

Managing metros

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IN the last century, which saw rapid urbanization across the globe, India did not face an 'urban explosion' as did many other regions of the world. India's level of urbanization increased from 17.6% in 1951 to only 23.7% in 1981 and 27.8% in 2001. Despite its low level of urbanization, in terms of magnitude, India's urban population has grown to more than 285 million in 2001. In the last decade the overall increase in population has been particularly large at about 70 million people, larger than the urban population of all countries except Brazil, China, Indonesia, Russia and the United States. Therefore, even though India's level of urbanization continues to be low and its urban population growth rate is not among the fastest in the world, it is important to study the phenomenon of urbanization in India as its magnitude is so large in absolute numbers.

India has experienced a relatively slow but stable rate of growth in its urban population since 1921, during which the level of urbanization has increased slowly from 11.2% to about 27.8% in 2001. Although the total urban population increased more than 11-fold between 1901 and 2001, from about 26 million to 285 million, the number of settlements increased by just 140% to 4378 from 1830. The increase in the number of towns has also been steady across the decades. Thus, most of the growth has been due to the enlargement of existing towns at every level and not significantly due to the addition of new towns (Mohan and Dasgupta, 2004).

It is generally believed that large cities have grown faster than and at the expense of small and medium towns; that this phenomenon is undesirable and measures should be taken to retard large city growth; and that this can be done by placing greater investments in small and medium towns. However, it is not true that large cities have grown faster on average than small and medium towns. Further, the growth and distribution of small and medium towns is such that higher growth in small and medium towns is unlikely to affect the growth in larger cities. The growth of any city or town has little to do with its own size and is mainly explained through its own economic characteristics and that of its surrounding region. Slow growing towns have been found to be concentrated in particular regions of the country which has varied from decade to decade (Mohan and Pant, 1982).

This balanced urban growth pattern has led to increasingly larger proportions of population living in larger towns and cities. Over two thirds of the total urban population now lives in the 393 cities that have over 100,000 populations (Class I towns). But the continuing increase in the number of large cities – million plus cities, half million plus cities, 100,000+ cities – does have implication for strategies for city

management. On the one hand, the management of large cities needs higher management skills than those required for the management of small towns, along with greater technical expertise and understanding of city growth. On the other, the emergence of large urban agglomerations can be expected to give rise to agglomeration economies that contribute to the attainment of higher economic efficiency levels and productivity growth. Furthermore, it is also more economical, per capita, to provide essential services to people in large urban agglomeration than in dispersed settlements. Thus, the emergence and growth of large urban agglomerations must be anticipated and provided for, and a policy framework worked out such that such agglomerations are not feared and appropriate conditions are created for investment in public services that are essential for healthy city living.

Various projections have been made on expected urbanization in the country (Planning Commission, 1983; Rakesh Mohan 1985; Census of India, 1989; Government of India, 1996, V.K. Tewari, 1997). According to the projections based on a studied estimate of the expected growth rates it was projected that total population of India would be in the range of 850 to 860 million in 1991 and 990 to 1020 million in 2001. The level of urbanization was projected to be between 27 and 28% in 1991 and between 31 to 32% in 2001. This implied an absolute increase in urban population of about 70 million between 1981 and 1991 and a further 80 to 85 million increase to about 315 to 320 million by the year 2001. This projection also implied that the actual increase in population during the period 1991 to 2001 which was expected to be of comparable magnitude in both urban and rural areas, but the results have been quite different.

Actual total population in 2001 was 1027 million – very close to but slightly higher than most projections of around 1000 million to 1018 million. However, the major difference was recorded in the variation in the projected urban population and the resultant percentage of total population. The urban population recorded at 285 million was lower than all projections. In fact, the level of urbanization at 27.8% in 2001 was closer to projections expected in 1991 than in 2001. Even till the middle of the 1990s most observers believed that urban population would be more than 30% of the total population at the turn of the century. The slowdown is particularly surprising since the total population levels in both 1991 and 2001 are quite comparable to what had been expected. The deceleration of urban growth is apparent at all levels of the urban structure, and across almost all major states (also see Kundu, 2003 on this issue).

