



CH- 14 - FROM COMPETITIVE FEDERALISM TO COMPETITIVE SUB-FEDERALISM: CITIES AS DYNAMOS

I. Introduction

- The great and perceptive documenter of cities, Jane Jacobs, argued that cities are complex, organic, humming entities that tend to defy the attempts of planners and architects to impose order.
- Urban Indians now form about one-third of the population – and they produce more than three-fifths of the country's GDP.
- What is clear is this: just as with competition between states is becoming a powerful dynamic of change and progress, that dynamic must extend to competition between states and cities, and between cities.
- Cities that are entrusted with responsibilities, empowered with resources, and encumbered by accountability can become effective vehicles for unleashing dynamism so that to competitive federalism India can add, and rely on, competitive sub-federalism.

II. Background

- Contrary to perception, India's urbanization rate appears to have been similar to that in other countries.
- Countries have followed a pattern of urbanization where the level of urbanization has increased with the per capita GDP.
- Therefore a large part of the difference in the levels of urbanization seen between India and China can be mainly attributed to the different levels of development of each country. Contrary to perception, India and China have had very similar trends of urbanization.
- If the magnitude of Indian urbanization is not special, the patterns of urban size seem to be, in the sense of not adhering to **Zipf's Law**.
 - The law claims that the city with the largest population in any country is generally twice as large as the next-biggest; three times the size of the third biggest, and so on. In other words, the n th ranked city would be $1/n$ th the size of the largest city. This has been shown to hold true for many countries but not so for India.
- The results for the US and Brazil are indeed close to this Law, For India: Many of the smaller cities are unusually small. And contrary to what one might think, so are the bigger ones.
- There are many reasons why the large cities are unusually small.
 - One explanation might be that their infrastructure is overburdened.
 - Another is that India is land scarce relative to most countries, discouraging migration particularly because distorted land markets render rents unaffordable.
 - By 2050, its land-to-population ratio will have declined fourfold relative to 1960, and India will be amongst the most land-scarce countries in the world
 - Further mobility in India is limited by strong place based preferences embedded in deep social networks in India
- India's urbanization rate should begin to converge with those in similar emerging markets, rising to 40 per cent by 2030.
- And much of this urban growth is likely to take place in the bigger cities, possibly bringing

III. Key Challenges- ULB

- The primary responsibility for development of urban areas lies with the state governments and the municipal corporations, municipalities and *nagar panchayats*, commonly known as urban local bodies (ULBs).
- These levels of government face major and inextricably linked problems:
 - Poor governance capacities,
 - Large infrastructure deficits and
 - Inadequate finances.
- ULBs face a governance challenge. Cities do not have a single city government or a local self-government, leading to functional overlap. There is a significant fragmentation of responsibilities and service delivery across a gamut of institutions: the municipality, state departments (Police, PWD, Health, Education, Housing), and parastatal agencies or civic agencies reporting directly to the state government.
- There are also transparency/accountability issues, as even the most basic information on ULBs finances and quality of basic services is lacking in many cities, in part because implementation of the e-Governance initiative has also not been uniform.
- The second challenge is the infrastructure deficit. Productive and healthy urbanization requires efficient public services delivery. But every Indian city faces serious challenges related to water and power supply, waste management, public transport, education, healthcare, safety, and pollution.
- To take just one example, the report based on the WHO/UNICEF Joint Monitoring Programme (2015 report and MDG Assessment) on access to sanitation shows that as against the Millennium Development Goal (MDG) target of 77 per cent, India has managed to provide access to only 63 per cent of the population by 2015.
- As per the ranking of global cities based on urban infrastructure (State of World Cities 2012/13), New Delhi and Mumbai are placed at 47th and 50th positions, respectively, showing comparatively lower levels of infrastructure in these cities.
- According to the High Powered Expert Committee (HPEC) appointed by the Ministry of Urban Development (MoUD), about \$ 39 lakh crore (at 2009-10 prices) was required for creation of urban infrastructure over the next 20 years.
- Addressing this infrastructure deficit will require resources, some of which could come from the Centre and the states. The Fourteenth Finance Commission (FFC) has recommended a grant of around \$ 87,000 crore to the municipalities for the period 2015-20, constituting assistance of around \$ 500 per capita per annum on average.
- The rest of the required funds would have to come from local resources. But raising sufficient resources has not proved easy. The 74th Constitutional Amendment Act of 1992 provides for the ULBs as the third tier of government and 'recommends' that state governments assign them a set of 18 functions under the Twelfth Schedule.
- The amendment, however, leaves it to the discretion of state legislatures to devolve finances so that ULBs can fulfil these functions. Twenty-five years on, there are glaring inter-state disparities in terms of devolution of functional and financial powers to the ULBs. Some states have not even allowed the municipalities to levy property taxes.
- In principle, one would expect a clear relationship between expenditures of state governments and local bodies. If their respective roles were well-defined, both types of spending would rise together as incomes increased; if their roles were changing, spending would be inversely related, as one level of government substitutes for the other in providing services to the population.
- There is much greater variation across states than across cities in expenditure per capita.

capita expenditure, with a few exceptions such as Mumbai, Kanpur, and Kolkata. Either states are not devolving adequate financial resources to ULBs or ULBs are not raising these resources on their own.

