

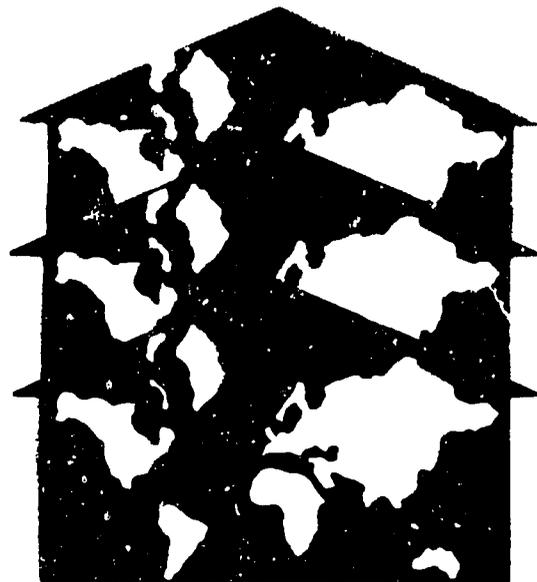
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An Urban Shelter Strategy for India

Phase 1 - India Today

January 1989

**AGENCY
FOR
INTERNATIONAL
DEVELOPMENT**



**OFFICE OF HOUSING
AND
URBAN PROGRAMS**

An Urban Shelter Strategy for India

Phase 1 - India Today

January 1989

Prepared by:

Michael Lee

USAID Mission New Delhi

for the:

Regional Housing and Urban Development Office/Asia

**Office of Housing and Urban Programs
U.S. Agency for International Development**

*The views expressed herein are those of the author
and do not necessarily reflect those of the
Office of Housing and Urban Programs*

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Abbreviations

GNP	Gross National Product
GDP	Gross Domestic Product
GIC	General Insurance Corporation
GOI	Government of India
HDFC	Housing Development Finance Corporation
HG	Housing Guaranty
HSMI	Human Settlements Management Institute
HUDCO	Housing and Urban Development Corporation
IAS	Indian Administrative Service
LIC	Life Insurance Corporation
MDA	Metropolitan Development Authority
MUD	Ministry of Urban Development
NCAER	National Council of Applied Economic Research
NHB	National Housing Bank
NIUA	National Institute of Urban Affairs
NSSO	National Sample Survey Organisation
RBI	Reserve Bank of India
RHUDO	Regional Housing and Urban Development Office
TCPO	Town and Country Planning Organisation
UNCHS	United Nations Centre for Human Settlements

Currency

Rs. 15.00	=	\$ 1.00
Rs. 1 lakh	=	Rs.100,000
Rs. 1 crore	=	Rs.10,000,000

URBAN DATA SHEET - INDIA

Definitions: "Urban" - broadly, settlements over 5,000 population
(but see text, page 12)

"Cities" - over 100,000 population

"Towns" - under 100,000 population

Urban Population	209,000,000	1988	(1)
Urban/total population	26.1%	1988	(1)
Urban growth rate	3.88%	1971-81	(2)

Largest cities:	Population, 1988	Growth rate, % p.a.1971-81	(1,2)
Calcutta	10,700,000	2.2%	
Bombay	10,300,000	3.3%	
Delhi	7,900,000	4.6%	
Madras	5,300,000	3.1%	
Bangalore	4,300,000	5.8%	

Urban population with access to safe water:	72.9%	1985	(3)
Urban population with access to sanitation:	28.4%	1985	(3)

Rs./household/month

Urban median income,	Rs. 2,000	1988	(1)
"Middle income"	Rs.1,500-2,500	1985	(4)
Poverty line	Rs. 700	1988	(1)
Urban population below poverty line	28.1%	1983/84	(3)

Annual increment in urban housing stock, units: (5)

Total:	<u>785,000</u>	
Through HUDCO	150,000	
By cooperatives	28,000	
By private corp. sector	78,000	(6)
Residual	529,000	

Notes and Sources

- (1) Mission estimate
- (2) GOI Census data
- (3) National Institute of Urban Affairs: Urban Data Sheet
- (4) HUDCO
- (5) See Table 8 and text for definitions, caveats and explanations:
data estimates for the mid-1980s.
- (6) National Buildings Organisation: Prominent Facts on Housing in India,
1986 (Number of residential completion certificates issued in towns
with population 1 lakh and above, 1983).

EXECUTIVE SUMMARY

India's urban areas--broadly defined as settlements with a population over 5,000--accommodate some 210 million people, more than in any other country in the world except China. The urban population has been growing at 3.9% annually: by international standards, this is about average for a country at India's stage of economic development. One implication is that almost half of the total increase in population is going to live in the cities and towns. The settlement pattern, too, conforms to a normal distribution, but--because of India's immensity--contains several cities that have already or will soon pass the 10 million mark. Indeed, in 1981 twelve cities had a population of over one million.

Some two-thirds of the country's GDP is produced in the industrial and service sectors, the greater part of which derives from urban areas. Much of India's growth, vitality and economic diversity originate from the towns and cities, which are at the cutting edge of the development process.

This report represents the first stage in the process through which USAID/India intends to determine its urban strategy and, as such, it summarizes a body of knowledge about the present status of urban development in the country. The report aims to present facts about this status, but neither draws conclusions about "desirable" changes nor makes projections about India's urban future. It also stays firmly within the traditional areas of AID's interest: focusing on our main target group, poorer households, but not, for instance, venturing into issues of construction technology or urban transportation.

About a quarter of India's urban population lives below the poverty line. The proportion appears to be decreasing, but nevertheless now represents some 50 million people. They live in a variety of circumstances--often not in slums, for instance--but are generally deprived of access to many urban services and, as a partial consequence, suffer atrocious health. The urban poor have household sizes above average, and it is clear that this circumstance contributes to their poverty. Several official programs are designed to alleviate poverty, but often fail to reach the target group effectively. This is particularly true of subsidies for urban services, which especially benefit members of the middle income groups.

A catalog of conditions in India's towns and cities reveals deplorable conditions: for instance, that maybe a quarter of the urban population lives in slums; that 750,000 or more people are homeless; that over a half of the population of India's big cities does not have access to tap water; three-quarters of the urban population does not have access to water-borne sanitation; and over a quarter has no electric power. At the same time, the official statistics show that living conditions have generally been improving--throughout a period of unprecedented urban growth.

Equally depressing is a description of the situation in which economic opportunities are to be nurtured: an unhealthy workforce, unreliable and expensive infrastructure services, and difficulties of access to land, overlaid onto a plethora of economic controls. Employment statistics are difficult to interpret, and probably indicate that formal employment opportunities have not grown quite so rapidly as the labor force. Yet the informal sector has flourished, to the extent that unemployment (as distinct from underemployment) is low. As one study puts it, "the rapid growth [of the informal sector] is sufficient evidence of its vitality, dynamism and enterprise, which are growth characteristics in short supply..."

A bare description of the delivery systems for shelter, infrastructure and services suggests a considerable degree of public sector control. The housing finance system, for instance, is characterized by government presence and control. The state and local governments have taken on the responsibility for providing housing for a large section of the population, in addition to their normal responsibilities for providing infrastructure services. In the interests of equalizing access to land and controlling its price, too, there has been a considerable degree of socialization of land resources. Observers find that the various local authorities lack the resources and trained personnel to undertake their statutory functions; and that mismanagement is bankrupting many agencies or weakening their ability to maintain even the present low level of service.

It remains true, however, that the role of the public sector in urban development is not overweening. Most housing is produced and financed privately, for instance; most urban land is probably privately owned; and many urban services are supplied by the private sector. And for as many examples as are given of the dead hand of bureaucracy, instances can be cited of successful innovation in urban management. This report documents that, despite numerous obstacles to efficient and equitable urban development, the spirit of Indian enterprise--in both public and private sectors--has ensured the adoption of alternative methods of delivery of employment, shelter and services which go some way to offset the negative effects of the formal legislation.

1. INTRODUCTION

1.1 The Urban Strategy Study

This report represents the first step in the preparation of a medium-term urban and shelter strategy for USAID/India and the Regional Housing and Urban Development Office (RHUDO), Asia. The strategy will be used to guide interventions in the urban sector in India over the coming few years. Interventions could take the form of capital assistance (through Housing Guaranty programs), technical assistance and training. It will define the areas in which we will work, the type of programs we will try to develop, and the developmental objectives we will pursue. The intention is to finalize the strategy by the end of April 1989.

This strategy study is being undertaken in four stages. This, the first step, aims to review the current situation, with the objective of describing the current context for urban and shelter development in India. The second step will investigate emerging trends and the implications of these trends for the country's development. It will also identify the types of problem area that require further detailed investigation, especially the impact of these problems on low income families. The third step will involve the investigation of a limited number of specific problem areas in some depth. These would be selected on the basis of their importance and our capacity to develop meaningful interventions. The fourth step will be to define the strategy, and spell out its implications for resource, management and staffing requirements.

1.2 The Rationale for a Strategy

To date, USAID/India and RHUDO/Asia have concentrated, in this sector, on the development of a housing finance system for India. Our past efforts are described in Annex 7 of this report. The Mission's urban strategy was most recently reassessed in 1984. Although its objectives remain valid today, other options for program strategy, hence relative priorities, may have altered. Given the growing importance of cities to India's economic development and simultaneously the transformation of poverty from a rural to an urban phenomenon, it has become necessary to engage in a fresh reassessment of the Mission's program strategy for urban development.

Since the main purpose of this study is to identify ways of alleviating problems, the report focuses on the problem areas of urban India. A report with a different perspective could well emphasize the many successes and reasons for optimism in the sector: that housing policy has now become a matter of public interest and debate, for instance; that housing finance institutions are multiplying, often with considerable success, and new lending instruments are helping to benefit lower income families; that the proportion of households supplied with water and sanitation is steadily increasing; or that urban poverty is declining as literacy spreads. Such matters, too, are reported in the following pages.

1.3 The Present Report

This report draws upon existing studies and documentation to outline the current urban situation in India. It does not make projections or forecasts--these are to be the subject of the second stage report. Nor does it contain the results of any original research.

It concentrates on a description of specific aspects which are likely to be of the greatest relevance to USAID's strategy--housing, land, infrastructure, finance and management, and urban poverty. In doing so, it therefore necessarily omits discussion of other issues which, although of importance, are less central to USAID's immediate concerns. One such area is construction technology; another is conservation of the architectural and historical heritage of India's cities; yet another is transportation.

The report is intended for several audiences: professionals within USAID who may not be familiar with some of the issues and problems specific to the urban sector; readers overseas who may know little of the Indian context; Indian urban professionals, who may be totally familiar with one aspect of the sector, but who are looking for an overview; and consultants seeking guidance on sources of information and relative priorities. In attempting to meet the needs of such a heterogenous group of people, the report is inevitably a compromise between specifics and generalizations. For readers seeking greater detail, references are given at the end of each section. Many of these documents are held by USAID/India; we would be pleased to assist in locating and accessing them.

It is also the first report of its kind. Whereas in other countries, Ministries of Urban Affairs, USAID or the World Bank will often have prepared urban or shelter sector assessments, there is no such document for India. In part, this is a reflection of the complexity of the situation. Since urban and housing development are matters for individual state governments in India, policies and practices differ widely throughout this country of 800 million people and 31 states and Union Territories. It is thus no easy matter to summarize such diversity, and even more difficult actually to obtain the relevant information. That no such study has previously been attempted is also a reflection of the lack of reliable statistical information on an India-wide basis. This report contains only 12 statistical tables; and some of these contain figures of dubious validity. Gunnar Myrdal noted in 1971 that, in South Asia, "most of the crucial data are deficient in scope and reliability". This is still true of India today. Finally, urban development has not been considered a high priority subject among India's academics, policy makers and bureaucrats, nor even a proper subject of study--perhaps a reflection of the philosophies of independent India's early leaders. A consequence is that there are relatively few studies of urban issues upon which the present work could be based.

As a result, this report doubtless contains errors, mis-interpretations and--to many readers--significant omissions. It is, however, considered a working draft, which is to be revised, corrected and improved over time. Comments are, therefore, solicited and welcomed.

2. THE ECONOMIC CONTEXT

Parts of this section are abstracted from the 'Country Development Strategy Statement', USAID/New Delhi, June 1988.

2.1 Economic Growth

India has made some very considerable achievements in the 40 years of independence: in particular, the achievement of a degree of self-reliance in virtually all basic areas of economic activity, including foodgrain production and industry. Other indications of development include the emergence of a new middle class of perhaps 100 million people whose consumption patterns are shifting to manufactured goods and higher-value processed foods.

Nevertheless, the Indian economy over the long run has been characterized by low levels of national income and slow growth of GDP. This increased at an average annual rate of 3.8% between 1951 and 1986. In recent years, however, the trend rate of growth of GDP has shifted upwards, with growth rates averaging nearly 4.9% a year between 1980 and 1987. GNP per capita was \$270 in 1985.

Long-term growth of GNP per capita of 1.7% a year (1965-85) was well below the average for lower-middle income countries. This has, however, increased to 2.7% a year since 1980. Sectoral changes reflect a normal, gradually changing economic structure, away from agriculture and towards industry, transport and communications--mainly urban-based sectors. The primary sector's share of GDP declined from about 60% in 1950 to 36% in 1987, a decline which was split almost evenly between secondary and tertiary sectors (Figure 1).

