

# Executive Summary

The workshop on Urban Development Experience of the PRC and India with Private Sector Participation (PSP) in November 2007 provided an excellent opportunity for the exchange of experiences and ideas between participants from the PRC and India on the role of urbanization, policy, and PSP in providing urban infrastructure and services. The site visits and dialogue among key officials elicited a number of insights and policy recommendations, summarized as follows:

- City Cluster development approach promises to be an effective instrument in an urban-led development strategy. City cluster development involves the planned provision of urban infrastructure and services in an area-wide development. Studies may be conducted in India on the feasibility of using this approach.
- **An urban strategy that concentrates investments in a few strategic urban centers can stimulate rapid economic growth.** Such a strategy should emphasize broader urban regional development encompassing towns, cities, and villages that form an urban cluster. Development planning for such an urban cluster **may cover whole city regions.** Key urban infrastructure and services require area-wide approaches that consider urban and rural areas as a development unit and energize the economies of the entire city region. The formulation and adoption of comprehensive development plans can be used as an initial step to show the benefits of the region-wide coordinated approach.
- Governance mechanisms for urban regions can take the form of voluntary federation among local government bodies. As local government fragmentation makes urban region governance difficult, special purpose authorities or unified governance systems could take a lead role in managing selected urban infrastructure and services. Such governance mechanisms can be established by central and state or provincial governments or the political will of strong local leaders.

- Government officials need to be entrepreneurial and tap the private sector in designing, financing, as well as operating and maintaining urban infrastructure and services. They can access central government grants, foreign and domestic loans, foreign direct investments, enterprise bonds, bank loans, and user charges for financing urban projects. Creating an enabling environment for financial sustainability is a prerequisite to attract the private sector in the urban sector.
- Government authorities should offer substantial incentives to encourage foreign and domestic investment in the urban areas. Incentives can be in the form of the following: **stable supply of electricity and municipal services, fully serviced** land ready to receive factories and other structures; tax exemption for imported production inputs; guaranteed repatriation of profits; professional managers and **healthy, literate workers**; and personal security. Such incentives are particularly important to attract investors in special economic zones, high-tech zones, and other productive enclaves.
- PSP can include the activities of small community groups and not just large public–private enterprises. Such groups can bid to manage urban services such as operation and maintenance of sanitation facilities, water or electricity distribution in low income communities, composting of solid waste, and collection of user charges. They can also assist in monitoring the quality and adequacy of urban services by providing immediate feedback to the authorities.
- The economic value of state land can be unlocked to finance urban infrastructure and services. Various schemes can be used to leverage land as a financing tool such as land readjustment, taxation to capture the increased land values arising from infrastructure provision, efficient land assessment and real estate tax collection, taxes on idle lands, land banking, and reforms such as repeal of the urban land ceiling act in India.
- A city's rich cultural heritage can be used as a productive resource in inner-city redevelopment. Inner city areas can be redeveloped by preserving heritage structures like old houses, temples, classical gardens, and other structures. At the same time, governments can provide modern facilities like water supply, sanitation, electricity, telephone lines,

street lighting, and paved streets and lanes without altering the cultural nature of the structures. The redeveloped community structures can then be made available to private entrepreneurs through PSP schemes such as franchises, leases, and contracts for provision of services focusing on tourism, trade and commerce, and production of arts and crafts.

- While full economic viability of urban infrastructure projects is a worthy objective, their large size, lumpy capital needs, and long gestation periods may require initial investments from the government. Central, provincial or state, and municipal governments, therefore, may have to provide subsidies, especially during the early stages of a project. In general, the policy should be that if an urban facility benefits everyone and not just specific individuals, they should be seen as public goods that can be subsidized. However, if they are private goods (they benefit only certain individuals) their costs should be recovered from the private beneficiaries. In the case of infrastructure and services that incur cash flow shortfalls in initial years, innovative financial instruments such as transition support funds or **viability gap financing can be used. Such instruments take the form of either sub-debts that are repaid later or grants, thus making the system economically viable.**



# Contents

<b>PREFACE</b>	iii
<b>ACKNOWLEDGMENTS</b>	v
<b>ABBREVIATIONS AND ACRONYMS</b>	vii
<b>EXECUTIVE SUMMARY</b>	1
<b>INTRODUCTION</b>	7
<b>URBAN DEVELOPMENT IN THE PEOPLE'S REPUBLIC OF CHINA AND INDIA: SOME KEY OBSERVATIONS</b>	9
Urbanization as the Engine of Growth	10
City Cluster Development in the PRC	13
Private Sector Participation in Urban Infrastructure	15
<b>HIGHLIGHTS OF THE WORKSHOP PROGRAM</b>	17
Suzhou Municipality Visit	17
Economic Development Zones and High-Tech Parks	19
Management of Infrastructure Projects	21
Financing Urban Infrastructure Projects	24
Shenzhen Municipality Visit	25
Investing in Urban Infrastructure through PSP	28
Managing Urban Infrastructure Projects	31
<b>POLICY IMPLICATIONS OF WORKSHOP DISCUSSIONS</b>	35
Urbanization and Inclusive Development	35
Urban Governance in India	38
Governance of City Regions in the PRC	40
Urban Development Financing and Tools	41
Land as a Financing Resource	44
<b>CONCLUSION AND RECOMMENDATIONS</b>	47
<b>SUMMARY: RESULTS OF WORKSHOP DISCUSSIONS</b>	51
<b>REFERENCES</b>	59

