Transforming India 2030 – Financing Strategies for achieving Sustainable Cities

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Abbreviations

ABD	Area Based Development
ACA	Additional Central Assistance
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
CAA	Constitutional Amendment Act
FIRE – D	Financial Institutions Reforms and Expansion (Debt) Project
GDP	Gross Domestic Product
HPEC	High Powered Expert Committee
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
NCU	National Commission on Urbanisation
NIPFP	National Institute of Public Finance and Policy
PFDF	Pooled Finance Development Fund
PMAY	Prime Minister Awas Yojana
PPP	Public Private Partnership
SCM	Smart Cities Mission
SCP/SCPs	Smart City Plan / Smart City Plans
SDG/SDGs	Sustainable Development Goal/Goals
SFC	State Finance Commission
SPV	Special Purpose Vehicle
ULB/ULBs	Urban Local Body/Urban Local Bodies
USAID	United States Agency for International Development

Transforming India 2030 – Financing Strategies for achieving Sustainable Cities

By Ravikant Joshi[1][2]

Abstract

With the help of available literature, the paper attempts to examine critically how India has financed its Cities in the past, how it is currently financing its Cities and how it will be financing its Cities in near future going by past and present trends. Such an examination is necessary because if India wishes to pursue Sustainable Development Goals (SDGs) and to transform itself by 2030, then it needs to pursue SDG No. 11 of ***'Sustainable Cities'***, because by 2030 more than its 60 per cent population will be staying in the Cities. Attainment of goal of ***'Sustainable City'*** inevitably requires sustainable financing strategies. The main findings of the Paper suggest that India has been financing its Cities increasingly in unsustainable manner and going by present policies andschemes, it seems that it will continue to do so in future. With unsustainable financing strategies India will not be able to achieve goal of ***'Sustainable Cities'***and thereby not be able to achieve SDGs. There is an urgent need for course correction (adoption of financial sustainability strategies) and rightly so in the endthispaper outlines financing strategies for achieving Sustainable Cities.

Context

The world including India has been on the path of unsustainable development for many decades putting in danger the future of mankind. Realising the need to adopt sustainable development after many years of discourse, all the nations finally have adopted the Sustainable Development Goals (SDGs) at the end of the year 2015, which were agreed upon at the Rio + 20 Summit in 2012. SDGs are composed of 17 goals, 169 targets and proposed 304 indicators each intertwined with the other, thus recognising the need of not to compartmentalise development.

The next 15 years are going to be decisive for India if it has to achieve the SustainableDevelopment Goals (SDGs). In a highly globalised world, it is not feasible to have a redistribution follow growth, and development must work its way from the bottom up. There is a needfor constructive approach to fortify both development and democracy, engaging citizen bodies, research institutes and varying levels of governance.

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[2]The views expressed in this article are that of an author and do not represent views of any organizations with which he is associated.

Each of the Sustainable Development Goal is important and India needs to adopt an approach that integrates the social, economic, and environmental dimensions and concerns which form the very foundation of sustainable development. To formulate such holistic, integrated approach; there is a need to develop strategy not only for the main 17 SDGs but for each of the 169 targets and proposed 304 indicators.

Formulation of holistic, integrated strategies for achieving sustainable development goals will be different for each country. In case of India the Sustainable Development Goal number 11 of achieving Sustainable Citieswill be very crucial in the light of following -

- Urbanization world over has crossed the 50% threshold in 2008 and is likely to inch up to 70% by 2050 (WUP, 2014). In the Indian context, presently the largest democracy has the second largest urban population in the world at 377 million (31.7 %), after China (749 million, 2014), with the urban numbers having increased up to 429 million in 2016, and have been further projected to rise to 600 million(40%) by 2031 (High Powered Expert Committee Report , 20113). This is likely to result in an increaseof nearly 160 to 200 million urban population during the period 2015-2030, rendering a daunting image of the future of urbanisation inIndia.

- By 2030 India may be far more urbanised than what is projected (600 million or 40 % share of urban population) on the basis of the Census Report figures. A World Bank Report (September 2015)4 characterises India's urbanization process as " hidden" - because the share of India's population living in areas with urban-like features in 2010 stood at 55.3 % (according to the Agglomeration Index)5. Going by these standards by 2030 India's Urban Population will be much more (more than 60 per cent).

- The same World Bank Report (September 2015) has characterised India's urbanization process as "messy" - because 65.5 million Indians live in slums and 13.7 million below the poverty line (Census, 2011).This uncontrolled and expansive urbanisation has been marked with significant gaps in urban infrastructure resulting in pressure on land, water supply and its quality, sewerage network services, disposal of solid waste, lack of open landscaped spaces, deterioration of public transport, resulting in environmental degradation and poor quality of urban life. 94 % of the cities/ towns in India do not have even a partial sewerage. 64 % of urban population is covered by individual water connectionsand stand posts in India, Waste collection coverage ranges from 70% to 90 % in major metropolitan cities, and is less than 50 % in smaller cities.Most Indian cities do not have water metering system for residential establishments. Non-revenue water accounts for 50 per cent of water production. Even partial sewerage network is not present in 4,861 cities. Public transport accounts for only 22% of urban transport in India. 13 per cent of urban households do not have any form of latrine, less than 20 per cent of the road network is covered by storm water drainage and scientific disposal of solid waste is not there in most of the cities6. There was a shortage of around 19 million dwelling units as per the 12th Plan. With such a level and quality of urban infrastructure, not a single Indian city is among the top 85 sustainable cities of world[7].

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[3] Ministry of Urban Development, GOI – High Powered Expert Committee Report - 2011

[4] Peter Ellis and Mark Roberts – Leveraging Urbanisation in South Asia – Managing Spatial Transformation for Prosperity and Livability (2016) – Washington DC, World Bank

5 a globally applicable alternative measure of urbanisation

[6] Planning Commission, Government of India – 12th Five Year Plan Document

[7] Sustainable Cities Index 2016 – Chennai at 89th rank, Mumbai at 92nd rank, New Delhi at 97th rank and Kolkata at 100th rank.

The trend of Indian Urbanisation shows that if India wishes to achieve sustainable development goals then it will have to make its cities sustainable (SDG No. 11).One of the core element or foundation of any sustainable development is financial sustainability of the development. A development which is not financial sustainable fails to deliver its intended benefits to the beneficiaries either failing apart much early than expected life or makes non-beneficiaries to pay for the development through process of cost exportation or simply turns out to be very costly (cost inefficient) and thus drains out the precious resources meant for other developments.

Any development to become sustainable must have financial sustainability along withother important sustainability factorssuch as ecological, political and cultural. In the context of above this paper proposes to undertake critical inquiry in to financing aspect of the 'Sustainable Cities' in Indiain the following terms –

- How India has financed its Cities in the past and how is it doing itcurrently it is? Has financing of cities and urban infrastructure in India followed or does it follow financial sustainability norms?
- If the past and present ways of financing cities are not sustainable, then what sustainable financing strategies will have to be adopted by India to achieve 'Sustainable Cities' and through that other Sustainable Development Goals by 2030.

Before examining these aspects this paper first propose to describe financial sustainability, followed by a historical review, time lines, issues and present status of municipal finances (or financing of the Cities). Next section analyses two questions – Has India financed its cities in sustainable ways? And is India financing them in sustainable ways? Final section of paper dwells on the way forward.

Defining Sustainability and Financial Sustainability

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."[8]The concept of sustainable development has three constituent parts: environmental sustainability, economicsustainability and sociopolitical sustainability. A more consistent analytical breakdown distinguishes it in four domains of economic, ecological, political and cultural sustainability.

Sustainability thus simply defined is a capacity to endure, while fiscal sustainability can be defined as the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures.

There is no consensus on precise definition of financial sustainability. Different studies use their own, often similar, definitions of financial sustainability. Financial sustainability concept is same at generic level but differs in application to some extent depending upon subject of study or level of government or type of organisation or project. For Example - the financial sustainability with respect to a non-profit organizationmayget defined as - capacity of non-profit organisation to obtain revenues in responseto a demand, in order to sustain productiveprocesses at a steady or growing rate to produce results and to obtain a surplus.But review of different definitions of financial sustainability of local government the following terms seem to encompass the idea –

[8] The United Nations - The Brundtland Report (1987)

- Sustaining current spending and meeting spending commitments
- No defaults on liabilities
- Intergenerational equity - No burden on future generations
- Maintaining of financial capital (working capital)
- Asset Management / Maintaining of infrastructure capital (asset for provision of services)
- Strategic and financial planning
- Prudent financial management systems in place
- Revenue enhancement strategies
- Improved expenditure management
- Maintaining public confidence

With regard to ensuring financial sustainability the most important thing is assessment or measurement of financial sustainability and then designing system of positive and negative incentives. The tool which is widely used for assessing financial sustainability is 'sustainability indicators'. Different countries have developed system of assessing financial sustainability of different sectors including municipal sector, institutions, projects and activities. It is difficult to take stock of all these systems[i](see end note) but some of the common indicators utilised to measure financial sustainability by all these systems are as follows –

1. **Operating Surplus -** (the difference between day to day income and expenses for the period)

2. **Operating Surplus Ratio -**(the operating surplus (deficit) expressed as a percentage of general and other rates net of rate rebates and revenues) - by what percentage does the major controllable income source vary from day to dayexpenses.

3. **Net Financial Liability**- equals total liabilities less financial assets. What is owed to others less (net of) money you already have or is owed to you.

4. **Net financial liability to operating revenue ratio -** (how significant is the net amount owed compared with income) -This ratio indicates the extent to which net financial liabilities of a Council could be met by itsoperating revenue.

5. **Interest cover ratio -**(how much income is used in paying interest on loans) -extent to which operating revenues are committed to interest Expenses.

6. **Assets Sustainability Ratio** - (are assets being replaced at the rate they are wearing out) -capital expenditure on renewal or replacement of assets relative to the recorded rate of depreciation of assets for the same period.

7. **Asset Consumption Ratio**- (the average proportion of 'as new condition' left in assets) -the written down current value of a Council's depreciable assets relative to their 'as new' value in up to date prices.

