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**URBAN ISSUES, REFORMS AND WAY FORWARD
IN INDIA**

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Foreword

The Economic Division in the Department of Economic Affairs has initiated a Working Paper series with the objective of improving economic analysis and promoting evidence based policy formulation in its mandated areas of work. The themes to be covered in the series include macroeconomic and sectoral issues of relevance for national policy, strategy for addressing emerging global and national development concerns and the agenda for economic policy reforms. While the issues identified for the Working Papers have relevance as inputs for the flagship publication of the Department, namely Economic Survey and the Mid-Year Review, issues that are related to the larger work responsibility of the Department of Economic Affairs, including the economic aspects of financial services, revenues and expenditure are also the subject matter of this initiative. Papers prepared by the staff or commissioned by the Economic Division as well as other Divisions in the DEA will be included in the Working Paper series on suitable peer review.

The Paper by Dr. Chetan Vaidya on *Urban Issues, Reforms and Way Forward in India* is the fourth Working Paper for 2009. It was commissioned as a background paper for the preparation of the Economic Survey 2008-09.

The paper has analysed a number of issues including urban trends, projected population, service delivery, institutional arrangements, municipal finances and innovation in financing that are of direct relevance to urban development in the country. It has also described status of JNNURM and recommended constitutional measures as well administrative actions to improve India's urban areas.

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URBAN ISSUES, REFORMS AND WAY FORWARD IN INDIA

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This paper does not in any way represent the views of the Ministry of Finance, Government of India. The views expressed in this paper are strictly those of the author and not necessarily of the organisation author belongs to.

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CONTENTS

ABBREVIATIONS	5
ABSTRACT	6
BACKGROUND	7
URBAN TRENDS	7
PROJECTED URBAN POPULATION	8
STATUS OF URBAN INFRASTRUCTURE	11
INSTITUTIONAL ARRANGEMENTS	13
FINANCES OF ULBs	19
INNOVATIVE FINANCING AND PPP	22
GOVERNMENTS RESPONSE	25
STRATEGY FOR URBAN DEVELOPMENT	30
CONCLUSION	35
REFERENCES	36

ABBREVIATIONS

AMC	Ahmedabad Municipal Corporation
BRT	Bus Rapid Transport
BMC	Bhubaneswar Municipal Corporation
CCA	Constitution Amendment Act
CDP	City Development Plan
CE	Corporatized Entity
CFC	Central Finance Commission
DPC	District Planning Committee
EFC	Eleventh Finance Commission
GDP	Gross Domestic Product
GOI	Government of India
GOO	Government of Orissa
IMC	Indore Municipal Corporation
JNNURM	Jawaharlal Nehru National Urban Reforms Mission
KUFIDCO	Karnataka Urban Finance Infrastructure Development Corporation
MML	Model Municipal Law
MPC	Metropolitan Planning Committee
NUTP	National Urban Transport Policy
PHEO	Public Health Engineering Organization
PPP	Public Private Partnership
SEZ	Special Economic Zone
SWM	Solid Waste Management
SFC	State Finance Commission
TFC	Twelfth Finance Commission
T&CP	Town and Country Planning
ULBs	Urban Local Bodies
UTs	Union Territories
UMTA	Unified Metropolitan Transport Authority
ULCRA	Urban Land Ceiling and Regulation Act
WSS	Water Supply and Sewage

ABSTRACT

India has to improve its urban areas to achieve objectives of economic development. However, urban governance and management of the services is far from satisfactory. In this context, the Government has launched a reform-linked urban investment program, JNNURM. The paper has analysed urban trends, projected population, service delivery, institutional arrangements, municipal finances, innovative financing, etc. It has also described status of JNNURM. As per population projection for 2026, level of urbanization would be different in various states. India's future urban strategy should recognize these differences and plan accordingly. India's future strategy should focus on: (a) Inter-government transfers with built-in incentives to improve performance; (b) Capacity building of ULBs; (c) Investments on asset creation as well as management; (d) Integrate urban transport with land use planning; (e) Integrate various urban development and related programs at local, state and national levels; (f) Strengthen urban institutions and clarify roles of different organizations; and (g) Second generation of urban reforms should further focus on regulation, innovative financing and PPP, and climate change initiatives; (h) Different approach of supporting reform-linked investments needed for different states based on level of urbanization. It has recommended constitutional amendments as well administrative actions to improve India's urban areas.

Key words are: Population Distribution, Financing, Initiatives, and JNNURM.
JEL Classification: H71, H72, H74, R51, R58.

BACKGROUND

In 2001, about 286 million persons were living in urban areas of India and it was the second largest urban population in the world. The 74th Constitution Amendment Act (CAA) came into force in June, 1993 which sought to improve strengthen urban governance and management of services. The urban population is expected to rise to around 38 percent by 2026. India has to improve its urban areas to achieve objectives of economic development. Huge investment is required in India's urban sector. Since public funds for these services are inadequate, urban local bodies (ULBs) have to look for innovative approaches for financing and management of urban services. However, most critical factors for introducing these innovations are a healthy municipal revenue base and good urban governance. In response to urban problems, the Government of India launched a reform-linked urban infrastructure investment project, Jawaharlal Nehru Urban Renewal Mission (JNNURM). This paper briefly describes urban trends, institutional arrangements, finances and financing of ULBs in India. It identifies issues and suggests an approach for future urban strategy in India. It also makes certain recommendations in terms of constitutional amendments as well as administrative actions.

URBAN DEMOGRAPHIC TRENDS

In India out of the total population of 1027 million, in 2001, about 285 million persons lived in urban areas. The proportion of urban population has increased from 19.9% in the year 1971 to 27.8% in the year 2001. The decadal growth of urban population was 31.2% in 1991-2001. At the country level, natural increase has been principal source of urban population growth. The contribution of rural-urban migration ranges between 19 to 21 percent of the net increase in urban population (Table 1).

Table 1: Composition of Urban Population Growth in India, 1961-2001

	1961-71	1971-81	1981-91	1991-2001
Urban population increase (Million) Out of which	30.18	49.45	56.45	67.81
Natural Increase (Million)	19.68 (65.2)	25.56 (51.3)	35.37 (61.3)	40.17 (59.4)
Net R-U Migration (Million)	5.91 (18.7)	9.83 (19.6)	12.76 (20.7)	14.32 (20.9)
Residual Component (Million)	4.59 (16.1)	14.06 (29.1)	8.32 (18.0)	13.32 (19.7)

Source: Census of India, 1961 to 2001. Figures in parenthesis are in percentages.

Increasing concentration of urban population in larger cities is one of the key features of urban India. The number of cities over 1.0 million population, in 2001, was 35 and

population share was over 37 percent. The salient aspects of urbanisation in India in recent decades are:

- a) The trend of concentration of urban population in large cities and agglomerations is getting stronger;
- b) Slowing down of urbanisation during 1981-1991 and 1991-2001 as compared to 1971-1981 and 1961-1971; and
- c) Large variations patterns of urbanisation in various states and cities.

Generally, there is strong empirical relationship globally between index of city liveability and a country's Gross Domestic Product (GDP) per capita, suggesting that long-term growth is only feasible if city attributes in terms of congestion, pollution, and safety are improved alongside urban economic management (Gill and Kharas, 2007). There is a robust relationship between urbanization and per capita income: nearly all countries become at least 50 percent urbanized before reaching middle-income status and all high income countries are 70-80 percent urbanized. However, there two important parts of making urbanization work. First challenge is to foster the high-growth productivity activities benefit from agglomeration and scale economics. The second involves managing the likely side effects of the economic success of cities-congestion, regional inequality, and high land and housing prices. Meeting the second challenge is essential for mitigating divisive impacts of successful economic growth and spreading benefits of higher economic productivity widely (Spence, Annez and Buckeley, 2009). It is clear that urbanization is inevitable and India needs to improve its urban infrastructure and governance to improve productivity and create jobs for the poor.

PROJECTED URBAN POPULATION

The Registrar General of India has projected total and urban population for India and states. It is interesting to know that 67% of total population growth in India in next 25 years is expected to take place in urban areas. Urban population is expected to increase from 286 million in 2001 to 534 million in 2026 (38%) (Table 2).

