

'Potential for private sector investment in urban infrastructure is excellent'

Urban roads, transport and traffic support infrastructure is a major area which should interest the private sector

What are the major challenges confronting urban areas of India?

The major challenges confronting urban areas are the abysmal state of public service delivery and very poor planning with respect to public transport and low-income housing. Whether it is the availability of water 24x7, so crucially needed for sanitation, or taking care of the garbage lying in open spaces and streets of our cities for days on end; whether it is disrepair of the state of storm water drains that makes us look at the onset of monsoons with trepidation rather than delight or be it the deficit of underground sewerage, the state of public service delivery in cities and towns leaves a great deal to be desired.

We must work on improving the living conditions in our cities and towns, not only because 31 per cent of Indian population lives in urban areas and more is expected to do so in the years ahead, but also as investment climate itself depends on the ease of living and not just ease of doing business.

How much investment does India need over the next 20 years to cope with the current rate of urbanisation?

The High Powered Expert Committee on Urban Infrastructure & Services, which I had the privilege to chair, submitted its report to the Minister of Urban Development and the Minister of Housing & Urban Poverty Alleviation in March 2011.

We estimated that India needs to invest Rs 39.2 lakh crore at 2011-12 prices in urban infrastructure to bridge the investment deficit, so that the currently un-served and underserved population and the additional 223 million people who will be added to the urban population over the next 20 years can be provided with public services to the norms specified by the MoUD in 2008. In addition, Rs 20 lakh crore at 2011-12 prices will have to be spent on account of O&M of the infrastructure assets – old and new.

What financing model would possibly be pursued by the government? How is the investment going to spread out over the coming Five-Year Plan periods?

The cumulative investment of Rs 39.2 lakh crore can be spread over the 20-year period from 2012-13 to 2031-32 by increasing investment in urban infrastructure by 15 per cent per

annum in the 12th Five-Year Plan, 12 per cent per annum in the 13th Plan and 8 per cent per annum each in the 14th and 15th Plans.

As for financing this investment, we have proposed a framework which incorporates three major elements: (i) securing the revenue base of urban local bodies (ULBs) through 'exclusive taxes' and a guaranteed and predictable share of ULBs in tax revenues of state governments (ii) a significantly larger scale of financing from the New Improved JNNURM of the Government of India, and (iii) reforms in governance and financing at ULB level to begin a move away from a weak financial base towards a framework which enhances the creditworthiness of the ULBs and improves their ability to generate and leverage revenue surpluses for accessing market funds.

