

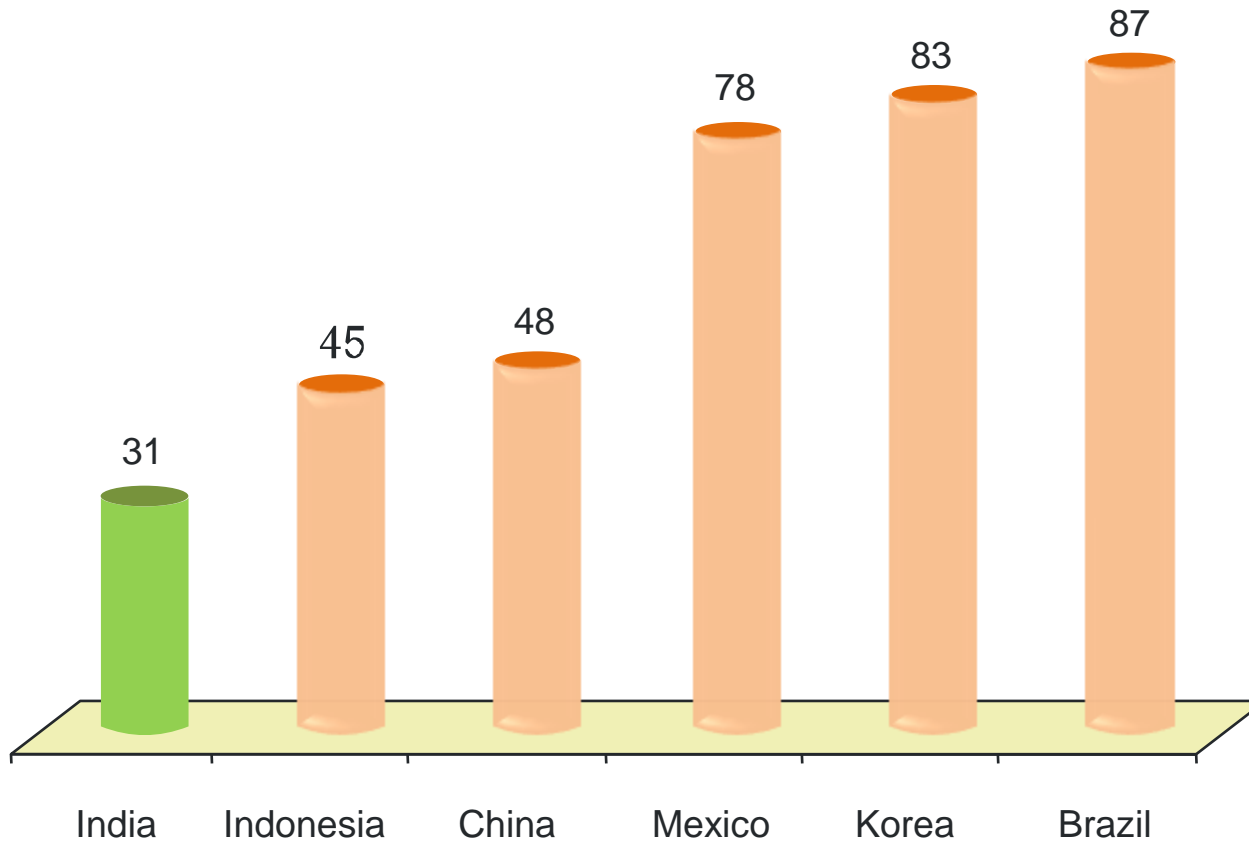


## **HPEC Report and Recommendations**

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29<sup>th</sup> September 2011**

## Urban share of total population in 2011 (per cent)



Source: United Nations and Government of India

## India is urbanising...

India's urban population to increase

- From 377 million today to 600 million by 2031
- From **50** metropolitan cities in 2011 to **87** by 2031
- From 160 million population in metropolitan cities in 2011 to 255 million by 2031
- From 217 million population in other cities and towns in 2011 to 343 million by 2031