Table 2: Projected Urban and Total Population in India – 2011, 2021 and 2026

Item	2001	2011	2021	2026
Total Population (million)	1028.61	1192.50	1339.74	1399.83
Urban Population (million)	286.12	357.94	432.61	534.80
Urban (%)	27.82	30.02	32.29	38.21
Total AEGR (%)	1.48	1.32	1.23	1.16
Urban AEGR(%)	2.24	2.07	2.50	1.89

Source: Population Projections for India, 2001-26, Registrar General of India, 2006
AEGR- Annual Exponential Growth Rate

Of the total increase in population, 50% during the period is likely to occur in seven less developed states, namely, UP, MP, Rajasthan, Bihar, Chhattisgarh, and Jharkhand. But urban growth is going to take place in states of U.P., Maharashtra, Tamil Nadu, and Gujarat and these will contribute over 45% of urban growth over next 25 years.

To understand stress or influence of urbanization in various states, the states have been grouped on the basis of percentage of urban population and share of urban population in 2026 (Table 3). First group identified as highly urban states consists of A.P., Delhi, Gujarat, Haryana, Karnataka, M.P. Maharashtra, Punjab, T.N., West Bengal and four other Union Territories (UTs). In this group, by 2026, about 51% of total population will be urban and it will account for about 69% of total urban population. Second group is identified as average urban and this group consists of Chhattisgarh, J&K, Jharkhand, Kerala, Rajasthan, U.P and Uttaranchal. In this group, 29% of total population will be urban and it will account for 24% of projected total urban population. The third group is termed as low urban and cover states like Bihar, H.P., Orissa, and North-East states. It will have 15% of population living in urban areas and accounting for only 7% of projected total population.

Table 3: States Grouped According to Level of Urbanization in 2026

States/UTs	% Urban_2026	% Share of Total Urban Pop_2026
Highly Urban States/UTs		
Andhra Pradesh	34.02	5.98
Delhi	98.80	5.17
Gujarat	53.04	6.87
Haryana	46.31	2.69
Karnataka	49.29	6.17
Madhya Pradesh	34.80	5.71
Maharashtra	61.01	15.21
Punjab	52.50	3.08
Tamil Nadu	74.78	10.05
West Bengal	35.13	6.60
Chandigarh, Goa and Pondicherry	85.78	1.13
Highly Urban States/UTs	50.91	68.66
Average Urban States/UTs		
Chhattisgarh	30.77	1.65
Jammu & Kashmir	34.49	0.87
Jharkhand	28.81	2.01

States/UTs	% Urban 2026	% Share of Total Urban Pop 2026
Rajasthan	29.06	4.43
Uttar Pradesh	27.17	12.64
Uttaranchal	37.29	0.82
Subtotal for Average Urban States/UTs	28.59	24.52
Low Urban States/UTs		
Bihar	11.61	2.47
Himachal Pradesh	13.62	0.19
Orissa	21.24	1.80
North Eastern States	22.72	2.19
Other UTs	53.81	0.17
Subtotal for Low Urban States/UTs	15.46	6.83
Source: Same as Table 2.		
Notes:(i) North Eastern States constitutes of the 8 States of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.		
(ii) Other UTs comprise of Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu and Lakshadweep.		

Urban India will continue to concentrate in 1 million and above cities, as number of these cities will increase from 35 to 61 during 2001-2026. Moreover, as per UN-Habitat (2008), eleven cities, namely, Ahmedabad, Bangalore, Kolkatta, Chennai, Hyderabad, Mumbai, Pune, Surat, Jaipur and Kanpur will have population over 4.0 million in 2025 and these Mega cities will have total population of 127 million (over 24% of total urban population) (Table 4). It is pertinent to note that in the Western Region, there will be four Mega cities and the corresponding number in Northern and Southern Regions will be three each. But in the Eastern Region, Kolkatta will continue to be the only Mega city.

In terms of urban population distribution, India will be mainly dominated by the 11 states identified as first group and 11 Mega cities. This analysis has important implication for future urban policy in the country.

Table 4: Projection of Population in Mega Cities in 2026 (in million)

City/UA	2001	2025	Region
Mumbai	16.36	26.38	West
Ahmedabad	4.51	7.73	West
Pune	3.75	6.79	West
Surat	2.81	5.70	West
Chennai	6.42	10.12	South
Bangalore	5.68	9.71	South
Hyderabad	5.53	9.09	South
Delhi	12.79	22.49	North
Kanpur	2.69	4.60	North
Jaipur	2.32	4.29	North
Kolkata	13.21	20.56	East
Total	76.07	127.49	

Source: Census of India, 2001 and World Cities, UN-Habitat, 2008-09

Note: Mega city is defined as a City with population above 4.0 million.

STATUS OF URBAN INFRASTRUCTURE

Water Supply, Sewerage and Solid Waste

There is a tremendous pressure on civic infrastructure systems like water supply, sewerage and drainage, solid waste management, etc. Recent data suggest that water supply is available for 2.9 hours per day across cities and towns. The non-revenue water that includes physical and revenue losses account for 40-60 percent of total water supply. About 30 to 50 percent households do not have sewerage connections and less than 20 percent of total waste water is treated. Solid waste systems are severally stressed. The state of services reflects the deterioration in the quality of city environments.

As per 54th round of National Sample Survey, 70% of urban households are being served by tap and 21% by Tube well or hand pump. 66% of urban households reported having their principal source of water within their premises while 32% had it within 0.2 Km. 41% had sole access to their principal source of drinking water and 59% were sharing a public source. As per the 54th round of NSS 26% of households had no latrines, 35% were using septic tank and 22% were using sewerage system. Sewerage connections varied from 48% to 70%. It is estimated that about 1, 15,000 MT of Municipal Solid Waste is generated daily in the country. Per capita waste generation in cities varies between 0.2 – 0.6 kg per day and it is increasing by 1.3% per annum. Given the inadequate solid waste management in Indian Cities, the Supreme Court gave direction to

the Ministry of Environment and Forest to prepare Solid Waste Management (Handling) Rules 2000.

Focus of improvements in water supply and sewerage is on creation of new assets rather than management of existing assets. In order to bring about improvements in delivery of municipal services, a need has been felt to develop National Benchmarks in respect of basic services like water supply, sewerage, solid waste management and storm water drainage. The Ministry of Urban Development has taken the initiative of bringing out a Handbook of Service Level Benchmarks, in 2008, which provides for standardized framework for performance monitoring in the four sectors mentioned above. It is expected that the Handbook would enable state level agencies and local service providers to initiate a process of performance monitoring and evaluation against agreed targets, finally resulting in achievement of service level benchmarks identified in the Handbook and shift focus from asset creation to outcomes.

Urban Transport

Most of the cities in India have been facing urban transport problems for last many years, affecting the mobility of people and economic growth of the urban areas. These problems are due to prevailing imbalance in modal split; inadequate transport infrastructure and its sub-optimal use; no integration between land use and transport planning; and no improvement or little improvement in city bus service, which encourage a shift to personalized modes. In view of this, the Government of India approved the National Urban Transport Policy (NUTP) in April 2006. The Policy primarily focuses on the mobility of people not the mobility of vehicles. This will require the public transportation system to be more attractive to use. The challenge for improved bus transport is to provide good quality service at an affordable price. It is important to evaluate alternative public transport technologies in the context of city characteristics. The public transport options vary between low cost buses to high cost rail metros. Moreover the shape of a city is very important for selecting the appropriate mode of transport and capacity building is a very important factor in introducing and implementing public transport system.

Several initiatives have been taken in India in this regard: Many cities have prepared Comprehensive Mobility Plans; 15 cities have plans to introduce modern bus services; Bus Rapid Transport (BRT) is coming up in 11 cities; Six cities are planning new metro rail systems; and Unified Metropolitan Transport Authorities have been set up in two cities (Agarwal, 2009). Bus systems can be improved through provision of better buses, improved information system and prioritization of bus flows through dedicated bus lane. The key message from the review of urban transport sector in India is that the proposed approach has to be comprehensive and serve a range of human needs.

Two major problems in implementing the new public transportation system: absence of linkage of metro rail system to the bus system; and (b) lack of expertise in Bus Rapid Transport system. Many cities such as Indore, Baroda and Surat, private enterprises are

allowed to run the public transport system. Public entity invites bids for certain routes and then the private agency is selected to operate.

