

## **REJUVENATING MUNICIPALITIES IN INDIA FOR ECONOMIC GROWTH & SWACHH BHARAT**

The single most important focus of policy interventions to achieve the twin objective of higher economic growth and “Swachh Bharat” should undoubtedly be rejuvenation of about 4,000 municipalities/ urban local bodies (ULBs) in India. For Swachh Bharat to be achieved, all ULBs in small and big cities and towns need to deliver civic services much more effectively and efficiently. The quality of life in Towns/ Cities is largely dependent upon efficient and effective working of Urban Local Bodies (ULBs), who are mandated to provide civic services to its citizens. This important role to ULBs is assigned as per the Constitution (74<sup>th</sup> Amendment) Act, 1992. The Twelfth Schedule of this Amendment lists 18 functions for Local Government which includes solid waste management besides water supply for domestic and non-domestic use, public health, sanitation, conservancy, provision of urban amenities and facilities like parks, gardens and playgrounds etc. which all impacts quality of lives in cities. However, citizens in almost all cities and towns in India find the civic services woefully inadequate and of poor quality.

India today desperately needs, as a matter of utmost priority, “functioning cities and towns”. This is because quality of lives in most of our cities have deteriorated to unacceptable levels due to prolonged and persistent poor governance.

The state of service delivery as per key service indicators is abysmally poor. The problem of lack of systematic sanitation facility is much worse in urban areas than in rural areas. The first national sanitation survey carried out a few years back in 423 class-1 cities show that 189 (45%) were in the lowest “red” category, 230 were the next worst category and only 4 were in next to top “blue” category, while there were none in “green” top category. Heaps of uncollected garbage with stray animals feeding on same is a familiar deplorable sight in almost all of our cities/towns. The indifference and apathy of city officials in handling bio-medical and hazardous wastes with potential health hazards of epidemic dimensions is another indicator of decay of governance of our cities. As per 2011 census, 71.2 % of urban population is covered by individual water connection, compared with 91% in China, 86% in South Africa and 80% in Brazil. Only 70% of the population of class I cities are provided with sewerage facility where sewerage system is either open or closed or piped. Almost 50% of households in cities like Bangalore and Hyderabad do not have a sewerage connection. Even a partial sewage network is absent in several cities and towns in India. Census 2011 revealed that about 37% of urban households are connected with open drainage and another 18 % are not connected at all. Less than 20% of road network in cities is covered by storm water drains. As per report of Central Pollution Control Board (CPCB) 2009, only about 20% sewage and effluents was treated by cities /towns before its discharge to rivers and sea and lakes.

### **Urbanization and Economic Growth**

India’s Census 2011 shows that one in every three lives in an urban habitat. 31.2% of the total population lives in urban centers compared to 27.8% in 2001 and 25.5% in 1991. Of the 1.21 billion population, 833 million living in rural India while 377 million reside in urban India. The number of towns in the country rose 53.74% to 7,935 in the last decade, as per 2011 census. According to WEF, the country’s urban population is forecast to almost double to 814 million between 2014 and 2050.

It has been empirically established that there is high degree of positive relationship between level of urbanization and “Per Capita Gross State Domestic Product” (PCGSDP). States/UT with higher urbanization level e.g. Chandigarh ( 97.25%) , Delhi (97.5%) and Puducherry ( 68.31%), ranked 1 to 3

respectively as regards Urbanization have also higher PCGSDP of Rs. 118,136, Rs. 116,886 and Rs. 88158 respectively. Conversely, Bihar with lowest urbanization level of 11.3 % is ranked 30 and has the lowest PCGSDP of Rs. 16,715 (FY 2009-10) with rank of 31. States with higher gross domestic product have higher levels of population living in urban areas e.g. Gujarat, Maharashtra, Tamil Nadu & Karnataka, while lesser urbanized states like Bihar, Orissa and Uttar Pradesh have comparatively much lower PCGSDP.

