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ANALYSIS**

TOPIC

**INDIA'S URBAN INFRASTRUCTURE:
FINANCING, NEEDS, AND REALITY**

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INDIA'S URBAN INFRASTRUCTURE: FINANCING, NEEDS, AND REALITY

Context

- India's urban infrastructure is at a critical juncture, facing numerous challenges as the country continues to urbanize rapidly.
 - ♦ With the urban population expected to double from 400 million to 800 million over the next three decades, addressing these challenges is crucial for sustainable urban development.

Current Financial Landscape of India's Urban Infrastructure

- A recent **World Bank report** estimates that India aims to **require approximately `70 lakh crore by 2036** to meet its urban infrastructure needs.
- **Currently**, the government invests **around `1.3 lakh crore annually** in urban infrastructure, which is just over one-fourth of the required 4.6 lakh crore per year.
- This significant gap highlights the urgent need for innovative financing strategies.

Major Challenges

Issues With Municipal Finances:

- Municipal finances are a critical component of urban infrastructure funding but have remained **stagnant at just 1% of GDP since 2002**.
 - ♦ Nationwide, property tax collection stands at a mere `25,000 crore, which is only 0.15% of GDP.
 - ♦ Municipal bodies contribute 45% of urban investments, with the remainder managed by parastatal agencies.
 - ♦ Despite an increase in central and state transfers, the financial health of municipalities remains precarious.
- **Collection inefficiencies** further exacerbate the problem. For instance, urban local bodies (ULBs) in cities like Bengaluru and Jaipur collect only 5%-20% of their potential tax revenue.
 - ♦ Additionally, cost recovery for services ranges from 20% to 50%, highlighting the significant gap between the costs of urban services and the revenues generated from them.

Structural Challenges: Issues of Absorptive Capacity and Utilisation:

- Indian cities struggle with **low absorptive capacity**, complicating the urban infrastructure landscape.
- According to the **Fifteenth Finance Commission report**, about 23% of total municipal revenue remains unspent, indicating a surplus in the municipal system that is not being effectively utilised.
- Even major cities such as Hyderabad and Chennai only managed to spend 50% of their capital expenditure budgets in 2018-19.
- The utilisation of central scheme funds also leaves much to be desired, with the **Atal Mission for Rejuvenation and Urban Transformation (AMRUT)** achieving 80% utilization and the **Smart Cities Mission** reaching 70%.

Public-Private Partnerships (PPPs) and Technological Integration:

- PPPs have been identified as a crucial avenue for urban infrastructure financing. However, there has been a marked decline in PPP projects over the past decade.
 - ♦ It underscores the need for a more conducive environment for private investment in urban infrastructure.
- Additionally, the potential of digital technology to transform urban infrastructure remains underutilized.

Governance and Planning Issues:

- Urban planning in India faces several challenges, including **outdated spatial and temporal plans** that fail to **accommodate population growth**.
- Many urban planning agencies **focus more on capital growth rather than addressing the needs of the population**, leading to a lack of local ownership and engagement.

- Additionally, the governance structure of ULBs is often inefficient, with significant gaps in tax collection and cost recovery for services.

Climate Change and Environmental Concerns:

- Climate change poses a significant threat to urban areas, exacerbating issues such as flooding, heatwaves, and water scarcity.
- Indian cities are particularly vulnerable due to inadequate infrastructure and poor planning.
- The rapid pace of urbanisation has led to environmental degradation, with increased pollution and loss of green spaces further impacting the quality of life in urban areas.

Social and Economic Inequality:

- Urbanisation in India has often been driven by economic distress, resulting in 'poverty-driven urbanisation'.
- It has led to the **proliferation of slums and informal settlements**, where living conditions are poor and access to basic services is limited.
- **Growing inequality and social segregation** are major challenges, with a significant portion of the urban population lacking access to adequate housing, clean water, and sanitation.

