

Housing and Urban Development

Policy Issues for 1990s

Rakesh Mohan

During the last four decades, while the total population of India has almost doubled, urban population has nearly quadrupled—from 50 million in 1947 to about an estimated 200 million today. It is expected to reach 315 to 330 million by 2001, while the total population would be around one billion, i e, we are likely to have around 32-33 per cent of our population in cities and towns. This paper seeks to bring to the fore the urgent issues concerning urban development.

[This article is published in two parts. The second part will appear next week.]

Introduction

DURING the Sixth and Seventh Plan periods there was expression by the government of an escalating awareness of urban problems, the discussions leading up to the Eighth Plan formulation betray no such concern. The four reports of the task forces on housing and urban development set up by the Planning Commission in 1983 are all but forgotten. The mountain of deliberations of the National Commission on Urbanisation seem destined to meet the same fate.

The basic fact to be noted is that the urban population has been growing fast and will continue to grow fast. Moreover, the growth has been haphazard because there has been lack of adequate planning. Although it is true that urban growth takes place largely driven by economic forces, it can be regulated and supported. Once an urban settlement comes into existence, it should be sustained through planned provision of services backed by adequate finances. Our failures are both in the planning of urban growth and in adequately providing for urban infrastructure and urban services. Hence, the rapid growth of urban population has led to deterioration in services and conditions of urban existence

The failure to maintain urban services is matched by the failure on the housing front. Policies intended to give access to urban land to the ordinary people have, in fact, led to soaring land prices which none but the very rich can afford.

Our cities and large towns are marked by the presence of fast growing slums. This has happened since we have not given adequate attention to the availability of land and other resources for the settlement of the urban poor. While it is undoubtedly true that the emergence of slums could not have been prevented given the existing levels of poverty in both rural and urban areas and the right to unfettered migration guaranteed by our Constitution, proper planning and adequate provision of financial support could have certainly mitigated the problem and ameliorated conditions in the slums.

The haphazard growth, increasing congestion in living quarters as well as in the streets, high degree of pollution, existence of slums, high land prices and deteriorating urban services have led us to deplore fast urbanisation and in particular the continuing growth of large cities. But we must recognise that it will be difficult for our rural areas to generate adequate employment to support the growing population in a manner that poverty is not increased. By 2001, rural India will probably contain 670-685 million people. Can we expect them to absorb more, given our limited land resources? If our total population should taper off at around 1250 million and even if the rural areas should sustain 700-750 million people, the remaining 500-550 million would find themselves in our towns and cities. Even if the population does stabilise at 1250 million, continued urbanisation may be expected in the foreseeable future. It is against this kind of background that we need to plan our entire pattern and scheme of urbanisation.

It is obvious that a major part of the increase in the urban population cannot be absorbed by the metropolitan or large cities because ultimately there is going to be an increase of 300 to 350 million in the urban population over the existing level. We must, therefore, facilitate and induce wider growth across the country.

Between 1901 and 1981, the urban population increased by 600 per cent, but the number of settlements increased by only 80 per cent (to 3245 settlements). Thus, the growth took place mostly in existing towns. Thus, if the present trends continue, the share of different classes of cities in urban population by 2001 would be roughly as follows:

Size of Settlement	(Per Cent) Share
1 million and above	30
1 lakh to 1 million	40
20,000 to 1 lakh	22
Rest	8
Total	100

If this were allowed to happen, there would

be a heavy load on the larger cities which would have to absorb around 112 million people. We should try to slow down the growth of major cities but this cannot be done by fiat or by *ad hoc* measures such as the IDSMT (Integrated Development of Small and Medium Towns) Scheme. Many presently medium sized cities will have to be assisted to attract and support economic activities in such a manner that they can undergo healthy self-sustaining growth. There would also have to be proper integration of regional, industrial and urban planning. Growth centres should be identified on the basis of emerging patterns of agricultural, and trade development and potential for industrial growth. These centres may be identified as part of regional urban development planning efforts by states such that infrastructure and, in particular, power, is made available for facilitating appropriate industrial growth. Districts with high urbanisation levels would be good candidates for special attention, in this manner. As agricultural development spreads to hitherto undeveloped regions, similar growth centres will emerge in more and more districts. Furthermore, for reasons of nearness to port or to sources of raw materials, large industries would come to be established in particular locations as these locations would become large urban centres. From the very beginning, their growth must be planned and adequately supported.

So much for the basic aim of influencing the spatial spread of urbanisation, avoiding over-congestion and unbalanced growth, but the new urban centres that get established as well as the existing ones which would also grow, have all to be sustained and adequately serviced. As already indicated because of defective policies, the cities have grown haphazardly, services have deteriorated, housing conditions are becoming intolerable and slums have grown fast. The past tendencies have to be reversed. The major questions that we have to ask ourselves are what has caused the decay of our large cities and the extremely unsatisfactory conditions even in smaller cities and large towns? Why is there inadequate access to land for housing? Why

are the civic bodies plagued by lack of resources? Is that the only reason for deterioration of services? Why is poverty so patently visible in urban centres which have such a vast potential for generating wealth and which, in fact, are generating wealth? With the right answer to these problems, we can begin outlining plans for future action.

The first item on the agenda is a radical re-orientation of our approach to the issue of urbanisation. Twenty years ago roughly 55 per cent of gross domestic product was being created by and was supporting the 70 per cent of the labour force in agriculture. Today a similar 65 to 70 per cent of the labour force is creating less than 35 per cent as the contribution by agriculture to GDP. The other 30 to 35 per cent of the non-agriculture labour force is therefore producing the other 65 per cent plus of the GDP. The large portion of this non-agricultural contribution comes from urban areas. As a result the disparity between rural and urban per capita income has increased from a ratio of about 1.8 in 1951 to about 3 now. In the interest of keeping urban rural income disparities to a minimum, policy towards urbanisation should be positive, encouraging the sharing of the income arising from the more productive urban activities among a larger proportion of people. This thrust should consist of a rapid expansion of non-agricultural livelihood and employment assisted by the promotion of technological skills, at all sizes of urban and semi-urban nodes. We should, therefore, regard accelerating admission as an opportunity for effecting faster economical and social change in the desired direction.

