Jawaharlal Nehru National Urban Renewal Mission

Guidelines for Project Preparation

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JnNURM

Ministry of Urban Employment and Poverty Alleviation

सत्यमेव जयते

Government of India

Ministry of Urban Development

JAWAHARLAL NEHRU
NATIONAL URBAN RENEWAL MISSION

Guidelines for Project Preparation

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Contents

I. Overview of the Project Development Cycle

The purpose of this Toolkit is to set forth guidelines for project preparation. This would assist the ULB/parastatal agency applying for assistance from the JNNURM in meeting the requirements for sanction of assistance under JNNURM as set out elsewhere in this Toolkit. This Toolkit focuses on the process that the ULBs may follow to generate a proposal to meet the Mission's objectives and process requirements. The preparatory phase comprises a number of steps. Typically, these steps include a project development cycle.

The JNNURM envisages acceptance of a reform-driven approach to access financial assistance for infrastructure development by ULBs. This process of undertaking reforms has to be dovetailed with the project development process. The aim is to put together a compliant proposal that is ready for the sanction of funds. The project development cycle for a project or a group of infrastructure projects proposed to be undertaken with assistance from JNNURM shall include the process from the point of origin of the project concept up to the point of achieving financial closure. This Toolkit provides an overview of such a project development cycle and the milestones to be met.

Briefly the project development cycle comprises the following:

(a) Identification of urban infrastructure/ basic services to urban poor projects and their prioritisation.

(b) Project scoping.

(c) Preparation of a detailed project report.

(d) Finalisation of the arrangements for implementation.

(e) Sanction of JNNURM assistance.

(f) Achievement of financial closure.

(g) Execution of a Memorandum of understanding (MoA)and other agreements for implementation.

The above milestones are discussed in greater detail in this Toolkit. For easy understanding, the process has been represented in a flow chart in Figure 1.

Figure: JNNURM Project Development Cycle

Milestones	Activities
City Development Plan	◆ Identification of Urban Needs ◆ Prioritisation of Projects
Project Scoping	◆ Project Scope/ Coverage Identification
Project Development	◆ Preparation of DPR ◆ Analysis of Options for Implementation ◆ Financial Analysis for Sustainability ◆ Finalisation of Project Report
Implementation Options	◆ Finalisation of Arrangement for Implementation ◆ Approval of Reforms for Implementation
Activities Related to JNNURM Appraisal and Sanction	◆ Supporting Documents: Preparation ◆ Proposal Submission ◆ Evaluation of Proposal
	Sanction of JNNURM
	Achievement of Financial Closure
	Execution of MoA/Other Agreements Implementation

II. Identification of Urban Infrastructure Projects and their Prioritisation

1. Origin of Proposals

The origin of project concepts is expected to be done by the concerned urban local body (ULB) governing the eligible city. The proposal for every such city is to be prepared by the concerned local body governing the city and/or the State government and through a consultative or participatory process with community participation.

2. Identification of Projects in the Urban Sector

The ULB shall identify the infrastructure needs of the city. The delineation of such infrastructure requirements shall be done through a process that sets forth the stage for participatory development.

(a) **Preparation of a strategy/plan:** The ULB shall map out a city-level development plan through such a process. The consultative process shall include the involvement of citizens. The process itself shall include an assessment of population growth, infrastructure needs and resource requirements in the short-term, medium-term and long-term horizons.

(b) **Delineation of needs and priorities with public involvement:** Citizens may be informed about the existing status of infrastructure, the broad investment requirements for augmentation and new development, and consulted on the prioritisation of projects. A public consultation shall include a broad assessment of municipal resources, possible or likely impact on the municipal budget, and the proposal for reforms to support development. Such an assessment shall take due cognisance of the existing infrastructure and its usefulness over the planning horizon in the long term. Such a rapid assessment reviews the city's economic development, physical planning and growth management, physical infrastructure status, social infrastructure status, and municipal fiscal status. The objective of the same is to provide insight into the infrastructure needs of the city and assist in identifying capital investments (CIs) in consultation with local stakeholders.

