

## FINANCING SMART CITIES IN INDIA\*

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*Smart cities that have been identified in India are big and different from other cities partially due to the size and high density of population which are relatively heterogeneous in terms of social and economic circumstances. Most of these cities are regional/national hubs for knowledge or pilgrimage and/or economic activities. Hence, fiscal capacities of these cities are greater than those of other cities. But these capacities of either the municipal or the state governments are limited to generate additional resources that are needed for urban renewal or investment in modern infrastructure at international standards. The article attempts to summarise the policy objectives and developments in the identifications of smart cities in India and review the conventional sources of revenue of city administration, i.e. tax and non-tax revenues and intergovernmental transfers including those of Union and state finance commissions. The article also explores avenues of non-conventional sources of financing for urban infrastructures and improvements in the participatory management capacities of the city administration which is critical to add value to residents in terms of participation in decision making and quality services on sustainable basis.*

### INTRODUCTION

ONE HUNDRED modern cities enabled with latest in technology and infrastructure was promised, *inter alia*, by Bharatiya Janata Party (BJP), a major national political party, in its election manifesto launched in April 2014. After a month, the party won the election with a clear majority of its own. The BJP with the support of other political parties revived the National Democratic Alliance (NDA) which formed the government under the

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leadership of Narendra Modi as Prime Minister. In no time, the government realised the significance of 'Smart City' as an urban development vision that has fascinated various nations across the globe. Consequently, a commitment of 100 Smart Cities came through the Union budget 2014-15. Finally, in June 2015, the Prime Minister formally launched the Smart Cities Mission as a centrally sponsored scheme (CSS) covering 100 cities initially for five years commencing fiscal year 2015-16.

Caragiù and Nijkamp (2009:50) defined city as 'smart' when "investment in human and social capital and traditional (transport) and modern (ICT) communication infrastructure fuel sustainable economic development and a high quality of life, with a wise management of natural resources, through participatory governance". However, in the absence of a precise and universally accepted definition of Smart City, the Government of India also admitted under the Smart Cities Mission that there is no way of defining a Smart City as the concept varies from city to city and country to country, depending on the level of development, willingness to change and reform, resources and aspirations of the city residents and governments.

#### *Objectives*

In its approach towards Smart Cities Mission, the objective is to drive economic growth and improve the quality of life of people by enabling local area development and harnessing technology that could primarily lead to smart outcomes. The mission promotes cities that could provide the following core infrastructure:

- (i) *Physical*—green housing, water, sewerage, green energy, efficient public transport
- (ii) *Social*—safety, modern education, healthcare, cultural vibrancy, entertainment
- (iii) *Institutional*—transparency and open data, accountability, ICT and e-governance, residents' involvement in decision making
- (iv) *Economic*—entrepreneurship and innovation, productivity, employment, local and global interconnectedness.

The core infrastructure include: adequate water supply; assured electricity supply; sanitation, (including solid waste management); efficient urban mobility and public transport; affordable housing (especially for the poor); robust IT connectivity and digitalisation; good governance (especially e-Governance and citizen participation); sustainable environment; safety and security of citizens (particularly women, children and the elderly); and health and education (Box 1).

BOX 1: FEATURES

The mission identifies the following typical features of comprehensive development in Smart Cities:

- *Promoting mixed land use in area-based developments*—planning for ‘unplanned areas’ containing a range of compatible activities and land uses close to one another in order to make land use more efficient. The States will enable some flexibility in land use and building bye-laws to adapt to change;
- *Housing and inclusiveness*—expand housing opportunities for all;
- *Creating walkable localities*—reduce congestion, air pollution and resource depletion, boost local economy, promote interactions and ensure security. The road network is created or refurbished not only for vehicles and public transport, but also for pedestrians and cyclists, and necessary administrative services are offered within walking or cycling distance;
- *Preserving and developing open spaces*—parks, playgrounds, and recreational spaces in order to enhance the quality of life of citizens, reduce the urban heat effects in Areas and generally promote eco-balance;
- *Promoting a variety of transport options*—Transit Oriented Development (TOD), public transport and last mile para-transport connectivity;
- *Making governance citizen — friendly and cost effective* - increasingly rely on online services to bring about accountability and transparency, especially using mobiles to reduce cost of services and providing services without having to go to municipal offices. Forming e-groups to listen to people and obtain feedback and use online monitoring of programmes and activities with the aid of cyber tour of worksites;
- *Giving an identity to the city* — based on its main economic activity, such as local cuisine, health, education, arts and craft, culture, sports goods, furniture, hosiery, textile, dairy, etc.;
- Applying Smart Solutions to infrastructure and services in area-based development in order to make them better. For example, making Areas less vulnerable to disasters, using fewer resources, and providing cheaper services.