As already mentioned, between 1901 and 1981, while the total urban population increased six-fold from about 26 million to about 160 million; the number of settlements increased by only 80 per cent to 3245 over the same period. Thus most of the growth has occurred because of the enlargement of existing towns at every level and not because of the addition of new towns. Compared to other countries this constitutes modest urban growth: moreover, in the 30 years from 1951-1981 the level of urbanisation increased from 17 per cent to only about 23.7 per cent. However, the absolute level of urban population now is larger than the total urban population in all countries in the world except China. It should be understood that the majority of settlements now classified as urban have exhibited urban characteristics for a very long time. The spatial distribution of the number of settlements therefore reflects a long and stable history although, there has been a considerable movement of settlements between urban and rural categories at the margin.

It is generally believed that (i) large cities have grown faster than, and at the expense of, small and medium towns; (ii) that this is undesirable; (iii) measures should be taken to retard large city growth; and (iv) this can be done by placing greater investments in

small and medium towns. First, it is not true that large cities have grown much faster, on an average, than small and medium towns. Second, the arithmetic of the growth and distribution of settlements is such that higher growth of small and medium towns will have little effect in magnitude on the growth of large cities. Third, fast growing small and medium towns soon become large cities. It must be understood that growth of towns and cities has little to do with their size: explanations for differential growth rates are more likely to be found in their own particular economic characteristics and that of their regions.

It is expected that the total population in India will be in the range of 990 to 1020 by the year 2001. For all practical purposes we may regard 1000 million as the approximate expected population by the end of the century.

The level of urbanisation is expected to be between 27 and 28 per cent in 1991 and between 31 and 32 per cent in 2001. This implies an absolute increase in urban population of about 70 million in the current decade to about 235 million in 1991 and a further 80 to 90 million increase to about 315 to 330 million by the year 2001. The absolute increment in population during the 90s will be about equal in rural and urban areas.

The number of cities with a population of 1 million and above is likely to increase to about 20 to 22 with a total population of 65 to 70 million by 1991 and 95 to 100 million in 2001, if there is some slow down in their current rates of growth. If, however, the current rates of growth continue their total population will be between 70 and 75 million in 1991. Correspondingly, the other class I cities with population between 1,00,000 and 1 million will increase in number from just over 200 in 1981 to over 300 in 1991 with a total population of about 85 million. By the year 2001 the population of this segment may be expected to increase to about 130-135 million. This implies that the share of class I cities in total urban population (including metropolitan cities) will increase from 60 per cent in 1981 to 65 per cent in 1991, and to 70 per cent by 2001, while the share of metropolitan cities alone will increase, marginally from 27 to 28 per cent in 1991 and 30 per cent by 2001.

The population in towns expected to be in the class II and class III categories (in the population range 20,000 to 100,000) can also be predicted with some confidence since almost all these towns exist already. This is likely to be in the range of 55 to 65 million in 1991 depending on the emerging pattern of urbanisation. The population of the remaining towns of under 20,000 population is difficult to predict since many of these towns will be those newly classified as such. If past trends continue their total population is likely to be 25 to 30 million (10 to 13 per cent of the total urban population). The important point about these ranges is that

they are indicative of the effect that may be expected of urban policies on urban population distribution.

The implications of this rate of change in urban population are very striking for the rise in urban labour force. It is expected that while the absolute increase in rural labour force in the next three or four quinquennia will remain stable at about 22 million in each quinquennium, the net additions to urban labour force will keep increasing from about 13 to 14 million in 1981 to 1986 to 19-20 million in 1996 to 2001. Thus, the net additions to rural and urban labour force will be almost comparable towards the end of the period. This calls for special attention to the problems of urban employment in the next decade: these problems will have to be given at least as much attention as is currently given to the problems in rural employment. It should be mentioned that the projections given above are consistent with the relatively small inter-sectoral changes in the distribution of labour force that are expected.

II

Mechanisms for Planning of Urban Development

The key aim of planning for urban development should be adequate infrastructure! support for economic development in the country, state or sub-region, be it in agriculture, extractive industries, manufacturing industry or in the tertiary sector. The provisions of service and infrastructure remove constraints on the growth of these sectors or in some cases, promote services. It is important to time investments in urban services and shelter to coincide with investments in agriculture, industry, mining and commerce—activities which provide permanent sources of employment. Urban development planning should essentially consist of a combination of physical and investment planning.

MODES OF URBAN PLANNING

There has been very little by way of explicit urban policy at the national level. The approaches that have been followed can, at best, be described as piecemeal and desultory. Even schemes which were called "Integrated", e.g., "Integrated Urban Development Programme" (IUDP) and "Integrated Development of Small and Medium Towns" (IDSMT), were focused on towns of different sizes: cities over 3 lakh population in the case of IUDP and towns under 1 lakh population in the case of IDSMT. The selection of towns was then quite erratic and little attempt has been made at planning of urban development as a whole. As mentioned, another major scheme was the preparation of Master Plans for a large number of cities but these were largely infructuous because of the lack of connection in the preparation of these physical plans with investment planning at the city, state and

national tads. The other main interventions have been the metropolitan city and state capital projects and the various slum clearance and improvement schemes. In these cases, investments were made in response to major service deficits which could no longer be ignored or, in the case of the new state capitals, investments were made relatively lavishly in the provision of a very high level of infrastructure. Other lavish investments have been made in the establishment of new townships for large public sector enterprises such as the steel plants and heavy electrical plants.