The deceleration in urban growth may be seen as a welcome development by many. However, I view it as a rather disturbing signal suggesting that the urbanization process in India is, perhaps, handicapped by inadequacy in economic policy. The economy seems to have generated too few jobs in the urban economy; and urban infrastructure investment has been inadequate for healthy urban growth, thereby exacerbating the situation.

The lack of jobs compounded by a perceived worsening quality of life may have discouraged rural migrants searching for better livelihood in urban areas. The deceleration of urban growth could well result in greater rural immiserisation rather than greater rural prosperity.

The emerging pattern of India's urbanization and of economic growth over the past two decades gives somewhat surprising results. *On the one hand, these decades have been characterized by relatively rapid economic growth, much higher than previous decades; on the other, these very decades have exhibited a rather surprising slowdown in urban growth in terms of population.* In other countries, both historically and at present, urban growth typically accelerates at this stage of development. India is atypical among developing countries.

The Indian urban problem is, therefore, somewhat different from that of other countries. National economic policy needs to *accelerate* urban employment growth in order to relieve the rural areas of excessive manpower: policies need to remove various rigidities that inhibit such growth. Thus, India's urban problem is that urban growth has probably been too slow in the past two decades, and now needs to be accelerated in order to improve economic welfare in both urban and rural areas.

The various urban population growth projections suggest that, in terms of magnitude, the accretion to urban population in India over the next 30 years will be about equivalent to that experienced in the last 50 years, assuming that the slowdown observed does not continue in the coming decades. It has been estimated that by 2030, about 41% of India's population will be living in urban areas, which would mean an additional population of 300 million people will be added to India's cities and towns.

Also, it has been projected that by year 2030 there will be 70 cities with more than a million population, which will expectedly house close to half of the urban population from a number which is 35 today. Further that the mega cities of today will continue to grow and by 2015, six cities will collectively have a population of close to 84 million, with the largest cities of Mumbai and Delhi having more than 30 million residents each by 2030. The projections help us to understand the daunting tasks ahead of urban policy makers and urban infrastructure service providers.

The task of improving urban services continues to be challenging due to the large increases in urban population. This will put a strain on the present management and delivery systems. This fact accompanied by intensification of the emerging demands for quality services from the new growth sectors of the economy would need new thinking for managing the provision of urban infrastructure services. The challenges over the next few years would be immense especially if urban infrastructure is not to emerge as the key bottleneck to India's economic ambitions for growth. If urban population growth is to be accelerated, it will need even greater

acceleration in urban infrastructure investment.

A standard governmental response to rapid city growth is to prepare comprehensive metropolitan plans. Such plans attempt to shape the growth of a city for perhaps five to twenty years, as has been done in various cities in India through the development of 'Master Plans'. These plans typically delineate land use in a detailed manner and attempt to freeze city structure for the planned period. It is also typical to do physical planning for all the anticipated infrastructure needs.

Often, however, the costs of such infrastructure are not calculated realistically and when these costs turn out to be excessive, the plan becomes non-operational and implementation falls short of what was intended. This has typically been the case in Indian cities. Large portions of the growing cities have thus been deprived of essential needs. What needs to be understood is that in conditions of high economic growth, as India is experiencing at present, city growth can indeed be managed if the tasks of management are decentralized in such a way as to encourage endogenous responses to the changing situation.

With the rapid urbanization that is now expected, it would be better to decentralize the instruments of infrastructure provision so that the agencies providing such infrastructure services are able to finance themselves and can respond flexibly to the changing demands of a growing city. The mechanism of self-financing is important because it serves as a self-correcting procedure whereby higher priority projects are implemented first and realistic planning becomes a necessity.

