Presentation for

Shri Nallari Kiran Kumar Reddy

Chief Minister, Andhra Pradesh

HPEC (Ahluwalia) Report 2011

Highlights and Recommendations
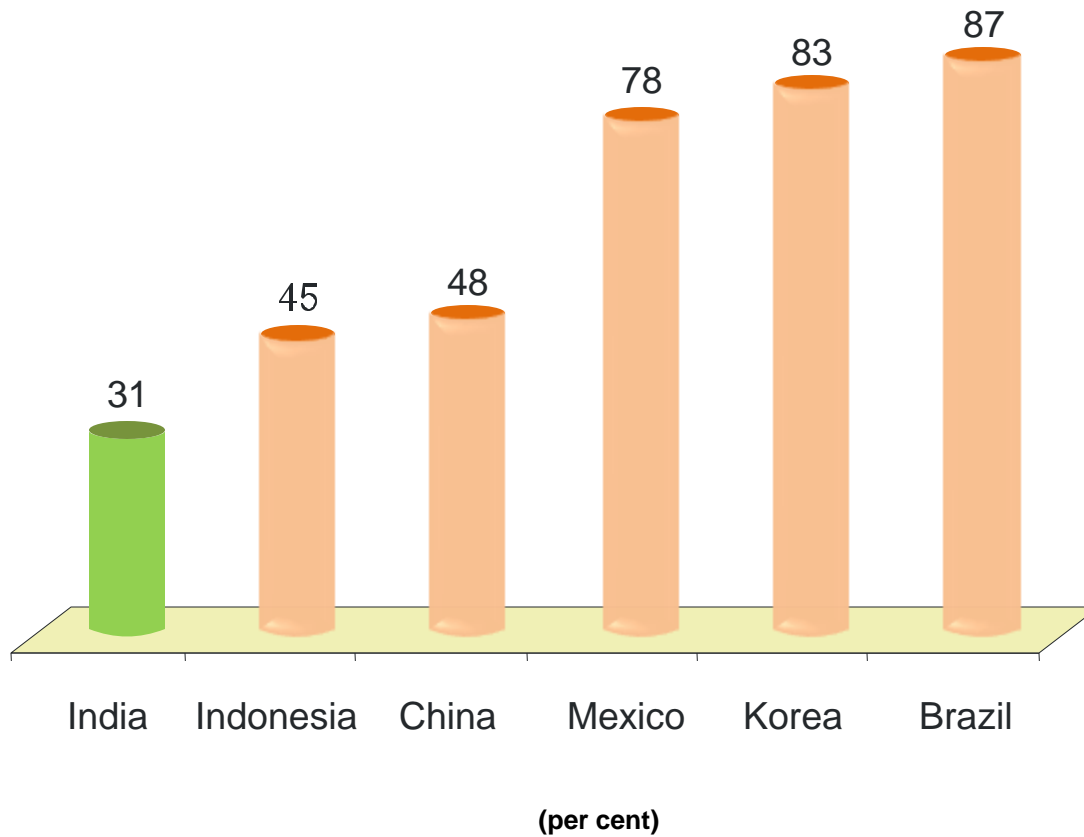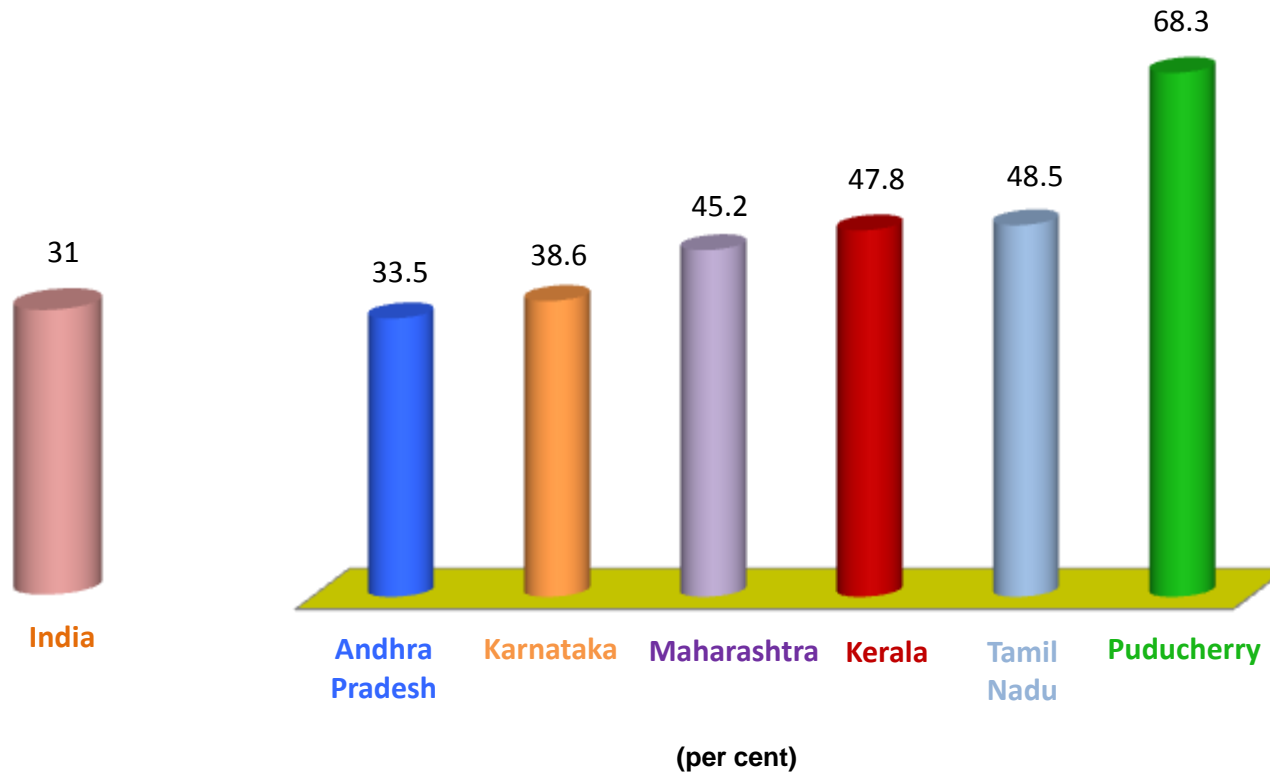
By