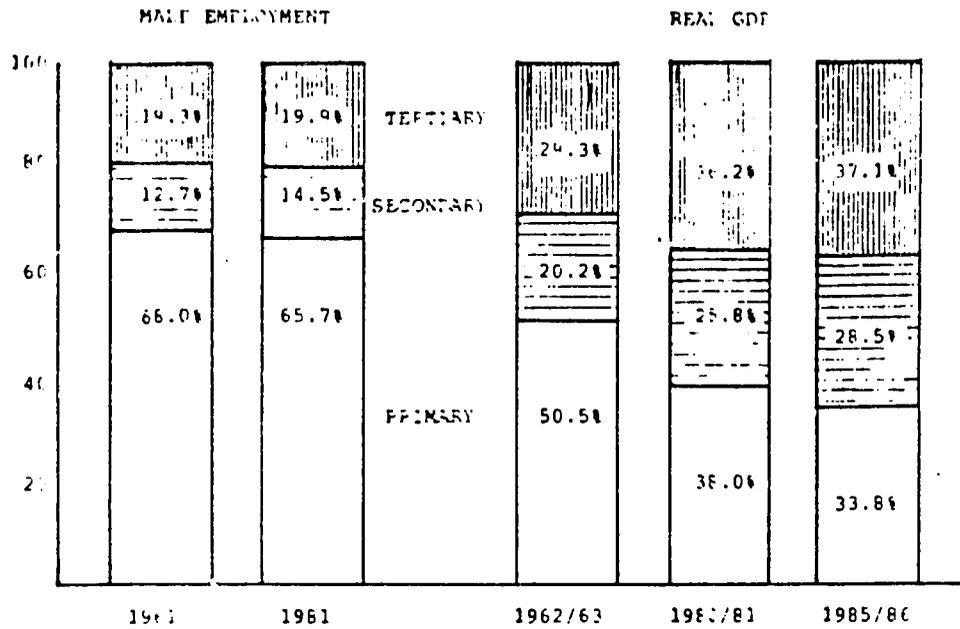
While the share of agriculture in GNP has been falling steadily, the agricultural workforce has remained a constant 70% of the total, not falling below this level until 1981. This contrasts with experience in other countries, where the reduction of the agricultural workforce has been much more marked.

2.2 Industrialization

Indian planners have long followed an industrial development policy of import substitution, in their bid to make the country self-sufficient. Despite considerable drawbacks to such a policy, India has been able to carry this "managed" industrialization further than most countries, now having a diversified, decentralized manufacturing base.

Nevertheless, protection from competition, price controls and unionism have contributed to restrain employment growth in industry. In recognition of the existence of such problems, the Indian government has

Figure 1



STRUCTURAL CHANGES IN EMPLOYMENT AND GDP, 1961 - 1986

been enacting policy reforms to increase industrial efficiency over the past few years. There has been a good response to these measures, such that value added in manufacturing has grown at about 8.5% p.a. over the last three years. Growth has been concentrated in a few sectors, notably electronic equipment and computers, transport vehicles and cement.

There is inevitably a correspondence between industrialization, development of service industries and urban growth since urbanization is, in part, a product of growth of urban manufacturing activity. The correspondence is, however, less pronounced than usual in India, given the location of many household-based and other small scale manufacturing activities in the rural areas. Indeed, it was not until 1971 that urban areas accommodated more than 50% of India's manufacturing or construction employment. There is no known study that calculates the proportion of GDP attributable to urban areas.

2.3 Social Indicators

India's birth rate has dropped steadily since Independence. Life expectancy, correspondingly, has been increasing, to 56 years by the most recent estimate. This is a level well above the average for other low income countries (excluding China). Equally, progress has been made in reducing morbidity: this may be due, inter alia, to a reduction in the incidence of waterborne and communicable diseases, and to improved nutrition. Infant mortality, for instance, has fallen from 146 to 90 per 1,000 between 1950 and the present. The crude death rate has fallen from 20 per 1,000 in 1965 to around 12 per 1,000 at the present time.

The overall rate of population increase has probably fallen slightly since the 1960s, but is still at the relatively high level of 2% p.a. or more (the FAO claims that it is 2.3%). India's total population touched 800 million in mid-1988.

Literacy rates have been improving, too, from 17% in 1951 to 36% in 1981. Once a correction has been made for the proportion of children under the age of five, it turns out that over 50% of the educable population is now literate, and the absolute number of illiterates has started to decline. The female literacy rate has been increasing proportionately much more rapidly. Official statistics show that 93% of primary age children are enrolled in primary schools.

Access to health services has also been improving. Khusro quotes that the percentage of the population having access to primary health centers has risen from 19% in 1951 to about 45% in 1961 and 76% in 1981. Equally, the absolute number of people without access to primary health centers has been declining for a number of years.

Annex 1 reproduces the World Bank's Social Indicator Sheet for 1987.

2.4 Public Sector Management

A growing budget deficit and the rising claims of non-plan expenditure in the budget--defense, interest payments and subsidies on food and fertilizer in particular--have become a source of concern with respect to the government's ambitious plans for investment in economic development. In part because of these problems, attacking the increasing inefficiency of public sector enterprises has become an area of high priority for the government. Improved management has been identified as a key to increasing efficiency. Although attention has been focused on improving the efficiency of public sector industries--inter alia, by privatization--there are growing calls to increase efficiencies and reduce the budgetary demands of other parts of the public sector.

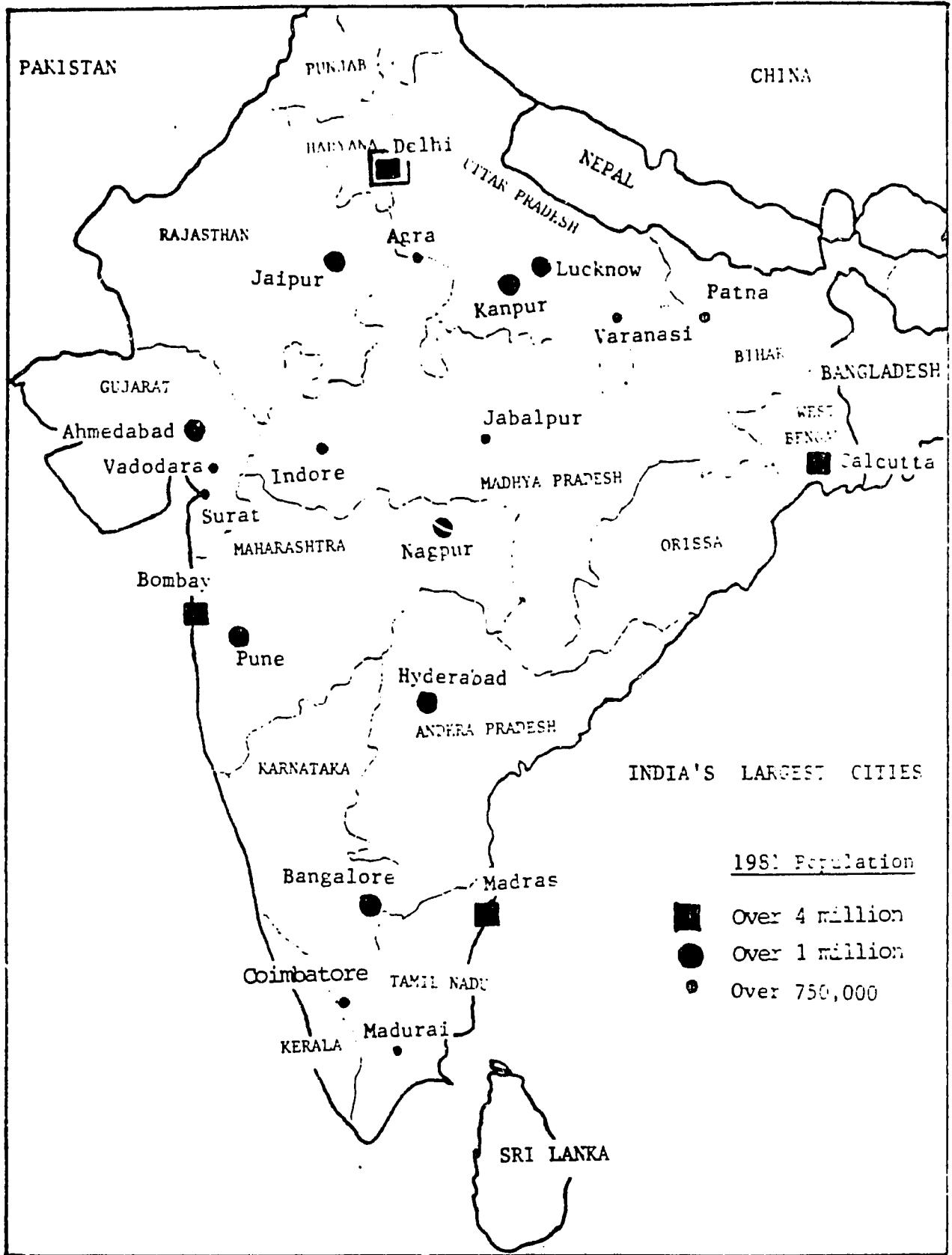
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Khusro, A.M. "The Poverty of Poverty Analysis", in The Indian Economy: Recent Development and Future Prospects, Robert E.B. Lucas and Gustav F. Papanek (eds), Oxford University Press, Delhi, 1988.

U.S.A.I.D. Country Development Strategy Statement, FY 1990: India, New Delhi, June 1988.

World Bank. India: Recent Developments and Medium-Term Issues, New Delhi, April 1988.

Figure 2



3. URBANIZATION IN INDIA

3.1 Summary

This section describes the patterns of growth of urban India in the recent past. The findings of this analysis give emphasis to the repeated conclusion that urbanization is an inevitable concomitant of economic growth. For students of global urbanization, there are few surprises. India is not, for instance, "overurbanized", as some observers claim. Urban areas have not been growing dramatically quickly. And although some of India's cities are among the world's largest, they are overshadowed by others, particularly in the Americas.

The main findings are that:

- o The proportion of population classified as urban has increased from 18% in 1961 to about 26% in 1988.
- o The urban population increased at the rate of 3.3% between 1961 and 1971, and 3.9% between 1971 and 1981. This compares with the national growth rate of 2.3% a year.
- o The number of urban residents is about 210 million in mid-1988. Over the next twelve months, it will increase by a further 8 million.
- o Twelve cities have a population of over one million (the "metropolitan cities"). Four--Calcutta, Bombay, Delhi and Madras--are among the world's 35 largest cities. Every year these four megacities alone add 1,100,000 residents to their combined populations.
- o But the rate of growth of the metropolitan cities has declined and is now below India's urban average. Calcutta may be experiencing net out-migration.
- o Migration probably accounts for about one third of urban growth. Rural-urban migration is overwhelmingly to seek better employment opportunities.

3.2 Rates of Urbanization

Definitions

Most settlements with a population above 5,000 are counted as urban; and most below 5,000, as rural. But there are exceptions - see Figure 3 for the census definition. By convention, urban settlements with populations less than 100,000 are described as towns; and those with populations over 100,000, as cities.

Figure 1

<u>Definition of Urban Areas</u>	
The 1981 Census defines the following as urban:	
"(a) All statutory towns, i.e., all places with a municipal corporation, municipal board, cantonment board or notified area, etc.	
(b) All other places which satisfy the following criteria	
(i) A minimum population of 5,000;	
(ii) Seventyfive percent of the male working population engaged in non-agricultural (and allied) activity; and	
(iii) A density of population of at least 400 per sq. km. (1,000 per sq. mile)."	

Rates of Growth

The growth of India's urban population since 1931 is recorded in Table 1. The sources of the statistics, which are noted, are believed to be the most authoritative; they are not, however, universally accepted. But since the broad patterns of growth are undisputed, the present study has not investigated the reason for the discrepancies.

Table 1

Urbanization, 1931-88

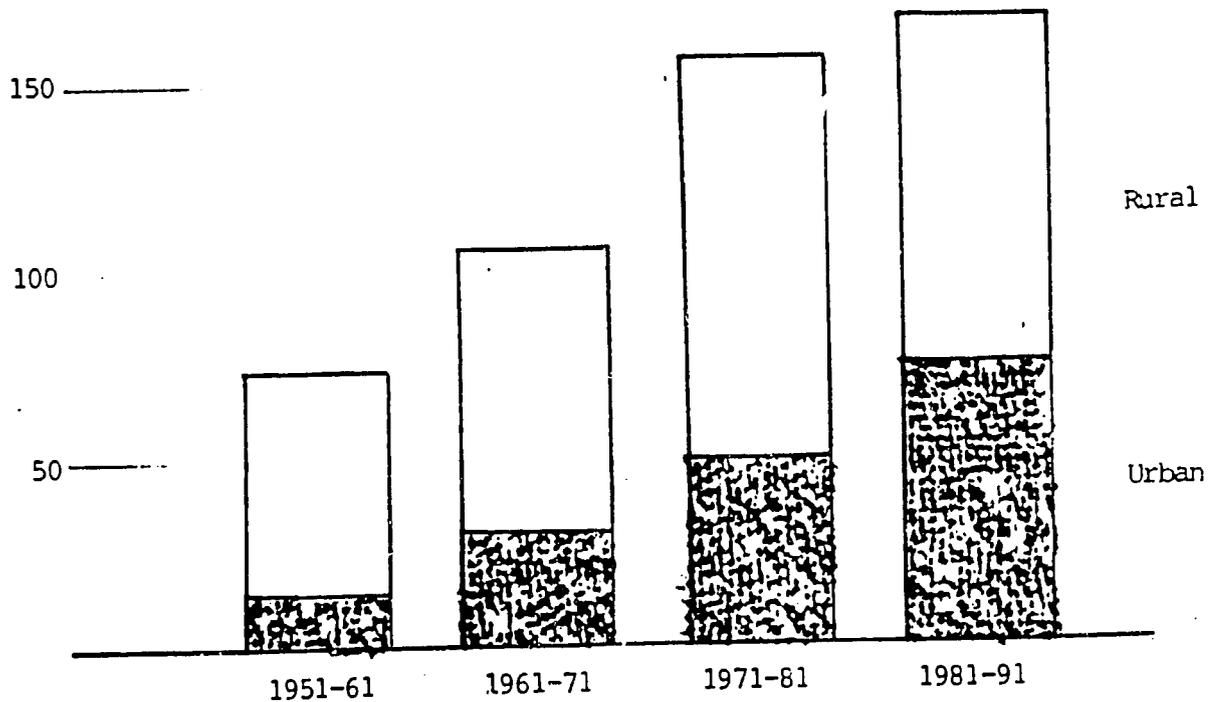
Year	Total Population		Urban Population		Percent Urban
	Millions	Growth % p.a.	Millions	Growth % p.a.	
1931	270.7	1.03	33.5	1.75	12.4
1941	309.0	1.32	44.2	2.81	14.3
1951	349.8	1.24	65.4	4.00	18.7
1961	424.8	1.94	78.9	1.89	18.6
1971	528.9	2.19	109.1	3.29	20.6
1981	685.1	2.20	159.7	3.88	23.7
1988	797.8	2.20	208.5	3.88	26.1

Source: Mills and Becker for total population, 1931-81; NIUA (1988) for urban population, 1941-81.