The planning of urban development should be done at a regional or sub-regional level, though this has to be distinguished from regional planning as a whole. Regional urban systems can be identified according to their economic climatic geographical and transportation characteristics. Planning for urban development can thereafter be done on the basis of such regions according to the relative need and function of each town in its regional context. Thus, within each planning zone there would be no allocation to towns because of their size but more because of their function and need, with particular emphasis on their respective industrial and employment potential. The physical and investment plans can then be dovetailed at the regional level and then fed into the state level plans which are, in turn, co-ordinated with the national plans. Recognition should be made of the metropolitan cities with regional, national and international functions, since these cities are not wedded to their regions for their existence and perform national level functions.

Within towns and cities there is a much greater need for community participation as well as the exercise of private initiative and investment in urban development than exists at present. The delivery of the basic public services to everyone is not feasible without such an approach. At present there is little interaction between the citizen and city government. What is needed is community level institution building such that the needs of the community can be expressed in an organised manner as well as services provided in this fashion.

In order to accomplish this change in approach a number of institutional modifications have to be made to strengthen the procedures of urban development planning at the national, state and local levels. The key to the new approach is two-fold. First is the dialogue between physical and investment planning and second is the preparation of regional and sub-regional urban development plans to make the first possible. Unlike the present *ad hoc* system of schemes, states should be asked to prepare comprehensive state and regional urban development plans to qualify for urban investment allocation, given the overall cost standards. The latter should take account of different kinds of inter-regional variation.

COORDINATION OF INDUSTRIAL AND URBAN PLANNING

Despite the close links that exist between urbanisation and industrialisation there is at present little linkage between the planning of urban infrastructure, both physical and social and that of industry. Policies concerned with the location of industry are not co-ordinated with the provision and funding of urban services nor with associated communication and transport facilities. The converse is also true. The selection of towns under integrated development of small and medium towns has not been linked, in general, with any industrial dispersal scheme. Similarly, the urban development projects in Calcutta, Madras, and Kanpur have had little linkage with the requirements of industry in these cities. These linkages can partly be done in the preparation of the regional, sub regional and metropolitan level urban development plans suggested above. However, some infrastructural investments require commitments of large quantum of scarce resources and which are lumpy in nature. Hence, in some cases planning of such investments may be beyond the competence of sectoral and city/town decision-making levels.

The possibility of forging links between industrial and urban planning depends on the extent to which the two processes can be controlled by public authorities. The possibility of control varies from case to case, and therefore different suggestions can be given for each type of industrial town.

Cities with Declining Industries

A major problem that has arisen in recent times is the sickness of industries in some of the older industrial cities. For example, Calcutta has suffered from an overall decline in the engineering and jute industries, Ahmedabad and Kanpur from the sickness in the textile industry along with Bombay which also has a large complaint of sick textile mills. The effect of this sickness has affected these cities as a whole and there are few policies at present which are designed to address this issue in an integrated manner. The problem of industrial sickness is tackled quite separately while urban development issues are neglected in such consideration. Current industrial location policies prohibit the location or expansion of large industries in metropolitan cities. As a result, the decline of old industries leads to extensive unemployment and loss of valuable industrial skills. The lack of prospect of employment in potential new industries in these cities also inhibits decision-making on the closure of these sick industries. Hence there is need for a reconsideration of industrial location policy in metropolitan cities. The location policy must be relaxed to enable the siting of non-polluting industries to replace the old industries which are declining in these cities. A package policy should be evolved which allows the use of the land occupied by sick industrial units for

new units, along with appropriate retraining of workers to be retrenched, and re-development of the land to include both real estate development and new manufacturing activities particularly suited to the city.

Steel Towns

A large integrated steel plant typically employs 20,000 to 30,000 workers who, along with their dependents may constitute a fair size town. Until now the township planning in such plants has formed an integral part of the planning for the project. However, this has been limited to the planning of housing and other facilities required by direct employees of the plants. This is quite inadequate since it ignores the needs of all the indirectly generated employment and population in these rapidly growing cities.

The result is that there is a vast difference in the standards available to direct employees of these towns and those who service their needs indirectly. It is therefore essential that the planning exercises for such new industrial town must (a) allow for a population size much larger than that attributable to the industrial plant itself; and (b) account for a large range of economic activities linked to but not necessarily a part of core plan]. The responsibility for township development should therefore rest with a separate urban development authority which is independent of the industrial plant but is adequately funded as part of the investment exercise for the plant itself. At a later stage such authority can be converted into a representative body of the town after it has developed. If such an arrangement can be effected there can be a greater degree of coherence in the development of the new town in the long range. Moreover, the management of the industrial plant would also not be burdened in both financial as well as in managerial terms in the running of the township. Agreements should, however, be made for the payment of appropriate local taxes by the plant to the urban authority.

Other Towns with Major Projects

In many other cases involving the establishment of relatively large projects, this has often been done on sites quite near existing relatively large cities, such as Baroda, Hyderabad and Bangalore. Water supply, sanitation and social services of these townships have generally been planned in isolation from the existing urban centres. The result is that the township can neither effectively use the service facilities already available in the existing urban centre nor can the existing centre benefit from the facilities newly created to service the township. There is therefore a need in such cases for a systematic assessment of the likely impact of the project on migration, generation of direct and indirect employment, transportation and other service activities and the implied infrastructural requirement. The responsibilities for undertaking these in-

vestments have then to be apportioned between the existing city and the project management. As for funding there is a case for provision of central funding for project linked urban development which can provide resources to the local authority for undertaking its part of the responsibility. As suggested above the townships in these cases also should be made part of the existing cities rather than their establishment as independent townships under the control of plant authority.