*Strategy*

The strategic components of area-based development in the Smart Cities Mission are city improvement (retrofitting), city renewal (redevelopment) and city extension (greenfield development) plus a Pan-city initiative in which Smart Solutions are applied covering larger parts of the city. *Retrofitting* introduces planning in an existing built-up area to achieve

smart city objectives, along with other objectives, to make the existing area more efficient and liveable. *Redevelopment* effects a replacement of the existing built-up environment and enables co-creation of a new layout with enhanced infrastructure using mixed land use and increased density. Redevelopment envisages an area of more than 50 acre, identified by municipalities in consultation with citizens. Greenfield development introduces most of the Smart Solutions in a previously vacant area (more than 250 acres) using innovative planning, plan financing and plan implementation tools (e.g. land pooling/ land reconstitution) with provision for affordable housing, especially for the poor. *Pan-city development* envisages application of selected Smart Solutions to the existing city-wide infrastructure. Application of Smart Solutions will involve the use of technology, information and data to make infrastructure and services better (Government of India, 2015).

Each city is expected to formulate its own Smart City Proposal (SCP) containing the vision, plan for mobilisation of resources and intended outcomes in terms of infrastructure upgradation by including features mentioned in Box 1 and smart applications.

#### *Number of Smart Cities*

The total number of 100 Smart Cities has been distributed among the States and Union Territories (UTs) on the basis of equitable criteria. The formula gives equal weightage (50:50) to urban population of the State/UT and the number of statutory towns in the State/UT. Based on this formula, each State/UT will, therefore, have a certain number of potential Smart Cities, with each State/UT having at least one (Table 1).

Ninty-seven cities, by March 2016, competed and top 20 cities of a few States/UTs have been selected for funding in the financial year 2015-16. Bhubaneswar, the capital of Odisha ranked first in the list, followed by Pune of Maharashtra and Jaipur, the capital of Rajasthan. Other cities in the order of their ranks are Surat, Kochi, Ahmedabad, Jabalpur, Visakhapatnam, Solapur, Davangere, Indore, New Delhi, Coimbatore, Kakinada, Belagavi, Udaipur, Guwahati, Chennai, Ludhiana, and Bhopal. Madhya Pradesh had the maximum number of entries in the list. Ironically, none of the cities from Uttar Pradesh, the largest populated State in India, figured in the list. Similarly, no city was selected from Bihar, another largely populated State. Hence, it can safely be stated that the geographical spread of these cities is not representative of all States and UTs. Hence, special fast-track was provided to the remaining 17 States and six UTs to upgrade their proposals whose city had not been covered in the list of 20 by the end of March 2016. In addition, 23 cities were requested to submit their proposals by mid-April 2016.