Self-financing by an agency does not necessarily imply commercial financing. It can include subventions from higher level governments, commercial loans, government loans, soft loans, and servicing of these loans through affordable user charges. Different kinds of public-private partnerships are possible and worth exploring. It does, however, mean greater agency autonomy than in a system in which infrastructure programmes are part of a central planning mechanism that is sought to be fully funded from above or done through some form of credit allocation. What is important is that such autonomous agencies in India, the various public utilities, develop the ability to respond to the emerging demands of the growing cities.

Given the limited financial and managerial capacity of such government managed utilities in India to deliver the anticipated needs of urban infrastructure in the coming years, it will be prudent to allow private initiatives to flourish whenever possible. This is not so much a matter of ideology as of necessity. Urban land development is a case in point. Urban development authorities, state housing boards, and urban local bodies have typically had the monopoly for land assembly and development in Indian cities since the late 1960s and early 1970s. They have usually not had the financial, planning or managerial wherewithal to actually develop urban land as rapidly as it should have been, thus giving rise to unconscionable land price increases.

It would be much better if private land developers are given much more opportunity to perform this function, albeit within prudent norms, and in a competitive framework. Provision of public transport is also woefully inadequate in most Indian cities, particularly at the second and third levels. Here too, it will be much better if private investment in public transport is allowed to flourish in such a way that high service levels are achieved at low economic and financial cost. This is indeed possible through extensive use of private initiatives within a public regulatory framework, as has been observed in many cities in the world.

Mega city management is a new emerging area that needs consistent focus of policy makers. Cities are now large and more complex than they have ever been. They often have very large budgets and, depending on the context, these budgets are sometimes bigger than the budgets of many countries and many provincial or state governments. As an example, the New York city budget is larger than of many countries around the world and Greater Mumbai Municipal Corporation bud-get is larger than that of nine state government budgets while Municipal Corporation of Delhi's is larger than four state government budgets in India. Other than this, city services are presently delivered in a very fragmented way through a number of institutions. The amount of coordination that megacity managers do to provide 'day to day' and 'real-time' services is indeed Herculean and needs urgent streamlining through consolidated policy action.

The multiple role of cities needs to be recognized and planned for. The city land use plan, which is unilaterally drawn up by a statutory directive is not the right methodology to address the changing contexts. The requirement is for dynamic short term aims, as part of a more consistent longer term strategic vision. Most city managers traditionally have very little knowledge about the economy of the city they administer. This impedes the city from reacting positively and proactively to address issues of restructuring to meet national or global competitive conditions.

Cities should plan with the regional context and keep in mind especially the nearby towns and rural areas that are dependent on it although some cities will be much more connected with their markets abroad. This would help develop a regional plan for urbanization and economic development which would then be integrated at the state level. A number of these regions are beginning to emerge but are restricted due to non-supportive policies and administrative constraints that need to be addressed. As an example the Mumbai Task force on Infrastructure identified the Mumbai, Pune and Nashik triangle to be its region. Around Delhi, the National Capital region cities including Meerut, Ghaziabad, Gurgaon, Faridabad, etc already are economically deeply entangled. Other areas around Hyderabad and Vishakhapatnam and Chennai have also started emerging as potentially cohesive regions.

Revamping the state level machinery for urban development is even more crucial than at the central level. At present, responsibilities of urban development are fragmented into different departments. Also the pattern of this fragmentation is different from state to state. The state level apparatus needs to be consolidated as elaborated for the central level below.

Other than Delhi, mega-cities in the country are greatly handicapped by the lack of a single over-arching authority that has the ultimate responsibility for ensuring city welfare in all its aspects. The state governments naturally have responsibility for the whole state and the management of a mega city within a state is at best a distraction, if not a nuisance. In fact, in view of the many legitimate demands of rural areas and smaller towns and cities, political leaders are loath to be seen as being particularly interested in the welfare of the large cities within their jurisdictions. Hence, as we foresee the emergence of, say, another 35 million plus cities, we need to evolve a political administrative model of city arrangement that is able to be responsive to the emerging colossal needs. The mayors of large cities in China are typically powerful political leaders: they can then express a larger vision for city growth and provide for it in terms of resources and other wherewithal. Our legislative provisions now provide for such city level local management. It is essential therefore that we empower our city leaders, both political and bureaucratic, to really lead city development.

