

# Demand for Grants 2021-22 Analysis

## Housing and Urban Affairs

The Ministry of Housing and Urban Affairs formulates policies, coordinates activities of various agencies (at the state and municipal level), and monitors programmes in the area of urban development. It also provides states and urban local bodies (ULBs) with financial assistance through various centrally supported schemes. In 2017, the Ministry of Housing and Poverty Alleviation, and the Ministry of Urban Development were combined to form the Ministry of Housing and Urban Affairs.

This note looks at the expenditure incurred by the Ministry, the status of the various schemes implemented by it, and the issues faced with investment required for urban planning.

As 2020-21 had extra-ordinary expenditure on account of COVID-19, we have used annualised increase (CAGR) over the 2019-20 figures to compare the 2021-22 budget estimates.

### Overview of Finances

#### Allocation in Budget 2021-22

The total expenditure on the Ministry of Housing and Urban Affairs for 2021-22 is estimated at Rs 54,581 crore.<sup>1</sup> This is an annual increase of 14% over the actual expenditure for 2019-20. In 2021-22, the revenue expenditure of the Ministry is estimated at Rs 28,822 crore (53% of the total expenditure) and the capital expenditure is estimated at Rs 25,759 crore (47% of the total budget). Since 2014-15, the Ministry's revenue expenditure has been higher than its capital expenditure. This may indicate that the Ministry is spending less on creation of assets.

**Table 1: Budget allocations for the Ministry of Housing and Urban Affairs (in Rs crore)**

	2019-20 Actuals	2020-21 RE	2021-22 BE	Change (Annualised) (Actuals 2019-20 to BE 2021-22)
Revenue	22,749	36,482	28,822	13%
Capital	19,305	10,309	25,759	16%
<b>Total</b>	<b>42,054</b>	<b>46,791</b>	<b>54,581</b>	<b>14%</b>

Notes: BE – Budget Estimate; RE – Revised Estimate.  
Sources: Demand No. 59, Ministry of Housing and Urban Affairs Union Budget 2021-22; PRS.

#### Expenditure trends

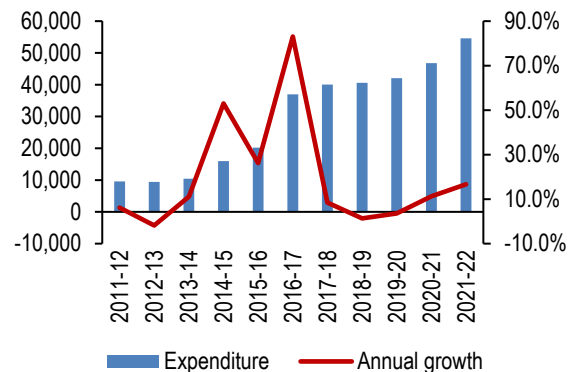
Between 2011 and 2021, the expenditure of the Ministry has increased at an average annual rate of 19% (Figure 1).

#### Key highlights from budget speech 2021-22

In the budget speech, the Finance Minister made the following announcements regarding the housing and urban development sector:

- The Jal Jeevan Mission (Urban) will be launched to ensure universal water supply in all 4,378 urban local bodies in India and enable liquid waste management in 500 cities under the AMRUT scheme. The Mission has an outlay of Rs 2.8 lakh crore for 2021-26.
- Urban Swachh Bharat Mission 2.0 will focus on: (i) sludge management, (ii) waste water treatment, (iii) source segregation of garbage, (iv) reduction in single-use plastics, (v) control of air pollution by waste management in construction, demolition and bio-remediation dump sites. The Mission will have an outlay of Rs 1.41 lakh crore between 2021-26.
- Metro rail networks will be expanded by using new technologies in Tier-1 and Tier-2 cities. Central funding of Rs 88,059 crore will be provided to four metro projects.
- Public bus transport services will be augmented by deploying public-private partnerships to finance and maintain over 20,000 buses. The scheme has been allocated Rs 18,000 crore.
- Affordable housing projects can avail a tax holiday until March 31, 2022. Eligibility for tax deductions for affordable housing announced in the 2019-20 budget has also been extended till March, 2022. This tax deduction can be of up to 1.5 lakh rupees and will be provided on interest paid on loans for self-occupied house owners.

**Figure 1: Trend in expenditure (2011-22) (Rs crore)**



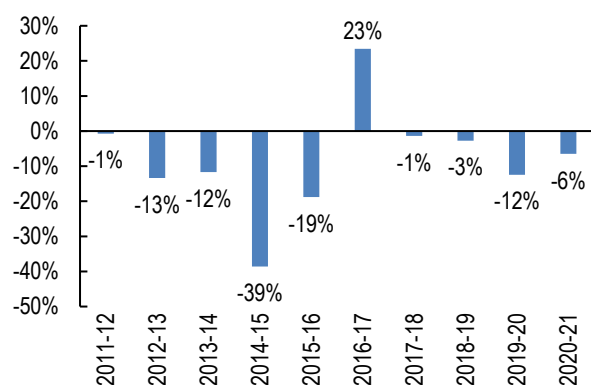
Note: For the years 2011-12 till 2015-16, the figures are a combination of the erstwhile Ministry of Housing and Urban Poverty Alleviation, and the Ministry of Urban Development. Values for 2020-21 and 2021-22 are revised and budget estimates respectively. All other figures are actuals.  
Sources: Ministry of Housing and Urban Poverty Alleviation, and the Ministry of Urban Development budgets 2011-12 to 2015-16. Ministry of Housing and Urban Affairs budget documents 2015-16 to 2021-22; PRS.

