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A STUDY ON MUNICIPAL BORROWINGS IN TAMIL NADU

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ABSTRACT:
The Local Authorities Loans Act, 1914 regulate the municipal borrowings. Most states generally allow municipalities to secure their borrowings against revenue/funds and not immovable property. In early days financial needs of the urban infrastructure meet by budgetary allocations and borrowings from state-owned institutions like HUDCO and LIC backed by state government guarantees. The commercial sources and volume of borrowings are Government Institutions, Capital Markets, Specialized Infrastructure Finance Entities, Sector Specific Municipal Development Funds/Facilities, and Tamil Nadu Urban Development Fund (TNUDF).

KEYWORDS: *Municipalities, Borrowings, Tamilnadu.*

INTRODUCTION:

In India urban areas are the drivers for sustaining economic growth and reducing incidence of poverty. It contributes about 65% of GDP in the year 2011. Urban economic activities depends on infrastructure such as power, telecom, roads, water supply and mass transportation, coupled with civic infrastructure such as sanitation and solid waste management. In large cities urban population increase day by day, which brings tremendous pressure on urban services such as water supply, sewerage, drainage, solid waste management and urban transportation networks and systems. Hence, it is mandatory for municipal governments to generate resources for meeting operations and maintenance expenses as well as administration. In this context, it is important to encourage municipal governments to leverage their resources and borrow from various sources. The Local Authorities Loans Act, 1914 regulate the municipal borrowings. Most states generally allow municipalities to secure their borrowings against revenue/funds and not immovable property.

OBJECTIVES OF THE STUDY

- To know the various Sources Municipal Borrowings.
- To understand the Municipal Borrowings in Tamil Nadu.

METHODOLOGY

This study is primarily based on secondary data collected from various published sources.

BORROWING TRENDS

In early days financial needs of the urban infrastructure meet by budgetary allocations and borrowings from state-owned institutions like HUDCO and LIC backed by state government guarantees. In early nineties this fiscal stress induces the government of India to set an alternate forms of institutions to finance the urban infrastructure. Lately, municipal governments have borrowed short/medium term from banks (government-owned banks and private banks), insurance companies and state development authorities to bridge financial gap arising from capital expenditure programs. Municipal governments also realize the importance of commercial borrowings for urban infrastructure development.

Sources of Municipal Borrowing

The following are the commercial sources and volume of borrowing in urban infrastructure

GOVERNMENT INSTITUTIONS

a. Housing & Urban Development Corporation Ltd. (HUDCO)

In order to reduce the responsibility of the state government guarantee as a security of the borrowing agencies like Urban Local Bodies (ULBs), Water Supply and Sewerage Boards, HUDCO was incorporated as a fully owned Government Company under the Companies Act, 1956 to provide loan for a period up to 15 years with 3/5 year interest rate resets. HUDCO give priority to government-owned entities, offered assistance at 9.5% p.a. (floating rate)/10.5% (fixed rate), out of total borrowings, the funds from bonds account for 43% and banking sector account for 39%, remaining is from public deposit, loans and from financial institutions.

b. The Life Insurance Corporation of India (LIC)

Life insurance corporation of India is the largest government owned insurance company initiated in 1956 by the government of India is the country's largest investor, as on 31st March 2008, total investment is Rs. 756.8 billion, in this 89% is invested in securities and 10% is provided as loans. LIC assist to urban infrastructure like water and sewerage sub-sector has been less than 0.5%.

Table 1: Loan exposure of LIC

(Figures in Rs million)

Items	2005-06	2006-07	2007-08
Total Exposure (Infrastructure)	138,500	172,970	167,560
Water Supply & Sewerage	260	650	140

Source: Developing a Regulatory Framework for Municipal Borrowing in India vol.2 – The World Bank

For the development of water supply and sewerage in urban areas, LIC provide loan to urban local bodies, against the state government guarantees prior to economic liberalization of 1991. In spite of this state government guarantees LIC faced significant recovery problems on its exposure to the urban sector and in most instances there was a negotiated settlement between different arms of the government.

Capital Markets

Ahmedabad Municipal Corporation Bonds

Under the Bombay Provincial Municipal Corporation Act (BPMC) 1949, Ahmedabad Municipal Corporation (AMC), constituted in 1950, for financing infrastructure projects in the city, AMC issued the country's first municipal bond without state government guarantee in 1998, rated AA (SO) by Credit

Rating Information Services of India (CRISIL) and mobilized Rs 1 billion. The experience of AMC induces several other local bodies to explore credit ratings as a prelude to accessing the capital markets.

Specialized Infrastructure Finance Entities

Infrastructure Leasing & Financial Services Limited (IL&FS)

Central Bank of India (CBI), Housing Development Finance Corporation Limited (HDFC) and Unit Trust of India (UTI) all are integrate to promote the Infrastructure Leasing & Financial Services Limited (IL&FS**)**, has a distinct mandate – catalyzing the development of infrastructure in the country, it focuses the commercialization and development of infrastructure projects and promote a pan-India facility for financing urban infrastructure – Pooled Municipal Debt Obligation Facility.

