

Chapter 2

Introducing Urban Entrepreneurialism in India: An Analysis of Programmatic Interventions

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Introduction

The pace of Indian urbanization has been slow. According to Census, India's share of urban population in 2011 was 31.16 % which substantiates that India is being described as a 'reluctant urbanizer'. Nonetheless, researchers, international agencies, and policy makers are optimistic that in the next decade or so, the rate of urbanization will increase significantly in the country. This is, in part, because urbanization is a necessary condition for economic growth perceptible in the nation's economic growth. Much of this growth is attributed to the robust urban sector performance, which contributes to over 60 % of the national GDP. On the other hand, infrastructure development in urban India has, however, not kept pace with the growth with the rest of the economy, thereby posing a constraint for sustainable growth process.

It is important to note that most of the urban local bodies (ULBs) in India and especially the smaller ones are weak both in terms of capacity to raise resources and financial autonomy. Their precarious state of finances as well as their complex institutional and fiscal framework does not allow them to make investments in capital works. Hence to empower ULBs to undertake self-resource mobilization activity, delegation of powers enacted 74th Constitutional Amendment Act (CAA), 1992 become necessary. Despite the empowerment and delegation of powers envisioned in the 74th CAA over past three decades ago, most of the ULBs in India are still plagued by serious resource constraints restraining funding even for their routine activities. The ad hoc measures of structural adjustment programmes (SAPs)

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initiated since the late eighties and the economic reforms and liberalization launched in the early nineties opened up the Indian economy. Such open economy policy had significant impact on the capacity to raise resource of the ULBs as well. Further, the Financial Institutions and Reforms Expansion (Debt) component of the USAID launched in the nineties tried to improve local governance in the country by bringing about financial discipline among the ULBs. However, these piecemeal efforts failed to bring about the desired changes in the urban governance structure in India.

Urban local governments transformed entrepreneurial in three different but interrelated ways. First, the focus of the city agenda has shifted from social policies to economic plans. As a consequence, the functions of city governments also change from delivering social welfare to promoting economic development. Secondly, different formats of public–private partnership introduced by city governments have become popular ways of boosting local economies. Third, practices and discourses initiated by these public–private partnerships are proactive, innovative, and business friendly. City marketing, land-use design, image making, and competition with other cities are all cases in point by Jessop and Sum (2000), Ashworth and Woogd (1990). Indian cities, of late, are undergoing a sea change in terms of urban governance and financing policies, increasingly involving the private sector in financing and management of centrally sponsored schemes.

To make cities more attractive for global and domestic capital and bring about infrastructural development, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was designed as a reform-linked investment mission. The Mission tried to ensure financially sustainable development of the cities through efficient governance, better infrastructure, and improved service delivery. The Planning Commission's Eleventh and Twelfth Plan document further adds that the strategy must also include sector-specific policies to ensure that the structure of growth and the institutional environment in which it occurs, achieves the objective of inclusiveness in all its dimensions. The thrust of this mission-mode programme, i.e. JNNURM, was to ensure improvement in urban governance so that the ULBs become financially sound with enhanced credit rating and ability to access capital market for undertaking new projects.

The Government of India (GoI) has embarked on the ambitious Make in India (2015) initiative to create jobs. Also, attracting investment means that the environment for business must be made investor friendly. The initiative is expected to make cities investor friendly, and the responsibility lies with all levels of the government, the central government laying down the policy guidelines and the state and local governments being responsible for the implementation. According to the World Bank's Enterprise Survey (2014), businesses in India rank corruption as the number one constraint to growth, ahead of factors such as lack of access to electricity, finance, and land. Corruption arises due to the lack of a transparent and effective regulatory framework; this is highlighted in a wide range of global analytics World Bank, KPMG (2015). India ranks 142 out of 189 economies in the World Bank's Doing Business (2015) report, the second worst performing economy in South Asia. The World Economic Forum's Global Competitiveness Report ranks India as 71 out of 144 economies. India is ranked at 93rd on irregular payments and

bribes, 59th on burden of government regulation, and 57th on the efficiency of the legal framework in settling disputes.

Given this background, Section “**JNNURM: An Overview**”, analyses the present urban development policies and programmatic interventions in urban India in a bid to make cities more attractive for global and domestic capital. The analysis has been done for the recently completed JNNURM and the newly launched Missions, viz. Smart Cities Mission and AMRUT. The final section presents the overview of the government initiatives for easing constraints and doing business in Indian cities. The last section summarizes the lessons learnt and attempts to delineate a policy perspective for inclusive urban development across the country.

JNNURM: An Overview

JNNURM was a mission-mode programme which aimed at creating ‘economically productive, efficient, equitable and responsive Cities’ by a strategy of upgrading the social and economic infrastructure in cities. Under the JNNURM, provision of Basic Services to Urban Poor (BSUP) and wide range of urban sector reforms were introduced to strengthen municipal governance in accordance with the 74th Constitutional Amendment Act, 1992. Urban renewal was one of the thrust areas in the National Common Minimum Programme, 2004 of GoI and accordingly the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched on 3 December 2005 with an investment of Rs 50,000 crore in the mission period of seven years beginning from 2005/06.¹ The mission was the single largest initiative of the Government of India for planned urban development that integrated two pressing needs of urban India: massive investments required for infrastructure development and reforms those required to sustain investments. Since inception, the JNNURM mission focused on sectors such as water supply, sewerage, drainage and urban transport under the component of Urban Infrastructure Governance (UIG). The JNNURM had two submissions for the mission cities,² viz. (1) Urban Infrastructure and Governance (UIG) and (2) Basic Services to the Urban Poor (BSUP). Projects such as construction of roads, improving public transport, trunk network of water supply, sanitation, solid waste management and storm water drains, construction of multilevel parking lots and city beautification, etc., have been taken up under the UIG component. The JNNURM, besides attempting infrastructure development (ID) and reform in governance in 65 select cities through its ID component, was expected to provide the poor in selected cities access to basic services and land with tenurial security through its submission BSUP.