The rate of urbanization has been increasing over the last few decades, and with the possible exception of the period 1951-61, has always considerably exceeded the national growth rate. (The high rate of urban growth between 1941 and 1951 was almost certainly due to the population movements resulting from Partition, when large numbers of displaced persons settled in India's towns and cities. The anomalously lower rate of growth between 1951 and 1961 may result exclusively from a change in the definition of "urban" between those years.)

Figure 4 refutes the observation that India's urban development is insignificant in comparison with the weight of rural population. Of the total increment in population, nearly a half is now going into urban areas (compared with 18% in the period 1951-61).

Figure 4



POPULATION INCREMENT, 1951-1991
(millions)

An international comparison of rates of urbanization and stages of economic growth shows very close correlation between the two, simply because "sectors with incentives to locate at densities and proximities characteristic of urban areas grow more rapidly than other sectors", as Mills and Becker--who coordinated a series of studies for the World Bank in the early 1980s--express it. Their statistical analysis suggests that, given other measures of development, the magnitude of growth of India's urban areas has been largely predictable.

Urbanization accompanies economic development because the latter process involves a massive shift of labor and other associated inputs from sectors that are predominately rural to sectors that are predominately urban. Although the migration of people from rural to urban areas and jobs is an important component of the urbanization process, most experts believe that it is the sectoral, not the locational change that is the crucial phenomenon.

Corresponding to the growth of the urban economy, the share of agriculture in GDP has been decreasing, from 52% in 1960-61, to 31% in 1984-85. At the same time, however, the share of the workforce in agriculture has fallen only slightly, implying a widening of the gap between productivity in the agricultural and non-agricultural sectors. As employment in the modern manufacturing sector has not kept pace with overall urban employment growth, so the informal sector has been absorbing a growing proportion of the increase in the urban workforce.

The 1981 census found 160 million people to be living in urban areas, an increase of more than 50 million over the 1971 figure. The computed rate of intercensal increase was 3.9% a year. That 50 million increase was made up of three components:

- o natural increase in the 1971 urban population (41% of the total increase);
- o increase by migration from rural areas (32% of the total increase); and
- o increase by reclassification, whether of villages maturing into towns, or by the extension of the boundaries of existing towns, or by small settlements being formally notified as towns--in 1971, one town had no population resident--(27% of the total increase).

The true urban growth over the decade--natural increase plus immigration--was thus of some 37 million people, an annual growth rate over the decade of 3.0%. This is well below the global average for the poorest countries which, India and China excepted, has been close to 5% a year. Table 2 compares the official urbanization statistics for India, South Asia and all Less Developed Countries.

Table 2

Urbanization: India, South Asia, LDCs

	India	S.Asia ⁽¹⁾	LDCs
Total population growth, % p.a., 1970-80	2.16	2.33	2.25
Urban population growth, % p.a., 1970-80	3.87	4.11	3.61
Population in urban areas, % of total, 1980	23.4	25.4	29.2
Population in cities | 500,000, % of urban, 1980	38.8	43.2	45.0

Source: UNCHS (1987)

(1) South Asia comprises all south-east Asian countries and all southern Asian countries (including India). It excludes the Arab and other west Asian countries.

3.3 Urbanization and Economic Development

That both urbanization and economic development are occurring simultaneously in India is undisputed and well documented. What is still unknown, however, is the precise role of national urban development with regard to economic growth: do urban areas develop due to economic growth, or does the development occur first and in turn spur the growth of employment and incomes? It is likely a combination of both processes, whose impact varies in part according to actions taken by economic and physical planners.

Given the dearth of hard data to support the contention that urban development promotes economic growth and employment, one has to rely instead upon ancillary evidence, including the views of top officials that increasingly support the existence of such a nexus. This view is offered, not as conclusive proof that in India urban development promotes national economic growth, but rather as evidence that urban development has undoubtedly supported such growth and can increasingly do so only to the extent that it receives the proper consideration.

One of the key ways that urban development can support economic growth and engender employment is through the provision of infrastructure.

The argument runs that provision of large amounts of high-quality infrastructural and social services attract people and firms to a city, whereas provision of only a few low-quality services deters people and firms from locating there. The evidence indicates, however, that high-quality services are neither necessary nor sufficient for growth. India has many examples of industrial estates in small towns or rural areas that have ample infrastructure, and yet have not promoted economic growth in their location. At the same time, some Indian cities with only minimal local services have experienced considerable growth. No one will deny, however, that well thought-out service provision or enhancement will support and even engender growth, given freedom of locational decisions.

Bangalore is a case in point. With a 1981 population of 2.9 million, it concentrates Karnataka's highest fraction of population and industrial growth. Between 1971 and 1981 it was the fastest growing city in India, with a recorded annual average rate of increase of nearly 6%. (The true rate was lower, though: the growth rate was artificially raised by boundary extensions.)

To a large degree, this rapid pace of growth was driven by an industrial transformation in Bangalore, now known as India's Science City. The transformation emanated from a special combination of environmental conditions. These include the existence of a complex of knowledge-intensive teaching and research institutions, the consequent gradual development of a highly educated and skilled workforce, and a salubrious urban environment.

National policy toward small firms also played an important role in the industrial transformation of Bangalore. A doubling of credit and subsidies seems to have stimulated the creation of small firm startups in the first half of this decade. A local pool of capital in state and private sector financial institutions, including the stock market, further fuelled growth. A relatively good system of surface and air transportation facilitated linkages to national and increasingly international markets and suppliers. The standard of conventional infrastructure was, however, not particularly high, and Bangalore suffers as much as any Indian city from water shortages and an energy deficiency.

3.4 Patterns of Urban Growth

In 1981, 24% of India's population was urban; that proportion has probably increased to 26% in 1988. This is slightly below the average for all developing countries (33.6% urban in 1980); is also below the average for Asia (35.0% in 1980); but above average for the global group of low-income developing countries (17.0% in 1980).

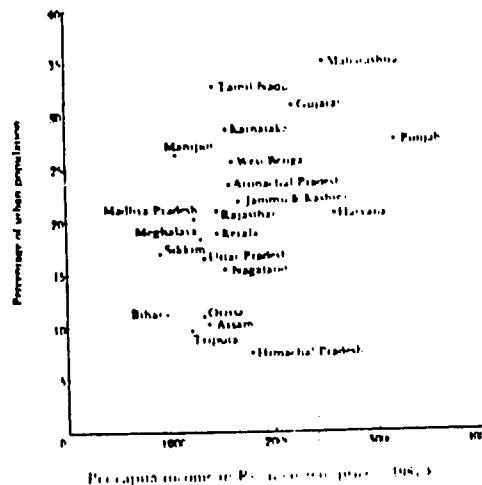
A statistical examination of the size distribution of urban places demonstrates that the distribution of cities by size corresponds with expectations, and that the proportion of the urban population residing in large cities is not abnormal. (For instance, 38% of the 1980 urban population lived in cities larger than half a million population.) This is contrary to the beliefs of many Indian observers, who feel that the country is "overurbanized". Indeed, over this century, the trend has been towards a more nearly even city size distribution. And the Planning Commission's 1983 Task Force on Housing and Urban Development, among other expert groups, found that "the overall settlement pattern continues to be stable and well distributed".

However, although regional differences have become less pronounced over time, there are local anomalies. For instance, the eastern region is the most clearly primate, overwhelmingly dominated by Calcutta. (West Bengal has no other city with a population exceeding half a million.) Bombay is much less dominant over the western region. The National Commission on Urbanisation notes that central Orissa is "almost completely devoid of urban settlement", and that certain other districts similarly have few towns of any consequence.

The present level of urban development within individual states is closely related to the degree of development of each state (Figure 5). There is, in fact, a significant correlation between the proportion of a state's population resident in urban areas and the per capita net domestic product.

Figure 5

India: Statewise Per Capita Income and Level of Urbanisation



Different relationships hold, however, between rates of urbanization and economic development. In general, the more economically backward states recorded high rates of urbanization during the last decade; correspondingly, many of the industrially developed states experienced growth rates below the average (Table 3). This, according to Kundu and Thorat, "supports the hypothesis that it is the pressure of population on land and declining labour productivity that have been the major factors behind the rural-urban migration".

Table 3

Urbanization by State, 1981

	Urban Pop., Million	Population Growth, 1971-81, % p.a.	Percent Urban
Andhra Pradesh	12.5	4.0	23.3
Arunachal Pradesh	0.0	9.1	6.6
Assam	2.0	N.A.	10.1
Bihar	8.7	4.5	12.5
Goa	0.3	4.7	32.0
Gujarat	10.6	3.5	31.1
Haryana	2.6	4.8	21.9
Himachal Pradesh	0.3	3.0	7.6
Jammu & Kashmir	1.3	3.9	21.1
Karnataka	10.7	4.2	28.9
Kerala	4.8	3.3	18.9
Madhya Pradesh	10.6	4.6	20.3
Maharashtra	22.0	3.4	35.0
Manipur	0.4	10.3	26.4
Meghalaya	0.2	5.1	18.1
Mizoram	0.1	12.4	24.7
Nagaland	0.1	8.9	15.5
Orissa	3.1	5.4	11.8
Punjab	4.6	3.8	27.7
Rajasthan	7.2	4.7	21.1
Sikkim	0.1	10.0	16.2
Tamil Nadu	16.0	2.5	33.0
Tripura	0.2	3.3	11.0
Uttar Pradesh	20.0	4.9	18.0
West Bengal	14.4	2.8	26.5
Union Territories	7.1	5.0	72.4
India	159.7	3.9	23.7

Within states, the broad picture of urban development is that two groups of towns have been growing particularly rapidly:

- o small towns in backward districts, on account of the "push" factor from the rural areas (it does not follow, however, that the range of services provided by these towns has grown commensurately with the population increase, or is adequate to support rural development in their hinterlands); and
- o secondary cities (typically with populations between 100,000 and 500,000) in developed regions, reflecting an increasing concentration of industrial activity in these cities.

These were often either single industry cities, centres for raw material extraction or state capitals. Many were a long way from the most densely populated areas.

The metropolitan cities, on the other hand, have generally reduced their rates of growth. Excepting Delhi and Bangalore, which experienced large boundary expansions during the decade, the other metropolitan cities had a growth rate of only 3.0% between 1971 and 1981 (Table 4).

Table 4

Population of Metropolitan Cities, 1971-88

	Population, millions			Annual growth
	1971	1981	1988	% p.a.
Calcutta	7.4	9.2	10.7	2.2
Bombay	6.0	8.2	10.3	3.3
Delhi	3.7	5.7	7.9	4.6
Madras	3.2	4.2	5.3	3.1
Bangalore	1.8	2.9	4.3	5.8
Ahmedabad	1.8	2.6	3.3	3.8
Hyderabad	1.8	2.6	3.3	3.5
Pune	1.1	1.7	2.2	4.0
Kanpur	1.3	1.6	2.0	2.5
Nagpur	0.9	1.3	1.6	3.4
Jaipur	0.6	1.0	1.4	4.8
Lucknow	0.8	1.0	1.2	2.2
Total	30.2	42.1	53.5	3.4

Source: NIUA (1988) for populations in 1971 and 1981. 1988 population is extrapolated.

Kundu and Thorat, sceptical about the statistical finding that urban development is evenly distributed throughout the country, examined the density of towns within states. They find that a number of states, and particularly Orissa, Rajasthan, Madhya Pradesh and Andhra Pradesh have "vast tracts of rural areas not served by any urban centre... They have, in general, very poor access to the social and economic infrastructure and consequently do not get incorporated into the mainstream of development activities." Together with the observation that the growth of formal sector manufacturing activities has been concentrated in secondary cities (as distinct from small cities and towns), the authors conclude that there are large parts of the country that are bypassed by urbanization and that there are many towns, whose development is necessary to support rural growth, that have been growing relatively slowly.

3.5 Migration

Migrants comprise about one third of the increase in urban population (after netting out the increase due to statistical reclassifications)--see Section 3.2.

Migration is largely an intra-state phenomenon, thus with little movement between states: 84% of the urban migrants enumerated in 1981 had been born in the same state, a proportion little changed from 1971. A little over one half of all migrants had migrated from rural areas; and a third had migrated from other urban areas. (The remainder had migrated from other countries.) Urban-urban migration has been growing over time.

The ratio of males to females has been decreasing in urban areas in recent intercensal periods, suggesting that the proportion of female migrants has been growing. This is consistent with the observation that the informal sector has been growing more rapidly than the formal sector, since the informal sector employs proportionately more women than men (see Section 5.6).

As would be expected, surveys have consistently found that reasons for male migration are overwhelmingly economic: a combination of the pull of urban areas in the form of opportunities for earning an income; and the push from rural areas, as economic opportunities there diminish. In effect, this is migration from occupations of low productivity to occupations of high productivity. This is demonstrated by a deterioration in the ratio of urban:rural incomes, which widened from 1.8 in 1970-71, to 2.7 in 1980-81 (and was predicted by the Planning Commission Task Force to increase further, to 3.3 by 1994).

In contrast, marriage is reported to be the dominant reason for female migration.

3.6 The Large Cities

Residents of India's cities, being witness to the continuing deterioration in urban services and the relentless spread of urbanized areas, conclude that the growth of towns and cities must be checked. Professionals with an interest in urban disasters, noting that India's urban population is larger than that of any country except China, and that the growth of India's urban population requires the construction of the equivalent of a new Calcutta every 16 months, conclude that massive resources must be diverted from other sectors to rescue India from catastrophe.

By the standards of other developing countries, the share of the largest city in the total urban population is very low. Calcutta had 5.9% of India's urban population in 1981 (and 5.8% in 1901), whereas the equivalent proportion for all low income countries, excluding India and China, was 28%. The percentage of India's urban population living in cities with a population over 100,000 has been steadily increasing but, as one commentator points out, it is difficult to imagine an economic growth process which does not lead to larger cities taking an increasing share of the urban population.