8. **Own Source Revenue percentage –** (own source revenue / total revenue) - it indicates how dependent the ULB is on external source of funding like loans and grants.

9. **Debt service coverage Ratio** -(Debt service + Operating Surplus / Debt Service) – indicates how much excess capacity to borrow is available with ULBs, also it shows that whether ULB

10. **Tax Collection Ratio** – (Arrears + Current Tax Collection / Arrears + Current Tax Demand X 100) –

11. **Per Capita Expenditure**–(total or revenue or capital expenditure / population)

These and various other financial sustainability indicators cannot be measured at present with Indian Municipal Bodiesbecause the data necessary to work out such indicators is not available. Not only this these and various other financial sustainability indicators have never been utilised while giving any grants or while sanctioning any loan or while transferring any function to theULBs. India has neither developed any system of measuring overall financial sustainability of its ULBs[9], nor has it been mandated under any scheme including recently concluded JNNURM or ongoing SCM. As financial sustainability has not been demanded by higher level governments, ULBs have gleefully not created, maintained or submitted such financial performance data on their own. Various central finance commissions, state finance commissions and other government agencies even if they wished to assess financial sustainability, they have failed to collect reliable data from ULBs and could not assess the financial performance, need for funds and financial sustainability of the ULBs. Not only this, there does not exists simple financial performance data of most of the ULBs in public domain.

Financing of Cities in India – Time Lines, Issues, Current Status

Since independence, municipal finances in India have shared an insignificant position in the country's public finance. They have been largely characterized by poor resource base, lack of autonomy, low capacity to mobilize revenues and high dependence on central and state level transfers and grants-in-aid coupled with internal inefficiencies for financial management. The period since independence can be divided in to three broad phases / periods –

1947 to 1992 –Era of Dark Age for Municipal Bodies in India

During this period the only reference in the constitution to local bodies was in the Directive Principles of State Policy, which stated, ***"The state shall take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government."***There existeddistinct anti-urbanisation bias in public policy at all levels. Cities, urbanisation, urban development being state subject, urban local bodies were left to the State.

As a result of all thismost of the urban local government institutions were either routinely superseded or elections were not held on time, resulting in complete subversion of the system of local governance.State Governments appropriated most of the functions and financial sources of the urban local governments which were provided in Municipal Acts of erstwhile British Rule. In the last phase of this period i.e. post 1970 large scale parastatalisation of municipal functions happened.

There was no funding assistance from Central Government. States provided funds but they were meagre, as a result municipal bodies could spend very little on urban infrastructure development.

[9] As mentioned later in the paper, Credit Rating Agencies did developed rating methodology for assessing ULBs but credit rating though important measurement of financial performance is not a holistic measurement of financial sustainability of ULBs.

Exception to this were some of the bigger cities of Gujarat and Maharashtra who managed their finances on 100 per cent basis, otherwise ULBs across the India depended heavily even up to 90% on State Government's non-formulae based adhoc, meagre subsistence level grants. As a result, all the cities of India suffered from inadequate urban infrastructure development, urban governance and acute poor quality of urban life which persists even today.

During this period few studies about urbanisation, urban development and urban local bodies took place but suggestions of these study reports were hardly implemented. During the end of this period in 1988 came the important study report on National Commission on Urbanisation under the chairmanship of Charles Correa. The NCU emphasized close link between urbanisation and economic development. The NCU marked a significant departure from the policy pronouncements of earlier government policies and plans as it abandoned the concept of backward area because "it was felt that instead of forcefully inducing investments in areas which are backward and have little infrastructure and in which the concessions are likely to be misused, the identified existing and potential urban centres at intermediate levels could be developed to attract the migrants as they are located in closely related regions."[10] Consequently, the Commission identified 329 cities called GEMs (Generator of Economic Momentum) Spatial Priority Urban Regions (SPURs). The future growth in urbanisation was expected to take place along these nodes and corridors. The 74th CAA was result of NCU recommendations.

1993 to 2005 – Era of Constitutional Status and ensured existence to Democratically Elected Municipal Bodies

India embarked on economic and structural reforms in 1991 and the 74th Constitutional Amendment Act (CAA) 1992 came into force in 1993. With passing of 74 CAA what really started was the discourse about existing status, role, relevance, functions, finances and macro implications of municipal bodies.

The India Infrastructure Report prepared by the Rakesh Mohan Committee in 1996 made macroeconomic implication of non-development of urban infrastructure very clear. Report estimated the total requirement for financing water supply and sanitation at Rs. 2,22,051 crores over the period 1996-2006 i.e. Rs. 22051 crores per annum. As against this, the flow of plan funds was estimated at Rs. 5,000 crores per annum during the period leaving a resource gap of Rs.17, 051 crores per annum during the period. Thus the investment gap was 77%. (Paper by Ananth Kumar, Minister UDD 2002). Rakesh Mohan committee strongly recommended development of municipal bond market in India.

The National Commission set up to review the working of the Constitution of India also joined in the discourse about the role, functions, place etc. of municipal bodies. The National Commission proposed that municipalities should have a set of exclusive functions, and the concept of a distinct and separate tax domain for municipalities should be recognized. Only then will the municipalities be able to serve as institutions of local self-government.[11]

During the period of 1993 - 2005 various strategic initiatives as listed below were taken targeting all tiers of government to streamline municipal finances.

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[10] Ganeshwar V. (1998) 'Urban policies in India: Paradoxes and Predicaments', *Habitat International*, Vol. 19, No.3, pp.293–316.

[11] Report of the National Commission to Review the Working of the Constitution, 2002.

- Giving constitutional status to municipal bodies through 74th CAA and ensuring existence of municipal bodies democratically elected through fair and independent elections by State Election Commissions.
- Laying down the parameters for the constitution of municipalities, and defining how these might be composed (representation/reservation to SC, ST, OBC, Women).
- Providing a constitutional framework for redesigning intergovernmental transfer mechanism for improving the fiscal relationship between central, state and local government in the following ways:
    - Mandating the Central Finance Commissions to look in to needs for municipal finance. As a result Central Finance Commissions 10^{th}, 11^{th} and 12^{th} tried to look into the needs for municipal finance and issues associated with it provided central funds for municipal sector for the first time in the history. The allocations were small and were worked out on adhoc basis due to lack of data base.

Table 1 – Amount proposed by Central Finance Commission for devolution to municipal bodies from Government of India

Central Finance Commission	Period	Amount (Rs. in crore) provided for Devolution	Details / Conditionalities
10^{th}	1995-2000	1000	Worked devolution amount on Adhoc Basis. Grant not for establishment costs, matching contribution by local bodies required.
11^{th}	2000-2005	2000	Worked devolution amount on Adhoc Basis. Grant to be used for O&M of core functions like primary education, health, drinking water, street lighting, sanitation but not for establishment costs

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    - Creation of the institution of State Finance Commissions to look into sharing of state resources between state and municipal bodies. Some of the states constituted State Finance Commissions but most of the States delayed their constitution. The first generation SFCs started outlining various devolutions taking place from State to Urban Local Bodies.

- Successful development of municipal bond system under USAID funded FIRE-D Project which started in 1993.

    - Ahmedabad Municipal Corporation made the first municipal bond issue inIndia, without a state government guarantee. This involved raising Rs. 1000million from the capital market and comprised 25 per cent public placement and 75 per cent privateplacement
    - As part of the FIRE-D project, in 2000-01 amendment of Income Tax Act 1961 was done to allow municipal bodies to issue Tax Free Municipal Bonds. Again, the first launch of tax-free municipal bonds was made by the Ahmedabad MunicipalCorporation in 2002, for Rs. 500 million.
    - During 1998 to 2005 in all 26 Municipal Bond issues of Rs. 1590 crore were structured but two issues-Kolkata&Chennai did not take place. Through 24 issues Rs. 1445 crore were raised. Out of this,18 issues were by municipal bodies, 4 issues were by city level water and sewerage boards and 2 issues were of pooled finance nature done by KUIDFC and TNUDF for multiple smaller municipal bodies.

- With introduction of Municipal Bond System, Credit Rating of municipal bodies become necessary. USAID – FIRE – D project helped in getting municipal rating system developed in India. India's first municipal credit rating was in February 1996, when Ahmedabad received a municipal credit rating, conducted by CRISIL.

- Introduction of Pooled Finance Development Fund (PFDF) was created by theGovernment of India at the same time as the JNNURM (in 2006) with a corpus of Rs 400crore. It required setting up of a 'State Pooled Finance Entity' in every state. Andhra Pradesh, Assam, Karnataka, Kerala, Nagaland, Orissa, Rajasthan and Tamil Nadu have created such entities.

    - Tamil Nadu Water and Sanitation Fund has during 2002 to 2013 raised a sum of over Rs. 222 crore by issuing bonds under the pooled bond framework.
    - KWSPF has raisedRs. 100 crore in 2005 for the Greater Bangalore Water Supply and Sewerage Project.

- The most important development came through in the end part of this period when in year 2002 Government of India put in place two incentive linked reform funding schemes – City Challenge Fund and Urban Reform Incentive Fund.

    - City Challenge Fund was a 100% grant from GoI to catalyse and support the restructuring of urban delivery systems. The objective was to ensure universal access to efficient urban services. It was initiative with an underlying vision thought that leaving ULBs/States to finance the costs of reforms by themselves may delay or even make it difficult to initiate and implement the reforms. In addition, the reform process may disproportionately burden the poor in the short term. Assistance from GoI can therefore cushion the costs of reforms and provide support to service delivery reforms. It had two windows -
        - **Preparation window** funding will facilitate the preparation of a credible reform programme by the ULBs. It will be available to ULBs/States to assist them in conceptualising and preparing reform plans with a ceiling of Rs. 2 crore for mega-cities and Rs. 1 crore for other eligible ULBs/States.
        - **Implementation window** funding will provide significant output-focussed and performance-linked support to the implementation of reform plans. The funding will cover a maximum of 80% of the transition costs associated with service delivery reforms, to a ceiling of Rs 50 crore.
    - Urban Reform Incentive Fund was started (28^{th} June 2003) as an additional central assistance (ACA) with an outlay of Rs. 500 crores per annum during the Xth Plan to provide reform linked assistance to States so as to incentivise and accelerate the process of seven urban reforms identified by Government of India. The allocation of each state was worked out on the basis of state's urban population to total urban population. It was provided to the States on 100 per cent grant basis and on the basis completion of reforms.

