



NITI Aayog

(National Institution for Transforming India)
Government of India

National workshop on Municipal Finance & Effective and Accelerated implementation of Smart Cities - 11th and 12th January, 2018

THE CONTEXT

India needs to leverage urbanisation to sustain and accelerate economic growth and human development. Successful and long-lasting urban transformation critically depends on reforming the way our cities are governed and services are delivered. The Union Ministry of Housing and Urban Affairs (MoHUA) has launched various schemes and programmes to create economically vibrant, inclusive and sustainable urban habitats such as Smart Cities Mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Swachh Bharat Mission, Housing for All and Heritage City Development and Augmentation Yojana (HRIDAY).

The Smart Cities Mission (SCM) is the Government of India's bold innovative and endeavour to apply the Smart Cities approach in the Indian context. The SCM has resurfaced interest in Municipal Bonds as an avenue for capital raising by cities. Raising private capital lies at the heart of the SCM. There are a variety of challenges that are perceived to be preventing the smart cities from realizing their full potential and poor financial position of India's municipalities remains one of the core issues.

THE OBJECTIVE

To address the above the challenges, the NITI Aayog, supported by Janaagraha Centre for Citizenship and Democracy (Janaagraha) and Administrative Staff College of India (ASCI) as knowledge partners, conceived this workshop as a platform for state governments and cities to engage in action-oriented conversations with each other and with domain experts from business, academia and civil society. The workshop was convened over two days, 11th and 12th January 2018, with day 1 focussing on Municipal Finance and day 2 on the Smart Cities Mission.

OPENING PLENARY



The combined [revenue] receipts of all the municipalities in India is estimated to be less than Rs. 150,000 crore, with less than a third of this amount estimated to be from own resources.

Shri Hardeep Singh Puri
Honorable Minister for Housing and Urban Affairs



India needs to create growth hubs across the country, to avoid inequitable and unbalanced urbanisation.

Dr Rajiv Kumar
Vice Chairman, NITI Aayog



As we speak today, we have 30 Indians moving from rural to urban areas every minute. The challenges lie in how we achieve planned, sustainable urbanisation that triggers growth and employment and also in how we explore innovative financing mechanisms to finance such growth via PPPs, municipal bonds, venture capital financing and crowd sourced financing

Shri Amitabh Kant
CEO, NITI Aayog



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Day 1

Municipal Finance

Day 1 of the workshop was split into three sessions:

- Session 1: Own Revenue Enhancement in Urban Local Bodies
- Session 2: Accounting and Audit reforms in Urban Local Bodies
- Session 3: Making Municipal bonds and PPPs work in Indian cities.

The discussions and the Q&A sessions that followed brought out interesting insights on the operational challenges in revenue collection, the requirement of enhancement of capacities to ensure financial statements of urban local bodies are made available on time in a consistent and user friendly format and a deeper understanding of the statutory/regulatory framework in India around raising municipal bonds and the bond market at large.

Panel 1 :Own Revenue Enhancement in Urban Local Bodies

Key note addresses: Dr M Govinda Rao, Member 14th FC & Emeritus Professor, National Institute for Public Finance and Policy (NIPFP).

Participants:

- Shri Arun Kumar Singh – Principal Secretary, Urban Development, Government of Jharkhand
- Shri Partha Mukhopadhyay – Senior Fellow, Centre for Policy Research,
- Shri Praveen Chakravarty – Senior Fellow, IDFC Institute
- Shri Nagarajan, CEO, Surat Smart City Development Limited

Moderated by: Shri Rakesh Garg - Chairman, Uttar Pradesh Board for Development of Municipal Financial Resources

Key takeaways:

- Indian cities are emaciated financially and are far from being able to generate the resources required for providing a good quality of infrastructure and services to its citizens
- India's urban infrastructure is estimated to require Rs.40 trillion of investments in a 20-year period from 2011 to 2031. Today, municipal (own) revenues at less than Rs.1.2 trillion account for approximately 1% of the country's GDP as against 6%+ in countries like Brazil, South Africa.
- Dependence on property taxes as a primary source of revenue has constrained ability of the ULBs to increase its own revenue by tapping other sources of revenue, such as trade licences, entertainment taxes, taxes from mobile towers, solid waste user charges, water charges, parking fees and Value Capture Financing (VCF)
- Further, ULBs need to improve collection efficiencies of own revenues such as property tax, user charges, lease rentals, advertisement tax and parking fees. For instance, Jharkhand has set up a PMU at the State level to monitor collections and has also outsourced the collection process to an external agency.
- Revenues generated by development authorities through land sales, VCF etc. need to be made available to Urban Local bodies.
- Best practices from states and ULBs such as use of GIS based technologies and outsourcing of tax collections should be adopted and applied to improve collection efficiency.