¹The Mission was extended for 2 more years for the completion of the stipulated reforms and projects.

²The select 65 cities for UIG component are called mission cities.

Further, the JNNURM was expected to cater to the non-mission cities under the two components, namely (1) UIG of the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and the Integrated Housing and Slum Development Programme (IHSDP). The programme was expected to cover all other municipal towns under the UIDSSMT. The existing programme of Infrastructure Development Scheme for Small and Medium Towns (IDSMT) and Accelerated Urban Water Supply Programme (AUWSP) has been subsumed under UIDSSMT. Like-wise, the existing Valmiki Ambedkar Awas Yojana (VAMBAY) and the discontinued National Slum Development Programme (NSDP) have been subsumed with IHSDP. Interestingly, the indicative allocation of JNNURM is biased against the non-mission cities/towns as the share of UIDSSMT and IHSDP works out to be 16 and 14 %, respectively. The remaining share of about 70 % funds is directed towards the selected 65 mission cities (JNNURM 2014).

Implementation of the JNNURM gave further impetus to urban sector reforms with renewed focus on urban renewal. The programme has been successful in enabling ULBs to execute projects on a larger scale which they never attempted earlier, resulting in improved project planning, implementation and capacity building. The programme has also led to many good practices and innovations which helped states and ULBs to maintain the momentum of urban transformation. However, these efforts have been limited to the developed states and big cities therein, thereby increasing the interstate and intercity disparities at all levels of urban development (Kundu and Samanta 2011).

Effectiveness of Reforms

The JNNURM was a landmark initiative placing India's urban agenda at a centre stage for the first time in its development history. It provided resources to the states with conditionality for the implementation of reforms and preparation of viable detailed project reports (DPRs). This necessitated the states and the ULBs to initiate reforms in accordance with 74th CAA and adhere to the guidelines set by JNNURM as well as commitments made by them as per the memorandum of agreement (MoA) at the beginning of the mission period.

A detailed review of the status of reform implementation at the end of mission period reveals that states which are economically advanced have taken reform initiatives ahead of others while the rest are at different stages of implementation (see Table 2.1). Many reasons could be attributed for delay in the implementation of reforms. Foremost, during the launch of the mission, there was lack of clarity in the nature of the reforms and inadequate specification of the processes involved. While there was some delay on the part of the Ministry of Urban Development in clarifying the content of reforms at the same time most of the state governments did not take serious initiative to understand, implement and sustain the reforms. As per the guidelines, states were expected to design reforms in collaboration with cities, but the exercise often became one of satisfying the technicalities' of reform and

Table 2.1 Status of achievement of reforms till Jan 2014

State	*Reform achievement (%)
Tamil Nadu	96.20
Karnataka	95.40
Andhra Pradesh	93.30
Gujarat	92.00
Himachal Pradesh	91.70
Kerala	91.30
Maharashtra	90.80
Chhattisgarh	89.70
Uttar Pradesh	88.70
Rajasthan	86.50
Delhi	86.30
Madhya Pradesh	86.00
Punjab	85.90
West Bengal	83.90
Jammu & Kashmir	81.70
Puducherry	81.30
Goa	78.20
Orissa	76.80
Tripura	74.30
Uttarakhand	73.90
Assam	72.30
Mizoram	72.20
Bihar	71.70
Haryana	70.50
Chandigarh	70.00
Meghalaya	69.00
Jharkand	65.10
Arunachal Pradesh	50.40
Manipur	48.90
Sikkim	48.70
Nagaland	43.30

Source www.jnnurm.nic.in

*Only for UIG Cities

drawing funds from the Government of India (GoI). For instance, introduction of the property title reform is one such reform where the state and the respective ULB were to initiate. However, given the complexity involved in the implementation of this reform, not much progress was achieved. However, the government eventually eased the method of appraisal and grants tied to reform compliance were released. Similarly, the reform on re-use of recycled water makes it mandatory for the respective ULBs to revise building by-laws to reflect re-use of recycled water and

dissemination on their website. Further, the state governments took initiatives to revise the building—by-laws without assessing the capacities of ULBs to implement it. For instance, in Himachal Pradesh, the ULBs have revised the building byelaws but because of the unsuitable physical terrain, recycling and re-use was not deemed a feasible option.

Table 2.1 shows that until Jan 2014 only 7 states have been able to implement 90 % of the reforms. The north-eastern states (except Meghalaya, Mizoram and Tripura) have shown slow progress (less than 50 %). Table 2.2 shows the achievement of state-level mandatory reforms against the set milestone. At present the score of the reform is calibrated on a standardized set of checklist. The cities are at the various stages of compliance. The score³ of the reform needs to be calibrated on the basis of size of the city and reform compliance. JNNURM has achieved by providing a fresh momentum to the 74th Constitutional Amendment. ULBs which were inactive for decades have put in place the institutional structure by conducting municipal elections and constituting ward committees. However, even now, only 11 states have been able to transfer the function of the 12th Schedule to ULBs. In fact, many ULBs are not in a position to take over all the functions mentioned under the 12th Schedule of the 74th Constitutional Amendment, as they do not have the capacity to delivery services, such as fire services, roads and bridges, water supply, sewerage and urban forestry.