Towns with Intensive Industrial Area Development and Small, Medium Industries

Apart from the specific centres where large industrial projects have come up in both public and private sectors there are many other towns such as Bhiwandi in Maharashtra, Panipat in Haryana, Jullundur and Ludhiana in Punjab, Coimbatore in Tamil Nadu and many others which have seen a large growth of small and medium industries. In most of these cases there has been little attempt towards provision of urban infrastructure to match the urban growth resulting from industrialisation of these towns. The preparation of regional and sub-regional urban development plans must make specific efforts to identify the needs of such growing centres and plan for the provision of the required urban services. In rapidly growing industrialising towns such as these it is absolutely essential that the provision of urban infrastructure investments should be closely linked with the raising of the resources from industries and individuals in these towns in order to finance the required infrastructure

INSTITUTIONAL DEVELOPMENT

In order to effect these changes in the approach to urban development planning and, in particular, to forge better links with industrialisation strategies, a number of institutional changes are necessary at both, central and state levels.

The ministry of urban development should be strengthened and re-oriented if it has to play an effective role in overseeing urban planning and development at the national level. Since most of the work in urban development planning is envisaged at the state level the role of the central ministry is mainly as a nodal organisation for co-ordinating action, providing technical advice and working out detailed urban investment implications of projected urbanisation at the national level. It should also be equipped to take the lead in urban policy-making which may then be picked up by the states. This implies technical strengthening of the ministry as well as of the technical organisations on whose expertise it can draw.

The functions of the technical organisation supporting the ministry for the future needs for urban development may be as follows:

- (i) Investment planning for urban

development,

- (ii) Appraisal of urban projects,
- (iii) Setting and monitoring of standards in urban projects,
- (iv) Evaluation of urban projects,
- (v) Search and review of innovative urban programmes,
- (vi) Organisation of an urban information system,
- (vii) Identification of training needs in urban development planning; and
- (viii) Stimulating research on urban development.

At present the technical arm of the ministry is the Town and Country Planning Organisation (TCPO). Over the years this organisation has withered and lost in prestige. If it is to serve the future needs of organisation it would need to be considerably strengthened and perhaps re-designated as a high profile Human Settlement Institute. It would need strong representation of economists, financial analysts and town planners along with support from demographers, geographers and statisticians. It would need to be reoriented from the physical planning orientation towards a national investment planning and evaluation orientation.

Revamping of state level machinery for urban development is even more necessary than at the central level. At present responsibilities for urban development are usually fragmented into different departments dealing with housing, local self-government, environment, town and country planning, and implementation agencies such as housing boards, development authorities, slum improvement and slum clearance boards, etc. The pattern is different from state to state. What is necessary is that machinery must be established for the co-ordination of functions connected with urban development. This can, for example, be done by consolidating the various fragmented responsibilities for urban development under the department of human settlements.

As suggested for the TCPO at the central level, the town and country planning departments should be strengthened technically to perform the following functions:

- (i) The preparation of the five-year urban development plan and annual plans for the states. This would mainly include the statewise investment allocations for different components of urban infrastructure,
- (ii) The preparation of regional urban development plans for regions in the states,
- (iii) Monitoring and evaluation of urban development projects,
- (iv) Construction of an urban information data base
- (v) Formulation of urban regulation and standards,
- (vi) Advising on the preparation of physical land use plans which would normally be done by development authorities and local bodies themselves.

The reorientation of urban development planning towards greater investment planning as opposed to physical planning will not take place by mere re-naming and shifting of institutions. It may, therefore, be necessary to launch a centrally-sponsored scheme for funding the development of new urban development planning capability such that the integration of physical investment and financial planning as envisaged can take place. The scheme would cover training and institutional needs arising from this reorientation at both the central and state levels.

Planning in metropolitan areas as is currently practised consists largely of land use planning as an aid to development control. Again there is little connection between the investment implications of a master plan and resource availability. The land use allocations and the standards used also do not deal adequately with the prevailing socio-economic conditions in the cities; where people live, what they do, where they work, and what they earn. The net result of these problems is that master plans are seldom implemented effectively. It would, therefore, be desirable that metropolitan planning in the future is also to take account of key shortcomings and such that investment planning, financial planning and physical planning go together.

For this to be done a more organised dialogue needs to be established between metropolitan authorities and state governments. The state plans should include a metropolitan sub-plan for metropolitan cities in each state. Hence, metropolitan authorities would have to prepare capital investment plans for the metropolitan areas based on the availability of their own resources, those indicated by state governments and on the other availability of institutional finance. These metropolitan sub-plans would be within the framework of regional urban development plans mentioned above,

The 12 existing metropolitan cities are conveniently located in different geographical regions in the country. The addition of 8 or 9 more cities into this group by 1990-91 will further improve their geographical distribution so that each region will then be served by at least one large city. It is important that metropolitan planning should include consideration of the following issues in addition to the traditional land use function:

- (a) Integration of communication, transport, energy and other infrastructure;
- (b) Assessment of the types of industries and other activities that are more suitable for location in metropolitan areas. The present policy of banning the location or expansion of industries in cities with population existing 5 lakh should be then modified on this basis;
- (c) Assessment of the employment that is likely to arise from the activities envisaged in the metropolitan areas;

(d) Promotion of employment using activities; provision of shelter related to the places of work of the people; and generation of income earning activities.

It should be emphasised that this planning must take account of the prevailing income composition of the population as distinguished from the planning of very high standards which are simply not affordable and hence not implementable. The key necessity of all such planning efforts is close attention to the matching of investments with the available and realistically expected resources.