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Day 1 : Municipal Finance

Panel 2 : Accounting and audit reforms in urban local bodies

Key Note Address: Dr P K Mohanty, Former Chief Secretary, Government of Andhra Pradesh

Participants:

- Shri Dr R Vishal - Director, Directorate of Municipal Administration, Government of Karnataka
- Shri Ranjan Kumar Ghose - Deputy Comptroller & Auditor General of India
- Shri Naveen D Gupta - Vice President, Institute of Chartered Accountants of India
- Shri Devendra Kumar Pant - Chief Economist and Head Public Finance, India Ratings

Moderated by Shri Srikanth Viswanathan - CEO Janaagraha

Key takeaways:

- A large majority of the municipalities in India do not have balance sheets, as many of them continue to follow cash basis of accounting. In several states, municipal laws do not even mandate audit of annual accounts. On account of the poor state of finances and lack of transparency in their financial management, municipalities are unable to tap into private capital to meet their capital requirements.
- Frequent transfers of Accounting Staff and officers, lack of regular training, absence of dedicated Municipal cadres in the States/ULBs continue to be major impediments
- Municipal laws do not provide for any uniform accounting standards to be followed, rendering municipal accounts largely incomparable across states and sometimes even within the same state. Uniformity in preparation and publication of accounts of municipalities across the country is imperative.
- Accounting and Audit standards by C&AG has not been implemented in most of the states and despite the accounting and auditing manuals adopted by the states have not been implemented in the right earnest.
- Further, municipal laws do not include provisions for delays in completing audit of annual accounts, leave alone consequences for audit qualifications. Most Municipalities only review budgets versus actual and do not use their audited financial statements (and related monthly MIS reports) for balance sheet and cash flow management, resulting in significant inefficiencies.
- The lack of a standard format for financial statements for all ULBs is a big impediment in ensuring that the statements are comprehensive, credible, and comparable, this also affects the ability of ULBs to tap into bond markets
- Best practices in this area from states like in Karnataka via the Karnataka Municipal Accounting and Budget Rules (KMABR), 2006 and the formation of Karnataka Municipal Data Society (previously known as the Municipal Reform Cell) could be replicated across other states.
- Apart from recommending accounting standards, the Institute of Chartered Accountants of India (ICAI) should play a significant role in improving the quality of financial reporting via workshops and trainings for the accounting staff in the ULBs.



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Panel 3 : Making Municipal Finance Bonds and PPPs work in Indian cities

Key Note Address: Shri Junaid Ahmad, Country Director for India at the World Bank.

Participants:

- Smt Barnali Mukherjee - CGM, SEBI
- Shri A Jayaraman – Sr. Vice-President, TNUIFSL
- Shri Keshav Verma– ED and CEO, GTI Council, Former Municipal Commissioner, Ahmedabad
- Shri Sameer Bhatia – President, CRISIL Infrastructure Advisory

Moderated by Shri Yadhuvendra Mathur - Additional Secretary, NITI AAYOG

Key takeaways:

- It is important lay the ground work in our ULBs to nurture a Municipal Bond ecosystem by investing in risk management systems, including getting the accounting rules right, bringing in common standards across the ULBs, enabling ULBs to put their financial position reported on line and to create a municipal regulatory framework which explicitly says what would happen if the municipality goes bankrupt.
- The municipal bond market which had seen several bond issuances before 2000 has since stagnated, possibly due to increase in state/central grants via the JNNURM route or similar schemes. However, the need to tap private capital to fund municipal infrastructure projects has brought municipal bonds back in focus.
- Though the Securities & Exchange Board of India (SEBI) issued regulations to facilitate issuance of bonds in March 2015, only Pune Municipal Corporation has raised bonds since then. The poor state of municipal finances and lack of transparency in their financial management are major impediments
- For Municipalities to be able to manage instruments such as municipal bonds effectively, they need to have professional finance staff managing the finance function, integrated financial management systems, effective balance sheet and liquidity management and circumscribing all of these, a culture of decision making that is based on data and metrics.
- Further, the ULBs must establish the need for raising additional funds with a clear, realistic project plan along with a robust repayment plan.
- The process of obtaining a credit rating can help create a sense of accountability in the ULB and drive a positive culture, as in the case of Ahmedabad. It can act as a catalyst for change and turned around a bankrupt ULB into a self-sustained one.
- Pooled financing options have been tapped by states like Tamil Nadu in the past by forming SPVs in the form of trusts, however changes to SEBI regulations do not permit investment in units issued by such trusts. SEBI is in the process of amending these regulations to facilitate such investments to encourage pooled financing for ULBs
- Credit rating can be a good instrument for improvement of urban governance by the ULBs, credit rating is one of the instruments of improvement.