Isher Judge Ahluwalia

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Urban Share of Total Population in 2011
India and Some Selected Countries

(per cent)

Urban Share of Total Population in 2011
India and Some Selected States

(per cent)

India is urbanising...

India's urban population to increase

- From 377 million today to 600 million by 2031

- From **53** 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 6166 Urban Agglomerations in 2011, up from 4378 in 2001

- Slum population, on average, is 25 per cent of urban population

- Urban poverty was 20.9 per cent in 2009-10

- **Slum population in Andhra Pradesh is 29 per cent of urban population**

- **Urban poverty in Andhra Pradesh was 17.7 per cent in 2009-10**

Urban planning, urban infrastructure development, and public service delivery of universal standards must address this challenge
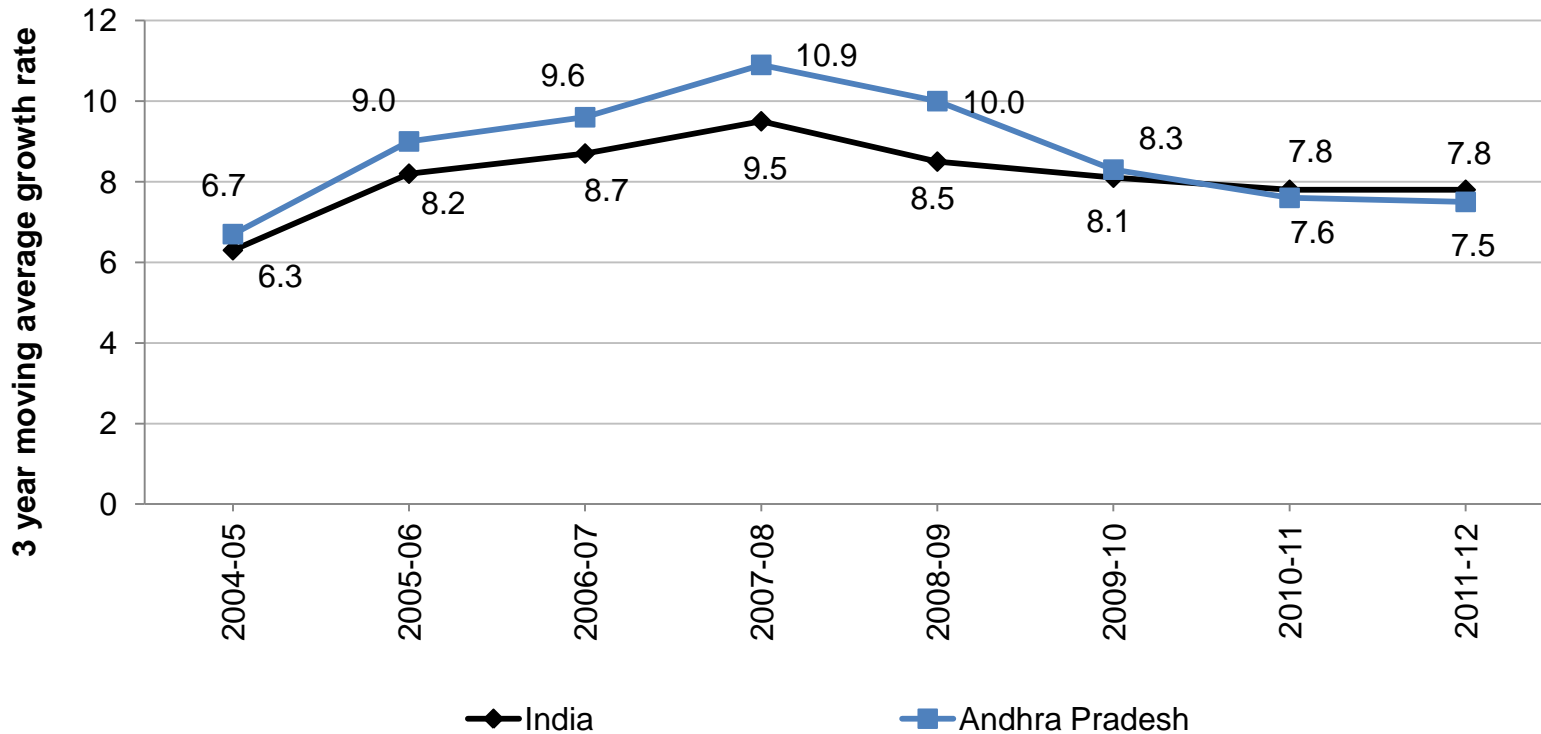
A snapshot of India's GDP growth
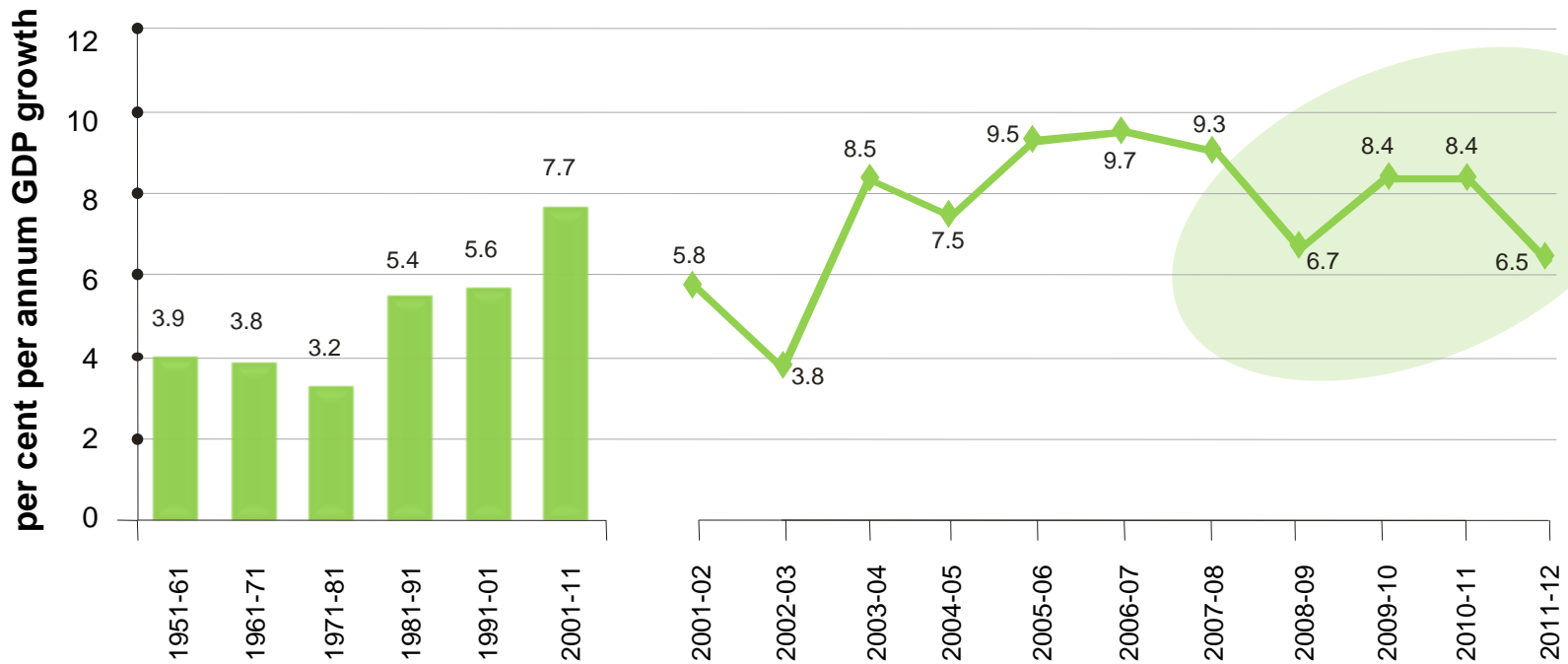
**India is among the fastest growing economies in the world today**