There is currently a wide variety in the types of metropolitan level authorities that exists in the different metropolitan cities in the country. It is, therefore, difficult to provide a uniform institutional recommendation for all the metropolitan cities. It is clear however, that there is need for a Metropolitan Planning Authority (MPA) which accomplishes all the co-ordinating tasks necessary in the metropolitan area. For such a process to be feasible it will be necessary for state governments to vest MPA with sufficient authority to achieve this co-ordination. The function of the MPA should be to prepare a 5-year plan co-terminus with the national and state 5-year plans as well as annual plans. The physical plan should be converted into an investment plan for the 5-year period and consequently a financial plan taking full account of all the financial resources expected to be available.

III

Financing of Urban Development

EXISTING STATE OF URBAN FINANCING

The necessity for accelerating the provision of urban infrastructure services has been documented above. The large financial requirements that are implied by such investments make it necessary to systematise the methods of financing urban development. This paper is mainly concerned with the core elements of urban infrastructure such as water supply, sewerage, drainage and sanitation, local roads, street lighting, solid waste disposal, area development, urban renewal and urban transport. Other urban services like education and health are not considered here.

Reliable financial statistics of municipal finances are difficult to obtain in a timely manner. However, it has been estimated that total expenditure by municipal bodies of all kinds was in the region of Rs 800 crore in 1980-81. This constituted about 4.5 per cent of total governmental expenditure by centre, states and local governments combined. There is ample evidence that this share has declined substantially over time from about 8 per cent in 1960-61. The activities of local bodies have not expanded as fast as that of higher level governments despite the faster rate of urbanisation that has taken place over this period. The growth in municipal revenue was about 15 per cent per year during the

1970s as compared with about 17.5 per cent per year for the state and central governments (in current prices).

There are definite indications of a weakening of the resource structure of municipal bodies over the past two or three decades. The share of grants-in-aid and contributions from state government increased consistently over this period. There has been a progressive fiscal weakening of local bodies along with increasing dependence on devolution from state governments.

The pattern of expenditure of local bodies on average is as follows:

	<i>Per Cent</i>
General administration and tax collection	12
Public health	20
Water supply	14
Public safety	7
Education	10
Public works	15
Miscellaneous	20

Within this overall pattern it is quite noticeable that smaller municipalities spend a much greater proportion; about 25 to 40 per cent on their establishment, as compared with 7 to 12 per cent for the larger cities. Among the major functions there appears to have been a decline in the proportion of expenditure spent on water supply reflecting the gradual shift of responsibility from the local to state level agencies.

Municipal finances in India operate on the presumption of fiscal autonomy; however in the absence of any systematic method of transfer of state resources to support municipal activities, they are effectively very dependent for resources on the respective state governments. In practice, the fiscal arrangements have combined two approaches: Plan funds are generally spent through a variety of state agencies and when assets are created, these are transferred to municipal authorities for maintenance. The consequence is that the municipal authorities neither have the resources to maintain these created assets nor are they usually able to raise new resources through the levy of user charges. This results in a maintenance gap for urban public services. The separation of developmental and maintenance role for urban public services also has the effect of the determination of the plan size for urban development without any reference to the size of the committed budget for the urban public services such that the backlog deficit for maintenance goes on increasing with every successive plan.

The separation of responsibility for urban development (state) and maintenance (local bodies) is therefore an important problem which must be addressed. The second problem is to harmonise in fiscal terms the municipal budget with plan and non-plan budgets of the states. The solution to the first problem lies in regarding the state agencies as undertaking planning and construction activities on behalf of the municipalities, on contract when necessary, and in-

tegrating the municipal and state planning process for allocating plan funds for urban development as suggested in the last section. The solution to the second problem lies in systematising the pattern of devolution of state funds for local bodies along with greater resource mobilisation by local bodies themselves.

The existing system of devolution of state funds to local bodies can best be described as *ad hoc* and unpredictable depending on the vagaries of the state budgetary provisions. The principle of devolution has usually been the gap filling approach which must be regarded as unsatisfactory. Moreover, there is no relationship with the capital funds invested.

As for the devolution of plan funds in local bodies there is precious little that is devolved. The tendency of the state governments has been to execute most capital works through their own agencies. There has been a gradual usurpation of local functions by state governments. Local bodies at present also have no access to capital markets.

VALUATION OF INFRASTRUCTURAL REQUIREMENTS

It is difficult to estimate the requirements for investment in urban infrastructure since it involves the setting of standards which is a judgmental exercise. Nonetheless, it is necessary to make some estimates for planning purposes and for deriving the volume of resources necessary for the provision of urban infrastructure. The estimates given here include the requirements for the provision of water supply, sewerage, and/or sanitation, solid waste disposal, storm water drainage, roads, street lighting and land preparation. These estimates do not include the investments required for local transportation, telecommunications, health and education facilities.

The per capita costs of providing this urban infrastructure is estimated to vary from about Rs 1,200 to Rs 2,400 at 1985 prices depending on technology used and service level provided. Rs 1,200 suffices to provide the absolutely basic facilities. Since, the minimum is not uniformly applicable to all situations in different towns and cities, the average minimum requirements for investment is probably in between these two figures: the mean may be taken as a realistic indication of requirements. On this basis and taking account the depreciation of the existing infrastructure, the backlog of existing population not served (about 25 per cent) and the expected increment to urban population, the level of investment required between 1990 and the year 2,000 would be between Rs 30,000 crore and Rs 37,500 crore at 1985 prices. The backlog has probably increased over the current plan period since the allocated plan outlays for the 7th plan for urban infrastructure are only about half of the requirements worked out on the same basis. The situation was similar during the 6th plan period. It is therefore essential that

the expenditure levels in these sectors must be at least double in real terms as compared with the allocations during the 7th Five-Year Plan. At 1989-90 prices this implies an approximate annual capital expenditure of about Rs 4,000 to Rs 4,500 crore.

The significant point raised by these estimates is that, although the magnitude of the step up in the investment required is quite substantial, it is not astronomical as is generally believed and should be well within the means of the country taking into account the benefits resulting from these investments for all economic activities and the general welfare of the urban population. It should be emphasised that these estimates assume (he use of low cost technologies particularly in the Held of sanitation (in preference to water-borne sewerage), water supply and garbage disposal.