*Note:*

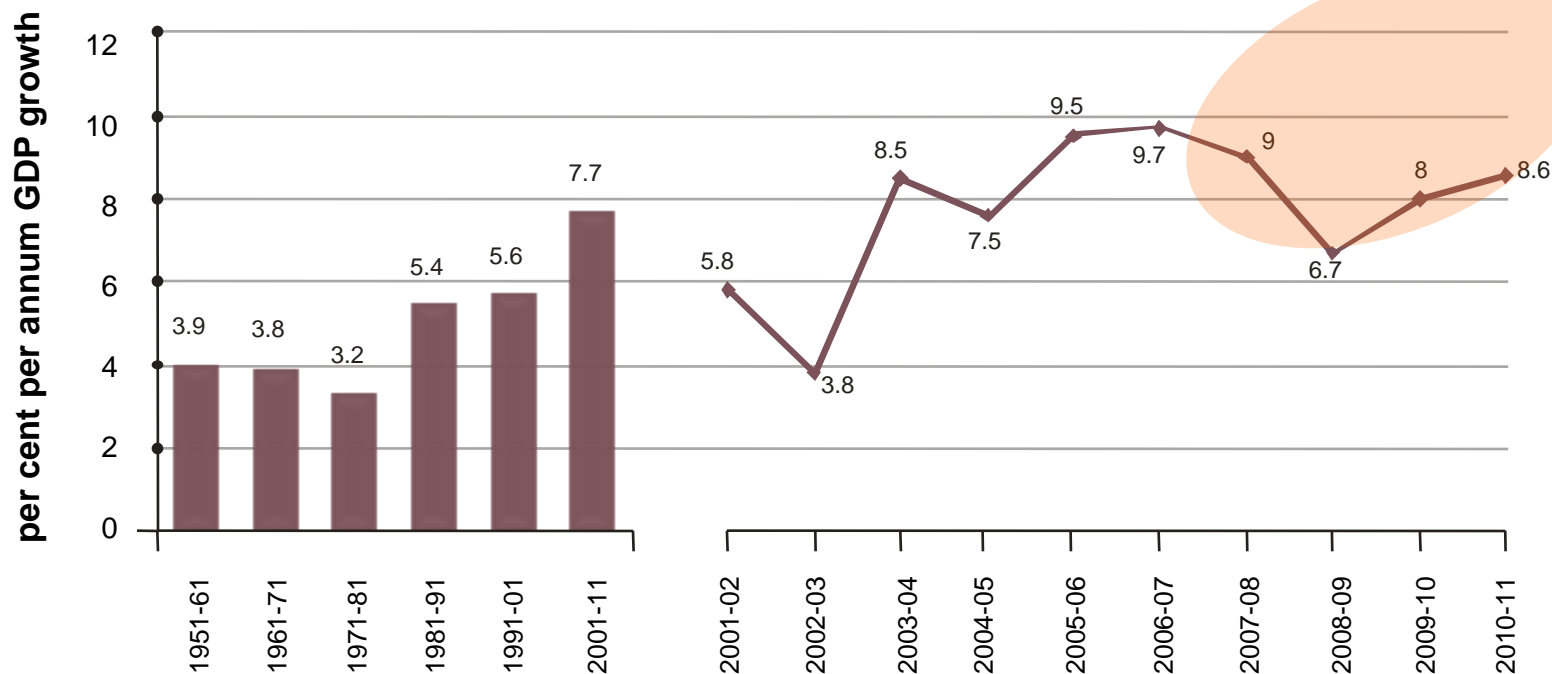
*Metropolitan cities are cities with population over 1 million or 10 lakh (Class IA and Class IB cities); Other cities are cities with population between 1 lakh and 10 lakh*

## India is urbanising.... *contd.*

- There are 7935 cities and towns in 2011, up from 5161 in 2001
- There are ---- Urban Agglomerations in 2011, up from 4378 in 2001
- Slum population, on average, is 25 % of urban population
- Urban poverty in 2004-05 was 25.7 %

*Urban planning, urban infrastructure development, and public service delivery of universal standards must address this challenge*