Trend growth rate of GDP from 2001-02 to 2010-11 is **8.1** per cent per annum

Growth of GDP: India and Andhra Pradesh

- **Deceleration in growth since 2007-08**
- **Greater deceleration in Andhra Pradesh**
- **In 2010-11 and 2011-12, growth of GSDP of Andhra Pradesh was lower than all-India growth of GDP**

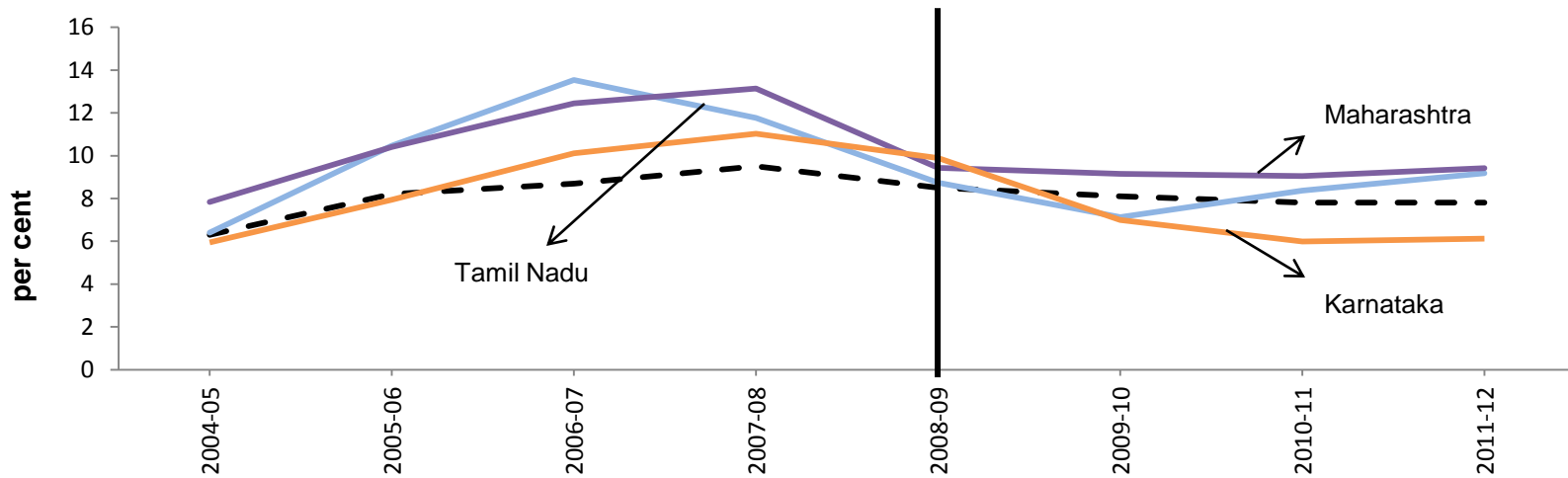# Per capita income and urbanisation levels: States 2011
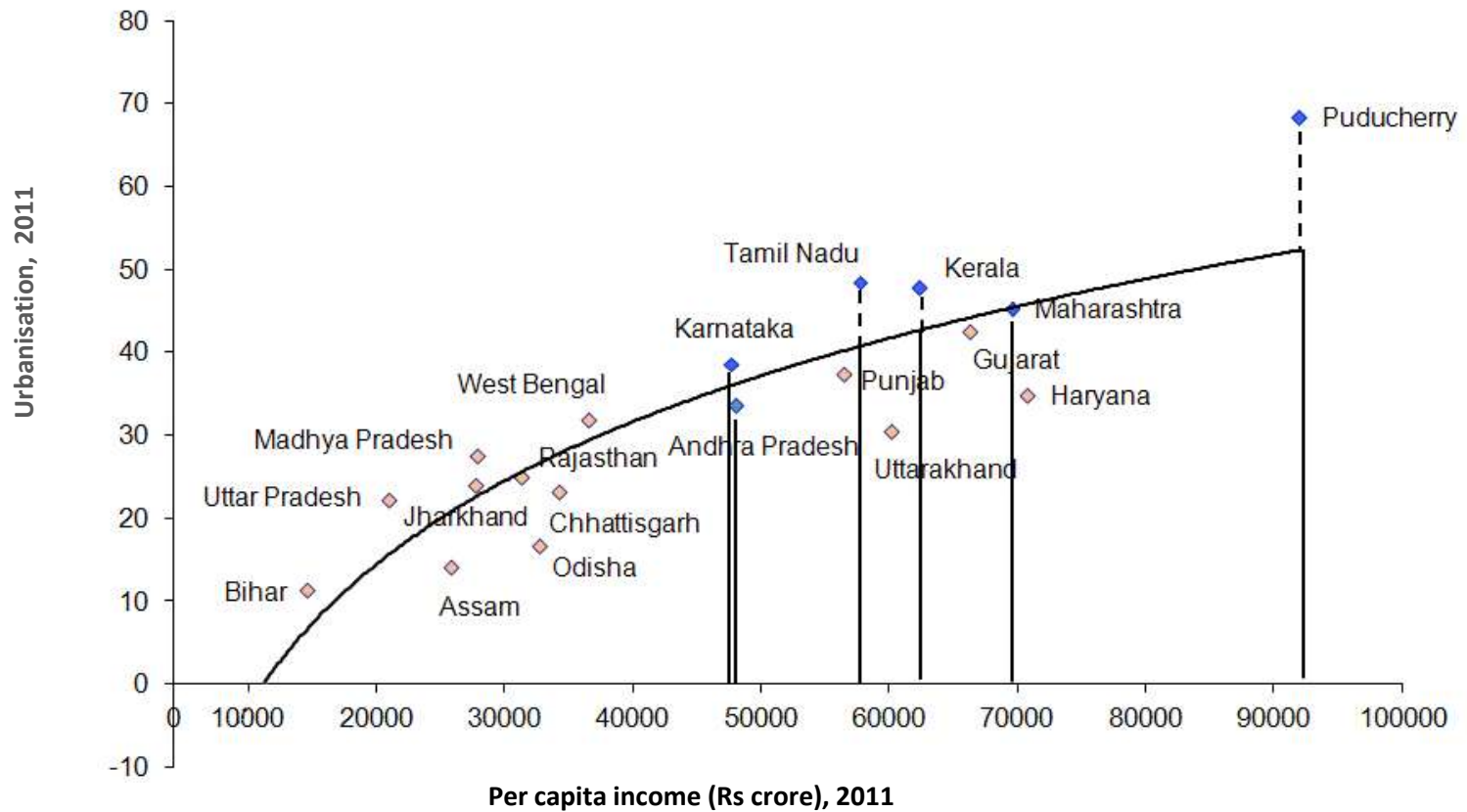
Note: Per capita Income at 2004-05 constant prices