As many as 18 states have rationalized stamp duty by reducing it to 5 % (see Table 2.2). However, many of the states while reducing the stamp duty to 5 %, have also increased the surcharge to 2 or 3 % for the ULBs, thereby, increasing the total duty. So far 20 states have made desired amendments in the Rent Control Act. Though community participation law has been enacted in majority of the states, yet the pace of implementation has been slow. The ‘Area Sabha’—i.e. the third tier body is the representation of people at the level of polling booth. However, creation of third tier body does not hold true for all the cities considering different population ranges of the cities. Most of the states have enacted a Public Disclosure Law but have not implemented them fully.

As per the JNNURM guidelines, the ULBs have to implement thirteen reforms which enable the ULBs to function efficiently, bring about simplification and transparency in the system of local governance and ensure that service delivery is equitable, dependable, cost-effective and sustainable.

So far ULBs have made necessary amendments in the municipal acts to incorporate most of the reforms. The implementation of e-governance in ULBs aimed at improving the system of local governance through use of information technology

³In September 2012, it was decided to include calibration of scores for each of the 23 reforms. Equal score of 10 was assigned to each of the reforms, irrespective of whether the reform was simple or complex, so that the total added up to 230. This was based on assigning predetermined marks/scores to each of the reform milestones in a disaggregated manner. Thus, if a state and a mission city have complied with all the reforms, it gets a score of 100 %.

Table 2.2 Status of state-level mandatory reforms

State-level reforms	Milestones	Number of states	States
Transfer of schedule 12th functions	States that have transferred all functions	11	Chhattisgarh, Gujarat, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Puducherry
Constitution of MPCs	States that have constituted MPCs	7	Chandigarh, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, West Bengal
Reform in Rent Control Acts	States that have amended the Rent Control Act	20	Andhra Pradesh, Chandigarh, Chhattisgarh, Delhi, Goa, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Mizoram, Nagaland, Punjab, Puducherry, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal
Reduction of stamp duties	States that have reduced stamp duty to 5 %	18	Andhra Pradesh, Assam, Chandigarh, Chhattisgarh, Delhi, Goa, Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Orissa, Punjab, Puducherry, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttarakhand
Enactment of community participation law (CPL)	States that have passed CPL or incorporated relevant provisions into the existing laws	13	Andhra Pradesh, Assam, Gujarat, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Maharashtra, Mizoram, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal
Enactment of public disclosure law (PDL)	States that have passed Public Disclosure Acts	27	Andhra Pradesh, Assam, Bihar (Bodhgaya), Chandigarh, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Puducherry, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh, Uttarakhand, West Bengal

1. 74th CAA is not applicable in Meghalaya Constitution of MPC is not applicable in Arunachal Pradesh, Assam, Chhattisgarh, Himachal Pradesh, J&K, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Sikkim, Tripura, Uttarakhand, and Puducherry

2. Repeal of ULCRA is not applicable in H.P, Manipur, Nagaland, and Kerala

3. Rent control reform is not applicable in Orissa, Manipur, and Nagaland

Source www.jnnurm.nic.in

(IT). There were eight modules⁴ to be implemented by the ULBs. Among these, registration of birth and death and redress of grievances through e-governance have been implemented by the majority of the cities. However, only 29 cities have been able to implement all the eight modules. Also, most of the larger municipalities have shifted to the accrual accounting system based on double-entry bookkeeping.

Property tax is the principal source of revenue for the ULBs in India. However, over the past few decades, the system of assessment in most of the ULBs was based on annual rental value, which was non-transparent. To strengthen the resource base of local bodies, a transparent and non-discretionary property tax reforms were introduced to encourage voluntary compliance of citizens through the adoption of area-based system of property taxation. This was an important measure for improving the tax base and to strengthen the local economic development. But introduction of this reform showed mixed results. Though GIS-based property taxation has not been introduced completely in many of the ULBs, property tax coverage in most of the cities has improved through this reform. After implementation of property tax reform, 41 cities have been able to bring more than 85 % of the properties under the coverage of property tax net and the tax collection of 28 cities has been more than 90 % of the total demand (see Table 2.3).

In addition, cities have started levying water charges to recover part of the O&M cost but not to the extent of 100 % as stipulated for implementation of urban sector reforms. So far, only 7 cities have been able to do so. In most of the cities user charges related to solid waste management (SWM) is collected as a percentage of property tax or as conservancy tax. However, cities such as Bengaluru and Mumbai collect separate charges for SWM. Since property tax collection is not a buoyant source of revenue, a percentage of SWM collection only meets the operating cost. The objective of promoting services to be self-sustainable has been partially achieved and 100 % of the O&M cost could be achieved only if the initiatives by the ULBs are sustained.

In a span of seven years, implementation of all the 23 reforms was a challenge for most of the states. In order to access the funds, most of the states and cities were in a hurry to pass legislations and office orders without having much know-how as regards the reform per se or their long-term consequences. Many ULBs were not in a position to implement several reforms due to lack of financial assistance for the implementation of the reforms, for instance, the accounting reforms and the GIS-based property taxation. The process of reform implementation was slow for reforms such as introduction of property title certification, simplification of legal and procedural framework for the conversion of agricultural land for non-agricultural purposes due to the presence of multiple agencies and the fact that amending different Acts related to different agencies falls beyond the purview of the urban development department of the state.

⁴Eight modules include property tax, accounting, water supply and other utilities, birth and death certificate, citizen grievance monitoring, personnel management system, building plan approval, and health programmes.