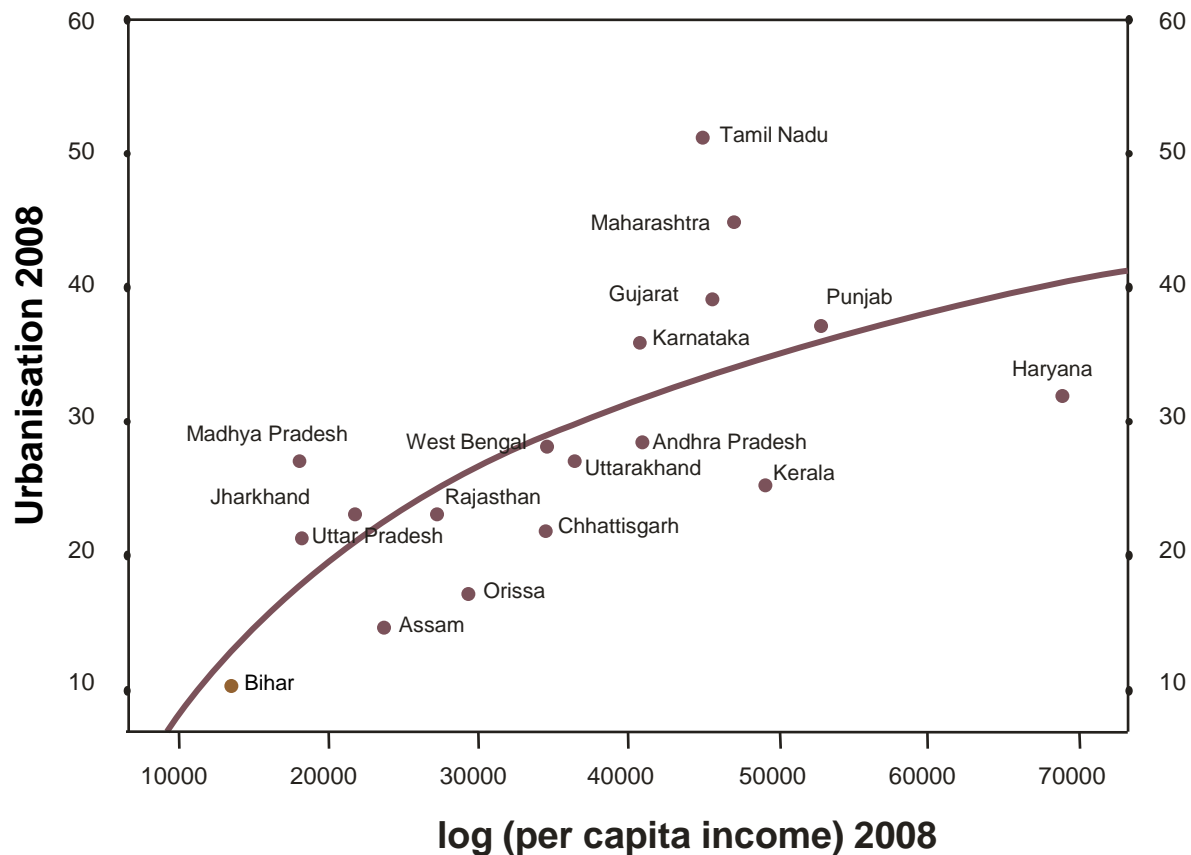
## A snapshot of India's GDP growth



**India is among the fastest growing economies in the world today**

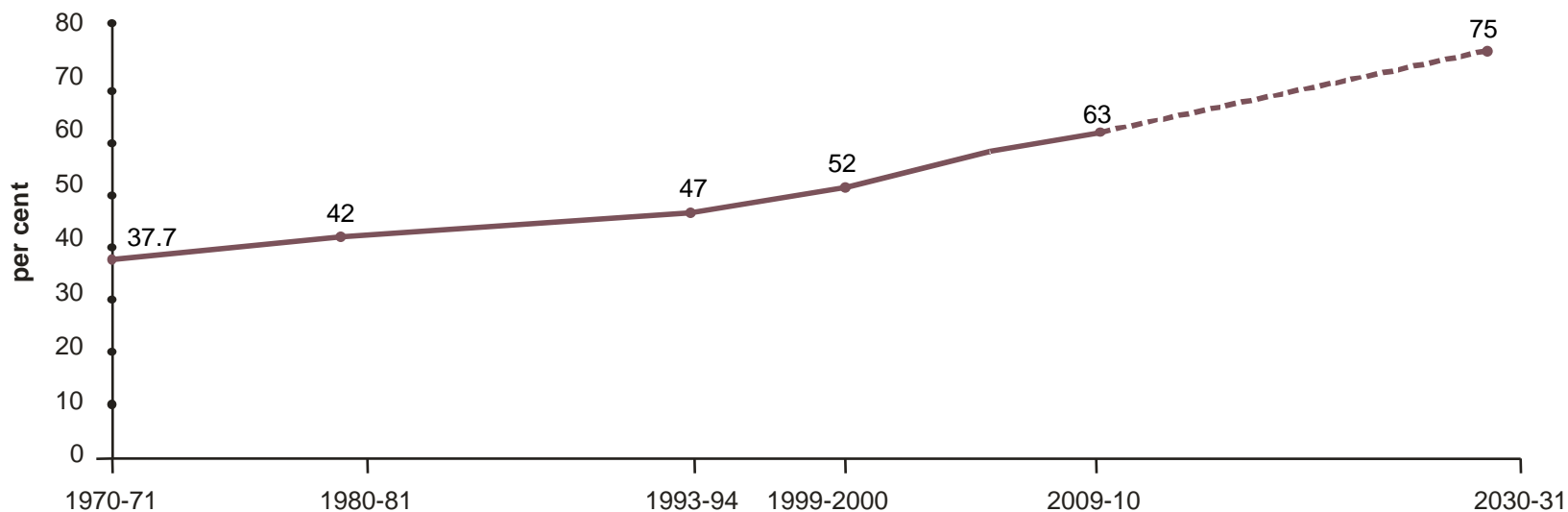
Trend growth rate of GDP from 2001-02 to 2010-11 is **8.3** per cent per annum

## Per capita income and urbanisation levels: States 2008



Source: Estimates based on Census of India data and CSO.

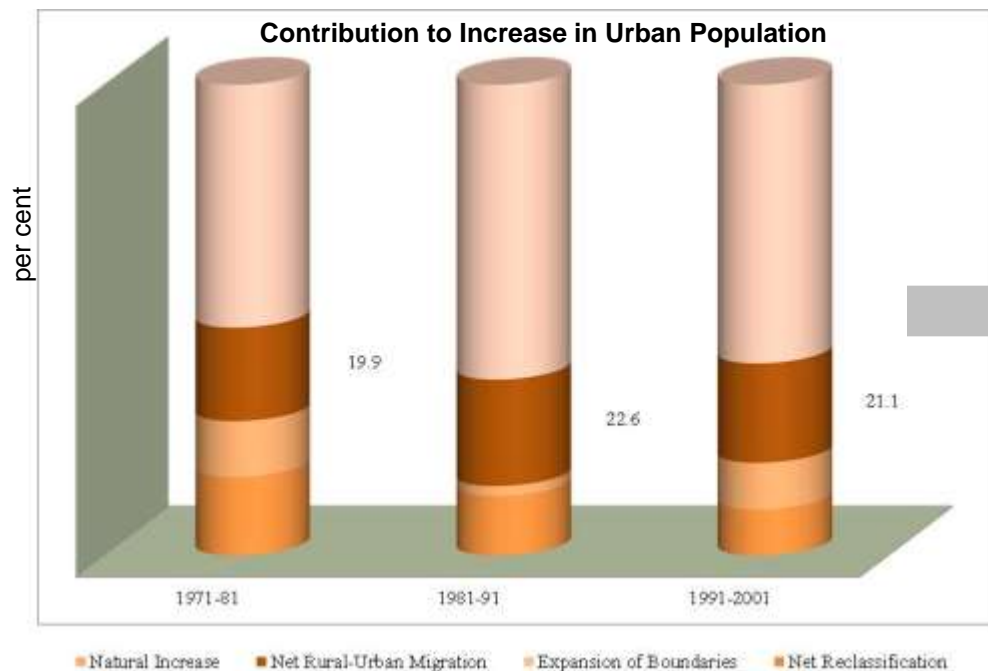
## Urban share of GDP is rising rapidly (per cent)