As per a report by Barclays Equity Research, Urban areas have been driving Gross Domestic Product (GDP) growth in India. Share of GDP produced from urban regions from India is 63%, compared to China (78%), Latin America (76%), Western Europe (65%) and USA (84%). Urban India is likely to contribute three-fourths of GDP by 2020. According to Director of Indian Institute for Human Settlement, India's 100 biggest cities with 16% of its total population contribute 43% of its national income. Further, over 60 per cent of India's economic growth and 90 per cent of government revenues in recent decades are attributed to urban areas. As per survey by McKinsey Global Institute (MGI), turning around cities and releasing their dynamism will be critical to India's future economic growth. *According to MGI, urban economy will provide 85 percent of total tax revenue, which will finance development nationwide and some 200 million rural people who live in proximity of India's largest 70 cities will directly benefit.*

The rate of poverty reduction in urban areas in India has also been considerably higher than in rural areas. Effective urban centers, therefore, play a significant role in economic growth and poverty reduction by providing the nuclei for greater economic activity and services that can also contribute to pro-poor development.

The above statement of facts emphasis the need to revive management and governance of cities in India through focused interventions by Central Government and more importantly by each State/Union Territory (UT).

## **Challenges**

ULBs in India, regardless of their political affiliations, are constrained for funds, human resources and technology and are inhibited with serious institutional deficiencies resulting in poor governance. ULBs, therefore, needs to be rejuvenated and supported through a practical and realistic time-bound action plan to address the following challenges faced by them:-

### **1. Human Capital Deficiency**

This is the single most important reason for poorly functioning cities in our country. Almost all cities and towns have not only inadequate staffing but also are highly deficient as regards their technical capacity to govern the cities. As per Political & Economic Risk Consultancy, Hong Kong , 2012, India's bureaucracy was ranked worst in Asia in 2012 ; India scored 9.21 out of 10 ( worst possible score) while Singapore scored 2.25 out of 10. Unfortunately, quality of bureaucracy in Local Government in India stands much lower than its counterpart at center and states. The poor quality of bureaucracy at local government level also explains the pathetic quality of civic services in 7,935 census cities and towns including about 4,000 Municipalities in India.

According to the findings reported of an annual survey of cities in the year 2014 by Janaagraha, a non-profit organization, Bangalore is served by only 0.1% of the technical workforce that New York City has, while both cities have almost same population. As per an another survey by Janaagraha, Indian cities lack

resources to cope with rapid urbanization. The survey covered 21 Indian cities on four parameters: urban capacities and resources; urban planning and design; transparency, accountability and participation; and empowered and legitimate political representation. Indian cities had an overall score ranging from 2.5 to 4 as compared to 9.6 for London and 9.3 for New York. The survey remarked that new urban development process in the country needs to stand on three pillars-Spatial Planning, Improved urban capacities, both in terms of human and finance, and planning. All the three pillars needs to be anchored strongly and strengthened in almost all ULBs in the country.

Most of ULBs lack staff skilled in the area of spatial planning, project management, PPP, procurement, GIS, E-governance, ITC, energy audits, revenue administration, effective financial management and accountability, management of Solid, bio-medical, Liquid ,E-waste & hazardous wastes, delivery of other mandated civic services, engagement with public etc. Staff needs to be trained in all these areas and also on relevant enactments, rules and regulations applicable to ULBs and also how to engage public in its programs for achieving better results. While several ULBs have been found to be having ghost workers, several regular employees are not found physically present serving in their designated field posts. Even the inadequate staff assigned to ULBs is often deployed by District Magistrate covering the ULBs for the various jobs assigned to them by Centre and/or state government. Tenure of Chief Municipal Officers (Commissioners /Executive Officers) is not fixed and these are often transferred frequently through political interference. There is still no dedicated municipal cadre trained in urban management and no performance management systems operating in most of states/UTs.