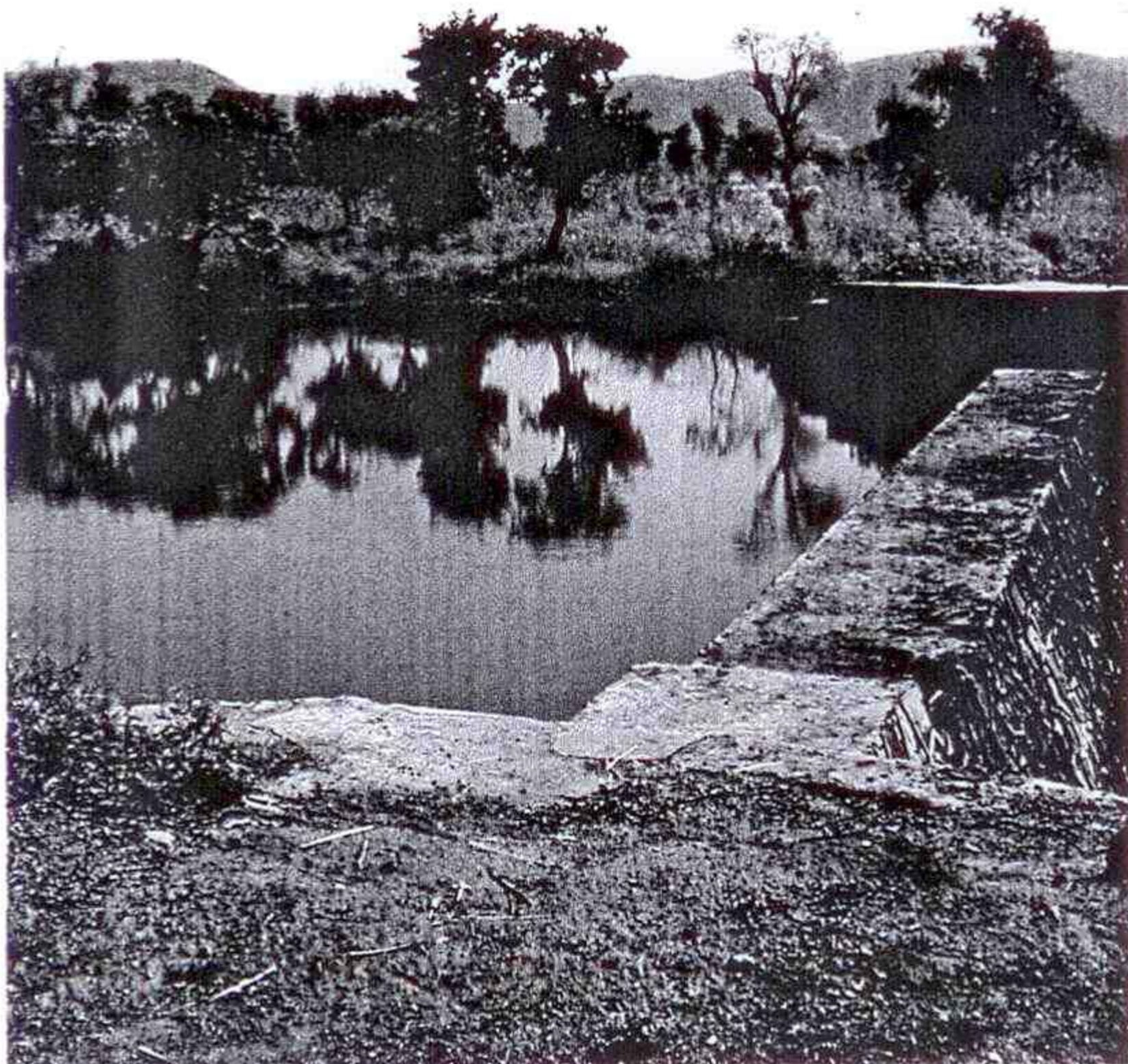
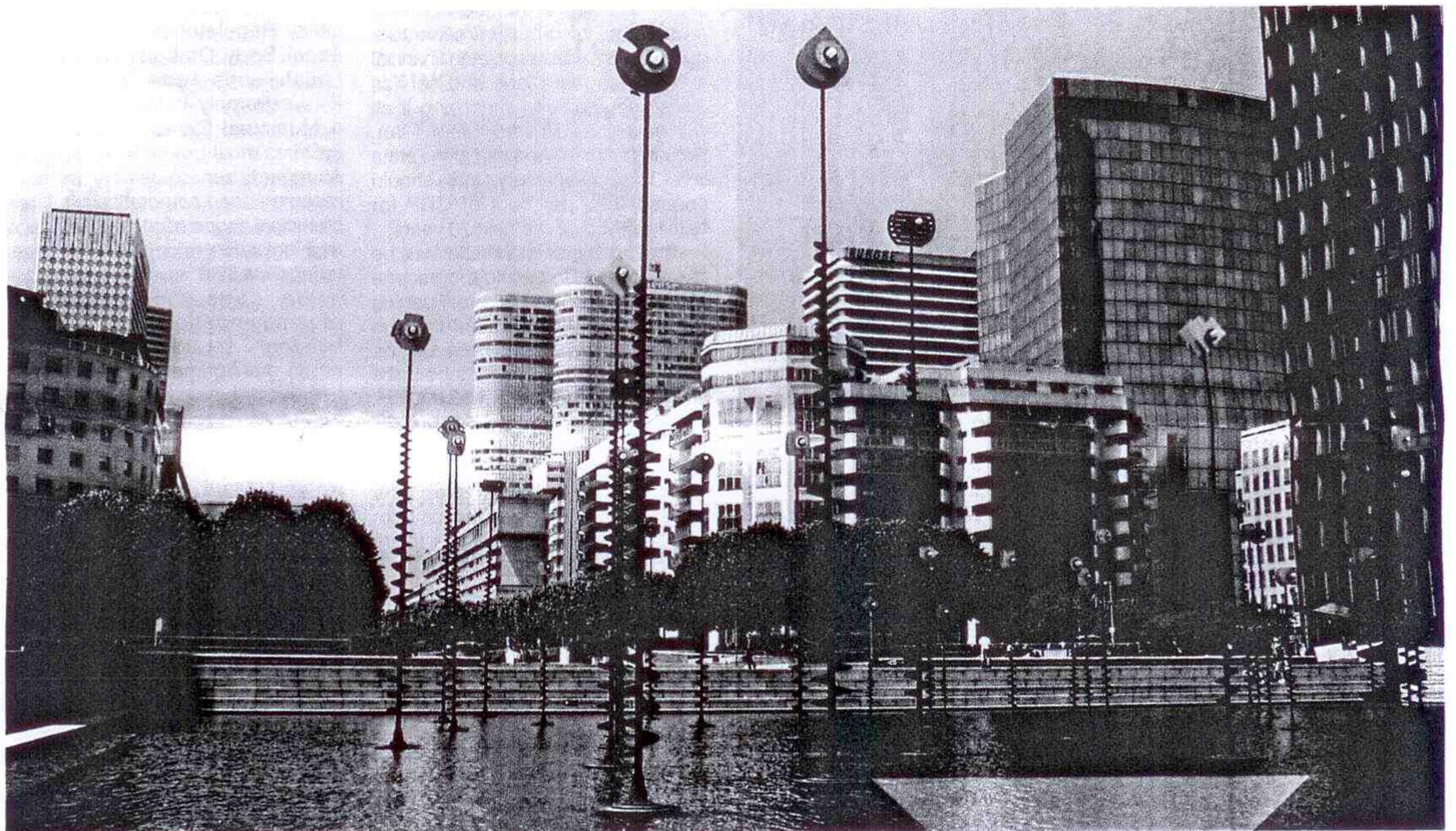
The governance reforms are intricately linked to the challenge of financing these large investments. Sources of external finance such as municipal borrowing or public private partnership with some financing from the private sector can only be tapped if there is a revenue model for the ULBs which inspires confidence that they can make the necessary repayments. For example, a plan of how user charges will cover the costs of service delivery over a reasonable period of time will have to be spelt out.