The Standing Committee on Urban Development, (2020) had noted that the budgetary allocations to the Ministry were lower than the Ministry's demand between 2018-21.<sup>2</sup> This has also been observed in earlier budget allocations. For instance, in 2017-18, while the erstwhile Ministry of Urban Development projected an expenditure of Rs 68,410 crore, it was allocated Rs 34,212 crore in that year's budget.<sup>3</sup>

The Committee further suggested that with the implementation of schemes picking momentum, the allocation towards them should be increased for better implementation.<sup>2</sup> This would also supplement efforts of state governments to develop and maintain urban infrastructure.<sup>2</sup>

The Standing Committee on Urban Development (2019) noted that extra budgetary resources have been used to reduce the gap between the demand and the budgetary allocations.<sup>4</sup> However, the actual expenditure by the Ministry has been lower than the budget estimates since 2016-17 (Figure 2). The Standing Committee (2020) has recommended the Ministry to avoid such under-utilisation of funds.<sup>2</sup>

**Figure 2: Deviation in actual expenditure from budgeted expenditure (2011-21)**



Note: For the years 2011-12 till 2015-16, the figures are a combination of the erstwhile Ministry of Housing and Urban Poverty Alleviation, and the Ministry of Urban Development. Values for 2020-21 are revised estimates. All other figures are actuals.

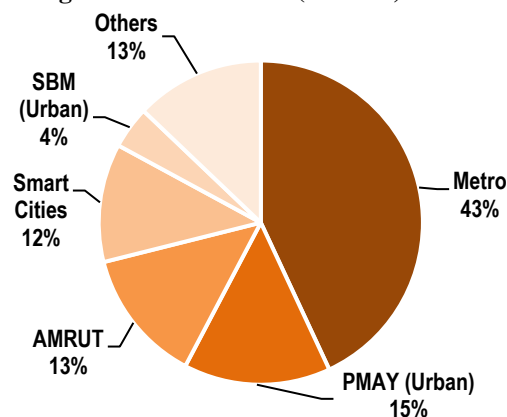
Sources: Union Budget 2011-12 to 2021-22; PRS.

## Major schemes and issues

The Ministry implements several centrally sponsored schemes, and a few central sector schemes. These include: (i) Pradhan mantri Awas Yojana – Urban (PMAY-U), (ii) Atal Mission for Rejuvenation and Urban Transformation (AMRUT), (iii) 100 Smart Cities Mission, (iv) Swachh Bharat Mission – Urban (SBM-U), and (v) Deendayal Antyodaya Yojana-National Urban Livelihood Mission (DAY-NULM). The Ministry also develops and manages metro rail projects across the country.

Of the expenditure allocated to the Ministry in 2021-22, the highest allocation is towards metro projects at 43% of the total budget. The allocation towards the key schemes is shown in Table 2 and Figure 3.

**Figure 3: Budgetary allocation for Ministry of Housing and Urban Affairs (2021-22)**



Sources: Notes on Demand for Grants 2021-22, Ministry of Housing and Urban Affairs; PRS.

**Table 2: Allocations in the Ministry (Rs crore)**

	2019-20 Actual	2020-21 RE	2021-22 BE	Change (Annualised) (Actuals 2019-20 to BE 2021-22)
Metro	18,908	9,000	23,500	11%
PMAY (Urban)	6,848	21,000	8,000	8%
AMRUT	6,392	6,450	7,300	7%
Smart Cities	3,207	3,400	6,450	42%
SBM (Urban)	1,256	1,000	2,300	35%
DAY-NULM	732	795	795	4%
Projects in North-Eastern Region	363	125	120	-42%
Others	-	142	200	
<b>Total</b>	<b>4,349</b>	<b>4,879</b>	<b>5,916</b>	<b>17%</b>

Notes: BE – Budget Estimate; RE – Revised Estimate.

Sources: Expenditure Budget 2021-22; PRS.

## Metro Rail Projects

The Ministry of Housing and Urban Affairs is responsible for urban transport which includes metro rail projects. Investments in these projects are made in various forms including grants, equity investments, debt, and pass-through assistance (grants given to the government which can be awarded to other organisations) for externally aided projects.