Source: CSO, Eleventh Five Year Plan and the Mid-Term Appraisal Document of the Eleventh Five Year Plan

**Implies a major structural transformation...**

## ...The deluge is yet to come



*Migration has played a minor role in urbanisation*

Net Rural-Urban Migration

*Watch out for Census 2011*

Pressure of rural-urban migration will increase

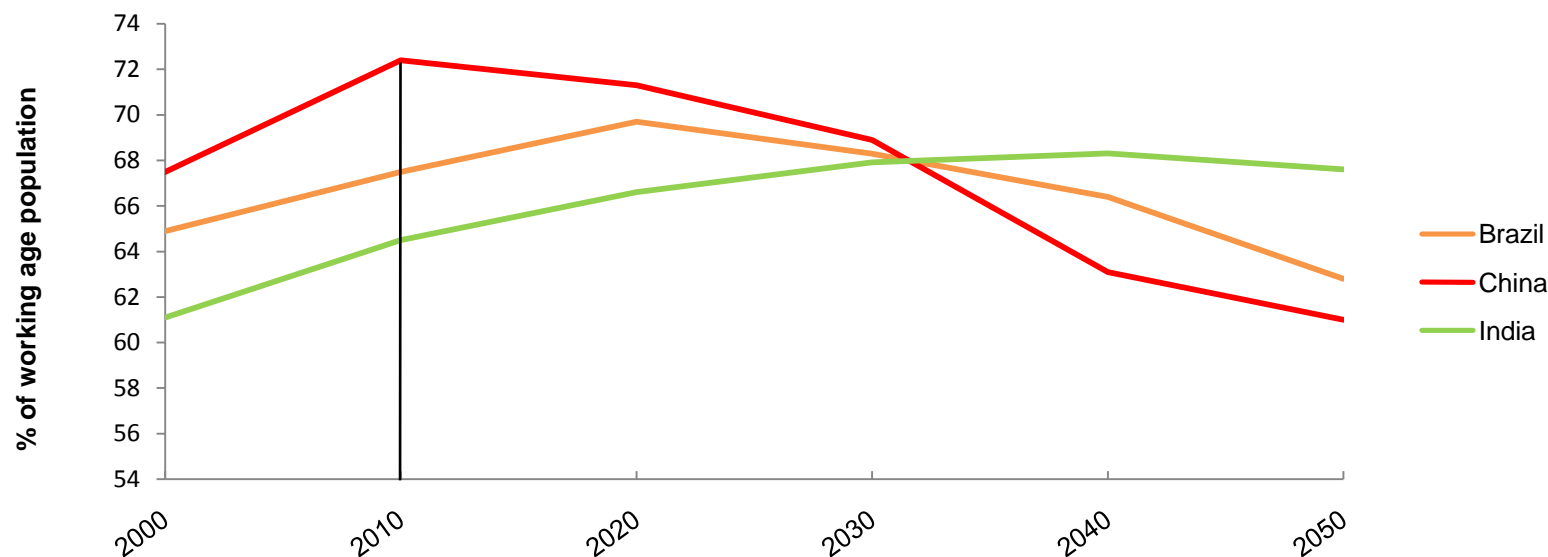
- with increasing role of industry and services sector in growth
- with more labour absorbing growth resulting from increasing integration with the world economy

Many cities will experience peripheral expansion, with smaller municipalities and large villages surrounding the core city becoming part of the metropolitan area.

## The challenge of faster and more inclusive growth

- To sustain growth rates of GDP of 8 to 9 per cent per annum or per capita income increases of about 6.5 to 7.5 per cent per annum
- Faster GDP growth has to come from industry and services, since agriculture at best can grow at 4 to 4.5 per cent per annum
- To make growth of industry and services more labour intensive, it is necessary to **modernise labour laws** (to provide greater flexibility in hiring and firing labour), while at the same time provide **social protection** to those who do not find productive employment in the organised sector.
- Fortunes of the rural sector are crucially linked to the manner in which growth in the industrial and services sector unfolds

## From demographic opportunity to demographic dividend



- Demographic dividend of our rising population of working age can only be reaped if the young population is empowered with skills and higher education, and the employment opportunities expand as India moves towards faster and more inclusive growth
- Skill development must take note of the sectors and areas in which skill demand is growing. Public Private Partnership (PPP) must play an important role in correcting the mismatch between demand and supply of skills.
- Emphasis on higher education is crucial if India has to continue its competitiveness in knowledge-based industries, e.g., IT, Biotech, Pharmaceuticals

## Implications for urban development

- Need more cities as engines of growth for providing agglomeration economies
- Investment climate is about ease of doing business and also ease of living

## The ground reality

- Cities & towns of India are visibly deficient in the quality of services they deliver
- Current state of service delivery is far short of what is needed to realise the economic potential of urban areas