Source: Estimates based on Census of India data and CSO

Comparing growth of GDP: India and the 6 states
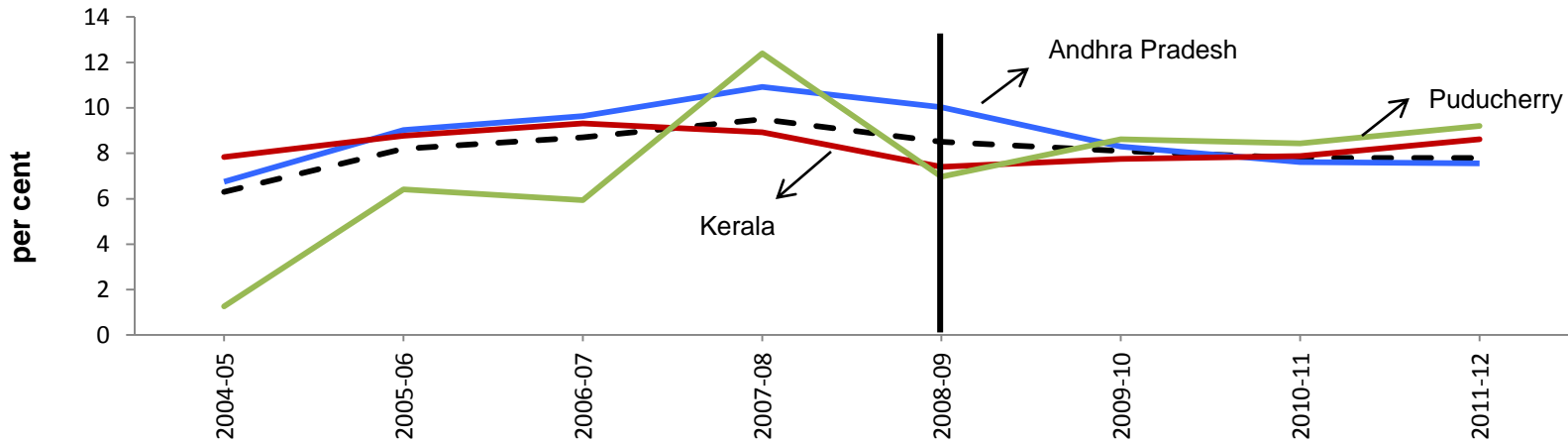
Comparing growth of GDP: India and the 4 selected states