As of February 2021, metro rail systems are operational and under construction in 27 cities.<sup>5</sup> 702 km of metro lines are operational, while 1,016 km are under implementation.<sup>5</sup> These have been

set up as a 50:50 joint venture between the central government and the respective state and union territory governments.

Allocation towards metro projects includes allocation towards the National Capital Region Transport Corporation of Delhi (the implementing agency for the Regional Rapid Transit System in the National Capital Region). In 2021-22, Rs 23,500 crore has been allocated towards metro projects. This is an annual increase of 24% increase over the actual expenditure in 2019-20. In 2020, the allocation towards metro projects was decreased by 55% in the revised estimates. The table below shows the trends in allocations and expenditure towards metro projects.

**Table 3: Allocation towards metro projects (in Rs crore)**

Year	Budgeted	Actuals	% utilised
2014-15	8,026	5,998	75%
2015-16	8,260	9,300	113%
2016-17	10,000	15,327	153%
2017-18	18,000	13,978	78%
2018-19	15,000	14,470	96%
2019-20	19,152	18,908	99%
2020-21*	20,000	9,000	45%
2021-22	23,500	-	-

Note: \*Actuals for 2020-21 indicate Revised Estimates.  
Sources: Ministry of Housing and Urban Affairs Budget documents 2014-15 to 2021-22; PRS.

**High allocation:** In 2021-22, the capital expenditure on metro projects is estimated to be 90% of the Ministry's total capital expenditure.

The Standing Committee on Urban Development (2017) noted that a high allocation towards metro projects leads to inadequate funds for other projects such as the PMAY(Urban) scheme.<sup>3</sup> The Standing Committee (2019) had recommended that state/UT governments must be consulted to find ways to reduce the huge outlay on metro works to enable adequate funding for other schemes.<sup>4</sup>

The Standing Committee (2020) while reviewing measures to reduce the cost of projects observed that with increased standardisation and use of newer technologies like MetroLite, the cost of projects had decreased.<sup>6</sup>

**Planning of metro systems:** The National Transport Development Policy Committee (NTDPC) report had observed that high speed mass transit systems such as metro rail do not always reduce door-to-door travel time. Door-to-door travel time is seen as the most relevant indicator for users.<sup>7</sup> Underground or elevated transport systems do not save time as compared to cars or two-wheelers, when trip distances are short, because time is lost in walking from ground level to the platform level. Metro rail systems are efficient

only when the average trip distance is greater than 12 km. Indian cities, because of their mixed land use patterns and higher density development, have shorter trip lengths, and hence are better suited for non-motorised travel.

The NTDPC had recommended that the decision to implement metro rail projects should also consider the high-cost factor. Rail-based metro systems should be considered after examining the opportunity cost of investing in expensive fixed infrastructure.<sup>7</sup>

The NTDPC had recommended that metro rail projects should initially be limited to cities with population more than five million. Further, the cities should be able to cover all costs through user charges or fiscal costs. The NTDPC had also recommended that Indian cities should focus on improving their existing bus systems, adding bus rapid transit (BRT) systems, and improving non-motorised transport.

**Last mile connectivity:** The Standing Committee on Urban Development (2019) highlighted the need to promote door-to-door connectivity of the Delhi Metro. It had suggested that cab aggregator services could employ auto rickshaws and cycle rickshaws to remedy this.<sup>4</sup>

The Ministry has stated that as of September, 2020, there are 800 e-rickshaws are operational from 20 metro stations. Further, 124 feeder buses are run on 32 routes connecting 69 stations. E-scooter services are operational in four stations and cycle sharing services are provided in 16 metro stations.<sup>2</sup>

In September 2020, the Committee observed that steps taken to promote last mile connectivity were inadequate in view of rising ridership or in formulative stages of implementation.<sup>2</sup>

### ***Pradhan Mantri Awas Yojana - Urban (PMAY-U)***

The housing shortage is expected to reach two crore by 2022.<sup>8</sup> It was estimated that about 56% of this shortage falls in the Economically Weaker Sections (EWS), 40% in the Lower Income Group (LIG) category, and the rest 4% in the middle and higher income groups. The Ministry estimates the demand for housing at around one crore.<sup>9</sup>

PMAY-U is an affordable housing scheme being implemented from 2015 to 2022. It seeks to achieve the 'housing for all target' by 2022.

The scheme comprises four components: (i) in-situ rehabilitation of existing slum dwellers (using the existing land under slums to provide houses to slum dwellers) through private participation, (ii) credit linked subsidy scheme (CLSS) for Economically Weaker Sections, Lower Income Groups, and middle-income group (MIG), (iii) affordable

housing in partnership, and (iv) subsidy for beneficiary-led individual house construction. The Ministry provides central assistance to ULBs for the implementation of the scheme through the respective state governments. So far 4,424 cities have been covered under PMAY-U.<sup>10</sup> As of February, 2021, 1.1 crore houses have been sanctioned as part of the scheme.

