A Glass Half Full? Urban Development (1990s to 2010)

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The Jawaharlal Nehru National Urban Renewal Mission adopted a reform-linked funding approach, the culmination of two decades of active debate and experimentation in the urban development sector. Yet, progress of both fund utilisation and reforms under the programme has been tardy. As a second phase of the mission is planned, the three major themes of importance are decentralisation, especially in the fiscal arena, commercial financing of infrastructure projects, and service delivery to the urban poor.

The year 2005 marked a major change in urban policy and financing in India through the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The entire allocation of Rs 50,000 crore is fully committed. With talk of a second phase of JNNURM with additional funding requests to the World Bank and to the Government of India totalling up to Rs 1,00,000 crore, it is imperative that we look at the need for deepening of reforms under JNNURM.

Urban development had not received serious attention and funding until the launch of JNNURM. With JNNURM, urban development has become a significant part of the government agenda. The prime minister’s Independence day speech for 2006 highlighted this emphasis (Singh 2006):

“Our cities need to have a new look for which they need massive investment and renewal. They need basic amenities like sanitation, drinking water and proper housing for the poor... In order to ensure that our cities have better infrastructure and that they have better living conditions, we launched the Jawaharlal Nehru National Urban Renewal Mission... I see a glorious decade of city development ahead of us.

JNNURM has adopted a reform-linked funding approach. This approach represented a culmination of two decades of active debate and experimentation in the urban development sector in India. JNNURM has provided a platform to bring together bits and pieces of reforms and innovation under one umbrella of a mandatory reform agenda. Though it has been argued in some quarters that the items under the reform agenda of JNNURM were low-hanging fruits, if implemented fully as envisaged and committed by the state governments and urban local bodies (ULBs), these will indeed change the way in which urban local governments (ULGs) function – by adding transparency and accountability, increasing financial viability and introducing a focus on improving the lives of urban poor.

However, as the newspaper reports about a mid-term appraisal of JNNURM by the Planning Commission suggest, progress of both fund utilisation and reforms has been tardy. One has to remember the challenges in meeting JNNURM goals that the prime minister had highlighted in his 2006 speech (Singh 2006): first, “to improve the way (local) governments function and deliver public services”; and second, to ensure that “the higher financial outlays translate into better outcomes”.

The experience of the past five years suggests that many states and cities in India lack the capacity to implement projects and for those that have implemented JNNURM successfully, the focus has been on infrastructure rather than on improved service delivery. This is unfortunate. Various efforts initiated during the past two decades provide some guidance on capitalising on the reform process initiated under the JNNURM to strengthen basic governance and institutional arrangements for service delivery.

Three major themes of importance are decentralisation, commercial financing, and service delivery. In each, despite the positive energy brought by the JNNURM, a number of issues remain. In the story of urban development in India, the proverbial glass is still half full. For each theme, a few critical measures are needed to lead to a “glorious decade of city development” that the prime minister alludes to.

1 74th CAA and Decentralisation
After 45 years of independence, local governments received constitutional recognition in 1992 with the enactment of the 74th Constitutional Amendment Act (CAA). With the 74th CAA, a new era of urban governance began, assuring fixed tenure to democratically elected local governments along with reservation of seats for women. The CAA also provided for transfer of several functions to ULGs, establishment of ward committees (WCs), district planning committees (DPSCs), and metropolitan planning committees (MPSCs).

On the question of strengthening municipal finances, the CAA made provision for setting up state finance commissions...
Thus, despite the political and partial functional decentralisation in the wake of 74th CAA, fiscal decentralisation has a long way to go.

Limited fiscal decentralisation is further hampered by the “rich cities-poor city governments” phenomenon. Cities in India are described as engines of economic growth contributing to over 60% of the GDP. Yet, the total revenue expenditure of all ULBs in the country is less than 1% of GDP. The poor state of ULG finances in India is due to the fact that they do not have any revenue source linked to the buoyancy of the local economy. Property tax, the mainstay of ULGs around the world, is also constrained. Revision of property tax assessments is done once in four years, and has no direct relation to the market price of properties, despite the recent shift to the unit area basis of valuation. In a few states, property tax on residential property was abolished (Mathur et al 2009).

In addition, pricing of services such as water remains delinked from the cost of service provision, despite being a requirement under the JNNURM. Thus, despite decentralisation and some move towards functional decentralisation, ULG dependence on, and therefore control by, the state and national governments has increased in recent years.

2 A Paradigm Shift

Backed by economic liberalisation in India, the 1990s also marked a major shift in policy perceptions of commercial financing of urban infrastructure. A number of firsts in commercial financing of urban infrastructure can be traced over the past four decades. In 1995, a national workshop on municipal bonds for accessing capital markets for urban infrastructure (Community Consulting International 2004). After a few municipal bond issues during the first half of this decade, activity has almost ceased with the last major issue in 2005, which coincided with the start of the JNNURM. This suggests a possible crowding out of the commercial financing of urban infrastructure.

