
Consultancy services to provide guidance to analyse the trends of four cities and develop a strategic framework for strengthening municipal finance of Indian cities, with a focus on exploring financial markets. Furthermore, to advise on the drafting and execution of a national strategy to strengthen municipal finance in the country.

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List of Abbreviations:

744 th CAA: 74 th Constitution Amendment Act
CFC: Central Finance Commission
GDP: Gross Domestic Product
IIPA: Indian Institute of Public Administration
MoHUA: Ministry of Housing and Urban Affairs
NITI Aayog: National Institution for Transforming India
NMAM: National Municipal Accounting Manual
SEBI: Security and Exchange Board of India
SFC: State Finance Commission
SOP: Standard Operating Procedure
UGI: Urban Governance Index
ULB: Urban Local Body
UT: Union Territory

1. Context

These Terms of Reference (ToR) are for the appointment of a service provider on a contractual basis by the Praja Foundation to support and guide the project team analyse the trends of four cities and develop a strategic framework for strengthening municipal finance of Indian cities, with a focus on exploring financial markets. The consultant will also help in the drafting and presentation of a national strategy to strengthen the level of municipal finance in India. He/She will guide the project team in their research concerning the material to be taken into consideration and in their preliminary discussions which will include the development of financial indicators for city government budgets and finding out the best practices of municipal finance management in India and abroad. The consultant, an expert on municipal finance will work in tandem with not only the project team but also with the relevant national and regional stakeholders from the various state governments of the cities being studied as well as the central government. He/She will be involved in the facilitation of the city-level and national consultations that will take place as a part of the study. Lastly, the consultant will also play a substantial role in the drafting of the various reports including the final report which will suggest a national framework for municipal finance management in India.

2. Background to the Study

India is witnessing one of the largest urban growth spurts in history. According to Census 2011, about 377 million people (31.14% of the total population) lived in urban areas, which is further expected to increase to over 600 million by 2031 (source: NITI Aayog, 2021). In terms of economic contribution, cities occupy just 3% of the nation's land, but their contribution to the GDP is a whopping 60% (source: NITI Aayog, 2021). Further, it is estimated that by 2047, the 50% of the country's population will reside in urban areas (source: World Bank, 2022).

Cities have become centres of economic growth where better-paying jobs, innovation and key institutions of education and health care facilities are located. Urbanisation brings both challenges and opportunities together and if managed well, it can bring transformative changes by becoming an instrument of economic, social, and political progress. The constitution of India, empowers the state governments to govern the cities and towns, including the power to enact laws which includes land and related matters. Basic services such as water and sanitation, affordable housing, public transport, and safety among others are provided by city governments which is the closest local governance institutions to the citizens. Recognising this, the 74th Constitution Amendment Act (74th CAA), 1992 directed devolution of 18 functions (Annexure II) from states to the city governments by focusing on decentralisation of functions and duties. However, the devolution of functions to City Governments is left to the discretion of the state governments which has resulted in variations across States. Many state governments included the 18 functions mentioned in 12th Schedule of the 74th CAA and divided them into a) Obligatory and b) Discretionary functions. Unfortunately, not all the 18 functions are devolved to any of the city governments (Annexure III) across the country and hence the funds and revenue sources linked to these functions are also not transferred. Devolution of funds, functions and functionaries (F3) to the city government is essential for efficient service

delivery. This has a significant impact on the income sources and finances of the city government. For example, the share of property tax to GDP is 0.15% and property tax to municipal revenue is 1% (Source: Financial Express, 2020). Municipal expenditures and revenues in city governments of India are only about 1 per cent of the country's Gross Domestic Product (GDP), far less compared to other developing countries, where they are about 6 to 7 % of the GDP (source: Ahluwalia et al., 2019).

Referring to this, the Hon'ble Prime Minister of India in the Chief Secretary's Conference on Urban Governance held at Dharamshala (July 2022) has advised the states/cities to put efforts towards increasing the share of municipal revenue to Gross Domestic Product (GDP).