TABLE 1: CITIES ALLOCATED TO STATES AND  
THEIR IDENTIFICATIONS TILL 20 SEPTEMBER, 2016

<i>Sl. No.</i>	<i>States</i>	<i>No. of Cities Allocated</i>	<i>Smart Cities Identified Till September 20, 2016</i>
1	Andhra Pradesh	3	Kakinada, Tirupati, Visakhapatnam
2	Arunachal Pradesh	1	<i>None</i>
3	Assam	1	Guwahati
4	Bihar	3	Bhagalpur
5	Chhattisgarh	2	New-Raipur
6	Goa	1	Panaji
7	Gujarat	6	Ahmedabad, Surat, Vadodara
8	Haryana	2	Faridabad
9	Himachal Pradesh	1	Dharamshala
10	Jammu & Kashmir	1	<i>None</i>
11	Jharkhand	1	Ranchi
12	Karnataka	6	Belagavi, Davangere, Hubali-Dharwad, Managaluru, Tumakuru, Shivamogga
13	Kerala	1	Kochi
14	Madhya Pradesh	7	Bhopal, Gwalior, Jabalpur, Indore, Ujjain
15	Maharashtra	10	Aurangabad, Kalyan-Dombivili, Nagpur, Nashik, Pune, Solapur, Thane,
16	Manipur	1	Imphal
17	Meghalaya	1	<i>None</i>
18	Mizoram	1	<i>None</i>
19	Nagaland	1	Kohima
20	Odisha	2	Bhubaneshwar, Rourkela
21	Punjab	3	Amritsar, Ludhiana, Jalandhar
22	Rajasthan	4	Ajmer, Jaipur, Kota, Udaipur,
23	Sikkim	1	Namchi
24	Tamil Nadu	12	Chennai, Coimbatore, Madurai, Salem, Thanjavur, Vellore
25	Telangana	2	Warangal
26	Tripura	1	Agartala
27	Uttar Pradesh	13	Agra, Kanpur, Lucknow, Varanasi
28	Uttarakhand	1	<i>None</i>
29	West Bengal	4	New Town-Kolkata
<b>Union Territories</b>			
1	A&N Islands	1	Port Blair
2	Chandigarh	1	Chandigarh
3	Daman & Diu	1	<i>None</i>
4	Dadra & Nagar Haveli	1	<i>None</i>
5	Delhi	1	New Delhi
6	Lakshadweep	1	<i>None</i>
7	Puducherry	1	<i>None</i>
<b>Total Cities</b>		<b>100</b>	

In the fast-track competition, 13 more cities were included in the first phase of Smart Cities Mission. The updated list of May 2016 includes Lucknow, the capital city of Uttar Pradesh, and Warangal of Telangana. Other cities in the order are Dharamshala of Himachal Pradesh; Chandigarh, a Union Territory; Raipur, the capital of Chhattisgarh; New Town Kolkata of West Bengal; Bhagalpur of Bihar; Panaji, capital of Goa; Port Blair, capital of the UT of Andaman & Nicobar Islands; Imphal, the capital of Manipur; Ranchi, the capital of Jharkhand; Agartala, the capital of Tripura; and Faridabad of Haryana. (<http://smartcities.gov.in>).

The third list of 27 new Smart Cities was announced on September 20, 2016: Agra, Ajmer, Amritsar, Aurangabad, Gwalior, Hubli-Dharwad, Jalandhar, Kalyan-Dombivili, Kanpur, Kohima, Kota, Madurai, Mangaluru, Nagpur, Namchi, Nashik, Rourkela, Salem, Shivamogga, Thane, Thanjavur, Tirupati, Tumakuru, Ujjain, Vadodara, Varanasi and Vellore. These cities are from 12 States including five from Maharashtra, four each from Tamil Nadu and Karnataka, three from Uttar Pradesh and two each from Punjab and Rajasthan. Five States, namely, Arunachal Pradesh, Jammu & Kashmir, Meghalaya, Mizoram and Uttarakhand and four Union Territories, namely, Daman & Diu, Dadra & Nagar Haveli, Lakshadweep and Puducherry have not entered the implementation phase till the declaration of the third list (Table 1). The total investment proposed by these 60 cities mentioned in Table 1 is estimated to be Rs 1.45 trillion (Gol, 2016).

## II. FINANCING OF SMART CITIES

Under the mission, the Union Government gives financial support to the extent of Rs 480 billion over five years, i.e. on an average, rupee one billion per city per year. The State and municipality concerned have to contribute an equal amount on a matching basis. However, the project cost of each Smart City will vary depending upon the level of development model and capacity for execution. It is envisaged, under the mission, that a Special Purpose Vehicle (SPV) is to be created to plan, appraise, approve, release funds, implement, manage, operate, monitor and evaluate the Smart City development projects. The SPV, a limited company, is managed by the independent directors, nominees of Union and State governments as well as the concerned municipal body. The State/UT and the municipality are the promoters having 50:50 equity shareholdings. The private sector or financial institutions are encouraged for taking equity stake provided the State/UT and municipality together have majority shareholding and control of the SPV.