It is, therefore, imperative that human capital deficiency experienced by all ULBs are addressed comprehensively by states. A separate Municipal Cadre needs to be created and implemented by all ULBs immediately with fixed tenure for Chief Executive Officers of ULBs. All ULBs should be headed by officials who are trained in effective urban management and should be made responsible and accountable for bringing out significant improvements in urban services including clean cities.

## **2. Waste Management**

ULBs in India need to manage daily as much as estimated 1,80,000 MT of garbage in the country, with only one-fifth of its being treated. Most of ULBs do not have technical as well as financial capacities to manage wastes in their respective constituencies. ULBs need to manage professionally the solid waste, liquid (sewage, waste water), construction & demolition wastes, bio-medical wastes and E-Wastes. ULBs are also expected to ensure that all polluters including those engaged in tanneries business ensure that all effluents are treated as prescribed and then only discharged into water bodies. Most of ULBs are quite oblivious of Environment (Protection) Act, 1986 and several rules framed by central Government covering Municipal Solid Wastes, Hazardous wastes and Bio-medical wastes. Under Rule 4 (4) of Municipal Solid Waste (Management and Handling) Rules, 2000, ULBs are expected to file an Annual report in Form II with Urban Development Department and State Pollution Board, which most of ULBs fail to follow. Further, while Section 15 of environment Protection Act, 1986 provides for severe penalty including imprisonment up to 5 years for contraventions to provisions of the said Act and Rules, Orders and Directions under it, but cases of such penal action taken are hard to find. The apathy and indifference and abject failure of their respective mandated functions by respective State's Pollution Board to take ULBs to task for non-compliance is an another story of poor governance. Only handful of ULBs in the county have made regulations or by-laws in respect of management of wastes including those relating to slaughter houses, provision of bins by business entities including eating places, segregation of household wastes, levy of

service charges and penalties and restrictions to applicable polluters and recovery and penal actions for non-compliances.

Because of last six decades of indifference and poor governance of urban local bodies, almost all of our rivers and cities have become unacceptably dirty and polluted that India needs to embark on mission mode national programs like Swachh Bharat and Clean Ganges. Recent notices to 118 ULBs in Uttarakhand, UP, Bihar, Jharkhand and West Bengal and Industries in these cities by National Mission of Clean Ganga highlights that the ULBs have failed to meet their mandated civic services in the recent past. Similarly, ULBs in Haryana, Delhi and UP have failed in the past under “Yamuna Action Plan” to ensure effective functioning of STPs due to their poor financial, technical and human resources constraints. Besides, River Ganges and Yamuna, other rivers and water bodies in India have also deteriorated due to ineffective functioning of ULBs. It is the exclusive responsibility and accountability of ULBs to implement best practices with respect to waste management, implement and enforce various Waste (Management & Handling) Rules, frame necessary rules and regulations. However, almost all ULBs have failed to perform this responsibility effectively.

India needs to seek effective technical solutions for waste management with zero waste cities ( zero or almost zero waste to landfills) either through recycling/composting and /or Incineration ( for electricity generation or heating of buildings) as achieved by Germany , Netherlands & Austria ( Source: “Sustainable Waste management Ladder”, Earth Engineering Centre, Columbia University, based on Eurostat 2008 data). The solutions and practices deployed in these countries may be examined by experts and, if used, are likely to mitigate demands on scarce and expensive land required for land-fills.

### **3. Municipal Finances**

Municipal Finances in India have been historically in poor state and this position stands substantiated by the municipal finance data as per 13<sup>th</sup> Finance Commission. It shows that the annual Per Capita aggregate revenue and expenditure of municipalities amounted to Rs. 1,430 and Rs. 1,513 respectively in 2007-08. The revenue consisted of the revenue raised by municipalities themselves (53%) and rest being devolution and grants in aid from State Governments, Central Government Transfers and the Finance Commission Grants. The annual per capita revenue and capital expenditure is Rs. 915 and Rs. 598 respectively. Local Government in India including all ULBs and Panchayats is responsible for just 7.11% of the Government spending. According to the High Powered Expert Committee (HPEC), chaired by Dr. Isher Ahluwalia appointed by Government of India, Rs. 19.9 Lakh crores was estimated towards operation and maintenance over 20 year period for 8 core sectors by all ULBs. It also suggested that ULBS in India actually spend about 27-28 % of what they need for efficient delivery and management of services.

