

Smart City Mission:
Financial Progress, Sustainability and
Impact on Urban Local Bodies

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Author: **Ravikant Joshi**

Dr. Ravikant Joshi worked as Chief Accountant in Vadodara Municipal Corporation for 20 Years. After voluntary retirement in 2002, he has worked as a freelance consultant with various national and multi-lateral institutions in India and abroad. He was Chair Professor – Urban Management at St. Joseph College of Business Administration – Bangalore. At present, he works as a freelance consultant in the field of urban finance and governance and is also associated with various civil society groups and various universities, academic / training institutes.

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info@cenfa.org www.cenfa.org

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Abbreviation

ABD	- Area Based Development
AMRUT	- Atal Mission for Rejuvenation and Urban Transformation
FOP	- Financial Operating Plan
LPR	- Local Political Representation
MoHUA	- Ministry of Housing and Urban Affairs
PPP	- Public Private Partnership
PMAY	- Prime Minister Awas Yojana
PMC	- Project Management Consultants
SCP	- Smart City Plans / Proposal
SBM	- Swachh Bharat Mission
SCM	- Smart Cities Mission
SCSPV	- Smart City Special Purpose Vehicle
SPV	- Special Purpose Vehicle
ULB	- Urban Local Bodies

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Preface

Inaugurating the Smart City Mission (SCM) in June 2016 Prime Minister Modi said, “If anything has the potential to mitigate poverty it is our cities. It is now our responsibility to provide strength to cities so that it can mitigate the maximum poverty, in the shortest time, and adds new avenues for development.”

There isn't any project which is not justified in the name of serving the poor or having the potential to remove poverty. SCM is not an exception.

Five years later the promise of SCM stands exposed. Far from mitigating poverty, by forced evictions and no rehabilitation, it pushed more people into poverty. It attempts to create small islands of prosperity, leaving behind vast majority of the city to settle with that is left of the resources. It undermines democracy and promotes a governance model devoid of accountability to any democratic institutions. Some of these are documented.

One aspect of SCM which is scanty subjected to a public debate is the finances of SCM. This booklet is an attempt to facilitate such a public debate. This booklet has two sections. The section on 'Financial Progress and Sustainability of Smart Cities Mission' presents a detailed analysis of the smart city project proposals submitted by all 100 cities under the Smart Cities Mission. It is based on the financial data available on these projects by the Ministry of Housing and Urban Affairs and the city specific smart city websites. It compares in great details the finances projected for the Area Based Development projects and the Pan City projects under the mission as well as the performance of these projects in execution and financial utilisation. The booklet finds that after almost five years of the mission, its overall financial performance is quite low. The report also raises important concerns about the financial sustainability of the project proposals and its long-term implications on the city level capacities and finances which remain quite low.

It also finds that considering the financial health of the local bodies, the per capita expenditure planned under these projects is unrealistic and unsustainable. It notes that the financial proposal submitted by the city level agencies is inconsistent to their financial capacities. In addition, it also finds that the smart city proposals are non-inclusive and focus on a small area and population of the overall city in terms of direct benefits. It recommends that in terms of course correction the mission should focus on urgently sorting out issues related to transparency and disclosure of information, adequate local people's participation in the management of institutions, involvement of non-government organisations and other stakeholders in performance evaluation, issues of institutional fragmentation and centralisation as well as bringing clarity on the role of city level SPVs as asset creating, asset holding or management agencies.

City level reports on smart city mission projects by Centre for Financial Accountability (CFA) also share and raise these issues that have been analysed in this report. The points similar to discussed in this report at the national level reflect in those city level reports published earlier as well such as the democratic decentralisation, the role of municipal bodies and SPVs, the availability of project level information and participation of local citizens among others.

Joe Athialy

Centre for Financial Accountability

Financial Progress and Sustainability of Smart Cities Mission

Executive Summary

The Smart Cities Mission a central sponsored scheme comprising 100 cities was announced on 25th June 2015 for five years with Rs. 48000 crores GOI outlay and equal contribution from States / ULBs, thus envisaging investment of Rs. 100000 crores. SCM has recently completed five years of its operation and this review is undertaken to take stock of its progress and various sustainability issues associated with it.

100 smart cities have submitted in all 5151 project proposals of Rs. 2,05,018 crores out of which Area Based Development projects constitute 81 per cent share that is of Rs. 166064 while Pan City Solutions projects are estimated to be of Rs. 38954 that is 19 per cent of the total.

As per latest annual report of MoHUA for the year 2019-20; by the end of 31 December, 2020 in all 1461 projects of Rs. 24467 crores have been completed. In % terms performance stands at 28.4 % in terms of number of projects and 12% in financial terms. The annual report estimated that actual expenditure under SCM will reach Rs. 30000 crores by 31st March, 2020. Even if this figure is taken in to account then at the end of 5th year of the Mission actual performance in financial terms is likely to reach 14.6 % which is certainly very low.

Beside very low performance there are financial sustainability issues right from conception of the scheme and their negative impact will manifest as scheme progresses. Main issues identified are

Unrealistic resource plan and Miniscule contribution by ULBs as they lacked capacity - 65 percent of the funds are projected to come from higher level governments as capital grant, 21 percent from PPP but track record of PPPs in urban service development and delivery is very poor. Only 6 percent or less resources are going to come from ULBs own resources as 76 out 100 smart cities do not have capacity to put in any resources. 51 cities do not have investment grade credit rating.

Unsustainable per capita and per square Kilometre development cost – under SCM average per capita development cost is Rs. 167000 and per square KMs cost is Rs. 334 crores (against normal cost of Rs. 80000 per capita or Rs. 100 to 110 crores per square KMs). This is unrealistic and unsustainable taking into account financial health of ULBs and size of urban population to be served by the country.

Financial proposals disproportionate to financial capacity of the ULBs and weaker ULBs have submitted highly unsustainable smart city proposal.

Smart city proposals are not inclusive and scheme will take very long time to cover all – on an average 10 percent population and less than 4 percent of area of the city will be directly benefitted by the smart city scheme. Even at the double rate of this a city will take 25 to 50 years to become fully smart or well developed. Similarly, in five years period 100 cities have not become smart, even if in future implementation rate improves, it will take long time to cover 500 cities which are having more than 100000 population under smart cities program.

There is an urgent need for course correction to avoid financial unsustainability of the scheme and it is still possible as progress of the scheme is still less than 20 percent. Paper has outlined some course correction measures.

Introduction

The Smart Cities Mission (SCM), the much discussed, awaited and promoted city/urban development programme of the NDA Government was announced on 25 June, 2015 after 13 months its coming to the power in May 2014. The scheme was for 5 years and recently this scheme completed five years of its operations, so it is most appropriate that progress and sustainability of this ambitious mission is reviewed. Recent Annual Report of MoHUA for the year 2019-2020 states that at the broadest level, Smart cities address three core issues: Liveability, Economicability and Sustainability. So not only financial progress but whether SCM is achieving these three aspects also needs examination.

SCM is a centrally sponsored scheme, with the proposed outlay of Rs. 48000 crores from GOI for 100 cities. An equal amount on a matching basis is to be contributed by the State/ULB. Hence, nearly rupees One Lakh Crore are envisaged through Government/ULB funds for development of 'Smart Cities'. Then basis chronology of the events and operations under SCM is as follows -

- The names of 98 cities¹ selected after the first round of selection were announced on 27th August, 2015. By the end of November 2015, Smart City Plans of 100 cities was submitted and in January 2016 the country got its first batch of 20 cities selected under Smart City Mission (SCM).
- As cities from 23 states and union territories could not find place in the first 20 cities there was uproar, so instead of 40 cities in the next round of selection, a fast track selection process was undertaken and one city from each of 23 States and Union territories submitted their Smart City Plans (SCPs) by end of April 2016 and 13 cities out of 23 fast track cities got selected in June 2016. WW
- With 13 slots out of 40 cities of second round selection gone, the unselected 67 cities submitted their SCPs for 27 slots by the end of June 2016 and in September 2016, 27 cities' out 67 cities got selected.

1 Initially Jammu and Kashmir and Uttar Pradesh failed to nominate one city from the quota allotted to them, which they later nominated beside that additional 7 cities were included in the list at the request of the State by GOI, so in all 107 smart cities were selected and allowed to participate in selection of final 100 smart cities .

- In the third-round smart city proposals of 30 cities were approved on June 23, 2017 and finally
- In the fourth round remaining smart city proposal of 10 cities were approved on January 18, 2018.

Thus, now there are 100 cities which have been selected as Smart Cities and their SCPs have been approved. The population of these 100 cities is 99.63 million which is 25 per cent if present day urban population of India is assumed at 400 million. This fact makes it necessary that SCM need to be analyzed, discussed and monitored thoroughly as it will be impacting lives of more 25 % of urban population.

Table 1 – submission of SCP by the cities in four rounds and other details (Rs. In Crores)

	Round 1	Round 2##	Round 3@	Round 4**	Total
No. of Selected Cities	20 out of 100	40 out of 80	30 out of 47	10 out of 17	100
Period of Selection	January 2016	May-Sept 2016	June 2017	Jan 2018	
Total No. of Projects	829	1959	1891	472	5151
Investment Proposed	48064	83698	57393	15863	205018
Average SCP Size	2403	2092	1913	1586	2050

as described above this round was conducted in two parts – fast track and regular.