(c) **Prioritisation of infrastructure and investment requirements:** The willingness to accept reforms and impact on the municipal budget are expected to lead to prioritisation. Any alternative consultative process may also be considered leading to delineation of infrastructure priorities and consequent investment requirements that are necessary for financial planning.

(d) **Documenting the CDP:** The summary of assessment of broad infrastructure requirements and their phasing shall be documented in the CDP. This would include the willingness of the public and elected representatives to accept in-principle implementation of reforms to support the proposed development.

III. Project Scoping

Project scoping shall include defining the scope of the project in terms of demand, components, capacity, phasing and sizing etc. The scoping stage shall provide an outline of the nature and extent of the project and a broad sustainable option for its implementation.

1. Approach for Project Scoping

Typically, project scoping is carried out through a feasibility exercise. Most ULBs have been conducting a feasibility or prefeasibility assessment to define the technical feasibility for infrastructure projects. In the case of the JNNURM proposal, however, scoping of the project identified in the CDP shall include a techno-commercial assessment of the project with a broad technical scope. In other words, this would also include an indicative financial assessment of feasibility and sustainability and an indicative plan for implementation over and above an indicative technical outline.

Such an assessment shall also include identification of issues and risks associated with the project which may have been identified during the process of preparation of the CDP, and assess ways of mitigating them.

2. Need for Prefeasibility Analysis

The reason for conducting a prefeasibility analysis is to identify projects that could be implemented with the support available from JNNURM and additional support (including reforms), if any, required to make them sustainable. The purpose of this analysis is also to categorise projects which could be implemented within a suitable public-partnership partnership (PPP) framework (as PPP projects) and those which could be implemented otherwise (as non-PPP projects).

Prefeasibility assessment shall be carried out for every infrastructure project identified in the CDP proposed to be undertaken.

3. Dovetailing any Equivalent Assessment

Any other project scoping exercise may be considered equivalent to a prefeasibility analysis, such as an initial screening report[1]. It could be considered in place of a prefeasibility analysis so long as the document provides the intended analysis.

Project scoping could also form part of the CDP or master plan study in which case such documents should include an assessment for sustainability and a strategy for implementation.

4. Advanced Project Development including Scoping

For projects where scoping is dovetailed as a part of a detailed feasibility exercise (wherein the detailed feasibility assessment is proposed to be undertaken), the prefeasibility stage may be eliminated.

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[1] *An initial screening report prepared for a typical project development cycle under a World Bank sponsored project to be taken up with multi-lateral or bilateral assistance.*

IV. Public-Private Partnerships for Urban Infrastructure Development

1. Need for Public-Private Partnerships

(1) Rapid urbanisation and growing demand has increased the need for investment in infrastructure development. Limited availability of funds for the provision of infrastructure has widened the divide between requirements and supply. In current terms, the investment requirement far exceeds the availability of budgetary allocation. The government therefore has been encouraging PPPs to attract market investment, thereby leveraging government budgetary resources to meet the provisions for infrastructure.

(2) Infrastructure projects are complex, involving different stakeholders, and require significant preparatory work referred to hereafter as project development. When properly structured or made "bankable", PPP projects should meet the requirements of the government for service provision, with respect to standards, levels and quality of service etc., reduce their exposure to risks and attract private investments. To achieve this, however, it is necessary to lay down service requirements or targets of performance expected to be achieved. Governments or local authorities have to be clear in terms of objectives, on what is expected from the private sector and what price the public would be willing to pay for the quality of service(s) envisaged.

(3) With such a backdrop, PPPs provide a good alternative for attracting private investment as well as efficiency in the provision of services that meet the current social needs. Government of India (Department of Economic Affairs) has formulated a Scheme for Support to Public Private Partnerships in Infrastructure, July 2005. The strategy outlined in the same shall be broadly followed for PPP Projects proposed for funding under the JNNURM.

2. Public-Private Partnership Options

(1) The PPPs represent a unique and flexible solution to implement infrastructure projects. They can embrace a range of structures and concepts which involve the sharing of risks and responsibilities between the public and private sectors. Some of these are well tried and tested conventional arrangements, while others require additional contractual agreements.

