Cities as Engines of Growth

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Indian cities are visibly hugely deficient in the public services they provide. This affects not only the quality of life of the 33 per cent or so of India's population which is urban, but also the investment climate for rapid, sustainable and inclusive growth of the Indian economy.

For quite some time now, the rich and the middle classes in Indian cities have found private market-based solutions to their public service problems, while the poor are also forced into the market to cope for their survival. At present, we have about 420 million persons living in Indian cities and towns and only about half of them are effectively served even for the basic services of water and sanitation. With urban population projected to increase to 600 million by 2031, the challenge of covering the entire population is massive and we ignore it at our own peril. Moreover, if cities are to successfully attract investments for rapid economic growth, the quality of life in our cities must improve by a wide margin.

Cities need to become the engines of growth for India's current stage of development. Industrial development requires agglomeration in order to provide ready access to a myriad support services and this can only be done in cities. The fortunes of the rural sector are also critically linked to the quality of urbanisation because income per head in agriculture can increase only if people move out of agriculture into 'higher productivity' jobs in industry and services. This shift depends on the ability of the cities to provide a congenial environment for innovation and enterprise which will generate employment. This is especially important since the proportion of the working age population in India's total population is growing and will continue to do so pretty much up till 2040 and even then will begin to decline only modestly.

The General Elections of May 2014 brought in a new government at the Centre. A declared priority of the new government is to bring rapid growth back on track. The average GDP growth of 7.7 per cent per annum during 2001-2011 had slowed down to about 6 per cent per annum in 2011-14. It is estimated to have increased to 7.2 per cent in 2014-15 and this is expected to improve further in the years ahead.

GDP growth in the range of 8 to 10 per cent per annum will have to come from much faster growth in industry and services sectors. There are limits to agricultural growth at 4 to 4.5 per cent per annum even if large investments are made in technology, irrigation and water management. As economies

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go through a process of structural transformation, industry and services sectors acquire rising share, both in output and employment. Indeed urban share of GDP in India is rising rapidly and this is projected to increase further from its current estimated 66 per cent to 75 per cent by 2031. The challenge lies in providing an urban environment which fosters innovation and expands employment opportunities.

Section 1 of this paper spells out the importance of cities as engines of growth in India's current stage of development and juxtaposes this with the current abominable state of delivery of public services in Indian cities. Section 2 presents an estimate of the urban infrastructure deficit and mechanisms for financing this deficit. It argues that institutional reforms are crucial both for reaching out to the private sector for finance and for ensuring that the expansion of infrastructure results in improved service delivery. Sec 3 presents a brief overview of the new National Missions - Swachh Bharat, AMRUT, Housing for All and Smart Cities, launched by the Government of India and emphasizes the importance of incorporating lessons from JNNURM (Jawaharlal Nehru National Urban Renewal Mission), a recently concluded National Mission for Urban Renewal.

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Cities will be the principal drivers of growth in India's current stage of high growth and structural transformation. Industrial growth cannot be achieved by spreading out geographically. As investments in industry and services look for urban space to garner economies of agglomeration, both market forces and the government will have to play an important role in generating these economies. Failing this, investors will find diseconomies of congestion and environmental degradation instead of economies of agglomeration and will themselves contribute further to the deterioration in the standards of urban living.

Indian cities which acted as engines of growth in the last 25 years, e.g., Bengaluru, Hyderabad, Mumbai, Chennai, etc. have suffered gravely from the consequences of unplanned urban development. The inadequate infrastructure of urban roads, public transport, water and sanitation, and affordable housing combined with poor systems of service delivery has resulted in a significant deterioration in the state of public services and a large proportion of urban population continues to be in slums in these cities.

The current status of service delivery in urban India is a major impediment for cities to act as engines of growth. Scarcity of clean drinking water, contamination of water because of neglect of waste water treatment, water logging and flooding because of poor maintenance of storm water drains, traffic congestion because of insufficient and poor quality infrastructure of urban roads and traffic support infrastructure, air pollution because of traffic congestion and irrational pricing of energy are among the familiar challenges in Indian cities and towns. For example, the access to treated tap water is available to only about 60 per cent of the urban population and its delivery ranges from 1 hour to 6 hours daily every third day or so. For sanitation, access to a piped sewer system is available to only 33 per cent. Of the total sewage generated in urban areas, less than 20 per cent is actually treated. As for municipal solid waste, out of the 142,566 metric tons per day waste generated in 2013-14, 82 per cent was collected and only about 29 per cent was processed through composting, vermin-composting, pelletization and waste to energy plants. All this has serious implications for public health and the cities' potential for attracting investments.