@ in later stages 7 more cities were selected and were allowed to participate in selection process

** Shilong was selected as 100 smart city in June 2018.

Out of these 100 cities 35 cities are million plus (9 cities having population more than 2 million), 24 cities having 5 to 10 lacs population, 12 cities having 3 to 5 lacs population, 22 cities having 1 to 3 lacs population while 7 cities are having population less than 1 lacs. Mumbai, Delhi (East, North, South) Kolkata and Hyderabad have not been nominated by the States under SCM, so they are not part of SCM. Some of the metropolitan cities which are not part of the SCM are Gaziabad, Meerat, Vasai – Virar, Dhanabad, Navi Mumbai, Haora, Jodhpur.

Under SCM each smart city will get funds of Rs. 100 crore per annum (maximum Rs. 500 crores in five years) and equal amount will have to put in by the State and the City together (Rs. 50 crores by the State and ULB, in all Rs. 250 crores by State and ULB in five years). The smart cities and their respective States will have to incorporate Special Purpose Vehicles (SPVs) and then implement

smart city projects with private partner under PPP mode.

It is reported² that 98 out of these 100 cities have formed Special Purpose Vehicles (SPV) and 90 cities project management consultants (PMC) have been appointed to help implementation of SCM. Cities are in the process of preparation of Detailed Project Reports (DPR) and of issuing request for proposal (RFP) etc.

These 100 smart cities have submitted in all 5151 project proposals of Rs. 2,05,018 crores out of which Area Based Development projects constitute 81 per cent share that is of Rs. 166064 while Pan City Solutions projects are estimated to be of Rs. 38954 that is 19 per cent of the total.

Against this proposed project layout of Rs. 205,018 crores GOI of India has promised budgetary support in the form of SCM grant of Rs. 48000 crores which amounts roughly to 25 per cent. Another 25 percent funds around Rs. 50000 crores will come from State Governments and ULBs contributions. Even if it is assumed that GOI, State Governments and 100 Urban Local Bodies will be able to put in investment of Rs. 100,000 crores, there are serious concerns about the ability of the 100 cities selected under SCM to be able to raise remaining Rs. 105018 crores; in other words, there are serious concerns about the financial robustness and financial sustainability of the SCM³.

Before examining financial robustness or sustainability of SCM, it would be appropriate to understand these terms.

2 Smart Cities Mission – Weekly Update – Issue 41 – 5th November 2018 - <https://smartnet.niua.org/weekly-update?m=wu41>

3 Joshi Ravikant – Smart Cities Mission – A Contrarian View – Urban Sanitation – July – September 2015 issue.

Financial Robustness / Sustainability Defined

Robust is a characteristic describing a model's, test's or system's ability to effectively perform while its variables or assumptions are altered. In order for a robust, concept to operate without failure under a variety of conditions.

For statistics, a test is claimed as robust if it still provides insight to a problem despite having its assumptions altered or violated.

In economics, robustness is the ability of a financial trading system to remain effective under different markets and different market conditions, or the ability of an economic model to remain valid under different assumptions, parameters and initial conditions.⁴

In other words financial robustness is attributed to financial markets that continue to perform despite alterations in market conditions. In general, being robust means a system can handle variability and remain effective. Financial robustness is also defined as a ratio of equity to total assets. This ratio is used as a proxy for the financial creditworthiness.

Financial robustness is associated with financial markets while fiscal sustainability, which is a similar concept, is associated with governments and government organisations. Fiscal sustainability is defined as the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures.

Sustainability thus refers to the ability to endure or be capable of functioning in the same way as before without harming the future of the organisation. Economic or in other words financial sustainability is the ability of an organization to sustain itself financially without hampering its

⁴ [https://en.wikipedia.org/wiki/Robustness_\(economics\)](https://en.wikipedia.org/wiki/Robustness_(economics))

functioning and without compromising on its service quality level.

Financial sustainability would enhance the endurance of organisation which would have a long life. The organisation must be able to recover the costs it has put into projects and must generate sufficient surplus for day to day functioning as a part of the operating revenue. Financial sustainability is the sin-qua-none of survival of organizations which otherwise may have to face the danger of solvency.

There is no consensus on precise definition of financial sustainability. Different studies use their own, often similar, definitions of financial sustainability. Financial sustainability concept is same at generic level but differs in application to some extent depending upon subject of study or level of government or type of organisation or project. For Example - the financial sustainability with respect to a non-profit organization may get defined as - capacity of non-profit organisation to obtain revenues in response to a demand, in order to sustain productive processes at a steady or growing rate to produce results and to obtain a surplus. But review of different definitions of financial sustainability of local government the following terms seem to encompass the idea –

- Sustaining current spending and meeting spending commitments
- No defaults on liabilities
- Intergenerational equity - No burden on future generations
- Maintaining of financial capital (working capital)
- Asset Management / Maintaining of infrastructure capital (asset for provision of services)
- Strategic and financial planning
- Prudent financial management systems in place
- Revenue enhancement strategies
- Improved expenditure management
- Maintaining public confidence

With regard to ensuring financial sustainability the most important thing is assessment or measurement of financial sustainability and then designing system of positive and negative incentives. The tool which is widely used for assessing financial sustainability is sustainability

indicators. Different countries have developed system (see end note) of assessing financial sustainability of different sectors including municipal sector, institutions, projects and activities. It is difficult to take stock of all the indicators but some of the common indicators utilised to measure financial sustainability by all these systems are as follows –

1. **Operating Surplus** - (the difference between day to day income and expenses for the period)
2. **Operating Surplus Ratio** - (the operating surplus (deficit) expressed as a percentage of general and other rates net of rate rebates and revenues) - by what percentage does the major controllable income source vary from day to day expenses.
3. **Net Financial Liability** - equals total liabilities minus financial assets. What is owed to others less (net of) money you already have or is owed to you.
4. **Net financial liability to operating revenue ratio** - (how significant is the net amount owed compared with income) -This ratio indicates the extent to which net financial liabilities of a Council could be met by its operating revenue.
5. **Interest cover ratio** - (how much income is used in paying interest on loans) -extent to which operating revenues are committed to interest Expenses.
6. **Assets Sustainability Ratio** - (are assets being replaced at the rate they are wearing out) -capital expenditure on renewal or replacement of assets relative to the recorded rate of depreciation of assets for the same period.
7. **Asset Consumption Ratio**- (the average proportion of 'as new condition' left in assets) -the written down current value of a Council's depreciable assets relative to their 'as new' value in up to date prices.
8. **Own Source Revenue percentage** - (own source revenue / total revenue) - it indicates how dependent the ULB is on external source of funding like loans and grants.
9. **Debt service coverage Ratio** - (Debt service + Operating Surplus / Debt Service) – indicates how much excess capacity to borrow is available with ULBs, also it shows that whether ULB
10. **Tax Collection Ratio** - (Arrears + Current Tax Collection / Arrears + Current Tax Demand X 100) –
11. **Per Capita Expenditure** – (total or revenue or capital expenditure / population)

These and various other financial sustainability indicators cannot be measured at present because

data necessary to work out such indicators has not been demanded by SCM itself or any other scheme in the past and ULBs have not submitted such financial performance data on their own. Also, financial performance data of most of the ULBs does not exist in public domain. Even various central finance commissions, state finance commissions and other government agencies have failed to collect reliable data from ULBs. Thus, recent secondary data on municipal finance does not exist.

Based on the data submitted by the 100 ULBs in the SCPs and its annexures, following indicators only can be worked out, consequently this research on financial sustainability of SCPs is limited at present to following indicators –

1. Smart City Proposal Costs Vs the capacity of the city to spend = Smart City Plan's Proposed Annual Cost / Total Average Annual Expenditure (over last four years)
2. ULBs contribution to total resource plan for SCP or Share of ULB's Own Source Revenue in funding SCP
3. Per Capita Expenditure / Amount Proposed to be spent in Area Based Development Plan Vs Benchmark Per Capital Urban Development Cost
4. Per Sq. Km. Amount Proposed to be spent in Area Based Development Plan Vs Benchmark Per Sq. Km. Urban Development Cost
5. Reliability of the various resources proposed and Resource Plan

Beside the data submitted in their SCPs by the 100 ULB, various other secondary data is utilized to examine issue of financial sustainability of the Smart Cities Mission as follows -

Financial Sustainability and Smart Cities Mission

'Financial sustainability' has been mentioned only at one place (see Figure 1) in the smart city plan format of 40 odd questions to be filled in by cities and submitted to the Ministry of Urban Development. However, the concept of financial sustainability has not been explicitly defined in the Smart City Mission guidelines. Moreover, the financial sustainability indicators or parameters which will be considered while analysing the SCP of the city have not been outlined in the guidelines or other smart city mission documents. In SCM guidelines, it is not made clear whether financial sustainability of SCP will be examined or not? Similarly, financial sustainability is not made a mandatory condition or prerequisites to receive funds. In the SCPs submitted, all the cities have provided Financial Operating Plan (FOP) of the proposed SPV and a resource plan to fund SCP, but many cities have not provided overall financial operating plan of the ULBs showing clearly impact of Smart City Plan on overall finances of ULB.