(2) Different PPP structures could be explored based on the extent of funds that could be diverted from public sources and those required from the private sector, service levels targeted, willingness to pay and affordability of consumers, and rehabilitation of the existing systems etc. Table 1 presents different options that could be explored in the urban sector. The choice of an option, however, depends on the extent to which the private sector is expected to take over and the sharing of risks associated with such a transfer of responsibility.

TABLE 1: RANGE OF PPP OPTIONS					
Form of PPP Characteristic	**Service**	**Management**	**Leasing**	**BOT/Concession**	**Divestiture**
Complexity	Low	Low	Moderate	Complex	Complex
Rights of Private Partner	Simple services	Supervisory management control with or without O&M	Construct and/or O&M and transfer	Design, rehabilitate, construct, O&M and transfer	Fully divested and sale of assets to private partner
Ownership of Assets	With Govt./PS	With Govt./its agency	Lease rights with private partner for the period	With private partner for the O&M period	With private partner for eternity
Duration of Contract	Short term	Short term	Medium to long term	Long term	Perpetuity
Examples	Billing & collection,equipment maintenance Meter reading maintenance, replacement, calibration Monitoring	Improvements in existing system, operations Streamlining administrative & operational practices	Distribution system improvements	Efficiency enhancement and creating new assets	Sale of existing assets

(3) **Choosing a PPP Option:** ULBs often face a dilemma while choosing to opt for PPPs or private sector participation in infrastructure provisioning or services delivery. Annex I provides the guidelines on how ULBs could assess the involvement of the private sector.

3. Project Development for Public-Private Partnership Projects

1) **Data availability and validation:** Most projects that need financing from the market require significant project development efforts to make them bankable. Prima facie, the need arises due to limited data availability or validation, difference in the risk and responsibility transfer associated with public financing (which is a purely contracting out transaction) as against that in a PPP transaction.

(2) **Project reports to be bankable:** PPPs require project reports to be sufficiently detailed, an implementation framework with a clear definition of roles and responsibilities shared between the two parties, risk assessment and management, and financial assessment from the investors' perspective to address returns and bankability criteria.

(3) **Demand responsive assessment:** PPPs focus on a demand responsive assessment that is a more complex assessment of demand or "market" for any project across sectors, user affordability and price elasticity or willingness to pay. A bottom-up approach should form part of the project development exercise to ensure a bankable project

(4) **Full cost recovery for sustainability and viability:** Most detailed project reports focus on the engineering perspective, and seldom involve financial assessment for viability including

rate of return analysis, project cost recovery or full cost recovery, which are the prime investor concerns and criteria for financing by most financing agencies.

(5) **Environmental and social concerns:** A perspective of environmental and social concerns in project development of PPP projects requires an understanding of such issues. It also requires an integration upfront during the techno-commercial evaluation and not just specifically for meeting the MoEF clearance requirements. As service delivery is at the core of infrastructure development, any infrastructure project should address the environmental and social perspectives. It should enhance the base environmental and social level to comply with the basic objective of public good.

(6) **Political commitment for PPP-based development:** More often than not policies and laws in the political domain could pose political risks to the project. PPPs need political support and commitment in the form of an enabling policy framework and decisions to facilitate willingness to charge appropriate user fees, as well as to introduce private sector driven service provision that are often in the public domain.

(7) **Need for an enabling framework:** As the present statutory and legal frameworks are applicable in case of public financing, some of the existing legal provisions would require legal due diligence to facilitate private sector participation. The 74th Constitutional Amendment may not be fully implemented in most cases. To a large extent, ULBs do not have the autonomy to raise tariffs. Certain aspects continue to remain under the domain of the governing authorities and conflict with the requirements of a PPP transaction which, on the other hand, requires autonomy to enable cost recovery.

A legal review of the applicable framework typically needs to be undertaken to evolve an enabling framework to ensure that PPP projects can be enforced or implemented. The enabling framework and the understanding for sharing of risks and responsibilities is detailed in the contractual and transaction documents prepared for project implementation.