Sector Specific Municipal Development Funds/Facilities

a. Pan-India Pooled Municipal Debt Obligation (PMDO)

IL&FS made the discussion with the Government of India for providing financial assistance to urban local bodies for infrastructure development which face the financial gap compare with funding requirements. In this, IL&FS, in partnership with IDBI, IIFCL, Canara Bank and eleven leading domestic banks launched a Rs 30 billion Pooled Municipal Debt Obligation Facility. Allahabad Bank, Bank of India, Dena Bank, Central Bank of India, Corporation Bank, Indian Bank, Life Insurance Corporation of India, Oriental Bank of Commerce, Syndicate Bank, Union Bank of India and Vijaya Bank are other lenders to PMDO. As on 30th April 2009, 44% of the corpus has been committed across 20 projects with an aggregate project cost of Rs 56.81 billion entailing PMDO exposure of Rs 12 billion.

b. State specific Tamil-Nadu Urban Development Fund (TNUDF)

In Tamilnadu, Urban Development Project has been implemented since 1988 by the Government of Tamilnadu. In order to attract the private capital into urban infrastructure, Tamil-Nadu Urban Development Fund (TNUDF) was established in November 1996 is the first Public-Private-Partnership between the Tamilnadu Government and Financial Institutions like ICICI, HDFC, and IL&FS for providing long-term financial assistance to urban infrastructure on a non-guarantee mode. Tamil Nadu Urban Infrastructure Trustee Company Limited (TNUITCL) manages the TNUDF and the fund manager is Tamil Nadu Urban Infrastructure Financial Services Ltd.

TNUDF Objectives:

- TNUDF provide financial assistance to urban local bodies to develop urban infrastructure for improve the standard of living of the urban population.
- Grand Fund facility offer by TNUDF to promote the private sector participation in infrastructure through joint venture and public-private partnership.
- TNUDF assist urban local bodies enable them to access the debt finance from markets to solve the problem of urban poor.

Table 2 : Projects sanctioned by TNUDF

Sector	Project Cost (Rs in million)	Loan Sanctions (Rs in million)	Grant Sanctions (Rs in million)
Water Supply Projects	94.8	18.9	0.9
Roads	1,356.4	617.1	14.9
Solid Waste Management	222.0	131.5	66.3
Total	**1,673.2**	**767.5**	**82.1**

Source: Developing a Regulatory Framework for Municipal Borrowing in India vol.2 – The World Bank

With World Bank assistance of $300 million, TNUDF implementing phase III projects with capital grants and loans to urban local bodies. It sanctioned 108 projects out of this 46 have been completed, shown by table 2

In Tamilnadu 70% of the gross domestic product GDP) is from urban areas indicate that it is most urbanized states in India, there are 148 municipalities and 10 city municipal corporations. All urban local bodies except few enjoys revenue surplus in Tamilnadu, the surplus is meager and unable for investing in core civic services.

Before 2004, Tamilnadu Water Supply and Drainage Board intended all loans for improving water supply and drainage in municipal areas other than Chennai. Time and cost over-runs, resulted in debt-burden cause the big problems, in order to relief the local bodies from this,

Table 3: Debt Outstanding status and source of Finance for identified cities 2007-2012

City Corporations	Amount (in Rs million)	Source
Corporation of Chennai	955	Mega City Loan (TUFIDCO) and Municipal Bonds
Coimbatore	660	-
Madurai	626	TUFIDCO

Source: Developing a Regulatory Framework for Municipal Borrowing in India vol.2 – The World Bank

Third State Finance Commission (TNSFC) of Tamilnadu 2007-2012 made the following recommendations:

Recommendations of TNSFC relating to debt relief for local bodies

- Effective 1.4.2002, lending agencies shall be providing loan at 8% rate of interest for water supply and drainage/sewerage project.
- Effective 1.4.2007, for already existing loan of urban local bodies from Government/LIC shall be charged at 8 % rate of interest. If some institutions like LIC not agree with this urban local body obtain fresh loan from lending agencies at 8% rate of interest and repay to LIC through Government Order.
- For all local bodies conditionality on the interest relief shall be recommended.
- By reputed credit rating agencies, the financial health of each Urban Local Bodies have been analyzed to determine whether they can afford to further loan burden or not.
- In order to protect the Urban Local Bodies from falling into debt-trap, ceiling for borrowing may be prescribe by the Government.
- For reducing interest rate burden, grants and loans to be provide by the Government to Urban Local Bodies for improving the performance of infrastructure projects which are already exist.

Third State Finance Commission of Tamilnadu 2007-2012 as estimate that the resource Gap of all local bodies is Rs. 34.12 billion funded by a combination of own revenues (36%), assigned revenues (10%) and SFC devolutions + Twelfth CFC grants and other Capital expenditures are assumed at Rs 92.4 billion (felt needs + new loans under TNUDP III and NURM), which is 27% of total expenditures.

CONCLUSION

Borrowing capacity of the municipal governments are based on their financial parameters such as revenue profile, expenditure profile, operating surplus/deficit, current debt levels and finance charges has been carried out. For the support of on-going capital expenditures programs the municipal governments are in a position to raise additional debt based on the above mentioned parameters.

Regulatory limits also set out for municipal government borrowing in accordance to prevailing legal jurisdictions are compared with estimated borrowing capacity to understand whether the current regulatory regime acts as a deterrent for additional municipal borrowing.

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