

Themes from the
Workshop on Urban Infrastructure and Service Delivery with
Dr Isher Ahluwalia

IFMR Finance Foundation
&
Centre for Development Finance

Chennai, September 8, 2011

Background

Over the last few years, there has been a growing realisation that urbanisation is one of the key issues that will determine the future course of India's development. Effectively managing the process of urbanisation will, in fact, be critical to ensuring social and economic stability of the country. Today, many actors (private and public) are involved in thinking through and implementing solutions to enable an environmentally and financially sustainable urban future.

As part of the on-going work on the urban agenda across the country, one of the most influential and comprehensive documents has been the recently released report on urban infrastructure and services¹ by the High Powered Expert Committee chaired by Dr Isher Judge Ahluwalia. It documents the nature of urbanisation challenges facing India, projects the investment requirements for the core urban infrastructure sectors², and makes recommendations for financing as well as governance reforms if public service delivery in urban India is to be brought to the benchmarks laid down by the Ministry of Urban Development itself.

The "Workshop on Urban Infrastructure and Service Delivery" was organised to discuss and critique the report's recommendations and, using the framework provided by these discussions, to turn the spotlight specifically on the issues confronting small and medium cities as they prepare for urbanisation.

Synopsis

Dr Ahluwalia presented the findings of the report, highlighting the shortcomings in the current urban scenario and focusing on the way forward to ensure sustainable urbanisation. She stressed the need for the realisation that cities would increasingly be the engines for economic growth; that this growth needed to be more broad-based and labour intensive; and that cities needed to drastically improve their levels of public infrastructure and service delivery from the current dismal state they are in.

Dr Ahluwalia proposed that the way forward would be contingent on not just creating infrastructure but maintaining it; reforming governance and service delivery; providing (access to universal standards of service to all, including the poor; within an integrated framework of planning, and consciously building rural-urban synergies. The report projects that the investment requirements for provision and maintenance of urban infrastructure over the next twenty years will be in the region of Rs 39 lakh crore.

¹ <http://niua.org/projects/hpec/FinalReport-hpec.pdf>

² water supply, sewerage, solid waste management, roads, storm water drains, transport, traffic support infrastructure and street lighting

Financing such investment over a 20-year time period,, Dr Ahluwalia contended, would require major reforms in governance systems, financing mechanisms and building capacity at the city, state and central levels.

Continuing on the theme of sustainable financing of cities, Mr Vikram Kapur, former MD and CEO of the Tamil Nadu Urban Development Fund (TNUDF), spoke on the subject of infrastructure financing needs of small and medium cities in India. He stressed that investment needs for small and medium cities over the next 20 years was 65 times the current level of investments. Given India's phenomenal growth rate of 8% and a record of healthy savings rates, he felt that the government should more actively tap domestic capital markets to finance these needs. He stated that there was a fundamental shift required in the financing mind-set with regard to cities, with the concept of leverage of government funds replacing the purely grant based financing model over time.

Themes and Avenues for Future Research

The presentations, discussions and group exercises in the workshop coalesced around a few themes, highlighting their importance for the urban agenda. These themes provide rich scope for further analysis and research, and highlight the need for deeper exploration of specific issues critical to understanding and managing the urbanisation process.

Standards for service delivery

1. The nature of universal service standards for urban infrastructure and services:

The HPEC determined the investment requirements for urban infrastructure on the basis of attainment of certain service standards for each of the eight sectors. These standards are meant to be universal, available to all citizens.

The discussion in the workshop was focused on the appropriateness of some of the standards endorsed by the committee, especially in the case of urban roads and transport. These also happen to be the sectors where the committee expects the largest quantum of urban infrastructure investment to happen over the next twenty years.

In case of urban roads, the disagreement was centred on the fact that the standards applied were supply driven, rather than the demand driven approach used for other sectors. The HPEC used service level 2 standards prescribed by the Ministry for urban roads. Using these standards, the committee's road estimates provide for about 65 per cent of the total road length for access spaces, signalling a clear thrust towards use of public and non-motorized transport. Since urban local bodies are already unable to match the current demand and with limited resources, the backlog in urban roads could increase. More consultation, it was felt, was required to reach a suitable set of standards for roads.



There was also some concern regarding the application of standards for urban transportation. If these standards are too prescriptive (for instance, requiring million-plus cities to have a metro rail network), then ULBs could be forced to comply with one-size-fits-all solutions rather than tailoring transport solutions based on their specific circumstances and needs. To address this, the report highlights that aspects like urban form, terrain, level of demand, direction, extent of sprawl, population density, etc should determine the mode (metro, BRT etc) and the sequencing and integration of these systems.

It was highlighted that the purpose of the standards should be viewed more as directional/inspirational with cities having the flexibility of choice without compromising on the quality of life that local governments should provide citizens.

An overarching issue regarding service standards related to the environmental impact of achieving these standards for a nation as large as India. It was acknowledged that we needed to develop a more nuanced understanding of how standards for service delivery would comply with goals of environmental sustainability.

2. Incentivising cities to comply with service standards:

While it was generally appreciated that a service standards based approach to assessing investment needs for urban infrastructure was indeed a good one, there was some discussion on how ULBs could be incentivised to meet these standards over time. Especially in the context of India's political economy where political power flows from the state government down to the ULB, the elected representatives at the ULB are incentivised to keep their political bosses at the state level happy. This essentially means that they focus their attention on spending state government grant funds in their constituencies and not on raising local revenues that would make them more accountable to local citizens. Because the elected representative is looking up to the state government and not at the citizen, the essential link of accountability between citizen and ULB is nowhere as strong as it should be for a truly decentralised, empowered city.