Table 2.3 Status of ULB-level mandatory reforms (as on Jan 2014)

ULB-level reform	Milestones	No of cities which have achieved the reform	Name of cities
Property tax	85 % coverage	41	Hyderabad, Vijayawada, Viskhapatnam, Guwahati, Bodhgaya, Chandigarh, Raipur, Panaji, Ahmedabad, Surat, Vadodara, Rajkot, Porbandar, Faridabad, Bangalore, Mysore, Kochi, Tiruvananthapuram, Bhopal, Indore, Jabalpur, Nagpur, Nanded, Nashik, Pune, Greater Mumbai, Shillong, Puri, Amritsar, Puducherry, Chennai, Coimbatore, Lucknow, Kanpur, Allahabad, Varanasi, Agra, Mathura, Meerut, Nainital, Kolkata
	90 % tax collection	28	Vijayawada, Visakhapatnam, Tirupati, Chandigarh, Raipur, Ahmedabad, Surat, Vadodara, Rajkot, Bangalore, Kochi, Tiruvananthapuram, Bhopal, Indore, Nagpur, Nanded, Nashik, Pune, Greater Mumbai, Shillong, Chennai, Lucknow, Kanpur, Allahabad, Varanasi, Agra, Mathura, Meerut
User charges	100 % cost recovery in water supply and SWM	7	Hyderabad, Delhi Jal Board (DJB) (Water Supply), Surat, Nanded, Nashik, Pune, Greater Mumbai
Double-entry accounting system	Cities which have migrated to double-entry accrued based accounting system	37	Hyderabad, Viskhapatnam, Tirupati, Patna, Bodhgaya, MCD, NDMC, DJB, Ahmedabad, Surat, Vadodara, Shimla, Jammu, Srinagar, Ranchi, Bangalore, Mysore, Kochi, Tiruvananthapuram, Bhopal, Indore, Jabalpur, Ujjain, Nagpur, Nashik, Pune, Greater Mumbai, Bhubaneswar, Jaipur, Ajmer, Chennai, Madurai, Coimbatore, Agartala, Dehradun, Kolkata, Asansol

(continued)

Table 2.3 (continued)

ULB-level reform	Milestones	No of cities which have achieved the reform	Name of cities
e-governance	Cities that have implemented all the 8 modules	29	Hyderabad, Viskhapatnam, Tirupati, MCD, NDMC, DJB, Ahmedabad, Surat, Rajkot, Bangalore, Mysore, Kochi, Tiruvananthapuram, Bhopal, Indore, Jabalpur, Nagpur, Nanded, Nashik, Pune, Greater Mumbai, Ludhiana, Jaipur, Ajmer, Chennai, Madurai, Coimbatore, Lucknow, Kanpur
Internal earmarking of funds for services to urban poor	Which services?	49	Hyderabad, Vijayawada, Viskhapatnam, Tirupati, Raipur, MCD, NDMC, DJB, Ahmedabad, Surat, Rajkot, Vadodara, Faridabad, Shimla, Jammu, Srinagar, Bangalore, Mysore, Kochi, Tiruvananthapuram, Bhopal, Indore, Jabalpur, Ujjain, Nagpur, Nanded, Nashik, Pune, Greater Mumbai, Shillong, Amritsar, Ludhiana, Puducherry, Jaipur, Ajmer, Pushkar, Chennai, Madurai, Coimbatore, Agartala, Lucknow, Kanpur, Allahabad, Varanasi, Agra, Mathura, Meerut, Kolkata, Asansol
Provision of basic services to urban poor (BSUP)	Services done so far under BSUP?	46	Hyderabad, Viskhapatnam, Tirupati, Guwahati, Patna, Bodhgaya, Chandigarh, Raipur, DJB (WS), Panaji, Ahmedabad, Surat, Vadodara, Rajkot, Shimla, Jammu, Srinagar, Ranchi, Bangalore, Mysore, Kochi, Tiruvananthapuram, Bhopal, Indore, Jabalpur, Ujjain, Nagpur, Nanded, Nashik, Pune, Greater Mumbai, Ludhiana, Puducherry, Chennai, Madurai, Coimbatore, Agartala, Lucknow, Kanpur, Allahabad, Varanasi, Agra, Mathura, Meerut, Kolkata, Asansol

Source www.jnnurm.nic.in

An analysis of the funds released till September 2009 shows that only 58 % of the urban population had been covered during the initial four years (Kundu 2009) and this share is unlikely to have increased substantially. On an average 70 % of the total funds had been released till January 2014 in the mission cities. Only 13 states had received more than three-fourths of the total funds committed. On the other hand, only 40 % of the projects had been completed in spite of the fact that the duration of the mission deadline was March 2014. The time granted for the completion of projects was approximately two years. According to the Mid-Term Review of the JNNURM Performance Audit of JNNURM (CAG 2012), there are two main reasons for the slow release of central grants: firstly, the lack of capacity of the state to develop plans, prioritize projects and raise matching funds and, secondly, the inability of state governments to meet reform conditionalities slowed down availability of fund.

Overview of the Current Missions

There has been an increasing realization that good urban policies are prerequisites for economic and social development of cities. These need to be geared up not only for revamping urban institutional structures to improve the squalor and inefficiencies of the existing urban centres but also could boost flow of both domestic and foreign funds to the cities.

Various flagship schemes have been launched aiming to change the face of urban India with expected investments around Rs 4 trillion over the next few years. Given the multiplier potential of construction industry, the schemes are expected to assist create jobs to boost the economy. The present section overviews these interventions.

The Smart City Mission (SCM) 2015

The current Missions are directed towards innovative interventions and induce private sector participation in financing urban development in India. Involvement of the private sector in the creation and maintenance of urban utilities is expected to bring more investment in the urban sector which ultimately would create investor friendly cities. The Smart Cities Mission is an outcome-oriented programme—aiming to introduce citizen-friendly governance, and cost-effective services—relying on online services to bring about accountability and transparency. The mission promotes application of smart solutions to infrastructure and services in area-based development. The mission is based on convergence of area plans with national- and state-level sectoral financial plans, for example, the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Housing for All, HRIDAY, Swachh Bharat, and Digital India.