**Allocation:** The budgetary allocation towards the scheme for 2021-22 is Rs 8,000 crore. This is an 8% increase over the actual expenditure in 2019-20 (Rs 6,848 crore). In 2020-21, revised estimates increased by 163% in comparison to budgeted allocation for the year. This can be attributed to the Affordable Rental Housing Complexes (ARHC) scheme implemented under the Aatma Nirbhar Bharat Scheme. The ARHC scheme seeks to convert government-owned projects and housing stock (projects available with the central government) to affordable housing through public-private partnerships and encourage development on private land by giving special incentives including streamlining of permits and credit. Funding towards the scheme comes from the Central Road and Infrastructure Fund (comprises of a cess imposed along with excise duty on petrol and diesel).

In 2021-22, from the total allocation for PMAY-U, the maximum (59%) is estimated to go towards interest payment against loans raised through extra budgetary sources (EBR) for the scheme. The credit linked subsidy scheme component will receive 13%, and 19% will be provided to states and UTs as central assistance.

**Table 4: Key components under PMAY-U (in Rs crore)**

	2019-20 Actual	2020-21 RE	2021-22 BE	Change (Annualised) (Actuals 2019-20 to BE 2021-22)
Interest Payment against loan raised through EBR	3,069	4,148	4,720	24%
Central assistance to states/ UTs	2,633	9,803	1,542	-23%
CLSS-I for EWS/LIG	600	3,750	1,000	29%
CLSS-II for MIG	400	3,000	0.1	-98%
Others	146	299	738	125%
<b>Total</b>	<b>6,848</b>	<b>21,000</b>	<b>8,000</b>	<b>8%</b>

Notes: BE – Budget Estimate; RE – Revised Estimate.  
Sources: Expenditure Budget 2021-22; PRS.

There has been a decline in allocation to some components of the scheme in 2021-22 in comparison to revised estimates for 2020-21. Allocation to central assistance declined by 84%, CLSS has lowered by 73% in 2021-22 allocation in comparison to revised estimates for 2020-21.

**House construction:** Between the launch of the scheme in 2015 and February 8, 2020, 110 lakh houses have been approved.<sup>11</sup> Of this, 36% houses have been constructed. Note that these numbers also include some houses sanctioned under the earlier scheme, Jawaharlal Nehru National Urban Renewal Mission. The aim of the Mission is to encourage reforms and fast track planned development of identified cities (such as cities with a population of more than 10 lakhs as per the 2001 census).

**Table 5: Progress under PMAY-U**

House construction (in lakhs)		
Houses sanctioned	110	
Under construction	73	64% of the approved houses
Completed	43	36% of the approved houses
Central assistance (in Rs crore)		
Central assistance sanctioned	1,77,410	
Of which central assistance released	85,247	48% of the sanctioned assistance

Note: The total houses approved includes some houses that were sanctioned under the earlier Jawaharlal Nehru National Urban Renewal Mission.

Sources: PMAY-U MIS; as of February 12, 2021, PRS.

With the target of the scheme at 100 lakh houses by 2022, and 42.2 lakh houses been constructed so far, it is unclear how the central government will construct the remaining houses (almost 64% of the target) in two years.

The Standing Committee on Urban Development (2019) had noted that the estimated demand for housing projects under PMAY-U was Rs 1,80,000 crore, as on October 28, 2019.<sup>4</sup> The total central assistance sanctioned was Rs 1,42,000 crore, out of which Rs 57,896 crore had been released. It recommended ensuring timely release of funds to achieve the goal of 'Housing for All' by 2022.<sup>6</sup>

The government stated that funds are released to states in stages based on compliance by states and utilisation of earlier funds. In 2020-21, as of February, 2021, 80% of the funds sanctioned to states was utilised.<sup>6</sup> The Standing Committee on Urban Development (2020) recommended establishing a system to incentivise better performing states under the scheme.<sup>2</sup>

**Lending by housing finance companies:** Both housing finance companies (HFCs), and public sector banks offer low-cost funding for housing.

HFCs have an 80% share in the implementation of the CLSS component of PMAY-U.<sup>13</sup> However, banks and financing companies face constraints such as inability to access long term funds.<sup>13</sup>

The Union Cabinet had approved the creation of a National Urban Housing Fund (NUHF) worth Rs 60,000 crore in February 2018.<sup>12</sup> The NUHF aims to raise funds till 2022 to ensure a sustained flow of central release under PMAY-U to enable construction of houses.

**Rental housing:** As per the 2011 census, 27.5% of urban residents lived in rented houses. According to the Report of the Group of Secretaries (2017), a rental housing scheme could further complement PMAY-U in achieving the housing target.<sup>13</sup> The Ministry proposed a Draft National Urban Housing Policy in October 2015.<sup>14</sup> It seeks to promote the sustainable development of house ownership with a view to ensuring an equitable supply of rental housing at affordable prices. The Ministry also released the Draft Model Tenancy Acts in 2015, 2019, and 2020 to provide for the regulation and speedy adjudication of matters related to rental housing, and repeal the existing state rent control laws.<sup>15,16</sup>

### ***Urban Rejuvenation Mission: AMRUT and Smart Cities Mission***

**The Atal Mission for Rejuvenation of Urban Transformation (AMRUT) Mission** was launched in June 2015.<sup>17</sup> It seeks to provide basic services (such as water supply, sewerage, and urban transport) in cities, especially to the poorer households.