The shareholders have to ensure that a dedicated and substantial revenue stream for the SPV so as to make it self-sustainable and evolve for raising additional resources from the market. The SPV is required to execute the project through joint ventures, subsidiaries, public private partnership (PPP),

turnkey contracts, etc. Funds provided by the Government of India to the SPV are conditional and kept in separate Grant Fund and could be utilised only for the purposes clearly spelt out by Government of India. The initial paid up capital of the SPV can go up to Rs. 3840 million through the equal contributions of the Union and State governments.

The funds provided by the Union and State governments as well as the concerned municipality could meet only a part of the project cost. Major funds are expected to be mobilised from the conventional and non-conventional sources mentioned and discussed below.

#### *A. Conventional Sources of Finance*

Own-source revenues of municipalities: The power of municipalities at all levels, i.e. municipal corporation for larger urban areas; municipal councils for a smaller urban area; and nagar panchayat for an area in transition from rural to urban, is considered imperative to enshrine in the Constitution under Article 243 X, to impart certainty, continuity and strength to municipalities. The Legislature of a State may by law authorise the municipality to levy, collect and appropriate certain taxes and user charges. Devolution of these taxes and non-taxes are easily linked with the activities assigned to them, which vary from state to state. From the long list of matters in the 12<sup>th</sup> Schedule certain basic functions could easily be in the exclusive domain of municipalities. Even these essential services require huge funds. Property tax, stamp duty, tolls, tax on professions, tax on advertisements, non-motor vehicle tax, user charges, and the like contribute the maximum to the small kitty of own-source revenue, which form 42 per cent, six per cent and one per cent of total revenue in municipal corporations, municipal councils and nagar panchayats, respectively in the year 2012-13 (ASCI, 2014; p5). In most States, the property tax contributes the maximum revenue. However, this tax remains inelastic because of inefficient administration in its collection.

After own-source revenues, assigned revenues are the most efficient in the dispensation to municipalities. Such revenues are levied and collected by the State government and are passed on to municipalities for their use. Some States deduct collection charges. The practices in assigning revenue are marked by large interstate variation. However, typical examples of assigned revenue are the surcharge on stamp duty, tax on professions, and entertainment tax. In many States, these taxes form part of the own-source revenue of municipalities (Alok, 2006, p. 218).

Financial devolution from States: Proceeds from internal sources contribute an abysmal share to the municipal pool. Municipalities rely more on fiscal transfers from the State government in the form of shared taxes and grants. State taxes are shared according to the recommendations of

the State Finance Commission (SFC). Constitution of the SFC at a regular interval of five years is a mandatory requirement for States. Besides tax sharing, the SFC is assigned the task of reviewing the financial position of municipalities and making recommendations on the assignment of various taxes, duties, tolls, fees, and grants in aid to be given to municipalities from the consolidated fund of the State (Alok, 2006).

The most critical function of the SFCs is to determine the fiscal transfer from the State to local governments in the form of revenue sharing and grants in aid. Since the 80th Amendment of the Constitution, following the recommendation of the 10th Finance Commission (1995-2000), a certain percentage of all Union taxes has been devolved to the States. Many SFCs have also adopted this system for the following reasons: First, the system has a self-policy feature; the local government automatically shares in the buoyancy of state taxes and levies. Second, the system has built-in transparency, objectivity, and certainty; local governments can anticipate, at the beginning of each fiscal year, their share in the divisible pool. Third, the system enables local governments to understand the entire economy and take considered views to make their own annual budgetary exercise. In other words, it induces local governments to generate their own revenue and to mobilise additional resources. Fourth, the state government can be neutral in pursuing tax reforms without considering whether a particular tax is sharable with local governments. This brings the issue related to composition of divisible pool. Wide variations across states are noted in defining the divisible pool and the principle of sharing it among the municipalities.