Although the need to realign urban policy and programmes has been brought out in the past in both the Task Force Reports on Urban Development of the Planning Commission in 1983 and the voluminous reports of the National Commission of Urbanization in the late 1980s, it needs to be emphasized again that strengthened urban policy is critical to sustaining economic growth at the national level. Also, a number of developments in other infrastructure sectors, notably telecom, national highways, and ports suggests that the criticality of the urban development will be recognized and taken up more seriously now; the National Urban Renewal Mission is a case in point.

The key aim of policies and programmes aimed at urban development should be to provide adequate infrastructural support for economic development in the country, state or sub-region, be it agriculture, extractive industries, manufacturing industries, or the tertiary sector. The adequate provision of service and infrastructure removes constraints on the growth of these sectors and in some cases promotes services. It is important to time investments in urban services and shelter to coincide with investments in agriculture, industry, mining and commerce. Therefore, urban policies and programmes should essentially focus on increasing investment in urban infrastructure services.

Many schemes started and modified over the years, such as the mega cities

scheme, the integrated development of small and medium towns, the low cost sanitation programme, etc, transfer grant funds directly to selected cities. These programmes have had limited impact and suffer from not being able to trigger and leverage sustained change in the chosen cities but have in the past been responsible to increase dependence on these support grants. However, for the first time, the Government of India (GOI) budget not only recognized the need for reform of urban policy at the state level, but also provides resources to encourage reforms,¹ particularly with respect to user charges for infrastructure, housing and land markets. The attempt of tying plan resources to urban policy reform represents a very significant step forward for national intervention in the urban policy sphere.

Urban land policy reform has been contemplated for a number of years but no government has shown the political will to implement it. However, some progress in this regard has been achieved with the national government at the centre recommending the removal of the Urban Land Ceiling Regulation Act and some states actually ratifying it at their level. Other acts, such as the Rent Control Act which is caught up in litigation have proved more difficult to address.

Other than this many cities have implemented property tax reform, and some are slowly gearing up to develop a systematic database on land transactions and property rights. There are many supporting actions that need to be taken to bring about smoother functioning of urban land markets that includes removing governments monopoly on land acquisition, reducing transaction costs/stamp duties for registration, among others.

Financial development for supporting urbanization processes is critical to economic growth and poverty reduction. In the past, during the rapid urbanization phases of some European countries, North America, and Latin America, available domestic savings were inadequate to finance the massive urban investment needs that arose during those periods. Thus large cross-border flows were necessary to bring to bear external savings for investment purposes in these countries and regions. At present the two largest Asian countries, China and India, have effective savings surpluses that are currently being invested as foreign exchange reserves in developed country securities and banks. Yet huge resource gaps exist for investment in urban infrastructure since city governments are often not creditworthy, and urban infrastructure projects are not commercially viable. If these two generic problems are solved, the surpluses now being observed in these countries could disappear, and there will instead be a draft on external resources.

The strengthening of city management outlined earlier is therefore a must. As this strengthening takes place it will enable the organic connection of city governments with capital markets, both local and international. The key reform needed to make city governments

creditworthy on a permanent basis is a revamp of the property tax systems that makes property taxes more buoyant. As cities of all sizes grow, and densify, not only will the number of properties grow indefinitely in every city, but so should the average property value. Hence, a well administered property tax system should yield buoyant property tax revenues on a continuous basis.

For the property tax to become more buoyant, urban property markets have to be liberalized: regulations such as rent control and the Indian urban land ceiling controls need to be scrapped or substantially modified for the urban property market to flourish in a transparent manner. Second, subventions from higher levels of governments will have to continue, but these need to be made less discretionary and more predictable. Third, more services need to be decentralized to the private sector if possible, or to corporatized public service providers, or through public private partnerships. As these reforms take root, it would be possible for strengthened urban municipal administrations to become creditworthy and hence be enabled to raise resources for urban infrastructure investment and maintenance.