The relative prices of some products differ in urban areas, especially large cities, from those found elsewhere. For example, the larger the city, the higher the land values and consequently the price of housing. High land values are the normal consequence of high productivity levels in large cities, and they provide an important deterrent to excessive movement of people and jobs to large cities. These values do not imply that welfare levels are lower in large cities, nor does it imply that market failure has occurred. They do imply, that the urban development of relatively smaller cities may be a natural response to the economic growth that accompanies urbanization.

In a country the size of India, it perhaps makes more sense to compare the degree of primacy within individual states rather than the country as a whole. With the striking exception of West Bengal/Calcutta, there is no state which has more than 28% of its urban population in a single city. (Calcutta accommodated 64% of West Bengal's urban population in 1981.)

This being said, India does, of course, contain a number of particularly large cities. Those with a population exceeding one million are known as metropolitan cities. In 1981 there were 12 of them. Together, they accommodated over a quarter of India's urban population. The 1981 metropolitan cities are listed in Table 4; today, there are likely to be close to 20 cities with over a million inhabitants each (Figure 2).

Together, the 12 cities have been growing at a rate rather lower than the national average; Calcutta, Kanpur and Lucknow may even have experienced net out-migration. Their hinterlands, however, have been increasing more rapidly. Larger towns within 100 km of Delhi, for instance, grew at an annual rate of 5.8% between 1971 and 1981. Among other things, this implies that the capacity of the hinterland towns to absorb yet more growth may be relatively limited. Population growth of suburban areas has also often exceeded that of central cities--Bombay is a striking example.

The metropolitan cities include India's two existing megacities--cities with more than ten million people (Calcutta and Bombay, both with a mid-1988 population of around 10.5 million). They are both large cities, but nevertheless smaller than Mexico City (18.1 million people in 1985), Greater Tokyo (17.2 mn), Sao Paulo (15.9 mn), Greater New York (15.3 mn), Shanghai (11.8 mn) and Buenos Aires (10.9 mn).

They are cities which are experiencing severe problems--Annex 3 profiles Calcutta and Bombay--but it is not clear whether these problems are proportionately more intense than in other metropolitan cities, or even that they are worse than in smaller towns. Journalists and elders point to the deterioration in services over time, and conclude that India is overurbanized. Certainly, planning and policy making are moving into uncharted territory, but the specter of "overurbanization" is unfounded, except by comparison to past days of romanticized rural bliss.

The National Commission on Urbanisation, in its interim report, focused on the four largest cities--Calcutta, Bombay, Delhi and Madras--referring to them as "National Cities". The Commission noted, for instance, that:

- o Bombay alone accounts for 40% of the country's income tax revenue, and accounts for 24% of overseas trade;
- o 4.8 million of Bombay's population of 8.2 million are migrants, most of whom send considerable amounts of funds back to family members in many parts of India; and
- o Calcutta's economy serves a market with an estimated population of over 200 million people.

The Commission found that these National Cities are the backbone of India's economy, and recommended that the needed investment be found if they are to become even better engines of national growth and prosperity. The Commission's detailed suggestions for the establishment of a municipal loan fund to support the National Cities and, eventually, all metropolitan cities, are summarized in Annex 2.

3.7 Income Distribution

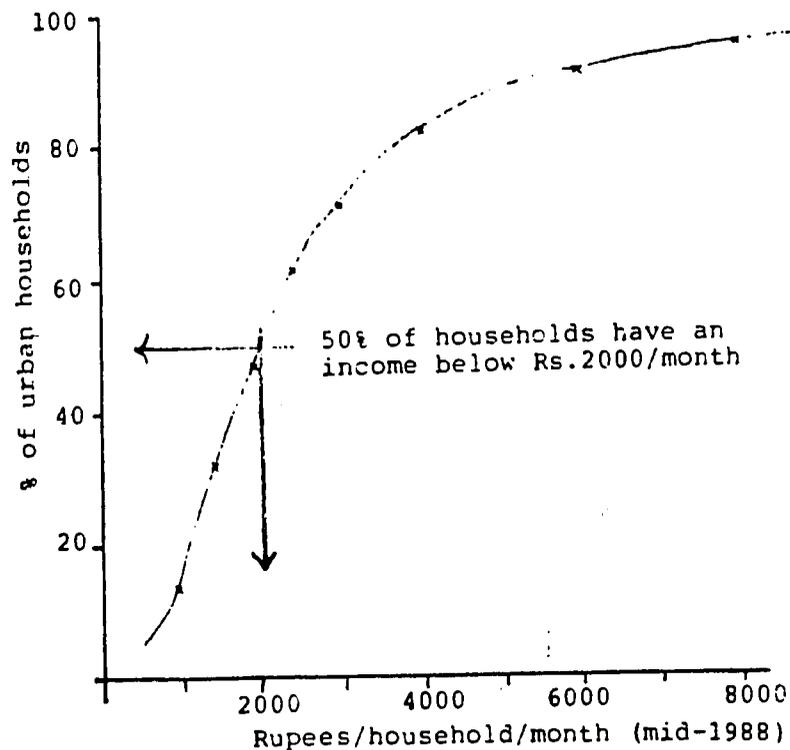
There has been no comprehensive survey of urban household income more recent than the National Council of Applied Economic Research's 1975-76 Survey of Household Income and its Disposition. There have been a few subsequent surveys of income in individual towns, and two expenditure surveys, but none of these have sufficient authority to be used as a unique source of data on all-India household incomes.

USAID has estimated the urban median household income to be Rs.2,000 in mid-1988. This was based on the 1975-76 figures, updated by the Index of Consumer Prices and by a constructed index of per capita consumption (see Figure 6). This figure is broadly consistent with estimates based on other sources. Its derivation is described in the Project Paper for HG-003.

For purpose of comparison, the official GOI income classifications, determined in 1985, are as follows:

Economically Weaker Section	Rs.750 per month and below
Lower Income Group	Rs.750 - 1,500 per month
Middle Income Group	Rs.1,500 - 2,500 per month
Upper Income Group	Rs.2,500 per month and above.

Figure 6



URBAN INCOME DISTRIBUTION, 1988

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4. THE URBAN POLICY ENVIRONMENT

4.1 The Actors

Urban development is a state, not central, government subject. This means that priorities and funding decisions are determined by the states or by local governments and agencies answerable to the state governments.

Of the central government ministries in Delhi, the principal actors are the Ministries of Urban Development (MUD), Industry and Finance, and the Planning Commission. Policy guidance emanates from MUD, and its subsidiary bodies. These latter comprise the Housing and Urban Development Corporation (HUDCO), which is mainly responsible for public sector housing, but is shortly to take on some responsibilities for infrastructure financing; the National Institute of Urban Affairs (NIUA), a research organization; the Human Settlements Management Institute (HSMI), providing training to HUDCO clients; and the National Buildings Organisation, whose main brief is construction technology. All of these organizations are described in Annex 6; urban administration at state level is discussed in Section 9.

4.2 Attitudes to Urbanization

One implication of urban development being a state subject is that there is neither a uniform institutional structure nor a systematic nationwide policy towards urbanization. Given the variety of economics, politics and cultures in this country, and the lack of leadership on urban issues given by Delhi, it is perhaps a matter of some wonder that there is not a greater variety of urban development philosophies.

There are few explicit government policy statements about urban development, although, frequently, speeches by public figures give the impression that urban growth is seen either as a necessary evil, as a phenomenon that runs counter to India's established developmental philosophy, or, on the grounds that poverty is rooted in the rural areas, as a set of very low priority problems. The problems are blamed on "excessive" migration which, in turn, is equated to the creation of urban slums.

In the Emergency of 1975, for instance, a City Beautification Program demolished inner city slums and transported slum dwellers to out-of-town camps. Attitudes have not markedly changed since then. It is reportedly the current policy of the Hindu Shiv Sena, a militant Maharashtra-based political party of some influence, that the number of "outsiders" in Bombay should be reduced, and slum dwellers driven out of the city.

Despite occasional professional statements of good intent, public attitudes have remained unsympathetic to urbanization. It may be iniquitous to select examples of political statements and present them as typical; the following quotation should therefore be read as an extreme example of anti-urban bias but, nevertheless, not unusual:

- " The gravity of the [urban problems] prompted Maharashtra Chief Minister S.B. Chavan to say in an exclusive interview to a new daily in Bombay the other day that he was contemplating fiscal measures to stop the continuing influx of people into Bombay because the city could not accommodate an unlimited number of people...
- " Mr. Chavan is not the only leader to have come out with such a radical and unconventional solution to the migration problem. Mr. A. Lakshmisagar, Karnataka Minister for Urban Development, Law and Parliamentary Affairs, has suggested the introduction of a visa system to stall the rapid migration from rural areas to urban cities...
- " Mr. Lakshmisagar went to the length of suggesting that the Constitution be amended to restrict the right of movement from any place to major cities without prior permission and valid documents. In defence of his suggestion, Mr. Lakshmisagar argued that 'these measures might appear impractical, but so is the problem of poverty. Difficult problems call for hard decisions.'" (Economic Times, May 10, 1987)

4.3 Industrial Location Policies

In the absence of statements of official policy about urbanization, it is necessary to look for evidence of policy intent at laws, statutes and references in planning documents. Mills & Becker have made such a review, and quote a number of legislative measures promulgated since 1956 which attempt to control the size of large cities. They have identified seven particular locational programs, as follows:

- o Industrial licensing, through which many licenses are denied to industries to locate in "large metropolitan areas and urban agglomerations".
- o Control over direct investment in public sector enterprises. Successive five year plans have stated the intention of giving preference in locating new industry to low-income areas, rural areas or small cities and towns.

- o Equalization of prices of basic products, such as cement, steel and coal, between regions of the country.
- o Government encouragement of small-scale industry. This is normally located in smaller towns and rural areas. Mills & Becker quote a number of specific instruments with this end, including exemption from licensing requirements, concessionary finance, training programs, industrial estate development.
- o Creation of industrial estates, largely for small industries, and usually in rural areas and smaller towns and cities (i.e., excluding the metropolitan cities). (There are notable exceptions, such as NOIDA/Delhi and Peenya/Bangalore.)
- o Metropolitan planning, which attempts to restrict the allocation of land to manufacturing establishments within the limits of the city jurisdictions (and having the effect of encouraging industrial growth immediately outside the city limits).
- o Programs to develop backward districts, using subsidies for capital investment, income tax concessions and concessional loans.

Mills & Becker point out that "no one knows or could know" whether these programs have influenced the size of India's cities. They do find it improbable, however, that there has been much effect. This, they argue, is firstly because the government's programs have concentrated on manufacturing industry, which contributes less than 30% of urban employment; second, because the programs have not been administered consistently and, in any case, are partially at conflict with other government policies to promote industrial development; and, thirdly, because city sizes are found to be regularly distributed, which would not have been expected had the locational policies been effective. The World Bank (1988), however, does believe that government policies have had some effect in restraining the growth of Calcutta and, more recently, also of Bombay and Madras, through the freight equalization policy, and limits on new capacity and textile policy, among others.

4.4 Statements on Urbanization

Despite, or perhaps because of the lack of a coherent urban development policy, the government has, at intervals, appointed expert committees to report on the urban situation.

At the time of the Emergency, for instance, the government drafted its first statement on urbanization (falling short of being a policy), in preparation for the 1976 Vancouver Habitat Conference. This recognized

that the growth of urban areas is inevitable, and is both a consequence of and a condition for economic development and industrialization. It called for a reduction of migration to large cities by the development of growth centers, and for incentives for the development of underdeveloped areas.

A high level Task Force was appointed by the Planning Commission in 1983 to recommend a strategy for housing and urban development. It is unclear how much influence the report of this Task Force had on the general public at the time of publication, but its findings are still being quoted with approbation today--five years later--by urban professionals. It reiterated the finding that "urbanisation is a phenomenon which is part and parcel of economic development in general. It is a natural consequence of economic changes...". It found, as a logical consequence, that there should be positive policies in support of urban development, but that existing schemes to this end have been "piecemeal and desultory". The Task Force made a large number of recommendations with regard to the planning, financing and management of urban development. At first reading, most of these accord with common sense. Without the benefit of a formal evaluation to determine which recommendations have been implemented, however, it would appear that most have fallen by the wayside and been ignored. (But the recommendations were phrased in the impersonal mode, "Necessary funds should be provided...", giving little guidance as to how they might practicably be implemented.)

The Seventh Five Year Plan (1985-90), published in November 1985, contained four pages on urban development. Much of the space was devoted to a statistical analysis of historical trends and to a dissertation on the merits of regional planning, as well as to exhortations to strengthen the administrative capabilities of local governments. Of the total budgetary outlay envisaged for the central government, Rs.168 crores over the five year period, most was earmarked for the provision of infrastructure in small and medium towns, and for the development of the National Capital Region around Delhi. The Plan also proposed the establishment of an Urban Infrastructure Development Finance Corporation (see Section 9, below).

4.5 The National Commission on Urbanisation

The Prime Minister gave a new boost to interest in urban issues in 1987, with the appointment of a National Commission on Urbanisation (see Annex 2). The Commission had the brief to

" suggest how a national programme could be evolved - on the one hand to create a climate in which there would be healthy growth of urban settlements performing vital functions... and on the other to develop an action programme which could deal with the problems cities generate".

The Commission published an interim report in January 1987, which included a concise review of urbanization, with the following conclusions:

- "(1) A growing bias towards urban settlements in population terms is inevitable.
- (2) In order that the cities and towns provide gainful employment and make the maximum contribution to national wealth, it is necessary to encourage the growth of healthy urbanisation.
- (3) Keeping in mind the reasonably well-balanced distribution of our urban population, (and that, of the fastest-growing centres, the vast majority are small or medium-sized), our policies can be directed to achieved a balanced poly-centric settlement pattern with strong regional biases.
- (4) The existing cities are under pressure, but it is possible and desirable to make policy interventions which permit pressures to ease and city functions to optimise.
- (5) If urban India is to sustain and foster an acceptable quality of life, the conservation of our urban heritage assumes crucial importance.
- (6) It is well within the power of the State to influence the pattern of urban settlements. There is, therefore, room for a great deal of optimism about our urban future - as long as there is the political will to act."

The Commission examined legal constraints to housing development, and made some detailed recommendations regarding reform of the Urban Land Ceiling Act and rent control legislation. It found that "these laws have acted as positive disincentives for easy access to land and the investment of resources in land development and housing construction". The Commission included in its interim report recommendations which, while mitigating the distortions, are intended to fully preserve the Urban Land Ceiling Act's aims of generating housing for the shelterless, and the Rent Control Acts' objective of protecting tenants from summary actions.