A high-powered expert committee, chaired by Dr. Isher Judge Ahluwalia, Chairperson, the Indian Council for Research on International Economic Relations, has submitted its report on Indian urban infrastructure and services. In an exclusive interview with Paresh Parmar, she outlines the broad trends in urbanisation, financing options for infrastructure services and institutional changes needed in the delivery of infrastructure services. Excerpts:

At the same time, given the importance of cities to the overall economy of the country, the Government of India will have to step in with a New Improved JNNURM which should be available to all cities and towns in principle, in order to provide a major thrust on reforms of governance

taxes can yield major dividends. We have the example of Bengaluru. In 2000, the city introduced a SAS-based on simple and transparent guidelines for self-assessment and the provision that guidance value of properties in the six land-value zones will be revised every four years. The tax rate was 20 per cent for residential property and 25 per cent for non-residential, while owner-occupied property received a 50 per cent rebate.

The scheme was made optional to avoid any legal disputes and was to stay in place for five years in the first instance. In a confidence building measure, the property tax liability was capped at 2.5 times the original liability, but any calculated decrease over the previous period was also restricted to 25 per cent. After the one-



and financing and strengthen the institutional capacity of ULBs. Our committee has recommended that the Government of India should step up its investment in JNNURM from the current 0.1 per cent of GDP to 0.25 per cent of GDP.

With a trillion dollar investment in infrastructure for the 12th Five-Year Plan, what potential do you foresee for private sector investment?

There is a very good potential for private sector investment in urban infrastructure. Urban roads, transport, and traffic support infrastructure is a major area which should interest the private sector. Over 50 per cent of the total investment required is in these sectors. In the area of delivering water 24x7, a number of private companies are already playing a very positive role. In waste water treatment, the same is true, and much more is possible. Our report has emphasised that for public private partnership to work, it is very important to build capacities for urban planning, city management and financial structuring at the ULB level.

Do you think self-assessment scheme (SAS) for property taxes could bring about reforms and lead to rise in registered properties and tax collection?

Yes, I believe that the self-assessment scheme for property

time increases in revenue collection, it was clear that more was needed if property tax was to be made into a buoyant source of revenue.

A second push to reform was given in 2008. A major promotional campaign was launched for the scheme, and it was supported not only by strong enforcement, random checks, and stringent recovery provisions but also by ensuring that property valuation is revised at regular intervals. The results have been phenomenal. The number of properties covered have increased from 7 lakh in 2007-08 to 8 lakh in 2008-09, 9 lakh in 2009-10 and 12 lakh in 2010-11 (the total number of properties under GIS is 15 lakh). The amount of tax collected has increased from Rs 430 crore in 2007-08 to Rs 780 crore in 2008-09, Rs 880 crore in 2009-10 and Rs 1120 crore in 2010-11. Bengaluru has shown the way.

According to your report, how has the JNNURM scheme fared for urban infrastructure? How would New Improved JNNURM differ from the JNNURM in terms of reform approach?

JNNURM is a major initiative of the Government of India which signaled the importance of the urban sector for the Indian economy. It was launched in December 2005 for a period of seven years. The Mission promotes reforms at state and city

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levels by making the funding for JNNURM projects conditional on reforms. Its major achievement has been to highlight the urban agenda of reforms and create dynamism in a sector which has long suffered from neglect.