Reform Area	**Proposed Weightage (% of State's Share of URIF)**
Repeal of the Urban Land Ceiling and Regulation Act	10
Rationalisation of stamp duty	20
Reform of rent control laws	20
Introduction of computerized processes of registration	10

Reform of property tax	10
Levy of reasonable user charges	20
Introduction of double entry system of accounting in ULBs	10

- Putting in place policy and operational guidelines regarding Public Private Partnership for augmenting and delivering municipal services.

2005 to 2014 – Era of Unsustainable Funds Flow to incapable, non-empowered, non-accountable Municipal Bodies

This period begins with the announcement of seven years (2005-12) Rs. 66000 crore outlay Additional Central Assistance Scheme called Jawaharlal Nehru National Urban Mission (JNNURM) and commencement of Twelfth Finance Commission award period.

This isalso the period in which due to efforts of Twelfth, Thirteen and Fourteen Finance commissions data about finances of municipal bodies, comprehensive national picture about municipal financesand its share in national finance become available. On basis of comprehensive data collected and analysed Central Finance Commissions worked out basis for its recommendations about devolution of central funds to municipal bodies. Thirteen and Fourteen Finance Commissions increased devolutions to the municipal bodies substantially (pl. see Table 2)

Table 2 – Amount proposed by Central Finance Commission for devolution to municipal bodies from Government of India

Central Finance Commission	Period	Amount (Rs. in crore) provided for Devolution	Details / Conditionalities
12^{th}	2005-2010	5000	Grants to be utilized to improve service delivery in respect of water supply and sanitation schemes subject to their recovering at least 50 per cent of the recurring cost in the form of user charges.
13^{th}	2010-2015	23108	Collected Data of All ULBs
14^{th}	2015-2020	87144	Collected Data of All ULBs

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

Jawaharlal Nehru National Urban Renewal Mission hailed as a recognition of the phenomenon called "urbanization"[12]was launched in December 2005 with Rs. 66000 crore. The seven year term officially ended in March 2014 with two years extension but even today some of the works sanctioned under this are getting completed.

The JNNURM comprised two sub-missions: i) Urban Infrastructure and Governance (UIG) and ii) Basic Services for the Urban Poor (BSUP) and focused on the 65 mission cities selected by the GoI on the basis of their size of population, economic, political, strategic, cultural and religious importance. The mission also has two sub-schemes:Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) andIntegrated Housing and Slum Development Programme (IHSDP)to cover all the other urban centres under which around 650 towns participated and got funding under JNNURM. For these sub-schemes, the states are empowered to prioritize urban cities on the basis of existing infrastructure, population size and on being inclusive of the socially and economically disadvantaged groups.

12 S. Jaipal Reddy, Minister for Urban Development while launching JNNURM www.jnnurm.nic.in

Under the JNNURM Cities, ULBs were provided grant funds at the rate of 50 per cent to 90 per cent of the project cost from GOI and matching grant at the rate of 10 to 20 per cent by the State Governments depending upon the size of population and other criteria. Thus Cities (municipal bodies) were required to put in their own matching share at the rate of 10 to 50 per cent of the project cost. The release of grant was linked to physical progress and reforms implementation progress. The State Governments and ULBs were required to pursue in all 23 reforms six reforms specifically by the ULBs, seven reforms by the State and 10 reforms concurrently by the State and ULBs.

By the end of the Mission (March 2012), against a total project cost approved of Rs. 1056.46 bn covering a total of 2712 projects under four components of JNNURM, the funds released by GOI amounted to Rs. 258.51 bn, or only 39.2 per centand finally the actual amount by ULBs spent stood at Rs. 257.09 bn accounting to only 52 per cent of the total funds approved (Refer to Table 3). In physical terms by March 2012, only 10 per cent or less of the projects were completed. Although, some reform progress at the state and ULB level was observed, most of the reforms are incomplete even at present in the year 2017.

Table 3 – JNNURM Progress as of March 2013

JNNURM Progress as of March 2013

Progress as on March 2013	Sub Mission for Urban Infrastructure and Governance	Urban Infrastructure Development for Small and Medium Towns	Sub Mission for Basic Services to the Urban Poor	Integrated Housing and Slum Development Program	Total
Total Allocation Envisaged	Rs. 315.00 bn	Rs. 114.00 bn	Rs. 163.56 bn	Rs. 68.28 bn	Rs. 660.00 bn
Cost of Projects approved	Rs. 625.51 bn	Rs. 141.21 bn	Rs. 297.70 bn	Rs.119.36 bn	Rs. 1183.78 bn
ACA committed	Rs. 285.23 bn 90.55 %	Rs. 113.19 bn 99.29 %	Rs. 147.00 bn 90.0 %	Rs. 76.45 bn 112.0 %	Rs. 621.87 bn 94.2 %
Funds released	Rs. 187.04 bn 59.38 %	Rs. 94.65 bn 83.0 %	Rs. 97.09 bn 59.0 %	Rs. 57.05 74.6 %	Rs. 435.83 bn 66.03 %
Funds spent	Not Avai lable	Not Avai lable	Not Avai lable	Not Avai Lable	
Numbers of Projects approved	553 Projects	807 Projects	525 Projects	1083 Projects	2,968 Projects
States / UTs covered	30 States/UTs	30 States/UTs	30 States/UTs		
Cities / Towns covered	62 Cities	640 Towns	62 Cities		
Total Funds Released	Rs. 432.00 bn 69 .0 %	Rs. 115.23 bn 81.6 %	Rs. 183.45 bn 61.6 %	Rs. 82.21 bn 68.9 %	Rs. 812.89 bn 68.7 %

After March 2013 progress data of JNNURM is not shared publically while actual amount spent data was stopped sharing much before. What is known now is by end of March 2014 when Mission ended GOI has released almost entire amount of Rs. 66000 crore it has promised under JNNURM and Total Projects approved under JNNURM were of more than Rs. 1,20,000 Crore. Hoping that entire amount of JNNURM got spent by March 2015, then it can be assumed that during the period 2005-06 to 2014-2015 urban infrastructure development projects of Rs. 120000 took place.

Three major shortcomings of the JNNURM were -

The first and foremost major shortcoming was, JNNURM financed cities in unsustainable ways or in other words though not intentionally but JNNURM accentuated financial unsustainability of the recipient ULBs. This happened because of its structure of providing 80 to 90 per cent of project cost without hard budgetary constraints. Lack of hard budgetary constraints and failure to make completion of grant conditions (resource mobilisation reforms, leveraging funds through PPP and Borrowing)upfront resulted in non-implementation of various fiscal reforms by ULBs especially property tax and user charge reforms to mobilise existing resources or efforts to raise new tax resources.As a result own revenue of ULBs did not improve but on other hand Operations and Maintenance cost increased due to additional infrastructure created under JNNURM which finally resulted in to impoverished fiscal health of the ULBs and unsustainable financing of the Cities.

Second major shortcoming was a long drawn implementation and slow physical progress of the projects resulting in to time and cost overruns. As the Mission did not provide for cost escalation, ULBs were required to bare cost overruns and as most of the ULBs lacked financial capacity to shoulder cost overruns, projects got further delayed, curtailed and ultimately the State governments in most of the case were required to fund them.

The third major shortcoming was,even after spending Rs. 120000 crore in 10 years period there was not much improvement in an availability and quality of urban infrastructure services to the people.

Other shortcomings of the JNNURM can be summarized as follows -

Not much success in the fund leveraging through Public Private Participation (PPP). As a matter of fact, by the end of 2012 around 70 projects of Rs. 7823 crores (14 per cent in terms of numbers and project outlay) have had the PPP structure.[13] These were earlier estimates, by end of the scheme many of these PPP projects failed for one or the other reason and actual fund leveraging through PPP was less than 5 per cent.

Although temporary and adhoc increase in grants to ULBs by the State Governments was observed, subsequently it did not result in an increase in the formulae based devolution on a permanent basis.[14, 15]

No improvement was seen in the creditworthiness of ULBs. As per the assessment carried by GoI in mid 2008, from the 63 JNNURM cities[16], not a single ULB had an 'AAA' rating. 10 cities acquired 'AA' rating while another 10 cities had 'A' credit rating. The remaining 43 ULBs received credit rating of 'BBB' and below.

With huge (53 per cent out of overall sanctioned investment of JNNURM coming from GOI and another 25 to 30 per cent coming from State Governments) no cost (free) funds becoming available under JNNURM, the success story of Municipal Bond of the earlier 1993-2005 period decelerated completely. Since announcement of JNNURM in December 2005 in all only four Municipal Bond issues raising paltry Rs. 221.70 crore have taken place and since 2013 not a single bond issue has taken place. Out of these four bond issues only one was issued by Vishakhapatnam Municipal Corporation in 2007 while rest three bond issues were issued by TNUDF for smaller municipal bodies. 'This rightly sparked concerns regarding the 'crowding out' of commercial funds by government money, as evidenced by lower levels of municipal bond issuances after the advent of the JNNURM. Programs such as JNNURM or the newly proposed 100 smart cities project need to

[13] http://planningcommission.nic.in/aboutus/committee/wrkgrp12/hud/wg_Financing_rep.pdf
[14] http://jnnurm.nic.in/wp-content/uploads/2011/10/HPEC-Sept.-27-OVC.pdf
[15] Implementation of the 74th Constitutional Amendment - JNNURM. Retrieved from: jnnurm.nic.in

[16] At the launch of the Mission in December 2005, 63 cities (Tirupati and Porbundar later included making total number of Mission cities 65). Retrieved from: http://pib.nic.in/newsite/erelease.aspx?relid=56288

explicitly require that grant funds be leveraged with debt from the capital markets, thus ensuring that scarce government resources are spread across many more critical public projects than would be possible if each project were to be financed completely or substantially using these grants'[17].