A few points may be noted which have resulted from the estimation of infrastructural requirements:

- (i) There is no obvious relationship between the per capita costs of urban infrastructure, investment and city size;
- (ii) Similarly, there is little evidence of large differences between the acquisition cost of un-developed land on the fringe of larger cities and that on the fringe of small towns;
- (iii) With the continuing rise in the level of urbanisation and hence investments in urban infrastructure, the replacement cost of the expanding stock of capital will assume increasing importance over time as compared with the needs of capital for new investment requirements.

It is also possible to assess the adequacy of the current resources of local bodies in relation to the existing capital stock of infrastructure. In 1981 the replacement value of existing urban infrastructure was in the region of Rs 13,000 crore. This implies that the costs of annual maintenance of existing urban infrastructure to be in the region of Rs 1,300 crore, as compared with the total resources on local bodies at Rs 800 crore which are not all necessarily devoted to maintenance. Again, the suggestion is that a doubling of the current level of local resources would probably be adequate to cover the needs of adequate maintenance of urban infrastructure. Moreover, if investment in urban infrastructure is to increase substantially, ways will also have to be found to make local resources more buoyant.

REVENUE INCOME AND EXPENDITURE

If the municipal resources are to be doubled over time in real terms, the implication is that the share of municipal resources will be restored to a little over 8 per cent of total public sector resources in the country, i.e., roughly the level that prevailed in the 1950s and early 1960s.

Among the major sources of current revenue are the property tax and octroi. Collection of property tax has suffered from

innumerable problems. Even without revision of assessment procedures, periodic revaluation, etc., the collection of existing demand would substantially increase the yield of the property tax. One of the main hurdles to increasing revenue from property taxation undoubtedly lies in the existing rent control restrictions which freeze the process of property valuation for taxation in terms of annual rental value. A good start has been made in this respect in the recent bill enacted by in parliament to amend the Delhi Rent Control Law. It would be desirable to go still further in amending rent control. The current act suggests the revision of standard rent by 10 per cent every three years. This provision should be modified to revise the standard rent every three years in accordance with the central government DA formula or by a given percentage (say 75 per cent) of the increase in the consumer price index. This bill should be applicable to old and new buildings alike. The current bill exempts properties with rents greater than Rs 3,500 rent from the Rent Control Act. This level of rent is on the high side. Consideration should be given to reducing this cut off point in order to release a larger number of properties from rent control. Non-residential properties should be freed of rent control altogether. The procedure for eviction of tenants should be simplified such that cases are not held up in courts for long lengths of time. In particular, the procedure for self-occupation by the owners should be made much easier.

If the controlled rents are automatically revised upward the property tax revenues will increase correspondingly along with the revaluation of the properties. This procedure would have the merit of being simple without the municipality having to undertake any work of revaluation of properties. In order to improve the administration of the property tax it is also recommended that state level central valuation boards should be established to evolve procedures for property tax valuation and for developing norms which may be applied to different properties. It may be emphasised that the central valuation board would itself not undertake the assessment work but is intended to train the assessors for local bodies and also to undertake snap checks on assessment carried out in different localities. A continuing controversial issue has been the abolition of octroi. There is little disagreement on the fact that it is not an acceptable tax from the economic point of view. However, it is a simple and productive one from the view point of local authorities. The abolition of octroi cannot therefore be thought of unless a reliable and superior alternative or set of alternatives is found for the local bodies. One alternative is to levy a city surcharge on sales tax subject to a maximum of 10 per cent of the basic tax. Another alternative is to replace octroi by a statewide entry tax whose profits would be distributed to the local bodies on principles to be determined by expert bodies appointed by states to review municipal finances on a regular basis.

DEVOLUTION OF STATE AND CENTRAL FUNDING

In the interest of promoting the financial autonomy and responsibility of local bodies there should be a systematic mechanism over the devolution of funds to local bodies at the state level. It may be advisable to constitute a Municipal Finance Board (MFB) or similar standing institution in every state to keep constant track of local finances. In addition, it would be useful if an expert body is appointed every five years under the aegis of such an MFB to review the municipal finance arrangements in the state and to recommend changes in the devolution from the state to local bodies. It is essential that the devolutions from the state are systematic and formally based and that a gap-filling approach should be avoided.

It is necessary to expand the resources that are to be devolved to local bodies. There is a strong case for amending the Constitution in order to earmark 10 per cent from the corporation income-tax to be passed on to local bodies. This would mean an addition of about a third to the current revenues of local bodies. This is justified since a large majority of the corporations carry out their activities in large urban areas and are major users of urban services. As suggested earlier, at the state level, consideration should be given to devolving 10 per cent of the state sales tax, 100 per cent of the profession tax and 50 per cent of the entertainment tax.

FINANCING OF URBAN INFRASTRUCTURE

As has been mentioned earlier there is at present little systematic effort at planning of urban development. Consequently, the financing of urban infrastructure has also been done in a rather *ad hoc* basis. Moreover, as a result of the institutional separation of urban development and maintenance tasks, linkage between the plan and non-plan components of urban development are blurred and hidden. If the suggestions made on urban development planning and municipal financing made earlier are implemented it would be easier for local governments to formulate municipal development programmes along with the framework for maintenance of created assets. Municipal bodies should prepare capital budgets for five-year periods. The larger urban bodies and corporations will be able to do this themselves but the others would need technical assistance. The municipal finance board suggested earlier could include technical assistance for this purpose as one of its functions. The urban bodies will have to prepare separate capital and revenue budgets which would also enable systematic linkage between the two and a better estimation of the current expenditure needs of local bodies.