## The way forward

- Creating urban infrastructure and reforming governance for service delivery
- Providing access to universal service standards for all including the poor
- Consciously building rural-urban synergy
- Recognising importance of urban transport
- Focussing on metropolitan planning

## Some examples of urban transformation: JNNURM

- Nagpur : Integrated approach to 24x7 Water Supply Delivery
- Navi Mumbai : Waste Water Management
- Rajkot : Solid Waste Management
- Ahmedabad, Bhopal : BRTS
- Indore : City bus service
- Bhubaneswar : Urban Renewal of Old Town
- Kalyan-Dombivil : e-governance

Bangalore

Hyderabad

Surat

Ahmedabad

## Some other examples of urban transformation

### Urban service delivery

- 24x7 water supply in selected wards in Hubli-Dharwad, Belgaum and Gulbarga in Karnataka
- Underground sewerage system in Alandur
- Scientific landfill site in Gorai for solid waste disposal
- Community toilet Initiative in Trichy

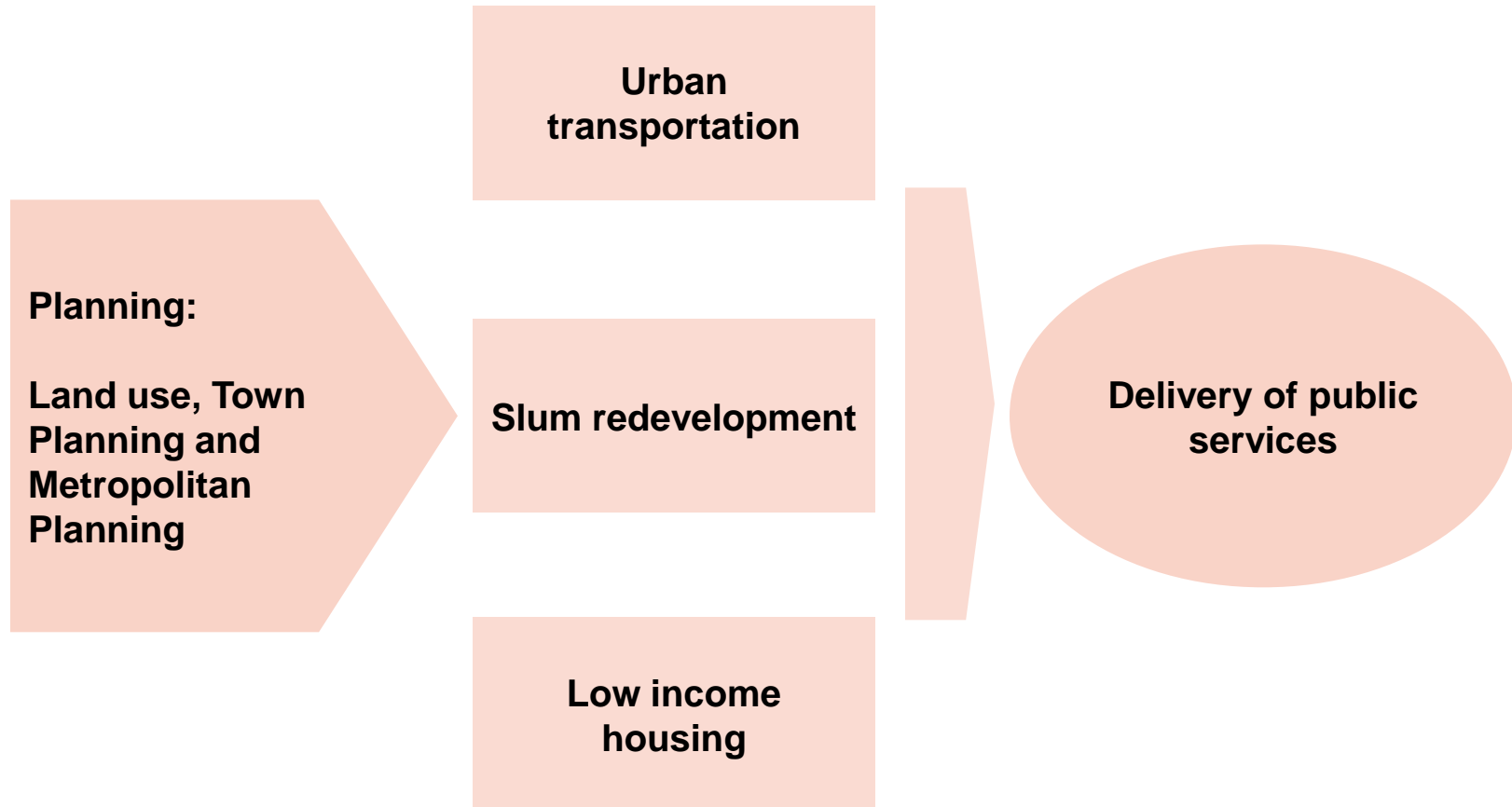
### Planning and development

- Town Planning Schemes in Gujarat
- Outer Ring Road for Regional Planning and Development in Hyderabad
- Urban land development and management in Magarpatta