The Smart City proposals are expected to be citizen-driven taking into account the issues, needs, and priorities of citizens. Besides, the planning and monitoring of the mission is expected to be evidence-based. A total of 98 cities (see Fig. 2.1) have been selected for the SCM on the basis of city challenge competition. In the first stage, each state and union territory gave a score to their cities on the basis of four parameters, which includes existing service levels, institutional system and capacity, self-financing, and past track records. Based on scores, states nominated the top 98 cities and the top 20 cities among them have been selected for the funding in the first phase.



Fig. 2.1 Location of smart cities in India. *Source* Author

Special Purpose Vehicle (SPV)

The implementation of mission at the city level will be done by an SPV. The SPV will plan, appraise, approve, release funds, implement, manage, operate, monitor, and evaluate the smart city development projects. Each smart city will consist of an SPV headed by a CEO and board consisting of nominees from the central government, state government, and ULB. The states/ULBs shall ensure the following: (a) a dedicated and substantial revenue stream is made available to the SPV to make it self-sustainable and evolve its own credit worthiness for raising additional resources from the market; (b) government contribution for smart city is used only to create infrastructure that has public benefit outcomes. Thus, the execution of projects may be done through joint ventures, subsidiaries, public–private partnership (PPP), turnkey contracts, etc., suitably dovetailed with revenue streams.

At the city level, the SPV will be a limited company incorporated under the Companies Act, 2013, in which the state/UT and the ULB will constitute promoters with 50:50 equity shareholding. The private sector or financial institutions could be considered for taking equity stake in the SPV, provided the shareholding pattern of 50:50 of the state/UT and the ULB is retained. Further, state/UT and the ULB together must hold majority shareholding and control of the SPV.

It is proposed to give complete flexibility to the SPV to implement and manage the smart city project, while the state/ULB will undertake measures to support. The SPV may appoint project management consultants (PMCs) for designing, developing, managing, and implementing area-based projects. SPVs are expected to take assistance from any of the empanelled consulting firms in the list prepared by the MoUD and the handholding agencies. The state/ULB financial rules will be followed for the procurement of goods and services, transparent, and fair procedures. Model frameworks as developed by the MoUD will be used for smart city projects.

The Smart City Mission encourages the state government and the ULBs to adopt the following ‘best practices’ to empower SPVs and as provided under the municipal act:

- (1) Delegating the rights and obligations of the municipal council with respect to the smart city project to the SPV.
- (2) Delegating decision-making powers available to the ULB under the municipal act/government rules to the chief executive officer of the SPV.
- (3) Delegating the approval or decision-making powers available to the urban development department/local self-government department/municipal administration department to the board of directors of the SPV in which the state and ULB are represented.
- (4) Delegating the matters that require the approval of the state government to the state-level High Powered Steering Committee (HPSC) for the smart cities.

The key functions and responsibilities of the SPV include, inter alia, approval and sanction of the projects including their technical appraisal; execution of the

smart city proposal with complete operational freedom; taking measures to comply with the requirements of MoUD with respect to the implementation of the smart cities programme; mobilizing resources within timelines and taking measures necessary for the mobilization of resources; approval and action upon reports of a third-party review and monitoring agency; overview of capacity building activities; review of activities of the mission, including budget, implementation of projects, preparation of SCP and coordination with other missions/schemes, and activities of various ministries; monitoring and review of quality control related matters and acting upon issues arising thereof; incorporating joint ventures and subsidiaries and entering into public–private partnerships as may be required for the implementation of the smart cities programme; entering into contracts, partnerships, and service delivery arrangements as may be required for the implementation of the smart cities mission; and determining and collecting user charges as authorized by the ULB and collecting taxes, surcharges etc., as authorized by the ULB.

The key functions and responsibilities of the SPV are to incorporate joint ventures and subsidiaries and enter into public–private partnerships as may be required for the implementation of the smart cities programme. The smart city proposals are being evaluated based on the analysis of financing plan and the sources of funding. The project cost of each smart city proposal will vary depending upon the level of ambition, model, and capacity to execute and repay. It is anticipated that substantial funds will be required to implement the smart city proposal and, towards this end, government grants of both the central and state will be leveraged to attract funding from both internal and external sources.

The success of this endeavour will depend upon the robustness of SPV's revenue model and comfort provided to lenders and investors. A number of state governments have successfully set up financial intermediaries (such as Tamil Nadu, Gujarat, Odisha, Punjab, Maharashtra, Karnataka, Madhya Pradesh, and Bihar) which can be tapped for support, while other states may consider some similar set up in their respective states. Some form of guarantee by the state or such a financial intermediary could be considered as instrument of comfort. It is expected that a number of schemes in the smart city will be taken up on PPP basis and the respective SPVs have to accomplish the set agenda.

Building new smart cities and transforming the metros will need huge funds; investments of INR 98,000 crores is to be brought into the cities through the Smart Cities Mission, under which 100 smart cities would be built, and AMRUT for 500 cities over the next five years (Mathew 2015). Only about 50 % of this amount is supposed to come from the central government, and the rest has to be shared by the states and the ULBs. ULBs in most Indian cities are not in a position to shell out the entire requirements and are looking for raising funds from the private sector. In particular for the Smart Cities Mission, it is extremely crucial for the cities to find sources of funding in order to execute the plans as per the proposals. Although all the 20 proposals talk about convergence with other schemes both at the centre and the state levels, majority of the funding is dependent on the Smart City Mission funds, PPP, and multilateral/bilateral assistance.

