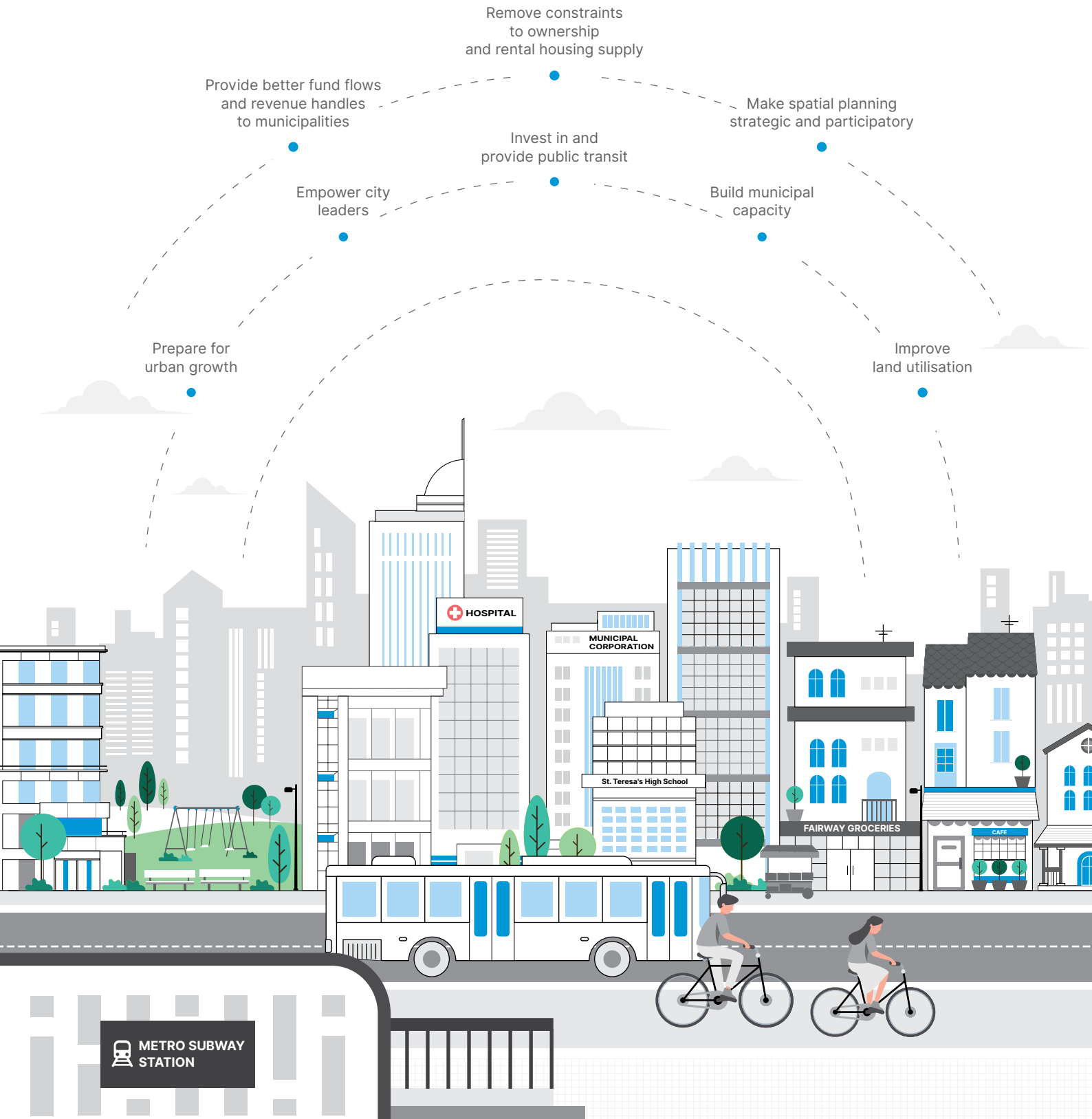
IDFC INSTITUTE

Reforming URBAN INDIA



About Us

IDFC Institute has been set up as a research-focused think/do tank to investigate the political, economic, and spatial dimensions of India's ongoing transition from a low-income, state-led country to a prosperous market-based economy. We provide in-depth, actionable research and recommendations that are grounded in a contextual understanding of the political economy of execution. Our work rests on three pillars – 'State and the Citizen', 'Strengthening Institutions', and 'Urbanisation'. The State and the Citizen pillar covers the design and delivery of public goods, ranging from healthcare and infrastructure to a robust data protection regime. The Strengthening Institutions pillar focuses on improving the functioning and responsiveness of institutions. Finally, the Urbanisation pillar focuses on the historic transformation of India from a primarily rural to a largely urban country. Urbanisation represents not only a spatial transformation of where we live and work, but also a fundamental change in the nature of livelihoods, delivery of public services, and governance mechanisms. All our research, reports, databases, and recommendations are in the public domain and freely accessible through our website: www.idfcinstitute.org.

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Abbreviations

BBMP = Bruhat Bengaluru Mahanagar Palike

BMTC = Bangalore Metropolitan Transport Corporation

BRTS = Bus Rapid Transit System

CT = Census Town

FCFSI = Fungible Compensatory Floor Space Index

FSI = Floor Space Index

GDP = Gross Domestic Product

GIS = Geographical Information Systems

GST = Goods and Services Tax

HPEC = High Powered Expert Committee

IPT = Intermediate Public Transport

MCGM = Municipal Corporation of Greater Mumbai

MMRDA = Mumbai Metropolitan Region Development Authority

MoHUA = Ministry of Housing and Urban Affairs

RLB = Rural Local Body

TDR = Transferable Development Right

ULB = Urban Local Body

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Executive Summary

Urbanisation has played and will continue to play a critical role in India's growth story in the 21st century. By some estimates, Indian cities already contribute between 59% and 70% of the country's GDP. Yet, depending on which official estimates you use, India is just 26% or 31% urban. But there is growing evidence that India is more urban than is officially recognised.

Even as many of India's urban areas go unacknowledged, its existing towns and cities suffer from serious neglect. Air quality and congestion are worsening, house prices continue to soar, and amenities and services like clean water, public spaces, public transport, and solid waste management are severely deficient. The local bodies entrusted to govern cities do not have sufficient finances, expertise, or personnel to plan for and address these challenges.

At their core, cities are labour markets. People move to cities for jobs and opportunities. Well-functioning and diverse cities allow for the sharing and cross-pollination of ideas, which in turn drive greater productivity. Access to affordable housing and transit options that allow workers and city residents to commute easily between home, work, schools and other places is also crucial for improving productivity. Conversely, poorly managed and planned cities can erode productivity and impair quality of life of citizens.

Indian cities need urgent reform in order to unlock their economic potential and transform quality of life. Reforms must focus on addressing the systemic dysfunctions – in land markets, planning regulations, governance structures and so on – that hold our cities back. This reform agenda is by no means exhaustive, but highlights some of the critical areas that the new government should focus on.

1 Recognise the true extent of urban growth

We begin with the meta issue of how urban India is, and why we must recognise urbanisation as it happens. Using the 'administrative' or statutory definition of urbanisation, India is just 26% urban. This definition considers the population living in areas recognised as urban by state governments, and therefore governed by Urban Local Bodies. The Census of India, on the other hand, estimates India as 31% urban. Its definition includes population in areas that are administratively urban, as well as population in areas that meet three criteria: population over 5,000 people, population density over 400 persons per square kilometre, and 75% of the male workforce in non-agricultural activities. Areas that fall in the gap between the Census and administrative definition continue to be governed by *panchayats*. Together they are home to 55 million people, or roughly the population of South Africa.

Alternative definitions peg India's urbanisation rate to be anywhere between 47% and 65%. This mismatch between areas that are actually urban and areas governed as urban implies that millions do not have access to services like fire fighting, street lighting, and building code regulations that are essential for dense places. Much of this de facto urbanisation is taking place just outside municipal limits. This urban sprawl is part of the urban labour market, but its growth is unregulated. As a result, these areas have narrower road widths and haphazard growth that is later difficult to retrofit.

Reform must begin with a better way to recognise urban growth. This can include objective metrics, which can be measured at more frequent intervals. Policymakers should consider contiguity of built-up areas to identify urban clusters and redraw municipal boundaries, including all urban-like areas within municipal jurisdiction. Cities should plan ahead for urban expansion, particularly to reserve land for an arterial grid as the city expands. Incentives and policies that disproportionately benefit rural areas (such as rural employment guarantee schemes) should be redesigned to dissuade residents from objecting to conversion from rural to urban.

2 Adopt a flexible, strategic planning process

Planning processes for urban areas require an overhaul. Currently, these are largely top-down exercises ratified by state governments, where land use is determined and frozen for long periods — at times up to 20 years. As the economic base of the city changes, land use requirements also change. If the process of converting land use is not flexible or easy, the de facto and de jure land use diverge. Moreover, land use and infrastructure investments are currently decided by a host of city bodies and parastatals that have few ways to coordinate.

The existing land use planning process should be replaced with a more flexible approach, including a mechanism to review and change plans periodically. We also recommend a two-tier framework — adopted by London and Toronto — with powers delineated between city and metropolitan levels. This will improve coordination and the integration of plans in peri-urban areas and cities.

3 Improve land utilisation in cities

Besides planning, other land utilisation policies and practices also have significant impact on affordability and economic dynamism. Liberalising how much floor space can be built on a given plot of land and allowing for more built up area along transit corridors, for example, train and bus routes, will increase supply of land and reduce land prices, especially in well-connected areas. Adopting form-based codes and reforming existing building codes to eliminate wasteful set back areas will make more land available for streets and public open spaces. A significant share of land in cities, owned by various public authorities, is either being used suboptimally or kept vacant. Optimising use of public lands should begin with creating a detailed inventory of land ownership and use and then identifying suitable strategies such as leasing, outright sale, providing public housing etc.

4 Enable the creation of housing across the income and size spectrum

A well-functioning city must provide access to affordable housing, both for ownership and rent. This allows people to access job opportunities. In particular, new migrants in cities may prefer renting to owning a house.

Reforms should focus on easing supply side constraints on delivering housing at an affordable cost. This is preferable to subsiding the cost of buying expensive-to-build housing. Reforming land use and efficiently utilising land will improve supply and lower costs, especially in land-starved cities. Investing in public transit can open up new parcels of land for development. Simplifying the pre- and post-construction approvals processes and bringing them online will reduce time delays and, thereby, construction costs. Stamp duties and registration fees should be lowered to less than 1% of the house prices to reduce transaction costs. Governments need only step in to build housing for those at the bottom of the income distribution, whom the market cannot reach.