In 2021-22, the AMRUT Mission has been allocated Rs 7,300 crore. This is a 7% annualised increase in the actual expenditure for 2019-20.

It is a Centrally Sponsored Scheme and was allocated a total central assistance of Rs 50,000 crore between 2015-20. In 2020, the scheme timeline was extended till 2022.<sup>6</sup>

The government had proposed that the outlay of Rs 50,000 be spent by 2020. However, from 2015-16 to 2021-22, the Ministry has allocated Rs 40,899 crore (82% of the proposed amount), and spent Rs 31,526 crore (63% of the proposed amount).<sup>2</sup>

Table 6 compares the actual expenditure against the allocation towards AMRUT.

**Table 6: Allocation compared to actual expenditure (Rs crore)**

Year	Allocated	Actual	% utilisation (actuals/ budget)
2015-16	3,919	2,702	69%
2016-17	4,080	4,864	119%
2017-18	5,000	4,936	99%
2018-19	6,000	6,183	103%
2019-20	7,300	6,391	88%
2020-21	7,300	6450*	88%
2021-22	7,300		
<b>Total</b>	<b>40,899</b>	<b>31,526</b>	<b>77%</b>

Note: \*Revised Estimate.

Sources: Ministry of Housing and Urban Affairs Demand for Grants for the years 2015-16 to 2021-22; PRS.

The Standing Committee on Urban Development (2020) has highlighted implementation and performance under the scheme to be below target.<sup>2</sup> For instance, 92% of funds under AMRUT were allocated for water supply and sewerage.<sup>6</sup> However, against the target of 139 lakh, only 71 lakh connections (51% of the target) had been established. Of the target of 145 lakh sewerage connections, only 43 lakh (30% of the target) had been provided.<sup>2</sup>

**The Smart Cities Mission** aims to develop cities that provide core infrastructure and apply 'smart' solutions to give its citizens a decent quality of life to its citizens, and a sustainable environment.<sup>18</sup> 100 cities have been selected under the Mission, which were selected based on a Smart City challenge. The cities were evaluated based on their Smart City Plans which consisted of a pan city development strategy and an area-based development strategy.

The mission is being operated as a Centrally Sponsored Scheme. The central government provides financial assistance of up to Rs 48,000 crore over five years (2015-20).<sup>18</sup> The states and ULBs will have to contribute an equal amount, and generate the additional amount as required through other sources such as borrowings, and municipal bonds.<sup>18</sup>

The Smart Cities Mission has been allocated Rs 6,450 crore in 2021-22, which is an annual increase of 42% over the actual expenditure for 2019-20. Between 2015-16 and 2021-22, 71% of the proposed allocation has been allocated at the budget stage. Between 2015-16 and 2020-21, 48% of the proposed allocation has been spent.

**Table 7: Allocation towards Smart Cities Mission (in Rs crore)**

Year	Budgeted	Actuals	% utilised
2015-16	2,020	1,484	73%
2016-17	3,215	4,412	137%
2017-18	4,000	4,526	113%
2018-19	6,169	5,902	96%
2019-20	6,450	3,135	49%
2020-21	6,136	3,384*	55%
2021-22	6,118		
<b>Total</b>	<b>34,108</b>	<b>22,843</b>	<b>67%</b>

\*Revised estimates.

Sources: Budget documents 2015-16 to 2021-22; PRS.

The Standing Committee on Urban Development (2020) stated that the significant reduction of allocation towards the mission in the revised stages for 2019-20 and 2020-21 was undesirable.<sup>2</sup> It stated that funds allocated must be utilised adequately.<sup>2</sup>

So far, all the 100 selected Smart cities have formed their Special Purpose Vehicles (SPVs) and appointed Project Management Consultants (PMCs).<sup>19</sup> Table 4 provides the status of the smart city projects.<sup>20</sup>

**Table 8: Status of smart city projects (as on January, 2021) (in Rs crore)**

Project status	No. of projects	% of projects	Cost	% of cost
Total Proposed	5,151	-	2,05,018	-
Tendered	788	15%	35,309	17%
Work orders issued	2,441	47%	1,06,187	52%
Completed	2,187	42%	35,413	17%

Sources: Unstarred Question No. 1020, Ministry of Housing and Urban Affairs, Rajya Sabha, February 10, 2021; PRS.