This requires a deeper understanding of the existing municipal finances; analysis of the key drivers and the challenges of cities to strengthen municipal finance and enhance revenue base in a sustainable manner.

In view of this, Praja Foundation (Mumbai) has drafted a proposal to study four Indian cities to develop a deeper understanding about the existing situation of municipal finance, various acts and regulations governing the financial architecture of the city governments, status of implementation of various reforms proposed by the respective central and state finance commissions (CFCs/SFCs), guidelines issued by Security and Exchange Board of India (SEBI) on tapping the bond & capital market from time to time among others. Based on the insights gathered from the case studies cities and deliberations, common parameters will be developed to prepare a 'Strategic Framework document on municipal finance' for the city governments. It is envisaged that the proposed framework will enable and guide cities to prepare a road map towards addressing the issues and challenges in municipal finance which can potentially contribute towards enhancing municipal revenue.

Key information:

Project Location	Gujarat (Ahmedabad), Karnataka (Bengaluru), Chhattisgarh (Raipur) and Assam (Guwahati).
Project Name	A Strategic Framework to Strengthen Municipal Finance of Indian Cities
Title	Consultant, Municipal Finance Expert
Donor(s)/ funding sources	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
Project duration	February 2024 to October 2024

3. Background to the Praja Foundation

For over the last 25 years (since 1997), Praja is working towards enabling accountable governance. It conducts data-driven research on civic issues, informs citizens, media, and government administration and works with elected representatives (ERs) to equip them to address inefficiencies in their work processes, bridging the information gaps, and mobilising them in taking corrective measures advocating for change.

In 2017, Praja conducted an Urban Governance Reforms Study to map the implementation of 74th Amendment and status of urban reforms in all the states to identify levers and barriers and to identify a set of recommendations. The first of its kind study, led to developing an 'Urban Governance Index, 2020' to assess the present status of reform implementation, with the larger goal of forging a network of key influencers, thought leaders and local government bodies to democratise city governments and improve delivery of services. Since its launch, UGI has become the de facto document for all National and State agencies working in urban domain. Praja has also developed a network of stakeholders across the country to facilitate cross learning and collaboration.

Praja is aiming to expand its work in multiple states and cities to bring policy changes and systemic reforms at three levels:

Advocate for pan-India urban governance reforms at the UNION LEVEL, by building a shared understanding of the required urban governance reforms to strengthen city government through regular pan-India research studies covering the status of urban governance and thematic studies such as municipal finance, town planning, climate change, sustainable development goals as well as services such as civic, health, crime and education.

By Building Capacity at the State and Union Territory level for implementing policy and legislative changes in the State and improving efficiency at City Level. Capacity building programmes (Prajatantra, Municipal Fellowship, College Workshops and Internships) for youth combining theoretical knowledge and field experience will enhance their capacity to understand the challenges of urban governance and be active and participatory leaders of tomorrow.

4. Objective and Scope of the Study

The proposed study aims to conduct detailed investigation of the existing municipal finances, analyse its trends and develop a strategic framework for strengthening municipal finance of Indian cities, with a focus on exploring financial markets (viz., municipal bonds and hybrid financial models).

The study on municipal finance will cover 4 major Indian cities; Ahmedabad (Gujarat), Raipur (Chhattisgarh), Bengaluru (Karnataka) and Guwahati (Assam). The project is to be conducted from February 2023 to October 2024. The Praja Foundation will work with government officials from all levels along with other relevant stakeholders and subject matter experts to execute the study.

5. Focus Area of the Study

1. Review existing municipal finances across cities in India, identify gaps/ challenges and opportunities, including implementation of National Municipal Accounting Manual (NMAM).
2. Develop strategies for augmenting revenues through rationalisation of property tax, user charges, tapping capital markets for financing city governments.
3. Build a strategic/city specific road map for enhancing property taxes of city governments.
4. Develop Standard Operating Procedure (SOPs) on Municipal Finance, based on national and international best practices.
5. Suggest training modules on municipal finance focusing on augmenting own source revenue generation, accessing investments through leveraging municipal bond market.
6. Review existing strategies to enhance implementation of various recommendations made by respective State Finance Commission (SFC) and other guidelines issues by the federal government and other thematic areas based on the suggestions made by the Ministry of Housing and Urban Affairs (MoHUA) and other relevant stakeholders.