In a similar vein, there have been few success stories for PPPs in mobilising commercial resources in urban infrastructure over the past decade. An early review of PPPs in water and sanitation (Mehta 1999) identified initiatives in new capacity augmentation and in operations and delivery of services through contracting and concessions. However, most, except the smaller service contracts, had failed to take off. As Mehta (1999: 8) notes, “[t]here is a conspicuous lack of emphasis
on distribution and improvements in operational systems, with an undue emphasis on new source development and system expansion\(^6\).

In the past decade, only a few bulk water supply projects have been implemented with private investment. More recent attempts to open up are yet to see any significant measure of success. Under JNNURM, significant investments have been made for water supply and sanitation.\(^6\) However, despite intentions to promote PPPs, there are hardly any PPPs in urban infrastructure funded under the JNNURM.

No systematic assessments of the reasons for the slow uptake of commercial finance for urban infrastructure are available. However, three explanations are plausible. First, it is likely that availability of JNNURM funds has crowded out commercial borrowing by ULBs. An analysis of the distribution of JNNURM funds shows that eight ULBs with rating of ‘A’ and above have received over 50% of the central funds for urban infrastructure (Pradhan 2008). These ULBs possibly had the potential to tap the capital market for funds. However, given the relative ease with which JNNURM funds are made available, ULBs in India have not bothered to tap commercial finance sources.

The second reason is linked to inherent weaknesses in ULBs that affect their creditworthiness. ULBs in general do not recover even the operational costs of their services. There is a weak regulatory framework that makes it difficult to minimise risks.

A third reason is the lack of capacity at the municipal level for developing and implementing PPPs. This arises from the fact that urban services have a fractured mandate, with different bodies responsible for key infrastructure services including water, sanitation, power, transport, and solid waste. This makes coordination difficult and weakens overall capacities. ULBs do not have the capacity to manage the entire activity cycle. The capacity building efforts pursued under the JNNURM are useful in sensitising ULBs on reform-related aspects, but probably are not adequate for building ULB capacity in managing PPP project design and implementation.

### 3 From Building Infrastructure to Delivery of Urban Services

The emphasis on urban infrastructure under the JNNURM has come with a paradigm of reforms linked to service delivery. However, with a focus on project financing under JNNURM, it is not clear whether higher investment in urban infrastructure has translated into better urban services.

Access to higher levels of service, i.e., house-level connections has actually worsened in India from 52% of households in 1990 to 48% of households in 2008. For sanitation, access to safe basic sanitation continues to stagnate at 54% in 2008. Another 21% of households have access only to shared facilities. An estimated 18% of urban population resorts to open defection (Joint Monitoring Programme for Water Supply and Sanitation (JMP) 2010).\(^7\) Indian cities compare poorly with cities in south-east Asia and Africa on delivery of services in terms of hours and reliability of supply, as well as financial sustainability.\(^8\) Thus, using infrastructure creation under JNNURM for delivery of good quality services remains a key issue. To address these issues, further deepening of reform measures will be required under the next phase of JNNURM. Mere listing of reforms may not be enough and it may require institutional reforms and a clear focus on services for the poor.

The JNNURM has introduced a new layer of upward accountability for both state and local governments through its reform agenda. Specific institutions have been tasked to monitor reforms along with third-party validation by independent institutions. However, a number of states and cities have probably not carried out the mandatory reforms. It is difficult to effectively track progress on reforms since the information base on reform performance at the local level is very poor. A recent central government initiative to develop standardised service-level benchmarks (SSLB) for key services is a step in the right direction, but it is currently implemented on a pilot basis only in a few cities across the country. Another positive aspect is the recognition of the SSLB by the 13th CPC for performance-based grants to ULGs. This requires state-wide application of these benchmarks.\(^9\)

JNNURM has also promoted downward accountability of ULBs towards residents. For example, e-governance practised in many ULBs allows citizen grievances to be recorded and tracked. With a unit area based property tax assessment system, ULB residents can compute their own

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**Appan Menon Memorial Award for 2010-2011**

Appan Menon was a journalist who began as an agency reporter and worked in the print and finally television in its early years. Anchoring the popular weekly programme called *The World This Week* for NDTV he followed International news and reports through an Indian perspective. Before joining NDTV, Appan had worked for *The Hindu*, *Frontline*, The Press Trust of India and United News of India. He had also spent some time covering the United Nations HQ for Inter Press Service. The AMMT was established by his friends in 1996 soon after his untimely death on 28 June 1996.