Finally, rental housing should be encouraged. Its share in urban India has witnessed a steady decline due to rigid rent control laws and low rental yields. States should implement the Draft Model Tenancy Act, which suggests deregulating rents, making eviction proceedings easier, simplifying the lease registration process and linking lease agreements with Aadhaar.

5 Invest in and integrate public transport networks

Enabling smooth movement of citizens is essential for cities to be productive. Poor planning has caused many cities to sprawl; without mass public transit, residents face escalating commute times and costs that erode productivity and impede mobility across the labour market.

Most towns, cities, and urban outgrowths lack adequate and affordable public transport, resulting in an overreliance on two-wheelers, private buses and vehicles, and rickshaws. This creates congestion and pollution. In big cities, public transport is crumbling under the pressure of operating at full capacity or more.

To address these problems, cities should assess their transit needs and retrofit transit systems along with

planning ahead for growth. This also involves identifying the modes of public transport that works best for them given density, budget, and urban form. Additionally, cities should integrate disparate transit systems functionally and administratively by vesting coordinating powers with a transport authority at the metropolitan level.

6 Empower and strengthen political leadership in cities

The de facto power in urban local governments is wielded by Municipal Commissioners who are state bureaucrats appointed by the state government. This means that city leadership is more accountable to the demands of state politics than to its residents, and it is not guided by serious expertise at the highest level. Most city mayors tend to be ceremonial figures with no real powers.

Having empowered and elected mayors with broad powers over the governance of India's cities can put an end to the diffused responsibility and absence of democratic accountability that degrade the spirit of decentralisation. Being proximate to the people, mayors will be able to leverage their knowledge about local conditions and the needs of citizens to deliver services at an appropriate scale.

7 Increase capacity within Urban Local Bodies

Local bodies face severe capacity constraints, in terms of both staffing and managers possessing the requisite skills for highly specialised roles. Indian cities fall behind international peers on the staff-to-population ratio. Janaagraha's *Annual Survey of India's City-Systems* reports that Mumbai has approximately 1,300 staff for every 1,00,000 citizens, compared to New York, which has about 5,000 employees per 1,00,000 citizens. The lack of talent has hindered strategic decision making as well.

Urban Local Bodies can begin to address their lack of capacity through training their employees in financial and risk management, organisational and administrative matters, design, and implementation of projects. They should tie up with academic institutions and policy think tanks, who could assist them with induction

training in urban planning and management for key administrators. Urban Local Bodies should also revisit their recruitment framework keeping in mind the technical and administrative skills required.

8 Increase fund flows and provide revenue handles to Urban Local Bodies

Most Urban Local Bodies have weak finances. Property taxes, which should be their mainstay, have yielded low revenues. India's property tax-to-GDP ratio, at 0.48%, is one of the lowest amongst G-20 countries. Collections from user charges are also very poor. They are thus heavily dependent on state governments, which have underperformed in transferring funds. This lack of a stable revenue stream has made it difficult for municipal bodies to raise their own capital through bonds.

As the engines of growth, cities should receive a larger slice of the revenue pie. One recommendation is to allocate a portion of Goods and Services Tax collections for cities. Equally, cities should augment their own revenue collection via property taxes, user charges, and municipal bonds. However, their ability to raise this money is dependent on their ability to maintain transparent and timely accounts, and to follow through on project execution.

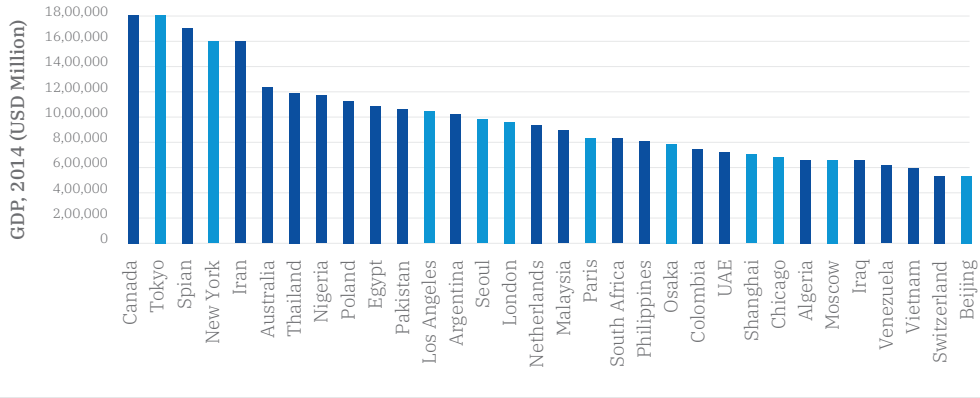
In thinking through recommendations, we recognise the importance of two crucial factors: political economy and sequencing. Changing the incentives and responsibilities of existing actors and institutions is no easy task. Further, while some reforms may be easier to implement in the short term, others are necessarily a medium to long term undertaking. Finally, there exist natural and strong complementarities across reforms, which need to be kept in mind while determining priorities. Policymakers will have to resolve these implementation challenges to successfully transform recommendations to actions. This must be done urgently if we want our cities to be places for millions to find work, escape poverty, and lead healthy and prosperous lives.

Reforming Urban India

A Roadmap for the New Government

Why do cities matter?

Cities drive prosperity and create opportunities for growth. Over 80% of global gross domestic product (GDP) comes from cities (World Bank, 2019). Indeed, some of the largest global cities have GDPs (in purchasing power parity (PPP) terms) equivalent to middle income countries [1] (see figure 1).



Source: Country GDP: World Bank (2014). City GDP: Brookings analysis of data from Oxford Economics (2014)
Note: The GDP estimates are based on purchasing power parity (PPP)

Figure 1. The GDP of large, primary cities is comparable to those of nation states (2014, in PPP terms)

As urbanist Alain Bertaud explains in his 2018 book, *Order Without Design: How Markets Shape Cities*, cities at their core are labour markets. Certain initial factors or locational advantages contribute to the rise of specific industries. These industries employ workers from their catchment areas. The resultant growth attracts more labour, which migrates to these areas for jobs. Over time, depending on the availability of infrastructure and the pool of labour, new and diverse industries may come up. This diverse group of workers and activities in close proximity generates 'knowledge spillovers', spurring innovation. This cycle is self-reinforcing; innovation begets more innovation, creating more opportunities and attracting more talent.

The now well-known example of Silicon Valley in California illustrates this. A world-class university and a group of talented innovators were responsible for initial advances in radio technology. More innovators moved to the region to work in the industry. Collaborations led to new ventures that contributed to the rise of the information technology industry, creating thousands of jobs. Other services

[1] While it is not possible to establish causation, academic literature suggests a strong correlation between urbanisation and per capita income; the correlation coefficient between the urbanisation rate and the log of per capita GDP for any year is strong, at approximately 0.85 (Henderson, 2003).

grew to cater to the needs of the residents, thus creating more jobs. The city is now among the most prosperous regions in the world.

Apart from bringing prosperity, cities fare better than rural areas in terms of sustainability and quality of life. Dense living makes public transport, electricity, and sewerage networks much cheaper to provide. Access to public transport lowers carbon emissions from private vehicles.

Yet, it is not that straightforward. Cities must function well in order to facilitate growth. Key elements of a well-managed city include 1) access to affordable housing, both for ownership and rent, that allows migrants to access the job opportunities in cities, and 2) affordable transit options that allow workers and city residents to commute easily between home, work, schools and other amenities. Cities like San Francisco and Mumbai that constrain the growth of formal sector housing make it prohibitively expensive for migrants to gain a foothold. In Mumbai, residents are forced into slums or congested dwelling units. San Francisco ends up pricing out all but its wealthiest residents. Poor planning has caused many cities to sprawl — and without mass public transit, residents face escalating commute times that erode productivity and impede mobility across the labour market.

Dysfunctional cities can therefore erode the benefits of agglomeration. Scholars have begun to see evidence of urbanisation without growth in recent years as congestion began to overwhelm the benefits of agglomeration (Henderson, 2003).

India's urbanisation story

By official government estimates, India is either 26% or 31% urban. Yet, when measured using alternate metrics, India could be well over 50% urban. This corroborates what we know about the structural shifts in the Indian economy. In recent decades, India has seen high service sector growth; theory and empirical evidence show that such growth is strongly linked to high urbanisation rates. Therefore, it is likely that India is already more urban than officially recognised.

Our existing cities and towns suffer from serious neglect. Indian megacities top the lists of the most polluted cities in the world. Air quality is worsening and water bodies are choked with sewage, effluents, and garbage. The 2018 TomTom Traffic Index by the navigation technology firm TomTom shows that Mumbai has the worst traffic jams in the world at a congestion rate of 65% (New Delhi is in 4th place with a congestion rate of 58%). Housing prices in the top tier cities are among the highest in the world. This reflects deep dysfunction in the housing and land markets that shut out most low, and even middle income, residents. Smaller towns lack adequate services and amenities, including mass public transit, solid waste management, and water supply. The local bodies entrusted to govern them do not have sufficient finances, expertise, or personnel to plan for and address these challenges.

Yet, cities will be crucial to India's growth story in the 21st century. Mitra and Mehta (2011) note that, like global cities, Indian cities already contribute between 59% and 70% of the country's GDP. In order to unlock their potential, we need to fundamentally rethink how our cities are viewed, governed, financed, and planned.

This reform agenda highlights some critical reforms that the new government could undertake. It is by no means exhaustive, but it addresses some of the core issues underlying the dysfunction we observe today. In thinking through recommendations, we recognise the importance of two crucial factors: political economy and sequencing. Our cities are already governed by a set of institutions and actors; changing their incentives and responsibilities is no easy task. Second, we acknowledge that while some reforms may be easier to implement in the short term, others are necessarily a medium to long term undertaking. To the extent possible, we focus on deeper, systemic reforms over short term fixes.

This reform agenda is shaped by our approach to urbanisation. For one, we emphasise access over ownership. For instance, rental housing and public transit allow workers to access the opportunities in cities without making an investment in housing or a private vehicle. Two, we see urbanisation as a historic reshaping

of where we live and work. This necessitates that we develop new mechanisms to coordinate between cities, and across state and central governments. Other countries have taken the lead. In 2014, Italy created 14 new metropolitan governments to coordinate development between cities and their suburbs. These metropolitan governments were given an elevated status within the Italian political system. Finally, we recognise cities as complex systems. The world's most iconic cities, from New York to Barcelona, have built and rebuilt themselves as their underlying economic dynamics have changed over time. To enable such dynamism, in a rapidly evolving 21st century, urban planning in India's cities will have to break from the past.