The Commission's final report was presented to the Prime Minister in August 1988. It had, however, not been made public at the time the present report was drafted.

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5. URBAN POVERTY

5.1 Summary

This section focuses on the problems of urban poverty. Although the subject is much discussed, very little is known about the urban poor in India. (Khusro refers to it as "the poverty of poverty analysis".) The following paragraphs nevertheless aim to summarize estimates of the incidence of urban poverty and its changes over time, to describe the main characteristics of the poor, and to identify current attempts to alleviate poverty and its symptoms.

The main findings are that:

- o The present urban poverty line, based on the per capita household expenditure needed for a nutritionally adequate diet and to pay for shelter and other household expenses, is equivalent to Rs.700 per household per month in mid-1988 prices.
- o Some 50,000,000 people are living below this poverty line in urban areas: 27% of the total urban population. Some estimates put the numbers much higher.
- o The incidence of urban poverty is officially shown to have fallen between the two most recent survey dates of 1977 and 1983. There is no evidence that the distribution of urban incomes has changed over that period. Incomes are distributed more equitably in urban India than in many other countries of the developing world.
- o The poor have much larger family sizes and dependency ratios than the non-poor. The number of children seems likely to be a major cause of poverty.
- o The poor are younger than average, much less well educated, and almost certainly less healthy than the remainder of the urban population. They cannot afford to access "free" education or "free" health facilities.
- o The poor are badly supplied with water, sanitation and other basic urban services.
- o No evidence has been found to support the widely-held belief that migrants predominate among the urban poor. It is likely, however, that members of scheduled castes and tribes are over-represented among the poor.
- o Slums house large numbers of the urban poor. But non-poor also live in the slums. Probably as many of the poor live outside the slums as in them: many as occupants of rent-controlled accommodation, or as beneficiaries of (subsidized) public housing programs.

- o At least three-quarters of a million people sleep on India's streets every night.
- o It is not true that the poor are poor because they are unemployed. Most of them have jobs, but with low productivity.
- o Many of the poor work in the informal sector. This now employs over half of the total labor force in Indian towns and cities. The informal sector is entrepreneurial and dynamic, and provides a vast range of goods and services to urban residents.
- o There is a considerable number of government programs to alleviate and combat poverty. Most observers are sceptical about their efficacy, but no studies have been found which attempt to evaluate the government's programs systematically.

5.2 The Knowledge of Poverty in India

The reduction of social and economic inequalities has been one of the guiding principles of India's development strategy for many years. More recently, this principle has been re-articulated as the reduction of poverty (first, in the 5th Five Year Plan, 1974-79). The 6th Plan (1980-85) proposed specific policy initiatives to reach identified poverty groups, but it was not until the 7th Plan (1985-90) that urban poverty issues were addressed directly. Indeed, the weight of numbers was such that, since over 80% of the poor live in rural areas, virtually all political attention has been directed towards the rural poor. That some 50,000,000 people are living below the poverty line in urban areas has largely been ignored by academics and urban practitioners alike.

One result of this is that very little is known about the dimensions of urban poverty in India. Its existence is acknowledged, to the extent that there are a multiplicity of programs to alleviate the problems of the urban poor. But equally little is known about the effectiveness of these programs.

In recognition of this, the National Institute of Urban Affairs (NIUA) recently mounted a program of research "with the primary objectives of coming to grips with the nature and characteristics of urban poverty in India, and to arrive at a better understanding of the state of the urban poor, that is 'who they are, what they do and where they live'". Some of the findings of these studies have been published. The following paragraphs lean heavily on the NIUA's publications. One study that was unfortunately still in progress and to which we have therefore not had access, however, was the NIUA's primary survey of urban poor households. This promises to answer several of the questions left unanswered about the characteristics of the poor.

USAID understands that research on certain aspects of urban poverty has been commissioned by the Planning Commission, and is currently in progress. We have no information on this study.

Definitions

The official definition of poverty--and the one that is most widely accepted in India--uses an absolute poverty line based on minimum nutritional requirements. From 1962, the accepted average minimum daily requirement was of 2,250 calories per person. The present standard, which was determined in 1977, is of 2,400 calories per person in rural areas, and 2,100 calories in urban areas. The corresponding poverty line is defined as that level of expenditure necessary to meet minimum nutritional requirements, based on actual food consumption patterns, plus actual expenditure on non-food items.

The most recent estimate of the value of the poverty line dates from 1984-85. For rural areas it was estimated to be Rs.107 per capita per month (Rs.6,400 per household per annum) and, for urban areas, Rs.122 per capita per month (Rs. 7,300 per household per annum). Using the inflation factors quoted in the Project Paper for HG-003, the urban poverty line in mid-1988 would be about Rs.160 per capita per month, or Rs.700 per average household per month.

The World Bank uses the concept of relative poverty, defined as one third of per capita income. The officially-estimated level of absolute poverty is about one third of USAID's estimate of the current mean urban household income. The line of absolute poverty is thus very similar to the level of relative poverty.

5.3 The Incidence of Urban Poverty

The incidence of poverty is estimated from the quinquennial surveys of consumer expenditure by the National Sample Survey Organisation (NSSO). The most recent survey was in 1983/84; another is presently being conducted, although the results are unlikely to be published until the early 1990s. The incidence of poverty derived from these surveys is quoted in Table 5.

Official statistics thus purport to show, unambiguously, that the incidence of urban poverty has been decreasing, from 38.2% of the total urban population in 1977/78 to 27.7% in 1984/85. (It is not clear how the expenditure distribution sampled in 1983/84 was adjusted for 1984/85). Even given that the size of the urban population increased over those 7 years by some 36 million people, the absolute numbers of the poor will also have decreased, by more than 3 million.

Table 5

Incidence of Poverty, 1972-84

% of population below the poverty line

	Rural	Urban	Total
1972/73	54.1	41.2	51.5
1977/78	51.2	38.2	48.3
1984/85	39.9	27.7	36.9

Number of people below the poverty line, million

1977/78	253.1	53.7	306.8
1984/85	222.2	50.5	272.7

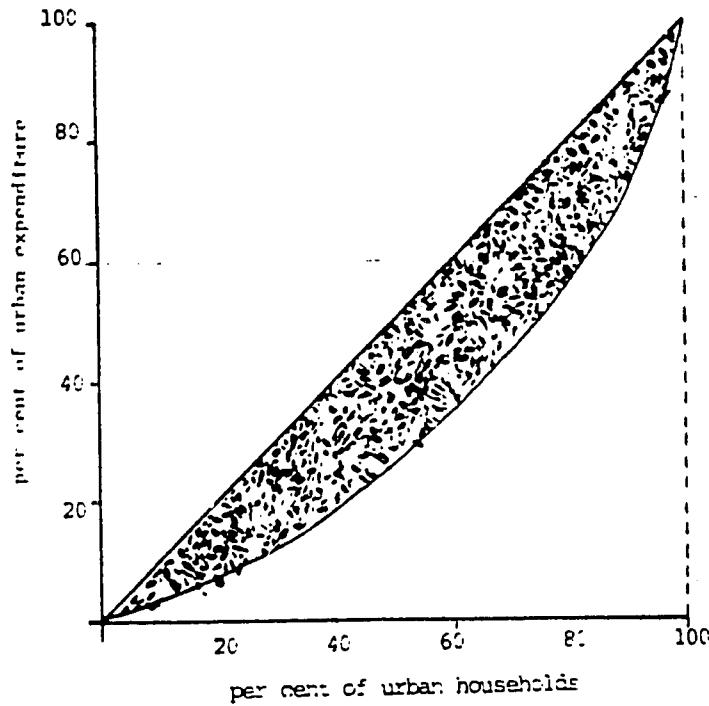
Source: Sixth and Seventh Five Year Plans.

Income Distribution

The decrease in poverty accompanied only a very small increase in average urban consumption expenditure over the same period: from Rs.158 per capita per month in 1977/78, to Rs.164 in 1983/84 (both expressed in 1983/84 prices), a rate of increase of only 0.6% a year. Since this increase is insufficient to account for a significant reduction in poverty, one would thus expect to find a reduction in the degree of income inequality. Indeed, the share of the bottom 30% of urban population in total private consumption did rise from 13.6% to 15.5% over the period.

Curiously, the literature consulted contains no reference to calculations of changes in the Gini coefficient, or to any of the other standard measures of income distribution. A rough calculation, however, based on consumption expenditures, shows the Gini coefficient to have hardly changed between 1977/78 and 1983/84: remaining equal to about 0.32 --see Figure 7. Many cities of the world show much worse income disparities than this. (However, if the calculation had been based on income distribution, not expenditure, one would have expected to find a more unequal distribution.)

Figure 7



CALCULATION OF THE GINI CO-EFFICIENT

The (Lorenz) curve shows the actual distribution of urban expenditures in 1977/78 and 1983/84. The diagonal line shows a situation of absolute equality of distribution (e.g. 60% of the population receive 60% of the income). The Gini co-efficient - a measure of relative poverty - is defined as the ratio between the shaded area (between the Lorenz curve and the diagonal) and the area under the diagonal. The closer the co-efficient is to zero, the more equal the distribution.

The Gini co-efficient for urban India has remained at about 0.33.

No reference has been found in the literature to work which relates changes in income distribution with changes in household size and composition, even though relevant statistics are available.

Official Targets for Poverty Reduction

The Seventh Five Year Plan has targetted the reduction of the urban poverty ratio from 27.7% in 1984-85 to 19.3% in 1989-90. The corresponding number of the urban poor would fall from 50 million to 42 million.

Rural Poverty

The NSSO statistics show the incidence of rural poverty to have decreased dramatically between 1977 and 1984 (from 51% to 40%). Papanek finds, however, that the data for rural poverty are "equivocal at best", and that "there appears to be no clear trend in poverty over the twenty or so years for which data exist". Bussink, too, remains unconvinced that the official figures indicate any change in the general level of poverty. Still, in comparing development patterns in India with those in certain East Asian countries, he recommends that "researchers should seek explanations why, with India's relatively modest growth rate, poverty incidence did not increase".

Commentary

The finding that urban poverty has decreased is not consistent with the literature, in which most commentators feel that official statistics understate the problem.

Shah, for instance, believes that urban poverty is proportionately more serious than rural poverty: "the percentage of population suffering from calorie or protein deficiency [in 1979] was as high as 32.6, which is higher as compared to the figure of 28.8% for rural areas". He does not quote a source for these statistics.

Some observers criticize the quality of the surveys, and point out that, by underestimating expenditures, the NSSO is likely to have overestimated the incidence of poverty. Others feel that the national data series are so unreliable as to be virtually meaningless.

The most telling criticism is that rural poverty, at least, has been cyclical, reducing in years with good farm output and prices, only to increase to an equivalent degree in later years. Thus, The Economist finds that "the proportion of Indians who are underfed has stayed fairly constant at 40% for 100 years". Since 1983/84 was agriculturally a good year, it might be expected that the incidence of rural poverty in that year was below the trend average.

This is doubtless true of rural areas; it is less obviously true of towns, where incomes may be expected to be more stable. Surveys by Lall (1985) have shown, however, that the level of income of households in the informal sector fluctuates considerably over time. Particularly in smaller towns, monthly variations in informal sector income very closely parallel seasonal agricultural activities. Given the importance of informal sector incomes, then, it is not unreasonable to expect that, if rural incomes were above average in 1983/84 then so, too, would be urban incomes.

Social Poverty

The greater part of the literature concentrates on economic poverty, expressed in terms of households' inability to purchase adequate calories. Other forms of poverty have been neglected, notably poverty of health, housing, sanitation and education. Many of these services are not purchased in the same way that food is purchased; household income therefore cannot measure access to these services.

National indices for health, education and literacy have all been improving consistently (Annex 1). There is doubt, however, whether the same is necessarily true of urban non-food poverty. Other sections of this paper explore changes in housing conditions and the availability of utility services. The section below which discusses the socio-economic characteristics of the poor also implicitly describes social poverty in terms of access to health facilities, schools and other public welfare services.

Food Poverty

One of the NIUA's working papers, (Dimensions of Urban Poverty), interprets the NSSO data for calorie consumption to show that 58.1% of the urban population was below the poverty line in 1983/84. The paper calculates the proportion in the major towns to be as follows:

proportion of population below
the poverty line, 1983/84

Delhi	56.2%
Bombay	59.9%
Calcutta	54.5%
Madras	53.1%

The author comments, "This incidence of poverty may appear to be on the high side. However, some of the independent surveys suggest that this may not be so." A survey, quoted by Malhotra, found that "even though 95% of an average slum dweller's monthly income is spent on food, yet 73% of them ate a diet which was deficient in protein and 95% suffered from calorie deficiency". The same study found that, on the

basis of anthropomorphic measurements, "at least 40% and possibly as many as 60% of the children between the ages of one and five suffered from various degrees of malnutrition".

But other commentators (such as Khusro) note that indices of poverty based on calorie consumption are likely to exaggerate the incidence of poverty. "Food poverty lingers on a bit longer than other forms of poverty. Indices of poverty based on calories or of food consumption thus have a built-in depressor and fail to note improvements in the nonfood realm of poverty."

5.4 Characteristics of the Urban Poor

An important finding of a study by the National Council for Applied Economic and Social Research (NCAER), of changes in rural household income, is that there has been considerable movement, over time, of households across income deciles. In other words, over the 11 year period covered by the NCAER data, a large proportion (45%) of formerly-poor have moved into the upper income deciles, and others (31%), have fallen from being non-poor into the lower deciles. This suggests that much rural poverty is transitory, and that the "hard core" rural poor may be fewer than previously thought.

In the absence of an explanation for such transitoriness, it would be heroic to look for urban parallels. It would, however, be equally stubborn to expect that urban poverty is necessarily a lifelong phenomenon.

There is a popular conception that the poor are synonymous with rural-urban migrants; it is easy to draw the conclusion that urban poverty can be reduced by curbing migration. While it is doubtless true that most migrants used to be poor rural dwellers, USAID has seen no evidence that they usually remain poor. Studies in other countries, indeed, find that migrants are generally more entrepreneurial or ambitious than urban natives, and that the incidence of poverty is less among migrants than long-term residents.