The review of all the 100 SCPs have clearly indicated that barring some exceptions, ULBs have not submitted an action-plan for resource improvement to make the ULB financially self-sustaining as was asked in Smart City Proposal format. This fact can be noticed from SCPs by a non-professional. However, the reality is all these SCPs have got approved without asking any further explanation or raising any doubt about the action-plan submitted for making the ULB financially self-sustaining.

Figure 1: Snapshot of Smart City Plan document format (Ministry of Urban Development, 2016)

38. RESOURCES PLAN

Describe the financing sources, the own-sources of income, the financial schemes of the Central or State governments for which your city/SPV is eligible, which can be used to fund the SCP proposals and pay back loans. Briefly describe an action-plan for resource improvement to make the ULB

financially self-sustaining. (max. 1500 words)

Smart Cities Mission – Macro Financial Picture

There is non-availability of systematic, consistent macro and micro level data about the progress of smart cities mission. 93 out of the 100 smart city special purpose vehicles have not shared their recent annual accounts or audit reports. States also are not sharing progress data. This macro financial picture about smart cities mission is put together from various scattered secondary sources as follows -

The macro level SCM performance picture is available only from the Annual Reports of the MoHUA for the year 2018-19⁵ and 2019-20⁶. According to these reports at end of 31 March 2019 against 5151 project proposals amounting to Rs. 205018 crores; in all 846 projects of Rs. 14324 crores were completed. As per latest annual report of MoHUA for the year 2019-20; by the end of 31 December, 2020 in all 1461 projects of Rs. 24467 crores have been completed. This means combine performance of 100 smart cities at the end of 4th year of SCM (31.03.2019) was 16 % in terms of number of projects and 7 % only in terms of financial outlay. In the 5th year of the project speed of execution has increased and performance in terms of number of projects stands (as of 31.12.2019) at 28.4 % and 12% in financial terms. As claimed in 2019-20 annual report, actual expenditure under SCM will reach Rs. 30000 crores by 31st March, 2020. If this figure is taken in to account then at the end of 5th year of the Mission actual performance in financial terms is likely to reach 14.6 % which cannot be called good taking in to account the fact that five years have got completed.

Thus, the Scheme which should have achieved 100 percent completion at the end of its five-year terms has achieved meagre performance of 15 percent and that too in financial terms, it is not clear whether projects completed have increased service delivery level and liveability of how many citizens of the city.

Second set of data comes from budget documents of Government of India of past six years. This data is about amount provided in the budget and actually released by the GOI to States/ULBs for Smart Cities Mission (Table 2).

It can be observed from the table 2 together that GOI provided Rs. 23639 crores in budget for SCM

5 <http://mohua.gov.in/cms/annual-reports.php>

6 <http://mohua.gov.in/upload/uploadfiles/files/Final%20Annual%20Report%20compressed-1-80.pdf>

during 2015-16 to 2019-20 but against that released only Rs. 19774 crores (83.7%). In five years, it was expected to release around Rs. 48000 crores but provided only Rs. 23639 crores and actually released 19774 crores this is because on ground SCM has not progressed.

GOI provided Rs. Crore for preparation of smart city proposal and then first instalment of Rs. 194 crores to each city. Thus, if Rs. 196 crores are the first instalment per city then amount comes to Rs. 19600 crores and when its is compared with amount actually released Rs. 19774 crores till December 2019 then it clearly indicates that ULBs have not achieved necessary expenditure and therefore they have not come for second instalment to the GOI. Even as noted earlier GOI estimated that total expenditure of SCM will be around Rs. 30000 by end of March 2020, corroborates this fact that expenditure at ULBs level is low and has not reached to a level where ULBs can ask for second instalment.

Table 2 – Total amount Budgeted and Released by GOI (Rs. In Crore)⁷

Year	Budgeted for SCM	AGR %	Actual Amount Released for SCM	AGR %	% Amount Released against Budgeted
2015-16	2020		1484		73.5
2016-17	5000	147	4412	197	88.24
2017-18	4000	(-) 20	4526	2.6	113
2018-19	6169	54	5902	30.4	95.7
2019-20	6450	4.6	3450	() 41.4	53.5
Total	23639		19774		83.65
2020-21	6450		-		

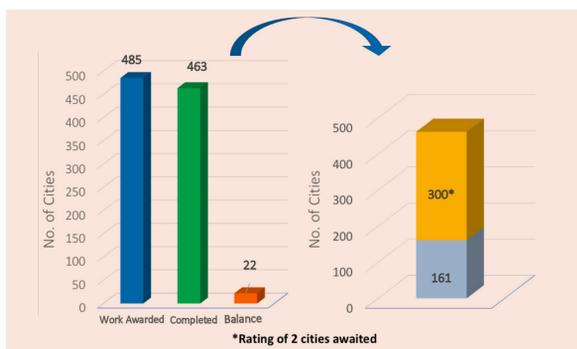
The third set of macro data⁸ comes from the credit rating carried out of SCM and AMRUT Towns. AMRUT reform agenda which included a set of 11 reforms comprising 54 milestones to be achieved over a period of 4 year provided for Credit rating of ULBs as one of the AMRUT reform to be attained by Mission cities.

⁷ <https://www.prsindia.org/parliamenttrack/budgets/demand-grants-2020-21-analysis-housing-and-urban-affairs>
<https://www.prsindia.org/parliamenttrack/budgets/demand-grants-analysis-housing-and-urban-affairs>
<https://www.prsindia.org/parliamenttrack/budgets/demand-grants-2018-19-analysis-housing-and-urban-affairs>

⁸ AMRUT – MoHUA PPT on Credit Rating and Issuance of Municipal Bonds in National Workshop on Municipal Finance and Urban Planning, Stein Auditorium, IHC, New Delhi – 26th November, 2018

Credit rating work of 485 cities was awarded and by end of November 2018 credit rating of 463 cities have been completed⁹. Out of 463 cities, in all 161 cities (35 per cent) have received investment grade rating (BBB--- and above). Only 37 cities out of 161 cities have received high or adequate investment grade status. Further analysis shows that out of these 37 cities only 21 belonged to Smart Cities Mission cities (See Table 3).

It can be observed from the Table 3 that the notable ULBs like – Vijayawada, three ULBs of Delhi, Gurugram, Mysore, Mira Bhayandar, Vasai-Virar, Vasai-Virar, Bhiwandi, Hyderabad etc which has Investment grade rating are not under Smart City Mission.



The credit rating exercise has clearly indicated that only 22 cities out of 100 cities under SCM has investment grade rating. There is indication that other 37 cities have simple investment grade rating (above BBB--- up to A---) it means 41 cities out of 100 cities SCM lacked financial health Table 4.

Table 3 - List of 35 cities with A (-) or above rating (Cities under SCM marked in Yellow)¹⁰ Table

S.NO	STATE/UT	#	Name of Mission Cities	Rating	S.NO	STATE/UT	#	Name of Mission Cities	Rating
1	Andhra Pradesh	1	GVMC	AA (SO)	7	Maharashtra	18	Kalyan Dombivli	A+ Provisional
		2	Vijayawada	Ir A-			19	Mira Bhayandar	AA-
		3	N.D.M.C.	AAA			20	Nashik	AA-
		4	South DMC (U)	AAA			21	Navi Mumbai	AA+
2	Delhi	5	East DMC	A+			22	Pimpri Chinchwad	AA+
		6	North DMC	A			23	Pune	AA+
		7	Ahmadabad	CCR AA			24	Thane	AA-
3	Gujarat	8	Rajkot	A			25	Greater Mumbai	AA+
		9	Surat	CCR AA			26	Vasai-Virar City	A-
		10	Vadodara	CCR A+			27	Bhiwadi	A-
4	Haryana	11	Faridabad	AA+			28	Jaipur	A-
		12	Gurugram	A-	8	Rajasthan	29	Jhunjhunun	A
5	Karnataka	13	Mangalore	A			30	Kishangarh	A+
		14	Mysore	A			9	Telangana	31
6	Madhya Pradesh	15	Bhopal	CCR A-	32	Warangal			A
		16	Indore	CCR A+	33	Lucknow			A-
		17	Jabalpur	CCR A-	10	Uttar Pradesh	34	Ghaziabad	A-
11	West Bengal	35	Kolkata	AAA					

9 <https://www.icra.in/Rating/Index?RatingType=RANA>

10 Chennai and Madurai of Tamil Nadu State received credit rating A and A- respectively but not included in this table presented by MoHUA as a part of PPT on Credit Rating and Issuance of Municipal bonds