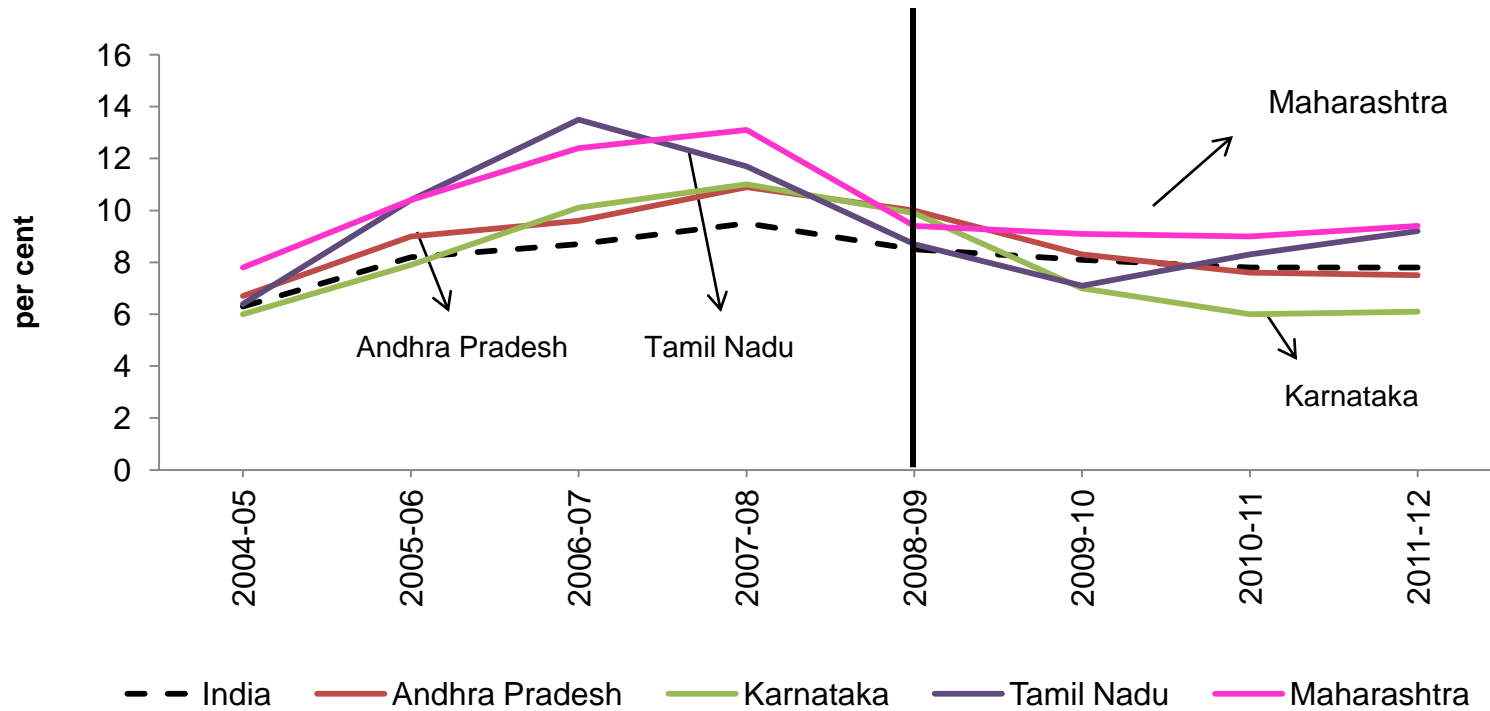
Urban Share of GDP is rising...
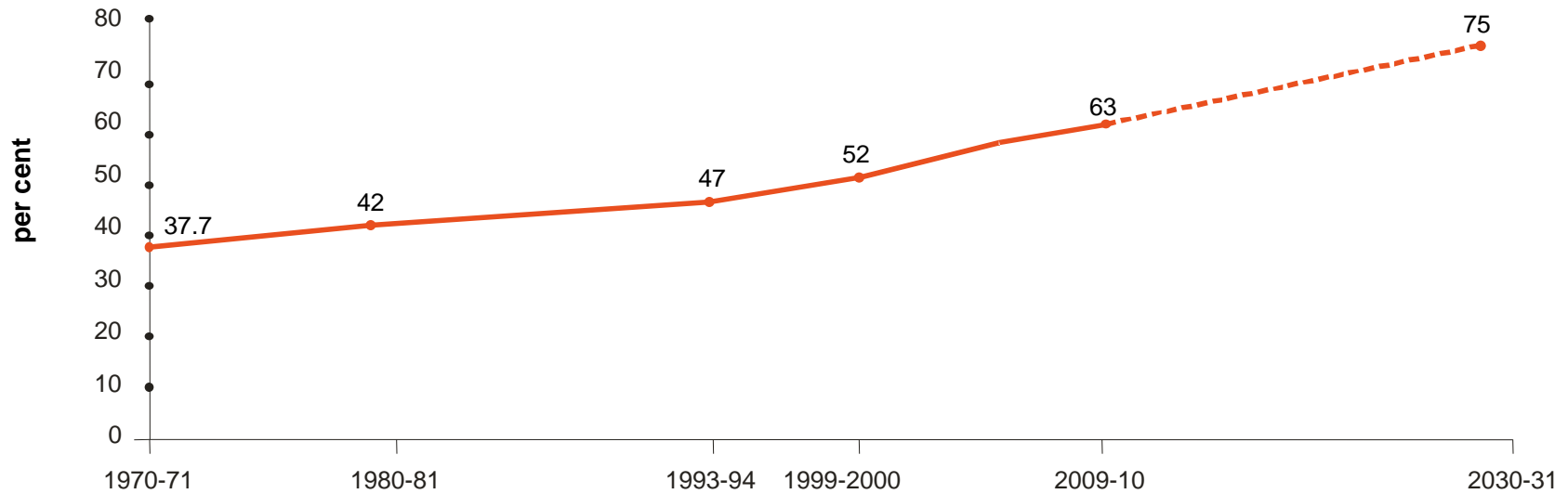
Source: CSO, Eleventh Five Year Plan and the Mid-Term Appraisal Document of the Eleventh Five Year Plan