JNNURM has been an experience in learning for the Government of India, using project-oriented fund transfers as a driver of change to improve the state of Indian cities. One problem with the Mission was that it focused on intermediate targets of urban infrastructure development

and the expected outcomes were not specified as service delivery improvements.

The Mission has helped some ULBs to take up projects on a scale they had never attempted earlier, and quite a few successful urban infrastructure projects have resulted from such support; for example, integrated approach to 24x7 water supply delivery in Nagpur, waste water management in Navi Mumbai, integrated solid waste management in Rajkot, city bus service in Indore, and e-Governance in Kalyan-Dombivli.

Our assessment is that JNNURM has done well in the five or six states where the ULBs are relatively financially strong, there is capacity at the ULB level, and the state government provided an enabling environment for reform. In the Committee's view, strengthening the capacity of ULBs to improve governance and enhance their ability to prepare, implement, and manage projects, is crucial even when funds are not a constraint. Also, the very weak financial position of many cities has kept them away because of their inability to put in the amounts required as their share of the funding. Finally, it has been difficult to enforce conditionality of overall reforms in a project-based financing approach.

We recommend the New Improved JNNURM (NIJNNURM) as a Unified Mission. I like the acronym because 'NIJ' means 'own'. We are saying, adopt JNNURM as your own, make it universal, that is, available to all. It must be accessible to all cities and towns – big and small. That does not mean one size fits all.

The Mission must be designed taking account of the differentiated needs and differential capacities of the ULBs. It must be a long ranging Mission covering 20 years. The ULBs should be asked to prepare an overall programme of urban infrastructure development with associated financial and operational plans and service delivery outcomes. Underlying it all will be a City Development Plan. Reforms will be monitored at the state level. The Government of India should commit 0.25 per cent of GDP for NIJNNURM over the next 20 years.

The funding of NIJNNURM will be linked to a ULB-specific programme of development and reform. Funding requirement will be routed through state governments. There will be no contribution of finances from the state governments for NIJNNURM, because they will be separately devolving revenue to strengthen the ULBs. Contribution of the smaller

ULBs will be smaller than of larger cities. Monitoring of reforms will be at state level. For municipal corporations and municipalities, there should be a special window for projects to be financed via PPP route by leveraging private sources of funding.

The success of NIJNNURM will crucially depend on a strong focus on building capacity at all levels of government.

What are your recommendations for administrative reforms and capacity building at the urban local body level?

We feel very strongly that there must be one Ministry of Urban Development, and Housing & Poverty Alleviation. At present, urban transport comes under urban development, but housing & poverty alleviation is a separate ministry. We believe that you cannot plan for the poor separately from overall urban development; you cannot plan for low-income housing separately from planning for public transport. This single ministry/department formula is as relevant for state governments as for the Centre.

We recommend a unified command under an empowered and accountable mayor. The tenure of the mayor must be at least three years. We recommend an Urban Utility Regulator in each state, a Local Body Ombudsman, and a Local Funds Audit Commission. It is extremely important to build a Municipal Cadre. Procurement systems must be made transparent. As regards service delivery, we have recommended corporatisation, inter-municipal cooperation, e-governance and legislative reforms at state level to facilitate PPP.

We have made specific recommendations on capacity building – set up five institutes of urban management, promote think tank initiatives in urban policy through centres of excellence/innovation, rejuvenate the existing schools of urban planning, provide training for

300 IAS officers and other central services on urban issues. We also strongly recommend a setting up of the Reform & Performance Management Cells at the Government of India and also at state government level.

Would you like to comment on India's economic growth momentum?

I would like to emphasise that India's economic growth momentum cannot be sustained if urbanisation is not actively facilitated. Nor can poverty be addressed if the needs of the urban poor are isolated from the broader challenges of managing urbanisation. Cities will have to become the engines of national development. India cannot afford to get its urban strategy wrong, but it cannot get it right without bringing about a fundamental shift in the mindset which separates rural from the urban. Fortunes of the rural sector are crucially linked to the manner in which growth in the urban sector unfolds, and we need to harness the synergy.

In this connection, I would like to state that recognising the importance of rural-urban synergy in development, we will have to put scarce land to alternative uses of farming as well as urbanization, which in any case is inevitable. The question is not whether we need agricultural land to accommodate the expansion of cities and build infrastructure. It is how.

The real challenge is to ensure that farmers receive a fair compensation, and as some land is shifted from rural to urban use, productivity improvements on the remaining land should compensate for this reduction in area under agriculture. As of today, only three to four per cent of the total land in the country is available for 31 per cent of the population which is urban. By 2031, the urban population will reach 40 per cent. I hope that the new Act will bring clarity on the eminent domain of the state in acquisition of land for 'public purpose.'



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