4 - List of smart cities with their credit rating

Credit Rating Symbol	Description / Safety of investment	Name of the smart city municipal body	Number of cities
AAA	Highest Safety		
AA+		Pune, Ahmedabad, Faridabad, Pimpri-Chinchwad, New Delhi	5
AA	High Safety	Vishakhapatnam, Surat,	2
AA-		Thane, Nashik,	2
A+		Indore, Kalyan-Dombivali, Vadodara,	3
A	Adequate Safety	Chennai, Warangal, Mangaluru, Rajkot, W	4
A-		Jaipur, Jabalpur, Bhopal, Lucknow, New Town Kolkata, Madurai	6
BBB+		Bhubaneshwar, Coimbatore, Udaipur, Ludhiana, Raipur, Kota, Kanpur, Ajmer, Tiruchirappalli, Ujjain, Gwalior	11
BBB	Moderate Safety	Kochi, Davangere, Kakinada, Chandigarh, Panaji, Tirupati, Nagpur, Jalandhar, Hubali Dharwad, Thiruanantpuram, Patna, Karimnagar, Shimla, Bilsapur, Tirunelveli,	15
BBB-		Belagavi, Ranchi, Tanjavur, Pasighat, Toothikodi, Moradabad, Tumakuru, Tirupur, Sagar, Amaravati, Deharadun	11
BB+		Solapur, Bhagalpur, Amritsar, Raurkela, Karnal, Erode, Bareilly, Saharanpur, Aligarh, Dharamshala	10
BB	Inadequate safety	Vellore, Salem, Mujhampur, Puducherry, Bengaluru, Jhansi, Aizwal, Gangatok, Satana	9
BB-		Agartala, Shrinagar, Jammu, Bihar Sharif, Agra, Guwahati	6
B+		Aurangabad, Allahabad, Shilong, Varanasi	4
B	High Risk	Kohima	1
B-		Imphal	1
C	Substantial Risk		
D	Default		
	No Information	Port Blair, Namachi, Shivamogga, Naya Raipur, Gandhinagar, Dahod, Silvassa, Diu, Karavati, Itanagar	10
	Total		100

Smart Cities Mission – Micro (ULB level) General Picture

The micro or ULB level picture has been generated by analysing smart city proposals of 100 cities in detail on selected parameters and the picture emerging from these smart city proposals about financial robustness or sustainability of SCM and other aspects like inclusiveness, equality etc is as follows-

Table 5 – Size of SCP, ABD and PCD Component of the Cities under different rounds¹¹

Round of selection	No. of cities	Population (lacs)	ABD proposal Rs. In Cr	% Share	Average ABD Proposal Rs. Cr.	Pan City Deve Rs. In Cr.	Average Pan City Rs. Cr.	Total SCP Rs. Cr.	Average SCP Rs. Cr	Average Per Capita SCP cost (Rs.)
1st round	20	353.80	37334	77.2	1867	11598	580	48932	2447	14808
Fast Track	13	96.40	25090	87.2	1930	3891	299	30300	2330	31431
2nd round	27	254.83	41723	78.9	1545	11387	421	56136	2079	22029
3rd round	30	243.89	46879	81.7	1563	10515	350	62488	2083	25622
4th round	10	36.75	11549	83.7	1155	2258	226	14010	1401	38436
Total	100	985.36	162575	75.5	1625	39565	395	215325	2153	21853

- **Wide variations** - 100 cities which are selected under SCM are characterised by wide variations in terms of population, financial resources, economy base, functional domain, powers, autonomy, political – social – cultural importance etc. The SCPs submitted by the cities not only mirror these variations, but SCPs have added more variations.

Smart cities proposals comprising ABD, Pan City and other components ranged from Rs. 6199 crore (Chandigarh) or Rs. 6132 crore (Thane) to Rs. 778 crores (Port Blair) and Rs. 527 crores (Karavati). Average of 100 proposals comes around Rs. 2032 crore. 36 smart city plans are above national average of Rs. 2032 crore, while 31 outlays ranged between Rs. 1500 to 2000 crore, 22 SCPs ranged between Rs. 1000 to 1500 crore. Three cities of Namachi – Sikkim, Port

Blair and Karavati submitted SCP of less than Rs. 1000 crore.

Variations can be observed when we disaggregate data in terms of cities finalised under different rounds from Table – 5. Except 20 cities which were selected in the first round, rest of the cities have gone through minimum of one and maximum four rounds of SCP revision. Interestingly it can be observed from the table that cities of later rounds have submitted SCP of lower average amount but within the total SCPs there is different trend. Cities of later rounds have given more preference in percent terms to Area Based Development over the Pan City Development. Thus, there appears a correlation between reduction in size of SCP and number of revisions a city has carried it to its SCP. But this apparent correlation is not correct because cities of later rounds are of smaller size and of weaker financial health as a result of this these cities have submitted SCP of smaller size. The apparent correlation between reduction in size of SCP and number of revisions of SCPs by the fact that the cities of later rounds have actually submitted SCPs which are higher in terms of per capita cost of SCP (total cost of SCP divided by total population of the city) and thus appear unrealistic.

- **Non-inclusive in terms of population** - Smart cities challenge winners of 100 cities constitute 26 per cent of total urban population (98.5 million out of 377 million) of India in 2011. Out of this 98.5 million population, the direct beneficiaries or the population residing in ABD area is 9.71 million. In other words, just 9.85 per cent of the total population of these 100 smart cities is covered under ABD component and will be directly benefiting under SCM. The population coverage is less than average (9.85 %) in case of 34 cities out of 100 smart cities.
- **Non-inclusive in terms of area of the City** - The aggregate municipal area of 100 cities is 13585 sq. kms. and these cities together have proposed area-based development of 490 sq. kms., that is just 3.60 per cent area of the cities have been proposed for smart development under Area Based Development component of smart cities scheme. The area coverage is less than the national average of 3.60 per cent in case of 43 cities out of 100 smart cities.
- **Long period required to make entire City a Smart City** - even if non-inclusiveness issue

is kept aside, such a low coverage (3.60 per cent of area or 9.85 per cent of population) of area and population under five-year smart city program means a very long period to convert entire city in to a smart city. Even if area coverage under Smart City development is assumed at 20 per cent (five times compare to actual covered in proposals) and 20 per cent population (two times compare to population proposed under SCP) coverage in five years, it will require 25 years to develop all the area of the city or it will require 25 years to cover entire population of the city under Smart Cities Mission. Similarly, even if we keep aside 4000 statutory towns and 3500 census towns, there are 500 cities having population of 100000 people and above which will require 25 years to get covered by the Smart Cities Mission.

- **Area Based Development inclined - Smart Cities Scheme has two components** - Area Based Development (ABD) and Pan City Development. 100 ULBs in all have submitted smart city cost proposals of Rs. 215325 crores out of which Area Based Development Proposals constituted Rs. 162575 crores (75.5 % share) and Pan City Development Proposals constituted Rs. 39565 (18.4% share) while Rs. 13185 crores (6.1 % share) are estimated for Administrative and operating cost of Smart City Plan implementation.

Analysis of 100 smart cities' proposals placed on SCM website/and in the annual report of MoHUA corroborates above reported 100 cities data. As per SCM data in Annual Report of MoHUA which does not show Administrative and operating cost separately shows ABD proposal constituted Rs. 166044 crores (81 %) while Pan City Development Proposals constituted Rs. 38954 crores (19 %) share out of total Rs. 205018.

- **Unrealistic Resource Plan** - Against the total smart cities' cost proposals of Rs. 205018 crores (Rs.215325 crores), the winning 100 smart cities have submitted /developed resource plan of Rs. 205000 as per MoHUA (Rs. 215500 crores as per this study). Various resources identified for funding smart cities proposals/which formed resource plan are presented in Table 6. It can be observed from the summarised resource plan based on data of 100 cities that 64/66 percent of the funds are projected to come from higher level governments as capital grant, thus it is highly dependent on grant funding. Resource plan is then dependent on PPPs to the extent of 21 percent but track record with regard to PPPs in urban service development and

delivery is very poor.

Table 6 –Summarised Resource Plan proposed by 100 Cities for Smart City Proposals

Particulars (Rs. crore)		Amount As per this study	% share	Amount As per SCM ¹⁵ data	%share
• GOI and State Government Assistance SCM (100 ULBs)		91976	43	93552	45
• Convergence with GOI and State Schemes (98 ULBs)		45937	21	42028	21
GOI and State Contribution Sub-total		137913	64	135580	66
• ULBs contribution as mandated under SCM (24 ULBs)		4539	2.00	2644	1
• Addl contribution by ULBs from their funds (20 ULBs)		3423	1.60		
• From surplus of SPV created (25 ULBs)		4797	2.20	15930	8
ULBs Contribution Sub-total				12759	5.80
• Land Monetisation (06 ULBs)					
• Sale of additional FSI/FAR (03 ULBs)		2066	0.95		
Land Based Revenue sub-total		10369	4.80		
• Public Private Partnership (88 ULBs)		44693	20.70	41022	21
• Corporate Social Responsibility Funds (12 ULBs)		632	0.30		
• Beneficiaries Contribution (10 ULBs)		902	0.40		
• Others (community share, Donor Agencies) (06 ULBs)		791	0.30		
Funds from Market and People Sub-total		47018	21.70		
• Loans and Borrowings (27 ULBs)		7441	3.70	9843	4
Total		215500	100%	205019	100%

- **Miniscule resource contribution by ULBs** - It can further be observed from Table 6 that ULB contribution in terms of resources is very low. ULBs were expected to contribute 25 percent of SCM outlay but data indicates that only 8 to 11 percent resources (as different estimates) will come from ULBs while central and states together will contribute 66 percent resources. if one takes closer look at the various sources through which ULBs propose to contribute this share then it becomes evident that funds projected from the resources like land monetisation, Sale of additional FSI/FAR or from profit of SPV operations (Rs. 4797 + 8303 + 2077 Crores) will not be coming to the extent it is projected. Thus out of projected 11 % resource contribution by the ULBs

only 4 % contribution is realistic. Another 2 % contribution may come from the other sources. Thus resource contribution by ULBs will be around 6 % which can be termed as miniscule.