It is not only the availability of JNNURM and other grant funds which killed willingness to borrow, but lack of capacity of municipal bodies to raise adequate internal resources (as enumerated in the next session) is also responsible for non-borrowing. This is because external sources,whether in the form of bank loans, bonds or other capital market instruments, will be available tomunicipalities only on the basis of the internal revenues they generate now and are expected to generate in thefuture. Any debt is just an upfront source of funds which is predicated on predictable, regularrepayments from revenue that the municipality is reasonably expected to generate in the future and therefore,cannot be thought of as an additional source of funding. Debt therefore provides for maturity transformation,enabling longer term planning by cities. A municipality will need to demonstrate that it is capable ofgenerating this stable stock of funds on an on-going basis before it can expect to attract external debt.Therefore, the internal sources of funding of a municipality need to be in healthier order prior to contemplatingleverage by external, commercial debt[18].

It can be noted from these timelines that even after 74th Constitutional Amendment Act, municipal bodies did not receive new tax or non-tax resources or fiscal autonomy that has powers to set tax rates and or change the bases of collection without the explicit approval of state governments. Lack of the financial autonomy of local governments is evident from the fact that state governments have abolished important sources of own revenue for municipalities without providing adequate substitutesources of revenue for example in recent years abolition of Octroi from municipal corporations by Gujarat and Maharashtra Government. Similarly Rajasthan and Haryana abolished the property tax without consulting urban localgovernments, or when Punjab, again with no consultation, raised the threshold for the property tax so high that almost two-thirds of the properties were exempt from taxation or introduction of Local Body Tax by Maharashtra Government in lieu of Octroi and then again abolition of newly introduced Local Body Tax.

Similarly for sustainable delivery of a basic minimum quality of a service, it is essential to levyuser chargesthat cover for the on-going Operating & Maintenance (O&M) costs. Despite the fact that this has received considerable focus under the JNNURM, less than 10 cities have achieved full cost recovery for water supply and sewerage services, while less than five cities have achieved full cost recovery in solid waste services. It is pertinent to add here that, in most cases, cities have to get the approval of state governments for levying user charges and this hampers their ability to set user fee rates that they consider appropriate.

Has India Financed its Cities Sustainably in the Past?

The nation-wide data about financing of Cities by municipal bodies which become available from the studies conducted by National Institute of Public Finance and Policy (NIPFP) for Twelfth, Thirteenth and Fourteenth Finance commission clearly shows that cities have been financed in an unsustainable way, but what is really worrying is that the financing of Cities which was looking to go on sustainable way during 1997 to 2002, become progressively more and more unsustainable in recent year as enumerated below –

It can be observed from the Table 4 that during the period 1997 to 2002 the size of the municipal sector had registered a marginal expansion, both in terms of its share in the total publicly-raised

[17] *Anand Sahasranaman & Vishnu Prasad* - Sustainable Financing for Indian Cities
[18] *Anand Sahasranaman & Vishnu Prasad* - Sustainable Financing for Indian Cities

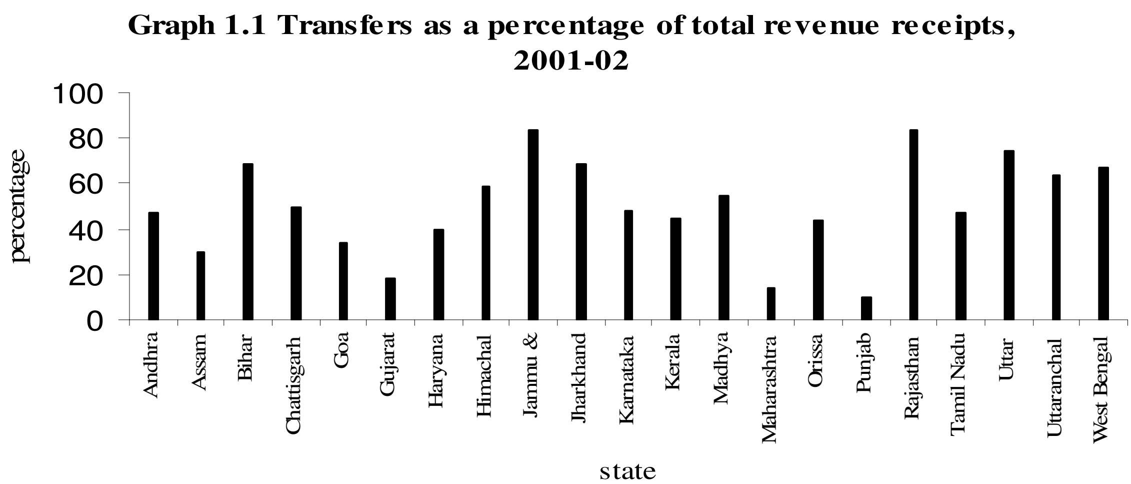
revenues and combined GSDP. Municipal share in the total revenues of the three tiers of government has risen from 2.84 per cent in 1997/98 to 3.07 per cent in 2001/02, while relative to GSDP, its share has increased from 0.61 to 0.63 per cent during the same period. Municipal own revenues (nominal terms) have risen at an annual average growth rate of 10.32 per cent. The same conclusion emerges when we look at the aggregated expenditure levels of municipalities. As a proportion of the combined gross domestic product of states (GSDP), municipal expenditures have risen gradually from 0.74 per cent in 1997/98 to 0.75, 0.77 and 0.75 per cent respectively in the successive years.

Table 4 - Revenue Significance of Municipalities

Year	Municipalities own revenue (Rs. Crore)	Per cent of GDP	Relative shares of own revenues (%)		
			Municipalities	State governments	Central governments
1997/98..........	8,434.9	0.61	2.84	33.4	63.8
1998/99..........	9,451.7	0.59	2.97	34.3	62.7
1999/00..........	10,372.7	0.59	2.80	34.4	62.8
2000/01..........	12,018.4	0.63	2.98	35.1	61.9
2001/02..........	12,748.1	-	3.07	39.5	57.5

Note: Figure for municipal own revenues are adjusted to reflect the revenues for all statutory towns and cities.

In the case of ULBs, the transfers and devolutions from states amounted to 35.18 percent, all states taken together, in 2001–02. The dependence of ULBs was as high as 83.71 percent in Jammu and Kashmir, 83.33 percent in Rajasthan, and 74.48 percent in Uttar Pradesh. However, dependence was as low as 10.23 percent in Punjab, 13.82 percent in Maharashtra, and 17.81 percent in Gujarat (see graph 1.1).



Source – NIPFP Study for 12th Central Finance Commission

Mathur's study (NIPFP Study for 12th Central finance Commission) revealed that the services provided do not reach the desired standards of the 1960s. The gap exists whether core services or all services are considered. In Maharashtra, the state in the best municipal financial position, the gap is 60 percent. In Gujarat, Tamil Nadu, and Haryana the gap is about 70 percent, and in Andhra Pradesh, Kerala, and Karnataka, the study found that gap is about 90 percent. (Elsewhere it is 95 percent.)

There have been some attempts to assess the adequacy of municipal finances to provide services conforming to norms. The NIPFP study for 12th CFC also concluded that the municipal revenues or expenditures are grossly insufficient for maintaining services at minimum levels. Compared with the Zakaria Committee norms, the current level of municipal expenditure, placed at Rs.577 per capita in 2001/02, is about 130 per cent lower; underspending of this magnitude is one of the key manifestations of the low level of services in India's cities and towns. The Zakaria Committee norms, it should be noted relates to water supply, sewerage and sewage disposal and storm water drainage, roads and footpaths and other services, but excludes garbage collection which is a major local government expenditure.19

Comparisons of actual expenditures on a particular service with the financial norm for that service can give an idea on the extent of under-spending. Taking Zakaria Committee norms, which was determined in the 1960s, a study for the period 1999-2000 to 2003-04 shows that in 30 municipal corporations in India, on an average, actual spending is only about 24 percent of the requirements, or the extent of under-spending is as high as 76 percent (Mohanty et.al, 2007)[20].

Another study on the urban local bodies ofJharkhand (Bandyopadhyay 2011) based on Ramanathan and Dasgupta (2009) norms estimatethat the actual revenue expenditures can cover only 41 per cent of the revenue expenditurerequirements. Actual capital expenditures can cover 3 per cent of the capital expenditurerequirements on urban services.

Bandyopadhyay (2012) shows that comparing the services in aparticular size class of city with the norms suggested by HPEC report (2011), in the smallercities in Karnataka, it is water supply which has the minimum shortfall from norms, in the medium sized cities it is road density which is closest to the norms and in the largest city size class it is the solid waste management which performs the best with zero shortfall from norms.On an average for all the services there is a shortage of 57 per cent of the O&M expenditurenorms, the shortage being the highest (64 per cent) in the biggest size class of cities.

It can be observed from Table 5 that in 2007-08, own source revenue of municipal bodies as percentage of GDP declined from 0.59 to 0.53 during the 2002-07. Similarly Municipal tax to GDP ratio also declined from 0.39 per cent to 0.35 per cent. In absolute figures total municipal revenue income amounted to Rs. 44,429 crore against a total municipal expenditure of Rs. 47,026 crore, which in per capita terms, stood at Rs. 1430 and Rs. 1513 respectively. Own revenues in 2007-08constituted 53 percent of the total revenue whereas it was 63.5 percent in 2002-03[21]. This decline in own revenue by 10.5 percent highlights the fact that despite several initiatives enumerated earlier, municipal bodies in India become less self-reliant during 2002-07.

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19 The Zakaria Committee average annual norms for maintaining municipal services at 2001/02 prices are Rs.194.69 for water supply; Rs.218.8 for sewerage; Rs.37.63 for roads; and Rs.52.79 for street-lighting. In comparing with the current levels of municipal expenditures, adjustments have been made to account for expenditure on establishment and such services as garbage disposal which are otherwise not accounted for in the Zakaria Committee recommendations.

20 Mohanty P.K, Misra B.M, Goyal R and Jeromi P.D (2007): Municipal Finance in India: AnAssessment, Reserve Bank of India, Mumbai, December 2007.