### Finance

- Property Tax reforms in Bangalore

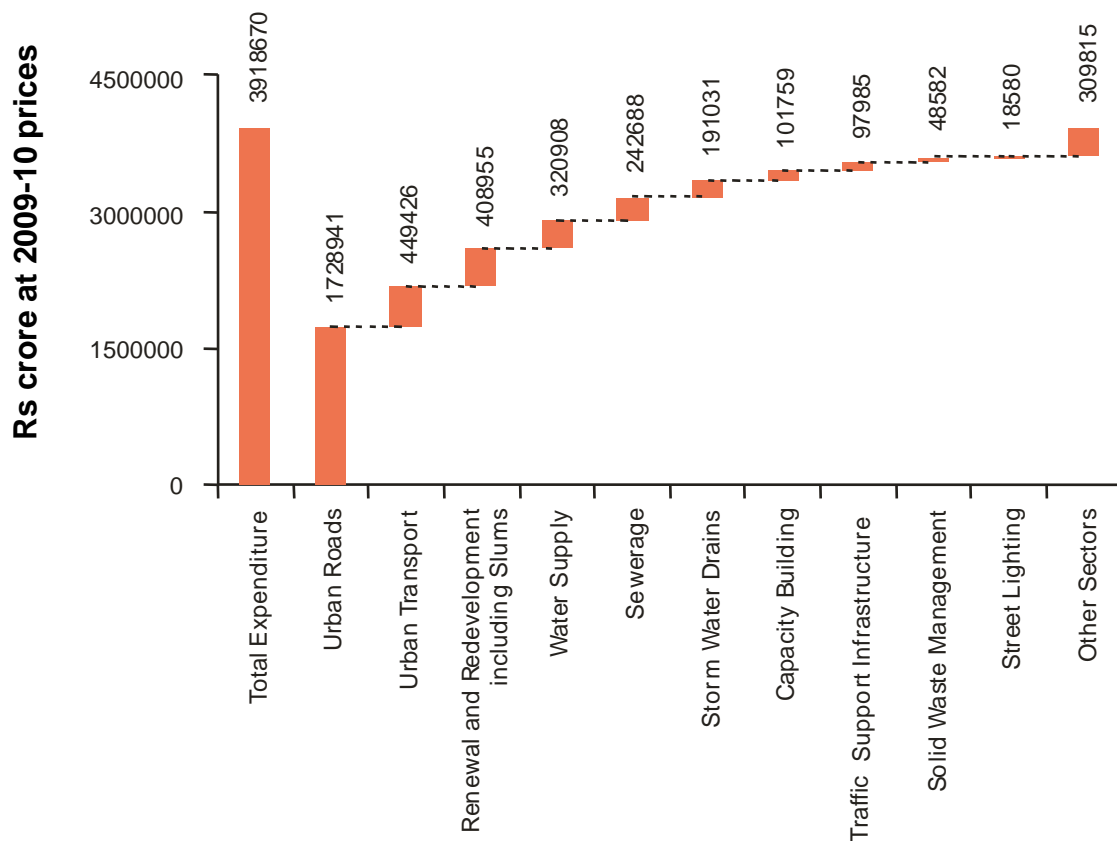
## Many challenges still remain



## Service standards endorsed by the committee

• Water Supply	: 100 per cent piped water, 24x7 flow, and 135 lpcd consumption per capita
• Sewerage	: Underground sewerage with 100 per cent collection and treatment of waste water
• Solid Waste	: 100 per cent collection, transportation and treatment
• Urban Roads	: Area under roads
	11 per cent area for cities
	7 per cent for towns
	: Road density (km per sq. km.)
	12.25 km per sq. km. for cities
	7 km per sq. km. for towns
• Storm Water Drains	: Network covering 100 per cent road length on both sides of the road
• Urban Transport	: Rail-based and road-based Mass Rapid Transit System for cities with population 1 mn and above, city bus service for smaller cities and towns
• Street Lighting	: Illuminance: 35 Lux for all cities and towns; 40 m spacing for major roads, 45 m for collector roads, and 50 m for access road spaces
• Traffic Support Infrastructure	: Details by city size in the Committee's Report

## Urban infrastructure investment requirement of Rs. 39.2 lakh crore over 20 years.



- Does not include Primary Education, Primary Health, and Electricity Distribution; also does not include land cost
- Additional **Rs. 20 lakh crore** for operation and maintenance of assets- old and new

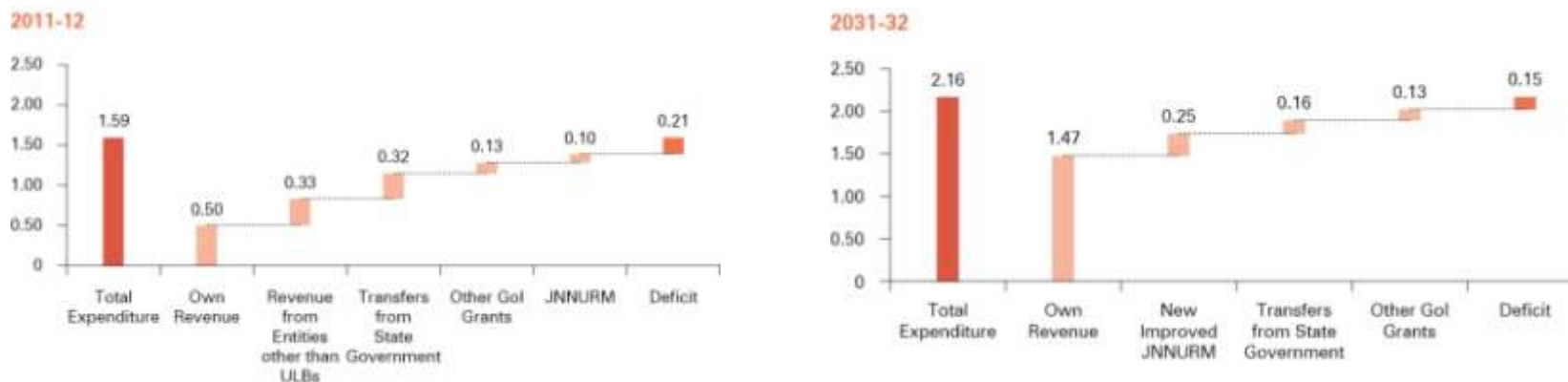
## Components of Rs 39.2 lakh crore urban infrastructure investment at 2009-10 prices