Rapid Growth has meant that as Indian economy goes through a major structural transformation, urban share of GDP is rising rapidly

Role of rural-urban migration

Contribution to Increase in Urban Population

Migration has played a minor role in urbanisation

Net Rural-Urban Migration

Census 2011 figures awaited

19.9   22.6   21.1

1971-81   1981-91   1991-2001

per cent

■ Natural Increase   ■ Net Rural-Urban Migration   ■ Expansion of Boundaries   ■ Net Reclassification
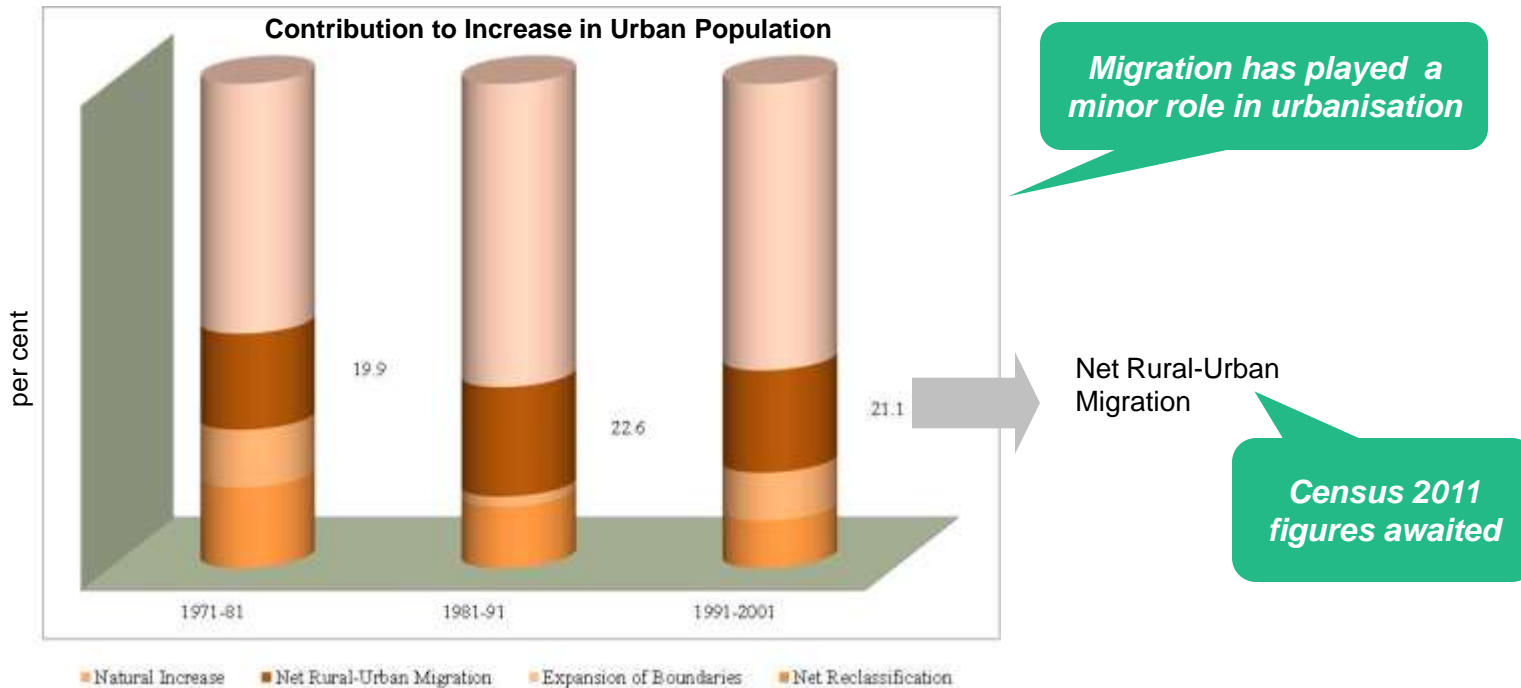
- Pressure of rural-urban migration will increase with