(8) **Contracting issues:** The PPP framework provides for: (i) improvements in efficiency of performance and focuses on performance-linked development; (ii) clear and transparent management during operations; and (iii) mutually acceptable mechanisms for resolving disputes. The contract specifications in a PPP transaction, therefore, assume greater significance. Contract designing could be made simple, user friendly but specific, detailed enough to avoid any disputes or variances, and complete so as to avoid any residual risks.

(9) **Financing issues:** The PPP transactions involve project recourse or limited recourse financing. On the other hand, project recourse financing implies recourse to project budgets, that is, non-recourse to sponsor's budgets. PPP transactions financed in the country today, have been mostly of the limited recourse type, with limited recourse to government budgets. Financing of projects is driven by the following aspects: contractual framework; bankability; country and State rating; strength of projects to enable cost recovery; and clear understanding of support provided or made available in terms of speedy approvals, minimum equity investment in the project, lands etc.

(10) **Risk assessment and mitigation:** Risk assessment forms the basic input during project development. Risks to the project need to be identified and mechanisms for their mitigation

integrated during the development process. The contractual framework with a risk management plan, which allocates each risk to the party best positioned to manage it, would in almost all cases lead to successful closure of the PPP transaction.

(11) **Consumer issues:** While most projects are being developed on a traditional approach that is "norm driven" and do not involve public consultation, an understanding of the user demand and consumption pattern, assessment of tariff acceptability etc. forms the underlying assumption for structuring PPP projects. Without an assessment or knowledge of consumer demand, service requirements, affordability and willingness to pay, it would be risky to implement such projects. It could lead to high capital investments, low revenue recovery and pose consequent risks due to lack of consumer focus. A market-oriented approach is needed to assess consumption demand and consumers have to be considered as key stakeholders of the project. User participation needs to be encouraged through active community involvement upfront in the process, with consultations during option analysis and selection, allowing for contribution to the project in terms of equity, land, labour or any other means to the extent feasible.

The proposal preparation in case of PPP projects shall focus on the foregoing issues and approach to address PPP transactions in sector-specific themes. While some issues or approach for project development in the case of PPP projects would remain common across sectors, each sector would have certain important issues related to development and implementation.

V. Project Preparation and Detailing

Project preparation shall comprise all steps to be taken by the ULB for detailing the project identified in the CDP. It is governed by the need to define and detail the project and address all associated risks to ensure successful implementation.

1. Project Detailing Options

Detailing requirements may vary, depending on the transaction and contractual framework, the nature and size of the project as well as the perception of risks by the public and private sector entities.

(a) In case of *public financed projects,* where all risks are taken by the ULB and no role is envisaged for the private sector (except contractual delivery of construction as per routine tendering process), the detailing should preferably include detailed design as part of project development.

(b) In case of *PPP projects*, the detailing would be governed by the level of risk sharing envisaged apart from the nature and size of the project. In such a case, detailing would be necessary of not only the physical components but also parameters and commercial issues associated with the project.[2] Detailing could be need-based subject to the different PPP transactions proposed for implementation. Some of these are briefly explained below:

- **Classic Build Operate Transfer (BOT)/ and Concession projects:** Detailing of the basis of costs and assumptions is necessary although the risk of design and hence the responsibility for undertaking detailed design preparation is passed onto the private sector.
- **Design Build Operate (DBO) and Design Build Finance Operate (DBFO):** As the risk of design is passed onto the private sector, detailed design may be avoided.
- **Lease:** Such a transaction may include augmentation and strengthening of the existing system and facilities. The detailing may be with regard to functioning or performance of the existing facilities, locational data etc., while detailed design risk and responsibility for this transaction may be with the private sector.
- **Build Own Operate Sell:** In the case of high-risk projects, the private sector's perception of risks may be high and ULBs may finance, construct and operate the project for an initial period till the risk profile of the project is reduced or is lower. In such a case, as construction would be undertaken by the ULB, the project would have to be sufficiently

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[2] *Typically, parameters or assumptions linked to demand, willingness to pay and affordability, relevant project parameters, such as raw water quality and quantity analysis (source adequacy for 99 per cent dependability), wastewater characteristics (quality or quantity), baseline traffic, which would have either a direct or indirect bearing on project viability, are considered important. They would need detailing in order to gain private sector confidence and to arrive at a reasonable cost including risk contingency.*
Usually projects with limited data and details have resulted in unsuccessful bids or exhibited a higher skewness in project costs attributable to higher risk perception by the private sector. Such risks could be mitigated by judicious detailing of important data required for the private sector to cost project components and risks more appropriately. Another reason cited by most bidders in such cases is the time and cost factor in incurring such costs prior to bidding.

detailed, including designing in the preparatory stage, to address quality and performance related issues as well as demand risk.

