Karnataka ULBs. The total project cost was US\$ 107 million with ADB loan constituting US\$ 80 million and the balance US\$ 27 million funds sourced from Government of Karnataka. The components of the project consist of environmental sanitation, road improvement, poverty alleviation, municipal building, industrial sites and services, and lake conservation. The project period was from May 1996 to June 2004. KUIDP was implemented in Tumkur, Ramanagaram, Channapatna, Mysore, Mandya and Maddur. Following table presents an overview of loans outstanding inclusive of interest.

Need for the Study

The project intervention had resulted in the changes of the status of urban infrastructure of the project towns. The assets created should be utilized properly to extend the intended services to the citizens. The study was aimed to analyze the project finances and the service delivery management by the ULBs. The Critical analysis of the project implementation, repayment of loan, impact of project on the finances of the ULBs, service delivery management by the ULBs was required. Review of literature on project financing and service delivery management by urban local bodies, which are assisted by Asian Development Bank as in the case of Karnataka, revealed that an in-depth study was not conducted. Hence the present study was taken up to enquire in to the implications of loan financed by ADB and the effectiveness of service delivery management.

The outcome of the study would be helpful in setting the standards and points at preparedness required at the ULBs level to achieve the desired result. The gap analysis would help to focus on the relevant issue of service delivery which was lost in the argument for asset creation. The study would be helpful in preparing the ground for future projects and framing the policies for effective project financing of and service delivery from infrastructure.

Objectives of the Study

The study was carried out with the following objectives:

1. To explore the linkages between resources requirement of ULBs and financial assistance from external aided agencies;
2. To examine the impact of project intervention on service delivery;
3. To evaluate the relationship between services and the revenue generation;
4. To examine the impact of time over run on the cost of the Project;
5. To analyze the financial discipline of project ULBs in repayment of loan;
6. To evaluate the financial position of ULBs in the post project scenario;
7. To analyze the perception of the households on Water and Sewerage services; and

8. To offer suggestions based on the findings of the study.

Hypotheses for the Study

For the present study, following hypotheses are developed:

1. Project intervention has not resulted in uniform water supply services across the Project ULBs.
2. Better water supply services generate better revenues.
3. Water and sewerage projects take longer time than estimated time.
4. The time over run in water supply projects resulted in significant cost over-run.
5. The time over run in sewerage projects not resulted in significant cost over-run.
6. Repayment of water supply projects are not according to scheduled track of repayment.
7. There is significant gap between expected average installments and dues in sewerage packages.
8. Income generation from water supply services are not higher than the expenditure.
9. Insufficient availability of water not induces extra expenditure.

Research Methodology

The present study uses descriptive and analytical methods to analyze the concepts and data. The detailed methodology of the study has been given below.

Data Source

The present study has been pursued with primary as well as secondary data.

Collection of Secondary Data

Secondary data were collected from the profiles of the organizations, books, journals, magazines, news papers, internet, published papers, etc. The present scenario was critically analyzed in the light of national/ international experiences backed by literature survey.

The relevant data at the state level were collected and further analyzed. Apart from the usual statistical data collected by the State Agencies, ULBs and the Urban Development Department, relevant details were also collected from the Directorate of Municipal Administration, City Managers Association, and Project Monitoring Unit with the Finance Department, and others.

Collection of Primary Data

Primary data has been collected from the selected project towns of Tumkur and Mysore. The primary data was collected through scheduled questionnaire and used face to face interview method. The purpose of survey was aimed at obtaining information from the field to know the level of service provision to the public and compare it with the bench markings. To collect the data for the purpose of analysis the Likert scale was used.

Sample Design

For the purpose of field survey, given the time and financial constraint, 540 primary samples were selected for the purpose of analysis and the base size of the sample maintained at 30. Each sample of 270 was selected in Tumkur and Mysore. Samples of 90 each from the Developed, Developing and Under Developed area were selected. Further the sample of 30 each of High, Medium and Low income groups were selected for the purpose of analysis. To select the sample units and to limit the samples size the stratified purposive random sampling method was followed. The following flow chart reveals the frame of sample design.

Scope of the Study

The study focuses on the project assisted by Asian Development Bank and implemented by Karnataka Urban Infrastructure Development Project (KUIDP) in Mysore and Tumkur ULBs. The ADB assisted project was implemented in six project towns namely, Tumkur, Mysore, Ramanagara, Channapatna, Maddur and Mandya. Water and sewerage system improvement works were implemented in four towns of the project excluding Mandya and Maddur. Out of the remaining four towns, Tumkur and Mysore were purposely selected because exclusive water supply and sewerage works were implemented only in these two ULBs. Therefore, Channapatna and Ramanagara were not

considered for the field and financial analysis. For the general analysis all the six ULBs were considered.

Conclusion

The study focuses mainly on the Water supply and Sewerage systems implemented under the ADB assisted project in Mysore and Tumkur. The secondary time series data ranges from 1995 to 2010. Other than water and sewerage packages like roads, storm water drains, solid waste management, poverty alleviation, street lighting and others have not been considered for the present study. Primary data collection was conducted during 2010; therefore, the perceptions are subject to 2010 only.