- **Highly Leveraged SCPs** - These 100 smart cities, as per guidelines, are expected to receive maximum grant (funding resources) of Rs. 75000 crores (Rs. 50000 crores from GOI and Rs. 25000 crores from the State Governments) against this smart cities' resource plans have proposed to Rs. 215000 crores. Thus, smart cities have proposed convergence and leveraging of 2.87 times and that too when the cities will be contributing only 6 to 8 percent.

Smart Cities Mission – Micro (ULB level) Financial Robustness / Sustainability Scenario

The data about finances of individual ULB is scantily available. Many of the ULBs have not submitted information about their financial performance in their Smart City Proposal as it was not specifically asked. Also, as noted earlier ULBs have not submitted detailed credible resource mobilisation plan. As a result, it is difficult to assess appropriateness (financial sustainability) of financial outlay of SCP to existing and future financial capacity of the ULBs. Despite lack of data about finances of cities, the SCPs of cities have indirectly revealed financial unsustainability and lack of financial robustness as follows

- **ULBs not having financial capacity to put in own share in SCM** - Only 24 out of 100 ULBs will be contributing their mandatory share fully or partially (partially because against Rs. 6000 crores which 24 ULBs should be putting in as their share only Rs. 4539 Crores have been proposed). As remaining 76 cities do not have funds to put in their mandatory share of Rs. 250 crores in the smart city project, their respective State Governments will be contributing mandatory share on behalf of the ULBs. Out of these 76 Cities which will not be putting their mandatory share some 30 Cities have indicated that in future they will be able to put in funds for Smart Cities Projects from their own sources or from the surplus of SPV, which is clear unrealistic statement or planning. Even if these 30 cities are taken into consideration, there remain 46 cities which will not be contributing any capital resources for implementing smart city project in their cities. This clearly indicates that these cities do not have resources / financial robustness to finance their SCP which raises question about financial sustainability of these ULBs in future.

- Million Plus cities and other big cities also lacked financial capacity to put in their share**
 - Contrary to general expectation that small ULBs may not be able to put in their matching share from their own sources' revenue, the actual picture is different and disturbing. 21 out of 35 million plus population cities and 20 of the 24 cities having 0.5 to 1.0 million population that is in all 45 big cities out of 59 big cities will not be contributing their mandatory share (See Table 7). Some ULBs have proposed to fund SCP from their or SPV future earnings. Even if such ULBs are taken in to account there are 12 out of 35 million plus cities and 14 out of 24 cities with 0.5 to 1.0 million population which will not be contributing any amount from their own sources' revenue. Thus, financial unsustainability in terms of ULB not being able to put in adequate share of resources is not limited to smaller cities but exists more in bigger cities.

Table 7 - The population size wise analysis of ULBs Contribution in resource plan to fund SCPs

Particulars / Groups of Cities	No. of ULBs	No. of ULBs having nil contribution
Cities with less than 1 lakhs Population	7 ULBs	7 ULBs
Cities with 1 to 3 lakhs Population	22 ULBs	17 ULBs
Cities with 3 to 5 lakhs Population	12 ULBs	11 ULBs
Cities with 5 to 10 lakhs Population	24 ULBs	20 ULBs
Cities with 10 to 20 lakhs Population	25 ULBs	
Cities above 20 lakhs Population	10 ULBs	4 ULB
Total	100 ULBs	76 ULBs

- Financially weaker cities have submitted unsustainable SCPs** - Though 46 cities clearly lacked financial robustness or capacity to put in their 25 % share toward smart city proposal these cities fully or partially could submit their SCP without any financial outlay/size cap. The result is disastrous and lack of financial sustainability. Analysis shows that the 46 ULBs which are not funding SCP with their resources have submitted SCPs which are unrealistic and unsustainable in terms of size of SCP, per capita SCP investment or cost, per capita ABD cost, per sq. km. ABD cost. It can be observed from the Table 8 that

financially weaker cities have submitted SCP which are much higher in terms of size, per capita SCP cost, per capita and per Sq. Km. ABD cost than the cities which have higher financial capacity

Table 8 – Per Capita and Per Sq. Km. ABD cost with respect to ULB's Own Source funding of SCP

	Particulars	Per Sq. Km. ABD Cost (Rs. in crore)	Per Capita ABD cost (Rs.)	Average size of SCP (Rs. In Crores)	Per Capita SCP cost (in Rs.)
1	ULBs which are contributing towards SCP in any form fully or partially (54 ULBs in all)	297	137442	2143	17905
2	ULBs not contributing toward SCP in any form (46 ULBs in all)	384	218805	2165	29381
	Average for 100 ULBs	333	167467	2153	21853

Table 9 – SCP size, per capital and per sq.km. ABD cost etc.

Population (Size) of the City	No. of cities	No. of Cities Putting own share	Population (in Mn)	Average SCP size (Rs. Cr.)	Per capita SCP cost /burden (Rs)	Per Capita ABD cost (Rs)	Per Sq. Km. ABD Cost (Rs. Cr.)	ABD Popu as % of total popu	ABD area as % of total city area
Above 1 million	35	12	72.39	2610	12621	129307	358	7.48	2.39
0.5 to 1.0 million	24	14	17.12	2223	31159	174665	302	13.22	4.19
0.3 to 0.5 million	12	6	4.38	1831	50152	207624	286	20.07	9.30
0.1 to 0.3 million	22	9	4.43	1714	85131	258875	346	23.38	5.25
Less than 0.1 million	7	5	0.21	1561	509754	711586	388	51.81	15.07
Total	100	46	98.54	2153	21853	167467	333	9.85	3.59

The fact that weaker cities have submitted more unrealistic and unsustainable SCP can further be

observed from the table 9. It clearly shows that per capita ABD cost goes on increasing as one moves from bigger cities to smaller cities and it is highest in case of smallest cities. Similar trend with some changes can be observed with regard to per Sq. Km. ABD Cost. Same trend is also true with regard to per capita SCP investment or in other words per capita SCP cost or burden. Average Smart City Plan financial outlay size does get reduced as one moves from bigger to smaller cities but this reduction in the financial outlay size of SCP is disproportionate to reduction in the financial robustness /capacity of smaller cities.

If entire selection process would have insisted that ULBs will get smart city funding in the proportion of their ability to put in their own share of resources maximum to Rs. 500 crores from GOI and Rs. 250 crores from the State then ULBs would have submitted realistic and financially more sustainable SCP.

- **Size of SCP disproportionate to Financial Capacity of ULBs** - Size of SCP has been found disproportionate to existing finances of the ULBs. If annual cost of smart city plan implementation comes equivalent to average annual revenue of a ULBs (that is ratio is 1), it will still mean doubling of resource flow and doubling of the present performance by the ULB. In case of more than 40 cities the ratio of annual cost of smart city plan and annual revenue of the ULB is more than 1 by big margin. For example, in case of Dharmashala City annual cost of its smart city proposal implementation is whopping 77 times of average annual revenue of the Dharmashala City.

Illustration of Dharmashala is not an exception, similar kind of situation exists with most of the cities (as noted earlier there are 29 cities which have less than 300000 population and which have very small financial outlays). SCPs have not provided data about their operating revenue and expenditure and surplus or deficit but the fact which comes out from SCP that around 70 cities out of 100 cities do not have own source funds to contribute toward SCP clearly indicates that size of SCP is disproportionate to their financial capacity. In case of Dharmashala if it is compared to annual operating surplus of Rs. 50 lacs then SCP annual cost will be 926 times.

- **The per capita ABD cost appears to be very high** - The cost estimated under ABD component as noted earlier is Rs. 164204 crores for estimated 97.08 lacs direct beneficiaries of the

ABD. The average per capita cost of proposed ABD is thus around Rs. 167467 ranging from minimum of Rs. 23467 for Ludhiana City to Rs. 1256636 for Chandigarh City. 59 ULB have average per capita ABD cost more than average cost of Rs. 167467 for 100 cities.

There are not many benchmarks available about ideal per capita urban infrastructure development cost, the most recent and exhaustive per capita urban development cost index available is that of HPEC at Rs. 43386 for the year 2009-10. If it is converted to current year (2018-19) then it is roughly around Rs. 60000. In HPEC benchmark there is absence of various other non-municipal urban services like electricity, use of renewable sources of energy, education, health etc. which Smart City Plans have included in their ABD proposals. If we calibrate HPEC figure on these two counts then it will come around Rs. 85000 but the average per capita cost of Rs. 167467 is double than HPEC norm at current prices.