2. Guidelines for Project Preparation

(1) Project preparation is envisaged as a stepwise process during which an identified project is detailed in specific terms and readied as a project that can be implemented. Towards this end, the entire project preparation and detailing exercise needs to be undertaken to ensure that it can be implemented by evolving an option based on its:

(a) technical feasibility

(b) financial sustainability

(c) commercial viability

(d) environmental compatibility

(e) social and political acceptability

(f) legal and regulatory feasibility

(2) The objective of project preparation therefore is to structure a project with the target grant assistance from JNNURM. In doing so, it is also envisaged that the grant from JNNURM is leveraged to attract private investment and private sector participation. This can be done by ensuring durable long-term use of the assets created, efficient service delivery and management of resources through a framework that allows cost recovery.

(3) To meet this objective, an integrated process of project preparation is envisaged which would lead to successful disbursement from JNNURM and project implementation.

3. Steps in Project Preparation

The steps involved in project preparation are:

(1) **Preparing Terms of Reference (ToR):** The ToR should clearly be defined in terms of (i) the information or method by which the study needs to be conducted; (ii) the tasks required to be undertaken; and (iii) the indicative timeframe within which outputs are expected. Importantly, the ToR should define the minimum required man month inputs or staffing requirements, output details including an indicative Table of Contents (ToC), etc.

(2) **Procurement and appointment of consultants:** The appointment of consultants by the ULB shall depend on the type of consultancy to be outsourced. If assistance available under JNNURM is to be utilised for preparatory tasks outlined in this Toolkit, the process of appointment of consultants should meet the requirements for availing of such grant assistance. (Refer Toolkit 4).

- **Fair and transparent process**

  It is expected that a fair and transparent process will be followed for appointment of consultants.

- **Options for appointment of consultants**

  Different options for the appointment of consultants could be considered depending on the consultancy requirements for the identified project. For example, fixed budget selection, quality and cost-based selection, quality-based selection or cost-based selection are different contracts for the appointment of consultants followed as a standard or best practice which could be considered.

- **Prequalification**

  As a best practice, ULBs seeking to implement a bundle of projects with JNNURM assistance, may prefer to have a database and pre-qualify consultants for various tasks. The qualifications of pre-qualified shortlist of consultants could be validated every two years.

(3) **Design of project components:** The design of project components of an identified project should be dovetailed into the Detailed Project Report as a part of the project preparatory phase. The requirements for design could however vary depending on the transaction. For instance, where the ULB contracts out the construction and design, the requirement could be for the design of components up to the preliminary engineering level (costs $\pm$ 10%) at the pre-contracting stage. Where the ULB proposes to contract out the construction only, it could undertake detailed design of project components.

It should also be noted that the design of project components must also address the sustainability criteria.[3] For identified projects, individual components should be designed so as to allow cost optimisation in the long term. In other words, long-term sustainability must be ensured through the design of components that are economical, considering the life cycle costs including capital as well as recurring costs.

(4) **Selection of a techno-commercial option:** Every project could be implemented with a range of technologies and commercial options. Usually an option analysis would be required in such instances to ensure selection of the most technically feasible and commercially viable option.

An analysis of options would involve delineation of different options and a simulation analysis based on life cycle costs for implementation. Life cycle costing shall be an integrated cost duly considering environmental, social, legal and regulatory costs that would be associated with a project. This will enable selection of the most suitable option.

(5) **Financial analysis for viability and sustainability:** The analysis for financial viability and sustainability shall be undertaken with regard to meeting funding requirements. Depending on the means of finance proposed by the ULB and identified for implementation, the financial analysis shall be undertaken to meet such criteria. (See Toolkit 4 for financial viability and sustainability criteria.)