21 Planning Commission -GOI - 12th Five Year Plan (2012-2017)

Table 5 – Municipal Finances in India (All States 2002-2007)

Finances	2002-03 Amount Rs. crore	2002-03 Per Capita Rs	2007-08 Amount Rs. crore	2007-08 Per Capita Rs	CAGR %
Revenue Income					
Own tax revenue	8,838.13	311	15,277.72	492	11.57
Own non-tax revenue	4,441.84	156	8,243.66	265	13.16
Total own revenue	13,279.97	466	23,521.38	757	12.11
Assignment and devolution	3,657.06	128	9,171.11	295	20.19
Grants-in-aid	2,259.76	79	5,676.25	183	20.23
Others	1,137.52	40	2,818.32	91	19.90
Transfers from the Central Government	308.86	11	2,372.97	76	50.35
Finance Commission Transfers	276.53	10	869.02	28	25.74
Total revenue income	20,919.69	733	44,429.05	1430	16.26
Expenditure					
Revenue expenditure	15,691.46	550	28,431.45	915	12.62
Capital expenditure	5,938.28	208	18,594.08	598	25.64
Total expenditure	21,629.74	758	47,025.53	1,513	16.80
Gross domestic product (GDP) (India)[45]	22,61,415	21,415	43,20,892	37,969	13.83
Own tax as % of GDP	0.39		0.35		
Own revenue as a % of GDP	0.59		0.54		
Municipal expenditure as % of GDP	0.96		1.09		

Source: ADB - India Municipal Finance Study, February 2013 by NIPFP – Delhi

Revenue expenditure constituted 60.5 percent of the total expenditure in 2007-08, declining by 12 percentage points as compared to 2002-03 when it was 72.5 percent. This was mostly on account of increased capital expenditure available under various schemes from Central and State Governments. Between 2002-03 and 2007-08, capital expenditure grew at a CAGR of 25.64 percent as against CAGR of 12.62 percent for revenue expenditure.

In terms of service delivery, in 2007-08 municipal governments in India spent Rs. 18,594 crore (0.43 percent of GDP) on creating new infrastructural assets and Rs. 28,431 crore (0.66 percent of GDP) for infrastructure maintenance, establishment charges and salaries.

The decline in self-reliance of ULBs has continued during 2007 – 2012 period also. It can be observed from Table 6 that municipal own source revenue as per cent of GDP declined from 0.60 in 2007 to 0.48 in 2012[22]. Municipal Own revenues amounted 55.7 per cent of total revenue in 2007, this share declined to 51.6 per cent in 2012, thus during the period 2002-2012 municipal self-reliance has come down by 12 per cent (from 63.5% to 51.6 %).

It can further be observed from the Table 6 that total municipal revenue as per cent of GDP declined from 1.08 per cent in 2007 to 1.03 per cent in 2012 which indicates that in spite of increased devolution from Central and State Governments growth in total municipal revenue has not kept pace with growth in GDP.

The above averages are only a peek into the municipal finance situation in India and do not convey the gravity of the situation in many municipal bodies which are virtually reduced to becoming state government departments since even the salaries are paid by state governments.

[22]The data for the year 2007-08 of table 2 and 3 does not match exactly as it was collected during the different times but still both tables together establish decline trend empathetically.

Table 6: State of the Finances of Municipalities (All States, 2007–12)

Structures	Year 2007–08		Year 2012–13	
Own Sources				
	INR (Crore)	Per cent	INR (Crore)	Per cent
Tax revenue	18,366	37.2	30,912	32
Non-tax revenue	9,134	18.5	19,002	19.7
Sub total	**27,501**	**55.7**	**49,913**	**51.6**
Transfers				
Government of India	3,515	7.1	5,387	5.6
Finance Commission	986	2	3,760	3.9
State devolution and assignments	9,342	18	18,537	19.2
State grant-in-aid	6,653	13.5	14,809	15.3
Others	1,355	2.7	4,232	4.4
Sub total	**21,851**	**44.3**	**46,727**	**48.4**
	49,352	**100.0**	**96640**	**100.0**
Size of GDP	**4569630**		**9382525**	
Own source revenue as per cent of GDP	**0.60**		**0.48**	
Total municipal revenue as per cent of GDP	**1.08**		**1.03**	

Source: Studies commissioned by the Fourteenth Finance Commission

Table 7: Revenue share of different tiers of government

Tiers of government	1997-1998	1998-1999	1999-2000	2000-2001
Central government	63.84	62.78	62.90	**62.01**
State government	33.42	34.35	34.44	**35.17**
Municipalities	**2.74**	**2.87**	**2.66**	**2.82**

Table 8: Revenue share of different tiers of government

Year	Centre	State	Municipalities	Panchayats
2002-03	44.1	53.2	2.5	0.2
2007-08	50.0	48.1	1.7	0.2

Sources: Indian Public Finance Statistics, Government of India and 13th Finance Commission

The share of municipal revenues in combined state and central revenues have declined from 3.71 per cent in 1990-91 to 2.43 per cent in 2000-01(Mohanty et al 2007)[23]. It can be further observed from the Table 7, 8 and 9 that share of municipal tax revenue in total publically raised tax revenue has declined over the years clearly indicating inadequate efforts to mobilise tax revenue by the municipal bodies.

[23]Mohanty P.K, Misra B.M, Goyal R and Jeromi P.D (2007): Municipal Finance in India: An Assessment, Reserve Bank of India, Mumbai, December 2007.

Table 9: Tax Revenues of the Centre, States, and Municipalities

Year	Centre (Rs. in crore)	Centre's Share in Total Publicly-raised Resources (in per cent)	States (Rs. in crore)	States' Share in Total Publicly-raised Resources (in per cent)	Municipal Bodies (Rs. in crore)	Municipal Share in Total Publicly-raised Resources (in per cent)
2012/13	741,877	42.46	974,239	55.77	30,912	1.77
Municipal tax revenue as a percentage of Centre	4.2 per cent		3.2 per cent		-	-
2007/08	439,547	49.45	430,782	48.48	18,366	2.07
Municipal tax revenue as a percentage of States	4.2 per cent		4.3 per cent		-	-

Source: India Public Finance Statistics, Ministry of Finance 2009–10, and data collected by the Fourteenth Finance Commission.

The Report of High Powered Expert Committee (HPEC) for Estimating the InvestmentRequirements for Urban Infrastructure Services estimates Rs 3.92 million crores as theinvestment needs to provide urban services conforming to national benchmarks for urbaninfrastructure over a period 2012-31.The operations and maintenance costs would amount toanother Rs.2 million crores (Ahluwalia HPEC 2011).Thus per annum India need to spend Rs. 0.3 million crore (or Rs. 3 lakh crore) against this in the year 2012-13 India managed to spend Rs. 96640 crore which is one third of what is required.

The unsustainable financing of Indian Cities during 2002-12discussed above can be summarised as follows –

- Municipal tax revenue to GDP ratio declined from 0.39 to 0.32 per cent
- Municipal non-tax revenue to GDP ratio declined from 0.20 to 19.8
- Municipal total revenue to GDP ratio which had increased slightly from 61 to 63 per cent during 1997-2001 declined during 2002-12 as Central and State Governments started devolving more and more project based funds from 63.5 to 51. 6 per cent.
- In other words funding of Cities through national and regional sources increased to 49 per cent from 37 per cent during 2002-2012.
- An approach of funding cities through grants and programs like the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) instead of funding them through local / municipal taxes and user charges, which central and State adopted since 2005, is unsustainable as it exerts considerable fiscal burden on upper tiers of governments and results in to large scale negative spill over effect or 'cost exportation'. Considering the scale of investment that is required and the fiscal situation of both the central and stategovernments, this overwhelming fiscal dependence that local governments have developed on state and centralgovernments is unsustainable.

Is India Currently Financing its Cities in Sustainable Way?

In May 2014 the current National Democratic Alliance Government came to power at national level and in many States. New National Government has put in place several schemes for financing urban infrastructure development (Cities) as follows –

- **Smart Cities Mission (SCM)**with outlay of Rs. 48000 crore in five years announced on 25th June, 2016 willcover 100 cities selected and nominated by the State Governments. Under SCM each smart city will get funding of Rs. 100 crore per annum (maximum Rs. 500 crore in five years) and equal amount will have to put in by the State and the City together (Rs. 50 crore by the State and ULB, in all Rs. 250 crore by State and ULB in five years). These 60 cities and their respective States will have to incorporate Special Purpose Vehicles (SPVs) and then implement smart city projects with private partner under PPP mode. The names of 98 cities[24] selected after first round of selection got announced on 27th August, 2015.These 98 cities submitted their SCPs and by the end of January 2016 first batch of 20 cities got selected at the end of first round under Smart City Mission (SCM). Another 13 Cities were selected in April 2016 under fast tract round and 27 cities were selected under second round. Thus till date SCPs of 60 cities have been approved. By March 2017 SCPs of remaining 40 cities will get approved. Many of the 60 cities have constituted SPV and are process of appointing people and Project Management Consultants but by end of January 2017 no real development expenditure has taken place under SCM.

  SCM is being promoted heavily as a great way forward and it is dreamtthat very soon India will have world class smart cities but ground reality is precious time of 26 months has been lost – first 13 months (May 14 to June 15) to formulate the scheme and another 13 months (June 15 to September 16) to select 60 cities under the scheme. On ground with exception of one or two ULBs, no development work has got started even by end of January 2017.