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India needs rejuvenation of existing cities as well as creation of new vibrant cities. While new cities will have to be planned along the transport and growth corridors, the tougher challenge is to fix the 8000 or so existing cities and towns. For the Big 6 cities with population above 8 million, as city boundaries have expanded and large villages in the periphery have grown into towns, metropolitan regions are emerging with the core city at the center.[1] Large infrastructure investments are needed to extend the scope of public services to all in these metros and integrated planning of land use and transport is needed to ensure mobility and connectivity. But the larger challenge is to put in place effective institutional structures for metropolitan governance.

As regards cities like Ahmedabad, Surat, Pune and Nagpur, again, a phenomenon of peripheral expansion similar to the big metros is emerging. These cities need urgent attention before the challenges facing them acquire the scale and proportion of those facing the big metros. They require focus on integrated planning of land use and transport, improvement in service delivery and affordable housing. Maharashtra and Gujarat are among the faster growing and more urbanized states, and the state governments will have to create an enabling environment for building capacity at local government level and strengthening the institutions of planning and service delivery to reap the benefits of agglomeration in these fast growing cities. Much the same is needed in the fast growing cities of other states, e.g., Karnataka, Andhra Pradesh, Madhya Pradesh, Tamil Nadu and many other states. Finally, public policy needs to take note of the smaller urban centres in states across the country particularly because of their weak economic base, high incidence of poverty, and lack of access to benefits which are available to rural areas.

The political economy of development in India has remained dominantly focussed on rural development. Even though the Census of India declared that the number of towns increased by over 2500 between 2001 and 2011, towns with

statutory local governments (which are notified by the concerned state government) increased by only 242 over this period. The reluctance of rural local governments to "go urban" arises from the fear of losing large amounts of funds for rural development schemes and from the fear of regulations which urbanisation brings with it.

Even where urban local governments exist, they need to be empowered through devolution of functions, funds and functionaries. In 1992, the 74th Constitutional Amendment formally recognised Urban Local Bodies (ULBs) as the third tier of government, assigning to them the responsibility for the provision of water, solid waste management, waste water treatment, storm water drains, etc. While there has been some progress on transferring the functions from state governments to urban local governments, it has not been accompanied by financial devolution. The local governments also need to be given greater autonomy in raising resources, especially for property tax collection and user charges. As for transferring functionaries, again, there has been very little action in making municipal functionaries employees of the cities and recruited by the cities as opposed to being employees of the state government posted to cities. Only a few states have Municipal Cadres. In the absence of empowerment of city governments, it is no good talking of directly elected Mayors or other such global practices as the panacea for India's urbanisation challenge.

Investment Requirements and Financing Mechanism for Urban Infrastructure

A High Powered Expert Committee (HPEC Ahluwalia 2011)set up by the Ministry of Urban Development (MoUD), Government of India with the present author as Chairperson estimated the investment requirement to bridge the deficit in urban infrastructure as Rs. 39.2 lakh crore at 2009-10 prices, which is equivalent to Rs. 54.3 lakh crore at 2014-15 prices, not including the cost of land. The estimate covers the period from 2012 to 2031 (assuming average growth of GDP at 8 per cent per annum) for delivering services to the entire urban population including that which was not served earlier and the additional population that would come on board. It assumes that the services will be delivered to the benchmarks laid down by MoUD in 2008.Of the total, the largest share i.e. 56 per cent is for urban roads, while urban transport and traffic support infrastructure account for another 17.7 per cent. Water and sanitation investment requirements constitute about 25 per cent of the total.

The state governments have not lived up to the spirit of the 74th Amendment by not devolving finances to the urban local governments. The need is for predictable guaranteed transfers from the state governments to the local governments, as happens in Indonesia and South Africa. It is very important to provide for formula-based transfers and grants-in-aid to urban local governments from the divisible pool. Ideally, the opportunity provided by the GST (Goods and Services Tax) should be used to constitutionally ensure sharing by the state governments of a pre-specified percentage of their revenue from GST with local governments. Also, urban local governments should be empowered to levy taxes. Reform of property tax, a major source of revenue for urban local governments, and greater autonomy in levying and collection of user charges would also go a long way in improving the financial position of urban local governments. Setting up of a Municipal Regulator would help in bringing a degree of professionalism in the pricing of urban services. An hitherto neglected area for mobilizing financial resources for urban local governments is unlocking land value, e.g., tapping land-based financing sources including conversion charges, development charges, betterment fee, etc. and also pricing of floor space index within the overall planning guidelines.

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The ability of urban local governments to mobilise external resources for financing urban infrastructure is contingent on their ability to develop a revenue model which enables repayment of the loans raised from the capital market and/or generate returns on investment brought in by the private partner in a public private partnership (PPP) project. This could be done, for example, by levying appropriate user charges for services rendered and/or by realization of some of the increase in land value through betterment charges and/or allowing private concessionaire to develop land commercially as part of the PPP project. Carrying out reforms to strengthen their finances and to improve service delivery would also help urban local governments in improving their credit-worthiness. In this sense better governance through strengthening institutions serves a dual purpose of improving service delivery and also creating a better environment for mobilising finance from the private sector.