Madhya Pradesh is leading with 3 cities followed by Maharashtra, Gujarat, Rajasthan, Andhra Pradesh, Tamil Nadu, and Karnataka with 2 each. Odisha, Kerala, Punjab, Assam, and Delhi have 1 city each. Among the 20 cities, Bhubaneswar was the top scorer during the appraisal followed by Pune and Jaipur. It is quite interesting to note that medium-sized cities such as Solapur, Davanagere, and Belagavi have made it through the first round of challenge, while many other mega cities have not been able to make it to the first list. Among these cities, Indore has the maximum proposed budget of INR 5099.60 crores followed by Bhubaneswar (INR 4537 crores) and Jabalpur (INR 3998.5 crores), and Ludhiana has the least budget of INR 1191.18 crores.

A closer look into the financial proposals of the 20 selected cities has revealed that the 20 select cities have proposed an investment of INR 50,802 crores over five years. Ten of the 20 cities have proposed to mobilize INR 8521 crores under the PPP model, while others have also indicated this option. A total area of 26,735 acres has been identified by these cities for making them smart through necessary interventions (Press Information Bureau 2016). Figure 2.2 shows the various sources of funding as proposed by the cities in their respective SCPs. As per the given template for submission of the plans, all the cities had to detail out the financial plan (part E of all the submitted proposals) in which the ULBs had to evaluate their own capacities (also the SPVs) to undertake self-funded development projects, the availability of funds from other government schemes that will converge in SCP and the finance that can be raised from the financial market. The cities

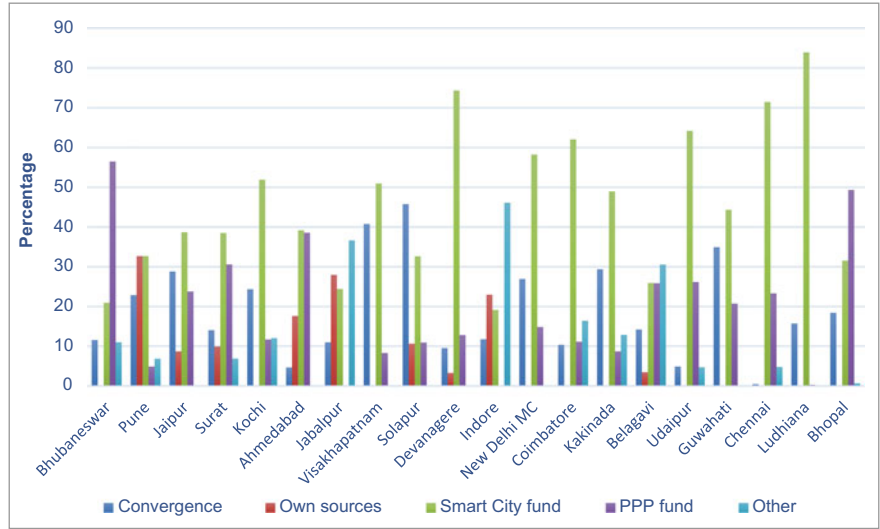


Fig. 2.2 Percentage of funding options proposed by selected smart cities. *Source:* Smart City Plans 2016 (MoUD website)

had to think about financial sources, lifetime costs of each project, and revenue and recovery of O&M. Since all the projects proposed by the cities as part of area-based development, pan-city development, and green field development are to be implemented through the SPVs, the plans also include cash flows for each financial year (annexure 3 of all submitted proposals). There has been a constant emphasis on procuring private sector funding by the cities. The central government has made it quite clear during the announcement of the mission that states and cities have to put in matching amount into the SPVs and also find avenues to bring in private funding for all the proposed projects.

Atal Mission for Rejuvenation and Urban Transformation (AMRUT)

AMRUT is expected to cover 500 cities across the country. Under AMRUT, which replaces the JNNURM, funds will be allocated based on the urban population and number of cities/towns in each state/UT. The guidelines stipulate that without availability of land and all necessary clearances, no project shall be included in the Mission. States will transfer funds to ULBs within seven days of transfer by the centre, and no diversion of funds will be allowed, failing which penal interest would be charged in addition to the action by the centre.

Under JNNURM, the MoUD used to sanction project-by-project, subject to a city preparing an integrated CDP, but under AMRUT, this has been replaced by the approval of a State Annual Action Plan by the MoUD once a year and the states have to sanction projects and provide necessary approvals at their end. In this way, the AMRUT makes states equal partners in the planning and implementation of projects, thus actualizing the spirit of cooperative federalism.

Every year, the outlay for individual city under both schemes—AMRUT and Smart City—is Rs 100 crore each. Given the significant outlays envisaged for basic infrastructure such as water and sewerage network expansion alone, even after the state and local government investments, private sector investment would be critical. Like the Smart City Mission, the AMRUT also builds on evidence, viz. available data, information, and plans on water supply and sewerage from the states/ULBs. To assess existing levels of coverage of water supply and sewerage, information will be collected from the census (2011) or based on the baseline survey done by the MoUD. No new baseline survey is envisaged, and the state/ULB should accept/endorse the earlier baseline.

Once the gap is computed, plans will be prepared to bridge the gaps. As a one-size-fits-all approach does not work, alternatives are generated in order to do more with fewer resources and see that the benefits reach the people.

Non-availability of land or delay in availability was one of the key factors that had delayed projects in the earlier mission. Another connected issue was obtaining clearances from numerous other departments. To address these issues, the policy

document states that under AMRUT, projects should not be included which does not have land and work order will not be issued for new projects unless all clearances from all the concerned departments are received on time. Moreover, the cost of land purchased will be borne by the respective states/ULBs.

