KEC Policy Brief 2025- 8

INSTITUTE OF ECONOMIC GROWTH

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KEC POLICY BRIEF

Kautilya Economic Conclave 2025

4th EDITION

URBANISATION AS AN ENGINE OF GROWTH*

Interactive Session **2B**

Chair: Rajiv Gauba

Speakers: Suraya Ismail, Rana Hasan, Joel Ruet, Arunish Chawla

Date: 03rd October 2025 | Time: 16:15 – 17:45 hrs

This session focused on how cities can prepare for growing urban pressures related to infrastructure, technology, governance, and climate change. The discussion emphasized that today's cities are far more complex than ancient urban centres. Unlike earlier settlements, like Mohenjodaro and Pataliputra which could build infrastructure once and rely on it for decades, modern cities must constantly upgrade their systems to meet changing needs and growing populations.

Cities in India are hubs of growth. They innovate more, pay better, and have lower gender gaps, yet they remain far from utilising their full economic potential. This is because of the lack of metropolitan planning, rigidities in land-use, and disincentives for rural to urban transition.

It was highlighted that infrastructure now requires multiple layers—physical, digital, environmental, and social. Technology is evolving quickly, and climate risks are rising. Cities must therefore rethink how they plan, finance, and govern their assets. Traditional approaches like full privatization or rigid urban planning are proving inadequate.

The session consistently pointed toward three pillars of transformation:

- Blended finance and alternative funding tools for infrastructure.
- Localized technology ecosystems supported by private capital.
- Climate resilience through parametric finance and data-driven planning.

Governance reforms and economic visioning were identified as equally important. Without clear incentives and integrated institutions, cities cannot coordinate land use, services, and economic growth.

The session stressed that infrastructure, technology, and climate finance cannot be treated in isolation. They are interconnected challenges requiring coordinated solutions. It was observed that infrastructure cannot work without finance, finance cannot flow without governance stability, and governance cannot succeed without technological support.

Several clear themes emerged across the discussion:

- Cities must shift from state-heavy or fully privatized models to blended finance.
- Large international conglomerates cannot be the only providers of urban technology.

** Prepared by: Vasu Vikram, Reetika Gupta and Shivani Chauhan (IES Officer's Trainee 2025 Batch)*

- Climate adaptation must become proactive rather than reactive.
- Rural-to-urban transition zones need recognition in planning and finance.
- Urban planning must be simplified and aligned with economic growth.
- City-level economic development councils are necessary for long-term competitiveness.

These ideas were grounded in practical examples, including blended funding for electricity distribution, sustainability-linked bonds for infrastructure upgrades, and the use of digital platforms to implement parametric insurance systems.

Many urban local bodies operate with weak finances. Property taxes are under-collected, user charges are low, and most cities depend on higher-level government transfers. This leaves them unable to invest in long-term development. It was also suggested that local bodies can be given matching grants as an incentive for better urban planning.

Governance fragmentation was also identified as a key barrier. Land-use planning is often conducted by state-level agencies, while municipal bodies handle service delivery. The two rarely coordinate. Rural settlements evolving into towns often avoid formal classification as urban to retain subsidies, creating informal urban zones without proper infrastructure or planning. In addition, migration pressures are rising, and housing affordability is declining. In some countries, manufacturing-led growth has created low-wage urban economies with limited innovation. This has led to rising land prices, inadequate housing, and declining trust in planning institutions. But the following takeaways from the session guide us to overcome problems of urbanisation.

1. Innovative Financing Methods

Full privatization was considered ineffective in many contexts. Public-private partnerships often consume government administrative capacity. Blended finance was described as a more realistic method—where public funds derisk investments to attract private participation. Sustainability-linked bonds were shown to reward cities for improving efficiency through lower borrowing costs. Municipal bonds can be a viable option for financing the needs of local governance.

Climate resilience must be financed before disasters occur. Parametric insurance—where payouts are triggered automatically by data inputs rather than lengthy assessment—was highlighted as a scalable tool for cities. However, such systems require strong digital public infrastructure and localized climate data.