- **The per capita ABD cost appears to be very high** - The 100 cities together have proposed a total ABD area of 490 sq. kms., out of total municipal area of 13585 sq. kms., at the cost of Rs. 164204 crores. This translates in to average per sq. km. ABD cost of Rs. 333 crores. 47 cities out of 100 cities have per sq. km. cost above the average per sq. km. cost of Rs. 333 crores. Within this average cost there are wide variations - Indore City tops with per sq. km. ABD cost of Rs. 1505 crore while Coimbatore City is at the second last with proposed per sq. km. ABD cost of Rs. 85 crores and Bengaluru at bottom with Rs. 78 crores per sq.km. ABD Cost
- In case of per capita urban development cost at least a HPEC Report benchmark was available but about per sq. km. urban development cost no such official benchmark is available, but some studies indicate cost per sq. km. ranging from Rs. 80 to 100 crores based on green field development at the assumed density of 100 people per hectare. Another study about green field development cost at various places around Bengaluru City indicates Rs. 75 to 80 crore per sq. km. In case of Nashik SCP the green field development cost is around 113 crores. In case of Kalyan Dombivali SCP it is around 115.30 crore per Sq. Km.
- In earlier point per capita infrastructure development cost discussion showed that it can be assumed at Rs. 85000 per capita after escalating HPEC norm to current year price and

including non-municipal services development cost. The average density of 60 cities is 70 persons per hectare. Even if we assume it at 100 persons per hectare for future then per hectare cost would be Rs. 850000 and per sq. km. urban development cost would be Rs. 85 crores. Even if Rs. 100 crores are taken as infrastructure development cost per sq.km. one can note that 97 out of 100 cities have proposed per sq. km. ABD cost more than Rs. 100 crores; and 84 cities out of 100 have proposed per sq. km ABD cost at more than Rs. 200 crores.

Ensuring Sustainability of Smart Cities Mission

The foregone analysis of 100 SCPs primary data and secondary data about macro picture clearly indicates that financial sustainability of SCPs has not been adequately ensured while approving overall financial outlay of the SCPs and its cost components. Non-ensuring of financial sustainability of SCPs is likely to result in multiples failures and the result will be financially unsustainable infrastructure and cities. It is difficult to go back and select cities again, but till date only 15 % implementation has taken place and that too in terms of low hanging fruits kind of projects, so still there is possibility of salvaging the situation (this mission). What can be done at the best is to make SCPs financially sustainable by taking following measures.

- **Link size and spending of SCP to actual and feasible resource mobilisation by the ULB** - it is clearly evident that ULBs have submitted SCPs which are disproportionate to their present and future financial capacity. Even if SCPs have been approved course correction should be insisted. SCPs need to be reviewed from financial robustness and sustainability perspective and should be made realistic. SCM grants should be released based on implementation / progress about SCP and resources raised by the ULB. Special financial assistance should be given to ULBs to undertake resources mobilisation and other financial reforms.

As a part of this a detailed, realistic year-wise resource mobilisation plan spelling out clearly reforms to be carried out with regard to each of resource of ULB (tax / user charge – Base, Rate, Coverage and Collection efficiency etc) should be prepared and put in place as part of SCM implementation and covenant for SCM grant release. Implementation of resource mobilisation plan and its achievements should be monitored independently.

- **Financial Impact, Financial Viability** - Sustainability Criteria while approving major expenditure – There is urgent need to introduce concept of assessment of financial impact and ensuring financial viability – sustainability for approving every major expenditure. Such analysis should be mandated and later should be put in public domain along with project details.

- **Re-examine Per Capita and Per Sq. Km. ABD and other costs proposed in SCPs** - here again data shows that per capita and per sq. km. is very high. Cost of projects under SCM has not been verified by independent agency (CPWD and CEPHEEO or any other expert agency) the way it was mandatorily done under JNNURM. There is no need to make verification mandatory, but re-examination should be undertaken at the time of preparation and approval of Detailed Project Reports by the State Governments. Efforts should be undertaken to make project costs realistic and efficient.
- **Ask ULBs to revisit their SCPs to make them inclusive** - too much leaning on Area Based Development have made SCPs non-inclusive in terms of people, area of the city and type of development projects. This gross imbalance can be corrected by giving importance to Pan City Solutions which are designed to improve one or more urban services for entire city and for all the people of the city. As in case of most of the cities, SCP implementation is in initial stage, so course correction is easily possible.
- **Adopt independent financial performance review system for ULBs** - GoI undertook credit rating of all SCM and AMRUT cities and towns totalling to 487. Of this 463 towns have been rated by credit rating agencies. Though GOI or State Governments have not put this data in public domain it appears that around 160 towns have been found investment grade. Out of these 161 towns only 37 towns have secured “A – and above” investment grade and out of these 37 towns only 21 belong to Smart Cities Mission. Getting all these cities credit rated is a good step, but one-off credit rating is not very useful. Every year all SCM and AMRUT cities/towns should be rated by credit rating agencies and results (credit rating status of the city) should be put in public domain and this way an independent financial performance appraisal system and transparency system should be created for ULBs.

Following are some of the financial sustainability frameworks for local governments -

1. UN Habitat Financial Performance Indicators Report March 2009
2. UN Habitat Urban Indicator Guidelines
3. Global City Indicators

4. Financial Sustainability Indicators Standard & Poor's
5. Moody's Rating Framework
6. Financial Performance Indicators by Australia New South Wales Department of Local Government
7. Indikit Municipal Finance Indicators US
8. UK Audit Commission - Key Lines of enquiry Municipal financial performance
9. France - Financial Sustainability Indicators
10. Financial Management (Sustainability) Guidelines 2013 (Brisbane)
11. Drakenstein Municipality Long term Financial Sustainable Policy March 2014
12. Report of Municipal Sustainability Strategy Working Group – Municipality of Alberta
13. Rating Afrika Municipal Stability Index
14. Local Government Financial Indicators – Financial Sustainability Program South Australia Nov 2008
15. SALGA Western Cape - Financial Sustainability of Municipalities
16. Public Sector Financial Sustainability New Zealand
17. Sovereign Fiscal Responsibility Index by Stanford University
18. Municipal Fiscal Sustainability – Newfoundland & Labrador Municipalities Initiative – Wade Locke

Impact of Smart City Special Purpose Vehicles on Urban Governance

(Decentralisation, Institutional Fragmentation,
Transparency and Efficiency)

Context

74th Constitutional Amendment hailed as dawn of democratic decentralisation has very tardy implementation in past 25 years particularly in terms of giving functions and financial sources to the urban local bodies. Beside that post 2014 various flagship programs of Government of India like SBM, PMAY, AMRUT, Smart Cities Missions and various schemes of State Governments have accentuated centralisation and have put end to the spirit of 74th Constitutional Amendment.

Smart Cities Mission announced in June 2015 with great fanfare to improve urban governance, to enhance decentralisation and to reduce urban infrastructure bottlenecks, but in reality, mission implementation experience has clearly indicated that the Mission is most likely to weaken and shrink democratic decentralisation, inclusiveness, equality and local (urban) governance. Mission is also going to make most of the smart cities financially unsustainable and fully dependent on higher level governments . This paper attempts to put forward policies, structures and processes through which all these negative impacts of smart cities mission are manifesting.

Smart cities mission guidelines has not only prescribed how much resources (input) will be made available to ULBs and what is expected to be achieved (output) by ULBs, but it has tried to overhaul the process (urban governance) by mandating Special Purpose Vehicle (corporate governance) registered under the Companies Act 2013 for implementation of Smart Cities Mission at city level (Please see Box 1 for details). SCM guideline states that SPV must be constituted for implementation of smart city project. The Mission further states that in SPV State and ULB will have 50:50 equity holding, and private player / public can be taken as equity partner provided State and ULB combined equity holding should not go down 52 percent. The Mission further suggest that the execution of projects may be done through joint ventures, subsidiaries, public-private partnership (PPP), turnkey contracts, etc. suitably dovetailed with revenue streams. Cities under SCM started incorporating their SPVs by middle of 2016 and by year 2018 all 100 cities set up SPV under companies act for implementation of Smart Cities Mission and staffed them, have provided them with Project

Management Consultants (PMC), consequently all 100 smart city SPVs have started functioning. So most of the SCSPVs have completed minimum one to maximum 3 years operations, so it is easy to assess impact of SPVs with respect to various of aspects of urban governance like democratic decentralisation, institutional fragmentation, transparency and efficiency etc.

Impact of Smart City SPV on urban governance in 100 Smart Cities

SPV or using corporate governance framework for delivery of an urban service (city transport, water supply and sewerage) is rare but not new to Indian urban sector but necessitating SPV structure in which there is equal shareholding of State Government and representation of Central Government also for implementation of multitude of development projects belonging to multiple urban services or sectors is a new phenomenon. As the Mission has tried to give new dimension or has tried to cause

Box 1 - SCM Guidelines regarding Special Purpose Vehicle

10. Implementation by Special Purpose Vehicle (SPV)

10.1 The implementation of the Mission at the City level will be done by a Special Purpose Vehicle (SPV) created for the purpose. The SPV will plan, appraise, approve, release funds, implement, manage, operate, monitor and evaluate the Smart City development projects. Each Smart City will have a SPV which will be headed by a full time CEO and have nominees of Central Government, State Government and ULB on its Board. This states/UIBs shall ensure that, ---

(a) a dedicated and substantial revenue stream is made available to the SPV so as to make it self sustainable and could evolve its own credit worthiness for raising additional resources from the market and (b) Government contribution for Smart City is used only to create infrastructure that has public benefit outcomes. The execution of projects may be done through joint ventures, subsidiaries, public-private partnership, (PPP), turnkey contracts, etc. suitably dovetailed with revenue streams.