Such a pattern is suggested by the findings of a study in Bombay by Muttagi and Yesudian, that the poor are younger than average. (The authors caution, however, that this finding may mean no more than that the poor have a shorter life expectancy than the non-poor.) None of the urban studies consulted have a temporal dimension which would enable this question to be addressed.

Demographic Characteristics

The poor have larger households than average: 5.89 people, compared with an urban mean of 4.85, or with an average of 4.35 for non-poor households. They have more children per household, too: 2.53, against 1.40 for the non-poor (Sarvekshana, April 1986). It is reasonable to conclude that large families are likely to be poor because they have many dependents.

The popular perception that equates poverty with low caste is largely borne out by surveys. Muttagi and Yesudian found, for instance, that the group of urban poor in Bombay comprises relatively large numbers of lower caste people and of non-Hindus (Buddhists and Muslims). It thus becomes very difficult to disentangle perceptions and characteristics of caste and of economic disadvantage.

Employment

There is a logical link between poverty and the labor market. In urban India, as in most developing countries, unemployment rates are low: poor people cannot afford to be unemployed. The urban unemployment rate was 6.4% in 1983-84 (6.0% male and 8.1% female); the group with the highest rate of unemployment is educated youths. If there is virtually no unemployment among the poor, then it is the case that the poor are poor because they receive low rates of payment for their labor. This, in turn, may be either because they are underemployed in the sense of working short hours (as many obviously are), or in marginal occupations, or because, in the informal employment market, there is an oversupply of labor relative to demand.

Wage employment, as a proportion of total urban employment, has declined over the past decade; non-wage employment has correspondingly expanded. Within the non-wage sector, the share of casually employed has risen faster than the self-employed. The NIUA comments on this as a:

" phenomenon of casualisation of the urban labour market and an increasing proportion of marginal workers in the urban labour force. To what extent urban poverty is due to casualisation or marginalisation, is difficult to say. One would, however, not be very wrong in assuming that the non-wage, casual sector is characterised by low and irregular incomes which happen to be among the main reasons for the high incidence of urban poverty in India."

The poor are heavily in debt. An Ahmedabad study quoted by Shah found that 52% of households below the poverty line were in debt. The average debt per indebted household was equivalent to about ten months' income.

Health

India's urban population is unhealthy. UNICEF has made the following observations about health conditions in urban areas, and comments that the incidence of these problems is considerably more severe among slum dwellers and, presumably, also among the poor as a whole:

- o Acute diarrhoeal incidence in urban areas is estimated to be 500 per 1,000 among infants and 200 per 1,000 among pre-school children. Nearly 300,000 urban children die annually due to diarrhoeal dehydration.
- o Government estimates say that at least 6,000 urban children are turning blind every year due to Vitamin A deficiency.
- o Nearly 50% of infant deaths are neonatal, mainly due to complications such as prematurity and tetanus, related to maternal malnutrition and lack of sanitation.
- o 29% of infant deaths and 22% of child deaths in urban areas occur without receiving any trained medical attention.

The poor can often not afford to use even government health facilities, perhaps because they are not aware that they are ill, perhaps because they cannot afford to take time off work, or to pay the cost of transport to a hospital, or the cost of drugs.

Education and Literacy

The children of the poor often do not go to school regularly. In urban areas as a whole, 27% of children aged 5-9 do not attend; the figure is believed to exceed 50% in most slum areas. Either the children of the poor have no motivation to do go to school or, if they are at work, they cannot afford to do so. In any case, schools in disadvantaged areas are themselves described as "inferior" and "ill-equipped" (Muttagi and Yesudian).

The poor have a low degree of literacy. Compared with the 1981 urban average of 43% illiterate, a survey of Delhi's slums quoted by Malhotra found that "about 70% of families were found illiterate, 30% literate (i.e. those who could sign their names only); only 1-2% could read and write". A census of slums in Ahmedabad, quoted by Shah, found the literacy rate in 1976 to be 10.9% (16.8% for males, and 4.2% for females), compared with a city average of 59% in 1971.

5.5 The Location of Urban Poverty

Table 6 documents the official statistics for the incidence of urban poverty in each of the largest states. There is a strong positive correlation between the degree of poverty, and the incidence of 'urban' poverty in that same state.

Table 6

Poverty by State, 1984/85

	<u>% of people below the poverty line 1984/85</u>		<u>% of people in urban areas</u>
	Total	Urban	1981
Uttar Pradesh	45.3	40.3	18.0
Bihar	49.1	37.0	12.5
Maharashtra	34.9	23.3	35.0
West Bengal	39.2	26.5	26.5
Andhra Pradesh	36.4	29.5	23.3
Madhya Pradesh	46.2	31.1	20.3
Tamil Nadu	39.6	30.9	33.0
Karnataka	35.0	29.2	28.9
Rajasthan	34.3	26.1	21.0
Gujarat	24.3	17.3	31.1
Orissa	42.8	29.5	11.8
Kerala	26.8	30.1	18.7
Assam	23.5	21.6	10.3
Punjab	13.8	21.0	27.7
Haryana	15.6	16.9	21.9
Union Territories	27.1	17.7	72.3
India	37.4	28.1	23.3

Source: NIUA Urban Data Sheet, 1986

At the same time, there is a weak negative correlation between the extent of urban poverty and the degree of urbanization of a state. That is, the greater is the urban component of a state's population, the less is the incidence of urban poverty. This is an expected relationship: the richer is the state, the more urbanized it is likely to be, and the less will be the incidence of urban poverty.

UNICEF has calculated that the twelve metropolitan cities house around 26% of the total urban poor in India. They also accommodate 26% of the nation's urban population, indicating no obvious bias as regards the distribution of poverty by city size.

Poverty and Slums

Practically all observers assume that slums and areas of poverty are identical. It is undoubtedly true that most slums house a largely poor population and that many of the poor live in slums.

It is equally untrue that all people who live in slums are below the poverty line (as evidenced, for instance, by the density of television aeri^{als} in some slums; a Calcutta survey found one pavement dweller--generally assumed to be the poorest of the groups of poor--to own two apartment blocks). Look at the pair of statistics that (1) 28.8 million people lived in urban slums in 1981, and (2) that 50.5 million people lived in urban poverty only two years later. These imply that around half of the poor live outside slum areas.

It is a tenet of faith in India that the urban poor need to live within walking distance of their work, since incomes are insufficient to pay for any transportation. As many of the markets for informal labor are often located nearby to or at the homes of upper and middle income families, there tends to be a close physical relationship between unplanned low income neighborhoods and formal higher income residential areas.

Priorities for Housing

The poor are said to assign a low priority to housing. Sudhendu Mukherjee, for instance, notes that

" one reason frequently cited is that urban slums are not very much more oppressive than the rural housing from which the residents have migrated... The first priority of nearly all slum and pavement dwellers is regular employment and a subsistence income. For most, health, their children's education, and capital for income-generating investments receive higher priority than housing or community facilities... Sometimes, in fact, pavement dwellers choose temporary or transitory shelters over more permanent housing, since the areas in which they find themselves able to earn a subsistence income do not have the housing they can afford". (p.142)

The poor are thus assumed not to see substandard housing as a problem and to be able to tolerate slum conditions better than the rich. Instances are frequently cited of slum dwellers who are allocated dwellings in

formal housing schemes, selling off their rights of occupation to return to their original slum homes. In contrast, a recent NIUA survey (Urban Poverty: A Study in Perceptions) found that two-thirds of their respondents among the urban poor perceived lack of shelter or inadequate shelter to be their most critical problem.

Pavement Dwellers

One group of the poor that has received particular attention is the pavement dwellers. These officially represent "only" 0.4% of the urban population; but this would be equivalent to well over three quarters of a million people in 1988. There is also good reason to expect that this is a gross under-enumeration of the problem, since the pavement dwellers have reason to fear and therefore to avoid all officials, including census-takers. The Centre for Science and Environment estimates, for instance, that every night 600,000 people sleep on the pavements of Calcutta alone.

These people survive on the roadsides, under culverts, in cement pipes or under plastic or cardboard sheeting. Some have been born there; most others are migrants. (In Calcutta, over half had migrated to the city within the previous 5 years.) They live on the sidewalks and in the gutters, washing themselves and their clothes (if they possess any), defecating, cooking and eating there. Most survive by casual (and insecure) employment, such as pulling handcarts, scavenging, selling vegetables or making and selling fuel cakes from cow dung. Earnings are supplemented by begging. Among other of their disadvantages, homeless people are not permitted to deposit any savings in a bank or post office account, having no residential address; and, for the same reason, are not eligible for the ration card that would entitle them to buy subsidized food and fuel. And pavement dwelling is not always free. In Bombay, for instance, people can pay up to Rs.5,000 for the right to occupy a 6ft by 6ft stretch of pavement; others pay rent of around Rs.50 a month.

Bombay surveys find these people to be broadly content with their lot, although other observers categorize their life as being one

"...of misery, loneliness and helplessness, of facing rains and sweltering heat or disease uncared for, of being chased by the police and facing the hostility of the legitimate residents, sometimes of bullying and attacks by fellow pavement dwellers of a tougher kind, and always the constant worry of where the next meal will come from". (Mukherjee, p.148)

5.6 Informal Sector Employment

Many observers find a correlation between urban poverty and informal sector employment. It is doubtless true that many of the poor do work in the informal sector; but it does not follow that the two are coterminous. Indeed, incomes in many informal sector occupations exceed minimum formal

Indeed, incomes in many informal sector occupations exceed minimum formal sector wage rates, and sometimes even are greater than average incomes in the formal sector. Nevertheless, the informal sector, as employer of last resort, does include a reservoir of marginal, low-income employment.

What patchy data are available suggest that the informal sector has been growing faster than the formal sector over the last decade or two. It now provides probably a half of all employment in India's urban areas. The growth in the informal sector has also provided job opportunities for women, which might otherwise not be available. Kundu and Thorat relate the growth of informal sector employment with a decline in rates of female unemployment.

The informal sector is also provider of a vast range of goods and services in Indian cities, both to the poor (enabling them to buy services that might otherwise be inaccessible) and to people in all other income groups. It is only in recent years that the informal sector has been recognized, in India, as a necessary component of the urban economy. Very little academic or political attention has been devoted to it, with the result that, until the NIUA published a study of informal enterprises in 1987, there was no estimate of its magnitude outside the main cities, nor even a working definition of what constituted the informal sector. (The definition that was adopted is "that portion of the urban economy which is composed of people operating or working in very small businesses or enterprises who lack formal government recognition, registrations, and support for their enterprises; have poor access to commercial sources of credit; earn low incomes; and have limited employment and tenure security".)

One reason for a lack of interest in informal sector studies may simply be that the formal and informal sectors are part of a continuous, blurred spectrum of opportunities, whether in employment, shelter or infrastructure provision. The informal sector is not perceived by people with power as a threat nor, particularly, as a problem. It is merely a part of India's urban reality.

The NIUA study finds, by standards of international comparison, relatively high proportions of the workforce employed in the informal sector, typically 50 to 60% in intermediate-sized towns. (Other studies have found that the proportion for Indian metropolitan cities ranges from a low of 40% in Bangalore up to 63% in Delhi. Equivalent estimates for other Asian cities are 19% in Colombo, 45% in Jakarta and 69% in Pakistan.)

The NIUA and other observers find that informal enterprises divide about equally between retail/commercial, and manufacturing/construction/transport--see Table 7. Most enterprises are family businesses, typically using unpaid family labor and perhaps one or two casual employees. They have a small capital base and often use old and unsuitable equipment. They have extensive linkages with the formal sector, but experience problems with the supply of raw materials and with marketing. Informal sector

workers have low technical skills, and their enterprises, low productivity. (No information has been found which describes the characteristics of workers in the informal sector, as distinct from characteristics of the enterprises in which they work.)

Table 7
Employment in the Informal Sector, 1986
percent of total informal employment

	Ghaziabad	Allahabad	Jaipur
Manufacture	8.1	16.9	26.6
Trade and Commerce	22.3	36.8	32.3
Fruit, vegetable sale	(7.0)	(13.2)	(15.7)
Paan etc.	(3.6)	(6.5)	(7.0)
Grocery	(1.4)	(6.3)	(4.9)
Services and Repairs	42.3	40.4	16.3
Eating places	(12.4)	(3.8)	(4.3)
Car, scooter repair	(7.7)	(3.4)	(0.5)
Cycle repair	(4.2)	(9.0)	(2.3)
Laundry	(4.2)	(3.2)	(0.9)
Shoe repair	(3.3)	(5.1)	(2.2)
Construction	20.4	1.8	6.4
Transport	6.0	4.2	18.4
Total	100.0	100.0	100.0
N=	717	1125	992

Source: NIUA Research Study Series No.19 (1988)

As noted by a seminar on the mobilization of informal sector savings,

- " Informal sector may create problems to urban planners and sometimes to governments. However, negative aspects should not be over-stressed. Without subsidy from government and, often harassment by official agencies, the rapid growth is sufficient evidence of its vitality, dynamism and enterprise, which are growth characteristics in short supply in developing countries." (Society for Development Studies, 1986)

5.7 Policies and Mechanisms for Poverty Alleviation

The 7th Five Year Plan initiated two programs specifically to alleviate urban poverty: the Self Employment Program for the Urban Poor and the Urban Basic Services Program. Other than these programs, the most important anti-poverty initiatives have taken the form of transfers of income and assets. The most important of the urban programs--as distinct from national programs--have been land reform and subsidies.

Self Employment Program for the Urban Poor (SEPUP)

SEPUP provides for loans of up to Rs.5,000 to be given to the urban poor for the purpose of starting small scale ventures. It aims to counteract the nation-wide institutional bias of financial institutions against small enterprises. The categories of economic activity which are explicitly recognized as eligible for assistance under SEPUP are those which, on prima facie grounds, have a growing demand in urban areas. (The list includes, for instance, scooter repair shops, paper and polythene bag vendors and manufacture of ready-made garments.)

The NIUA notes that over 300,000 applications for assistance, to a value exceeding Rs.100 crores, were sanctioned in the program's first year alone (it was initiated in September 1986). By analogy to loan melas, however, doubts have been expressed whether many beneficiaries of this scheme have the intention of repaying their loans.