The Standing Committee on Urban Development (2020) has also observed that progress under the mission has been uneven, since states such as Andhra Pradesh, Gujarat and Uttar Pradesh have performed well, while states such as Bihar and Tamil Nadu are lagging behind.<sup>6</sup> The Committee recommended strengthening existing monitoring mechanisms across states to ensure faster implementation.<sup>6</sup>

### **Swachh Bharat Mission – Urban (SBM-U)**

Swachh Bharat Mission (SBM), launched in October 2014, aims to eliminate open defecation and achieve scientific management of municipal solid waste in all statutory towns by 2019.<sup>21,22</sup>

38.7% of districts in India were free from open defecation in 2014, when the Swachh Bharat Mission was launched.<sup>23</sup> 100% of districts were declared to be free from open defecation in October, 2020 by the central government. Of these, 98% have been verified by the Ministry to be

free from open defecation.<sup>24</sup> As of February 2021, 62.39 lakh household toilets have been built in urban areas under the Mission, (105% of the target 59.57 lakh toilets set for 2020).<sup>24</sup>

Table 8 shows the number of toilets constructed as on February 8, 2021, as compared to the targets set for October 2019.

**Table 9: Achievements under SBM- Urban (as on February 11, 2020)**

	Target	Completed	% Achieved
Individual Household Latrines	62,39,742	59,57,471	105%
Community and Public Toilets	6,01,556	5,07,589	119%

Sources: Swachh Bharat Mission Urban - Dashboard; PRS.

The Standing Committee on Urban Development (2020) has highlighted that toilets built under the scheme in areas including East Delhi have very poor quality and do not have adequate maintenance.<sup>6</sup> Further, only 1,304 (30%) of the 4,320 cities declared to be open defecation free have toilets with water, maintenance and hygiene.<sup>2</sup>

The total estimated cost of implementation of SBM-U is Rs 62,009 crore. Of this, the share of the central government is Rs 14,623 crore, and states' assistance will amount to Rs 4,874 crore. The remainder is to be financed via various sources such as the private sector, Swachh Bharat Kosh, market borrowing, and external assistance.<sup>25</sup>

In 2021-22, Rs 2,300 crore has been allocated towards the scheme. This is an annual increase of 35% over actual expenditure for 2019-20. Further, in her budget speech, the Finance Minister announced that the Urban Swachh Bharat Mission 2.0 will be launched. The Mission will have an outlay of Rs 1.41 lakh crore between 2021-26.<sup>5</sup> The mission will focus on outcomes including:

**Certifications for statutory towns:** The Mission aims to ensure that: (i) all statutory towns be certified as ODF+, and (ii) statutory towns with less than one lakh residents be certified as ODF++. A town is certified as ODF+ when no cases of open defecation are recorded and all public toilets are maintained and function. A town certified as ODF++ is one where all sewage is safely managed and treated with no dumping of untreated sewage in water bodies or open areas.<sup>26</sup> As of February 15, 2021, there are 1,742 towns certified as ODF+ and 538 certified as ODF++.<sup>27</sup>

**Garbage free cities:** All statutory towns will be at least three-star garbage free rated as per the Ministry's Star Rating Protocol for Garbage Free cities.<sup>26</sup> The protocol is a framework where each ward in each city is graded across 25 parameters to measure solid waste management. 1,435 cities



have applied for certification under the protocol.<sup>28</sup> As of February 2021, 72 towns have been awarded three stars and six towns have been given a five-star rating based on the protocol.<sup>29</sup>

Besides these, the Mission seeks to ensure bio-remediation of all legacy dumpsites. Under the mission, 50% of all statutory towns with less than one lakh residents will also be certified as Water+.<sup>26</sup> All wastewater in such a town must be treated before being released into the environment.<sup>30</sup>

## Other issues to consider

### *Additional investment required*

The pace of urbanisation is increasing in the country. As per the 2011 census, around 31% of the country's population resided in urban areas. By 2031, around 600 million (43%) people are expected to live in urban areas, an increase of over 200 million in 20 years.<sup>31</sup> Given the pace of urbanisation, large capital investment is needed for infrastructure projects which would require support from central and state governments in the form of capital grants.

With the current rate of urbanisation, the High-Powered Expert Committee (HPEC) for Estimating the Investment Requirements for Urban Infrastructure Services (2011) had estimated a requirement of Rs 39 lakh crore (at 2009-10) prices for the period from 2012-2031.<sup>32</sup> As per their framework, the investment in urban infrastructure should increase from 0.7% of GDP in 2011-12 to 1.1% of GDP by 2031-32. In 2021-22, the estimated expenditure by the Ministry of Housing and Urban Affairs is 0.4% of the GDP.<sup>33</sup>

The Ministry of Finance (2017) had noted that budgetary outlays alone will not be enough to service the growing demands on local governments for improving their infrastructure.<sup>34</sup> Alternate sources of financing are required to meet the funding gap.<sup>34</sup> The flagship schemes of the Ministry (such as Smart Cities Mission, Swachh Bharat Mission) seek to meet their financing requirements through a mix of sources such as borrowings, municipal bond financing, and PPPs. The Standing Committee on Urban Development (2020) noted that as of March 2020, municipal bonds worth Rs 3,390 crore had been issued in eight cities including Ahmedabad and Pune for the implementation of AMRUT scheme.<sup>6</sup>

### *Financial capacity of cities*

The Constitution (74<sup>th</sup> Amendment) Act, 1992 devolved certain functions relating to urban development to ULBs, including the power to collect certain taxes. These functions include urban planning, planning for economic and social development, and urban poverty alleviation. The

new schemes under the Ministry, seek to decentralise the planning process to the city and state level, by giving them more decision-making powers. This implies that a significant share of the funding needs to be raised by the cities themselves.