10.2 The SPV will be a limited company incorporated under the Companies Act, 2013 at the city-level, in which the State/UT and the ULB will be the promoters having 50:50 equity shareholding. The private sector or financial institutions could be considered for taking equity stake in the

SPV, provided the shareholding pattern of 50:50 of the State/UT and the ULB is maintained and the State/UT and the ULB together have majority shareholding and control of the SPV.

10.3 Funds provided by the Government of India in the Smart Cities Mission to the SPV will be in the form of tied grant and kept in a separate Grant Fund. These funds will be utilized only for the purposes for which the grants have been given and subject to the conditions laid down by the MoUD.

10.4 The State Government and the ULB will determine the paid up capital requirements of the SPV commensurate with the size of the project, commercial financing required and the financing modalities. To enable the building up of the equity base of the SPV and to enable ULBs to contribute their share of the equity capital, 601 grams will be permitted to be utilized as ULB's share of equity capital in the SPV, subject to the conditions given in Annexure 5. Initially, to ensure a minimum capital base for the SPV, the paid up capital of the SPV should be such that the ULB's share is at least equal to Rs.100 crore with an option to increase it to the full amount of the first instalment of Funds provided by Govt (Rs.194 crore). With a matching equity contribution by State/ULB, the initial paid up capital of the SPV will thus be Rs. 200 crore (Rs. 100 crore of Govt contribution and Rs. 100 crore of State/ULB share). Since the initial Govt contribution is Rs.194 crore, along with the matching contribution of the State Government, the initial paid up capital can go up to Rs.384 crore at the option of the SPV. The paid up capital may be enhanced in the subsequent years as per project requirements, with the provision mentioned above ensuring that ULB is enabled to, match its shareholding in the SPV with that of the State/UT.

10.6 After selection of the cities in Stage II of the Challenge, the process of implementation will start with the setting up of the SPV. As already stated, it is proposed to give complete flexibility to the SPV to implement and manage the Smart City project and the State/ULB will undertake measures as detailed in Annexure 5 for this purpose. The SPV may appoint Project Management Consultants (PMC) for designing, developing, managing and implementing area-based projects. SPVs may take assistance from any of the empanelled consulting firms in the list prepared by MoUD and the holding

agencies. For procurement of goods and services, transparent and fair procedures as prescribed under the State/ULB financial rules may be followed. Model frameworks as developed by MoUD may also be used for Smart City projects.

paradigm changes in urban governance through introduction of SPV culture, this paper attempts to examine impact of the Mission (by mandating SPV-corporate governance) on urban governance in 100 smart cities in terms of –

1. Democratic decentralisation that is local political and civil society participation in management of SPV and control of higher-level governments over SPV management.
2. Institutional fragmentation that is urban local body vis a vis smart city SPV in terms of funds, powers etc.
3. Transparency and Accountability that is how transparent and accountable are smart city SPVs?
4. Efficiency that is performance of smart city SPVs in implementation of SCM.

For this purpose government documents placed in public domain either by Centre, State and Urban governments have been reviewed and in this sense this study is limited to government documents.

Democratic decentralisation and smart city SPVs

Analysis of the smart city guidelines about SPV and the way they have been implemented clearly indicate that in most of the smart cities it has completely violated democratic decentralisation spirit of 74th constitutional amendment in following manner –

1. SPV guidelines did not provide for the composition of Board of Directors of Smart City SPV but going by other SPV guideline of 50 : 50 share holding between the State Government and Urban Local Body, it is normal and rational to expect that in board of directors both organisations would have equal representation. But this basic principle has not been observed in most of the SPVs. It is the municipal commissioner or executive officer of the municipal body, who is a state government appointed bureaucrat, has invariably received place in board of directors of Smart City SPV (by virtue of his post) but in similar manner the political representatives (Mayor / president, standing committee chairmen) democratically elected by people of the city to govern ULB have not received place in SPV board of directors. Broad data indicates that in more than 85 SPVs ULBs received less than 25 percent representation in board of directors against the 50 % representation which they should have received being 50 percent equity holder of SPV.
2. The real Issue is not of inadequate representation of ULB in board of directors, but the real serious issue is of no or minimal representation to local political executives - representative

(elected by people of city) of ULB. In 45 out of 100 smart city SPVs local political representation (LPR) (or representation of ULB) in Board of Directors is zero percent and in another 22 SPVs LPR is less than 20 percent. Only in case of 12 SPVs LPR is more than 20 % to 40 %. There is no information about 21 SPVs but these SPVs belong to smaller states or Union Territories where ULBs are not strong so majority of these SPVs are likely to have no or less than 20 percent local political or ULB representation in their board of directors. Thus, in more than 80 SPVs, there is no or less than 20% democratic / LPR which clearly against the spirit of democratic decentralisation and local participation.

3. Though executive head (municipal commissioner/chief officer) of a municipal body has got place in board of directors of SPV he is alone (in minority) and the other board of directors appointed by the State Government are of high rank and are senior (in the rank Additional Chief Secretary, Principal Secretary or Secretary to the State Government) to municipal commissioner. Beside this in many of the SPVs municipal commissioner is merely a director and not the Chairmen or managing director or even CEO. This clearly indicate even administrative decentralisation is not adhered.
4. There is also a technical, legal cum propriety aspect to formation of SPV but which clearly shows doing away with principle of democratic decentralisation. In normal practice when two agencies are setting up any joint SPV with equal share then having passed resolution in their respective board regarding setting up of joint venture, adoption of Article and Memorandum of Association and proposed board of directors a new SPV is formed and registered. In case of Smart City SPV this process has not been followed and it is the state governments which has decided composition and name of board of directors by issuing one sided government order and as noted above though the ULB is holding 50 percent share in the SPV it has got less than 20 percent representation in board of directors.

Institutional fragmentation

Urban governance in India suffers from institutional fragmentation and there has been a continuous trend of taking away functions and resources from urban local bodies and giving it to the parastatals which are not directly accountable to the people of city. Many commissions, committees have pointed out this practice and have recommended reduction in institutional fragmentation elaborately. Unfortunately mandatory provision regarding smart city SPV has certainly increased institutional fragmentation in 100 cities with following additional dimensions.

1. SPV can be a very effective tool/instrument as it can bring in corporate governance for project implementation or for operation and management of infrastructure projects and it would not have resulted into institutional fragmentation if Smart City SPVs were allowed to be owned solely by ULBs; but by mandating 50 percent share for State Government SCM - GOI has created above explained aberration of State Government controlled institution which is against the spirit of democratic decentralisation. There are number of SPVs or which are solely owned by Central and State, in similar manner SPVs for Smart City implementation could have been solely owned by ULB and would have better accountable to the people of the city and ULB.
2. Ownership is not the only dimension of institutional fragmentation in case of Smart City SPV, there is financial dimension of greater order also. Data analysis shows that 26 cities out of 100 cities under SCM, have annual outlay less or equivalent to 1 when compared to their respective SPVs. In other words 26 Smart City SPVs are having less or equal annual expenditure compare to their respective ULB. In case of remaining 74 cities of SCM, the Smart City SPV is or will be having more funds and more expenditure on annual basis than their respective ULB (which actually owns 50 % of SPV). Out of these 74 cities of SCM -
 - a. in case 21 cities an annual outlay in the hands of smart city SPV will be more than 1 but less than 2 times.
 - b. in case of 25 cities an annual outlay in the hands of Smart City SPV will be more than 2 times but less than 5 times, and
 - c. in case of remaining 28 cities an annual outlay in the hands of Smart City SPV will be more than 5 times and in many cases, it is more than 50 times also. For example, in case of Dharmashala City annual outlay of its smart city proposal implementation is whopping 36.7 times of average annual revenue or expenditure of the Dharmashala City, while it is 50 times in case of Gangtok and 86 times in case of Kohima.

This analysis clearly indicates that SCM has created a super institution in the form of Smart City SPV which has much more powers, autonomy and most importantly very large funds (financial capacity) compare to the ULB and as discussed earlier on such super institutions ULBs have no control.

Transparency

ULBs have been known for lack of transparency because archaic municipal acts have not provided adequately for the same. To overcome this lacuna earlier JNNURM mission has included transparency aspect (mandatory public disclosure law reform) as cross cutting theme for various mandatory

municipal reforms. Unfortunately SCM has not mentioned this aspect in the guidelines that is making it mandatory for SPVs and ULBs to publish annual accounts, audit report, administrative report, progress of works etc. Still it was hoped that SPVs are companies registered under companies act which has better transparency provisions, so abiding them SPVs will put all information in public domain, but data analysis shows that most of the Smart City SPVs have been totally non-transparent and even worse than their respective ULBs in transparency terms in following manner –

- a. 47 Smart City SPVs out of 100 do not have independent web site or have not placed any information in public domain while only 10 ULBs out 100 do not have independent website and they have not placed basic information in public domain in any forms.
- b. While 53 Smart City SPVs have their independent website but out of these SPVs only 7 SPVs have put their annual accounts and audit report in public domain. In other words 93 out of 100 SPVs (and their respective ULBs) have not shared recent annual accounts and audit reports to the public at large.
- c. Similarly out of 53 SCSPVs 49 have not placed project progress related information that is 96 SCSPVs out of 100 are not sharing project progress information with clear cut timeline. Only 46 out of 100 SCSPVs are sharing simple project related information with the people at large.
- d. No SCSPV has placed annual budget in public domain, it is not clear whether SCSPVs prepared budget or not.