A Reform Agenda for Urban India

We present eight reforms below to address some of the most pressing challenges facing India's cities. We begin with the meta question of how urban India is, and the value of recognising urbanisation as it happens. We then discuss key reforms related to urban planning policy, land utilisation, housing and public transit. Each of these are necessary to unlock the productivity potential of cities and their residents. Finally, we focus on urban governance reform – strengthening decentralisation and investing in municipal capacity – which are critical as cities emerge as key actors in the nation's economy and imagination.

1 Recognise the true extent of urban growth

Reform

Revisit the official definition of an urban area to accurately measure the true extent of urban growth. Recognise and prepare for future urban growth; local governments should reserve land for an arterial road network in areas that are likely to urbanise. This grid can carry public transit and core infrastructure, and can help ensure orderly and transparent development.

Challenge and context

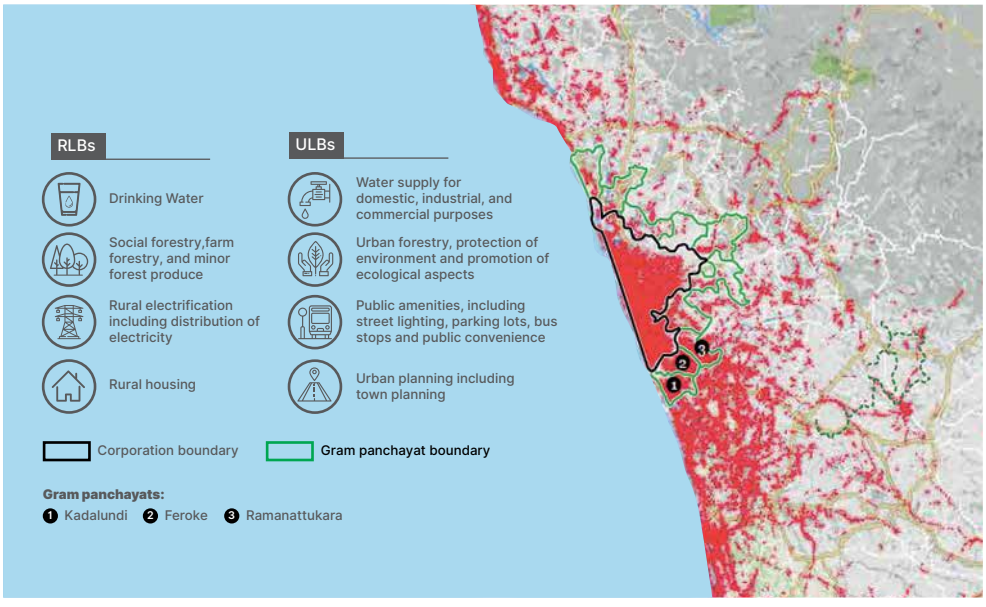
By official estimates, India is a majority rural country. Yet, most alternate estimates of India's urbanisation show that India may be well over 50% urban. The failure to fully appreciate the extent and contours of India's urban growth has implications for basic service delivery, productivity, and quality of life.

India calculates urbanisation using two definitions, i.e. the administrative definition and the Census definition. According to the administrative definition, any area already governed by an Urban Local Body (ULB) is considered urban. In addition, states can declare an area to be urban if they cross certain thresholds of population,

population density, and economic activity. These thresholds are arbitrary and indicative, and vary across states. Cities identified by the administrative definition are known as statutory towns and are governed by a ULB. By this definition, India is 26% urban.

The Census definition identifies urban settlements as either areas already governed by ULBs or areas having a population greater than 5,000, a density over 400 people per square kilometre, and 75% of the male working population employed in non-agricultural activities. By this definition, India is 31% urban. Areas that satisfy these criteria but are not already governed by ULBs are known as Census Towns (CTs).

Census Towns continue to be governed by *panchayats* despite having the density of urban areas. Rural Local Bodies (RLBs) and ULBs were designed to cater to the varying governance needs of rural and urban areas. The 73rd and 74th Constitutional Amendment Acts specify different powers and functions for the two bodies. For instance, as seen in Figure 2, ULBs are mandated to provide water for residential, industrial, and commercial purposes, while RLBs are mandated to provide only safe drinking water. This means that industrial or commercial units in de facto urban areas may find it harder to access adequate water compared to those in areas governed by ULBs. *Panchayats* are not required to provide many of



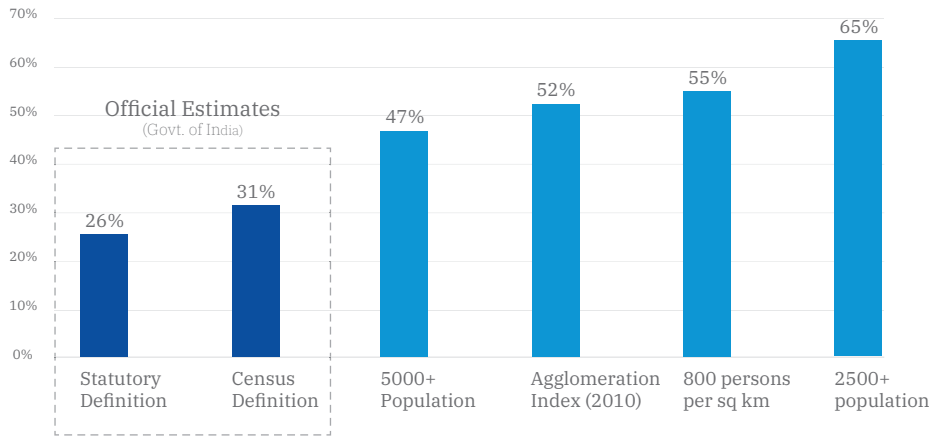
Source: Analysis by IDFC Institute and Urban Expansion Observatory
Note: The red represents dense built up area that could be considered urban under alternate definitions

Figure 2. Governance responsibilities of Urban vs Rural Local Bodies

the other basic services required of dense urban living, for example, sewerage lines, fire services, and building code regulations. Therefore Census Towns remain grossly underserved. As of the 2011 Census, 55 million people – the population of South Africa – lived in them.

There is no universal definition of what constitutes an urban area. Some countries use population criteria, while others use population and density. India is among only a small handful of countries to use all four criteria viz. population, density, and occupation, and administrative status, making the definition particularly restrictive.

At IDFC Institute, we undertook an exercise to apply commonly used global definitions to measure India's urbanisation. For instance, if we use a simple population threshold of 5,000 (used by countries like Ghana and Qatar) India is at 47% urban. A threshold of 2,500 (used by Mexico and Venezuela) puts India at 65% urban. Others have undertaken a similar exercise. Figure 3 below shows India's urbanisation rate as measured by fairly standard global definitions.



Source: Data compiled from Uchida and Nelson (2010), Census of India (2011), Jana, A., Sami, N., & Seddon, J. (2014), and Tandel, V., Hiranandani, K., & Kapoor, M. (2019)

Figure 3. India's urbanisation by alternate definitions

In recent years, satellite data has opened another avenue for studying urban growth.

Population and density are counted within pre-determined units such as Census wards or municipal limits. The alternate estimates simply change the threshold applied to these units, which often vary in size and shape. Moreover, they don't tell us anything about contiguity. Two areas that are adjacent to one another, may individually fall below the definitional threshold, but qualify as an urban area when taken together. In order to remove the constraint of pre-determined

boundaries, IDFC Institute's geospatial lab has studied the footprint of urban growth using publicly available satellite data.

The city of Kozikhode in Kerala is a good example. In 1975, urban growth (depicted in red) was well contained within municipal limits. However, by 2014, it had spread well beyond municipal limits into and outside the surrounding villages. The effective economic unit, or city, has little to do with the boundaries within which it is governed. Residents in the surrounding villages seem to live and participate in the larger

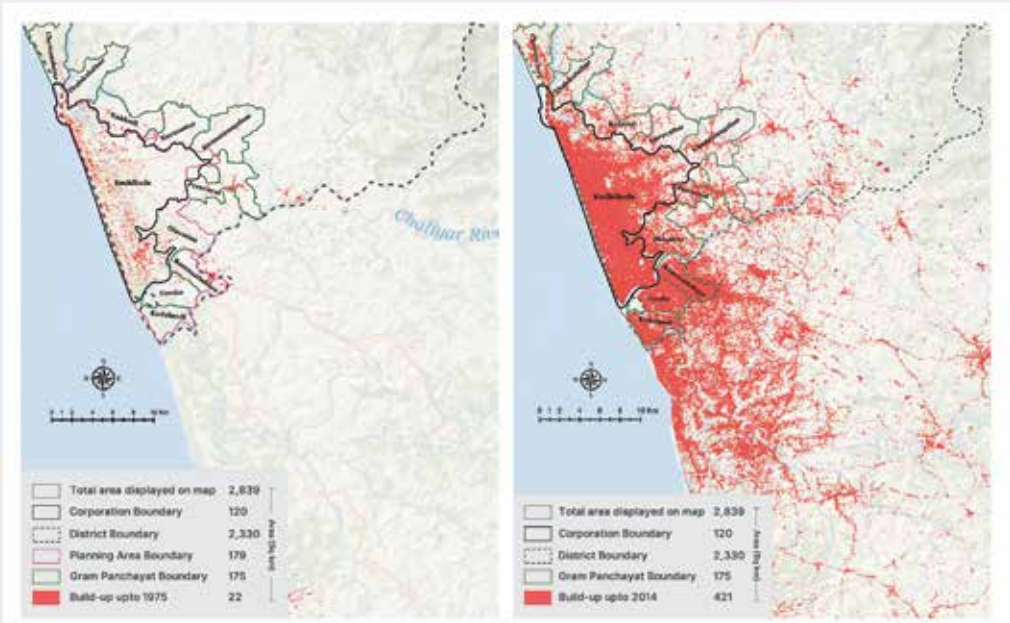


Figure 4. Built-up area in the Kozhikode Metropolitan area: 1975 vs 2014

Kozikhode economic unit, but their local government has no mandate to coordinate on issues of mass public transit or provide roads, sewerage and other amenities required of dense urban living. As a result, the quality of urban growth drops off sharply.

The Atlas of Urban Expansion, published by New York University used satellite data to study what happens to the quality of growth in such peri-urban areas. For instance, they look at indicators such as the availabiltity of open space, the average width of roads, and the subdivision of plots (regular or haphazard) and contrast this growth to that which has happened within municipal limits.