The basic building block for the State Annual Action Plan (SAAP) is the Service Level Improvement Plan (SLIP) prepared by the ULBs. At the state level, the SLIPs of all mission cities will be aggregated into the SAAP. Therefore, the SAAP is basically a state-level service improvement plan indicating the year-wise improvements in water supply and sewerage connections to households.

The states will decide on the inter-ULB allocation based on gap analysis and financial strength of ULBs and choose those ULBs in the first year that have higher gaps in provision of water supply and sewerage. Importantly, at the state level, the SAAP should only contain those projects where complete project cost is linked with revenue sources. This will include dovetailing with other sectoral and financial programmes of the central and state governments. A financial intermediary is proposed, also a reform in the AMRUT, in order to pool funds from all sources and release funds to ULBs on time. Such intermediaries are expected to access external sources of finance, such as debt and bonds, which small and financially distressed ULBs are unable to access. Further, through the creation of an intermediary, the potential opened by the promulgation of regulations by the Securities and Exchange Board of India (SEBI) for municipal bonds can be fully realized. During the process of developing the SAAP, the states/UTs are to explore the possibility of using public-private partnerships (PPP) as a preferred execution model. Appropriate service-level agreements (SLAs) will be induced into PPPs with strong citizen feedback eventually leading to the people-public-private-partnership (PPPP) model.

Financing is an important element of the SAAP. The maximum share will be given by the central government. The states/ULBs shall plan for the remaining resource generation at the time of preparation of the SAAP. The financial share of cities will vary across states. In some states, the ULBs may be in a position to contribute significantly to the project cost as compared to a ULB of another state. Accordingly, states shall decide during formulation of the SAAP on how the residual financing (over and above central government share) is shared between the state, ULBs, and any other source identified by the state/ULB (e.g. PPP, market borrowing). However, the state contribution to the SAAP will not be less than 20 % of the total project cost.

During the mission period, 11 reforms are to be implemented. Implementation of reforms is an important objective of the SLIP. The ULBs shall prepare a roadmap for reforms consolidated by the State Mission Director and as part of the SAAP. Some reforms may require more funds than others. For instance, assessment and collection of user charges, property tax, fee, and so on, are examples of activities which require hardly any additional funds. If funds are required to implement reforms, they can be accessed from the following: (i) the allowed components of the AMRUT; (ii) the state A&OE funds; or (iii) the Capacity Building for Urban Development (CBUD) programme funded by the World Bank.

All these are expected to form part of the SAAP; however, duplication and redundancy need to be avoided at the time of preparing the SLIP and the SAAP.

Past experience shows that projects are often delayed if release of project funds is linked to the non-completion of reforms. So, AMRUT has shifted from penalization to incentivization. Ten per cent of the annual budget allocation is to be kept apart and sanctioned to the states/UTs each year as incentive for the implementation of reforms. The mission will provide incentives for the previous year at the start of the succeeding financial year. The incentive fund is an additional fund provided by the MoUD, and no matching funds will be required to be sanctioned by the state/ULB. The State High Power Steering Committee (SHPS) will decide the use of the incentive amount. The incentive award will be used in mission cities on admissible components of the AMRUT, including new projects. The incentive cannot be used as the state share in the project in AMRUT, but can be used by the ULBs for their project funding. Each year, unutilized funds for reform incentives will be transferred to the project fund.

Incorporation of resilience and securing projects against disasters will be done at the stage of preparation of the SLIP, particularly for the vulnerable and the poor. At the project development stage, disaster-secure engineering and structural norms would be included in the project design.

Heritage City Development and Augmentation Yojana (HRIDAY)

The objective of HRIDAY is to preserve the character and soul of a heritage city and facilitate inclusive heritage linked to urban development. The purpose is to promote adaptive urban rehabilitation by exploring various avenues involving private sector. There is a provision for private funding for management and services under HRIDAY scheme undertaken by private entities those directly or indirectly benefiting from the project. Private funding can be acquired at any stage of the scheme implementation, i.e. planning and design, implementation of works, and user fee/charges for service delivery.

Swachh Bharat Mission (SBM)

SBM aims at elimination of open defecation; eradication of manual scavenging, promote modern and scientific municipal solid waste management; effect behavioural change regarding healthy sanitation practices; generate awareness about sanitation and its linkage with public health; capacity augmentation for ULBs and create an enabling environment for private sector participation involving capex (capital expenditure) and opex (operation and maintenance).

The estimated cost of implementation of SBM (urban) based on unit and per capita cost for its various components is Rs 62,009 crore. The Government of India share as per approved funding pattern amounts to Rs 14,623 crore. In addition, a minimum additional amount equivalent to 25 % of GoI funding, amounting to Rs 4874 crore, shall be contributed by the states as state/ULB share. The balance funds is proposed to be generated through various other sources which are but not limited to private sector participation, additional resources from state government/ULBs, beneficiary share user charges, land leveraging, innovative revenue streams, Swachh Bharat Kosh, corporate social responsibility, and market borrowing and external assistance.

SBM (Urban) Component-III: Public Toilets

There will be no central government incentive support for the construction of public toilets under SBM (urban). States and ULBs are encouraged to identify land for public toilets, and leverage this land and advertise for PPP agreements to encourage the private sector to construct and manage public toilets. Additional funding support by any means other than GoI grant can be leveraged for public toilets.

SBM (Urban) Component: Solid Waste Management

ULBs are expected to prepare a DPR for solid waste management in consultation with state governments. Smaller cities can form clusters to become viable entities to attract private investment. About 100 % cost reimbursement for preparing the DPR shall be borne by the GoI as per unit cost and norms. State governments may handhold ULBs for preparing DPRs for solid waste management by empanelling/shortlisting/identifying private or government agencies.