*Union Finance Commission (UFC):* Lest the SFC does not deter the State legislatures in transferring responsibilities and revenue to the local governments, the Article 280 of Constitution provides that the UFC should suggest measures to augment States' consolidated funds in light of the recommendations of SFCs. So far, five UFCs (the 10th, 11th, 12th, 13th and 14th) have made their recommendations. All the commissions except the 13th UFC recommended *ad hoc* grants to municipalities. The grants of the UFC are generally ordained for operation and maintenance and therefore differ from those of the Union ministries. The 14th UFC recommended Rs. 871 billion to municipalities over a period of five years commencing from the fiscal year 2015-16. In order to enhance the own-source revenues of municipalities, the Commission considered the views of various SFCs and suggested the following (Government of India 2014):

- Levy of *vacant land tax* be considered.
- A part of land conversion (e.g. from rural to urban use, and from residential to commercial use) charges - can be shared by State Governments with municipalities.



- States should prepare a clear framework of rules for the levy of *betterment tax* by municipalities which do not generally levy this tax.
- States may consider steps to empower municipalities to impose *advertisement tax* which has two components—tax on hoardings and tax on advertisements on buses, cars, lamp posts and compound walls.
- States should take action to increase the scope of *entertainment tax* so as to cover more and newer forms of entertainment such as boat rides, cable television and internet cafe.
- Ceiling of *Profession tax* should be raised from Rs. 2,500 to Rs. 12,000 per annum by amending Article 276(2) of the Constitution.
- Municipalities should rationalise their *service charges* so that at least the operation and maintenance costs could be recovered. In our view, automatic indexation to inflation could ensure seamless enhancement over time.
- *Service charges on government properties*, exempted under Article 285(1) of the Constitution, could be examined in detail so that municipalities could be compensated for the civic services provided by them.

#### *B. Non-conventional Sources of Finance*

Convergence with other urban sector schemes: Many of the sectoral schemes of the Government of India converge in the goal of Smart City Mission. Notable among them are: a) Atal Mission for Rejuvenation and Urban Transformation (AMRUT) which was launched with the Smart City Mission on June 25, 2015, with the total outlay of Rs 500 billion for five years commencing from the fiscal year 2015-16. Five hundred cities are taken up under AMRUT with an objective of improving basic urban infrastructure including water supply, sewerage, public transport. Cities with a population of 100 thousand or above, State capitals and cities in hill states are included in this mission; B) *Swachh Bharat Abhiyaan* (Clean Indian Mission) aims at making India free from open defecation and achieving 100 per cent scientific management of municipal solid waste in 4041 statutory towns/ cities across States in the country. The targets set for the mission that have to be achieved by October 2, 2019 are: construction of 10.4 million individual household latrines, 252 thousand community toilet seats and 256 thousand public toilet seats; and the achieving of 100 per cent door-to-door collection and scientific management of municipal solid waste; C) National Heritage City Development and Augmentation Yojana (HRIDAY) aims at preserving and revitalising the soul and unique

character of heritage cities in India. In the first phase, with a total outlay of Rs 500 crore fully funded by the Central Government, 12 cities have been identified for development; D) *Pradhan Mantri Awas Yojana* — Housing for All (Urban) is being implemented during 2015-22 and provides central assistance to municipalities and other implementing agencies through States/UTs for: (i) rehabilitation of existing slum dwellers using land as a resource through private participation, (ii) credit linked subsidy, (iii) affordable housing in partnership and (iv) subsidy for beneficiary led individual house construction/enhancement. All these components are being implanted as centrally sponsored schemes except ‘credit-linked subsidy’ which is treated as central sector scheme.