National Missions on Urban Development

In 2005, the Government of India finally signaled the importance of the urban sector for the Indian economy by launching a major initiative in the form of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) with the objective of improving and augmenting the economic and social infrastructure of cities, and providing affordable housing and also basic services to the urban poor. The Mission ran its course from December 2005 to March 2014. Given the federal framework, central government-driven missions of the JNNURM type can only act as catalysts

for pushing the states and urban local governments which have the necessary powers to act in this area. In the book *Transforming our Cities (Harper Collins, 2014)*, I have documented numerous case studies to show how Indian cities in some sectors were able to transform the state of service delivery within a short period. This was possible only when state governments provided an enabling environment for reform and innovation at the city government level, and where there was capacity to plan, implement and manage projects (sometimes because of the presence of a strong municipal cadre) and where city finances were relatively strong. These findings have important implications for the success of the new National Missions for urban development announced by the Government of India.

Swachh Bharat Abhiyan was launched in October 2014 as part of the Clean India Campaign with the objective of eliminating open defecation and manual scavenging through raising public awareness, constructing toilets, and achieving 100 per cent collection and scientific disposal of municipal solid waste. The estimated tag for covering all statutory towns is Rs 62,000 crore. The Government of India would contribute Rs 15,000 crore, and the rest is expected to be financed through the budgets of states/urban local governments, amplified by user charges, unlocking land value, and private sector contributions. Infrastructure and institutions are necessary but not sufficient. The success of this Mission depends to a large extent on achieving behavioral change and using behavioral psychology to nudge people in the direction of maintaining good sanitary conditions. However, a key physical constraint is water availability. Toilets will not work if water is not available.

In June 2015, the Government of India announced three major National Missions: Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Housing for All by 2022, and Smart Cities Mission. AMRUT is in a sense the successor to JNNURM. It covers 500 cities and focuses on infrastructure for water, sewerage, drainage, transport and green spaces. It is effectively a centrally sponsored scheme with a total outlay of Rs. 50,000 crore over a 5 year period. Like JNNURM, disbursements will be linked to a set of reforms. Unfortunately, municipal solid waste management is not in the ambit of AMRUT although this is critical for sanitation. The challenge for AMRUT will lie in enforcing the conditionality of reforms, precisely the area where JNNURM failed. Since most city governments did not cross the threshold of reforms that would generate a credible revenue model, not much success could be achieved either in getting finances through public private partnership or in accessing the municipal bond markets.

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The Housing for All Mission targets creation of 2 lakh crore houses by 2022. KPMG has estimated total housing need by 2022 allowing for new demand at about 11 crore houses. The government mission will therefore service only a part of the need and that will relate to the demand from the Economically Weaker Sections. This is estimated to require a grant of Rs. 1.5 lakh per house plus an interest subsidy on bank loans. The success of the scheme will depend critically upon state governments being able to provide the land, provision of adequate funds by the central and state governments, the willingness of banks to lend in the absence of government guarantee of the loan, and the ability of the state governments to provide the necessary urban infrastructure. It is worth noting that rental housing, which has the potential to cater to very low income groups, has remained largely untapped as a policy alternative. This is an important lacuna which should be addressed.

The Smart Cities Mission is an ambitious mission aiming at enhancing the quality of urban life and providing a clean and sustainable environment to 100 selected cities with smart solutions. It is in line with a worldwide trend in favour of "smart cities" although there is no precise definition yet of what constitutes a smart city. The Government of India has committed Rs 48,000 crore over a 5 year period for the 100 cities which will be competitively selected. The scale of funding does not match the ambition. The Mission will opt for retrofitting and/or redevelopment of certain pockets of existing cities, and will also develop greenfield smart cities. Intelligent transport solutions with city-wide impact are also on the agenda. A Special Purpose Vehicle will be set up to drive the Smart Cities Mission unlike AMRUT which will be driven by urban local governments. If we define smart cities as cities where residents demand good governance and the government through better administration or high technology is able to deliver high quality services in a transparent and accountable manner, then the Smart Cities Mission has its work cut out to spell out the dimensions of institutional reform together with the high tech infrastructure plans.

There is no doubt that within the economic and political constraints we impose on our cities within our federal regime, it is possible to do far better than what most of them are currently doing. But to bring our cities anywhere close to world class, we will need to reform the political environment in which our cities function.

Endnotes

1. Mumbai, Delhi, Kolkata, Chennai, Bangalore and Hyderabad

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