NUTP has brought the need for integrating urban transport with land-use planning. A recent study has analysed this issues in four cities of India and brought challenges and its implications (Box 1).

Box 1: Integrated City Making: Transport and Land-Use Planning

Integrated City Making was a research study on integration of transport and land-use planning in Mumbai, Kolkata, Delhi and Bangalore. Each of the cities studied by the Urban Age is seeking to use land-use and transport planning to secure a more integrated and efficient form of urban development, but all face systematic and behavioural challenges: Rapid urban growth has overtaken the planning process, resulting in reactive and often outdated plans; Enforcement is weak and the planning profession is seen as lacking capacity, leading to loss of credibility; Land-use and transport planning are conducted as separate exercises, leading to new development without transport, and transport infrastructure that fails to further cities long term visions and Responsibility for land-use and transport planning is fragmented between different agencies and different tiers of government, despite recent constitutional changes aimed at rationalizing local government structures.

Some implications for future policy development include: Creating a single transport authority and, where possible, integrating this with land-use planning; Ensure implementation through balancing enforcement and negotiation; Create incentives for better integration through funding and political systems; and Use urban design for better cities. Through harnessing the dynamism of urban development in India, city leaders can make a difference. With organizational reform, and the creation of new governance structures that recognize cities role, they can put their cities at the forefront of sustainable growth.

Source: Urban Age, 2008.

INSTITUTIONAL ARRANGEMENTS

The Institutional arrangement for municipal governance and urban service delivery mainly comprises the Constitutional provisions, State Municipal Laws, role of State Finance Commission (SFC) and Central Finance Commission (CFC), and status of ULBs and parastatals.

74th Constitutional Amendment Act: Municipal institutions in India have a history of over 300 years. These refer to ULBs comprising municipal corporations, municipalities and nagar panchayats. In 2001, there were about 3636 ULBs in the country. However, the Constitution did not make local self-government in urban areas a clear-cut constitutional obligation. As a consequence of inadequate Constitutional provision for

Local Self Government, democracy in municipal governance was not stable. As a result, many urban local bodies became weak and were not able to perform effectively. In this context, 74th CAA came into force in June, 1993 which sought to strengthen decentralisation. The main provisions include constitution and composition; constitution of wards committees; reservation of seats; duration of municipalities; powers and functions; finances; finance commission; elections; district and metropolitan planning committees, etc. The 74th CAA, expects that ULBs will assume responsibilities for urban planning, water supply, social and economic planning, slum up gradation, public health, etc. However, the CAA did not lay down revenue base for ULBs and the power to determine the revenue base continues to remain with state governments. Study of implementation of 74th CAA in various states showed that some states have performed better than others. An important observation is that while there has been full compliance in respect of provisions, such as constitution of three types of ULBs, reservation of seats, and constitution of SFC, the same cannot be said for other provisions, namely constitution of Wards Committees, District Planning Committees and Metropolitan Planning Committees. Many states have not transferred functions, funds and functionaries. Revenue powers of ULBs are often not in consonance. There is also no consistency about term, powers and method of election of Mayors. In most states, Mayors do not have executive powers as they are vested with the Commissioners. Implementation of 74th CAA needs strengthening.

State Municipal Laws: Municipal laws in India are very old and often do not enable ULBs to implement reforms. Therefore, the Government of India (GOI) has developed a Model Municipal Law (MML) in 2003 to guide States to enact municipal legislations. The basic objectives of the MML are to implement the provisions of the 74th CAA in totality for empowerment of the ULBs, and provide the legislative framework for implementation of the Ministry's urban sector reform agenda. This initiative is expected not only to enhance the capacities of ULBs to leverage public funds for development of urban sector but will also help in creating an environment in which ULBs can play their role more effectively and ensure better service delivery. Four states, namely Rajasthan, Bihar, Orissa and Sikkim have prepared their municipal laws on lines of MML and many others are in process of amending their laws. The Rajasthan Municipalities Ordinance 2008 has introduced some very innovative features that should help to empower ULBs in the State (Box 2).

Box 2: Rajasthan Municipalities Ordinance 2008

The Rajasthan Government promulgated the new municipal law on September 26, 2008. It is mainly based on Model Municipal Law. It also has many enabling provisions to implement various reforms under JNNURM like: (a) transferring various functions to ULBs, (b) introducing tax on land and buildings on unit area basis, (c) forming Area Sabha for community participation, (d) establishing MPCs and DPCs, (e) making Town Planning a municipal function, (f) introducing rainwater harvesting, (g) encouraging PPP, (h) introducing improved accounting, (i) introducing public disclosure, (j) setting up SFC and implementing its recommendations, etc. There are also some very innovative enabling provisions for issue of municipal bonds, comprehensive debt limitation policy, setting up a municipal service cadre, etc. The Ordinance also divided various municipal functions into core, government assigned and other functions. However, water supply and sewerage is not identified as core function but a state assigned function.

Wards Committees: The 74th CAA provides a framework to enable participation of citizens in urban governance. It contains an enabling mechanism to form wards committees for citizens participation. However, it has remained on paper in most states. Out of 29 states, where wards committee were required to be set up as of June 2004, the enabling legislation was in place in only 19 and out of these, wards committees were constituted in only eight states (Sivaramkrishnan, 2006). A study of wards committees in West Bengal, Kerala, Maharashtra and Karnataka revealed that if wards committee are to function as mechanism for meaningful participation of all people within the wards, they ought to be smaller in size as smaller committees in West Bengal and Kerala. The committees in these two states are at ward level and are very participative. Whereas in Maharashtra and Karnataka these are envisaged for a group of wards and are not able to achieve effective proximity of citizens to elected representatives. While the provision of these committees has been a significant addition to decentralization process but they have yet to become an effective platform for accountability. Concept of Area Sabha (AS) was introduced to promote a sense of belongingness, inclusion and participation. AS is to be constituted of citizens who are registered as voters in one or more than one Polling Stations but preferably not covering more than 2,500 voters. Chairperson of the AS will also represent the area in the Ward Committee concerned. Wards committee and AS are mainly to improve participation and improve urban governance. Lessons learned from experiences of few to improve urban governance are presented in Box 3.

Box 3: Lessons for Improved Urban Management

Experiences of few cities provide some important lessons for improved urban governance. These lessons are:

- (a) Build credibility of local government through improved administration;
- (b) Make initial efforts in a few critical areas that are “visible” and affect daily lives of most residents;
- (c) Changes have to come from within the system, not forced by state or national government;
- (d) Demonstration effects are important and more cities will learn from few success stories;
- (e) Dissemination and networking of local governments is crucial;
- (f) State and national governments may not always support the initiation of changes, but will yield only when citizen support is received; and
- (g) Responsive administration for citizen grievances is essential.

The strategy for improved governance should include enablement, participation, and capacity building.

Source: Mehta, D. 2006.

ULBs and Parastatals: Three broad institutional frameworks are discernible in states in India with regard to water supply and sewerage services. First are the states where the entire system is with a department or a parastatal of the State Government; second, where the ULBs themselves handle the entire activity and, third, as in some large cities, where exclusive water supply and sewerage boards have been set up for the city (Table 5). Irrespective of the institutional framework, the failure of the public sector to provide adequate service delivery have been ascribed to public monopoly, organizational inefficiency, technical flaws in the form of high leakages, lack of preventive maintenance, unaccounted water as well as over staffing and lack of autonomy. City planning function has not been handed over to ULBs in many states. These state level organizations are often not accountable to ULBs. Though 74th CAA expects that major civic functions should be transferred to ULBs many small and medium sized ULBs are not in position to manage water supply, sanitation and town planning functions. The Government of Orissa plans to set up a corporatised entity for delivery of water supply and sewerage services in Bhubaneswar city (Box 4)).