In Kozikhode, as with almost all of the other Indian cities studied, there is a sharp drop in the quality of urban fabric. While average road width in pre-1990 Kozikhode

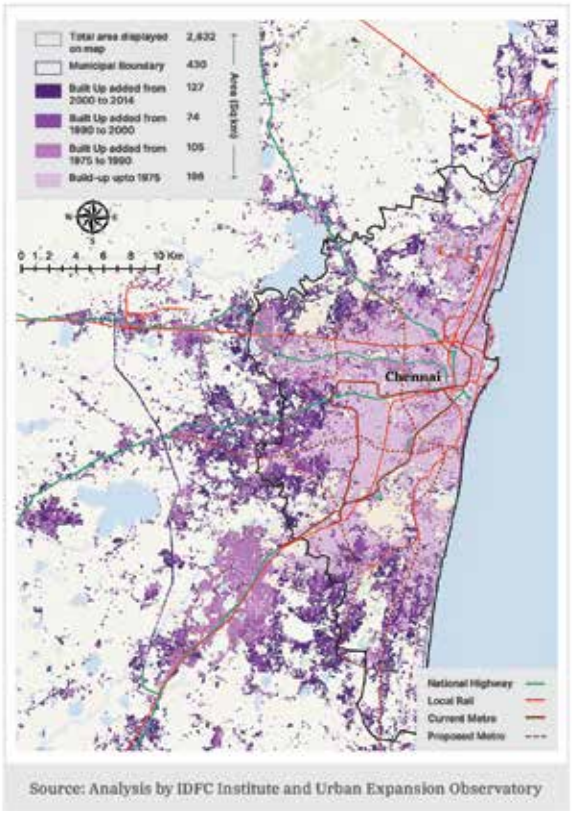


Figure 5. Chennai urban expansion map: 1975 to 2014

was 9.84 meters, the 1990-2014 expansion area has an average road width of 4.03 meters — too narrow to carry mass public transit and deal with increased traffic over time. Similarly, the density or coverage of arterial roads (wide roads which can carry both transit and core infrastructure) falls to just 30% of the density pre-1990. Pre-1990, 98% of built up area was within walking distance of an arterial road, which falls to 88% in the expansion area. This is not unique to Kozikhode. Figure 5 shows the growth around the city of Chennai.

One reason why India lags in recognising and proactively converting settlements from RLB- to ULB-governed is because of the resistance put up by local residents as well as politicians. There is considerable anecdotal evidence that residents in rural governed areas resist conversion if they feel that they will lose access to rural development schemes or have to pay higher taxes and charges. Politicians in these areas may find it easier to consolidate and maintain political controls (see Table 1). While there is also evidence that residents sometimes demand becoming urban or merging with neighbouring ULBs to get better urban amenities and administration, these incidences are few.

Factors affecting conversion	Examples
Access to government allocation and rural schemes	• The Chief Minister of Bihar insisted that the converted RLBs remain RLBs since they were receiving large amounts of money through rural development schemes. • RLBs in Thiruvananthapuram and Kozhikode in Kerala have also resisted conversion to ULBs since the conversion will deny the residents employment guarantees.
Higher taxes and fees	• Residents in RLB-governed areas were reluctant to be incorporated into the Hyderabad ULB due to fear of increased property taxes, trade licence fees, and building permission fees.
Access to urban amenities and administration	• Four RLB-governed areas in Karnataka were eager to merge with the Brahmawar ULB because it would result in more fund allocation and a greater ability to access urban expertise. • Jenkins et al. (2012) report that residents of the RLB-governed Boisar (in Maharashtra) advocated conversion for better amenities like waste management, drainage, and roads.
Reduced political influence	• Samanta (2014) describes the case of RLB-governed Singur, West Bengal, where locals demanded a ULB as early as 1981. The political parties in power were reluctant to convert the settlement because they were unsure that they would be able to control the administration after its conversion to a ULB. • Jenkins et al., (2012) report that residents of RLB-governed Boisar believed that the Maharashtra state government did not implement conversion because it would involve devolution of authority to the local body, which was unacceptable to the political party in power.
Stricter regulations	• More (2013) reports that RLBs opposed incorporation into the Pimpri-Chinchwad ULB (Maharashtra) because they would face more stringent building norms.

Source: Hiranandani 2018, Mukhopadhyay et al. 2016

Table 1. Factors affecting conversion to ULBs

Yet, research shows that areas governed by ULBs do in fact have better public service provision. Hiranandani (2018) finds that people in urban areas are likely to have more access to infrastructure, education, and healthcare than those in rural areas (see Figure 6).

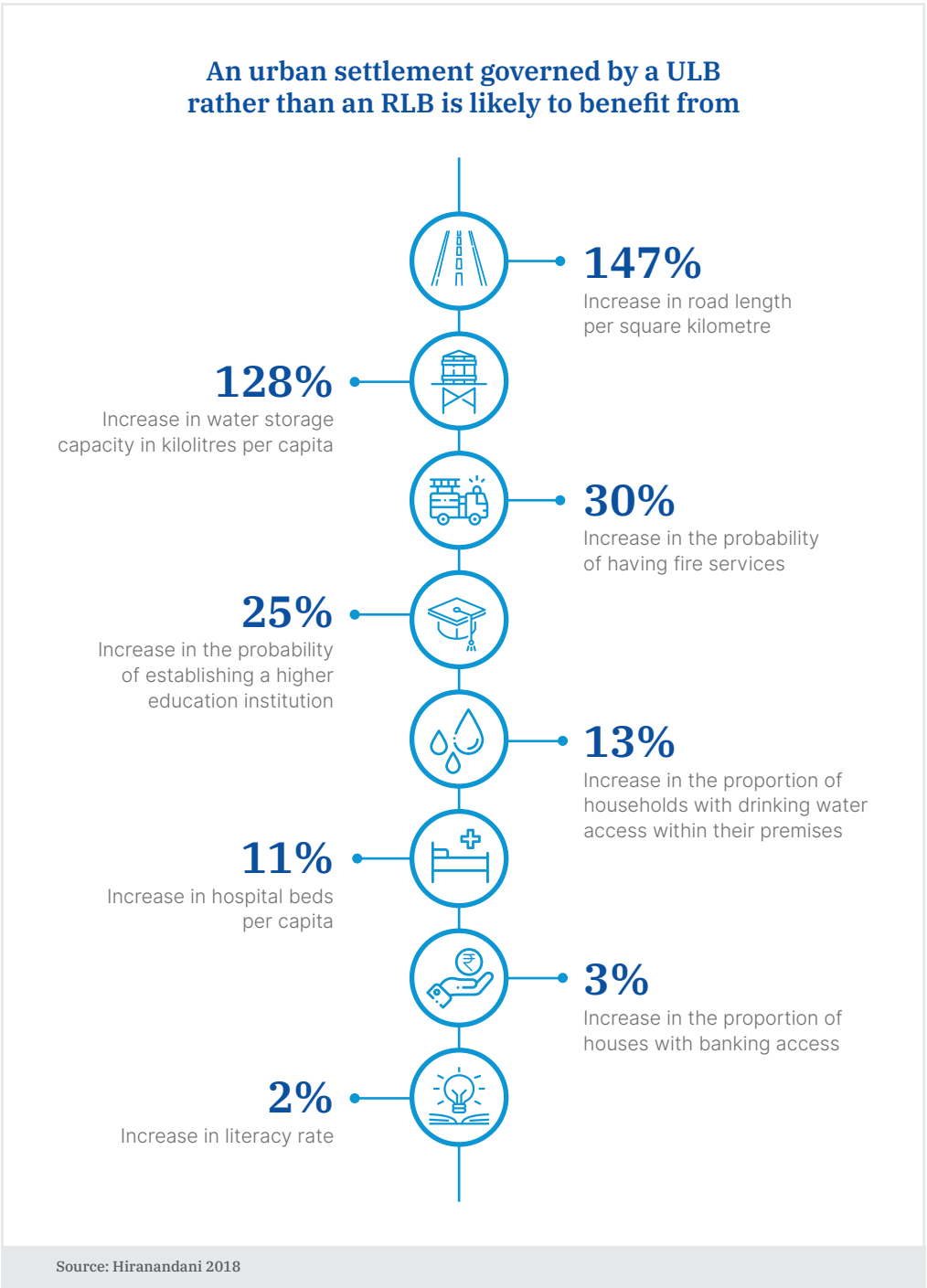


Figure 6. Benefits of converting from RLBs to ULBs

Recommendations

A key first step is to recognise the contours of our urban growth. To do so, we must move away from a binary classification of rural and urban, and instead recognise that urban growth will lie along a continuum. Tracking and preparing for growth will require using metrics like population density or satellite data to measure contiguous urban growth. For instance, China recently expanded its definition of urban to include residents of villages that are directly connected to municipal infrastructure or that receive public services from urban municipalities. Given the pace of urban growth, city and state governments must use measures that can be updated on at least an annual basis, so that there isn't a decade-long gap in responding to changed realities on the ground.

Most importantly, cities should plan ahead for urban expansion. This involves identifying areas of future growth, expanding municipal boundaries in advance and reserving land for a network of arterial roads. In 1811, when New York City was just a small town at the tip of the island, a Commissioners' Plan was created that laid out a notional grid extending further uptown that could be built out if and when the city expanded. As the grid was built out, residents were compensated for the land acquired. Today, that grid forms the core of New York City. It carries roads, core infrastructure, and transit. Even as land use and economic activity in the city have transformed over time, the grid remains sacrosanct. Other global cities like Barcelona have implemented such measures as well.

Planning ahead for urban growth is enshrined within the Indian development planning mechanism. However, it has largely failed due to issues of enforcement, delays in preparing the plans and the difficulty with land acquisition. Ahmedabad is one of the only Indian cities to have planned ahead for urban growth by using town planning schemes to reorganise rural plots in its peri-urban regions. The city's planning authority identifies a block for development and demarcates areas for roads and amenities. It then borrows an equal amount of land from every farmer (usually two-fifths of the total area), reorganises the plots, and returns them to the farmers in neater, more orderly parcels. The land taken for the streets is developed using betterment charges, which are paid by farmers since they get access to this infrastructure and experience an increase in their land values.

Finally, it is worth revisiting incentives and policies that disproportionately benefit rural areas (such as rural employment guarantee schemes) so that they do not become reasons for residents to resist conversion from RLBs to ULBs. One way to do this is to target schemes based on objectively measurable household-level indicators regardless of where the households are located (that is, regardless of whether they are in urban or rural areas).