(6) **Financing and implementation structure:** Financial analysis should be undertaken to structure the project and evolve the optimum financial plan. It should include an assessment of revenues and costs associated with the project to demonstrate the sustainability of the project

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[3] *An investment proposal shall be considered sustainable if its cash flows are able to meet the financial commitments underlying the project; its operations and maintenance expenditure; and revenues to provide for replacement investments.*

cash flows over the planning horizon. Appraisal criteria must be referred to during financial structuring to ensure compliance. The ULB would have to arrange balance funding over and above the JNNURM grant. A financing plan would have to indicate the other sources of funding (debt) to meet the total financing requirement, which the ULB would repay along with interest over the life of the loan. It is expected that from a sustainability perspective, long tenure loans would prima facie be required to reduce the burden on cash flows and recourse to other municipal budgetary streams. The ULB would present an in-principle financial commitment from such sources including indicative terms of such financing that shall be structured in the financial plan.

The financial plan shall also demonstrate the provisions made for setting up the revolving fund and its maintenance over the period of project operations. The aim of the revolving fund is to clearly establish the link between asset creation and its maintenance and therefore should be project-specific and set up by the ULB for each project. The revolving fund should be set up by apportioning revenues from the project cash flows (receivables escrowed into the fund account).

While demonstrating sustainability, the ULB should provide its plan for supporting reforms that it proposes to undertake. For example, the ULB's proposal for levy and enhancement of user charges and taxes, any other sources of revenue identified to make the project viable (eg. tolls, development cess, parking and advertisement fees, betterment levy, etc.) should be provided along with accompanying documentation, as mentioned in Toolkit IV.

Care shall be taken while evolving the balanced financial structure that would meet the socio-political acceptability as well as demonstrate leveraging of JNNURM assistance.

The financial plan should also include an assessment of risks associated with every identified project and the proposed risk management framework for mitigating them.

Besides the financial plan, the implementation structure should be based on the type of contractual transaction proposed for implementation. An implementation plan must include the proposed time-schedule for completion of construction, key milestones to be achieved, milestone-linked disbursement of resources, and milestones for reform programme implementation.

(7) **Preparation of a Detailed Project Report:** The detailed feasibility undertaken as above must be documented in the form of a Detailed Project Report accompanied by other documents for availing of JNNURM assistance. (Refer Toolkit 4).

4. Technical Assistance for Project Preparation

Advisory support available under the JNNURM could be used for this purpose. This assistance could be used in a packaged manner for the entire guidance and advisory support required for managing the process and ensuring documentation that would effect readiness for project implementation.

Publicly financed projects usually go through a prolonged project cycle prior to implementation. The JNNURM foresees facilitation of an expeditious preparatory phase and extends support for this purpose.

VI. Finalising the Arrangements for Implementation

(1) This phase starts when the project has been sufficiently detailed and structured for implementation. This could also be undertaken in parallel with meeting statutory approvals and internal approval process that a ULB must follow as a part of the project preparation.

(2) **ULB Approval:** For accessing JNNURM assistance, all necessary decisions required to implement the project shall be based on approvals. The process of ULB approval takes two stages:

(a) **In-principle approval:** The ULB shall obtain necessary approval to be taken for proceeding with the project for implementation in a public financed mode or with private sector involvement on completion of CDP at the prefeasibility report stage.

(b) **Approval for implementation:** The proposal shall be approved by the ULB for implementation with regard to:

(i) its proposed plan for implementation and institutional arrangements for the same;

(ii) its commitment for funds to be invested in the project;

(iii) the reforms it proposes to undertake to support infrastructure development as required for availing of JNNURM assistance, including the project-specific reforms proposed for financial viability and sustainability; and

(iv) any changes in the legal and constitutional framework governing the ULB.

(3) **Resolutions:** The above approvals shall be documented in the form of appropriate council resolutions.

(4) **State government approval:** The ULB shall obtain the necessary State government approval. In case of State government approval to back the project, evidence of appropriate approvals (government order, policy, cabinet approval, enactment of laws and amendments etc.) should be provided along with the project documents to demonstrate its commitment to provide investment support to the project as well as its commitment to reforms.

