

The Challenges of Urbanization in India

Urbanization in India is expected to accelerate

Urbanization in India has occurred more slowly than in other developing countries and the proportion of the population in urban areas has been only 28 per cent based on the 2001 census. The pace of urbanization is now set to accelerate as the country sets to a more rapid growth. Economic reform has already unleashed investment and growth offering its citizens rich opportunities. Surging growth and employment in cities will prove a powerful magnet. 300 million Indians currently live in towns and cities. Within 20-25 years, another 300 million people will get added to Indian towns and cities. This urban expansion will happen at a speed quite unlike anything that India has seen before. It took nearly forty years for India's urban population to rise by 230 million. It could take only half the time to add the next 250 million. If not well managed, this inevitable increase in India's urban population will place enormous stress on the system.

India has not paid systematic attention to urbanization so far

The speed of urbanization poses an unprecedented managerial and policy challenge—yet India has not engaged in a national discussion about how to handle the seismic shift in the makeup of the nation.

Urban India today is "distributed" in shape—with a diverse range of large and small cities spread widely around the nation. India will probably continue on a path of distributed model of urbanization because this suits its federal structure and helps to ensure that migration flows aren't unbalanced toward any particular city or cities.

As the urban population and incomes increase, demand for every key service such as water, transportation, sewage treatment, low income housing will increase five- to sevenfold in cities of every size and type. And if India continues on its current path, urban infrastructure will fall woefully short of what is necessary to sustain prosperous cities.

Recent reports suggest that India spends \$17 per capita per year in urban infrastructure, whereas the most benchmarks suggest a requirement \$100. The investment required for building urban infrastructure in India, over the next 20 years, is estimated at approximately US\$ 1 trillion.

There has been an incomplete devolution of functions to the elected bodies as per 74th Constitutional Amendment Act, possibly because of the unwillingness of the state governments. In addition, very few Indian cities have 2030 master plans that take into account peak transportation loads, requirements for low-income affordable housing and climate change. In general, the capacity to execute the urban reforms and projects at the municipal and state level has been historically inadequate.

Way forward

India needs to work on several areas to manage its urbanization: The following are perhaps the most important: Inclusive cities, urban governance, funding, planning, capacity building and low-income housing India also needs to start a political process where the urban issues are debated with evolution of meaningful solutions. The sub-committee of the NDC, that has been recently constituted under the chairmanship of the Minister Urban Development with several States' Chief Ministers as members, should spearhead this process.

Inclusive Cities: The poor and lower income groups must be brought into the mainstream in cities. Regulations intended to manage densities and discourage migration both limit the supply of land *and* require many households to consume more land than they would choose. This drives urban sprawl and pushes up the price of land and the cost of service delivery for all. High standards for parking, coverage limits, setbacks, elevators, road widths, reservations for health centers schools etc. (often not used) prevent the poor from choosing how much to consume of the costliest resource (urban land) to put a roof over their heads, and comply with legal requirements. Informality is now the only path to affordable housing for the bulk of the population in India's cities. But informality implies illegality and therefore vulnerability. While lower income groups pay dearly for shelter and services—they are bereft of normal property rights protections and their investments are thus far riskier than those of the well off. They must instead depend on the good will of bureaucrats and politicians—to safeguard their homes and places of business. These barriers to healthy urbanization come not only at a high human cost, but take a toll on productivity. Chronic informality discourages the very investments in education, health and housing improvements the lower classes need to improve their own lot and contribute more to the national economy.

Urban Governance: Meaningful reforms have to happen that enable true devolution of power and responsibilities from the states to the local and metropolitan bodies according to the 74th Amendment. This is because by 2030, India's largest cities will be bigger than many countries today. India's urban governance of cities needs an over-haul. India's current urban governance is in sharp contrast to large cities elsewhere that have

empowered mayors with long tenures and clear accountability for the city's performance. India also needs to clearly define the relative roles of its metropolitan and municipal structures for its 20 largest metropolitan areas. With cities growing beyond municipal boundaries, having fully formed metropolitan authorities with clearly defined roles will be essential for the successful management of large cities in India.

Financing: Devolution has to be supported by more reforms in urban financing that will reduce cities' dependence on the Centre and the states and unleash internal revenue sources. Consistent with most international examples, there are several sources of funding that Indian cities could tap into, to a far greater extent than today: Monetizing land assets; higher collection of property taxes, user charges that reflect costs; debt and public-private partnerships (PPPs); and central/state government funding. However, internal funding alone will not be enough, even in large cities. A portion has to come from the central and state governments. Here one can use central schemes such as JNNURM and Rajiv Awas Yojana but eventually India needs to move towards a systematic formula rather than ad-hoc grants. For large cities with deep economies, this might mean allowing them to retain 20 percent of goods and services tax (GST) revenues. This is consistent with the 13th Central Finance Commission's assessment that GST—a consumption-based tax that creates local incentives for growth and that is therefore well suited for direct allocation to the third tier of government. For smaller cities, however, a better option would be to give guaranteed annual grants.

Planning: India needs to make urban planning a central, respected function, investing in skilled people, rigorous fact base and innovative urban form. This can be done through a "cascaded" planning structure in which large cities have 40-year and 20-year plans at the metropolitan level that are binding on municipal development plans. Central to planning in any city is the optimal allocation of space, especially land use and Floor Area Ratio (FAR) planning. Both should focus on linking public transportation with zoning for affordable houses for low-income groups. These plans need to be detailed, comprehensive, and enforceable.

Local capacity building: A real step-up in the capabilities and expertise of urban local bodies will be critical to devolution and improvement of service delivery. Reforms will have to address the development of professional managers for urban management functions, who are in short supply and will be required in large numbers. New innovative approaches will have to be explored to tap into the expertise available in the private and social sectors.

India needs to build technical and managerial depth in its city administrations. In the Indian Civil Services, India has a benchmark for how to build a dedicated cadre for governance.

India now needs to create an equivalent cadre for cities, as well as allow for lateral entry of private-sector executives.

Affordable housing: Affordable housing is a particularly critical concern for low-income groups—in the absence of a viable model that caters to their needs, India can meet the challenge through a set of policies and incentives that will bridge the gap between price and affordability. This will enable a sustainable and economically viable affordable housing model for both government housing agencies and as well as private developers. India also needs to encourage rental housing as an option particularly for the poorest of the poor, who may not be able to afford a home even with these incentives.

With the 74th amendment to India's constitution and the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), India took the first steps toward urban reforms. Going forward, the central government has to play a catalytic role accompanied by a supporting package of incentives. States should recognize that starting early on the urban transformation will give them competitive advantage, attract investment, and create jobs—getting them ahead of the curve.