

Workshop on Urban Infrastructure and Service Delivery  
with Dr. Isher Judge Ahluwalia

An initiative by  
IFMR Finance Foundation  
&  
Centre for Development Finance  
IFMR Trust, Chennai, 2011

## Issues in Urban Infrastructure and Service Delivery

### *Background Note*

This IFF-CDF workshop will discuss the findings of the “Report on Indian Infrastructure and Services”<sup>1</sup>, recently submitted by the High Powered Expert Committee (HPEC) chaired by Dr Isher Judge Ahluwalia to the Ministers of Urban Development and Housing & Poverty Alleviation. The Report documents the nature of urbanisation challenges facing India today and provides recommendations on dealing with these challenges. The discussions will be led by Dr Ahluwalia.

Following this discussion and using the framework provided by it, the workshop will then discuss the major issues confronting small and medium cities in India and ways in which they can be addressed. This topic is of tremendous importance today, because without the orderly and planned development of small and medium cities, it will be impossible to have sustainable urbanisation in India.

This note provides a synopsis of the types of issues that will be discussed during the day.

<sup>1</sup>Report available at <http://www.bit.ly/UrbanInfra>

## **PART 1: The Report on Urban Infrastructure and Service Delivery**

The report assesses urbanisation and growth trends in the country as well as the current state of public infrastructure and service delivery in eight critical sectors - water supply, sewerage, solid waste management, storm water drains, urban roads, urban transport, street lighting and traffic support infrastructure. Based on the findings, the report lays out the national urban infrastructure investment requirements over the next 20 years, and lists the governance and financing reforms required in order to mobilise resources for the investments, so as to attain service level benchmarks laid out by the Ministry of Urban Development (MoUD) for all.

### ***Urbanisation in India:***

India is urbanizing rapidly and the rate of urbanization is expected to increase sharply over the next few decades, with an expected urban population of 600 million by 2031, as compared to 377 million in 2011<sup>2</sup>. Already, the Census 2011 has shown an increase of 3.3 percentage points in the level of urbanisation in 2001-2011 compared with 2.1 percentage points in 1991-2001. As the Indian economy continues to grow at 8-8.5 per cent per annum, this will place cities and towns at the centre of India's development, with the urban sector playing a crucial role in the structural transformation of the economy. Cities will need to become the engines of national development.

The report comes to the conclusion that India's economic growth momentum can not 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 through a combination of increased investment, improved governance and financing mechanisms, and comprehensive capacity building at all levels of government.

### ***The State of Service Delivery:***

Today, cities and towns in India provide a very low quality of public infrastructure and services to their citizens. A study by the MoUD found that 23 million children below the age of 14 in urban India are at risk from poor sanitation and 8 million from poor water supply<sup>3</sup>. Infant mortality at 42 deaths per 1000 live births continues to be unacceptably high<sup>4</sup>.

Not only are current standards of service delivery much lower than the needs of citizens, they are also much too low to sustain economic productivity of towns and cities. Public services, such as drinking water, sewerage, solid waste management, urban transport and street lighting must be available to all to achieve the goal of inclusive economic growth. The challenge is to focus on reforming governance for service delivery.

<sup>2</sup>Census of India (2011)

<sup>3</sup>MoUD, Government of India (2009b)

<sup>4</sup>IIPS 2005-06

The challenge of urbanisation is to plan ahead to ensure service delivery at the benchmark levels set by MoUD; in a situation when even the current urban population is inadequately served and the total urban population is expected to increase by another 250 million in the next 20 years.

The Committee has estimated that Rs.39.2 lakh crore of investment spread over a 20-year period will be needed to meet the investment deficit in the urban infrastructure sector. This implies that investment in urban infrastructure will increase at 15 per cent per annum and 12 per cent per annum in the 12th and the 13th Five Year Plans respectively, and at 8 per cent per annum in the subsequent two Plans. In addition, Rs.20 lakh crore has been estimated for the Operation and Maintenance (O&M) of the new as well as the old assets in the urban infrastructure sector.