2 Adopt a flexible, strategic planning process

Reform

Use a more market-friendly planning approach that allows cities to change their land use over time. Improve coordination across multiple planning authorities. Planning policy should incorporate plans for the city's economic growth alongside those for infrastructure requirements and public service delivery.

Challenge and context

Urban planning in India is a top-down exercise. State governments, rather than local governments, have the final say in ratifying plans. The creation of master plans is itself a technocratic exercise undertaken by the planning department of ULBs with no involvement of citizens or experts. Most worryingly, land use plans are made with no knowledge or consideration of the economic development goals of the city and the larger metropolitan region. In fact, there is no institution with a mandate to think of the region's long term development or jobs strategy.

Master plans are typically 20-year plans that demarcate and freeze land use, and reserve land for amenities and social purposes. Reserving land for core infrastructure, particularly a road grid, is desirable, but the over-specification of land use makes plans ripe for violation. Moreover, since planners cannot predict the future, demarcating land use over long time horizons is futile. As technology and the underlying economic base of the city change, so does the optimal use of that land. Since plans are not dynamic, and enforcement is weak, there is a divergence between de jure and de facto land use.

Mumbai is a good example. Its economic base — once centered around manufacturing and a busy port — has changed dramatically over the years. For instance, when planners began to prepare the 1981 Mumbai Development Plan, the city had a large textile manufacturing base. Due to bureaucratic delays, the Plan was only ratified in 1994, by which time the textile industry was on the verge of collapse. The textile mills lay abandoned for well over a decade at the heart of a land-starved and growing city. To this day, large tracts of land remain locked up in obsolete land uses, driving up the cost of available land. Similarly, land zoned for public and social amenities can be rationalised. Hospitals and schools can easily be built as high rises, and land freed up for wider streets and public transit. Figure 7 contrasts the zoned land use as per the 1991 Greater Mumbai Development Plan

with actual land use for a neighbourhood in Mumbai. Of the variation in land use, 9% did not require government approval, 69% required approval from the Municipal Corporation, and 22% consisted of illegal violations of the plan (Pethe et al., 2014). In sum, 91% of the land was used differently from what the plan had intended.

The planning process is further complicated by the presence of multiple authorities and poor coordination among them. Metropolitan regions have urban development authorities that have to make plans for those areas that are not within the planning jurisdiction of existing ULBs. Other planning authorities that may operate within cities or metropolitan regions include parastatals such as new town development authorities and special planning authorities. All planning authorities tend to create plans for land use and amenity provision independently and without regard to the surrounding jurisdiction. At best, this means that opportunities to provide certain amenities at scale are missed. At worst, these practices could create serious negative externalities.

Taking another example from Mumbai, the Bandra Kurla Complex — a major commercial district in the heart of the city — is under the planning jurisdiction of the Mumbai Metropolitan Region Development Authority (MMRDA). While the Authority has provided for infrastructure within this area, the transit infrastructure right outside the Complex is under tremendous strain. It has not been upgraded since there was little coordination between the MMRDA and the Municipal Corporation of Greater Mumbai (MCGM), which is in charge of this area. This creates major congestion getting in and out of the Complex during peak commuting hours.

Article 243ZE of the 74th Constitutional Amendment Act requires the setting up of a Metropolitan Planning Committee for creating draft development plans for metropolitan regions. It includes the proviso that the Committee will have to take on board plans prepared by other authorities and common interests between different local bodies within the region. It will also coordinate the region's spatial planning. However, most regions have not set up these Committees. Where they exist, they have no real powers and remain subservient to state-controlled regional urban development authorities.

Finally, existing laws stipulate that plans created by ULBs require ratification by the state government. This means that those who have very little accountability to the city (since most politicians within state governments have rural constituencies) get to have the final say in the city's future.

Figure 7. Planned vs actual land use in a study area in Mumbai

Recommendations

Overhauling the planning process will require reforms at the local, regional, state, and central level. State legislatures need to pass comprehensive town and country planning acts that enshrine new planning principles and give ULBs the power to ratify plans. Where town and country planning acts exist already, they need to be amended in a similar manner.

At the centre, the Model Regional and Town Planning and Development Law, passed in 1985, lays down planning principles. The planning paradigm globally has undergone a significant change since then. For instance, London and Berlin were early pioneers of an approach called strategic spatial planning. This recognised that planners needed a mechanism to coordinate across the most important sectors, time scales, and goals. Existing sectoral policies were inadequate given the complexity of urban growth. Both cities decided to coordinate across spatial planning, city

design, and urban transport. This would allow them to achieve their most important objectives on mobility, emissions, and managing their overall footprint. Executing this coordination required extensive governance reforms. In London, it led to the creation of the metropolitan level transportation agency, Transport for London and the Greater London Authority for land use planning. Most importantly, the Mayor of London could drive coordination across key sectors and set an overall framework for economic growth.

For improving coordination, existing governance system for planning and development at the regional level requires a serious rethink — particularly since most new growth is taking place just outside large cities but within the metropolitan region boundaries. A two-tier framework — adopted by London and Toronto — with powers delineated between city and metropolitan levels might serve the purpose.

Finally, at the local level, planning departments need to train planners to adopt strategic planning, simplify plans, and ensure citizen participation at various stages of the process.

3 Improve land utilisation in cities

Reform

Urban land is a scarce and expensive commodity. Cities should improve their land utilisation through a variety of mechanisms, which include liberalising how much floor space can be built on a given plot of land, reforming building codes to eliminate wasteful set back areas, and freeing up unutilised public lands.

Challenge and context

Indian cities use land inefficiently. This limits the amount of land available for public use (for example, for wide streets and parks), and drives up the cost of housing and commercial space.

Planners constrain land use in a number of ways. For instance, they prescribe limits of how much floor space can be built on a given plot via caps on the Floor Space Index (FSI). An FSI of 1.33, which used to be the limit across most of Mumbai city, means that a builder can build floor space of only 1.33 times the land area of the plot (see Figure 8). FSI restrictions emerge from the misconception that high densities are undesirable and that controlling floor space can in effect control the amount of people that live in a given area. In Chennai, FSI is restricted to 2.5, and in Bengaluru, the FSI ceiling is slightly higher at 4. FSI levels are also restricted in Tier-2 cities such as Jaipur, Kanpur, and Kochi (see IDFC Institute, 2018). FSI is a blunt instrument at best. In cities where housing is in high demand, more people increasingly try and cram into the limited space available. Planners therefore conflate the "density of buildings" — built-up space in a given area — with "density of people" i.e. how many people live in an area (Patel, 2015).

Planners often justify FSI limits by citing infrastructure constraints such as the "carrying capacity" of neighbouring roads or sewerage and water lines. However, as countries across the world have shown, carrying capacity can be augmented (and even partially financed by developers)[2]. For example, the City of London, London's bustling financial hub,

[2] In recent years, cities have introduced policies where built-up area constructed can exceed the free permissible limits upon payment of charges or premiums. Granting additional FSI is also used as an incentive to get builders to provide certain services or amenities for the city. For example, in Mumbai, under Development Control Regulation 33(24) projects are granted additional FSI in exchange for developers building public parking lots. Further, these policies are increasingly being used as fiscal tools instead of planning tools. Municipal Corporation of Greater Mumbai raises revenues using instruments like 'additional FSI', 'fungible compensatory FSI (FCFSI)' and 'Transferable Development Rights (TDR)' that permit additional construction for a fee. Currently, 26% and 63% of the total FSI in the island city and suburban Mumbai, respectively, is purchasable. The sale of additional FSI brings in abundant revenues for the MCGM, which incentivises them to maintain the low limits on free FSI available in the city.

is a pre-medieval city with narrow streets that now hosts tall skyscrapers and a daytime population of 300,000 people or 30 times its resident population.

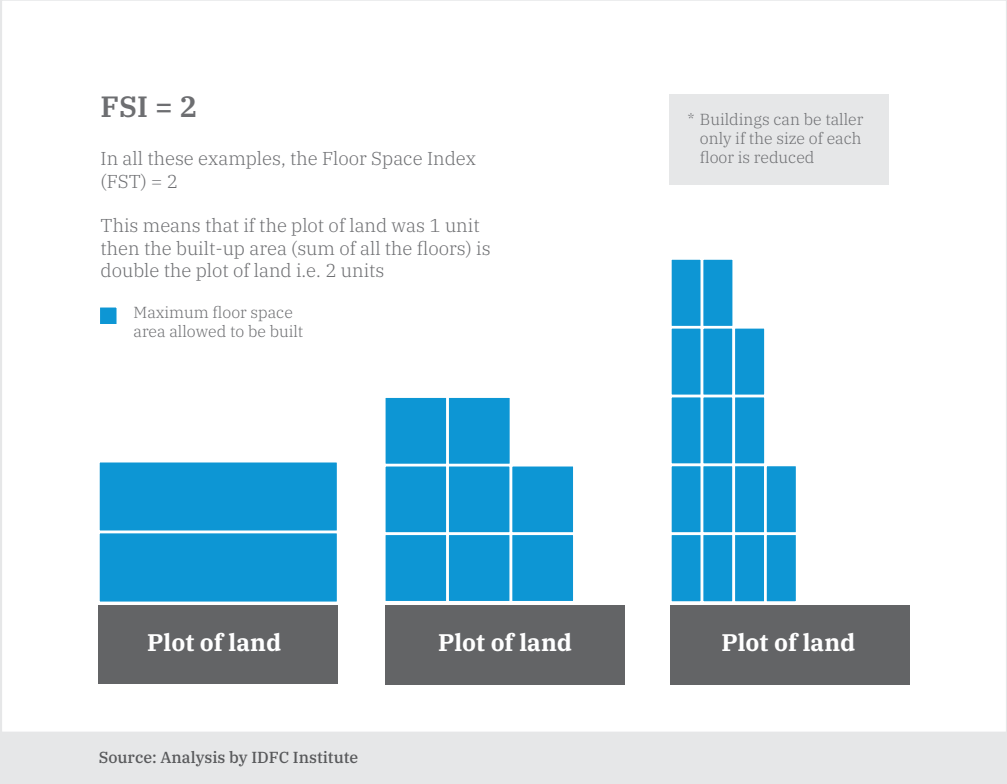


Figure 8. The relationship between FSI, building heights, and plot coverage

Constraints on built-up area in Indian cities (which include restrictions on building heights, green belts, and other tools) have failed to control density in the face of migration to cities. Instead, by reducing formal built-up space, they have resulted in the development of slums, driven up land and housing prices, and contributed to unplanned sprawl outside urban limits.