Table 5: Institutional Framework for Delivery of Services in Selected Cities

City	Services provided by			
	ULB	Parastatal	Development Authority	State Agencies
Ahmadabad	All services	-	-	-
Hyderabad	SWM, Roads, Street Lighting, Drainage, etc.	Water Supply and Sewerage ¹	Town Planning	-
Bhubaneswar	SWM, Roads, Street Lighting, Drainage, etc.	----	Town Planning	Water Supply and Sewerage ²

Box 4: Transforming Public Health Engineering Organization into a Corporatized Entity for in Bhubaneswar

Under the 74th Constitutional Amendment, the Government of Orissa (GOO) is required to transfer water supply and sewerage services (WSS) to ULBs. At present, the WSS services are provided by the State Public Health Engineering Organization (PHEO). PHEO has been functioning as an arm of State Government in providing WSS services to the public across 103 ULBs covering a population of 56 lakh. In case of Bhubaneswar, Government of Orissa has decided that the assets, liabilities, rights, claims, proceeding etc. of the PHEO circle providing the services to the city would be transferred to the Bhubaneswar Municipal Corporation (BMC). Then PHEO would create a new Corporatized Entity (CE) for WSS services in the city. This CE would be given a management contract by BMC to operate and maintain the WSS services in the city. This contract for CE will include setting service standards, operations cost, subsidy, measurable performance standards, etc. Thus the CE will be able to provide efficient WSS services but be accountable to BMC.

Source: Personal discussions with Indo-US FIRE Project representatives, 2008.

SFCs and CFC: As per 74th CAA, state governments have set up SFCs. Most SFCs have formulated the fiscal packages without access to a clear directive on the functional jurisdiction of municipalities. Absence of clarity in respect of the functional domain of municipalities constitutes a serious gap in the functioning of the SFCs. The Commissions

¹ Metro-Level Board.

² State Public Health Engineering Department.

have been reviewing the financial position of the rural and urban local bodies and suggesting ways and means to devolve the finances by the State Governments to ULBs. However, estimating the resource gap and absence of expenditure norms for various services are the important areas which need to be addressed by the commission while devolving funds to the ULBs.

With amendment of Article 280 in 1992, the CFC have to address the issue of municipal finances. The Eleventh Finance Commission (EFC) recommended, annual supplementary support of Rs.400 crore for improving the core services of municipalities, and creation of appropriate databases and standardization of the budgetary classification and practices. The Twelfth Finance Commission (TFC) provided Rs. 1,000 crore annually for ULBs as grant-in-aid and 50 percent of this grant is earmarked for solid waste management schemes. The 12th CFC grant per capita for ULBs was very small (Rs. 34 annually).

Weak Staff Capacity: The need for improving the functional efficiency of ULBs has acquired greater importance after 74th CAA, which has devolved additional functions. The objectives of CAA cannot be achieved, unless the ULBs have skilled manpower to undertake the various additional tasks entrusted to them. All the personnel of ULBs have to be trained in public – dealing so that they consider them as facilitators and provide efficient and committed service to the people.

MPC and DPC: The 74th CAA has mandated the State Governments to constitute Metropolitan Planning Committees (MPCs) and District Planning Committees (DPCs), which are responsible for the preparation of Metropolitan Plan and District Development Plan. However, the State T&CP Act and Development Authorities Acts have not been amended so as to incorporate the provisions for preparation of Metropolitan Plans and District Development Plans. The existing statutory authorities like planning and development authorities have to realign the existing institutional framework.

Climate Change: Climate Change is today a reality and global issue. Since, about 60 to 75 percent of total energy is consumed in urban areas, many cities in the developed world are planning to transform themselves into green metropolis over the next 10-20 years. Cities, especially fast growing cities in developing countries, are highly vulnerable to the impacts of climate change. The Government of India has prepared a National Action Plan for Climate Change that proposes eight missions for addressing climate change at the national level. This is very laudable indeed. Recently the Ministry of New and Renewal Energy has launched a Solar cities initiative for 40 cities. In order to address issues relating to mitigation and adaptation in human settlements, a National Mission on Sustainable Habitat is proposed to be launched. The mitigation measures would primarily include energy efficiency in buildings, improved urban land use planning and shift to public transport, and management of water, waste water and solid waste. Apart from the above, the Mission would also facilitate adaptation to vulnerabilities arising out of climate change like adverse impacts on water resources, increased frequencies of extreme weather like droughts, floods, cyclones, storm water surge, rise in sea levels and

human health. Having compact, efficient, and walk able cities is an important mitigation measure (World Bank 2008). Compact cities use less energy for transport, consume less land for housing and use less energy for heating (World Bank 2009). Fast growing Indian cities have potentially numerous opportunities to showcase clean development through the JNNURM activities. Numerous agencies in India and the Government are trying to make Indian cities more climate responsive. It is important that activities are planned and measures undertaken mainstreamed for maximizing benefits/impacts. Therefore, Climate Change needs to be looked at as an important component of the second generation of urban reforms in India.

Special Economic Zones: In a large-scale effort transforming India's competitiveness in the global market, the Government of India enacted the Special Economic Zones (SEZ) Act in 2005. As many as 439 SEZs have been approved in principle, out of which 198 have been notified till 8 March, 2008. As many as 19 SEZs have area more than 1000 hectares and covering more than half of the total area under SEZs. About 50 to 70 new cities or satellite cities will come up in and around the medium and large size SEZs and the population of these new cities will range between 5-10 lakhs. It has raised issues regarding urban management and regional impact of SEZs in India.

In fact, the 74th CAA under article 243(Q) “ provided that a municipality under this clause may not be constituted in such urban area or part thereof having regard to the size of the area and the municipal services being provided or proposed to be provided by an industrial establishment in that area to be an industrial township. ”SEZs management is delegated to the Development Commissioners and the participation of local as well as State Government will be marginal. Key challenges in the SEZs programme thus will be decentralisation and delegation of powers to local and State Governments and ensuring their participation in the management of the entities. These are essential actions needed for long-term success of SEZs. Development of SEZs needs to be integrated with existing Master Plans and Regional Plans. There is need to develop regional/sub regional plan around the SEZ areas. Here, State Town and Country Planning/Urban Development Authority should play a key role. Thus the population of these towns are deprived of participating in urban governance.

FINANCES OF ULBs

State of Finances: The Constitution of India specifies the taxes to be divided between the central and state governments but it does not specify the revenue base for ULBs. Further the 74th CAA is not specific about the types of taxes ULBs should have but on the other hand the powers for determining the revenue base of ULBs rests with the state governments. The resource base of ULBs typically consists of their own resources (tax and non-tax revenues), shared revenues, state grants, and loans from state governments and market borrowings. In spite of the variations in the figures compiled by different agencies, for want of a uniform accounting and reporting framework, it is evident that municipal revenues have generally had limited buoyancy.

In spite of the variations in the figures compiled by different agencies, for want of a uniform accounting and reporting framework, it is evident that municipal revenues have generally had limited buoyancy (Table 6).

There is often a mis-match between functional responsibilities and resource generation capacity of local governments. Therefore, the lower tiers of governance would depend on the higher tier for actual devolution.

With the abolition of Octroi by most States, Property Tax is the most important source of revenue for local governments. There have been substantial reforms in Property Tax administration in recent years. Earlier ‘Annual Rental Value (ARV) was the basis of levy of this tax. This mode of assessment had many drawbacks—the manner of assessment was opaque and gave a lot of discretion to assessing officials and it was inelastic and non-buoyant. The Government of India formulated and circulated the Guidelines for Property Tax Reforms, in 1998. ULBs need to improve legal basis of property assessment as well as improve the tax administration. Several states have introduced unit area method of property tax assessment.

User charges are most important sources of non-tax revenues for ULBs. There has been a tendency to charge for various services at rates that are much lower than the actual costs. This has led to poor cost recovery, poor maintenance and inadequate investments in the infrastructure.

ULBs opt for management innovations to improve efficiency and strengthen the municipal revenue base. These innovations include improved billing and collection, rationalization of service charges, simplification of the tax assessment system, computerization of records, improved accounting and financial management systems, intensive communication with public, project specific contribution, outsourcing, enforcement, State Government guidelines, etc. The most important lesson learned is that the municipal resource mobilization process requires the strong commitment and unwavering support of elected leaders as well as of administrators. Successful efforts made by the Indore Municipal Corporation to mobilise resources is described in Box 5.