### ***Governance Deficits:***

Governance is the weakest and most crucial link that needs to be repaired to bring about the urban transformation. Cities in India are dis-empowered, financially weak, ineffectively governed and therefore unable to respond to the needs of their citizens and ill-equipped to contribute to growth.

Cities have not been truly empowered by state governments, flouting the spirit of the 74th amendment. While most states have devolved the functions listed under the 74th amendment to cities, they have neither devolved commensurate financing powers nor the functionaries required at city level to implement the devolved functions. As a result, the Urban Local Bodies (ULBs) are left with unfunded mandates.

Financing the large sums required to meet the investment needs of urban infrastructure is also crucially dependent on reforming the institutions that plan, design and deliver public services, as well as on upgrading the skills of those who run these institutions. Large expenditures need to be combined with better governance structures, strong political and administrative will to collect taxes and user charges, and improved capacity to plan and deliver.

### ***Financing Mechanisms:***

Urban local governments in India are among the weakest in the world, both in terms of their capacity to raise resources and their financial autonomy. Their tax bases are narrow, inflexible and lack buoyancy. Cities have also been unable to rationalise user charges for services they deliver. They have had to rely on increasing transfers from state governments in recent years.

There is a need for municipal entities to be strengthened as local governments with their 'own' sources of revenue, predictable formula-based transfers from state governments, and other transfers from higher level governments that may be necessary to discharge their duties under the 74th constitutional amendment. Improved collections of local taxes and user charges will be critical in enabling cities to

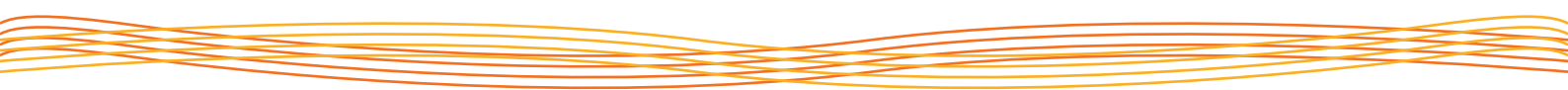


improve their revenue base and leveraging this to access new forms of finance through debt and PPPs.

***A Framework for Progress:***

The committee proposes a comprehensive framework of urban policy and planning in India. The key elements of this framework include: increasing investment in infrastructure in relation to GDP over the next 20 years ; focusing on service delivery and not just infrastructure creation; improving planning with integration of land use and transportation; ensuring universal access to services meeting recommended norms; reforming systems of service delivery; and strengthening the financial base of cities.

The approach, framework and recommendations of the committee will be discussed in great detail during the workshop, and can be critiqued by participants.



## PART 2: The Development of Small and Medium Cities in India<sup>5</sup>

The urban population of India is concentrated in a few large cities. Migration towards the larger cities is due, in large part, to the economic promise of these cities. These cities are the engines of economic growth, but they are plagued by severe challenges to their civic infrastructure and service delivery capabilities. For this reason, they are deemed to be at the forefront of the urban challenge today.

Any meaningful long-term vision for India would be incomplete without planning for the cities of tomorrow- the small and medium cities. It is for this reason that the report of HPEC uses the concept of urban agglomeration, which includes in its fold the small towns on the fringes of a metropolitan area. As their economic attraction increases because of growing market opportunities, neglecting the infrastructure of these cities on the fringes can lead to an intensification of the current unsustainable urbanisation patterns. A process of improving the investment climate in the small and medium towns has to be accompanied by investing in urban infrastructure for better public service delivery in these towns.

The historic neglect of the urban sector in India has put tremendous pressure on large cities to keep pace with the increasing demands of urban service delivery. With the impending deluge of urbanization, there is an urgent need to prepare small cities and towns as well to accommodate the growing urban population. India's urban growth trajectory presents itself with a unique challenge: one of regenerating the large cities and developing its small and medium cities. An effective spatial strategy for the country will also serve as a conduit to the rural hinterlands.