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Glimpses





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Day 2

Effective & Accelerated implementation of Smart Cities

Day 2 of the workshop was split into three sessions:

- Smart Cities Mission: Taking stock of success and challenges
- Smart Cities Mission: Showcasing examples of improved service delivery and digitisation
- Creating Sustainable Smart Cities: Challenges and leap forward

The sessions on Day 2 of the workshop took stock of the successes and challenges in implementation of the Smart Cities Mission, and examples of improved service delivery were shared by cities.

Panel 1 – Smart Cities Mission: Taking stock of successes and challenges

Key note address: Dr Sameer Sharma, Additional Secretary, Ministry of Urban and Housing, GoI

Participants:

- Shri Anjum Parvez – Secretary, Urban Development, Karnataka
- Shri Nitin R Gokarna – Commissioner, Varanasi Municipal Corporation
- Shri Munish Garg – Executive Director, RUDSICO
- Shri Chevuru Hari Kiran - Commissioner, Tirupati Municipal Corporation

Moderated by Shri V Srinivas Chary, Director, ASCI

Key takeaways :

- The Smart Cities Mission initiative by the Government of India was launched to drive economic growth and improve the quality of life of people by enabling local development and harnessing technology as a means to create smart outcomes for citizens.
- Prior to the mission, development of cities was happening in isolation and in silos. However, this mission has drawn the spotlight to 'smart' development, and cities under this mission are expected to serve as lighthouse cities for other towns and cities to follow.
- The challenges under the mission include cooperation between the bureaucrats and elected representatives for implementation of projects. It is important to build a clear communication strategy between the political class and the officers and also ensure there is coordination between the various stakeholders.
- Further, it is essential to ensure representation of the Commissioner and the Mayor on the board of the SPV for smoother implementation and better coordination. In order to get cooperation from citizens and gain their confidence, as part the Mission, it is important to implement projects that have a visible impact on the quality of lives of the citizens.
- Given the complexity of the projects, standard RFPs available cannot be used as is. The team must keep in mind the needs of the project and duly modify the RFP to suit the project. It is also essential to provide capacity building of Commissioners and CEO's on RFP preparation.
- A minimum term of 3 years should be stipulated for the CEO of the SPV



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Day 2 : Effective & Accelerated implementation of Smart Cities

Panel 2 - Showcasing examples of improved service delivery and digitisation

Key Note Address: Shri Vinayak Chatterjee, Chairman, Feedback Infrastructure

Participants:

- Shri Prakash Gaur - CEO, A P Urban Infrastructure Asset Management Ltd
- Ms Amrapali Katha, District Collector, Warangal
- Shri Chevuru Hari Kiran - Commissioner, Tirupati Municipal Corporation
- Shri Alkesh Wadhvani - Director, Gates Foundation

Moderated by Prof. Chetan Vaidya, Ex Director, SPA

Examples shared by the panelists included:

- The Andhra Pradesh Government has learnt that in order to manage assets efficiently, the cities must follow a life cycle approach to projects. Competent City Managers with top rated academic and work experience must be appointed in order to ensure effective implementation to account for the frequent transfers of commissioners.
- The successful implementation of a Faecal Sludge Management (FSM) Unit in Devanahalli in Karnataka shows that FSM is an effective low cost easy to implement solution, as against the Sewerage Treatment Plant that cost significantly more and take longer to build. Though Sewage treatment Plants (STPs) may be preferable for large cities, FSTPs can help handle human waste in a decentralised manner in small ULBs.
- Despite the restrictive nature of the 'area based development' clause under the mission, Warangal has executed development projects in certain pockets of the city that can then be replicated pan city
- Tirupati has the unique challenge of a huge floating population but the city has successfully tapped technology to improve service delivery via e-education, e-health and e-vehicles for garbage collection.