6. Benefits of the Study

The study findings will be very important in the context of India's rapid urbanisation and vision for the cities to become self-reliant and empowered institution, with financial independence which can provide quality services to its citizens as well as increase investment opportunities. This will enable cities to identify existing gaps and challenges in the municipal finance and address it in a systematic manner.

The study findings will be helpful in identifying gaps and challenges in municipal finance and process for the city government to access markets. The city specific roadmap will enable city governments to adopt reforms and initiate other actions to bring transparency, efficiency in municipal finance sector. The draft strategy framework to be prepared based on common parameters will help cities in strengthening the existing system of financing various infrastructure projects in a resilient manner. The strategy framework for the cities will act as a reference guide towards making cities sustainable and future ready.

7. Approach

Praja's approach to the proposed study will include a combination of qualitative as well as quantitative analysis to understand the existing status, map good practices and experiences of the selected city governments in municipal finance.

The quantitative analysis is important to understand the fiscal health of the city governments. This includes identification of appropriate financial indicators to analyse income expenditure statements, grants from state and central government, own source revenues such as property tax and service charges. Fiscal health of the city will be assessed based on annual growth,

percentage share and ratios among others. The list of indicators and parameters will be finalised in consultation with key stakeholders (refer to annexure II). The data for 5 to 10 years will be analysed from the budget documents of the city government. Entry, checking and analysis will be conducted of the data sets from the budget.

Qualitative analysis will include review of data and information from secondary as well as primary sources. The secondary sources will include documents such as Municipal Corporation Act, Municipal Budget documents, SFC reports, among others. The review/analysis of the documents, reports will give an understanding of the legal and regulatory framework of operation of the city governments, current practices, trends, opportunities, challenges good practices among others. Primary sources for analysis will include questionnaire-based discussions and focused group discussion with key stakeholders including the Mayor, Finance Committee Chairperson, Municipal Commissioner, Revenue and Finance Officer, State Urban development department, domain experts and so forth. The qualitative analysis will complement the quantitative analysis and help understand the enablers and barriers regarding the fiscal health of the city government.

The information collected from the primary and secondary sources for both qualitative and quantitative analysis will be triangulated to assist in developing a strategic framework to strengthen municipal finance for Indian cities. Following the developing of the framework, consultations will be organised with the key stakeholders and experts for seeking their inputs.

A project steering committee will be constituted comprising of subject experts and other relevant stakeholders to guide the study and develop a strategic framework for strengthening municipal finances of Indian cities.

8. Selection of Cities

For a comprehensive understanding of the status of municipal finances, 4 cities representing varied geographical regions in India including Ahmedabad, Bengaluru, Guwahati and Raipur are selected. The key rationale in selecting these cities is to ensure representation from different socio-economic set-up in India.

Ahmedabad: Ahmedabad is the most populous city in the Indian state of Gujarat governed by Ahmedabad Municipal Corporation (AMC). It has a population of about 6 million as per the Census of India, 2011 with an area of 466 sq. kms. It is one of the 100 smart cities selected by the Government of India. Ahmedabad has received an AA+ credit rating from global (CRISIL) in 2018-19. The city government ventured into innovative methods for obtaining financial resources by issuing municipal bonds and borrowing from international credit markets for multiple projects (Source: CRISIL, 2021). In January 2019, Ahmedabad raised Rs 200 crores for green projects through municipal bonds that would be studied/investigated in detail to understand the process in developing municipal bonds. Ahmedabad is selected to represent cities from the western states.