Of the total investment of Rs.39.2 lakh crore estimated for a 20-year period by the HPEC, 50 per cent is for urban agglomerations with population over 1 million, these UAs include the surrounding small towns. The report cites the example of Kolkata's Class II and Class III cities within the Kolkata agglomeration. The Report highlights the need to focus on small cities by including it within the ambit of the New Improved JNNURM (NIJNNURM) and treating the smaller cities and towns differently from larger cities and metros - for funding, capacity building, and reform content - with the specific objective of carefully nurturing these habitations into the larger urban landscape of the country. An important recommendation suggests that smaller urban local bodies should come together for scale economies through inter-municipal cooperation. Some of the recent success stories in the urban sector, as also highlighted in the Report, like the continuous water supply program in three North Karnataka districts and a sewerage project in Alandur, TN, are examples of small cities leading urban innovations in the country.

In addition to the broader issues discussed in Part 1, the development of small and medium cities is also critical in view of national trends in migration, regional economic growth and rural-urban dynamics.

<sup>5</sup>Urban agglomeration is a continuous urban spread constituting a town and its adjoining urban outgrowths or two or more physical contiguous towns together and any adjoining urban outgrowths of such towns. In 2011, cities and towns increased to 7935 but information on the number of UAs is not available yet. In 2001, the number of cities and towns was 5161, while the number of UAs was 4378.

### ***Migration Patterns:***

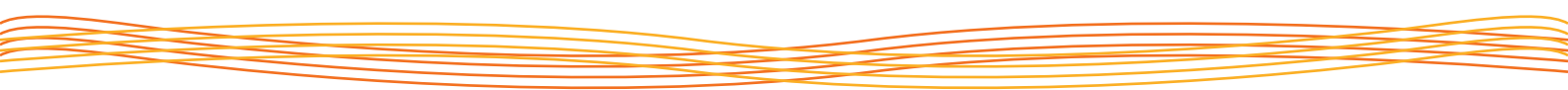
A cause for major concern in India is that rural migrants have been bypassing small and medium towns and settling in the large cities. As of 2001, about 68% of the urban population lived in urban agglomerations with population of 1 lakh and more.

The trend of rural migration to the larger urban centres and the consequent population explosion has caused these cities to become overcrowded and congested, with poor standards of social and environmental infrastructure provision. They find themselves stretched for capacity and resources, while being confronted with growing in-migration. The latest data from Census 2011 is not available as yet, but during the period 1991-2001, the rural to urban of migration was 20.6 million and urban to urban was another 14.3 million - making a total of 35 million people. Of this number, about 12.5 million people moved to the 35 major urban agglomerations. Some turnaround of migration from large cities to smaller cities and towns is expected in the decade 2001-11 when the data become available, and this is likely to continue in the years to come. The 1595 municipalities and 2108 Nagar panchayats that constitute the universe of small and medium cities in India can, if appropriately planned, be the natural sinks that absorb a substantial quantum of all migration, thus easing the growing pressure on larger cities and leading to more sustainable and equitable population outcomes.

### ***Regional Economic Growth and Infrastructure:***

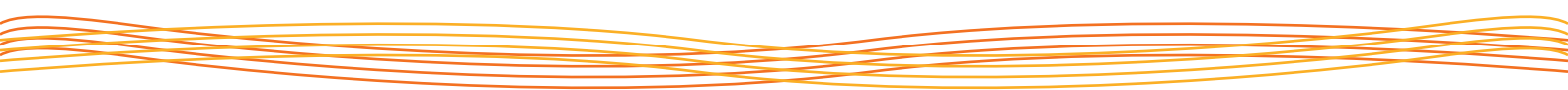
In building India's small cities and towns for the future, it is important to place economic activity at the forefront of infrastructure creation. Merely putting in place best-in-class infrastructure without sufficient local economic activity to support its usage can be counter-productive. There is evidence to suggest that the slow uptake of the PURA Scheme (Provision of Urban Amenities in Rural Areas) of the Ministry of Rural Development is attributable to its pure infrastructure focus, without factoring in local livelihood creation. Similarly, development of infrastructure in the small cities should be coupled with employment creation in these places.