- **Atal Mission for Rejuvenation and Urban Transformation (AMRUT)**with outlay of Rs. 50000 crore in five years for all the Cities in India having more than 100,000 population to create infrastructure to provide basic services to households and to build amenities. Allocation of funds to the States is on the basis of total population and number of Statutory Towns. The State contribution has to be minimum 20 per cent or more, thus State will have to put in minimum Rs. 10000 crore as matching contribution. Cities having population less than 1 million will get AMRUT funds at the rate of one half (1/2)of the project cost, while Cities with more than 1 million population will get funds at the rate of one third (1/3) of the project cost. Each City to prepare Service Level Improvement Plan (SLIP) and based on these plans State to prepare State Annual Action Plan (SAAP) which will be sanctioned by GOI and funding will be provided on basis of SAAP. This mission mandates a set of 11 reforms to be completed in five years. 10 per cent funds (Rs. 5000) crore set aside as incentive funds which will be given to States on the basis of each year's reform achievement. For appraisal and approval of individual projects State is empowered.
  - As observed in JNNURM and in SCM, most of the States have put in their share (matching contribution) at the rate of full 50 per cent as their cities/ULBs do not

[24] Initially Jammu and Kashmir and Uttar Pradesh failed to nominate one city from the quota allotted to them, which they later on nominated beside that additional 7 cities were included in the list at the request of the State by GOI, so now smart cities list stands at 107.

have funds to put in their share. So under this scheme also most of the ULBs will be getting funds 100 per cent basis.

- **Prime Minister Awas YojanaUrban (Housing for all)** launched on 25 June, 2015 to cover all 4041 statutory towns and beneficiaries belonging to EWS (a family with annual income up to Rs. 3 lakh), LIG (a family with annual income from Rs. 3-6 lakh) categories to overcome estimated shortage of 20 million housing units. States/UTs may decide a cut-off date for eligibility of beneficiary needs to be resident of that urban area. State to prepare city-wiseand in case of bigger cities sub-city wise ward/zone 'Housing for All' Plan of Action(HFAPoA). Mission has four components, Beneficiary can take advantage under one component only –

  1) "In situ" Rehabilitation of existing slum dwellers using landas a resource through private participation, GoI grant at Rs. 100000 per house;
  2) Credit Linked Subsidy (CLS) for new house or incremental housing – Upfront subsidy @6.5% for EWS andLIG for loans up toRs. 6 lakh,calculated at NPVbasis
  3) Affordable Housing in Partnership – CentralAssistance of Rs. 1.5 lakh per EWS house in projectswhere 35%houses for EWScategory.
  4) Subsidy for beneficiary-led individual house construction orenhancement - For individualsof EWS categoryfor new houseor enhancementCities to preparea separateintegratedproject for suchbeneficiariesCentralassistance ofRs.1.5 lakh perbeneficiary.

- **Swachh Bharat Mission (SBM)**launched in 2014 with the total outlay of Rs. 62009 crore to achieve scientific disposal of solid waste in all 4041 urban bodies by constructing household toilets for 1.04 crore urban households, 2.56 lakh public toilets, 2.52 lakh community toilet seats. The sharing of cost will be in following manner -

Component	**Central Share**	**Minimum State Contribution**
Household Toilets	Rs 4,000/- per unit	Rs 1,333/- per unit
Community Toilets	Rs 26,000/- per seat	Rs 8,666/- per seat
Solid Waste Management	Rs 240/- per capita	Rs 80/- per capita

- **National Heritage City Development and Augmentation Yojana (HRIDAY)** scheme with outlay of Rs. 500 crore in four years (Completing in November, 2018)was launched on 21st January, 2015, with a focus on holistic development of heritage cities. The scheme aims to preserve and revitalise soul of the heritage city to reflect the city's unique character by encouraging aesthetically appealing, accessible, informative & secured environment. The Scheme is being implemented in 12 identified Cities namely, Ajmer, Amaravati, Amritsar, Badami, Dwarka, Gaya, Kanchipuram, Mathura, Puri, Varanasi, Velankanni and Warangal.

With these schemes Government of India has committed Additional Central Assistance (ACA) of more than Rs. 150000 crore for the period of 2014-2019 which is almost triple Rs. 30000 crore on per annum basis compare to average amount of Rs. 10000 crore or less devolved by Government of India during the period 2004 to 2014. Such a large flow of funds from Government of India, accompanied by matching contribution at the rate of at least 50 per cent from State Governments to the municipal bodies which is not matched and insisted by equal or appropriate revenue efforts by the municipal bodies, as it was observed in the past, is going to make financing of our cities more unsustainable. This is becausethough JNNURM failed to make our cities financially sustainable, it was a revenue and other reforms linked incentive funding scheme and some resource mobilisation efforts by municipal bodies did take place but these new funding schemes especially Smart Cities Mission will be funding cities without such conditionalities on municipal bodies. Out of all these schemes of GOI and several other schemes of State Governments, only SCM is taken here as a case study to demonstrate the fact that like in the past, Indian Cities are financed in unsustainable way at present and will be financed in unsustainable way in near future at least. SCM is also taken to illustrate the fact because analysis of SCPs of 60 Cities indicate that it is the most exclusionary, financiallyunsustainable and cost inefficient scheme as enumerated below –

Before we note specific financially unsustainable aspect of SCM, the total financial picture and trends emerging from the analysis of smart city proposals (SCPs) of 60 ULBs is as follows –

Smart Cities Scheme has two components – Area Based Development (ABD) and Pan City Development. 60 ULBs in all have submitted smart city cost proposals of Rs. 138828 crore out of which Area Based Development Proposals constituted Rs. 104147 crore (75 % share) and Pan City Development Proposals constituted Rs. 26877 (19.4 % share) while Rs. 7803 crore (5.6 % share) are estimated for Administrative and operating cost of Smart City Plan implementation.

Smart cities proposals comprising ABD, Pan City and other components ranged from Rs. 6199 crore (Chandigarh) to Rs. 778 crore (Port Blair). Average of 60 proposals comes around Rs. 2314 crore. 34 cities smart cities plans are above Rs. 2000 crore, while 14 cities plans outlays ranged within Rs. 1500 to 2000 crore, 10 cities SCPs ranged between Rs. 1000 to 1500 crore. Namachi – Sikkim has like Port Blair submitted SCP of less than Rs. 1000 crore.

Against the total smart cities' cost proposals of Rs. 138828, the winning 60 smart cities have submitted /developed resource plan Rs. 148246 crore. Various resources identified for funding smart cities proposals/which formed resource plan are as follows –

Table 10 – Summarised Resource Plan for Funding 60 Smart Cities Plan

Particulars (Rs. crore)		**Amount**	**% share**
○ GOI and State Government Assistance under SCM	(60 ULBs)	54354	36.70
○ Convergence with GOI and State Govt. Schemes	(58 ULBs)	27582	18.70
GOI and State Contribution Sub-total		**81936**	**55.40**
○ ULBs contribution as mandated under SCM	(15 ULBs)	2924	2.05
○ Additional contribution by ULBs from their funds	(17 ULBs)	3297	2.10
○ From surplus of Special Purpose Vehicle created	(16 ULBs)	2989	2.05
ULBs Contribution Sub–total		**9200**	**6.20**
○ Land Monetisation	(06 ULBs)	16091	10.85
○ Sale of additional FSI/FAR	(02 ULBs)	1766	1.20
Land Based Revenue sub-total		**17857**	**12.05**
○ Public Private Partnership	(52 ULBs)	31858	21.50
○ Corporate Social Responsibility Funds	(08 ULBs)	597	0.40
○ Beneficiaries Contribution	(07 ULBs)	757	0.50
○ Others (community share, Donner Agencies)	(04 ULBs)	489	0.30
Funds from Market and People Sub-total		**33701**	**22.70**
○ Loans and Borrowings	(17 ULBs)	5557	3.75
Total		**148246**	**100.00**

Source – Based on SCPs of 60 SCM Cities by author

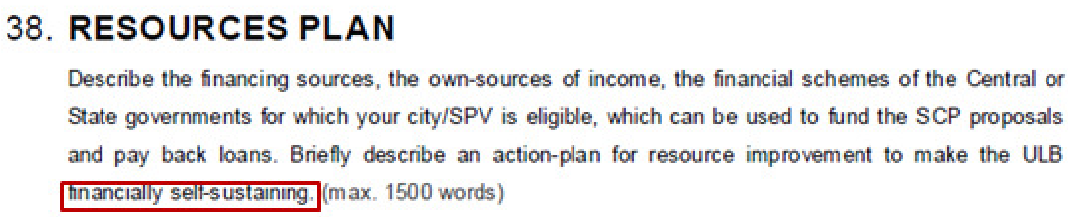
These 60 smart cities, as per guidelines, are expected to receive maximum grant (funding resources) of Rs. 45000 crore (Rs. 30000 crore from GOI and Rs. 15000 crore from the State Governments) against this smart cities' resource plans have amounted to Rs. 148246 crore, thus smart cities' have proposed or achieved convergence and leveraging of 3.3 times.

The financial unsustainability of the Smart Cities Plans or the unsustainable ways of financing cities under Smart Cities Missions are as follows -

Absence of Concept of Financial Sustainability in SCM and its Guidelines

'Financial sustainability' has been mentioned only at one place (see Figure 1) in the smart city plan format but it is neither defined nor the financial sustainability indicators or parameters which will be considered while analysing the SCP of the city have been outlined in the guidelines or other smart city mission documents. Similarly it is not made clear whether financial sustainability of SCP will be examined or not? Financial sustainability has not been made mandatory condition or prerequisites to receive funds.

Figure A: Mention of Financial Sustainability in Smart City Plan Preparation Guidelines


38. **RESOURCES PLAN**

Describe the financing sources, the own-sources of income, the financial schemes of the Central or State governments for which your city/SPV is eligible, which can be used to fund the SCP proposals and pay back loans. Briefly describe an action-plan for resource improvement to make the ULB financially self-sustaining. (max. 1500 words)

ULBs have not complied with submission of An Action Plan to achieve Financial Sustainability

The review of all 60 SCPs have clearly indicated that barring some exceptions, ULBs have not submitted an action-plan for resource improvement to make the ULB financially self-sustaining as was asked in Smart City Proposal format. This fact can be noticed from SCPs by even a layman and the reality is all these SCPs have got approved without asking any further explanation or raising any doubt about the action-plan submitted for making the ULB financially self-sustaining.