- The Trust proposes to award a grant of Rs 1 lakh every year to professional journalists working in the area of World Affairs or Development news with an Indian perspective. Journalists from any media with 3-5 years experience can apply by submitting the following.
  - A brief proposal (1000 words) stating in brief the area, issues and your particular interest.
  - A brief account of the proposed use of the grant and the time frame.
  - Curriculum vitae and one letter of reference.
  - Samples of recent work

The selection of the proposal to be awarded for this year will be by an eminent jury. The grant will be made in September 2010.

Applications should reach the address below by **August 30, 2010**

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taxes and pay them online. These initiatives have helped in improving citizen interaction. However, many states and cities have paid only lip-service to public disclosure and community participation laws, which are mandatory under JNNURM. To strengthen downstream accountability further, several other tools will need to be added to the ULGs’ repertoire.10

Globally, there is an emerging consensus about the need for operational independence of service providers. In the case of urban water, these are mostly autonomous but government-owned public utilities. Their operational autonomy has helped them use various measures for improved performance. For example, the National Water and Sewerage Corporation (nwscc) in Uganda has introduced institutional structures for internal, delegated management contracts that provide incentives to its own staff (Baietti et al 2006). Similarly, in the Phnom Penh Water Supply Authority in Cambodia, the general manager has full freedom for staff recruitment and for providing staff incentives based on performance (Asian Development Bank (ADB) 2004).

In India, only a few cities have independent utilities for water and sanitation, for instance, Bangalore, Chennai, and Hyderabad. However, these utilities lack the operational autonomy enjoyed by similar entities in other countries in Africa and Asia. In future rounds of the JNNURM, the water sector needs to focus on institutional reforms that can provide greater operational autonomy and internal incentives for improved performance.

In 2006, only 19% of the urban poor had house-level water connections as compared to 62% of the non-poor. For sanitation, 47% of the poor had access to sanitary toilet facilities as compared to over 96% access of the non-poor (uhrsc 2008). A key problem in providing house-level connections to the poor relate to the policy stance of the state government in question. In many states, a cut-off date is used to grant provisional tenure to slum-dwellers of basic water and sanitation services. Other states provide services only to notified slums. Other states receive municipal services. Other states used to grant provisional tenure to slum-dwellers of basic water and sanitation services. Other states question. In many states, a cut-off date is used to grant provisional tenure to slum-dwellers of basic water and sanitation services.

4 Conclusions

While significant progress has been made in terms of infusion of capital investments into urban infrastructure through JNNURM, it has not always translated into better services, especially for the poor. Cities in India have become more, rather than less dependent on state and national governments. The urban reform agenda has moved forward on many fronts, yet hard decisions about the financial sustainability of urban services are not taken.

While many Indian cities want to be “world-class”, a statement common to many city development plans (cdps) prepared for JNNURM funding, they have a long way to go. The glass is indeed half full. Several new initiatives and measures that are already underway will indeed yield some results. However, for ensuring better service delivery in our cities, a second round of reforms for stronger governance, accountability with operational autonomy and regular performance assessments are needed.

NOTEs

2 Mathur et al (2009)5 note that: “Notwithstanding the JNNURM, two states, namely, Haryana and Rajasthan have abolished property taxation, while nearly two-thirds of properties are outside of the purview of property taxation in Punjab”.
3 The national workshop on municipal bonds organised under the Indo-United States Agency for International Development (USAID) Financial Institutions Reform and Expansion (FIRE) over 4-5 December 1995 in Bangalore (Community Consulting International 1996).
4 For ULGs where this information was available, we estimate that the average value of the total bond issuance in current prices was less than 1% of the annual capital investment required at per the CDPs they prepared for the JNNURM. Our analysis is based on Vaidya and Vaidya (2008) and city CDPs, accessed during October–November 2009, at: http://jnnurm.nic.in/nurmudweb/missioncities.htm.
5 The only exception probably is a Rs 30 crore bond issue by the Nagpur Municipal Corporation in 2007.
6 Water supply, sewerage and storm-water projects account for over 75% of total funds sanctioned for projects under JNNURM, Accessed 27 November 2009, http://jnnurm.nic.in/nurmudweb/Project/sector.pdf
8 Based on performance reported for 20 utilities in India (ADB and Ministry of Urban Development 2007) and 40 utilities in south-east Asia by South-east Asian Water Utilities Network (SEAWUN) and ADB (2007).
9 Lessons from CEPT University’s Performance Assessment System (PAS) project in Gujarat and Maharashtra will be useful for this purpose. Under this project, state-wide performance assessment systems are being developed for all 400 cities in Gujarat and Maharashtra through a five-year action research project, http://opcept.ac.in/pas_project.asp?pg=pas&ub=pas.
10 See, for example, Muller et al (2008) for discussion of such tools and their appropriate use.

REFERENCES