Economic activity and employment opportunities are mainly concentrated in large cities, which are located in a few states. This clustering of economic activity in a few states and cities has resulted in regional imbalances across the states. Maharashtra has a little over 13 per cent of the country's factories and employment, Tamil Nadu has 15 per cent of both and Andhra 11.3 per cent of the factories and 10.7 per cent of the employment. An improved investment climate in small cities and towns could possibly help reduce some of these regional imbalances. Opportunities for sunrise industries are now emerging in these small towns with plenty of innovations. These industries could include tourism, agro-processing, micro and small industries etc. We need to build urban infrastructure accordingly to support these innovations.



***Rural-Urban Synergies:***

Development of small and medium cities serves another very important objective – one of acting as a conduit to the rural hinterlands and breaking down the political urban-rural construct. The demand for farm produce and other goods increases as urbanisation grows. These demands will have to be met by the rural areas. Investments in infrastructure, logistics, processing, packaging, and organised retailing have to be made to build the rural-urban linkages. Small cities are uniquely placed to tap into this opportunity space. This way they also become spaces for the rural migrants to move to – thereby reducing the pressure on the large cities.





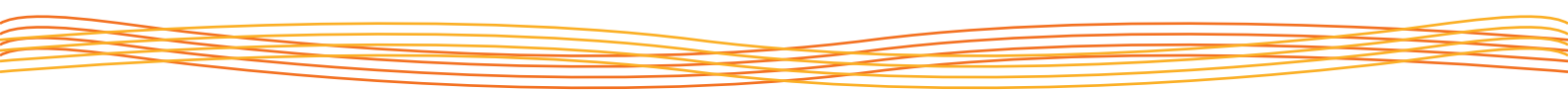
### ***A Compendium of Issues:***

Without many of the problems associated with large cities, smaller cities are well placed to build sustainable habitations that factor in environmentally friendly solutions for service delivery. However, these places are not without their share of problems. Issues of financing, capacity constraints and governance challenges stand in the way of capitalizing on the opportunities.

It is obvious that small and medium cities are confronted with myriad challenges that need to be addressed systematically.

In this part of the workshop, participants will be divided into smaller groups that will discuss specific topics, with the objective of highlighting the issues and challenges involved, as well as recommendations for the way forward. The list of topics is as follows:

1. *Participatory Development:* Participatory government has been a much discussed issue in development discourse. Involving citizens in the planning of their cities is a powerful idea. But practically, there remain many questions with regards to how meaningful citizen participation can be achieved. This group will discuss the issues involved in participation and ways in which citizens can meaningfully participate in planning and governance.
2. *City Revenue Generation and Infrastructure Financing Mechanisms:* Cities have failed badly in generating their own revenues - taxes and user charges. This group will discuss the challenges involved and come up with ideas for cities to maximise revenue generation. They will also discuss strategies for financing public infrastructure using both private and public financing.
3. *Land and City Growth:* As cities grow, their needs for land increase. In order to meet these needs, land needs to be made available in a just and timely manner. This group will discuss the issues in and mechanisms for meeting land needs for growing cities.
4. *Political Economy and Institutional Fragmentation:* There are a number of actors in the city, working on different aspects of development. This group will discuss the ways in which the city council, government departments, parastatals et al interact with each other and ways in which they can be incentivised to work together for the growth of the city.
5. *Decentralisation and Governance:* The 74th amendment was meant to signal a fundamental change in the way local governments operated. However, the reality has not lived up to the promise. This group will discuss the impact of decentralisation on city governance and the means by which the agenda can be taken forward meaningfully.



6. *Improving Capacities:* Cities today are hamstrung by the lack of human resource capacity, especially in the areas of financial management, project development and implementation, and service delivery. This group will discuss the specific issues that cities confront in terms of capacity challenges and attempt a roadmap for improving technical, managerial and financial capacities of cities.

7. *Water and Sanitation:* Water, along with land, is the most critical infrastructure issue confronting cities today. As cities grow, the needs for water supply and sanitation increase substantially. This group will discuss the challenges involved in the provision of these services, public health issues, and critically, how the needs of urban poor must be integrated into the overall plan.

8. *Employment Creation:* This group will discuss the potential of sunrise industries in small and medium towns and its linkages to infrastructure creation.