*Borrowing*: No reference is made in the Constitution to loans and borrowing by municipalities. Many Municipal Acts in States are silent on the power of municipalities to borrow funds. However, a few Municipal Acts have incorporated the provisions of The Local Authorities Loans Act, 1914 (Act No. IX of 1914), which empowers the municipalities to borrow from the market for certain specified reasons. In the past, municipal corporations have floated bonds in the market, with the approval of their state governments. These include Municipal Corporations of Ahmedabad in Gujarat, Bengaluru in Karnataka, Chennai and Madurai in Tamil Nadu, Hyderabad in Telengana, Nagpur and Nashik in Maharashtra and Visakhapatnam in Andhra Pradesh. Recently, capital market regulator, the Securities and Exchange Board of India (SEBI) has given boost to ‘Smart Cities mission’ by notifying new norms for listing and trading of municipal bonds on stock exchanges. The move would allow authorities to garner resources for setting up smart cities by raising money from the public and institutional investors. Under the new norms, the municipal authorities are required to have a strong financial track record and such bonds would be listed on stock exchanges. These bonds would be another alternative investment opportunity for traditional Indian investors who generally invest in gold and fixed deposits. Such bonds would provide reasonable return with less risk, which in turn may accelerate the capital markets.

Under the new SEBI norms, the municipal authorities should not have defaulted in repayment of debt securities or loans obtained from banks or financial institutions, during the last one year. “The corporate municipal entity, its promoter, group company or director, should not have been named in the list of the willful defaulters published by the Reserve Bank of India or should not have defaulted on payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any,” SEBI notified. Further, an issuer should have good rating from at least one credit rating agency before making public issue of debt securities which could only

be revenue bonds. These revenue bonds would have a maximum tenure of 30 years. In the process, the issuer has to appoint at least one merchant banker and a monitoring agency such as public financial institution or a scheduled *commercial bank* to monitor the earmarked revenue in the escrow account.

*Pooled Finance Development Fund:* Pooled financing is the cooperation between municipalities focusing on infrastructure investments through external debt sources. It does not curtail the decision making power of individual municipalities and is used as a complement to other sources of funding. The Government of India approved the Pooled Finance Development Fund scheme in 2006. It was initiated for not so big municipalities where financial expertise is often scarce which could be generated through cooperation. It could be structured in such a way that it reduces risk both for municipalities and the investors. At the same time, it provides incentives to improve the creditworthiness of municipalities. Tamil Nadu was the first in India which set up Water and Sanitation Pooled Fund (WSPF). On similar lines, Karnataka also created Karnataka WSPF.

*Flexible Public Private Partnerships (PPP):* Under PPP, the private sector is encouraged to mobilise technology, know-how, capital and other resources. This reduces the burden on the government to generate revenue necessary to finance these cities. The Government of India has been promoting PPP since 2006 to achieve self-sufficiency in terms of operational efficiency and service outreach. Moreover, this would improve the financial management capacities of the city management and value to citizens in terms of quality services on sustainable basis. During current Prime Minister's visits to various countries, many commitments of PPPs have been received in financing India's smart cities. These investments include technical assistance, capacity building and logistical planning to allocations for research and development (R&D) and information and communication technology (ICT) services. Furthermore, Viability Gap Funding (VGF), cleared in 2006, has been promoted, in big way, now. Under VGF, a grant is provided to support an infrastructure project which is justified economically but falls short of financial viability due to long gestation period of the project. Recently in January 2016, the Government of India has approved setting up 5000 MW of grid connected solar power projects and over and above the reference price the companies could bid for VGF from the government. Through such measure the price of solar power is getting closer to cost of buying conventional power. In order to enhance capacities, the National PPP Capacity Building Programme, initiated in December 2010, is conducted in 16 States. Due to these measures, the dependency on bank credit has been reduced substantially.

*Pooled Municipal Debt Obligation (PMDO) Facility:* Through the participation of several banks, this facility was created in 2006 to finance infrastructure projects in urban areas on shared risk basis. The present corpus of the facility is Rs 500 billion with an extended period to March 31, 2019. This corpus could be leveraged for funding infrastructure projects, under smart city mission, such as public transport, drinking water, solid waste disposal, sewerage treatment in the urban areas.