In spite of the larger devolution recommended, more funds must be generated by urban bodies themselves for there to be a greater degree of self-financing. There is no reason why urban areas as a whole should be subsidised by any other sector. There must

be a greater degree of reliance on user charges for the financing of urban services which are more amenable to such charges. The advantages of the user charge approach are many. First, direct *quid pro quo* is established between the payment for the service and benefit derived from the services. Second, the user is better able to monitor the availability of quality of services supplied and thereby to put pressure on the agencies supplying the service. Third, and most important, institutional financing from non-budgetary sources becomes feasible since loans can then be directly raised by the local bodies and paid back. The services which are more amenable to the user charge approach include water supply, sewerage, drainage and sanitation (partially), and solid waste disposal, area development, shelter and urban renewal. In our conditions we may expect the levy of user charges to finance about a half to two-thirds of total costs of the different types of urban services which are all amenable to user charges. It should be possible to finance this portion from financial institutions if an appropriate institution is established. The rest would have to continue to be financed from the regular budgetary provisions of plan finance

NEED FOR URBAN INFRASTRUCTURE FINANCING INSTITUTION

Although the Seventh Five-Year Plan had included Rs 50 crore as seed money for the establishment of an Urban Infrastructure Financing Corporation (UIFC), this scheme was not implemented. It must be understood that the urgency of establishing such an institution is even greater today than in 1985.

The establishment of the UFC would be expected to increase the supply of capital made accessible to local authorities for the financing of infrastructure projects. It would also help in providing adequate urban services to small size towns in particular by improving their access to capital funds which is at present extremely limited. It may also be expected that the establishment of such an institution would improve project identification, project design and planning, project appraisal, and implementation and monitoring.

The rigour of borrowing from the financial institutions will induce improvement in management and finances of the local bodies so that they become eligible for loans from such a body. The necessity of repaying financial institutions and being subject to its financial scrutiny should also help in inducing local bodies to assume greater financial responsibility and better management. If these changes take place one may also expect better results from the investments made and a greater availability of resources for investment in urban infrastructure. It is important that the UFC should not replace existing sources of funds to local bodies. The experience of HUDCO, HDFC and the National Housing Bank has been very positive in showing that the establishment of new financial institutions does in-

deed result in a greater flow of resources to the sector concerned. The new institution would be a specialised agency that would require considerable government support but it could raise resources as part of the plan resources mobilisation strategy. It would rely on the channeling of long-term financial savings towards urban infrastructure; rather than of budgetary plan outlays. A conservative projection of mobilisation of resources would suggest that such an institution could grow from disbursing about Rs 50 crore in its first year of operations to about Rs 1,000 crore of its fifth year of operations.

IV

Management of Urban Development

In the previous sections a number of suggestions have been made to improve the planning and financing of urban development. If these suggestions are to be implemented, the style and scope of urban management will have to change and expand. The basic function of urban management will include planning, programming and implementing physical and civic facilities like water supply, drainage, roads, conservancy; these can be planned best and implemented if the scope of urban management is broader and includes the five imperatives mentioned below:

- (i) Organising measures to develop an institutional framework and capability;
- (ii) Organising the urban political system to respond to the changing needs and challenges of the future;
- (iii) Organising measures to ensure and enhance environmental and other elements in the quality of life;
- (iv) Organising and co-ordinating transport, power, communications and industrial allocation;
- (v) Organising activities for expansion of income and employment opportunities.

An area of major concern is that the role of local authorities has been undermined progressively over the last two or three decades. Many functions performed hitherto by local authorities are now performed by urban development authorities which are state government organisations and by other state level institutions for specific purposes. In recent years even the obligatory functions of local bodies have been taken away in many cases and assigned to state level bodies. This has happened at all levels of towns and cities including metropolitan cities. The time has now come to reverse this process and enhance the role of local authorities. This is necessary both from the view point of providing more responsive government and delivery of urban public services but also from the view point of better planning and financing of urban infrastructure.

ROLE OF LOCAL AUTHORITIES

There is an increasing tendency in the country to take away the obligatory functions of the urban local bodies and create

new agencies at the urban or state level and to assign them the planning and the development of these various services hitherto the exclusive jurisdiction of the local bodies. It is true that this tendency has been strengthened by a certain force of events: the organisational incapacity of the local bodies in the face of severe service deficits; the continuing image of these bodies as corrupt and inefficient; and the problems arising from haphazard and unplanned peripheral growth. In the process the municipalities have been almost reduced to a position of irrelevance accompanied by the growth and strength of development authorities and special agencies. These agencies have been created in the name of capital expenditure and development since the traditional form of municipalities and corporations are deemed to be anachronistic to the increasing demands of city management. This has resulted in a phantom distinction between capital works and maintenance. The result is that these investments are not maintained properly and are threatened with early damage requiring extensive repairs. Second, there is little participation at the local level in the planning and delivery of urban infrastructure and services. Third, the municipalities have never been seriously involved in the development planning process of the new agencies. In sharp contrast to the political prestige and influence that many of the municipal bodies enjoyed in earlier days, the very existence of the municipal system has become vulnerable in recent years. The majority of the municipal corporations in the country are under supersession. Many local bodies have been under supersession for over 15 years. Yet there is little evidence that the administration of these municipalities has improved much under the direct administration of the state

With the increasing urbanisation and continuing expansion of existing towns and cities it is absolutely essential that serious measures be taken urgently to restore the health of local municipal bodies. The strengthening in terms of access to financial resources, management capability, personnel, fiscal as well as service responsibility and planning powers is essential for the orderly development of our towns and cities. This is necessary for the efficient management of our towns and cities so that all citizens can have access to at least a modicum of essential urban services. With rising urbanisation it will simply be impossible for state level agencies to serve the myriad needs of different towns and cities—both physically as well as financially.