- Moreover, even when powers have been devolved, exercising them has proved difficult. Municipal own income comes from taxes; user fees; and domestic borrowing:
 - While property tax is the most important constituent of own revenues, there are problems of low coverage, low rates, low collection efficiency, and lack of indexation of property values, making it a non-buoyant source of revenue. The study on municipal finances conducted by the FFC indicated that per capita revenue from property taxes was \$ 1677 at most, with a low of just \$ 42.
 - ULBs by and large have not been able to levy adequate user charges to cover even the operation and maintenance costs.
 - Issuing municipal bonds has been challenging owing to the poor state of ULB finances and governance.
- As a result of these challenges, cities face grave difficulties in securing sufficient revenues. Own revenue as a share of total expenditure is low. Per capita expenditure is too low in most of the ULBs with few exceptions such as Mumbai and Pune which have per capita expenditure more than \$10,000.

IV. Lessons from Across India

- The scope for learning from the experience across cities is limited, because the data on municipalities is poor and partial. Still, an attempt is made, using data provided by Janaagraha Centre for Citizenship and Democracy, Bangalore, and the 2011 Census.
- Data on four services were used for the analysis. These are access to treated tap water, connection to piped sewer system, accessibility to public toilets and waste water outlet connected to closed drainage. Figures show:
 - Chennai, Pune, and Chandigarh score relatively well in the provision of basic services, with Bhubaneswar, Raipur and Ranchi lagging farthest behind.
 - Hyderabad scores highly both in terms of the degree of transparency/accountability, enacting and complying with a Public Disclosure Law (PDL) and putting in place internal audit units
 - Pune, Hyderabad and Mumbai have the highest scores for own revenue as a percentage of total expenditure while Dehradun and Kanpur have a low share of own revenue in total expenditure showing their greater dependence on grants and other sources for financing their expenditures.
 - In terms of capital expenditure per capita, we can see that Mumbai, Pune and Kanpur have spent relatively more than the rest of the ULBs while Patna, Ranchi and Bhubaneswar have lagged behind the rest.
- With these indices, we can now examine the links between service delivery and fiscal strength, with the latter measured in four different ways. Greater service delivery is correlated with more:
 - The correlation is especially strong with staffing and expenditures. A clear conclusion is that more resources seem to be associated with better outcomes.
 - In contrast, it is difficult to find a relationship between service delivery and governance. There is no relationship at all between services and transparency/accountability.
 - There is actually a negative relationship between having a **directly elected Mayor and the availability of services. There also does not seem to be a strong correlation between mayoral tenure and outcomes.**

- One possible reason could be that a directly elected Mayor can function effectively only if he/she has the support of majority members of the municipal council, which is not always the case. Considering this fact, two state governments namely, Rajasthan and Tamil Nadu, have amended their respective municipal act to provide for indirect mayoral elections.

V. Mobilizing Resources

- One striking correlation (or its absence) is between formal taxation powers and actual mobilization of resources. One would expect that giving greater taxation powers to ULBs should lead to greater revenue generation.
- ULBs like Mumbai and Pune even with low scores on taxation powers do very well in own revenue while, at the same time, ULBs like Kanpur, Dehradun etc. even with relatively higher taxation powers perform badly in terms of own revenue.
- At first, this may seem counter-intuitive, which, at closer inspection would reveal that it is not the case. This is because having the powers to impose a greater number of taxes do not necessarily mean greater revenues for an ULB. Many other factors are important for being able to collect greater revenues such as the size of the tax base, the efficiency in tax collection and the level of economic activity in the city area.
- If better service delivery requires more resources, where can they be found? Perhaps the greatest immediate scope for revenue comes from the property tax. Property tax as a share of own revenue is above 50 per cent in Kanpur and Lucknow, but it is less than 15 per cent in Bhopal and Ranchi. So, the problem is not necessarily that ULBs cannot raise resources because they are prevented from doing so.
- The major factors contributing to poor realization from property tax are the poor assessment rate, weak collection efficiency, flawed methods for property valuation, loss on account of exemptions, and poor enforcement.
- The results estimate that currently Bangalore and Jaipur are collecting no more than 5 to 20 per cent of the property tax potential. Put differently, cities could increase their resources five to twenty fold. All efforts must be directed at realizing potential of property taxes.

VI. Conclusion

- Urbanization will pose considerable challenges for municipalities over the coming decades. But these challenges can be – indeed, must be – overcome, and the analysis in this chapter points to some priority areas.
- The first task is empowering ULBs financially.
 - The analysis shows that municipalities that have generated more resources have been able to deliver more basic services. The states should, therefore, empower cities to levy all feasible taxes.
 - Municipalities also need to make the most of their existing tax bases. There is a need to adopt the latest satellite based techniques to map urban properties. The Government should leverage the Indian Space Research Organization (ISRO)/National Remote Sensing Agency (NRSA) to assist ULBs in implementing GIS mapping of all properties in the area of a ULB. Property tax potential is large and can be tapped to generate additional revenue at city level.
- It is true but tiresome to repeat that ULBs need to be empowered but the political economy challenges—higher level bodies (state governments) needing to cede power and sharing resources—are daunting. The big question here is whether Finance Commissions should take cognizance of this political economy challenge identified by Professor Chelliah and allocate even more resources to ULBs or whether to respect the sovereignty of states and hope that

they will themselves be forthcoming in decentralizing down – fiscally and governance wise – commensurate with the needs of urbanization.

- Finally, data and transparency can play an important role here.
 - MoUD should give greater priority to compile and publish comprehensive data on ULBs and urban sector. Perhaps, grants to ULBs should be more tightly linked to comprehensive and updated data disclosure and transparency by ULBs.
 - NITI Aayog should compile comparative indices of municipalities' performance annually based on the actual accountability and administrative capacity to deliver the core public services.
- Competition between states is becoming a powerful dynamic of change and progress, and that dynamic must extend to competition between states and cities and between cities. Cities that are entrusted with responsibilities, empowered with resources, and encumbered by accountability can become effective vehicles for competitive federalism and, indeed, competitive sub federalism to be unleashed.