Land use is distorted in other ways as well. Global best practice is that cities should have 30%-40% of their land in streets and public space, and most of the remaining space in building footprints, i.e. the land beneath buildings. For instance, San Francisco has 61% of its land in building footprints and 36% in streets and public space (Patel, 2019). Building codes in India introduce a third category, that of "private open space", or the land between the compound wall and the building footprint. Take the example of Lower Parel, one of Mumbai's more recently developed financial districts. According to estimates, public open space and streets form just 12%. The share of land in buildings is 49%, while 39% is frittered away in set back areas (Ibid.). Similarly, Nariman Point has 22% of its land in public streets and open

spaces, another 22% in building footprints, and around 54% land in private open spaces (Ibid.). Not only does this cause congestion, it leaves little room to increase the carrying capacity of roads via adding Bus Rapid Transit or a metro.

As noted by Patel (2019), one reason for the poor use of land is that building codes prepared by planners are text-based. These rules determine the minimum distance by which a building must be set back from roads, water bodies, etc., heights of the buildings, and so on. As a result, planners do not know beforehand what the actual development will end up looking like. When developers follow text-based codes, the final built form of the city becomes haphazard and land is suboptimally used.

Another major reason for suboptimal use of land is that vast tracts are owned by central and state government agencies and are kept vacant or used inefficiently. A study in Ahmedabad that used satellite data to estimate the value of large public land holdings (excluding smaller parcels) calculated that the city could raise between Rs. 20,000 crores and Rs. 54,000 crores through the sale of these parcels. The paper suggested that, using the estimates of the High Powered Expert Committee (HPEC) on infrastructure, this would be enough to cover the entire gamut of physical urban infrastructure for the next 20 years (Patel et al., 2013).

Recommendations

Cities must increase FSI where possible, and simultaneously invest in upgrading carrying capacity of roads and infrastructure. FSI should be granular, with higher FSI along transit corridors. Take the case of New York versus Mumbai (Figure 9): New York has granular FSI while Mumbai has a largely flat FSI. Taking lessons from New York, Mumbai, like most Indian cities, should differentiate FSI for commercial and residential buildings, link FSI to land markets, and reflect differences in FSI based on accessibility around transit nodes. The sociologist Jane Jacobs (1969) has written extensively advocating mixed use. Having residential and commercial units together at relatively high densities make streets interesting and safe. The administration in Delhi has recognised the importance of mixed use, and the 2021 Master Plan of Delhi allows for mixed land use in several parts of the city. Other cities will benefit from adopting this as well.

Adopt form-based codes in all Indian cities, i.e. using physical drawings that specify the building form instead of written guidelines. This will give planners a better sense of how much land will be used in building footprints and public streets and open spaces. Further, form-based codes, with their predictable built form, will improve ease of granting approvals for construction permits, thereby also improving ease of doing business.

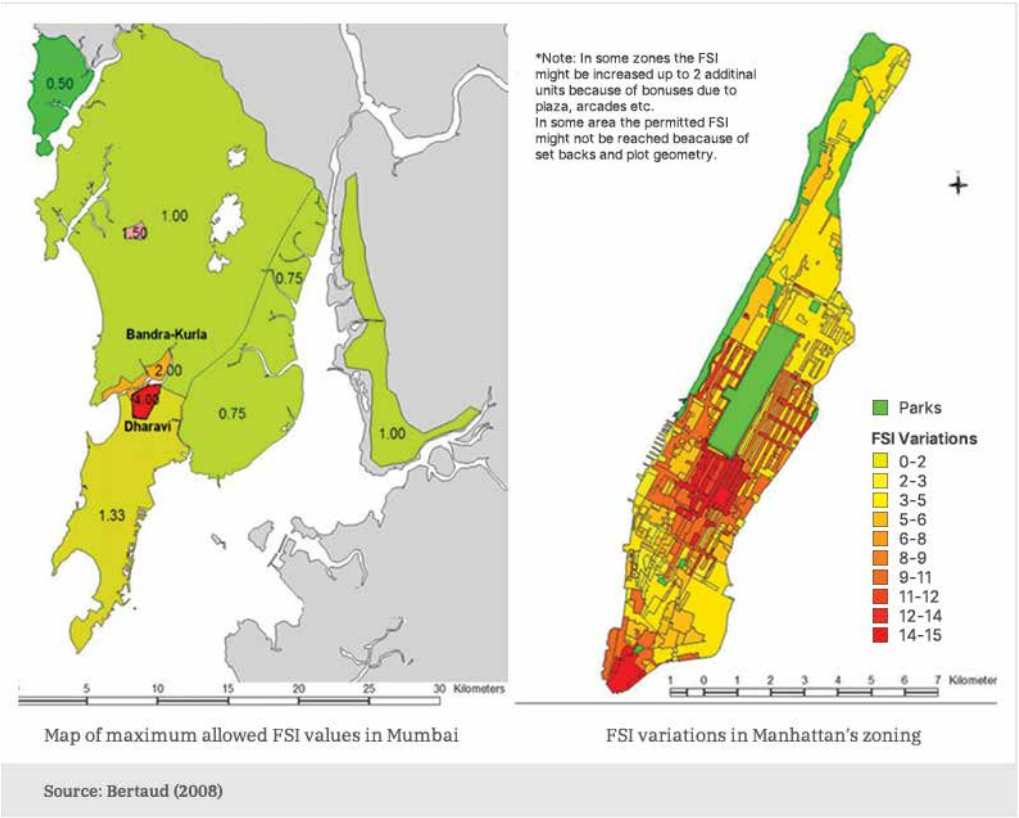


Figure 9: FSI variations in Manhattan and Mumbai

Finally, there is an urgent need to create a publicly available database after an inventory of India's total public lands (along with details of their use). This is the first step towards ascertaining how much land could potentially be utilised for providing amenities for the city. Since land is a state subject, this exercise could be undertaken by a public land commission set up by the state government which comprises independent members (retired judges, academics, planners) along with public officials. These public lands must be appropriately priced at market cost in order to understand the magnitude of their potential. Most public land transactions in the past have been conducted on a privately negotiated basis rather than at their market value (Gangopadhyay, 2016). Leasing land may prove to be a more attractive option since it ensures a revenue stream as opposed to a windfall gain to authorities from a sale. Optimising use of public lands that are currently unutilised or vacant could mean construction of low income housing or providing public open spaces and parks.

4 Enable the creation of housing across the income and size spectrum

Reform

Address the supply side constraints to building housing, from inefficiencies in land markets, to the time taken for approvals to reducing transaction costs. Focus on the creation of rental housing.

Challenge and context

Major Indian cities are facing a massive housing shortage in the formal housing market. Multiple issues have reduced housing supply while demand for housing continues to grow. Among the most serious problems is the labyrinthine nature of regulations and approval processes in real estate projects. Too many regulations concerning how much to build and how to build constrain the built-up area produced by developers. The approvals process entails getting multiple permits from different departments and government bodies. Delays in getting approvals add to the time taken and construction costs of projects. Finally, high stamp duties and registration fees raise the cost of transactions in the formal housing market. These factors have led to rising land and housing prices. Households that are unable to find affordable housing within cities are compelled to move to the suburbs or even outside municipal limits and commute long hours to their workplaces. Many low-income households, who can neither afford the cost of housing in the city nor the cost of commuting to work, end up living in slums. They have weak tenure security and find it difficult to access basic amenities and services.

New migrants in cities prefer renting to owning a house. This is especially true of poorer migrants who may already be locked into lumpy land assets in rural areas. Rental housing, therefore, is an important component of the housing market, enabling people to access economic opportunities. However, it has not received serious policy attention and has been in the grip of distortionary laws such as rent control. The returns from renting are thus extremely low, in the 2%-4% range. With no incentives for potential landlords and with a general decline in employer-provided housing over the years, the share of rental housing has declined. Between 1961 and 2011, it fell from 54% to 28%.

Recommendations

Policies to tackle housing shortage must recognise that the housing market is fragmented along income lines. The market cannot provide housing for those at the very bottom of the income distribution. This market failure necessitates creating public housing.

For the rest of the income and size spectrum, easing regulations and re-engineering processes in order to make it easier to build is imperative. Given the wide reach of the internet and information technology now, online clearances and single window systems have become feasible. Implementing them must become a priority. Removing requirements such as car parks and elevators for projects catering to the lower and middle income segments will lower construction costs and therefore reduce prices. In order to reduce the cost of transactions, stamp duties and registration fees should be lowered to less than 1% of the house prices, as is done in several countries[3].

Finally, encouraging states to implement the Draft Model Tenancy Act is likely to boost rental housing. The Act suggests deregulating rents, making eviction proceedings easier, simplifying the lease registration process, enabling online fee payment, linking lease agreements with Aadhaar, and creating separate queues at Sub-Registrar Offices for lease and property registrations. These should create incentives for landlords to rent out property, easing pressure on migrants to own residential property and facilitating access to affordable housing.

[3] For a detailed discussion on these issues, refer to IDFC Institute's India Infrastructure Report 2018 (http://idfcinstitute.org/site/assets/files/14428/idfc_institute_housing_report.pdf)

5 Invest in and integrate public transport networks

Reform

Assess the current and future transit needs of cities, augment existing transit systems along with planning ahead for growth, and strategically use transit networks to open up lands for development. Integrate transit systems functionally and administratively by vesting coordinating powers with a transport authority at the metropolitan level.

Challenge and context

A good public transit system forms the backbone of an urban economy, with the potential to shape and influence urban development. However, Indian cities have inadequate public transit. Despite a recent uptick in investments, those living in most smaller cities and towns or in peri-urban areas outside city limits continue to be overly dependent on state transport buses, cycle rickshaws, and auto rickshaws. Ridesharing apps have provided a new alternative mode of transport. All of these form a category of transport known as Intermediate Public Transit (IPT), that may or may not be officially recognised and regulated, depending on the city. Another feature of these areas is a proliferation of two-wheelers. Where public transport is available, it either operates at greater than full capacity or is in need of serious maintenance and repairs. Both issues create pressing safety problems. For instance, the high number of accidental deaths caused due to people commuting in extremely crowded trains in Mumbai highlights the magnitude of the problem[4].

The lack of public transport has resulted in Indian cities becoming among the most polluted and congested in the world. This in turn hinders growth and productivity. It imposes a number of costs such as the cost of being stuck in traffic, the costs of excess fuel consumption, and the health costs from poor air quality. Unplanned peri-urban growth exacerbates the problem. As outlined above, peri-urban areas tend to have narrower roads due to lack of proper planning; yet, these areas are part of 'spatially integrated labour market[s]'[5] that should ideally be well-connected through transit networks.