- 44 per cent Urban roads (backlog very large)
- 20 per cent Water, sewerage, solid waste managements, storm water drains, street lighting
- 14 per cent Transport and traffic support infrastructure
- 10.5 per cent Renewal and redevelopment including slums
- 2.5 per cent Capacity building
- 10.0 per cent Other sectors

This implies increases in urban infrastructure investment at 15 per cent per annum in the Twelfth Plan, 12 per cent per annum in the Thirteenth Plan and 8 per cent per annum in the Fourteenth and Fifteenth Plans.

GDP at 2009-10 assumed to increase at 8 per cent per annum for the 20-year period

## Large sums, but financeable if (per cent of GDP)



- Government of India scales up urban development funding to 0.25 per cent of GDP per year for 20 years
- State governments enter into Constitutionally mandated revenue-sharing arrangement with ULBs
- State governments provide enabling environment for ULBs to reform
- ULBs to aggressively push reforms to increase own revenues



Access to borrowing and PPP is made possible by working on a Revenue Model which makes ULBs credit-worthy and market-worthy

## But governance is crucial

- Financing is crucially dependent on the reform of institutions and the capacity of those who run the institutions for service delivery and revenue generation.
- Municipal entities need to be strengthened with 'own' sources of revenue, predictable transfers from state governments, and other transfers from the GoI and state governments, to help them discharge the larger responsibilities assigned to them by the 74<sup>th</sup> Constitutional Amendment.
- The ULBs themselves need to carry out reforms to strengthen their finances, and improve service delivery
- Building and developing a Municipal cadre is very important

## And so is capacity

- The JNNURM has created dynamism in the Indian urban sector which has long suffered neglect. But progress in implementing reforms under the JNNURM has been slow. The Mission has generally exposed the lack of capacity to prepare and implement projects in urban infrastructure.

# Recommendations

# Major recommendations on governance

## Administrative

- One ministry of Housing and Urban Affairs at national level
- Urban Development, Urban Transport, and Housing in one department at state level
- Unified Mission (NIJNNURM)
- Unified command under an empowered and accountable Mayor

## Regulatory framework

- Urban Utility Regulator
- Local Body Ombudsman
- Local Funds Audit Commission

## Reforms for service delivery

- Corporatisation
- Inter municipal cooperation
- Legislative reforms at state level to facilitate PPPs
- Use of e-governance

## Planning

- Town Planning related
- Metropolitan and Regional Planning related

## Major capacity building initiatives

- Set up five Indian Institutes of Urban Management
- Create Reform and Performance Management Cells (RPMC) at Government of India, and also at state government level
- Build/Reform Municipal cadres in all states
- Train 300 officers from the Indian Administrative Services (IAS) and other central services annually as urban specialists
- Infuse funds and new talent into existing Schools of Urban Planning
- Promote think tank initiatives in urban policy through Centres of Excellence/Innovation
- Encourage lateral hiring of professionals

# Major recommendations on financing

## 1. Tax reforms

- Introduce a 'Local Bodies Finance List' in the Constitution
- Empower ULBs with 'exclusive' taxes
- Constitutionally ensure sharing by the state governments of a pre-specified percentage of their revenues from all taxes on goods and services with ULBs
- Provide for formula-based transfers and grants-in-aid to ULBs from the divisible pool
- Abolish octroi and entry taxes in all states
- Reform property tax so as to levy tax on constructed building under an Area Based System and levy of vacant land tax on the basis of ready-reckoner capital value

# Major recommendations on financing

## 2. Unlocking land value

- Tapping land-based financing sources including conversion charges, betterment charges, impact fees, and development charges
- Pricing of Floor Space Index (FSI) above a certain limit, within overall planning guidelines
- Preparing city-wide inventory of land assets
- Putting in place a transparent and accountable mechanism for monetisation of public land with due attention to the needs of the poor and the marginalised

# Major recommendations on financing

## 3. Reforms to strengthen non-tax revenues

- Municipal Service Regulator should be assigned the responsibility of revising user charges regularly. Even when different segments of the population are charged differently, the cross-subsidisation should be such that the overall O&M cost is recovered and a minimal surplus generated. Automatic indexation will ensure smooth increase over time without the challenge of having to defend cumulative adjustment every few years.
- User charges to be so structured as to meet O&M cost, debt servicing, and depreciation towards the cost of the project. In addition, they must also generate some surplus to enable building the equity base of ULBs, supported, where appropriate, with viability gap funding (VGF)
- Levy water and sewerage charges separately rather than build into the property tax
- Introduce parking fee to enhance revenue streams and promote the use of public transport
- Collect trade licensing fee on the basis of a self assessment return