Table 6: Growth Rate of Municipal Revenues: 1997-98 to 2001-02

S.No	Type of Municipal Revenue Sources	Growth Rate during 1997- 2002 (%)
1	Own Revenue Receipts	10.48
2	Tax Revenue Receipts	9.20
3	Non-Tax Receipts	14.93
4	State Transfers	13.54

Source: Mathur and Tahkur (2004)

Box 5: Resource Mobilization Efforts of Indore Municipal Corporation

In 1999-00, the Indore Municipal Corporation (IMC) embarked on a modernization plan, developed with extensive citizen participation, to improve urban services and increase revenues to do so. The IMC's own sources of revenue are primarily property taxes and water tariffs, with smaller amounts from business licenses, shop rents, and advertisement taxes.

To reform its property taxes, which average almost 50 percent of the city's own source income, the IMC shifted to a simpler, mass assessment method and introduced self-assessment of properties by taxpayers in 1997. Taxpayers provide information about their property, such as its location, size, age, and use, into a formula-based program that calculates what they owe. The IMC contracted with a private firm in 2001-02 to conduct a physical survey of properties in all wards to identify unregistered properties and add them to the property database. The surveyors also helped owners fill out their self-assessment forms. The number of properties registered nearly doubled in four years, from 135,000 before the survey to 236,000 in 2003. Revenues increased due to simplified and more equitable assessments, better administration, increased coverage and billing, and more efficient collections and enforcement (described below). Complementary measures, such as verifying tax records at registration when properties were sold, and requiring that payments be made by December 31, helped. In addition, assessment rates, especially of commercial properties, were revised after a considerable period.

It was estimated that there were approximately 80,000 illegal water connections, compared to 120,000 legal connections. The IMC identified legal/illegal water connections during its physical survey of properties. It compared its water charges and property databases to identify residences that were not receiving or paying water bills. And it calculated arrears owed. The IMC improved collections and enforcement.

The measures described above increased revenue from its own sources from Rs. 340 million in 1999-00 to Rs. 750 million in 2003-2004. Total revenue increased correspondingly from Rs. 101 million to Rs. 184 million.

Source: Vaidya, 2006.

Transfers: Own revenues of municipalities are supplemented by state transfers. During the period 1997/98 to 2001/02, state transfers to municipalities were characterized by a high degree of fluctuation. Transfers to municipalities have in the past been marked by unpredictability and instability. In addition, there is lack of distinction between capital account and revenue account transfers and further confusion that is caused by plan and non-plan transfers on many heads.

Financing Requirements: Rapid urbanization in India has led to a tremendous pressure on urban infrastructure systems like water supply, sewerage and drainage, solid waste management, parks and open spaces, transport etc. The XIth Five Year Plan of India (2007-2012), has estimated that total fund requirement for implementation of the Plan target in respect to urban water supply, sewerage and sanitation, drainage and solid waste management is Rs. 12,92,370 million (Table 6). The Working Group Report on Urban Transport for XIth Five Year Plan has estimated an investment requirement of Rs 13,25,900 million (including modern buses) for improving the transport system. India's urban infrastructure sector needs huge investments.

Table 6: Fund Requirements for Urban Infrastructure: 2007-2012

S.No.	Sub-Sector	Estimated Amount (Rs. in Million)
1	Urban water supply	5,36,660
2	Urban sewerage & sewage treatment	5,31,680
3	Urban drainage	2,01,730
4	Solid waste management	22,120
5	Management Information system (MIS)	80
6	R & D and PHE training	100
	Total	12,92,370

Source: XIth Five Year Plan of India, 2007-2012, Government of India.

Note: Excluding Urban Transport

INNOVATIVE FINANCING AND PPP

Public funds alone shall not be adequate for meeting investment needs in urban areas. Urban India needs innovative financing like market-based funds and land-based sources and public private partnerships (PPP).

Municipal Bonds: The Ahmadabad Municipal Corporation (AMC) was the first ULB to access the capital market in January 1998. It issued Rs.1,000 million in bonds. This was a remarkable achievement since it was the first municipal bond issued in India without a state guarantee and represented the first step toward a fully market-based system of local government finance. Several ULBs and utility organizations have issued bonds thereafter that so far have mobilized over Rs.12, 240 million through taxable bonds, tax-free bonds and pooled financing (Table 7). Ratings of local governments establish a transparent credit record, and a reference framework for current and future performance of local finances and debt management. In the last 12 years, all major rating agencies have provided ratings for municipal and municipal enterprise bond offerings. More than 80 ULBs had received ratings.

Table 7: Municipal Bonds in India

Type of Bonds	Amount (Rs. In Million)
Taxable bonds	4,450
Tax-free bonds	6,490
Pooled finance	1,300
Total	12,240

Source: Vaidya, C. and Vaidya, H., 2008.

Constraints for Municipal Bonds

Supply-side Constraints are (GOI, FIRE and NIUA 2008):

- There is a fixed cap of 8% annual interest on tax-free interest from municipal bonds and it does not respond to market conditions. Municipal bonds become unattractive when market rates exceed the cap.
- Institutional investors with long-term funds face regulatory constraints on purchasing municipal bonds. Institutional investors such as the insurance companies are constrained because of restrictions imposed by the investment guidelines of the Insurance Regulatory Development Authority (IRDA). Commercial banks, governed by the RBI's asset and liability management requirements, prefer to lend over the short- to medium-term as their assets and liabilities are short- to medium-term in nature.
- Since there is lack of credit enhancement, hedging tools for investors to mitigate credit risk, and limited reliability of credit information, investors perceive municipal bonds to be risky.
- Given the poorly developed government securities market, municipal bonds are relatively illiquid investments for lack of exit opportunities for institutional investors.

Demand side constraints are:

- There are too few creditworthy issuers seeking bond financing.
- There are too few financially viable projects seeking bond financing.
- There is a lack of intermediation support to help issuers achieve bond structures that respond to investor needs while providing the issuer with the longest possible tenor, lowest possible interest rate, and lowest possible cost of issuance.
- There are a variety of “administrative and managerial” constraints that inhibit and discourage potential issuers of municipal bonds. Though, the reforms initiated by the MoUD shall help change the situation. Presently, there is divergence of opinion on the optimal debt equity ratio for ULBs. Therefore, the rating agencies must communicate the optimal debt equity ratio for projects by ULBs.
- There is need for further clarity on how the GoI will operationalize the sanctioning mechanism for Tax-Free Pooled Finance Development bonds.

- There is need for further clarity on how will the RBI approved credit rating agency carry out the surveillance throughout the tenor of the Tax Free Pooled Finance Development Bonds.

Land as a Resource for Financing: Some countries have raised money for urban infrastructure by capturing land asset values in transaction with private sector, in terms of leases, sales, developer's exactions or betterment levies (Spence, Annez, Buckley, 2009). Several land based financing methods like higher Floor Space Index (FSI), Transferable Development Rights (TDR), Impact Fee, Area Linked Development Charge, External Development Charge, Betterment Levy, etc. have been used as tools for financing urban development in India. Land as a resource had a very dominating role during 60's and 70's. The dominant view was - "Large-scale advance acquisition of land is by far the best and perhaps the only way to put an end to speculation in land and to capture subsequent increases in land values." But this method of land value capture seems to be neither adequate nor feasible. Infrastructure increases the land value and therefore there is a need to capture it. Increase in land value in turn will lead to an Increment Tax. Examples are Town Planning Schemes in Gujarat and Maharashtra. The other approaches include additional FSI and TDRs. In US and Canada, cities found it difficult to fund incremental infrastructure to service additional growth through increased property tax to service the bonds. This led to introduction of Impact Fees method in US and Development Charge method in Canada to recover cost of financing the infrastructure.

Instead of attempting to tax the land value increment on account of infrastructure, directly taxing the value of property at its inception would be a more effective way of obtaining capital receipts for financing urban infrastructure (Phatak, 2009). This could be termed as an Infrastructure Benefit Tax (IBT). The tax base would be value of the property at the time of construction. This would ensure buoyancy that is absent in area linked development charges. The use of tax revenues for capital infrastructure could be ensured by creating a 'ring fenced fund' in the ULB.

PPP: As a response to lack of access to finance and restriction on recruiting new personnel, etc. many ULBs have outsourced various tasks to other agencies that aim to increase access to these services, a number of public private partnership (PPP) options have emerged. There are many examples of PPP in solid waste management. For solid waste management, the Greater Mumbai Municipal Corporation has developed Advanced Locality Management (ALM) model for middle- and high- income areas and Slum Adoption Program for low-income areas (Redkar, 2008). In Hyderabad and Surat, private contractors are engaged to clean main roads and markets.