  - 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.

Important Messages from HPEC (Ahluwalia) Report 2011:

## The challenge of faster and more inclusive growth

- To sustain growth rates of GDP of 8 to 9 per cent per annum, or

- To sustain 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

  - ➤ **modernise labour laws** (to provide greater flexibility in hiring and firing labour)

  - ➤ 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
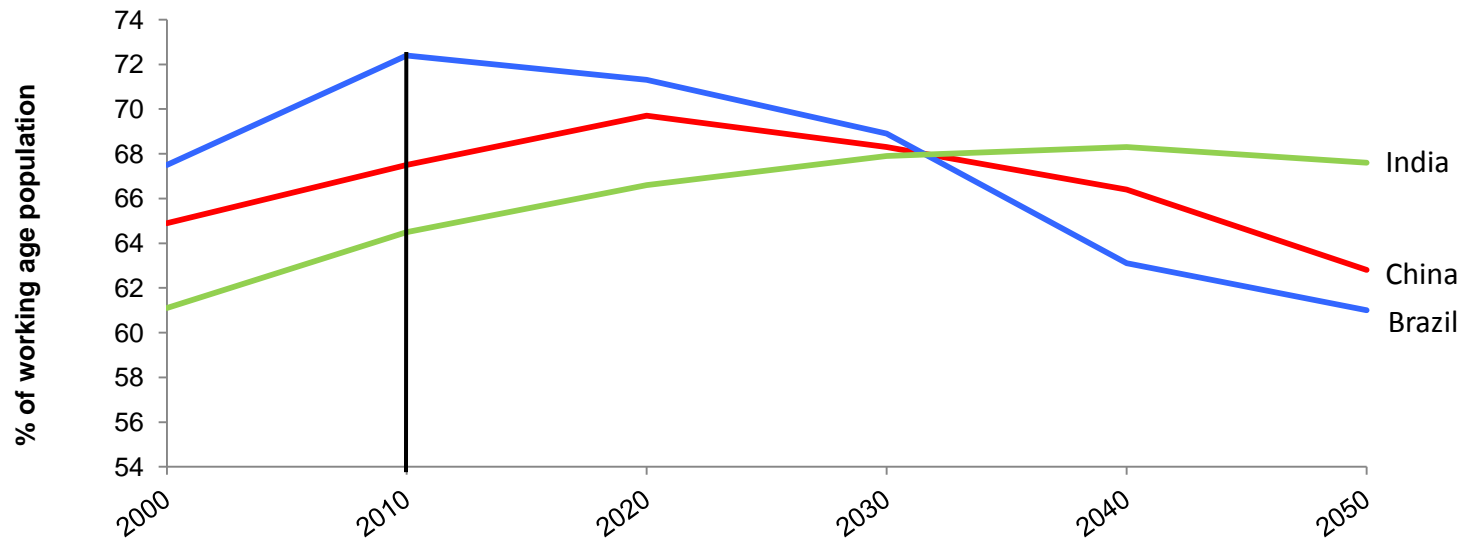
- Decline in China's working age population from 2010 onwards

- Decline in Brazil's working age population from 2020 onwards

- Increase in India's working age population will continue till 2040 and begin to decline mildly after that

But Demographic Dividend can be reaped only if
➢ Youth is empowered with skills and higher education for innovation, and
➢ Employment opportunities expand

Implications for urban development

- Improve existing cities and build new cities as engines of growth

- Investment climate is about **ease of living** as much as about ease of doing business

The ground reality

- Cities and towns of India are visibly deficient in the quality of services they provide