2. Technology Deployment Must Be Localized

Large foreign or national conglomerates cannot manage every city-level solution. Instead, smaller entrepreneurs must be encouraged to create context-specific technical systems. Banks may hesitate to support them, but private equity and private debt can play a strong role.

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3. Governance Reform Needs Incentive Design

Urban bodies often lack the authority or incentives to improve services. Mechanism-based reforms-such as sharing property tax revenue with local wards-can motivate elected representatives to promote revenue collection.

Most cities focus only on service delivery and lack a long-term economic identity. Institutions like City Economic Development Council (CEDC) can help in promoting growth. The proposal for City Economic Development Councils (CEDC) was presented as a way to coordinate data collection, firm engagement, and economic planning, identification of workers and critical inputs, conducting stakeholder consultations among firms, workers, city officials, etc. Some flourishing examples of localised planning and economic visioning is Shanghai Municipal People's Government and Greater London Authority.

4. Land-Use Planning Must Be Simplified

Complex master plans hinder economic growth. Cities often impose too many land-use categories and restrict vertical development through low floor space index limits. Evidence showed that aligning tall buildings with transit hubs could significantly boost GDP, while restrictive zoning could lead to economic loss. The focus must shift from restrictive zoning to efficient and mixed land use.

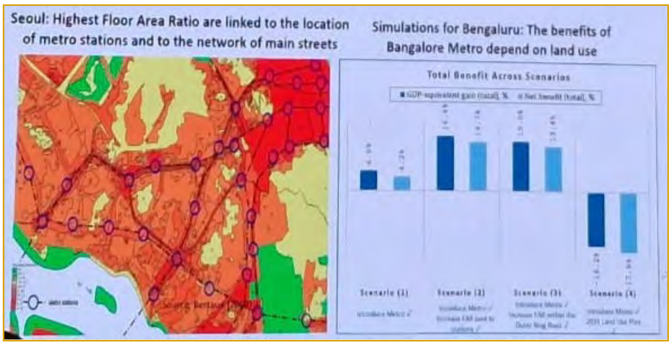
5. Housing Challenges Need Cooperative Solutions

Housing was identified as both a financial and governance challenge. In some countries, middle-income workers struggle to access housing due to speculative development. Community-led cooperatives and mid-range housing from public agencies were suggested as better alternatives to exclusive high-end projects.

6. Synchronised urban transport planning

Metropolitan governance structures can help overcome spatial fragmentation and help in an integrated urban transport ecosystem. In India, Chennai Metropolitan Development Authority's approach in the 3rd Master Plan is an ambitious attempt at this.

An example of Seoul's integrated urban transport planning was presented, wherein metro stations were built around the tallest buildings, leading to better economic performance. Similarly, it was shown that integrated urban transport planning in the case of Bangalore Metro may lead to significant rise in the GDP.



The session made one central point clear: cities can no longer rely on outdated models of governance, finance, or planning. Infrastructure alone cannot deliver growth unless it is financed sustainably, governed wisely, and aligned with economic purpose. Technology will not solve urban problems unless deployed locally. Climate resilience cannot be postponed until after disasters strike. Governance must move from fragmented control to coordinated incentives. Planning must shift from restriction to flexibility.

Cities must think of themselves not as administrative units but as economic and social ecosystems. They need institutions that understand firms, workers, migration flows, digital data, and climate risks. They must treat finance as an enabler rather than a constraint, land as a productive asset rather than a regulatory checkbox, and citizens as co-creators rather than passive recipients.

The pathway ahead involves blended finance for infrastructure, private capital for technology, parametric mechanisms for climate risks, incentive-driven governance, simplified planning, and strong economic visioning. If these elements come together, cities can move from reactive management to strategic leadership.

The future of urbanization depends not on individual reforms but on integrated systems. With coordinated intent and adaptive frameworks, cities can become resilient, innovative, and inclusive centers of prosperity.

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