However, there is an imbalance between the functions and finances of ULBs.<sup>35</sup> The ULBs in India are amongst the weakest in the world both in terms of capacity to raise resources and financial autonomy.<sup>32</sup> Municipal revenue in India accounts for only one percent of the GDP (2017-18).<sup>36</sup> The share of own revenue for ULBs has declined from 63% in 2002-03 to 53% in 2007-08, and to 44% in 2015-16.<sup>37,38</sup> Several states have not devolved enough taxation powers to local bodies. Further, local governments collect only a small fraction of their potential tax revenue.<sup>32</sup>

While the central and state governments provide the ULBs with funds, these devolved funds are largely tied in nature, to either specific sectors or schemes. This constrains the spending flexibility of ULBs.

PPPs have been an important instrument to finance and develop infrastructure projects. However, projects in many sectors such as water-supply and urban transportation require support from ULBs in the form of additional financial resources. The Ministry of Finance has observed that an inability to service such funding requirements constrains project implementation.<sup>34</sup>

In such cases, ULBs can access capital markets through issuance of municipal bonds. Municipal bonds are marketable debt instruments issued by ULBs, the funds raised may be used for capital projects, refinancing of existing loans, and meeting working capital requirements. The Securities and Exchange Board of India regulations (2015) regarding municipal bonds provide that, to issue such bonds, municipalities must: (i) not have negative net worth in any of the three preceding financial years, and (ii) not have defaulted in any loan repayments in the last one year.<sup>39</sup> Therefore, a city's performance in the bond market depends on its fiscal performance.

To improve the finances of the ULBs, the HPEC had recommended that state governments share a pre-specified percentage of their revenues from all taxes on goods and services with ULBs.<sup>32</sup> It had recommended mandating this constitutionally. Further, ULBs should be provided with formula-based transfers, and grants-in-aid.<sup>32</sup> The ULBs could raise their own revenue by tapping into land-based financing sources, and improving non-tax revenues (such as water and sewerage charges, and parking fee).<sup>32</sup>

The Second Administrative Commission (2007) had recommended that the central government

provide additional funds and facilitate additional funding mechanisms for ULBs to strengthen their finances.<sup>40</sup>

The 15<sup>th</sup> Finance Commission (2021) has recommended that Rs 1.2 lakh crore be allocated to urban local bodies as grants.<sup>41</sup>

### **Technical capacity of the ULBs**

It has been observed in the urban sector that the allocation of funds from the central government did not play a role in the implementation of the projects.<sup>32</sup> On the other hand, while ULBs and states implemented the projects, they did not raise

the funds. The new schemes seek to empower ULBs to raise their own revenue. Both the national missions, AMRUT and Smart Cities, have a component for capacity building of ULBs.

The HPEC (2011) 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.<sup>32</sup> It had recommended improving the technical capacity of ULBs. This can be achieved by providing technical assistance to state governments, and ULBs in planning, financing, monitoring, and operation of urban programs.

<sup>1</sup> Demand No. 59, Ministry of Housing and Urban Affairs, Union Budget 2021-22,

<https://www.indiabudget.gov.in/doc/eb/sbe59.pdf>.

<sup>2</sup> “4<sup>th</sup> Report of the Standing Committee on Urban Development on Action taken by the Government on the Observations/ Recommendations contained in the Second Report on Demands for Grants (2020-21) of the Ministry of Housing and Urban Affairs”, September 11, 2020,

[http://164.100.47.193/lssccommittee/Urban%20Development/17\\_Urban\\_Development\\_4.pdf](http://164.100.47.193/lssccommittee/Urban%20Development/17_Urban_Development_4.pdf).

<sup>3</sup> 15<sup>th</sup> report, Standing Committee on Urban development, March 2017,

[http://164.100.47.193/lssccommittee/Urban%20Development/16\\_Urban\\_Development\\_15.pdf](http://164.100.47.193/lssccommittee/Urban%20Development/16_Urban_Development_15.pdf).

<sup>4</sup> “1<sup>st</sup> Report of the Standing Committee on Urban Development (2019-20) on Demands for Grants (2019-20) of the Ministry of Housing and Urban Affairs, December 11, 2019,

[http://164.100.47.193/lssccommittee/Urban%20Development/17\\_Urban\\_Development\\_1.pdf](http://164.100.47.193/lssccommittee/Urban%20Development/17_Urban_Development_1.pdf).