Again above-mentioned transparency track record of SCSPVs, when it comes to sharing of annual accounts, audit reports, progress of works and budgets, ULBs (which are considered non-transparent) have performed much better than so called Smart City SPVs. Around 55 ULBs (compared to only 7 Smart City SPVs) have shared their annual accounts, audit reports, progress of works to people through their website.

As 45 ULBs of cities under SCM are not sharing accounts, audit reports, budgets etc., it is natural that they have not shared or bothered to share similar information of their SPV to people at large. But 48 ULBs out of 55 ULBs which are regularly sharing their own financial and performance information has not shared or bothered to share similar information of their SPV clearly indicates that ULBs do not have control over the SPVs or they are disfranchised and disconnected with their SPV as the SPV is not under their control.

Beside not sharing above performance information, SCSPVs have not shared following basic information -

- e. 89 Smart City SPVs (and their respective ULBs) have not placed their Memorandum and Article of Association in public domain.
- f. 85 SCSPVs have not placed information about their authorised and paid up capital
- g. 63 SCSPVs have not placed information about the composition and names of board of directors.
- h. Finally 56 SCSPVs have not provided contact related information and procedure to contact SPV management.

It is clearly evident from above that SCSPVs are not transparent enough and have not improved transparency at urban governance level. Most importantly none of the higher-level governments, registrar of companies, academicians, civil society institutions and people at large have bothered about lack of transparency of SCSPVs.

Efficiency

SCM mandated creation of SPV under companies act for bringing in efficiency and effectiveness in implementation of smart city projects, but performance data clearly suggest that SPV structure has not brought in efficiency gains to ULBs. In fact in case of many cities' annual capital / development expenditure of ULB from their own budget and under other schemes is much better than the development expenditure which has taken place through Smart City SPV.

There is non-availability of systematic, consistent macro and micro level data about the progress of smart cities mission. The macro level SCM performance picture is available only from the Annual Reports of the MoHUA for the year 2018-19 and 2019-20. According to these reports at end of 31 March 2019 against 5151 project proposals amounting to Rs. 205018 crores; in all 846 projects of Rs. 14324 crores were completed. As per latest annual report of MoHUA for the year 2019-20; by the end of 31 December, 2020 in all 1461 projects of Rs. 24467 crores have been completed. This means combine performance of 100 smart cities at the end of 4th year of SCM (31.03.2019) was 16 % in terms of number of projects and 7 % only in terms of financial outlay. In the 5th year of the project speed of execution has increased and performance in terms of number of projects stands (as of 31.12.2019) at

28.4 % and 12% in financial terms. As claimed in 2019-20 annual report, actual expenditure under SCM will reach Rs. 30000 crores by 31st March, 2020. If this figure is taken in to account then at the end of 5th year of the Mission actual performance in financial terms is likely to reach 14.6 % which is certainly a low performance by all accounts.

SCSPVs till date at least have failed to show marked efficiency improvement compare to their respective ULBs, because SPVs are full of bureaucrats and bureaucratic processes and culture. Just registering it under Companies Act and having Memorandum and Articles of Association as its constitution does not bring in corporate governance and efficiency. Working of SPVs is highly confused and direction less about course or way of functioning for its working – bureaucratic (governmental) or corporate as result its performance is poor compare to its two masters – State and Urban Local Governments.

Summing Up and Way Forward

It is little early to draw final conclusion but the way SCSPVs have been structured, constituted and have functioned in past one to three years clearly indicate that this intervention mandated in a top down manner on ULBs under SCM can create serious issues in terms of democratic decentralisation, institutional fragmentation, transparency and efficiency if following corrective measures are not taken.

- Transparency issue can be sorted out easily just by ensuring through constant monitoring by higher level governments that all information (progress of project works, budget, annual accounts and audit reports) is shared in timely manner to the public at large.
- It is equally important that civil society should become aware of these SCSPVs and its likely negative impact and should step up demand for transparency, efficiency and adequate local representation in the management of these new institutions. This demand side is totally missing at present, allowing these institutions to function the way they want.
- To ensure local participation in management of these SCSPVs civil society should demand establishment of joint citizen's forums by the SCSPVs and such forum should get wide and inclusive representation of all local stakeholders.
- Efficiency can be brought in by adopting more and more professional approach in functioning of SPVs in place of present bureaucratic overtone and functioning. Recently GOI has started ranking Smart City SPVs on basis of performance. This and other measure creating competitive environment will also help improving efficiency of SCSPVs.
- Civil society organisations should also set up network across all the cities and should evaluate functioning (through public report card and other tools) and should come out with independent efficiency ranking of these smart city SPVs.
- Issue of institutional fragmentation and centralisation is difficult one because as time will pass this new intervention will gather inertia and vested interest and will become permanent feature. Even today it is not clear whether these SPV are mere asset creation agencies or asset holding and management agency but it is most likely that these SPVs will be made permanent by handing over all types of assets creation which takes place or

will take place from the resources other than SCM and by handing over management of urban services to these SPVs. If that happens then democratic decentralisation will take severe beating and institutional fragmentation will accentuate permanently. The course of actions to avoid all this could be –

- To keep SCSPVs confined to projects under SCM and not to handover them execution of projects funded from resources other than SCM
- To dissolve SCSPVs as soon as Smart City Projects get completed.

If this SPV is to be retained from undertaking future developmental works and for managing urban services, then SPV should be made 100 percent subsidiary of ULB or joint venture with private sector but there should be no role of State or Central Government in the management of SPV. Their role should be confined to monitoring and evaluation.

Table 1 – Review of information placed by Cities under SCM and their SPVs in public domain through website or other web-based mediums as of 17/03/2020

SN	Parameters	ULBs/SPVs not complying	ULBs / SPVs complying with Parameters	Additional information
1	Does ULB has a Website?	10 ULBs do not have	90 ULBs have Website	
2	Does ULB place its Annual Accounts on website?	45 ULBs have not placed	55 ULBs have placed accounts online	9 ULBs have not placed accounts online for long time
			23 ULBs have placed recent accounts online	23 ULBs have placed accounts online for previous year
3	Does ULB place its Annual Budget on website?	45 ULBs have not placed	55 ULBs have placed budget online	6 have placed budget but not for recent year
			49 ULBs have placed recent budgets online	
4	Does ULB place its Annual Audit Report on website?	43 ULBs have not placed	57 ULBs have placed Audit Report online	23 ULBs have not placed recent Audit reports online
			34 ULBs have placed recent Audit Report online	
5	Does ULB Place it Project Progress information on website?	43 ULBs have not placed	57 ULBs have placed Project Progress information	
6	Does separate website exists for SPV?	47 SPVs do not have	46 SPVs have independent website	7 cities data is displayed on ULB website
7	Does SPV has local political representation (LPR) in Board of Directors?	45 SPVs do not any local political representation	19 SPVs have only 1 Local Political Representative	No information for 21 cities
			5 cities have 2 Local Political Representatives	
			3 Cities have 3 local political Representatives	
			7 cities have 6 local political representatives	
8	Local Political Representation (LPR) in Board of Directors in % terms	45 SPVs do not any local political representation	7 to 13 % share for LPR in 19 SPVs	No information for 21 cities
			15 to 20 % share for LPR in 3 SPVs	

			23 to 25 % share for LPR in 5 SPVs	
			40 % share for LPR in 7 SPVs	
9	Number of Bureaucrats in Board of Directors	Bureaucrats have presence in all SPVs	24 SPVs have 10 to 13 Bureaucrats as Directors	No information for 17 SPVs but in these SPVs it is certain that Bureaucrats will be having lion share.
			34 SPVs have 7 to 9 Bureaucrats as Directors	
			21 SPVs have 5 to 6 Bureaucrats as Directors	
			4 SPVs have 3 to 4 Bureaucrats as Directors	
10	% share of Bureaucrats in Board of Directors	Bureaucrats have presence in all SPVs	80 % or more share in Board of Directors in 46 SPVs	No information for 17 SPVs but in these SPVs it is certain that Bureaucrats will be having minimum 40 % share in Board of Directors
			65 to 80 % share in Board of Directors in 13 SPVs	
			50 to 65 % Share in Board of Directors in 12 SPVs	
			40 to 50 % share in Board of Directors in 11 SPVs	
11	How many SPVs have independent directors?	16 SPVs do not have	61 SPVs have independent directors	No information for 23 SPVs
12	How many SPVs have GOI representative as director?	14 SPVs do not have	63 SPVs have GOI representative on board of directors	No information for 23 SPVs
13	Putting SPV Annual Accounts in Public Domain	89 SPVs have not placed	7 SPVs have placed their latest Annual Accounts	
14	Putting Audit Report of SPV in Public Domain	93 SPVs have not placed	4 SPVs have placed their past year annual accounts	
15	Presence of MoA/Article of Association on website	89 SPVs have not placed	11 SPVs have placed them in public domain	
16	Information about share capital of SPV	85 SPVs have not placed		
17	Information about composition of Board of Directors	63 SPVs have not placed		
18	Information about Projects and their progress	64 SPVs have not placed		
19	Information about Projects and their progress with timeline	96 SPVs have not placed		
20	Information about whom to contact in SPV?	56 SPVs have not provided		



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