Smart City Proposal and its Cost disproportionate to ULBs financial standing

The first and foremost financial sustainability distortion or unsustainability is with regard to annual financial outlay or cost of the proposed SCP and annual average revenue or operating receipts of the ULB. The variation is extreme. For example in case of Pune City, the annual cost of its smart city proposal implementation is just 20 per cent[25] of Pune cities average annual revenue while in case of

[25] Pune – SCP of Rs. 2960 crore = annual expenditure = Rs. 592 crore. Average annual operating revenue of Pune was Rs. 3000 crore = Rs. 592/3000 = SCP annual expenditure is just 20 per cent of its operating revenue

Dharmashala City annual cost of its smart city proposal implementation is whopping 77 times[26] of average annual revenue of the ULB.

If annual cost of smart city plan implementation is compared to operating surplus (operating receipts – operating expenditure) then picture looks very grim / absurd because around 40 cities out of 60 cities do not have operating surplus. In case of Dharmashala if it is compared to annual operating surplus of Rs. 50 lacs then SCP annual cost will be 926 times but in case of Pune average annual operating surplus is of Rs. 1500 crore and annual SCP cost will be little higher but just 35 per cent of operating surplus.

The impact of disproportionate SCPs will be disastrous on such financially weak cities (which are almost 40 out of 100 cities) in both circumstances – successful or unsuccessful implementation of SCP. For example if in case of Dharmashala, its SCP gets successfully implemented then that City will have infrastructure of Rs. 2310 crore, then Dharmashala ULB will not be able to recover annual operation and maintenance cost of such a big investment from its 15000 tax payers (direct beneficiaries) as it will be too high for them to bare. In the second unfortunate scenario where SCP does not get implemented as per plan then a city / a ULB will not have adequate / complete infrastructure or it may get infrastructure which is less and much more costlier than what was envisaged.

Miniscule Resource Contribution of ULBs to Smart Cities' Plans

The second financial sustainability distortion or unsustainability of SCPs of ULBs is with regard to funding structure of SCM and ULBs lack of capacity to put in their designated share of resources as per SCM guidelines. The close analysis of resource plans submitted by 60 ULBs for funding their SCPs shows that most of the ULBs have not fulfilled mandatory condition of putting 25 percent share that is Rs. 250 crore from their own funds for financing SCP. Only 10 out (cities from Gujarat and Maharashtra) of 60 cities have fulfilled this mandatory conditions. As other ULBs lacked financial resources, their respective State Governments have shouldered responsibility of putting ULBs share by providing them additional / special grant. All 60 cities together will be contributing only 6.2 per cent resources (Rs. 9200 crores out of Rs. 148246 crore resource planning for 60 SCPs), while 54 per cent will come from higher level governments and 40 per cent from private and land based sources.

Exclusionary or Non-inclusive Scheme with Unsustainable Development Cost in termsof Per Capita and Per Sq. Km. Area

The 60 winner cities of Smart cities challenge constitute 18.7 per cent of total urban population (70.5 million out of 377 million) of India in 2011. Out of this 70.5 million population, the direct beneficiaries residing in ABD area are 6.16 million. In other words just 8.74 per cent of the population of these 60 cities or 0.02 per cent population of total urban population is covered under Area Based Development (ABD) component and on such a small population Rs. 104000 crore are going to the be spent. The average per capita cost of proposed ABD is thus around Rs. 169072 ranging from minimum of Rs. 23467 for Ludhiana City to Rs. 1256636 for Chandigarh City followed by New Town Kolkata with proposed Per Capita Development cost of Rs. 986945.

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[26] Dharmashala – SCP of Rs. 2318 crore = annual expenditure = Rs. 463 crore. Annual average operating revenue of Dharmashala Rs. 6 crore = Rs. 463/6 = SCP 77 times larger than operating revenue.

There are not many benchmarks available about ideal per capita urban infrastructure development cost. The recent and the only benchmark available is of HPEC[27]. The HPEC benchmark of per capita urban services development cost of Rs. 43386 is of year 2009-10, so it is converted to current 2016 prices which stands at Rs. 54110[28]. In HPEC benchmark there is absence of various other non-municipal urban services like electricity, use of renewable sources of energy, education, health etc. which Smart City Plans have included in their ABD proposals. If we calibrate HPEC figure on these two counts then it will come around Rs. 70000 but the average per capita cost of Rs. 169072 is double than HPEC norm at current prices and 50 out 60 cities have proposed per capita development cost more than that of revised HPEC norm of Rs. 70000.

On an average per capita per annum amount spent by municipal bodies is Rs. 2000 to Rs. 2500. Some exception municipal bodies like Pune, Mumbai etc. spent around Rs. 5000 per capita per annum. SCPs project spend Rs. 30,000 or more per annum per capita this clearly indicate how unsustainable and unrealistic expenditure would be under SCP.

The aggregate municipal area of 60 cities is 9104 sq. km. and these cities together have proposed area based development of 285 sq. km., that is just 3.31 per cent area of the cities have been proposed for smart development at the cost of Rs. 104147 crore under Area Based Development component of smart cities scheme. This translates in to average per sq. km. ABD cost of Rs. 366 crore. 28 cities out of 60 cities have per sq. km. cost above the average per sq. km. cost of Rs. 366 crore.

With regard to per sq. km. urban development cost no such official benchmark is available, but some studies indicate cost per sq. km. ranging from Rs. 80 to 100 crores on the basis of green field development at the assumed density of 100 people per hectare. Ifwe use Rs. 70000 per capita norm discussed earlier then per hectare cost at density of 100 people hectare would be Rs. 700000 and per sq. km. urban development cost would be Rs. 70 crore. Compare to green field development retrofitting or brown field development should cost less but in actual field it may cost more than the green field development cost. So against the Rs. 70 to Rs. 100 crore green field urban development cost even if we take Rs. 100 to 120 crores as per sq. km. cost then also average cost of Rs. 366 crore per sq. km. is almost three times. At benchmark of Rs. 120 crores per sq. km. urban development cost also, 59 out of 60 cities are above this range.

Forgetting such a low coverage (3.31 per cent of area or 8.74 per cent of population) five year smart city program, even if we assume area development of 10 per cent and 20 per cent population coverage in five years, it will require 50 years to develop all the area of the city or it will require 25 years to cover entire population of the city under Smart Cities Mission. Similarly even if we keep aside 4000 statutory towns and 3500 census, there are 500 cities having population of 100000 people and above which will require 25 years to get covered by the Smart Cities Mission.

[27] High Powered Expert Committee Report (2011)

[28] Indexation of HPEC per capita Municipal Services Development Cost

Year	WPI	HPEC Per Capita Rs.
2009-10	123	43386.00
2010-11	130	45855.12
2011-12	139.5	49206.07
2012-13	147.1	51886.83
2013-14	151.5	53438.85
2014-15	155.1	54708.69
2015-16	153.4	54109.04

Unreliability of the Various Resources Proposed and Resource Plan

Last but very important unsustainability aspect is with regard to feasibility of raising proposed funds through Public Private Partnership (PPP) mode. 52 ULBs out of 60 have proposed to raise in all Rs. 31858 crore through Public Private Partnership (PPP) Though India has many successful PPP projects at national and state level but there are not many successful examples at urban local body level due to many factors – such as lack of capacity among ULBs and among the private entrepreneurs, lack of appropriate revenue model, lack of appropriate sharing of risk, proximity to people etc. The second doubtful resource is land monetisation, Rs. 16091 Crore that is 10.85 per cent resources have been estimated from this resource to fund SCPs.

Transforming India 2030 – Financing Strategies for achieving Sustainable Cities

The foregone discussion has clearly established the fact that over the years India has increasingly financed its cities in financially unsustainable manner and at present and in near future same financing strategies are continuing.

India has financed its cities in an unsustainable manner or through unsustainable financing strategies means –

- Higher level governments especially after 2002 have devolved more and more free (without hard budgetary constraints and financial cum performance accountability) funds to municipal bodies which has resulted into higher and higher dependence of municipal bodies on higher level governments which has reached 55 per cent in actual terms by 2012 and as a result of Smart Cities Mission and other Schemes it cross level of 60 per cent by 2019.
- Even after 25 years of 74th constitutional amendment act, municipal bodies have not been given any additional functional and fiscal powers or new funding source or increased autonomy to explore existing and new sources of revenue.
- Municipal bodies have not been forced to optimise their revenue from whatever tax and non-tax resources they have.
    - 13th Central Finance Commission had clearly indicated that municipal bodies havepoor assessment rate of properties at 56%, poor collection efficiency at 37% as a result less 25 per cent property tax get collected compare to its potential.
    - Similarly User Charges for public services such aswater supply, sewerage and garbage disposal. These are goods that have a private characteristic, in that thebenefits of these services can be said to be ‘private’ at the level of the household. Since there are no public‘spill-over’ effects to contend with, levying user charges on these services is eminently feasible. However,revenues generated from user charges are abysmally low in India, as evidenced by the statistic that non-taxrevenues from all ULBs amounted to 0.13% of the GDP.
- Municipal bodies have not been forced to adopt sustainable technologies or to undertake governance, accounting, budgeting and other financial reforms to become operationally and financially efficient. Municipal bodies are highly cost inefficient in their expenditure and operations.

The failure to sustainably finance the Cities that is failure to finance provision of basic levels of infrastructure and servicedelivery in our cities will significantly hamper the India’s ability to achieve

SDG No. 11 of ***'Sustainable City'***, and through that other SDGs by 2030. India need to adopt following sustainable financing strategies to achieve SDG of 'Sustainable Cities' and through that other SDGs by 2030 -

Financing City to maximum possible extent from tax and non-tax revenue generated locally by Municipal Bodies that is from the City itself

The first and foremost important financing strategy or important condition for achieving Sustainable Cities would be to finance development and maintenance of city to maximum possible extent (minimum 70 per cent to maximum 80 per cent) through the tax and non-tax revenue generated from the City itself.

HPEC[29] also has suggested on similar lines as evident from following figures. It can observed that HPEC has suggested that to increase share of municipal own revenue from 33 per cent in 2011 to 55 per cent in 2021 and 68 per cent in 2031.