As far as PPP options for urban infrastructure are concerned, the initial focus of new investments on PPP of water supply projects was on provision of bulk supply. However, BOT projects often did not address problems of existing water supply and sanitation systems such as high unaccounted for water, high expenditure on energy and low cost recovery. The focus is slowly shifting to improved management of existing systems. As

part of the World Bank funded Karnataka Urban Water Supply Improvement Project, demonstration zones have been identified in the three cities Belgaum, Gulbarga, Hubli-Dharwad and entrusted on a performance based contract to a Private Operator Consultant for carrying out water supply improvements in the zones with the prime objective of demonstrating provision of 24/7 water supply. Mysore city in Karnataka has signed management contracts with a private company for delivery of services. The BOT contracts for water supply and sewerage contract are also finalized for Latur town in Maharashtra and Salt Lake township in West Bengal. It may be mentioned here that water supply tariff in India are low and base data of existing water supply systems are missing. Unless these issues are taken care it will not be possible to undertake PPP projects in urban water supply and sanitation sector.

Moreover, in order to make investment in basic services by citizens themselves, a reliable local leadership is needed. A study on multi-actor arrangements in basic services shows that arrangements in urban India include community-based organizations functioning as small-scale enterprises, and Resident Welfare Associations (RWAs) operating as lobbies for middle-class citizens (Baud and Wit, 2008)). The study further concludes that citizens are increasingly expected to make payments for delivery of services. Public agencies also utilize civil society organizations and private sector to address issues of transparency and accountability.

GOVERNMENT'S RESPONSE

JNNURM

To meet the challenges of growing urbanization and to enable Indian cities to develop to the level of global standards, a comprehensive programme, namely JNNURM was launched in December, 2005. Its background, approval process, landmark initiatives, status of reforms are described below.

Background: Under the JNNURM, approximately Rs.10,00,000 million would be invested during the seven year period 2005-2012 for improvement of urban infrastructure and providing basic services for the poor in urban areas. The Government has identified 65 cities under Urban Infrastructure and Governance component of the JNNURM program. These cities cover about 40% of India's urban population. Till April 2009, the Government approved 461 projects at total cost of Rs. 4,94,224 million under urban infrastructure and governance component of the program (Table 8).

**Table 8: JNNURM Projects – Sector wise sanction
(Urban Infrastructure and Governance)**

S. No.	Sector	Number of Projects Sanctioned	Cost of Projects Sanctioned (Million)
1	Water Supply	140	1,82,346
2	Sewerage	99	1, 21,167
3	Drainage/ Storm Water Drainage	59	72,888
4	Solid Waste Management	40	21,861
5	Roads/ Flyovers	75	33,822
6	Public Transport System	19	47,709
7	Other Urban Transport	13	6,860
8	Urban Renewal	9	4,451
9	Development of Heritage Areas	2	492
10	Preservation of Water Bodies	4	1,167
11.	Parking	1	560
Total		461	4, 94,224

Source: JNNURM, Progress Review, April 24, 2009.

Note: No Project is sanctioned for Prevention and Rehabilitation of Soil Erosion.

Approval Process: The cities selected under JNNURM first prepared a City Development Plan (CDP). This plan is to be submitted through the State Government and approved by MOUD. Then a memorandum of agreement has to be signed among the ULB, State Government and MOUD to implement the reforms over the seven-year period. The ULBs prepare Detailed Project Reports for the projects identified in the CDP. These DPRS have to be first approved by the general council of ULB and then submitted to State Level Nodal Agencies. A Committee chaired by the Chief Minister approved the DPR and then forwards it to MOUD. The DPR is first reviewed by technical experts and then submitted to Central Sanctioning Committee (CSMC) of JNNURM. The CSMC approves the projects based on financial and technical review of the experts. GOI grant varies between 35-80% depending on size of ULBs. Once the project is approved then for projects below less than Rs. 100 crore it is directly sent to the Finance Ministry. If it is between Rs. 100-500 crore it is sent to Finance Ministry after The grant is in form of Additional Central Assistance (ACA) and is disbursed in four instalments based on progress of work. The Finance Ministry transfers this grant to State Government who in turn forwards it to the ULB.

Landmark Initiatives: JNNURM has also catalysed a number of landmark initiatives in states and cities across the country (Ramachandran, 2009). A few key ones are - the state government of Punjab has constituted the Punjab Municipal Infrastructure Development Fund for raising resources for ULBs by tapping capital market. Public transportation function has been transferred to the city governments in Punjab. The city of Faridabad has

taken Community Participation to the next level by involving the community in monitoring project progress from tendering to the execution stage. Surat is the first city to set up a dedicated Urban Transport Fund followed by Pimpri-Chinchawad. Metropolitan Urban Transport Authorities have been established in the mission cities of Hyderabad, Jaipur, Chennai, Bangalore and Mumbai. Dedicated pedestrian path and cycle track are being created along all the BRTS corridors. Over 14,000 buses have been sanctioned for 54 cities for improvement of city bus service for the first time.

Reforms: The States and urban local governments (ULBs) accessing the JNNURM must complete a total of 22 mandatory and optional reforms, during the seven-year period (2005-12). Many of these reforms will help to empower ULBs. These reforms are:

- Implementation of 74th Constitution Amendment Act (CAA)
 - Elections to ULBs
 - Transfer of 12th Schedule functions to ULBs
 - Formation of DPCs/MPC
 - Formation of SFCs and implementation of its recommendations
- Public Disclosure Law
 - Regular disclosure budgets, projects, revenues, financial statements, etc.
- Community Participation Law
 - Formation of Area Sabhas for active participation of community into budget making process, monitoring of project implementation, etc.
- Integration of City Planning and Delivery Function with ULBs
- Accounting Reform
 - Introduction of accrual based double entry accounting system
 - Preparation of Annual Balance Sheets.
- Property Tax Reform
 - Introduction of Self Assessment System (SAS)
 - More than 90% of properties to be on tax records
 - More than 80% of tax collection
- User Charges
 - At least 100% collection of operation and maintenance expenditure
- Administrative and Structural Reforms
 - HRD policy
 - Municipal Cadre
- Encouraging Public Private Partnership

Progress in implementation of the reforms in various states and the JNNURM cities is presented in Annex Tables A.1, A.2, and A.3. It is different in various states. JNNURM has incentivised strengthening of local governance through implementation of 74th CAA. Ten states have transferred functions mandated under the 74th CAA to the ULBs; 19 states have constituted DPCs; 4 states have constituted MPCs. In the state of Jharkhand, municipal elections have been held after a gap of 22 years. Legislation has been enacted in the states of Sikkim, Arunachal Pradesh and Mizoram for the establishment of urban local bodies. Few other key achievements are repeal of Urban Land Ceiling and Regulation Act (ULCRA) in all the states except West Bengal and Jharkhand; enactment of Public Disclosure Law in 14 states enabling greater transparency and accountability in ULBs, rationalisation of Stamp duty up to 5% in 9 states, and enactment of Community Participation Law in 7 states. In context of the reform at ULB level 12 cities have implemented e-Governance reforms, 26 cities have fully migrated to accrual based double entry accounting systems, 45 cities now have a provision for Internal Earmarking of Budget for Basic Services for Poor. 12 cities have achieved 85% coverage of property tax, 6 cities have achieved 100% cost recovery in water supply; 5 cities have achieved 100% Cost Recovery in Solid Waste.

Generally, Gujarat, Andhra Pradesh and Tamil Nadu have made very good progress. The implementation is satisfactory in many other states and cities. In this context, it is interesting to note various triggers for urban reforms (Box 6)

Box 6: Triggering Urban Reforms

Reforms can be triggered by creating external pressures on municipal bodies and city administration. In Surat, extreme circumstances such as the plague in early 1990s lead to the reforms. Local leadership in terms of Commissioner in Ahmadabad, Mayors in Alandur and Indore, and President of Textile Exporters Association in Tiruppur lead the reforms in these cities. The State Government played a key role in reforming Hyderabad city. The Bangalore Citizens Report Cards was an attempt towards improving accountability by involving citizens in performance assessment of public agencies. JNNURM has also played a crucial role in introduction of far reaching reforms in ULBs. A recent report by TERI (2009) has said the following could trigger reforms: (a) Informed and tax-paying citizens demanding better services and greater accountability; (b) Creating competitive pressure by comparing performance of ULBs; (c) Linking all Government and multilateral funding to performance of ULBs on MOUD's Standardised Service Delivery Benchmarks and reforms.