Urban local finance registers only a small presence in the overall public finance in India, which is actually declining. The total municipal revenue in India accounts for about 0.94 per cent of the country’s GDP as against a figure of 4.5% for Poland, 5 % for Brazil and 6% for South Africa. There is an extremely large variation in the level of municipal revenues across states, with annual per capita municipal revenue for 2007-08 ranging from Rs. 3,417 in Maharashtra to Rs. 374 in Assam and to approx. Rs. 195 in Bihar for 2013-14. Property Tax is the main source of revenue for ULBs from own sources. Yet, revenue is very poorly administered and executed by ULBs. As per 13<sup>th</sup> FC report, with Coverage and Collection efficiency ratio of 85%, collections from annual Property Tax has the potential to reach Rs. 22,000 crores (0.52% ) to Rs. 33,000 crores (0.79 %) of GDP.

Despite the constitutional amendment of 1992, local governments (rural Panchayats and urban local bodies) have remained marginal players in India's fiscal system. The revenue collected by local governments, as per 13<sup>th</sup> FC data, account for a mere 2.5% of the country's total revenue pool. This is in contrast to the situation obtaining in advanced countries, where local bodies normally account for 20-35% of the total government expenditure and the principle of "Subsidiarity" is regarded a cornerstone of fiscal federalism. In USA, the total revenue share of local Government for 2013 was as much as US\$1,100 billion (20%) out of total revenue of US\$5,500 billion.

Because of poor financial position, several ULBs in India are not able to pay even the salary and pension benefits to their already inadequate number of staff on timely basis. Now with impact of 7<sup>th</sup> Pay Commission for which benefits shall accrue from January 2016, financial position of ULBs is likely to become more dismal.

#### **4. Poor urban Infrastructure and its financing**

If per capita Income is to be improved significantly in each State and meet its goal regarding poverty reduction, cities in each state must become more livable and attractive for investments from all segments opening vista of new opportunities for gainful employment to more and more citizens in organized as well larger non-organized sectors. However, this can be achieved only if huge amount of investments are made towards urban infrastructure and services in all cities and towns in each State/UT of India.

For the development of urban infrastructure, estimates start from Rs. 39.2 Lakh Cr. at 2009-10 prices over 20 year period for core 8 civic services as per High Powered Expert Committee (HPEC), chaired by Dr. Isher Ahluwalia appointed by Government of India to Rs. 53 lakh Cr. (Source: McKinsey). India needs more than \$640 billion investments between 2012 to 2031 to deliver basic infrastructure for the country's growing urban population (Source: World Economic Forum). The Smart City program introduced by the Centre has envisaged infrastructure spending to the tune of Rs. 7 lakh crore over the next 20 years (i.e. Rs. 35,000 Cr. each year).

While urbanization is widely regarded as harbinger of economic growth, public investment in the urban sector has remained neglected in India. This neglect has now created huge infrastructure challenge of having to cater both for the new population and the backlog of the past. Further, because of appallingly poor governance and financial position of ULBs, private sector has stayed away from investment in the urban infrastructure sector.