Urban infrastructure projects are typically messy, complex and difficult to implement. Thus project management skills need to be enhanced. For such projects to be seen as commercially viable there is a need to find all kinds of credit enhancement mechanisms that can then effectively connect lenders and investors with urban infrastructure entities. Since urban infrastructure projects often have positive externalities that, by definition, cannot be captured by the project entities, there is a good case for the government to engage in different kinds of credit enhancement. Some illustrations of possible measures are:

* *Availability of 'free' equity for project agencies:* Depending on the level of positive externalities, a project agency that is not otherwise commercially viable can become viable if, in principle, the government provides some share of equity that is not to be recompensed. The remaining equity can then receive appropriate market returns, as can the debt, while the project as a whole may have lower than market financial returns, through high economic rates of returns.

* *Guarantee mechanisms:* Different kinds of risks can be mitigated by different kinds of guarantee mechanisms. Such guarantee mechanisms can be commercially priced, or otherwise, depending on the source of the risk.

* *Appraisal agencies:* The existence of information asymmetries give rise to the reluctance of investors and lenders to invest in urban projects. The government can help in funding professional institutions specialized in such appraisal techniques, which can then build professional credibility and provide project appraisals that are respected, and therefore address information asymmetries effectively.

* *Programmes for staff professionalisation:* National governments and international institutions can invest in directed programmes to upgrade

professional staff in local governments and project entities, which can then lead to more efficient governments as well as project executors and maintenance agencies, thereby promoting creditworthiness.

Many such examples can be given for the credit enhancement of local governments and urban project entities. All such measures would help in linking both domestic and international capital markets to the financing requirements of cities.

The United States developed the market for municipal bonds for the financing of urban governments – both for general revenue financing as well as for specific projects. Germany developed ‘Pfandbriefs’ that are issued by their mortgage banks to finance their lending for both housing and for municipal and state government lending. In both cases, market development needed different levels of government and regulatory intervention. Such markets will need to be created for the financing of cities in Asia, and we will need to continue the search for new institutions and mechanisms that are relevant for each country in Asia.

An understanding of city growth requires knowledge of the overall process of urbanization. The transition from a rural to urban economy is very rapid in historical terms for most economic systems. The trajectory for a country moving from a level of about 30% urban to about 70% urban is steep, and it has usually been traversed over a period of 50 to 70 years. During this period most cities in such an urbanizing economy grow at unprecedented rates. It is understandable if observers and administrators are driven to despair during this period of seemingly unending rapid change.

The task of meeting all the demands for jobs, shelter, water, roads, transport and other urban infrastructure is daunting. India is about to enter this phase of urbanization so the task for policy-makers is cut out. Unlike many other countries in this phase in the past, India already has a number of mega cities, and many million plus cities. Unlimited expansion of the largest of its cities may not be feasible. We can therefore expect the emergence of other mega cities. Hence city management will have to be given special attention with the attendant human resource development.

At the city level it is important to both strengthen city management and to deregulate. With the magnitude of urbanization expected in India in the next 30 years, with or without acceleration of the process, city managements will have to manage and cope with large financial requirements for all kinds of investment for infrastructure service provision. Given the overall fiscal constraints at present, resources will have to be raised increasingly at the local level. Thus, urban local governments have to be strengthened at all levels, and made creditworthy. This will need both national level and state level directed programmes towards achieving this end.

It will not happen automatically. The urban land and housing markets have been seriously distorted for over 30 to 40 years in India. Both are in great need for deregulation, particularly the repeal of the Urban Land Ceiling Act in the states where it still exists; and substantial amendments to rent control acts are sorely needed to free the rental market. Furthermore, other rigidities in the land market, related to archaic building bye laws, zoning restrictions and the like also need to be addressed.