Bengaluru: Bengaluru is the fifth largest city in India and the capital city of the southern state of Karnataka. The city has a population of about 11 million spread in an area of 741 square km the city boundaries have expanded more than 10 times over the last six decades. It is governed by Bruhat Bengaluru Mahanagara Palike (BBMP) and one of the big cities that has adopted

various reforms in urban governance and municipal finance especially with regards to property tax, such as self-assessment scheme, guidance value revision among others resulting in increase in collection of property. The city has also implemented capital value method for property tax collection, and provided for 100% random security and imposed strict penalties on tax evasion (Source: Praja Foundation,2021) Other taxes such as the solid waste management tax, tax on construction waste, garbage collection fees are also levied by the BBMP. As one of the leading cities taking efforts towards enhancing revenue of the corporation the city is selected for the study to represent the southern state.

Raipur: Raipur is an emerging urban centre in the State of Chhattisgarh with a population of over a million with geographical spread of 226 square km. The city is ranked 7th in the Ease of Living Index 2019⁷ by MoHUA. The city has seen an increase in the revenue sources and collection efficiency with measures taken to improve fiscal health of the Raipur Municipal Corporation (RMC). Raipur is acknowledged for its open data formats. The Raipur Municipal Corporation has also aimed to increase property tax and own source revenue by appointment of external agency for tax collection efficiency. Raipur is selected to include representation from the north Indian states.

Guwahati: Guwahati known as the “gateway to Northeast India” has a population of about 0.9 million with the geographical spread of 219.06 square kilometres as per Census of India, 2011 and is fast becoming an urban centre serving the entire region of north-east. It is the state’s principal commercial centre, an important trade hub for the north-east besides being a tourist centre. There is a huge potential for the city to increase performance in municipal finances. Guwahati is selected in view of its economic potential and representation from north-east states.

Note: While the cities have been selected based on their different class-sizes and socio-economic background. Praja’s study team will consult with the Ministry of Housing and Urban Affairs (MoHUA), Government of India prior to finalisation of the proposed study.

9. Methodology

The proposed study will be conducted in the following phases:

PHASE I - Literature Review:

- **Documents Review:** A desktop review of existing research papers from peer reviewed journals, documents including Municipal Budget books, Municipal Audit Reports, the State Municipal Act, reports by the State Finance Commission, and other city-specific documents will be done. The findings and analysis from the literature review will be collated for preparing the framework of the proposed study.
- **Discussion: Open ended discussions** will be conducted based on various themes of municipal finance to understand the experience of the city government stakeholders and experts. This will cover thematic areas such as budget making and approval processes, accounting practices, challenges in financial planning, reforms required, etc. The draft discussion points will be shared with domain experts before finalisation.
- **Financial Indicator Analysis:** The budget documents of 5 to 10 years will be analysed to understand the fiscal health of the selected city governments. A list of indicators and

parameters will be finalised after discussion with the experts. Based on the finalised indicators, data entry, checking and analysis will be conducted (Annexure V).

- **Existing Practices and Processes:** existing municipal financial mechanisms followed by the cities will be documented and any innovative practice implemented by the cities will be mapped during the study. Further the financial ratios from the budget documents will be calculated for understanding the municipal financial status.

PHASE II – Field Visits

- **Discussions:** Open ended discussions will be conducted with experts and other relevant stakeholder. Since the stakeholders will include elected representatives and municipal administration, prior appointment will be taken. The concept notes of the study, request letter and questionnaire will be shared with the stakeholders in advance.
- **City level consultations:** Based on the findings from the literature review, indicator study and field discussions, a draft city report will be prepared and presented in a focused group discussion with the stakeholders from the city and with experts. The consultation will aim at validating the findings and for any suggestions/recommendations for the city towards fiscal empowerment.

PHASE III - Strategic Framework

- **Draft strategic framework:** Based on the findings from the city level insights and analysis, a draft strategic framework to strengthen municipal finance will be outlined. The framework will be shared with the experts from different government agencies and academia; relevant agencies with experience on municipal finance; and the project steering committee.
- **National Consultation:** A national consultation will be held with representatives from MoHUA, and other key stakeholders including the project steering committee. The National Consultation aims to discuss and review the proposed draft strategic framework.
- **Final strategic framework:** Based on the national consultation and after incorporating all the relevant suggestions, the revised report will be shared with MoHUA for finalisation.