- 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

- 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

- Integrating transport and land use planning

- Focussing on metropolitan planning

Service Standards

|			
• 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 population1 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 lakh crore (including for slum redevelopment and capacity building): 2012- 2031
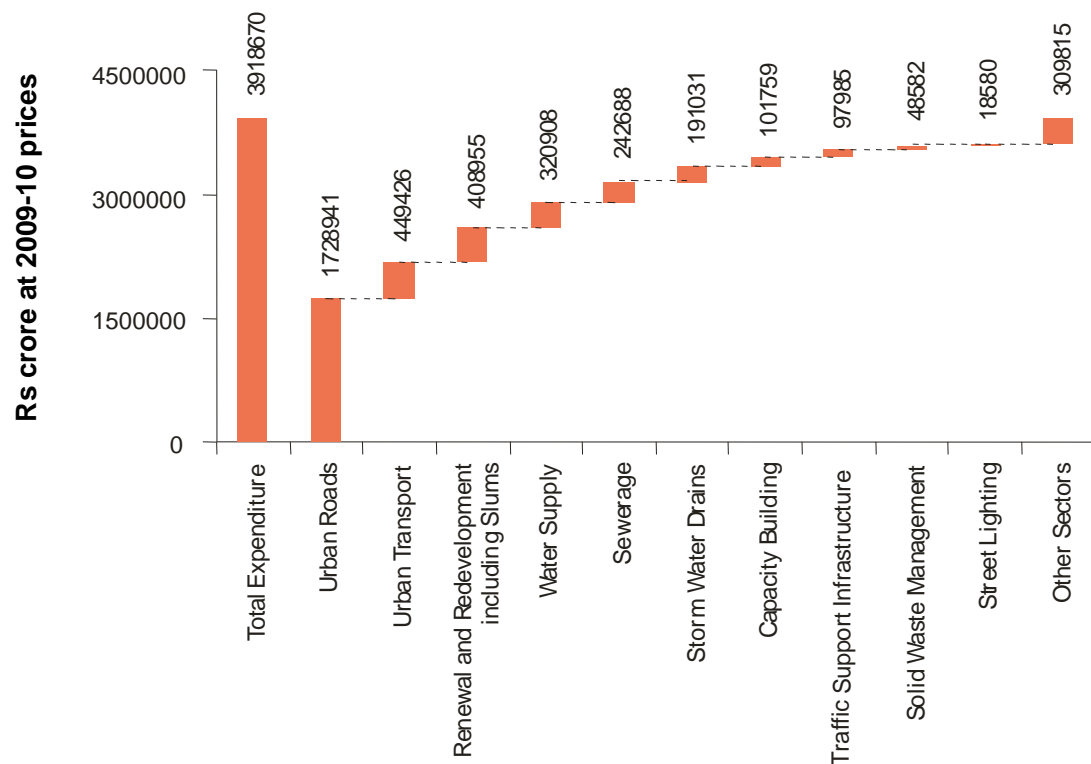
% Increase	Five-Year Plan
15	XII
12	XIII
8	XIV
8	XV

- This estimate does not allow for inflation after 2009-10, and does not include primary education, primary health, electricity distribution and land cost
- GDP is assumed to increase at 8 per cent per annum for the 20-year period
- O&M is estimated at additional Rs 20 lakh crore for old and new assets together

Share of Major Sectors in Total Investment Requirement of Urban Infrastructure

Urban roads (backlog very large)	50 per cent
Water, sewerage, solid waste management, storm water drains, street lighting	24 per cent
Transport and traffic support infrastructure	16 per cent
Other sectors	9 per cent
Total	**34 lakh crore**

Note: The total estimate (Rs 34 lakh crore) here includes the 8 major sectors for which detailed estimates were prepared, i.e.,

Sectors	Rs lakh crore
Urban roads	17.3
Urban transport	4.5
Water supply	3.2
Sewerage	2.4
Storm water drains	2.0
Traffic infrastructure	1.0
Solid waste management	0.5
Street lighting	0.2

Projections for Financing
(per cent of GDP)

2011-12

2031-32
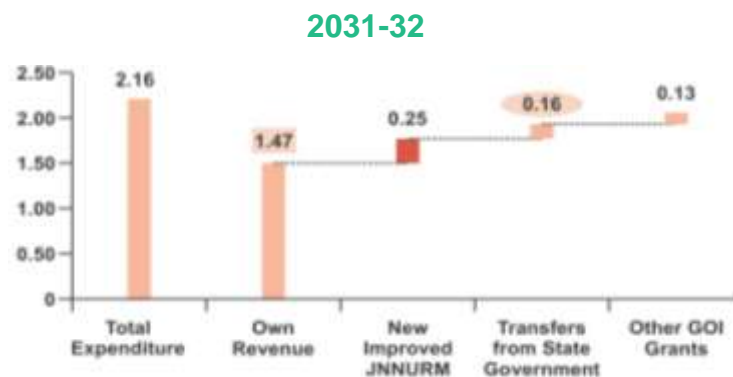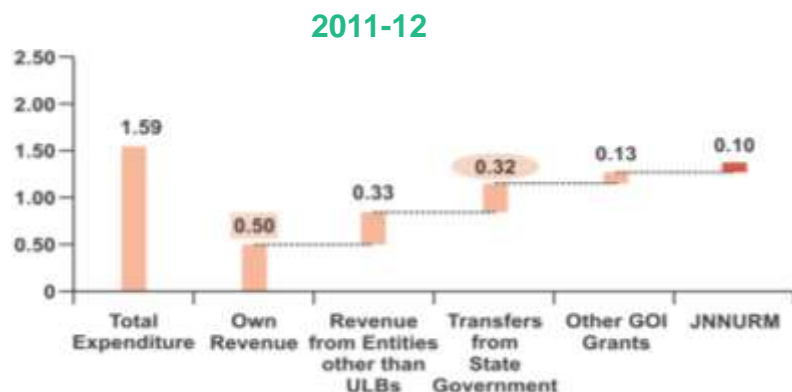
Large sums, but financeable if

- 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 aggressively push reforms to increase own revenues, i.e.,

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

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 empowered to raise '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 74th 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 within an integrated framework of a City Development Plan.

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

Thank You