In such a phase of urban development it is all the more important to understand that rapid change during such a period is a norm of urban development, not an aberration. Once this is accepted, it follows that policies for urbanization and provision of urban infrastructure and employment must be positive, not negative. Urban growth must be accommodated and institutional mechanisms devised to cope with such growth. Most cities and countries are faced with acute fiscal pressure during such a period: India is no different. This in itself points to the need for fiscal conservatism in the provision of urban services, and for innovative financing mechanisms, as indicated in this paper.

The surprise in India is that just when the urbanization process was expected to accelerate, it has slowed down. The 1980s and 1990s were characterised by accelerated economic growth in India, and marked a departure from not only the previous three decades in independent India but the many preceding independence. Non-agricultural growth surged ahead of agricultural growth, but urbanization did not. This has probably been caused by both faulty national level economic policies that have discouraged urban employment growth, particularly industrial employment, but also local and state level policies that have introduced urban level and other rigidities that have inhibited urban infrastructure investment.

Urban policy formulation and implementation have never received the attention they deserve from the highest policy-making levels in India. In attempting to trace the inter-related complexity of phenomena, policies, institutions and markets that have major impacts on the urbanization process, I would argue for greater flexibility in national economic policy and decentralisation of city management. Cities have to adapt to the changing contours of urbanization and they need to be enabled to respond adequately.

National economic policies that inhibit labour using manufacturing and other activities need to be identified and corrected. The reservation policy for small scale industries has long outlasted its usefulness. All it is doing now is inhibiting industrial growth of labour using industries in India, thereby of industrial employment, urban employment as a whole, and of the urbanization process. This effect is being exacerbated by the rigidities in labour legislations as well. What is needed is the formulation of a new urban and industrial policy that now actively encourages the location of

labour using industries in urban areas.

The average skill level of entrants to the labour force in India will remain low for some time: hence adequate employment opportunities for them have to be enabled. The high skill service sector employment opportunities that have caught popular imagination will not serve the purpose. A new look at rural sector policies and infrastructure provision is also needed to encourage the diversification of agricultural activities that bring the farm nearer to the market through the provision of active supply chain linkages. This itself will create both more non-farm rural jobs along with more urban jobs.

Healthy, inclusive economic growth needs faster urban growth to reduce the economic burden on rural areas. Thus, much greater attention needs to be given to the impact of national level economic policies on urban growth, and policies adopted in favour of accelerating urban growth. As this is done, the capacity for city management has to be correspondingly enhanced, and rigidities in local and state level legislatures eliminated. For adequate urban infrastructure investment to be made, public private partnerships will have to be encouraged, and financial arrangements developed that assist in the financing of urban development.

In conclusion, I have an optimistic view of the prospects of managing city growth in India in the years to come. This is in marked contrast to much writing concerned with urbanization in developing countries. I do not believe that cities in general are growing too fast in India: if anything, their growth needs to be speeded up so that the burden on rural areas is mitigated. I do not believe that the expanding urban population in India is condemned to a shelterless existence, but policy initiatives are indeed needed to enable people to provide better shelter for themselves. I do not believe that it is impossible to provide a modicum of necessary urban services that are affordable and manageable: but the levy and collection of economic user charges is essential to enable the financing of such services. I do not believe that cities are being swamped by a flood of destitute migrants who have no productive employment prospects: but various economic policies do need to be altered to increase the pace of economic activity in Indian cities. Many solutions to problems engendered by city growth will be found by the urban constituents themselves. The job of the public authorities is to develop institutions and systems that are sensitive to the emerging needs and preferences of households and firms and are then capable of reacting accordingly.

* This paper contains the personal views of the author and may not be attributed to the organization to which he belongs.

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Footnote:

1. The Budget Speech (2002-2003) of the Union finance minister created an Urban Reform Initiative Fund (URIF), the release of which was to be conditioned upon action on urban policy reform in seven areas; the National Urban Renewal Mission is now expected to subsume these earlier schemes, and will also be conditional on action in urban policy reforms.