Most of funding requirements for massive requisite urban infrastructure can possibly be met through mobilization from internal sources by ULBs, monetization of available land already with ULBs and through issuance of Tax-free Municipal Bonds. Since 1997, several ULBs and utility organizations in India have issued municipal bonds and have mobilized only about Rs.1, 200 crores through taxable bonds, tax-free bonds and pooled financing scheme. However, after 2010, no municipal bonds were issued and the market has been effectively dead due to low ratings, reluctant investors and unclear regulation. But the GOI is now making every effort to revive municipal bond market to meet the mounting funding requirements of rapid urbanization. In this context, SEBI has issued draft disclosure and regulatory requirements for issuance and listing of Municipal Bonds. Recent CARE estimates suggest that a potential of Rs. 1000 to Rs. 1,500 crores per annum could be raised through Municipal Bonds over next 5 years, assuming that larger municipalities with good credit rating (Investment Grade) could be the ones to access Bond Market. The scope for funding from Municipal Bonds is enormous as In USA, the value of such tradeable securities is extremely large and in 2011, it was estimated at \$3.7 trillion. However, funds from

Municipal Bonds is not feasible unless and until paradigm improvement in governance of ULBs is achieved with significant improvement in credit ratings and financial position of ULBs. Funding from external sources shall only be possible with consistent track record of growth of revenue from own sources and efficient management of ULBs.

## **5. Vacuum in Accountability**

Elected representatives and officials of each municipality are accountable for providing civic services and meet at least the minimum service delivery benchmarks. But most ULBs in India except rare few have been successful in respect of meeting minimum service benchmarks.

Unfortunately, most of elected representatives have political affiliations and political interference is frequently resorted to in the day-to-day affairs of the cities. It is sad that educated and technical savvy youth do not find it attractive to involve and represent themselves in municipal councils towards betterment of their own city. Though, as per Constitutional amendment, there is mandated minimum 33% representation for Women but in most of ULBs the women councilors are for namesake only and the power and authority vested in Women councilors is exercised mostly by their husbands, many of whom have business interests. Moreover, due to lack of role clarity, there is often conflict between Chief Municipal Officer and Chief Councilor, resulting in interference in former's day-to-day affairs and the non-implementation of projects involving capital outlays.

Financial management at most of ULBs leaves much desired. In this context, following extract from recent 14<sup>th</sup> Finance Commission is relevant:

“We are of the opinion that proper accounts are the starting point for financial accountability. Non-maintenance or delayed compilation of annual accounts means compromised accountability. It also implies that reliable financial data for determining the need for resources for local bodies is not available. We observe that it has been more than twenty years that municipalities and panchayats were sought to be empowered, through a Constitutional amendment, to act as institutions of local self-governance and also to provide certain basic services to citizens. It is inconceivable, and certainly not desirable, that local bodies seek an ever increasing share of public moneys and yet continue to keep themselves beyond the ambit of accountability and responsibility for the public money placed with them.”

Most of ULBs in the country are not using Accrual based Double entry Accounting System (DEAS) and are not managing effectively their Assets and Liabilities. Internal audit is not used by most of ULBs as a tool to improve existing processes and improve deficiencies in accountability systems for timely remedial corrections. Generally, neither Empowered Standing Committee of ULBs nor State's Urban Development department take prompt corrective action on reports from internal and/or external audits. Use of E-governance, which is effective in mitigating corruption and discretion by staff for personal benefits is being used in only handful of ULBs.

Outcome Budgeting and public participation is not practiced at almost all ULBs. Assessment and collection of Property Tax and other dues from citizens using internet and mobile technology is deployed only by handful of ULBs in the country. Financial Information including details of all procurements, tenders, budgets with financial outlays and outputs and actual periodic or annual financial reports are not readily available to citizens through city's website and/or other media sources.

Even though Model Municipal Law was made available by Ministry of Urban Development, GoI to all states in 2003, Municipal Vigilance Authority are still not operational and functional in most of states/UT. In the

meanwhile, almost all ULBs have become dens of corrupt practices not only by some staff and officers but also by few elected representatives. Some essential services like Mutation Certificate are still not provided to citizens under Right to Service Act in States and citizens are harassed through undue delays and favors are asked by staff without which certificates are not given.