10. Outputs of the Study

The following outputs will be generated based on the meetings with MoHUA and other relevant stakeholders.

- **Output 1:** The inception report will include detail understanding of project, approach and methodology, work plan, resource allocation, timelines.
- **Output 2:** The interim report will include the preliminary findings from literature review, framework, research methodology, preliminary findings of the research and so forth.

- **Output 3:** The city level report will be prepared consist of the analysis and the status of indicators for the city. It will be presented to the key stakeholders and the project steering committee.
- **Output 4** Based on the feedback of the key stakeholders, the final city level report will be prepared.
- **Output 5:** Based on the findings from the overall study and from the case study of 4 cities, suggestions from experts and key stakeholder, a draft national report will be prepared for suggestions from relevant stakeholders.
- **Output 6:** Based on the suggestions a final draft report will be compiled and shared with the Ministry of Housing and Urban Affairs (MoHUA) Govt. of India.
- **Output 7:** The final output will be in a form of report which will include feedback from the government, steering committee, key stakeholders from the ministry and other relevant stakeholders.

11. Profile of the Expert Contractor

Praja will collaborate with subject matter experts from Municipal Finance and financial modelling for knowledge support.

- **Consultant, Municipal Finance Expert (1):** An expert with experience of working in municipal corporation including municipal processes, municipal finances, budgets, etc. to provide expert guidance and support in municipal finance matters, ensuring sound financial management, budgeting, and fiscal responsibility within the city government. Preferred skills on in-depth knowledge of municipal finance principles, local government regulations, and budgeting processes.

Experience:

- 10+ years of experience in municipal finance.
- Extensive experience in preparing and analysing municipal budgets, forecasting financial trends, and implementing financial policies.
- Expertise in debt management, revenue generation, and financial reporting for city governments.

12. Expected Outputs and Deliverables

According to the above-mentioned tasks the following outcomes are expected are expected from the consultant:

- A uniform strategy to implement NMAM in the target cities of the report (if not implemented already) and also in other cities.
- Draft Standard Operating Procedures (SOPs) for City governments to follow when they want to raise funds from the capital markets.
- Draft road map for the better implementation of property tax collection in the target cities.
- Strategy to integrate the suggested best practices into Municipal Finance management in the target cities.

- Training module for municipal officials to augment own source revenue generation, accessing investments through leveraging municipal bond market.
- Revised strategy to implement the recommendations of the latest SFC in the target cities.
- List of financial indicators to help analyse the state of municipal finance management in the target cities.
- Production of the draft reports of the project.
- Active participation of all the relevant stakeholders in the various consultations that are to be held across the project.

Sr. No.	Deliverables	From	Till
1.	Be a part of Steering Committee and attend all Steering Committee and ministry meetings	February 2024	October 2024
2.	Guide the project team in performing literature review, discussions, indicator analysis and existing process	February 2024	April 2024
3.	Directing project team in drafting and finalisation of Interim Report	March 2024	May 2024
4.	Advising project team in field visits and support in identifying stakeholders. Travel to the city when required for discussion with stakeholders	February 2024	April 2024
5.	To travel and be a part of city level consultations of four cities as a technical expert from respective field	June 2024	August 2024
6.	Be a part of the meetings with other financial institutions and travel as required	July 2024	September 2024
7.	Guide the project team in drafting and finalising the report for National consultation	August 2024	October 2024
8.	Direct the project team in drafting and finalising the final report to be submitted to the Ministry	September 2024	October 2024

Note: Travel expenses for the city visits, offline steering committee meetings, meetings with the ministry and other financial institutions will be borne by the contractor.

Whereas, travel expenses for city level consultation will be borne by Praja Foundation.

13. Payment Cycle

Payments will be made on quarterly basis in the duration of the Project.

14. Application Process

Please send the quotation on your letterhead mentioning the specifications of service and charges including taxes as applicable and respective C.V., via e-mail or in a sealed envelope by 10th February, 2024. For any queries kindly contact Mr. Yogesh Mishra on (+91 976 999 2083) [You can also e-mail us at yogesh@praja.org](mailto:yogesh@praja.org).