Urban Transport: The Government has approved additional funding for public transport under JNNURM. A total number of 14,240 buses and cost of Rs. 45,810 millions have been sanctioned. In order to implement the NUTP, 2006, MOUD has suggested the following actions under JNNURM:

- a) Setting up of Unified Metropolitan Transport Authority (UMTA) in all million plus cities.
- b) Setting up of a Dedicated Urban Transport Fund at city level and State level.
- c) Preparation of Comprehensive Mobility Plan for the urban agglomeration.
- d) Running of modern city bus service on PPP model, modernisation of bus fleet to have low floor and semi low floor buses as per urban bus specification and waiving of State taxes on city bus service.
- e) Revising proper parking policy in terms of regulation of parking requirements through proper fee, ban on parking on major arterial roads, encourage paid parking loss on PPP basis and using land as a resource to part finance the urban transport projects.
- f) Revising advertising policy, banning visual pollution in the city and bringing advertisement in a public transport, intermediate public transport only, so as to serve as a major source of revenue.
- g) Designating one department as nodal department for urban transport at the State level by change of Allocation of Business Rules.
- h) Reserving a lane for public transport/high capacity buses/high occupancy vehicles on all new roads/widened roads.
 - i) Promoting pedestrianisation and non motorised mode of transport.
 - j) Launching of awareness campaign for encouraging individuals, families, communities to adopt green travel habits.

Reasons for Slow Progress of Reforms

Main reasons for limited improvement in functioning of ULBs inspite of 74th CAA, are that functions, finances and functions have not been transferred to ULBs in most states. These are elaborated below:

- Limited understanding of reforms in cities/states.
- There is insufficient political consensus at state and municipal levels for the reform agenda, particularly regarding private sector participation and proper pricing of services.
- Preparation of electoral rolls for ULBs is carried out by State Election Commission (SEC). In many states, SECs prepare separate rolls for local elections and do not adopt rolls prepared by Election Commission for state assemblies.
- In many states, governments retain the power of delimitation of wards for ULB elections. In many cases, SECs have to delay local elections till governments complete delimitation exercises.
- Elections in some ULBs postponed for more than six months due to reorganization of ward boundaries, extension of limits, etc.
- In most states, elected Mayor does not have executive powers.

- Under 12th schedule of the 74th CAAA, it is not necessary that all the identified functions have to be transferred to ULBs.
- Small and medium sized ULBs are not in position to manage all the functions identified in the 12th Schedule.
- There are no regulations requiring certain minimum pricing of services to recover costs.
- Property tax, the main source of own income of ULBs, has not been able to achieve adequate buoyancy due to constraints like rent control, inefficiency in updating property rolls, resistance to periodic assessment, etc.
- Limited project development and implementation capacity.
- There are no regulations requiring provision of certain minimum level of services to be provided by ULBs.
- ULBs have weak revenue base as tax base is inadequate, user charges are relatively low and revenue collection is low.
- State transfers to ULBs are often low and unpredictable.
- Support from Central Finance Commissions to ULBs has been ad-hoc and not linked to any central revenue source.
- Existing administrative structure does not require that there is certain minimum level of technical staff in ULBs.
- Role of parastatal (such as utility boards) and ULBs is often not clearly defined for project planning, implementation and operation and maintenance.
- Presently, DPCs and MPCs play a minimal role in urban planning and investment decisions.
- Certain industrial areas are exempted from setting up ULBs.

STRATEGY FOR URBAN DEVELOPMENT

The Second Administrative Commission Report (ARC) has looked into urban governance quite closely. It has revisited the ULB structure, functional devolution, executive system finances and the related aspects of delivery of services and suggested a number of measures to strengthen ULBs (India 2007). The Government has accepted a large number of its recommendations of the AEC. A National Commission of Urbanization (NCU) was set up in late 1980s and it brought a report in 1988. Since NCU Report is over two decades old, ARC recommended setting up of NCU-II and Government has also accepted this recommendation. As per population projection in 2026, level of urbanization will be different in various states (Table 9). In terms of urban population distribution in 2026, India will be mainly dominated by 11 states identified as first group and 11 Mega cities. India's future urban strategy should recognize these differences and plan accordingly.

The WDR 2009's main message is that economic growth will be unbalanced but development can still be inclusive and it also suggests a policy framework to benefit from urbanization (Box 7).

Table 9: Grouping of States According to Level of Urbanisation in 2026

States/UTs	Urban_2026 per cent	Per cent Share of Total Urban Pop_2026
Urban States (mainly A.P., Delhi, Gujarat, Haryana, Karnataka, M.P., Maharashtra, Punjab, T.N.)	50.9	68.6
Average Urban States (mainly Chhattisgarh, J&K, Jharkhand, Rajasthan, Kerala, U.P., and Utrakhand)	28.6	24.5
Low Urban States/UTs (mainly Bihar, H.P., Orissa, and NE)	15.5	6.9
Total	38.2	100.0
Source: Population Projections for India, 2001-26, Registrar General of India, 2006		

Key considerations or themes for urban strategy in India should be:

- a) Constitutional amendments are required to achieve objectives of urban decentralization.
- b) Different approach of supporting reform-linked investments needed for different states based on level of urbanization.
- c) Focus of investments should be on asset creation as well as management.
- d) Continue focus on public urban transport and integrate urban transport with land use planning.
- e) Inter-government transfers should have in-built incentives to improve performance.
- f) Integrate various urban development and related programs at local, state and national levels to develop sustainable city or metropolitan regions.
- g) Strengthen urban institutions and clarify roles of different organizations. Capacity building should be an important component of the program.
- h) Second generation of urban reforms should further focus on regulation, innovative financing and PPP, and climate change initiatives.

Box 7: Unbalanced Growth but Inclusive Urban Development

The World Bank has published the World Development Report (WDR) 2009 with theme on, "Reshaping Economic Geography". The report's main message is that economic growth will be unbalanced but development can still be inclusive. The chapter on urbanization suggests a policy framework to help nations benefit from urbanization. It outlines that prioritizing and sequencing of policies can help governments facilitate inclusive development. For areas of incipient urbanization, the policy priorities would be provision of basic urban services and improvement of land markets. For areas with intermediate urbanization, the priorities include providing basic services, improvement in land markets and investing in infrastructure in around the growing cities. Advanced urbanized areas should focus on well-functioning land markets, representative management, state-of-the-art transport infrastructure, and social policies to integrate low-income residents. The report provides important inputs for understanding and developing India's urban development strategy.

Source: World Bank 2009.

To improve urban governance and delivery of services there should be constitutional amendments as well administrative actions. These are:

Constitutional Amendments

The 12th Schedule of the constitution should be amended and classify the functions into core, assigned by government and others functions. Sub-section (a) (ii) in Article 243-W should be amended so that ULBs should be accountable for provisions of core services in 12th schedule. The term "may" in the sub-section should be replaced by "shall" for core functions. The services may be provided by the ULBs directly or indirectly through parastatals or outside agencies. Article 243-Q should be amended so that industrial areas are not exempted from formation of ULBs. Article 280 deals with CFCs. The sub-section 3(c) in this article should be amended so that CFCs provide grant-in-aid to ULBs linked to net proceeds of taxes (and not ad-hoc grants).

Management Actions

Governance: For strengthening ULBs, the Government may consider the adoption of a common categorization of urban bodies across the country to improve clarity in their definition so as to assist a systematic planning process and devolution of funds. Article 243-P has defined metropolitan areas as areas having population more than 10 lacs or more but this has to be specified by the Governor through a public notification. All areas having population more than 10 lakh should be defined metropolitan areas. A minimum level of staffing should be provided for ULBs in metropolitan areas. The Mayor should

be the Chief Executive of the municipal body while the Commissioner should perform the functions delegated to him/her. SECs should adopt Assembly electoral rolls without any revisions. Elections to ULBs should not be, generally, delayed beyond six months. Power of delimitation of wards for ULB elections should be with SECs and not state governments.