*There is also lack of political will to enforce various applicable enactments, rules and regulations by elected representatives and officials of the ULB, resulting in poor services and finances of ULBs.*

## **6. Public Engagement and participation**

Residents in cities are generally not willing to pay Property tax and for User charges for various mandated services by ULBs. Presently, Municipalities in India are receiving property tax from its citizens on the average of about Rest. 2 per day for large number of mandated civic services which is even less than the daily cost of a newspaper. The total collections from Property tax by three municipal Corporations in Delhi was merely Rs. 996 crores for 2013 from about 50 lakh properties as per study by a Geospatial company and much larger number of potential assesses. This works out to Property Tax of only Rs. 2,000 per Building and average annual Per Capita Property Tax in Delhi works out to measly Rs. 553. As such, Delhites with annual Per capita Income of Rs. 2, 11,817 are paying only less than Rs. 1.50 per day towards Property Tax. In Bihar, average Per Capita Property Tax collection from 141 ULBs is estimated to be as a low as 27 Paise per day ( 2013-14). With limited devolution of funds to ULBs through respective State and Central Government, all stakeholders and especially elected representatives and citizens needs to realize the fact that cities and towns have to be financed mostly by beneficiaries only through Property Tax and User charges for improvement in mandated civic services. Public, therefore, besides seeking accountability from ULBs, should contribute readily for services they expect from ULBs.

Unlike in Delhi & few other cities, RWAs are generally not formed and active in most of states. Public participation to incorporate citizens' priorities in allocation of resources is hardly practiced by ULBs across the country. No survey is done before or after annual budget exercise for feedback from citizens about their satisfaction level in respect of civic services by the ULB and their priorities. Except in very few cities like Bangalore, participation from NGOs to demand accountability and transparency and effective services from ULBs is sadly scanty and needs much more aggressive efforts.

## **7. Lack of Support from States**

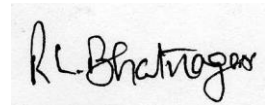
It is important to understand that Constitution of India has put onus of urban management to city governments, which are most near to city dwellers. The responsibility for governing cities lies with elected local representatives and officials assigned to ULBs by respective state Governments. However, Central and State Government should support City Governments through positive policies and financial support.

The 12<sup>th</sup> Schedule in the Constitution introduced in the year 1992 via 74<sup>th</sup> Amendment also envisages that functions like 'safeguarding the interest of weaker sections of society, including the handicapped and mentally retarded', "slum improvement and up gradation" and "urban poverty alleviation" belong to the legitimate functional domain of ULBs. *However, no commensurate resources have been allocated to ULBs to enable them discharge these functions.* Many areas of revenue generation such as land and town planning etc. are still not assigned to municipal governments in most states. ULBs are also constrained by some States not to augment their income from internal sources through increase in rates for Property Tax and other taxes and charges.

Secondly, municipal bodies do not receive adequate amount of fiscal transfers from states through their State Finance Commissions. *While several functions as per 12<sup>th</sup> Schedule are not transferred to ULBs on the pretext that ULBs do not have capacities to perform them, almost all states generally have not taken sufficient steps on proactive basis to capacitate ULBs.*

Centre and States should not only allocate much higher outlays for creating/upgrading new and existing urban infrastructure but also empower urban local bodies through policy reforms for strengthening their human and financial capacities for efficient and effective delivery of civic services and making cities and towns livable and attractive for investments and economic growth. Pay back from such policy support and investments in urban infrastructure shall be through accelerated economic growth, enhanced traffic of national (including to all pilgrimage towns) and international tourists and enhanced taxes to States/UTs.

In this era of emerging competitive federalism in India, it is obvious that the State governments/UTs, who shall be successful in bringing about effective governance in their cities and towns, shall be the ones, which shall not only achieve increased revenues from higher economic growth but shall also achieve clean and livable urban spaces and water bodies, satisfied citizens and reduced level of poverty and unemployment.



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