Government Policies to Overcome Issues in India's Urban Infrastructure

- **Smart Cities Mission (2015):** It aims to develop 100 smart cities across India by leveraging technology, data, and citizen participation, by focusing on improving urban infrastructure and services through smart solutions, such as intelligent traffic management, efficient waste management, and enhanced public safety.
- **Atal Mission for Rejuvenation and Urban Transformation (AMRUT) (2015):** It focuses on providing basic urban infrastructure in cities, including water supply, sewerage, urban transport, and green spaces, aiming to ensure that every household has access to a tap with assured water supply and a sewerage connection.
- **Pradhan Mantri Awas Yojana (Urban) - PMAY(U):** It aims to provide affordable housing to all urban poor by focusing on slum rehabilitation, affordable housing through credit-linked subsidies, and the promotion of affordable housing projects in partnership with public and private sectors.
- **National Urban Transport Policy (NUTP):** It emphasises the development of sustainable urban transport systems.
 - ♦ It promotes the use of public transport, non-motorized transport, and the integration of land use and transport planning to reduce traffic congestion and pollution.
- **Swachh Bharat Mission (Urban) (2014):** It aims to make urban areas open defecation-free and improve solid waste management.
 - ♦ It focuses on constructing toilets, promoting behavioral change, and ensuring efficient waste collection and disposal.
- **Heritage City Development and Augmentation Yojana (HRIDAY):** It aims to preserve and revitalize the heritage cities of India.
 - ♦ It focuses on improving infrastructure, enhancing tourism, and promoting heritage conservation in these cities.
- **Digital Public Infrastructure:** The government is focusing on digital infrastructure to support urban development. Initiatives like the **India Urban Data Exchange (IUDX)** facilitate data sharing among various stakeholders to improve urban planning and service delivery.

Strategic Initiatives

- The **National Infrastructure Pipeline (NIP)**, introduced in 2019, emphasises social and infrastructure projects worth INR 102 lakh crores, with significant contributions from both the public and private sectors.
- Additionally, the **PM GatiShakti Master Plan** aims to enhance India's logistics network, further supporting urban infrastructure development.

- The **Urban Infrastructure Development Fund (UIDF)**, established through priority sector lending shortfalls, aims to create urban infrastructure in **Tier 2 and Tier 3 cities** with an annual outlay of INR 10,000 crore.
 - ♦ It encourages state governments to utilize resources from the 15th Finance Commission and existing schemes to adopt appropriate user charges while accessing the UIDF.

Technological Integration

- Technological advancements play a pivotal role in transforming urban infrastructure. The Smart Cities Mission, focusing on sustainable and efficient urban planning, leverages technologies like 5G, Internet of Things (IoT), and Artificial Intelligence (AI) to create intelligent infrastructure.
- These technologies enhance service delivery, improve resource management, and ensure the sustainability of urban environments.

Sustainable Development

- Sustainability is a cornerstone of India's urban infrastructure strategy. The **India Infrastructure Report 2023** emphasises the need for sustainable urban planning and development.
 - ♦ It includes integrating green initiatives, promoting renewable energy, and ensuring environmental sustainability in urban projects. It also highlights the importance of public-private partnerships and financial sustainability of urban bodies.

Conclusion and Way Forward

- Addressing the challenges of urban infrastructure in India requires a multi-faceted approach, involving increased financial investment, efficient governance, and innovative solutions.
- By focusing on sustainable development and leveraging technology, India can transform its urban landscape to meet the needs of its growing population.
- Strengthening municipal finances through better tax collection and revenue generation, improving the absorptive capacity of cities, and fostering a more favorable environment for PPPs are essential steps.
- Additionally, innovative financing mechanisms, such as municipal bonds and leveraging commercial debt, can play a crucial role in bridging the financing gap.

Source: TH

Mains Practice Question

[Q] Critically analyse the current state of India's urban infrastructure financing. Discuss the major challenges and opportunities in this sector.