Urban Basic Services Program (UBS)

The UBS program is "aimed at improving the access of the poor to basic services and thus contributing indirectly to urban productivity". The Basic Services which are targetted comprise water, health, education, nutrition, economic opportunities, environmental sanitation, recreation and shelter for the poor. The UBS program is strongly assisted by UNICEF, which supports interventions in the following five areas:

- o basic child care services
- o leader and community training and education
- o capacity building of municipalities
- o community organization
- o income generation for women.

The NIUA comments on both of these programs that their impact is not known. There is, however, a widespread understanding that they "have not been able to make any impact on the incidence of poverty, that they do not reach the poor, that they do not reflect the needs and priorities of the poor, and that they are borrowed and, therefore, misplaced in the Indian context."

Land Reform

In cities and larger towns, the land reform program has taken the

shape of the Urban Land (Ceiling and Regulation) Act of 1976. This is discussed in some detail in Section 7, which concludes that it has had negligible success in redistributing land to the poor. Indeed, by virtue of its effective freezing of land transactions, it more likely has had considerable regressive effects.

Subsidies

India's public sector pricing system is riddled with subsidies (or differential pricing schemes) which are generally intended to benefit the poor. Many are India-wide; others are predominantly urban. In fact, most urban public services are subsidized in the sense that they are either not charged or are run at a loss (whether as a matter of policy or de facto). The loss-making services of public transport, water supply and electricity are noted in Section 8 of this paper. One broad conclusion was that many of the subsidies cannot reach the poor, since the poor do not have access to these services. Few other public services, which conventionally attract some charge in other cities of the world, are priced in India. Other examples of subsidies which are intended to benefit the urban poor include the following: subsidized food for holders of ration cards; below-market interest rates for housing loans; privileged access to credit for members of Economically Weaker Sections and of Scheduled Castes and Tribes (for instance, for employment-creating projects); slum upgrading schemes implemented at no cost to the beneficiaries; in some states, free midday meals for children, in others, free or cheap dhotis. Those subsidies which do not benefit the poor include those which result from maladministration of the property tax, and cheap fares for train commuters.

These systems of subsidy have attracted occasional adverse comment by observers trained in western economic thinking, but are rarely the subject of any sustained analysis. Critics note that the negative effects of subsidy schemes throughout the world are repeated in India: that more of the benefit from the subsidies accrues to members of relatively well-off groups than to the poor; that the volume of funds available for subsidy is anyway too small to have the intended impact over the whole of the target population; and that the subsidies are counter-productive by diminishing incentives for productive investment. Others will argue that "free" welfare schemes anyway carry a price which cannot readily be afforded by the poor: whether because of the cost of travel or the value of time spent not working, or because of bribes or other payments needed to gain access to the supposedly free services.

The Economist, for instance, comments about India, that

- official and unofficial studies have found that subsidies of all kinds - not only agricultural inputs but also food, education and medicine - go disproportionately to the better off. Even in the anti-poverty programmes, some 15-20% of the beneficiaries are the non-deserving, not counting the money siphoned off in corruption."

USAID has, however, not come across any documentation of these effects (as distinct from anecdotal reference) as far as India's urban services are concerned.

Set against the academic mistrust of subsidies, there is a deep-seated belief by many Indian participants in urban development that the most effective way of benefiting the poor is by way of fiscal transfers. The more analytic will acknowledge that there are defects (in whichever system), but will accept these as a necessary concomitant of India's popularly accepted value systems. It is, in any case, palpably true that, whatever the demerits of the existing cobweb of subsidies, the poor would be hard put to survive if they were removed at a stroke.

Housing Policy

In the realm of housing policy, there have been notable shifts of emphasis in favor of the urban poor over the last decade. One measure whose main aim was the redistribution of disposable income, particularly in urban areas, is the rent control legislation. Slum upgrading has become recognized as preferable to slum clearance. The National Housing Policy itself "seeks to accord priority to promoting access to shelter for the houseless and the disadvantaged groups such as:

- (a) the Scheduled Castes and Scheduled Tribes and freed bonded labour;
- (b) rural landless labour, including artisans;
- (c) widows, single women and women headed households;
- (d) economically weaker sections;
- (e) low income groups;
- (f) victims of natural calamities".

Probably all the public sector institutions responsible for housing policy and its implementation--as described in Annex 6--make a conscious and publicized effort to bias their programs in favour of these disadvantaged groups. It is, however, an unanswered question to what extent they are successful. (But the discussion in Sections 6 to 8 suggests a generalized answer.) There is no shelter institution with a mandate specifically to target its assistance to the poor.

PVO Initiatives

There are large numbers of PVOs active in anti-poverty projects and programs in urban India. By far the best known is Mother Teresa's Missionaries of Charity. Others include religious and secular groups, which aim both to simply transfer resources in the form of charity as well as to stimulate self-help activities among the poor and underprivileged. USAID believes that it is aware of only a tiny proportion of all such organizations. Other than for those organizations that have joined the Habitat International Coalition, there is not known to be any central clearing house of information about or for urban PVOs.

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6. SHELTER

6.1 Summary

This section describes the policy environment for housing, by way of a historical review of the genesis of present housing policies, and then describes the main delivery systems for new housing in India. In view of their prominence in India's cities, as well as of this study's interest in the problems of poverty, there follows a discussion of slums--their typologies, their characteristics, and government policies for dealing with them. Finally, the housing finance system is described, emphasizing the two components of greatest current interest to USAID--the market-oriented housing finance companies, and informal systems of housing finance.

Among other findings are that:

- o The contribution of housing to national income is low by the standards of developing countries; housing's share of investment has also been falling.
- o National housing policies have changed over time: previously emphasizing the leading role of the public sector, now they speak of its "facilitating" role. The private sector (predominantly, individual households) is expected to take the lead in house construction.
- o Responsibility for housing is a state, not central, government subject.
- o Although official pronouncements favor site and service development, and slum upgrading ("upgradation") for improving the housing conditions of the urban poor, most public schemes continue to be of completed dwelling units and slum redevelopment. Many aspects of public housing schemes are the subject of professional criticism.
- o Private corporate developers are increasing their output, but are probably still making little more than a marginal contribution to the national housing supply. They are mainly active on the periphery of metropolitan cities, and are constrained from playing a greater role by a panoply of planning and building regulations which combine to raise the cost of construction higher than is absolutely necessary, difficulty of access to developable land, and low effective demand (itself made lower by the appearance of competition by subsidized state housing).
- o Private informal developments (whether initiated by developers, communities or landowners) are also making a

contribution to housing supply of increasing importance. Most of these are in the form of subdivisions (informal sites and service schemes), but some are for rental. Their activities have been documented in Delhi and Ahmedabad, but not for other towns.

- o By far the greatest part of the supply of housing is believed still to be provided by individuals, whether on public or private (informal) sites and service schemes, or within community-initiated settlements, mainly illegally, and often forming slums.
- o In part because of the failure of the legal, formal, systems to supply housing, slums proliferate. A quarter of the urban population is said to live in slums.
- o In some of these, conditions are deplorable. In Bombay slums, for instance, 36% of families live with more than five people to a room. Several hundred people share taps and public toilets; drainage is non-existent and there is no system of solid waste disposal. Health conditions, as a consequence, are atrocious.
- o The housing finance system is characterized by government control over the flow of funds and their utilization. The institutional structure is dominated by two organizations: HUDCO (which is the main source of funds for state government housing schemes), and HDFC (the principal housing finance company, and recipient of a series of HG loans). There are many other participants in the housing finance system, most of which suffer from a shortage of loanable capital as well as from other constraints to expansion.
- o The National Housing Bank is newly formed; its priorities and policies have not yet been announced.

6.2 The Shelter Policy Environment

[This section draws heavily upon Meera Mehta, Housing Policies in India: Retrospect and Prospects, Ahmedabad School Of Planning.]

The principal institutions involved in the shelter sector are listed and described in Annex 6.

The shelter sector has received increasingly less emphasis in successive national plans. For instance, the overall planned investment in housing declined from 34% of total investment in the economy during the First Plan to 7% in the Sixth Plan, (but was due to rise slightly, to

10% over the period 1985-90). The share of housing in total planned public investment is a mere 1.6% in the Sixth Plan. As a proportion of GDP, it has also tended to fall, from 5% in the mid-1960s to around 3% in recent years. The direction of these shifts is perhaps to have been expected: but the decline in magnitude is symptomatic of the relative importance given to housing by national planners. Shelter has consistently been regarded as a sector which does not make a marked contribution to economic growth.

Certain objectives have been part of India's overall development strategy since Independence. They continue to influence the logic of the government's housing policy. Notably, they include:

- " o reduction in inequalities;
- o the development of a mixed economy with a strong public sector, especially in key areas of the economy;
- o promotion of balanced regional development".(Ahluwalia, p.346)

Planned, public, intervention in the provision of housing began in India only after Independence. The contemporary history of changes in public attitudes to housing largely parallels that of many other countries in the developing world, albeit with a slight time lag.

It was recognized from the time of the First Plan (1952) that there was a gap between cost and affordability of current housing solutions. The earliest attempts at bridging this gap sought technological ways to reduce costs. Inevitably, however, it became accepted over time that industrialized solutions were not appropriate and, by the 1970s, the building research organizations started to concentrate on the development and utilization of indigenous materials. This remains the focus of their activities.

Simultaneously with the beginning of a search for cheaper housing, "social housing schemes" were initiated by the public sector for economically disadvantaged groups. At first, projects were undertaken by central government, but these were soon to be transferred to the authority of state governments. Necessarily, the schemes were highly subsidized: Mehta estimates that two-thirds of the population of Ahmedabad were unable to afford the cost of even the cheapest standard quality houses. The number of units built was small in proportion to needs; and designs and construction were substandard. The futility of the policy was recognized as early as the Fourth Plan (1969-74), acknowledging that "with the constraint on resources it was not possible for public sector programmes to touch even the fringe of the housing problem".

Similarly, there was a growing recognition that, with the increasing rate of growth of informal settlements, slum clearance and redevelopment programs could never succeed and, even, that they might not be socially

and economically desirable. The homes being built by the people themselves were far cheaper than those provided by the public sector.

As Mehta expresses it, "the process of housing was seen to comprise of different activities and different levels of action, each of which demand different scales and kinds of organization and different mixes of skill." This resulted in policy shifts in the 1970s in three specific directions, as follows.

The first was the acceptance of slum upgrading ("upgradation" as it is known in India) in preference to slum clearance and resettlement. The lead was given in Calcutta, and the impetus provided by the occupants of the slum areas who objected to large scale demolitions. Environmental improvement is now the official policy towards slums, but it still is not accepted by many politicians (and perhaps, too, not by many professionals or by the middle class man-in-the-autorickshaw). Slum Clearance Boards continue to exist and to live up to their name. The Chief Minister of Karnataka was lauded at a recent conference for his beneficence in relocating a slum which visibly bordered onto the airport road. The Maharashtra political party, Shiv Sena, advocates massive slum clearance.

The second major change of the 1970s was a recognition of the importance of housing finance, and an attempt to remedy some of the gaps. Section 6.6 traces developments from the formation of the Housing and Urban Development Corporation (HUDCO) in 1971, through the growth of the Housing Development Finance Corporation (HDFC), to the birth of the National Housing Bank in 1988.

The third policy change of the 1970s was an increasing emphasis on land policies as a tool to improve the supply of housing. The main thrust was the formation of urban development authorities, many of which had the responsibility for bulk land acquisition, development and disposal. Another shift was marked by the passage of the Urban Land (Ceiling and Regulations) Act 1976, which had far-reaching consequences. The record of the land management programs is examined in Section 7.

At the same time, and following the lead given by A.I.D. and the World Bank in other countries, site and services schemes were introduced to India. As elsewhere, the proponents of site and services schemes have judged them a success, and their detractors, a failure. But whatever an impartial evaluation would show, they have not caught the imagination of housing authorities, and are not widespread. Housing Boards continue to allocate most of their resources to completed housing projects, which they are best equipped to undertake, and in response to local pressures from politicians and various interest groups.

Recent years have witnessed a marked move towards restructuring of the economy through a process of liberalization and increased reliance on

market mechanisms in a number of areas, including shelter. There is a gradually widening understanding among policy-makers, practitioners and academics that the public sector is not necessarily either the correct or the best medium for the provision of housing units. For instance, the national housing policy, published in 1988 after much debate on its early drafts, states that

" housing agencies and area development authorities in the public sector will ... be reoriented to act more as promoters and facilitators of housing activity rather than builders of housing units..."

A subsequent seminar co-sponsored by the Ministry of Urban Development confirmed that public sector institutions should take as their primary responsibility the creation of an "appropriate enabling environment so that other partners in the housing sector can successfully add to the national housing stock...". At the same time, it was made abundantly clear that, although the role of the private corporate sector was recognized, the greater part of the responsibility for construction is envisaged to be assumed by the household and cooperative sectors.

6.3 Housing Stock

The National Buildings Organisation (NBO) makes periodic estimates of housing shortage in the country, by comparing the "usable housing stock" with the number of households requiring to be housed. The most recent estimate, for 1988, was of a nationwide shortage of 29 million housing units, of which over 7 million are for urban households. The shortage is said to be growing at the rate of 4.6% a year. The more detailed 1981 estimates attributed 4% of the urban shortage to the absolute houseless, 34% to relieve overcrowding in terms of households sharing dwellings, and the remaining 62% to accommodate households presently living in housing deemed below acceptable standards ("serviceable and unserviceable kutchra units").

The statistics may be questioned, but they do indicate that there are a very large number of houses in poor condition. As Section 5 notes, there are perhaps 750,000 people who are presently homeless. Correspondingly, 99.6% of the population do, at least, have a roof over their heads.

Mulkh Raj argues forcefully that the statistics are not only largely irrelevant, but that their publication has done positive harm:

" This national obsession with the numerical aspect of shelter problem has resulted in setting up of numerous institutions at State and local level to supply pucca [permanent] houses..."

Standard housing designs were evolved, tenders issued and thus mushroomed stereotyped housing estates of indifferent quality all over India. These architectural eyesores even invoked adverse comments from successive Prime Ministers. But the game continues...