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Panel 3 – Creating sustainable smart cities: Challenges and leap forward

Key Note Address: Shri Aromar Revi, Director IIHS.

Participants:

- Shri Mahesh Zagade - Divisional Commissioner, Nashik
- Dr Renu Khosla – Director, CURE
- Smt Sonali Giri – Commissioner, Amritsar
- Shri Sandeep Mittal - Joint Secretary (Security), Lok Sabha Secretariat, Sansad Bhavan

Moderated by Shri Jagan Shah – Director, NIUA

Key takeaways:

- It is not easy for Indian cities to meet the Global Sustainable Development Goals (SDGs), given the backlog and the significant gaps in the quality of our service delivery. With the launch of the SCM, there was an aspiration to do things differently, some of which are dictated by the SDGs in order to transform our cities in a sustainable way.
- Sustainable development calls for concerted efforts towards building an inclusive, sustainable and resilient future for people and planet. For sustainable development to be achieved, it is crucial to harmonize three core elements: economic growth, social inclusion and environmental protection. These elements are interconnected and all are crucial for the well-being of individuals and societies. Therefore, a sustainable smart city cannot be built in an exclusionary style of planning. The focus must be on inclusive growth.
- In order to fund the sustainable development of cities, smart or otherwise, it is important for the ULBs to be financially sustainable. Therefore, the ULBs must focus on improving own revenues and must also be able to tap into alternative sources of finance.
- Further, given the SCM's focus on use of technology, a robust data gathering system must be established across ULBs in order to aid 'smart' decision making. However, given the increase in dependency on technology, the mounting challenge of cyber security must also be addressed.
- To overcome the administrative roadblocks faced, there must be convergence between various departments in ULBs and the community in order to aid sustainable growth of cities.



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The Closing Plenary

At the closing plenary, Shri Aravind Subramaniam, Chief Economic Advisor and Shri Bibek Debroy, Member, NITI Aayog were the key note speakers.

Shri Devendra Chaudhary, Secretary, D/o Animal Husbandry & Fishers GoI and Shri K V Pratap, Economic Advisor, DEA also shared their thoughts on the role of smart cities in India's urban journey.



In India, we have noted that ULBs are significantly dependent on devolved resources from the State and raise very little from own sources such as property tax. However, have the ULBS used the powers that have been devolved to them appropriately, for example in collection of property taxes?"

Dr Aravind Subramaniam



India needs to seriously consider development of Greenfield cities as an alternative to the current approach of brownfield development in existing cities

Dr Bibek Debroy

Smt Sunita Sanghi, Advisor, NITI Aayog delivered the Vote of Thanks.

Next Steps

- NITI will compile best practices in urban development including under the Smart Cities Mission for better knowledge sharing and capacity building of Urban Local Bodies and urban administrators.
- NITI will also constitute an expert group to ascertain revenue generation potential of Urban Local Bodies including through alternate and innovative sources of financing.
- In addition to the above, NITI will work with the Ministry of Housing and Urban Affairs on evaluating the quality of financial management systems and processes in Urban Local Bodies and make recommendations on transforming the same.



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Janaagraha Centre for Citizenship and Democracy is a Bengaluru based not-for-profit having the mission of transforming quality of life in India's cities and towns. It defines quality of life as comprising quality of citizenship and quality of infrastructure and services. It works with citizens to catalyse active citizenship in neighbourhoods and works with governments to institute city-system reforms to city governance in India. Janaagraha's City-Systems framework comprises four components: Urban Planning and Design, Urban Capacities and Resources, Empowered and Legitimate Political Representation and Transparency, Accountability and Participation. Municipal Finance is an integral part of the Urban Capacities and Resources city-system component.



Set up as an institution with a difference at the joint initiative of both the Government of India and the industry, it is an autonomous, self-supporting, public-purpose institution with the objectives of being a think-tank for policy inputs and to build the capacities of practicing professionals in the management of government and business enterprises. It is a virtual who's who of eminent professionals, public figures and industry leaders who have distinguished themselves in their respective fields of specialization in education, enterprise, administration, management and governance spanning a wide variety of sectors like agriculture, banking, engineering, economics, judiciary, law, manufacturing, science and technology and public administration.