# Major recommendations on financing

## Other reforms

- State governments to set up state financial intermediaries to work with small ULBs
- Government of India to create a 'Regulatory Guidelines Handbook for Municipal Borrowings'
- ULBs to prepare 'Intended Use Plans', requiring them to prepare a borrowing programme based on their investment needs and repayment capacity
- Remove fixed cap of 8 per cent on annual interest on municipal bonds to make the bonds attractive
- HUDCO to have a professional Board; to receive benefits available to infrastructure financing companies; and be regulated by the Reserve Bank of India

**NIJNNURM**

## New improved JNNURM (NIJNNURM)

<b>Scale</b>	<ul style="list-style-type: none"><li>• 0.25 per cent of GDP annually</li></ul>
<b>Coverage</b>	<ul style="list-style-type: none"><li>• Accessible to all cities/towns – big and small</li></ul>
<b>Duration</b>	<ul style="list-style-type: none"><li>• 20 years covering four Five-Year Plan periods</li></ul>
<b>Capacity Building</b>	<ul style="list-style-type: none"><li>• A strong focus on building capacity at all levels of government</li></ul>
<b>Programme Approach</b>	<ul style="list-style-type: none"><li>• ULBs to prepare an overall programme of urban infrastructure development with associated financial and operational plans and service delivery outcomes.</li></ul>
<b>Funding</b>	<ul style="list-style-type: none"><li>• Linked to a ULB-specific programme of development and reform</li><li>• Funding requirements to be routed through the state governments</li><li>• State governments contribution is not required</li><li>• Contribution of smaller ULBs to be lower than of larger cities</li></ul>
<b>Special Provision for Different City Sizes</b>	<ul style="list-style-type: none"><li>• For smaller ULBs, funds to be channelled through intermediary institutions; to be encouraged to go for pooled financing.</li><li>• For Municipal Corporations and Municipalities; a special window for projects to be financed via PPP route by leveraging private sources of funding.</li></ul>
<b>Governance</b>	<ul style="list-style-type: none"><li>• Monitoring of reforms at state level; improving procurement systems</li></ul>

Details to be worked out by MoUD, HUPA and other relevant government agencies

## Some inputs into the design of NIJNNURM... *contd.*

### Organisational

- A Unified Mission bringing together the Ministries of Urban Development and Housing and Urban Poverty Alleviation
- State governments also to ensure single window NIJNNURM
- RAY to be integrated within the ambit of the larger NIJNNURM programme
- Focus on enhancing capacities in transition from JNNURM to NIJNNURM

### Funding

- Largely by the Government of India
- State government support through devolution of funds to ULBs via Constitutional Amendment and an enabling environment for reforms.
- An interim administrative level revenue-sharing should be considered pending Constitutional Amendment

## Some inputs into the design of NIJNNURM... *contd.*

### Operational

- Programme detailing to cover
  - Current state of affairs at ULB including service-level indicators
  - City vision, mission, and end goal of the ULB
  - Proposed asset-creation programme including the financing and operating plans
  - Proposed reforms including clear indicators of progress and timelines
  - Framework for monitoring programme and associated reform
  - Capacity available, capacity needed, and the time by which it will be in place

## Some inputs into the design of NIJNNURM

### Operational

- Fund releases to be made only after
  - tendering process is over (i.e. final costs are known)
  - land is allocated for the project
  - City Development Plans and overall plans are approved by the state government
- Priority on water, waste water, solid waste management where some success stories have emerged during the past 5-6 years, and investment requirements are not very large.
- Create a window to incentivise ULBs for the promotion of PPPs in the urban sector in larger cities where such potential exists.

## An illustrative roadmap to implementing the revenue sharing arrangement

- Until the Constitutional Amendment is in place, MoUD, Gol, in consultation with other Ministries, to address the issue of 'revenue-sharing' arrangement in the following manner:
  - Based on definitional consistency for all states, calculate the current transfers from each state government to their ULBs;
  - For states which transfer 15-20 percent of their tax revenues to local bodies, ensure moving the level of transfers to 25 percent in two years, and further ensure that the share of urban local bodies is at least equal to their share in total population;
  - For states which transfer less than 15 percent of their tax revenues to local bodies, ensure that the level of transfers increases to 25 percent in 3 years, and further ensure that the share of urban local bodies is at least equal to their share in total population.

*The details of such an arrangement have to be devised fully recognizing the current state of transfers between state and ULBs*

## Steps towards financial autonomy for ULBs

- Set up a Committee of State Urban Development Ministers to achieve consensus on:
  - **Activity mapping** for all 18 functions listed in the Twelfth Schedule i.e. those that can be taken up by the ULBs themselves, those that need to be shared with state governments, and those that need to be performed concurrently by ULBs, state governments and the Government of India
  - **Amendment of Constitution:**
    - introducing Local Bodies Finance List
    - empowering ULBs to exclusively levy Property tax, Profession tax, Advertisement fee/tax and Entertainment taxes, and retain full collection
    - sharing of revenue from all taxes on goods and services when applicable, on a predictable basis

**Thank You**