(5) **Other arrangements for implementation:** The ULB shall take the following necessary steps to ensure implementation:

(i) Provision of land required for the project and its availability on pre-decided and approved terms and set aside necessary funds for the same.

(ii) Statutory approvals required from other agencies or government bodies and obtain such approvals and permissions, NOCs and clearances on a project-specific basis.

VII. Achievement of Financial Closure

(1) Financial closure is the stage in the project development cycle when the principal stakeholders (sponsors, government, and lenders) reach a formal agreement on the fundamental business structure of the project and the underlying terms and conditions of the project's financing plan.

(2) Financial closure is dependent on commitment of the ULB and the government for implementing the project, investor experience, risk management framework, lender appetite for investment in the sector and project size. Generally, closure has been faster for smaller projects in cities or towns with prior experience of private sector participation or relatively high creditworthiness and strong political commitment.

(3) Delays could result from difficulties in resolving issues of risk allocation, changing priorities, and lack of adequate experience in project preparation.

(4) Closure is important as the project gets ready to move into the implementation stage. Closure in the case of JNNURM projects would imply tying up of all the sanctions for financing and compliances therein prior to disbursement (conditions precedent) of funds.

(5) JNNURM shall be the catalyst for achieving financial closure of identified projects. The assistance from JNNURM can be leveraged to attract other investments from institutional investors and State governments.

(6) Under the JNNURM, it is envisaged that achievement of financial closure will result in sanction of JNNURM assistance for project implementation.

VIII. Execution of MoA and other Agreements for Implementation

(1) State governments and ULBs including parastatal agencies, where necessary, would execute a Memorandum of Agreement (MoA) with GoI indicating commitment to implement identified reforms.

(2) The MoA would spell out specific milestones to be achieved. Signing of the MoA will be necessary to access Central assistance.

Annex

Public or Private Service Delivery- the Choice

In order to assess the extent of involvement of the private sector for infrastructure provision and management of services, the ULB should consider:

(1) Efficiency: What are the realities constraining the ULB from providing efficient services? These could include accountability in terms of time and costs, labour practices, government pay scales, personal benefits, inflexible work arrangements, and procurement procedures. Can these constraints be removed? Are there any economies of scale?

(2) Capability: Does the ULB recognise that external expertise is essential for competent and efficient management of services ? What are the capabilities within the ULB for O&M, procurement or financial management? What are the private sector strengths which the ULB is proposing to explore?

(3) Legal: Does the ULB have the right to award concessions or enter into contractual licence agreements with the private sector to essentially deliver municipal services? What are the statutory permissions it needs to do so? What are the enabling provisions or amendments in the existing legal framework that would be necessary to make such arrangements enforceable?

(4) Competition: What is the potential capacity and strength of the market? Is the private sector adequately developed so as to ensure competition among private firms? Would the provision of financial incentives better enable the private sector to participate in public service delivery?

(5) Duplication of Roles: Will private sector entry duplicate roles or staffing requirements? Is there political will to downsize the workforce when services are given to the private sector? How is the PPP positioned to manage these issues in a co-ordinated manner? What framework or provisions in the contract need to be considered to minimise such socio-political issues? Do the monitoring costs or regulatory roles offset the impact due to private sector participation?

(6) Risks: Do frameworks exist to protect the private sector against risks (such as currency adjustments, inflation, political changes and force majeure) so that prices for service are not unduly burdened with the costs of risk management? Does the ULB have adequate financial capacity to meet its contractual arrangements with the private sector?

(7) Costs: Are the costs for public service known? Does the ULB have the accounting information to determine whether private sector participation would offer service delivery at equivalent or lower costs? Has there been sufficient strategic planning and have feasibility studies been conducted to benchmark whether the price or technology offered by the private sector would result in savings?

In summary, private sector participation is a means to mobilise private investments and introduce efficiency in service provision. Creating a reasonable mix of public and private sector service is one way of establishing competition, introducing performance monitoring and ensuring accountability in delivery of services. Lastly, private sector participation should not be seen with a view to privatise but to introduce investments and efficiencies in the overall service delivery.