Table 11 - Financing of Urban Expenditure as % of GDP

Year / Period	Municipal own revenue	JNNURM/ improved JNNURM	State Govt. Transfers	GOI transfers& JNNURM	Deficit	Total Expenditure
2011-12	0.50	0.10	0.55	0.13	0.21	1.59
2021-22	1.17	0.25	0.16	0.13	0.39	2.10
2031-32	1.47	0.25	0.16	0.13	0.15	2.16

Source – High Powered Expert Committee Report 2011

In order to make municipal bodies capable of funding expenditure of their respective City up to 70 per cent or more, HPEC recommended following financial reforms which can no doubt be termed as sustainable financing strategies for achieving SDG of 'Sustainable Cities' –

Tax Reforms to improve tax revenue of municipal bodies

- 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
- Undertake reforms in 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

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 overallplanning guidelines
- Preparing city-wide inventory of land assets
- Putting in place a transparent and accountable mechanism formonetisation of public land with due attention to the needs of the poorand the marginalised

[29] MOUD – GOI – High Powered Expert Committee – Report on Indian Urban Infrastructure and Services - 2011

Reforms to Strengthen Non-tax Revenues

- Municipal Service Regulator should be assigned the responsibility ofrevising user charges regularly. Even when different segments of thepopulation are charged differently, the cross-subsidisation should be suchthat the overall O&M cost is recovered and a minimal surplus generated. Automatic indexation will ensure smooth increase over time without thechallenge 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 built 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

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

Spending money on Development and Service Delivery of City (Urban) Infrastructure judiciously and in cost efficient ways to achieve Sustainable Development

Present approach towards undertaking expenditure on development and service delivery of urban infrastructure needs to change. With free funds (funds without performance and financial accountability) becoming available from higher governments, the expenditure by municipal bodies is becoming more and more cost inefficient, exclusive (benefitting only small percentage of people) and of visual impact or cosmetic nature. The best testimony to this is expenditure which took place under JNNURM in the recent past and the expenditure which is proposed by the 60 cities in their SCPs under SCM. The per capita average area based development cost of Rs. 169000 against the benchmark cost of Rs. 70000 per capita or per sq. km. area based development cost of Rs. 366 crore against benchmark cost of Rs. 80 to 100 crore per sq. km. is in all respect financially unsustainable and unaffordable. Municipal bodies should not be allowed to spend money at such rate even if they raise it local or from beneficiaries. Similarly the expenditure benefiting only 3.5 percent of area of the city and less than 10 per cent of city population is by all means exclusive which should not be allowed. Worst is while approving SCPs such a costly, unsustainable and exclusive expenditure has not been questioned.

Besides making expenditure of municipal and other agencies cost efficient, judicious, inclusive etc. it must be for attaining 'Sustainable Development and Sustainable City'. Carbon footprint and climate change impact of each and every major expenditure should be assessed. Thus expenditure of municipal bodies and other agencies should not only ensure financial sustainability but also for attaining economic, political and social sustainability.

Municipal bodies should be given fully autonomy in fiscal and functional terms but at the same time they should be made fully accountable for spending their funds judiciously, responsibly, sustainably and in cost efficient ways. For this purpose appropriate independent regulators should be created.

Implementing Fiscal Responsibility and Budgetary Management Regime (FRBM) at Municipal and Other Agencies dealing with urban infrastructure development and service delivery

Government of India, followed by State Governments have adopted FRBM concept, practices and necessary structure to ensure its implementation. It is necessary to adopt suitable FRBM practices and regulatory structure to ensure financial sustainability, cost effectiveness, inclusiveness etc. of expenditure undertaken by municipal bodies and other agencies and also of the resources generated by these agencies.

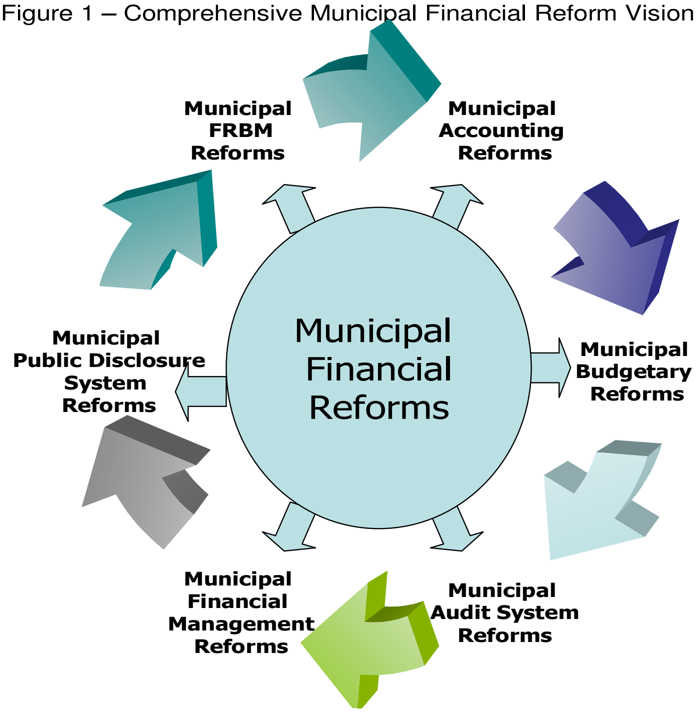
Facilitating and Developing PPP Mechanism for Urban Infrastructure Development and Service Delivery

Raising maximum possible funds locally by municipal bodies and funding support by higher level governments will not be sufficient to finance future urban infrastructure needs. It is necessary to supplement these efforts by private sector funding, technical expertise, efficiency and capacity etc. But what HPEC observed in 2011 is that 'success stories in theurban infrastructure sectors such as water supply, sewerage, solid wastemanagement, and urban transport are few and far between', still holds good in 2017. JNNURM had envisaged sizeable leveraging from PPP but that did not happen. SCM has mandated creation of Special Purpose Vehicle (SPV) and use of PPP mode for implementation of urban infrastructure projects and for urban service delivery, but just by creating SPV, PPPs are not going to happen. PPPs in urban infrastructure sector are different and need much higher level of facilitation, capacity building and innovating but prudential financial structures.

Adopting Comprehensive Municipal Finance Reforms Vision

Efforts to reform and improve municipal finances in the past have been piecemeal and as a part of project funding. There is a need to adopt a comprehensive municipal finance reforms vision as presented in Figure ---, and an independent implementation program (not part of a project funding) and it is should be pursued in sustained manner with annual incremental achievement targets.

Figure 1 – Comprehensive Municipal Financial Reform Vision



Summing Up

Indian Cities are at the bottom of Sustainable Cities Index, but it is India and its Cities which needs to pursue Sustainable Development Goal No. 11 of 'Sustainable Cities'rigorously and on urgent priority basis to achieve other SDGs because by 2030 as per official estimates more than 40 per cent of its population that 600 million people will be living in the Cities. If 'hidden' character of India's urbanization process as reported by a World Bank Report(September 2015)[30] is taken in to account then by 2030 India's Urban Population will be more than 60 per cent (900 million or more out of 1500 million population) according to the Agglomeration Index[31].

Though there is lack of specific data about whether India financed its cities in sustainable ways in past or at present, various data put together in the paper clearly points out that India has not financed it's Cities in sustainable ways in past.

- During 1947 -1992 Cities were neglected by all in all terms; they were financed bare minimally. Though the per capita receipt and expenditure was miniscule, barring few municipal bodies of Maharashtra and Gujarat Cities most of the Cities and their municipal bodies were in impoverished state and financially dependent even up to 90 per cent.

- During 1993 – 2002 , the economic liberalisation and structural reform program which started in 1991 and 74th Constitutional Amendment Act which came in force in 1993 started churning and discourse about relevance, role, functions, finances and macro-economic implications of municipal bodies (Cities). Cities (municipal bodies) got constitutionally

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30 World Bank report stated that the share of India's population living in areas with urban-like features in 2010 stood at 55.3 %

31A globally applicable alternative measure of urbanisation protected, independently elected, democratic, representative governance structure but which lacked functional and fiscal autonomy. Cities/municipal bodies continued to be financed in unsustainable ways as neither new revenue resources or fiscal autonomy came to their way due to constitutional amendment, nor municipal bodies tried to optimise revenue from the meagre sources they had. Per capita revenue and expenditure continued to be very low.

- During 2002-2014, with macro-economic implications of underdeveloped urban infrastructure becoming clear Central Government first came out schemes like Urban Reforms Incentive Funds, City Challenge Fund and then with massive Rs. 66000 crore outlay JNNURM. State Governments also realised implication of urban infrastructure bottleneck and started urban infrastructure funding. The results of JNNURM and other state scheme have been disastrous asthey provided project linked tied funding support with very soft budgetary constraints to the ULBs and with ULBs failing to improve resource mobilisation, dependence of municipal bodies increased and financing of Cities become more and more unsustainable.

Like recent past schemes, the present ones like SCM, AMRUT etc. which will be pumping much more grant funds in urban infrastructure sector also lack sustainable financing strategies. Analysis of SCPs of 60 cities show that the per capita cost and per sq. km. area development cost envisaged by these cities under SCM is unsustainable in all respect. So at present and in near future India will not be financing its Cities in sustainable ways unless appropriate course correction is undertaken.

There is an urgent need for course correction in how India is financing its Cities because attainment of SDGs by India depends heavily on making Indian Cities as ‘Sustainable Cities’. Any City to become a Sustainable City inevitably requires sustainable financing strategies along with ecological, political, social and cultural strategies.

India needs to adopt the following sustainable financing strategies to achieve SDG No. 11 of Sustainable Cities to achieve other Sustainable Development Goals to transform India by 2030.

- Financing City to maximum possible extent from tax and non-tax revenue generated locally by Municipal Bodies that is from the City itself’
- Spending money on Development and Service Delivery of City (Urban) Infrastructure judiciously and in cost efficient ways to achieve Sustainable Development
- Implementing Fiscal Responsibility and Budgetary Management Regime (FRBM) at Municipal and Other Agencies dealing with urban infrastructure development and Service Delivery
- Facilitating and Developing PPP Mechanism for Urban Infrastructure Development and Service Delivery
- Adopting Comprehensive Municipal Finance Reforms Vision

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