Urban development authorities are not necessary for performing the functions earlier assigned to municipalities. UDAs may only be justified in urban areas consisting of several municipal jurisdictions adjoining one another. These would be metropolitan or pre-metropolitan situations. Here, apart from the municipal functions there are a number of other functions of planning, investment, regulation and promotion which

may call Tor such authorities. Statutory and special purpose authorities like water boards, or sewerage and drainage boards for intra-municipal purposes should be similarly discouraged. If these are needed because of the technical requirements it should be examined whether such bodies can function as subsidiaries to the municipalities responsible for them.

In the case of industrial and other new townships the practice of running them as company townships should be given up. Each of these townships should either merge with the rest of the city or brought under a single municipal authority.

There are over 60 urban development authorities now. Of these 10 are in the metropolitan cities and the rest in other mostly class I cities. The need for them should be examined carefully in each case. The municipalisation of expanding urban areas is important and should be undertaken as the expansion takes place

METROPOLITAN CITIES

At present there are 12 cities with a population of more than 1 million. The existing institutional arrangements for the management of these cities are different in almost each case, and it is not feasible to prescribe a uniform model for every metropolitan city. However, in many cases opportunities exist, for the consolidation and extension of local authorities boundaries within the metropolitan cities in order to reduce the problem of administrative fragmentation within cities.

In metropolitan cities, apart from municipal functions, several important non-municipal functions have to be provided and co-ordinated such as transport, telecommunications, public safety, higher education, health, etc, and hence a metropolitan level organisation is necessary to perform certain metropolitan level tasks which municipal bodies may not be able to perform. These tasks are strategic planning for development, capital budgeting and planning, co-ordination of development programmes and policies and monitoring and evaluation. Metropolitan level organisations also have a substantial role in the mobilisation of resources by supplementing the efforts of municipal bodies in this respect and by advocacy for additional resources from higher levels of government. The structure of metropolitan level organisations may vary from one metropolitan city to another. They must have representation from the various governmental, municipal and functional bodies working in the metropolitan area as well as from expert groups such that the metropolitan organisation is able to perform its apex role of co-ordinating growth. As suggested in the section on planning it is crucial that in the state development plan a metropolitan sub-plan is presented as a distinct head.

DE-CENTRALISATION OF URBAN MANAGEMENT

One of the key lacunae existing in the current system of urban management is management at anything lower than the city level. For a local government to be strong in the long run it needs to be strong at the grassroots. Further, the collection of user and other civic charges would be easier with an effective decentralised form of government. Hence, the strengthening of local authorities should also include an expanded programme of intermediate forms of organisations geared to urban community development through a participatory process of planning, execution, financing, monitoring and evaluation of projects and programmes. At present in urban areas there is no one between the citizen and the municipal corporation or municipal boards. In a participatory sense, when a local authority is suspended the citizen really has no intermediary between himself and the state government. Hence in urban areas there must be intermediary organisations which elicit the participation of people in decision-making. There might then be a closer connection between tangible works and resource raising and people may be more willing to contribute towards these resources.

Emphasis has been placed on the fiscal strengthening of local bodies so that they are able to perform the tasks that are to be assigned to them. The key ingredient necessary for efficient resource mobilisation is that the public must be convinced that the taxes and user charges which are levied are indeed related to the benefits that are supposed to occur; it may be expected that even capital costs could be financed to a limited extent by contributions from the beneficiaries if the benefits are clearly perceived. Even poor neighbourhoods have often been found willing to pay for road widening and paving, the provision of piped water, sanitation, etc, when the payments are seen to be directly linked to the provision of these services.

For community participation to be effective there must be consensus on what their legitimate spheres of activity are. Preferably, community organisations must have legal status and have a clear mode of interaction with the municipal authorities. For meaningful decentralisation it would be advisable to initiate some form of political as well as administrative and operational decentralisation. For example, in a different context, villages in Nagaland have village development boards in addition to village councils. The village development boards are legal entities which can receive and raise funds and undertake developmental works. They are community-based organisations with representation from the traditional village councils along with other direct representation from the village. This structure has resulted in the implementation of a large number of village developmental activities

with community participation which would otherwise not have been undertaken. The VDB acts as an effective intermediary between government authorities and the village community.

In the urban situation, efforts must be made to found similar community associations such that management decentralisation can effectively take place. The community associations should have regular neighbourhood meetings on matters of local concern, and similarly, the local authorities should have regular meetings with the associations. Such associations can fulfil a number of functions. They can be effective in implementing joint action with the authorities in the provision of services. This can include activities such as street improvements, drainage, garbage disposal, lighting, provision of community spaces, medical dispensaries, technical training, etc, according to local concern and need. Moreover, they could also do other intermediary functions such as on-lending of small loans for home-improvements which are very necessary for shelter improvement for the poor. At present, there are no mechanisms for the implementation of these functions. Community associations can also be consulted in the framing of investment plans relevant for their areas, in the articulation of demand for transport and other traffic measures before they are implemented. For all these possibilities to be realised community associations would need technical assistance. This could be supplied by a federation of such associations or by a community wing in the Local Authority.

Given the lack of precedent it is not easy to prescribe a viable structure of decentralisation of urban management at the city level. It is not easy to elicit community response unless there are tangible issues of interest to the community. One way of eliciting such response could be the provision of matching funds for neighbourhood improvements: in order to be eligible for receiving such funds, communities would have to organise themselves and also make contributions.

One well known example that does exist is the Urban Community Development Programme in Hyderabad. This programme has been run by the Community Development Wing of the Municipal Corporation of Hyderabad. It seems to have elicited a considerable amount of popular enthusiasm. However, it has been a top down approach with UCD officials leading the way—the programme was seldom community led. It has also not brought into existence community organisations on a self-sustaining basis to look after the community level services and amenities. However, much can be learnt from that experience and improvements made.

(To be concluded)