Financing of Smart Cities

The Smart City Mission will be operated as a Centrally Sponsored Scheme (CSS) and the Central Government proposes to give financial support to the Mission to the extent of Rs. 48,000 crores over five years i.e. on an average Rs. 100 crore per city per year. An equal amount, on a matching basis, will have to be contributed by the State/ULB; therefore, nearly Rupees one lakh crore of Government/ULB funds will be available for Smart Cities development.

The project cost of each smart city proposal will vary depending upon the level of ambition, model, capacity to execute and repay. It is anticipated that substantial funds will be required to implement the smart city proposal and towards this end, Government grants of both the Centre and State, will be leveraged to attract funding from internal and external sources. The success of this endeavour will depend upon the robustness of SPV's revenue model and comfort provided to lenders and investors. A number of State Governments have successfully set up financial intermediaries (such as Tamil Nadu, Gujarat, Orissa, Punjab, Maharashtra, Karnataka, Madhya Pradesh and Bihar) which can be tapped for support and other States may consider some similar set up in their respective States. Some form of guarantee by the State or such a financial intermediary could also be considered as instrument of comfort referred to above. It is expected that a number of schemes in the smart city will be taken up on PPP basis; the SPVs have to accomplish this.

The GOI funds and the matching contribution by the States/ULB will meet only a part of the project cost. Balance funds are expected to be mobilized from:

i. States/ ULBs own resources from collection of user fees, beneficiary charges and impact fees, land monetization, debt, loans, etc.
ii. Additional resources transferred due to acceptance of the recommendations of the Fourteenth Finance Commission (FFC).
iii. Innovative finance mechanisms such as municipal bonds with credit rating of ULBs, Pooled Finance Mechanism, Tax Increment Financing (TIF).
iv. Other Central Government schemes like Swachh Bharat Mission, AMRUT, National Heritage City Development and Augmentation Yojana (HRIDAY).

v. Leverage borrowings from financial institutions, including bilateral and multilateral institutions, both domestic and external sources.

vi. States/UTs may also access the National Investment and Infrastructure Fund (NIIF), which was announced by the Finance Minister in his 2015 Budget Speech, and is likely to be set up this year.

vii. Private sector through PPPs.

The distribution of funds under the Scheme will be as follows:

i. 93% project funds.

ii. 5% Administrative and Office Expenses (A&OE) funds for state/ULB (towards preparation of SCPs and for PMCs, Pilot studies connected to area-based developments and deployment and generation of Smart Solutions, capacity building as approved in the Challenge and online services).

iii. 2% A&OE funds for MoUD (Mission Directorate and connected activities/structures, Research, Pilot studies, Capacity Building, and concurrent evaluation).