In the last decade, the government has implemented several schemes to address issues related to urbanisation and aid the process of urban development. One of the schemes is the Smart Cities Mission, which intends to take advantage of the developments in information technology in developing the urban development strategy, across 100 cities. Last week the government announced the list of 9 new Smart Cities, taking the total to 99. In light of this, we look at the Smart Cities Mission and a few issues with it.

What is a Smart City?

The primary objective of the Mission is to develop cities that provide core infrastructure and give a decent quality of life to its citizens, a clean and sustainable environment, and apply 'smart' solutions.

However, the Mission document does not provide one definition of a Smart City. Instead it allows cities to come up with their own solutions of what they identify as a Smart City. The guidelines suggest that the core infrastructure elements in a Smart City will include: (i) adequate water supply, (ii) assured electricity supply, (iii) sanitation, including solid waste management, (iv) efficient urban mobility and public transport, (v) affordable housing, (vi) robust IT connectivity, and (vii) good governance. 'Smart' solutions may include (i) energy efficient buildings, (ii) electronic service delivery, (iii) intelligent traffic management, (iv) smart metering, (v) citizen engagement, etc.

How were the Smart Cities selected?

The Mission was introduced in the form of a competition, called the Smart City challenge. The first stage was in July 2015 when states nominated their cities for the competition. In August 2015, the Ministry of Urban Development selected 100 of those cities to participate in the competition. These cities were required to develop their smart city plans (SCPs) and compete against each other. The SCPs were evaluated on the basis of the solutions, the processes followed, the feasibility and cost effectiveness of the plans, and citizen engagement. Over the last 2 years, the Ministry has announced winner cities in batches. So far, 99 cities have been selected under the Mission.

What information do these SCPs contain?

The cities had to prepare their SCPs with two primary strategic components: (i) area-based development, and (ii) pan-city development. The *area-based development* would cover a particular area of the city, and could have either a redevelopment model, or be a completely new development. *Pan-city development* would envisage application of certain smart solutions across the city to the existing infrastructure.

Each city had to formulate its own concept, vision, mission and plan for a Smart City that was appropriate to its local context and resources. The Ministry of Urban Development provided technical assistance, through consultancy firms, to cities for helping them prepare these strategic documents.

How will the Mission be implemented?

The Mission will be implemented at the city level by a Special Purpose Vehicle (SPV). The SPV will plan, approve, release funds, implement, manage, monitor, and evaluate the Smart City development projects.

The SPV will be a limited company incorporated under the Companies Act, 2013 at the city-level. It will be chaired by the Collector/ Municipal Commissioner of the Urban Development Authority. The respective state and the Urban Local Body (ULB or municipality) will be the promoters in this company having 50:50 equity shareholding.

How are the Plans getting financed?

The Mission will be operated as a Centrally Sponsored Scheme. The central government will provide financial support of up to Rs 48,000 crore over five years, that is, an average of Rs 500 crore per city. The states and ULBs will have to contribute an equal amount. The central government allocated Rs 4,000 crore towards the Mission in the 2017-18 budget.

Since funding from the government will meet only a part of the funding required, the rest will have to be raised from other sources including: (i) states/ ULBs own resources from collection of user fees, land monetization, etc., (ii) innovative finance mechanisms such as municipal bonds, (iii) leverage borrowings from financial institutions (such as banks), and (iv) the private sector through Public Private Partnerships (PPPs).

The total cost of projects proposed under the various SCPs of the 90 winner cities is Rs 1.9 lakh crore. About 42% of this amount will come from central and state funding, 23% through private investments and PPPs, and 19% through convergence with other schemes (such as HRIDAY, AMRUT, Swachh Bharat-Urban). The remaining will be generated by the cities through the levy of local taxes, and user fees.

What are some of the issues to consider?

Financial capacity of cities*:* Under the Mission, cities have to generate additional revenue through various sources including market borrowings, PPPs, and land monetization. The High Powered Expert Committee on Indian Urban Infrastructure and Services (HPEC) had observed that ULBs in India are among the weakest in the world, both in terms of capacity to raise resources and financial autonomy. Even though ULBs have been getting higher allocations from the centre and states, and tax devolution to them has increased, their own tax bases are narrow. Further, owing to their poor governance and financial situation, ULBs find it difficult to access external financing.

Such a situation may pose problems when implementing the Mission, where the ULBs have to raise a significant share of the revenue through external sources (PPPs, market borrowings). For example, the Bhubaneswar Smart City Plan has a total project cost of Rs 4,537 crore (over five years), while the city's annual budget for 2014-15 was Rs 469 crore.

In order to improve the finances of the ULBs, committees have made various recommendations, which include:

- State governments make legislative changes to give more taxation powers and autonomy to ULBs for improving their revenue collections.
- ULBs could raise their own revenue by tapping into land-based financing sources, and introducing reforms to strengthen non-tax revenues (such as water and sewerage charges, parking fees, etc.).
- Municipal bonds may also be used as a source of revenue for ULBs.

The government has recently introduced a few policies and mechanisms to address municipal financing. Examples include value capture financing through public investments in infrastructure projects, and a credit rating system for cities. In June 2017, the Pune Municipal Corporation raised Rs 200 crore by issuing municipal bonds.

***Technical capacity of the ULBs**:* The Smart Cities Mission seeks to empower ULBs to raise their own revenue, and also lays emphasis on the capacity building of ULBs. The HPEC had observed that municipal administration has suffered due to: (i) presence of untrained and unskilled manpower, and (ii) shortage of qualified technical staff and managerial supervisors. It had recommended improving the technical capacity of ULBs by providing technical assistance to state governments, and ULBs in planning, financing, monitoring, and operation of urban programmes. The central government had allocated Rs 10.5 crore towards the capacity building component of the Mission in 2017-18.

The Ministry of Urban Development has been running several programmes to improve capacity of ULBs. This includes MoUs with 18 states to conduct training programmes for their ULB staff.

Coverage of the Mission: The Mission covers 100 cities, of which 99 have been announced as winners so far. The urban population that will be impacted through the Mission is around 96 million (data for 90 cities excluding the recently announced 9 cities).

As per Census 2011, India's urban population was 377 million. The Mission impacts about 25% of this population. Further, most of the SCPs approved so far focus on area-based development, thus affecting a particular area of the cities. About 80% of the total project cost proposed is towards this model of development. In each city, this area-based development will cover up to 50 acres of area. The remaining 20% of the project cost is towards pan-city development proposals, which provide smart planning solutions for the entire city. It may be argued that even within the selected cities, the Mission will only impact few selected areas, and not necessarily help with development of the entire city.