<sup>5</sup> Union Budget Speech 2021-21, February 1, 2021,

[https://www.indiabudget.gov.in/doc/Budget\\_Speech.pdf](https://www.indiabudget.gov.in/doc/Budget_Speech.pdf).

<sup>6</sup> “2<sup>nd</sup> Report of the Standing Committee on Urban Development (2020-21) on Demands for Grants (2020-21) of the Ministry of Housing and Urban Affairs, December 3, 2020,

[http://164.100.47.193/lssccommittee/Urban%20Development/17\\_Urban\\_Development\\_2.pdf](http://164.100.47.193/lssccommittee/Urban%20Development/17_Urban_Development_2.pdf).

<sup>7</sup> “India Transport Report: Moving India to 2032”, National Transport Development Policy Committee, June 17, 2014, [http://planningcommission.nic.in/sectors/index.php?sectors=National%20Transport%20Development%20Policy%20Committee%20\(NTDPC\)](http://planningcommission.nic.in/sectors/index.php?sectors=National%20Transport%20Development%20Policy%20Committee%20(NTDPC)).

<sup>8</sup> “6<sup>th</sup> Report: Demands for Grants (2015-16) of Ministry of Housing and Urban Poverty Alleviation”, Standing Committee on Urban Development, April 27, 2015.

<sup>9</sup> Unstarred Question No.1439, Ministry of Housing and Urban Affairs, Lok Sabha, February 12, 2019, <http://164.100.24.220/loksabhaquestions/annex/17/AU1439.pdf>.

<sup>10</sup> Progress under PMAY (U), Ministry of Housing and Urban Affairs, Last accessed on February 10, 2021, <https://pmay-urban.gov.in/pmayprogress>.

<sup>11</sup> Pradhan Mantri Awas Yojana - Urban MIS, Ministry of Housing and Urban Affairs, <https://pmay-urban.gov.in/uploads/progress-pdfs/60227e8146f62-1.pdf>.

<sup>12</sup> “Cabinet approves creation of national Urban Housing Fund”, Press Information Bureau, Ministry of Housing and Urban Affairs, February 22, 2018, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=176687>.

<sup>13</sup> Report of the Group of Secretaries, Group 4- Health, Sanitation and Urban Development, January 2017, [https://smartnet.niua.org/sites/default/files/resources/report\\_of\\_sectoral\\_group\\_of\\_secretaries\\_on\\_health\\_sanitation\\_urban\\_development.pdf](https://smartnet.niua.org/sites/default/files/resources/report_of_sectoral_group_of_secretaries_on_health_sanitation_urban_development.pdf).

<sup>14</sup> Draft National Urban Housing Policy, Ministry of Housing and Urban Affairs website, October, 2015,

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<sup>15</sup> The Model Tenancy Act, 2019, Ministry of Housing and Urban Affairs, July 10, 2019, <http://mohua.gov.in/upload/whatsnew/5d25fb70671ebdraft%20Model%20Tenancy%20Act,%202019.pdf>.

<sup>16</sup> Background Note on Model Tenancy Act, Ministry of Housing and Urban Affairs, 2020, [http://mohua.gov.in/upload/uploadfiles/files/1%20Background%20Note%20on%20MTA%20\(English\).pdf](http://mohua.gov.in/upload/uploadfiles/files/1%20Background%20Note%20on%20MTA%20(English).pdf).

<sup>17</sup> Mission Statement and Guidelines, Atal Mission for Rejuvenation and Urban Transformation, Ministry of Urban Development, June 2015, <http://amrut.gov.in/writereaddata/AMRUT%20Guidelines%20.pdf>.

<sup>18</sup> Mission Statement & Guidelines, Smart Cities, Ministry of Urban Development, June 2015, [http://smartcities.gov.in/upload/uploadfiles/files/SmartCityGuidelines\(1\).pdf](http://smartcities.gov.in/upload/uploadfiles/files/SmartCityGuidelines(1).pdf).

<sup>19</sup> Unstarred Question no. 1526, Ministry of Housing and Urban Affairs, Lok Sabha, February 12, 2019, <http://164.100.24.220/loksabhaquestions/annex/17/AU1526.pdf>.

<sup>20</sup> Unstarred Question No. 1020, Ministry of Housing and Urban Affairs, Rajya Sabha, February 10, 2021, <https://pqars.nic.in/annex/253/AU1020.pdf>.

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<sup>24</sup> Dashboard, Swachh Bharat Mission (Urban), Ministry of Housing and Urban Affairs, last accessed on February 13, 2021, <http://swachhbharaturban.gov.in/dashboard/>

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<sup>26</sup> “Swachh Bharat Mission (URBAN) 2.0 Announced For Next 5 Years”, Press Information Bureau, Ministry of Housing and Urban Affairs, February 2, 2021.

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