Some interesting approaches to incentivise cities on service standards were discussed. Regularly publishing service standards for all cities in the form of a report card was seen as one way to incentivise competition between cities and improve service outcomes. Publicising these report cards through local media was seen as a means to involving citizens in demanding higher quality of services and holding local governments accountable. It was broadly agreed that involving citizens in sustainable ways in the process of governance was critical to higher levels of urban service delivery.

Capacity building

1. Improving the financial, technical and managerial capacities of cities:

Discussion on the ability of ULBs in India to plan and implement projects, attract funds and plan for city development brought out the dismal capacity of most cities in India today. Most ULBs today are not even equipped to handle tasks as basic (and critical)



as city planning and financial record-keeping. For instance, it emerged that there were only 10 qualified town planners working in the state of Tamil Nadu today, reflecting the paucity of trained manpower for critical functions. The low pay scales of ULB staff were seen as another reason for the poor capacities at the local level.

The report recommends the creation of a municipal cadre of officials trained in the basic skills required to run a ULB effectively. The need to create more schools for urban management and planning was also discussed.

2. Improving citizen capacity:

The discussion also turned to the need for investment in capacity building of citizens in order to bring about long-term attitudinal changes in society. In this context, the example of Enrique Peñalosa, mayor of Bogota in Colombia, who engaged in educating citizens as a public investment strategy was discussed. Peñalosa's interventions had profound effects on crime rates, solid waste management and public transport in the city.

This spoke to the need for convincing citizens of the rationale behind and benefits of long-term investments in urban infrastructure services, and more fundamentally of the need to involve citizens in decision making processes of their cities.

Financing strategies

1. The importance of own revenue generation and the ability to leverage funds:

Cities in India have traditionally been used to financing themselves purely through grant funds provided by higher levels of government. This has led to a culture of dependency and lack of accountability to citizens. It was pointed out that in order to raise the magnitude of investments required for urban infrastructure over the next 20 years, cities would have no choice but to leverage their grant funds by reaching out to the debt markets. Currently, on account of poor capacities and insufficient own-revenue generation, most Indian cities are unable to access debt markets.

This brings into sharp relief the critical importance of cities being able to generate own-revenues (from sources such as property tax and user charges), because without sufficient internal revenue generation, external debt will not be serviceable. Strategies for cities to improve their internal revenue generation will be key to developing sustainable financing models for urban infrastructure.

The TNUDF model (a PPP focused on raising debt for small and medium cities) was also seen as a scalable mechanism for other states to enable their cities to raise debt funds from the market.



2. Market-worthiness of ULBs as a tool to enable flow of funds from capital markets:

ULBs will be constrained in raising funds from the markets also because the rating models used to rate ULB debt do not take into account the operating models of cities in performing their duties. Because rating agencies focus their analysis purely on the financial aspect of ULBs and the associated credit risk that this implies, they tend to miss out on the many other aspects critical to the way a ULB functions. This results in low credit ratings (below investment grade) overall for ULBs, and further it does not distinguish between cities that are financially similar but vastly different in terms of their management and operating capacities. These capacities have tremendous impact on the performance of local governments.

In this context, the role of a set of “market-worthiness” standards that provide deeper insights into the operating, technical and management capacities of ULBs was seen as being an important complement to the credit rating process. Taken together, the credit rating and “market-worthiness” rating could provide a more comprehensive sense of the risks associated with the ULB. Discussants saw this type of market-making activity as being especially important in the context of small and medium cities.

Decentralisation and governance

1. The role of cities in economic planning, in addition to service delivery:

While the role of cities in the provision of infrastructure and services is well recognised in India today, there is much less interest on their role in socio-economic development. The discussion on this issue centred on the fact that if ULBs were considered purely as service providers awaiting funds from state governments, they would not have any incentive to improve services by imposing user charges or raising taxes. An interesting case in point was that of Poland where city mayors are directly involved in attracting investments into their city. The natural logic to this being that investments in infrastructure would create more economic activity, more jobs and consequently more taxation revenue for the city governments.

ULBs in India are currently looked upon as agents of service delivery, rather than principals acting to improve their economic and infrastructure outcomes. While there was some agreement on the need for cities to be actively involved in decisions that affect their local economies, there was also the realisation that much more thought needed to go into the governance structures and administrative mechanisms that would be needed to achieve this.

2. The nature of devolution of powers in India today:

Decentralisation in India was driven by the 74th amendment to the constitution. Essentially, this meant that decentralisation was pushed down the system from the central government. However, the history of decentralisation and devolution of powers in other parts of the world tells us that in many cases (such as Latin America), power to the local level came before formal devolution was established. Cities essentially ‘pulled’ devolution from the states due to the knowledge that they could be a more direct and integral part of the economic boom.



Considering the trajectory of economic growth in India over the past 10-15 years, it is a very real possibility that cities will start demanding greater devolution of powers and responsibilities. While this may be a slow churning happening in the background, it could well be a very important trend to watch out for and analyse over time.

Conclusion

The discussions around the HPEC report on urban infrastructure and service delivery led to some fascinating discussions around the issues of governance, financing and capacity building, among others. These deliberations also pointed to the fact that there was scope for much original research and analysis to be done, in order to develop our understanding of many of these issues in the Indian context.

This note lays out the themes and prospective agendas for future research that came out of the event, in the hope that our discussions will, in some small way, spark new and interesting work on these issues.