Finances: The CFC should provide grants to ULBs linked to one or two central revenue sources. There is also need to provide additional grants to improve staff capacity of ULBs. Grants from CFC to ULBs should be linked to level of decentralization and performance. SFCs should be constituted every fifth year. The SFCs should submit their reports in time to be considered by CFC. Each State should prescribe the qualifications of persons eligible to be appointed, as Members of the SFCs. Common formats must be adopted, and annual accounts and other data must be compiled and updated for use by the SFCs. SFCs should identify taxes, user charges and fees to be levied by ULBs. All ULBs should switch over to the 'unit area method' or 'capital value method'. The categories of exemptions from property tax need to be reviewed and minimized. Tax details for all properties should be placed in the public domain to avoid collusion between the assessing authority and the property owner. A computerized data base of all properties using GIS mapping should be prepared for all municipal areas. Municipal bodies should be encouraged to borrow without Government Guarantees. However, for small municipalities, pooled financing mechanisms will have to be put in place by the State Government.

Planning: MPC/DPCs need to coordinate with various agencies with regard to implementation of various programmes. The programmes need to be prioritized as per the Plans. In case of large ULBs, there is need to promote Area Sabhas at election booth level. The ULBs should be able to prioritise the development programmes. Any mega project envisaged needs to be developed taking into account the views of all the stakeholders. As far as possible, the land may be acquired through negotiations and the affected persons need to be provided with alternative housing and livelihood.

Delivery of Services: Management of water supply and sewerage system should be the primary function of ULBs. They should be given responsibility for water supply and distribution in their territorial jurisdictions whether based on their own source or on collaborative arrangements with parastatal and other service providers. Municipal Corporations may be given responsibility for the entire water supply programme from development to distribution. For smaller and medium sized ULBs, a phased transfer of responsibilities for management of the distribution networks should be developed. Parastatal agencies should be accountable to ULBs.

Encouraging PPP: Successful PPP programs should be handled at both State and City levels. Role of the state should be to create an enabling environment with an aim to expand, broaden and deepen private sector investments in infrastructure, whereas the role

of city should be to develop and implement PPP projects in a process oriented approach. Municipal laws should be amended to provide enabling provisions for PPP in delivery of services and setting up a state or city level regulatory frameworks. State Governments should facilitate in developing pilot PPPs in each sector and also assist the cities in identifying institutions or advisors that can assist ULBs to identify and prioritize projects, review options, carry out financial analysis, prepare detailed project reports, design and evaluate bid process, select of private sector partner and manage them.

In case of water and sewage management, the PPP in provision of efficient and effective services to customer shall be encouraged particularly in management of services and reduction of non-revenue water. Investment into output based stand alone sewage treatment would lead to clean up of rivers and other surface water bodies and goes a long way in conservation of the precious resource and environment.

PPP is also to be encouraged in setting up of solid waste treatment plants and sanitary landfills sites at city as well regional levels. Regional solid waste facilities could cover nearby urban areas and can be operationally more viable. Moreover, State Governments should help ULBs to obtain lands for disposal sites.

The **areas where public funds are available**, private sector efficiencies can be inducted in development management as well as to enhance the available funding and also to bridge the financial gap; the areas where **public funds are not available**, projects can be developed and implemented through leveraging private sector funds.

Urban Transport: For urban public transport, a special purpose vehicle (SPV) with participation of public agencies should be set up. The SPV or public procurement authority should make investment in common infrastructure like bus stops, office space, etc. and private bus operators should make investments in rolling stocks (buses). The SPV or public agency should engage one or two large private bus operators through competitive bidding. The private operators should focus on efficient operations of services and the SPV or public agency should take responsibility for standard and availability of services. Private operators can also bring in specialized expertise in the form of Passenger Information System and Intelligent Transport Systems, to improve the operational efficiency by providing the real time information on bus operations and automated/online ticketing.

A detailed analysis should be carried out to accommodate the different modes of vehicles plying on the road; it becomes more relevant, since in the country we have a heterogeneous mix of vehicles sharing the same carriageway. Stakeholders' consultation at different levels should be carried out at the planning stage, so that issues arising after implementation of project can be mitigated at the planning stage. Apart from the engineering and planning, strict enforcement during and after construction is also necessary for success of BRT projects. It should be mandatory for each city to prepare

Comprehensive Mobility Plan and link it with the master plans of the city rather than taking ad-hoc decisions for decongesting one road or the other.

Market-Based Financing: Review the 8% cap on interest rate for tax-free municipal bonds and prescribe a benchmark market rate linked to State Bank of India-Prime Lending Rate rather than an absolute percentage. Expand the range of “approved investments” for insurance and pension organizations to include municipal bonds of investment grade or higher. General Purpose bonds may also be included in the list of ‘infrastructure’ category. Specify municipal bonds under the ‘priority sector’ category for investment/lending purposes. Provision of “bond insurance” as credit enhancement may be explored as a security against default by municipal bodies. Provide investment opportunity in municipal bonds to individual/retail investors, CBDT to include municipal bonds in the list of eligible investments/subscriptions for the purpose of claiming deduction under section 80C of the Income Tax Act, 1961. Include municipal bonds in the list of eligible investments for Employee Provident Fund Organization.

CONCLUSION

Great progress has been made in developing the framework for reform linked investment in urban infrastructure. As per population projection in 2026, level of urbanization will be different in various states. India’s future urban strategy should recognize these differences and plan accordingly. To improve urban governance and delivery of services there should be constitutional amendments as well administrative actions. Most importantly, inter-government transfers should have built-in incentives to improve performance and capacity building should be an important component of the future urban program.

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Annex Table A.1: JNNURM: State Level Reforms – Year 4 Commitments and Accomplishments

Item	74 th CAA (Transfer of 12 Sch. Functions)	74 th CAA (Constitut ion of DPC)	74 th CAA (Constituti on of MPC)	Transfer of City Plannin g Functio ns	Transfer / Integration of Water Supply & Sanitation	Enac tmen t of Publ ic Disc losur e Law	Enac tmen t of Com mun ity Parti cipat ion Law	Sta mp Duty Rati onaliz atio n	Refor m of Rent Contr ol Act
Target number to be achieve d by Year 4 (2009)	18	29	10	18	18	26	29	9	16
Total Achieve d till date since the start of mission	10	19	4	12	12	14	7	9	7
Achieve d prior to the Mission	8	12	1	10	10	0	0	6	6
Achieve d during the Mission	2	7	3	2	2	14	7	3	1

Source: JNNURM, Progress Review, April 24, 2009.

Annex Table A.2: JNNURM: ULB Level Reforms – Year 4 Commitments and Accomplishments

Item	E-Governance set-up	Shift to Accrual based Double Entry Accounting	Property Tax (85% Coverage)	Property Tax (90% Collection efficiency)	100% cost recovery (Water Supply)	100% cost recovery (Solid Waste)	Internal Earmarking of Funds for Services to Urban Poor
Target number to achieve by Year 4 (2009)	45	52	19	15	9	12	50
Total Achieved till date since the start of mission	12	26	12	10	6	5	45
Achieved prior to the Mission period	4	4	4	4	1	0	20
Achieved During the Mission	8	22	8	6	5	5	25

Source: JNNURM, Progress Review, April 24, 2009.

Annex Table A.3: JNNURM: Optional Reforms – Year 4 Commitments and Accomplishments

Item	Introduction of Property Title Certification System	Revision of Building Bye laws – streamlining the Approval Process	Revision of Building Bye laws – Mandatory Rainwater Harvesting in all buildings	Earmarking 25% developed land in all housing projects for EWS/LIG	Simplification of Legal framework for conversion of agricultural land for non-agricultural purpose	Introduction of computerized process of Registration of land and property	Byelaws on Reuse of Recycled Water	Administrative and Structural Reforms	Encouraging Public Private Partnership
Target number to be achieved by Year4 (2009)	6	46	56	23	32	34	29	28	43
Achieved till date since the start of mission	2	21	34	10	22	17	13	4	40
Achieved prior to the Mission Period	2	2	16	2	7	9	1	0	17
During the Mission	0	19	28	9	15	8	12	7	23

Source: Source: JNNURM, Progress Review, April 24, 2009.