Government Initiatives to Ease Doing Business in India

According to the reports by the World Bank's *Doing Business* (2015), India ranks poorly in terms of business environment. Restrictions plague business throughout its life cycle, making it difficult, expensive, and cumbersome to start, grow, or exit. In the liberalized regime, there is a clear need to make it easier to do business in India. Improving the business environment is likely to spur growth and generate employment for millions across the country. The Department of Industrial Policy and Promotion (DIPP) has taken up a series of measures to improve ease of doing business. The emphasis has been on simplification and rationalization of the existing rules and introduction of information technology to make governance more efficient and effective. The process of applying for an industrial licence (IL) and industrial entrepreneur memorandum (IEM) has been made online, and this service

is now available to entrepreneurs on 24×7 bases at the eBiz website. This had led to ease of filing applications and online payment of service charges. Further, 14 services are integrated with eBiz portal which will function as a single window portal for obtaining clearances from various governments agencies.

The growth of business in India requires concerted action on several fronts—infrastructure, capital markets, trade facilitation, and skills. According to the World Bank's *Doing Business* (2015) study, a disproportionately high regulatory burden is borne by businesses today, as exemplified by India's current rank of 142 among 189 nations. India does not feature in the top 100 countries on 8 of the study's 10 indicators. On getting credit and protecting minority investors, India is ranked 7th and 32nd, respectively. On dealing with construction permits and enforcing contracts, India ranks among the bottom 10 economies in the world. It is encouraging to note that the Government of India has embarked on an ambitious reform agenda focused on improving India's performance in the World Bank's *Doing Business* rankings. These efforts, among other things, focus on implementing reforms relating to starting a business, resolving insolvency, enforcing contracts, and trading across borders. A majority of the regulatory burden imposed on business is due to the existence of a plethora of laws, rules, regulations, and procedures enforced by the states. This gives rise to a wide number of registrations, licences, and NOCs that businesses must obtain and file compliance returns on. While the World Bank Group has been working for many years with officials of the Government of India, this effort gained traction only in the last few years due to the political commitment coupled with renewed and vigorous efforts of officials of both central and state governments in India to ease doing business in the country. On 29 December 2014, Chief Secretaries of States participating in the 'Make in India' workshop finalized a 98-point action plan on 'ease of doing business', and later, it was decided that an evaluation will be conducted to assess progress by June 2015. This report captures the findings of the evaluation of this unique exercise and ranks states in terms of their implementation of the 98-point action plan based on 'competitive federalism' approach to business reform.

The results of the assessment indicate that states have embraced the challenge placed upon them to focus on further streamlining the regulatory burden on business in India. The assessment has also given rise to competition among states and UTs to undertake reforms. Most states have expressed interest to not only compete, but also to collaborate and learn from each other's experience. Many states have already embarked on ambitious reform programs or expanded their ongoing reform efforts since the announcement of the 98-point action plan. Various process streamlining and technology interventions have been undertaken in the areas of commercial taxes (time-bound VAT/CST registrations, online mechanisms for payments and returns of various taxes, etc.), labour (self-certification mechanisms for integrated returns and inspections, development of online labour, etc.), and environment (exemption of a number of green industries from approvals/consents, implementation of consent management systems, etc.), easing urban governance such as online building plan sanction.

As per the World Bank assessment, on an average, only 32 % of the proposed reforms have been implemented across the country. It is critical that these reforms be properly communicated, monitored, and evaluated, to ensure that the impact of the reforms is being felt on the ground.

Lessons Learnt and Future Perspective

It is a fact that JNNURM has been instrumental in rejuvenating the urban space in the country. Even though JNNURM provides additional central assistance to the ULBs, the discretion to exercise that option had been left to the respective state governments. Out of the 65 mission cities, the state capitals and million plus cities may not require the extent of funding under the umbrella of JNNURM as most of these cities have the capacity to generate their own resources. In fact, funding may be scaled down for them to increase the funding for smaller towns. Funding of the mission cities was decided on the basis of population based on 2001 census; the smaller states with smaller towns had some disadvantage over the large cities in the access to the funds which has resulted in disparity in the creation of infrastructure across urban centres across the country.

The nine years' experience with JNNURM has been a substantial learning experience. It has revealed weaknesses in the governance systems. Though JNNURM mandated preparation of city development plans (CDP) and detailed project reports (DPRs) before taking up any project, in many cases, the CDPs failed to link spatial planning with socio-economic planning and became a mere mandatory requisite to avail JNNURM funds. Most of the CDPs gave limited consideration to socio-economic aspects and excluded peri-urban areas. This has further limited the adequacy of CDPs and has led to haphazard growth on the cities' boundaries. The process of consultation was limited to preplan finalization stage. Further, CDP was seen as an investment plan for projects in the immediate term and not as a vision document for the city, and CDP is not a statutory document as the master plan/regional plan.

It is a fact that the JNNURM has provided for substantial central assistance to cities for infrastructure development and has indeed been effective in renewing the country's focus on the urban sector. However, the analysis exhibits a move towards polarized development and an inbuilt big-city bias. The current mission programmes, other than the Swachh Bharat Mission, are also specific to being city based. Further, all of them seek financing from the private sector and are also linked to reform. This is likely to bring in entrepreneurship in the ULBs and a competition among themselves for accessing capital from the central and state. This is the case with Smart City Challenge fund, where competition among cities is being encouraged even to access funds from the central and state. The reforms along with the ease of doing business norms are likely to bring about more of private sector participation and boost investment in the urban economy.

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