*Real Estate Investment Trusts (REIT):* The SEBI notified the REIT regulations on September 26, 2014, clearing the way for the introduction of a worldwide known investment structure in India. REIT is meant for investors who are apprehensive of investing in physical purchase of real estate due to the involvement of certain risks. Units of REITs are traded on the stock exchange, contrary to physical purchase of property. These units could be liquidated as and when required. The minimum amount of investment is Rs 200 thousands. This amount is too meagre to be invested in real estate of high capital values. It provides stable income to unit holders as 90 per cent of the profit is required to be distributed as dividend under REIT which secured exemption from dividend distribution tax (DDT) in the recent Union Budget. Cushman and Wakefield, a real estate consultancy firm, estimates that investment opportunities for REITs worth Rs 3000 billion. “These structures would reduce the pressure on the banking system while also making available fresh equity. I am confident that these two instruments (PMDO & REIT) would attract long-term finance from foreign and domestic sources including the NRIs”, said the Finance Minister in his budget speech.

*National Investment and Infrastructure Fund (NIIF):* In December 2015, the NIIF was registered as category II<sup>1</sup> alternative investment fund (AIF) with SEBI. Initial authorised capital of the fund is set at Rs 200 billion and now proposed to be increased to Rs 400 billion. The NIIF is a trust which mobilises finance to the major infrastructure financing companies, institutions including state entities in India. Funds are available for equity support for Non-Banking Financial Companies (NBFCs) and Financial Institutions (FIs). In the Union Budget 2016-17, an initial allocation of Rs 40 billion has been made. Greenfield, brown field and stalled projects are eligible for consideration under NIIF.

*Assistance from the Asian Development Bank and the World Bank:* According to media reports, the Asian Development Bank (ADB) has agreed to extend US \$ 1 billion to Smart City projects over the period of 2015-20. Similarly, the World Bank will provide US \$ 500 million in long term loans for smart city mission. This will be used to provide funds to Smart City SPVs.

#### *Concluding Observations*

Smart Cities that have been identified so far are big cities which are

different from other small cities due to, *inter alia*, the following:

- (i) Size of the population;
- (ii) High degree of concentration of population;
- (iii) Presence of heterogeneous population in terms of social and economic circumstances;
- (iv) Regional hubs for people from neighbouring communities, who come to work/shop and use public services;
- (v) Presence of international community;
- (vi) Negative externalities as the cities contribute to environmental damage from global warming to pollution;
- (vii) These cities have knowledge-based economy as the prosperity comes from the ability to produce new thinking;
- (viii) These cities have greater fiscal capacity than other cities so that they have greater fiscal autonomy which means greater responsibilities and greater ability to levy their own taxes and non-taxes.

The emerging role for Smart Cities is at odds with constitutional and legal space in which they are expected to operate. Smart cities are expected to maintain unified approach to coordination and planning. There is a need for constitutional recognition of Smart City agglomerations and somewhat careful delineation of functions between states and smart cities.

Neither municipal nor State governments have the capacity to invest in urban renewal or investment in modern infrastructure at international standards. Therefore, municipal-Union linkages become necessary. This could be achieved through the constitution of Metropolitan Planning Committee (MPC). Under Article 243ZE, the Constitution also stipulates MPC to be constituted in a metropolitan area where population is more than one million. Minimum two-thirds members of the MPC are elected from amongst the elected members of the Municipalities and Chairpersons of Panchayats in the Metropolitan area. The representations of the Government of India and the State Government are also prescribed in the Constitution itself. Strengthening and functioning of MPC have been emphasised by many including commissions and government committees. Prominent among them are 2nd Administrative Reform Commission (2nd ARC) in its 6th Report on Local Governance in 2007 and the Technical Group on Urban Planning System of the (erstwhile) Planning Commission, 1996 (Alok, 2016).

There is a lot that needs to be done to translate the national policy initiatives into implementation at the city level so that the next generation public services and engagements of residents could be ensured. At the city level, it is of paramount importance to enhance capacities further in basic

financial management, accrual accounting, capital investment plans, legal system for revenue and expenditure so that complex PPP projects could be undertaken seamlessly.

A time will come when these cities will be included in the dialogues and consultations related to inter-governmental relations between Union and States particularly on national issues including immigration, migration, trade and environment, etc.

### Footnote

<sup>1</sup>AIFs are regulated by SEBI Regulations 2012 and classified in three categories for tax treatment under Income Tax Act. Funds under AIF category I and II are exempted and the income generated by the fund would be taxed in the hands of the ultimate investor.

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