These outcomes are familiar to many because they can be seen and measured. However, a major issue that may not be as easily evident but is equally critical is

[4] An average of 8 people died everyday on Mumbai's railway tracks from 2013-2017 (Mallapur, 2018)
[5] Ingram, 2014

the absence of a coordinated and integrated governance system to assess transit needs and provide public transport at scale. The existing institutional set-up — with multiple authorities for different modes and types such as roads, railways, buses, metros, and trains, and few coordinating mechanisms — precludes the conception and implementation of integrated plans. This adds to the cost of commuting. For instance, when the most efficient route may require switching from one mode of transport to another (say, taking a bus and then changing to a metro), commuters have to buy a different ticket, wait for a long time in between the changes, and so on. This limits connectivity within the broader economic region and increases the cost of transportation.

Without integrated plans, different authorities create and implement their own transport plans in silos, which impose serious negative externalities. For instance, if the roads authority undertakes repairs and maintenance of a road at the same time that the metro development authority is digging underground for laying tracks, it will create serious traffic and congestion. Policymakers have acknowledged this to be an issue and have recommended creating a Unified Metropolitan Transport Authority for metropolitan regions to improve coordination. However, most regions have not set it up and where it exists, the Authority only makes recommendations. It lacks real powers to resolve disputes or promulgate integrated plans. Lack of coordination also means losing out on the opportunity to use transit networks to shape where development can take place and make serviced land available for development.

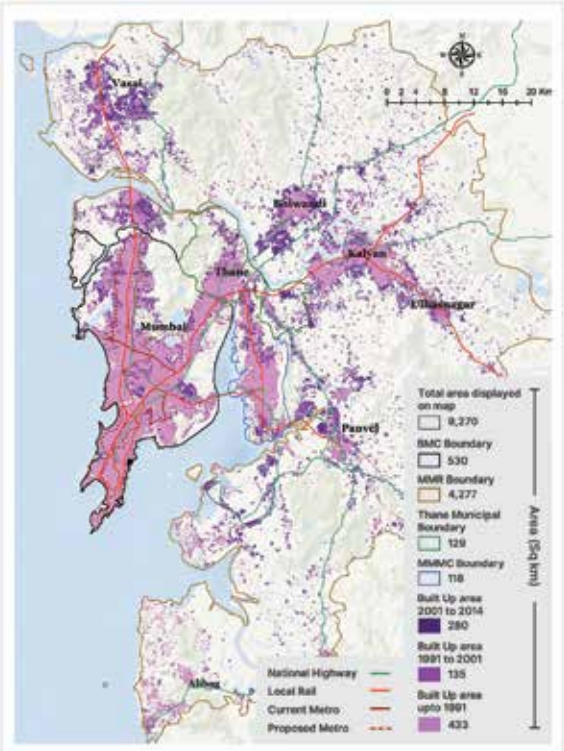
Recommendations

The first step is for cities to encourage mass transit as a primary means of transport. This involves prioritising public transport on existing road networks and discouraging private transport through policies such as congestion pricing. The availability of mass public transport will reduce reliance on private automobiles and will make it less contentious to remove the requirement of providing on-site parking. Furthermore, the availability of well-connected mass transit systems will lower the congestion and environmental costs from greater car ownership.

Providing affordable public transport will also significantly reduce household expenditure on transport, resulting in higher disposable incomes. A 2015 study on transportation in Vancouver found that in many areas, expenditure on housing and transport accounted for around 50% of median income (Metro Vancouver, 2015). Ultimately, providing affordable, safe, and accessible modes of public transport will enable the efficient functioning of labour markets by tying them together.

While encouraging public transit is crucial, each city needs to assess and identify the modes of public transport that work best for it, given its density, budget, and urban form. The city of Ahmedabad has successfully completed and rolled out the Bus Rapid Transit System (BRTS) spanning over 70 kilometers (Ahluwalia, 2014). The Bangalore Metropolitan Transport Corporation (BMTC) has set up a range of bus services that suit the density of its city and its different income groups. It has used its land bank to build traffic and transit management centres, a move that has helped in boosting revenue.

Additionally, for cities with existing mass public transit, we recommend integrating transit options (both functionally and administratively) via common smart cards, demarcated zones to switch transport modes, and integration of last-mile connectivity through IPT. For instance, Transport for London has implemented these recommendations through its smartcard system (the Oyster card) that allows passengers to use the same card across different modes of public transport in London.



Source: Analysis by IDFC Institute and Urban Expansion Observatory

Figure 10. Urban expansion in Mumbai along transit lines: 1991 to 2014

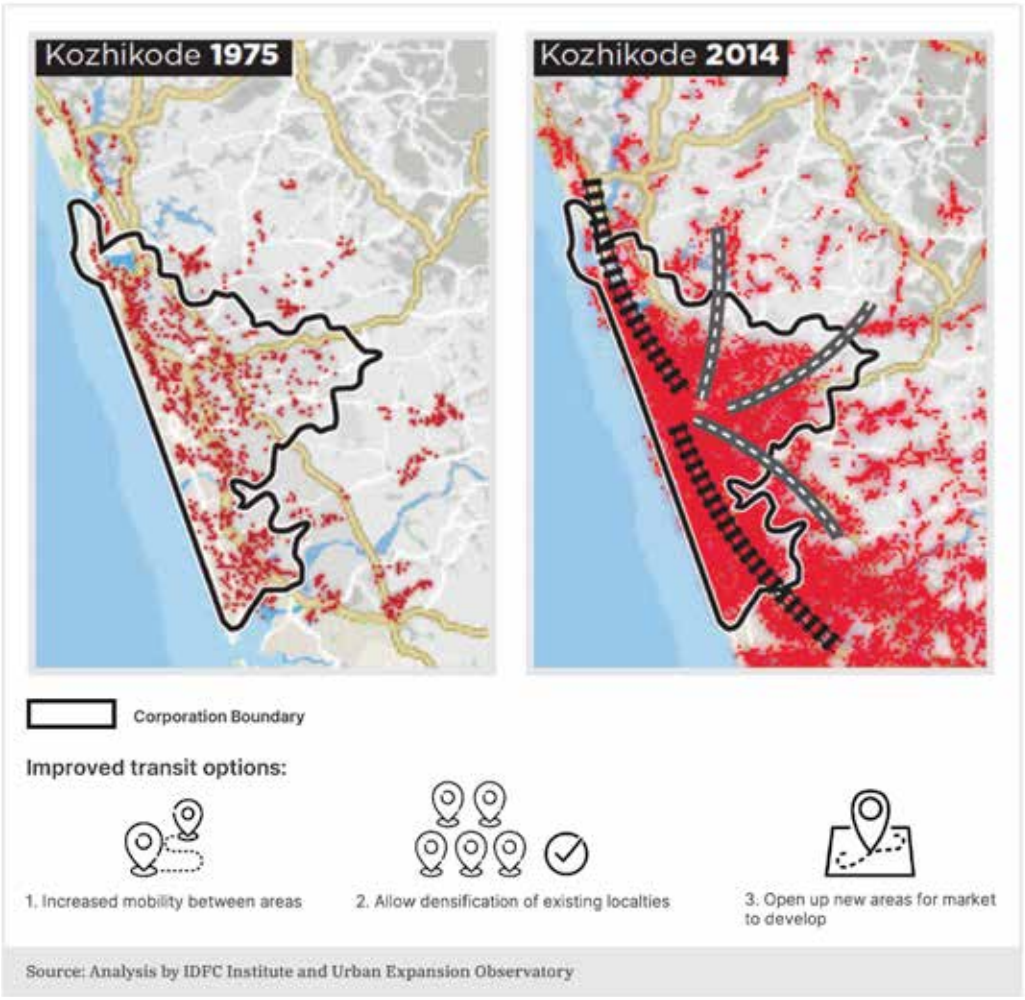


Figure 11. Urban Expansion in Kozhikode along Transit Lines (1975 vs 2014)

While retrofitting a mass transit system such as BRTS or metro lines is a required step for improving mobility and tying labour markets together, it is not enough. As India continues to urbanise, Indian cities must plan ahead for urban growth. Hence, we also recommend that authorities use the development plan mechanism to estimate population growth, and identify and prepare land for inevitable expansion. Building public transit will increase access to developable land. If we assume the maximum acceptable limit of time taken to commute between work and home to be one hour, building a transit network of cheap and fast modes of commuting will make it possible for a larger area to be covered (Bertaud, 2012). This will consequently make remote areas at the outskirts of the city available for urban development. Future expansion will therefore be steered along the transport lines in these areas.

Figure 10 shows how within Mumbai, areas along the railway lines developed

faster relative to areas not serviced by the railway. Expansion beyond Mumbai but within the metropolitan region has also been along these railway networks. This is because the network connects people to different commercial areas within Mumbai in a cheap and easy manner. Figure 11 is a stylised representation of how the sprawling growth in the Kozhikode metropolitan area could be tied together using public transit.

Finally, achieving integration and coordination requires vesting these responsibilities with an appropriate authority. This authority could be part of the metropolitan level body in the two-tier set-up discussed earlier. Given the disappointing experience with the Unified Metropolitan Transport Authority, we recommend that this Authority be vested with clear powers of dispute resolution and coordination. It can comprise of transport planning experts, representatives of ULBs and Metropolitan Development Authorities, and key persons from transport parastatals and departments.

6 Empower and strengthen political leadership in cities

Reform

Give mayors and cities' political leadership greater decision making powers, and make commissioners accountable to them.

Challenge and context

Indian cities are managed by state-appointed bureaucrats, not by mayors. The de facto power in urban local governments is thus wielded by municipal commissioners who are state bureaucrats. With some notable exceptions, many may be driven by incentives to move up the hierarchy; very few have domain expertise or prior experience in city management. This means that city leadership is more beholden to the demands of state politics than to its residents, and is not guided by expertise at the highest level. Hence, key decisions for cities are taken by state governments who have little political stake in ensuring well-functioning cities and bureaucrats who have to answer to the state leadership. There is no clear chain of political accountability.

The 74th Constitutional Amendment Act, which legitimised the third tier of urban local governments, has been vague about the nature of political leadership in municipal corporations and councils. It stated that state legislatures had the power to determine the nature of urban local governments and their leadership, provided that all such governments had a tenure of five years with directly elected representatives.

Virtually all states ensured that the political heads of local governments — the mayors — had limited powers. This was brought about in two ways. First, states limited the tenures of mayors so that they did not last the full term of the local government. For example, in Maharashtra, the term of the mayor is two and a half years while in Delhi it is a single year. This has implications for the type of projects implemented in cities. For instance, a mayor with a year-long term will be reluctant to support infrastructure projects with short run costs even when they have tremendous gains in the long term. Second, most states indirectly elect mayors to dilute their power. Examples include Bihar, Maharashtra, and Gujarat, which have mayors elected by the councillors of ULBs. Mayors are elected directly only in a few states such as Madhya Pradesh and Uttar Pradesh. Additionally, the mode of appointing mayors has also varied across time. In Tamil Nadu, direct elections for the mayor's position were scrapped in 2016. This was subsequently

overturned and the state reverted to direct elections in 2018[6]. Instead of the mayor, the most powerful entity within the municipality is the Standing Committee. This Committee comprises locally elected councillors and has complete control over the budgets and finances of the municipality.

Recommendations

For the reform to be implemented, state legislatures need to amend the relevant municipal laws in order to give city mayors broader decision-making powers and extend their tenure to coincide with the term of the local government. Furthermore, laws need to change so that mayors have a say in the selection of the municipal commissioner. There can be a council of elected representatives where each is in charge of overseeing a specific function. The council would hold mayors accountable, neutralising the risks that come with the centralisation of power in one pair of hands. West Bengal has a similar set up with elected mayors and a mayor-in-council. Mandating that the mayor and council hold regular town halls with citizens and civil society will also increase accountability and create a culture of civic participation in city affairs. Given the reluctance of state governments to undertake these reforms, there is scope for the centre to amend the 74th Constitutional Amendment Act and add these articles. There are valid concerns that lack of adequate capacity among elected leadership may be detrimental for cities. However, this cannot be an excuse to continue with the status quo. Capacity building happens in parallel and after gaining sufficient experience in helming city governance.

Having an empowered and democratically elected mayor with broad powers will put an end to the diffused responsibility and the absence of democratic accountability that degrade urban governance in India. Being proximate to the cities, mayors will be able to leverage their knowledge about local conditions, needs, and preferences of citizens to deliver services at the appropriate scale. Empowered city leaders can steer reforms with popular support in order to improve the lives of the city's residents. The mayor of New York City played a key role in helping the city recover after the 2001 World Trade Center bombings. London saw an incredible overhaul of its transport infrastructure largely thanks to the leadership shown by its then mayor, Ken Livingstone.

[6] Mariappan, 2018

7 Increase capacity within Urban Local Bodies

Reform

Assess the staffing needs of ULBs. Overhaul recruitment processes to hire personnel with requisite skills. Ensure that the training of employees translates to increased motivation and improved functioning. Collaborate with organisations having area-specific expertise for designing and implementing projects.

Challenge and context

Local bodies face severe capacity constraints in terms of staffing and managers possessing the requisite managerial skills. Indian cities fall behind international peers on the staff-to-population ratio. Janaagraha's *Annual Survey of India's City-Systems* reports that Mumbai has approximately 1,300 staff for every 1,00,000 citizens. New York, meanwhile, has about 5,000 employees for every 1,00,000 citizens. The challenge is not just weak capacity, but also hiring officers with the right set of skills for highly specialised roles. The lack of talent has hindered strategic decision making as well. This lack of capacity complicates even simple processes that are a part of the execution plans of projects. For instance, staff often lack the ability to design and evaluate bid criteria, leading to selection on the basis of cost with no emphasis on maintenance or quality.

Recommendations

ULBs can begin to address their lack of capacity through training their employees in financial and risk management, organisational and administrative matters, design, and implementation of projects. ULBs could potentially tie up with academic institutions and policy think tanks, who could assist them with induction training in urban planning and management for key administrators.

While training existing employees is key, a more useful exercise would be to rethink the recruitment framework keeping in mind the technical and administrative skills required. It would be essential to ensure that an adequate number of skilled employees are on-boarded, keeping in mind the growing demands of an urbanising city. An efficient way of doing this would be to conduct a mapping exercise — as done by Janaagraha in Bangalore — to understand staffing needs after studying the requirements of a city.

Outsourcing technical expertise to purely technical bodies set up as parastatals or lateral hiring could be other ways to improve project implementation. The latter should be considered for highly specialised technical roles, especially in the case of lack of in-house capacity to implement complex projects.

Harnessing technology to increase efficiency and enable data-driven decision making would be the last capacity-enhancing reform. This is because without adequately trained and skilled urban administrators, implementation, and maintenance of data and technology resources would be difficult. The recent DataSmart Cities mission launched by the Ministry of Housing and Urban Affairs (MoHUA), Government of India, is a positive step in this direction. This initiative aims to effectively utilise data across urban centres to drive decision-making. However, the focus has to remain on addressing the more basic issues of under-capacity and staff skill levels. All these reforms rest on one crucial factor — resolving the funding capacity of ULBs.

8 Increase fund flows and provide revenue handles to urban local bodies

Reform

Increase the devolution of funds to local bodies from upper tiers of government, ensure that cities receive a greater share of the revenues they help generate, and enhance the ability of ULBs to augment their revenues through stable financing mechanisms.

Challenge and context

Most ULBs have weak finances. Property taxes, which should be their mainstay, have yielded low revenues. Collections from user charges are also very poor. They are thus heavily dependent on state governments, which have underperformed in transferring funds.

India's property tax-to-GDP ratio, at 0.48%, is one of the lowest amongst G-20 countries. Peers like South Africa and Brazil stand at 1.39% and 1.25% respectively. The National Accounts Statistics estimate that municipal property tax revenues in the 36 largest cities are just 6% of the gross rental value of urban dwellings. Local bodies are also grappling with various issues while maintaining records, which creates problems in assessment and implementation. To make matters worse, there is no rule prohibiting municipalities from declaring arbitrary exemptions. For instance, in Mumbai all dwelling units of less than 500 sq. ft. were exempted from property taxes by authorities. To make up for the potential loss in revenues, the MCGM had to resort to premium on FSI which is distortionary and regressive.

In addition, user charges on essential services — water and sewage — are subsidised. Unsurprisingly, the resultant weak finances have hamstrung ULBs in service delivery. Poor delivery has led to poor compliance, deepening the financial hole ULBs find themselves in and perpetuating a low-level equilibrium.

This lack of a stable revenue stream has made it difficult for municipal bodies to raise their own capital through bonds. The first municipal bond was issued in 1997 by the Bangalore City Corporation with a state guarantee. There have been just a handful of issues since. The absence of a secondary bond market and unclear regulations haven't helped. The market for municipal bonds is thus still in a nascent stage.

State Finance Commissions, which determine the awards for ULBs, have unclear

mandates and have to work with unreliable data on the financial situation of local bodies. State governments implement their recommendations with considerable delays. This has greatly affected availability of untied grants to smaller ULBs. The funds ultimately reaching the ULBs are very low. For example, the Fifth State Finance Commission and Issues in Fiscal Devolution report stated that in Kerala the share of funds allocated to urban administrations (municipalities and municipal corporations) was 18.1% of the total funds devolved by the state government. The 13th Finance Commission suggested that the Goods and Services Tax (GST) was well suited for direct allocation to local governments. In the subsequent GST rollout, no such allocation was made. This is despite the fact that the GST replaced the octroi, which formed a significant part of city revenues.

Recommendations

As cities drive tax revenues through their growth, it becomes necessary that the governing bodies overseeing cities receive a substantial slice of the revenue pie. Higher levels of government, particularly state governments, must recognise the need to devolve more money and expertise to their growth centres. In the United Kingdom, the central government continues to fund the bulk of urban services, with well over 50% of London's spend coming from central government grants (Sankhe et al., 2010). South African cities depend equally on their own revenue and central government grants. To achieve this in India, mechanisms for devolving untied grants to urban local bodies should be strengthened. This involves adhering to the recommendations of the State Finance Commissions, and synchronising the tenure of the Central Finance Commission and State Finance Commissions.

In addition, local bodies must increase their ability to generate their own revenue through different financing mechanisms. Property taxes should be reformed through broadening the base, improving assessment and land records through use of technology. The Bruhat Bengaluru Mahanagar Palike (BBMP) undertook a series of reforms that included using Geographical Information Systems (GIS) to map all properties, setting up a Self Assessment System for assessment of property values, spreading awareness of the system, and instituting random checks and strong enforcement mechanisms (Ahluwalia, 2014). Bengaluru's property tax reform is worth studying in detail and replicating across municipal corporations in the country.

For improving user charges collections, the rates need to be rationalised. Local bodies need to improve service delivery so citizens see the benefit in paying for services. This will further enable them to rationalise user costs. The centre has

attempted to resolve this challenge. The Atal Mission for Rejuvenation and Urban Transformation urged local bodies to rationalise their water tariffs and incentivised additional financing, contingent on improvements in levying and collection of user charges. Rationalising user charges will also curb overuse of resources like water. With stable revenue streams, municipalities will find that there are many lenders willing to finance infrastructure development over the long term.

Municipal bonds should be used to raise capital for projects. For municipal bodies to appeal to investors, they need to have a predictable stream of internal revenue. Transparent auditing will also help them achieve an attractive credit rating and ring fence their debt servicing. Finally, ULBs will have to deliver on the projects they have financed through bonds. The Pune Municipal Corporation is a case in point. It issued the first municipal bond in 14 years and raised a first tranche of Rs. 200 crores (of a total Rs. 2,264 crores) at a coupon rate of 7.59% for a water-metering project. The project has not taken off due to issues with tendering and capacity. The money has now been parked in a fixed deposit at the rate of 5%–6%, which is less than the interest it needs to pay on the bond issue.

Conclusion

The needs of India's cities are manifold and policy solutions can take the form of a number of alternatives. This urban agenda highlights some of the key reforms that will unleash the growth potential of cities and have far-reaching impacts on urban quality of life.

The checklist presented here is not exhaustive. For instance, we do not address reforms required for providing soft infrastructure, which includes vibrant local culture, libraries, museums, theatres, restaurants, and entertainment, and enriches city life.

Some of the reforms presented can be implemented relatively quickly since they are fairly easy to execute. Others may require a significant rethink and bringing about a change in incentives. These are more likely to succeed over the medium or long term. Therefore, sequencing reforms over the short, medium, and long term will be useful.

Finally, it is critical to recognise the natural and strong complementarities that exist across reforms. For instance, in order to get planning right, having high capacity within ULBs is critical. Reforms that focus on addressing issues without paying heed to the structural aspects that may be causing them are unlikely to succeed. Therefore, policy making and the reform process must become holistic, cross disciplinary, and multi-sectoral.

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