" Also finding house construction as much more tangible symbol of success, the Development Authorities became indistinguishable from Housing Boards or Public Works Departments. It has also become clear that there is a mismatch between the idiom of housing supply and the reality of illegal construction and mushrooming of squatter settlements..."

Table 8 summarizes the main available statistics on the housing stock, for 1971 and 1981.

Table 8
Urban Shelter Statistics, 1971-81

	1971	1981
Population ('000)	109,100	208,500
Households ('000)	19,100	29,100
Household size	5.5	5.5
Tenure:		
Owned, %	47.1	53.6
Rented, %	52.9	46.4
Dwellings:		
Number occupied ('000)	18,500	27,800
Vacant, %	9.0	
Rooms/dwelling	2.0	
Dwellings/household	0.97	0.96
Access to Services:		
Water, %	66.7(1)	77.8(2)
Sanitation, %		28.4(2)

Source: UNCHS (1987), NIUA Urban Data Sheet, NBO Prominent Facts on Housing.

(1) 1973-74 estimate

(2) 1985 estimate

Mehta, drawing on a variety of sources, also quotes the following findings on changes in the housing stock:

- o The proportion of households in one-roomed houses has declined slightly in urban India and in all metropolitan cities except Delhi and Pune.
- o There is a significant improvement in the quality of shelter as reflected by the use of building materials. (The Census shows that the proportion of 'pucca' houses in the total urban housing stock increased from 46% in 1961 to 65% in 1981.) In the metropolitan areas, the improvements are even more significant. This, however, hides the fact of obsolescence taking place due to a lack of effective maintenance in a large proportion of the stock.
- o In most metropolitan cities, there has been a decline in home ownership. The only exception to this is Ahmedabad.

6.4 The Shelter Delivery System

Figure 8 outlines the principal participants--predominantly at the local level--in India's shelter delivery system; the relevant institutions are described in succeeding sections of this report. The system is complex, demonstrating that it is inadequate to caricature the shelter sector as being dominated by the public sector, which is rarely a major player. Its main characteristic, indeed, is that of variety and complexity, to a degree that is unmatched in developed countries.

Figure 8. The Shelter Delivery System

	Formal Private	Formal Public	Cooperative	Household	Informal
Land acquisition and assembly	Little	⊗	✓	Little	✓
Infrastructure provision	Little	⊗	Little	-	Little
Shelter construction	Little	✓	✓	✓	⊗
Housing finance	Little	✓	✓	⊗	Little

⊗ Major involvement in the delivery system

✓ Some involvement in the delivery system

So far as USAID is aware, no-one has published an estimate of housing supply in India, for the simple reason that statistics are sparse and unreliable. For purposes of illustration, however, Table 9 attempts to put together an order-of-magnitude estimate of the supply in urban areas in the mid-1980s, according to the source of financing. (This offers the most comprehensive and most reliable set of statistics on housing.) The individual figures should, however, be regarded with considerable skepticism. Most of them are back-of-the-envelope estimates, some are derived from ageing reports, some doubtless involve double-counting; others, wishful thinking. They may include some rural housing units. Significant sources of housing supply may well have been omitted.

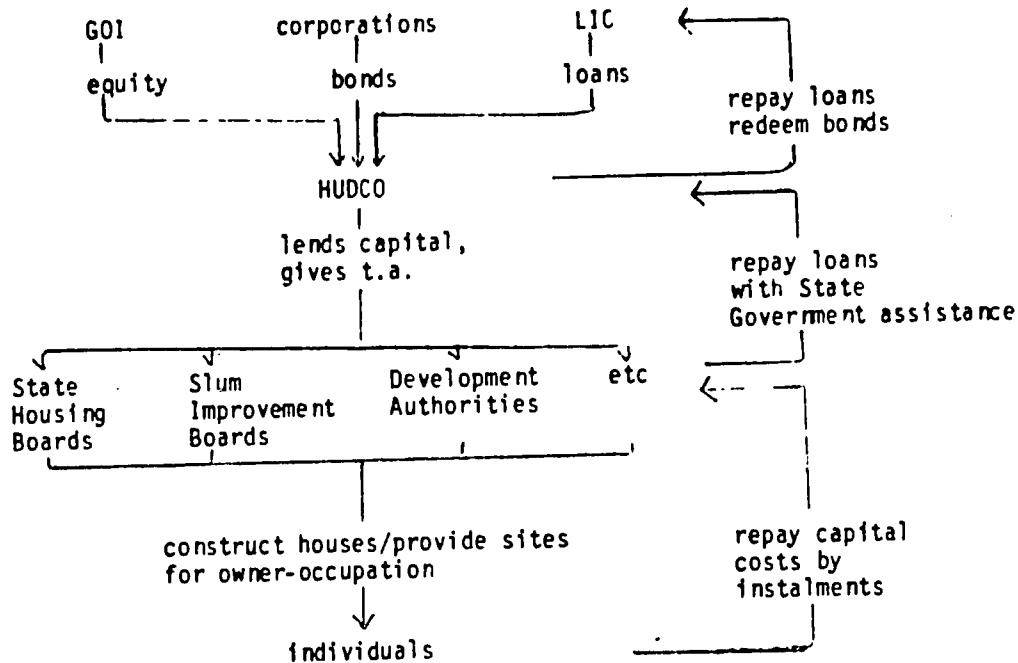
With these qualifications, nevertheless, it can be seen that the conventional public sector (financed through HUDCO) contributes less than 20% of the total urban housing supply. (The 1986-87 figure given by HUDCO is, in any case, considerably higher than for earlier years.) Employers may account for as much as 10% of the housing supply. The supply from the cooperative sector is not insignificant but, at 4% of the total, is not so large as some observers would like to believe.

The bulk of the housing (60%) is, of course, in the residual category --financed by individual households and by the informal sector. The implication of a variety of studies (quoted by Mehta and Mehta, 1988) is that much--perhaps a half--of this residual category takes the form of additions to and subdivisions of existing housing units. These may be new rooms, extra stories or straightforward subdivisions of existing structures. The additions are as well be onto units that were built privately as onto those originally constructed by a municipality or employer. Some of these additions are legal, in having been approved by the local authority; others may meet legal requirements but be unapproved (perhaps to avoid additional property taxation); others are completely illegal.

Of the remaining, new, housing units, probably only a small proportion is built by the formal sector, legally. (The NBO quotes that, over the whole country, only 60-80,000 completion certificates were issued annually in the early 1980s for private sector housing.) A greater proportion is built by the organized informal sector; and the majority, by individuals, illegally. It cannot be far from the truth to estimate that half of the current housing supply in urban India is illegal.

The following sections summarize the main characteristics of each of the main suppliers of urban housing.

Figure 9. Public Sector Housing Delivery



Public Sector Housing

Housing built by the public sector for the general public (as distinct from housing built for government employees) is the responsibility of state governments. (Figure 9 describes the flow of funds and responsibilities for public housing schemes.) The New Delhi consulting organization Development Alternatives, in its report Shelter in India, estimates that the public sector was responsible for the construction of 630,000 urban houses in the twenty-four years between 1961 and 1985, 4% of the total supply built over the same period.

The state governments make use of a variety of executing bodies for their shelter programs: Ministries of Public Works, State Housing Boards, Municipal Development Authorities, Urban Improvement Trusts and Slum Clearance Boards are the main agencies. Their methods of operation are, however, broadly similar. HUDCO itself does not build, being primarily a financing agency.

Table 9

Annual Urban Housing Supply, by Financing Agency

Primarily financed by	Annual Supply	year	Note
HUDCO agencies	150,000	1986-87	(1)
Cooperatives	28,000	1984-85	(2)
Private employers	14,000	1981-82	(3)
Public employers	60,000		(4)
LIC	3,000	1985-86	(5)
HDFC	55,000	1987-88	(6)
Other housing finance companies	1,000	1987-88	(7)
Residual (household/informal)	474,000		
Household increase	785,000	1986-87	(8)

Notes:

- (1) Units sanctioned; units constructed are probably fewer. Figure is approximate. Source: HUDCO Annual report, 1986-87.
- (2) Derived from returns by individual apex housing finance cooperative societies: most for 1984-85, some for earlier years; most for completions, some for sanctions. Presumably includes some rural housing. Source: Handbook of Housing Cooperative Statistics, 1986.
- (3) Source: Housing Finance for Corporate Employees (Michael Lee, 1987)
- (4) Guess: derived from preliminary findings of the current Housing Finance Systems Study that in Bombay housing financed by public agencies for their employees is approximately equal to the total financed by housing finance agencies.
- (5) Houses financed under the Own Your Own House and Own Your Own Apartment schemes, and for LIC employees. Source: LIC Annual Report, 1985-86.
- (6) Includes some rural housing. Source: HDFC Annual Report, 1987-88.
- (7) Source: USAID files.
- (8) Assumes a constant household size of 5.6 persons.

The greater part of the capital finance is borrowed by these state-level housing agencies from HUDCO, on terms that relate to the type of scheme being planned. (Broadly, preferential terms are given to schemes designed for lower income groups. HUDCO sets norms for cost ceilings and physical standards for their different categories of scheme.) Other capital is sought from the state governments. The greater part of the total expenditure continues to be made on completed housing units, generally in high density flatted developments for owner-occupation. (HUDCO's most recent annual report quotes that, of the loans sanctioned in 1986-87 for urban and rural areas, some 300,000 were for completed residential dwelling units, and 9,000 were for plot development.) Public rental housing is extremely uncommon nowadays. Loans are made available to beneficiaries for house purchase on HUDCO's terms. Beneficiaries are primarily selected by income criteria. Recoveries and other aspects of estate management are the responsibility of the local housing agency, not HUDCO.

The World Bank has attempted to influence pricing policies, since its first interventions in India's shelter sector in the mid-1970s. It has participated in the design and financing of both sites and services projects, and slum upgrading schemes--see below. The Bank has attempted to set prices on its schemes which fully recover costs, and to offer loans which reflect market interest rates, mainly to encourage replicability of housing schemes. The only subsidies explicitly entertained are cross-subsidies within projects (although it is believed that other forms of subsidy have subsequently crept in). This has not endeared Bank-funded schemes to politicians, who are still often unconvinced of the relevance of the Bank's arguments to India's social welfare system, preferring to rely on HUDCO and state government subsidies. Official policy on subsidies remains ambivalent.

There are substantial public and professional criticisms of the way in which many housing authorities operate. These include:

- o a poor record of cost recovery from scheme beneficiaries (repayment of loans by housing boards to HUDCO, however, in most cases is excellent, implying that the state governments give additional subsidies, wittingly or not);
- o poor standards of layout and design (which considerably add to capital and maintenance costs; and add to public dissatisfaction);
- o substandard maintenance of housing estates;
- o inadequate utilisation of economic and social analysis in project design and implementation;

- o a cavalier attitude to applicants for schemes, for instance involving delays of several years between collection of downpayments from allottees, and allocation of houses;
- o mistargeting of houses, schemes intended for families of specified incomes often largely benefiting households from higher income groups.

Site and Service Schemes

Site and service schemes involve the opening up of new land, and its subdivision into serviced residential plots. Standards of provision are deliberately kept low, in order to make the schemes affordable to as wide a population as possible. In Indian urban projects, plots of as little as 21 square meters are provided, a size unimaginably small for many other countries. The plots are allocated to the beneficiaries either with no superstructure development, with a "sanitary core" of toilet and shower, or with a "core house" of a single habitable room already provided.

The program was developed in recognition of the inability of many households to pay for completed housing, but acknowledging their skills and ability to improvise shelter for themselves. In each case, the allottee is expected to "consolidate" the plot, by building as and when he is able, and according to his specific needs and abilities. Sometimes, building loans are made available to the allottees, either in cash or as building materials, in order to ease the financial burden on building while also occupying another dwelling. In practice, allottees are often too fully employed to afford the time to build, and therefore hire small contractors to do the work for them. Local government regulations also often require that the house be built within a relatively short, specified time, and according to standard building regulations--again, often impossible for households within the intended target groups.

The World Bank has taken the lead in introducing site and service development to India and, by continuous evaluation of its projects, has modified the implementation processes to take account of some of the weaknesses identified. Among other things, it seems that the name has been abandoned in the face of public resistance to the concept. A Gujarat Urban Project, of 1985, for instance, included "Area Development...to provide about 14,000 serviced residential plots... Some core housing would be provided...with optional building loans...". In Tamil Nadu, it is called a Land Servicing Program.

Among other problems experienced in India is a popular reluctance to participate in fully-costed, self-help site and service schemes. The reluctance is induced, it seems, because of the demonstration effect of "pucca" public housing projects, provided at a subsidized low cost.

Site and service was first introduced in India as an attempt to provide land at appropriate locations for members of the lowest income groups. "Appropriate" locations, however, often means high-value sites. Given household incomes of the target populations, it is impossible for site and service schemes to reconcile the demands of poor households for shelter near places of employment, with the full recovery, on market terms, of land and development costs (if land is priced at its opportunity cost). Other problems encountered include those identified above: 'leakage' by resale from the poorer, target, income groups to the richer; lack of involvement by allottees in the construction process; optimism about the ability of allottees to afford construction to the required standards, and slow plot consolidation. One consequence of this set of problems is that the schemes are rarely being replicated, except at the instance of the World Bank.

Slum upgrading by public sector agencies is discussed in Section 6.5 below.

Cooperative Housing

The cooperative housing sector has a two-tiered structure, organized around 'primary' and 'apex' societies. Primaries are organized at a local level by individuals or by private developers who gain certain advantages (taxation, and access to capital through the apex societies) from the co-op form. Apex societies operate at the State level; of India's 31 states and union territories, 22 have such state-wide cooperative finance institutions. By 1987, there were 39,000 housing cooperatives, with almost 3 million members.

Employee Housing

A limited amount of housing is constructed by corporate employers for their workers; some companies also give assistance to their employees in the form of loans for house purchase or construction; and yet others offer loan subsidies or housing allowances as part of a remuneration package. There are a number of public sector companies in the manufacturing sector in cities which are sufficiently concerned about their employees' welfare to be prepared (a) to make land available to employees' associations, (b) to guarantee housing loans to individual employees and (c) to subsidize repayment of those loans.

The present tax laws allow an initial depreciation of 20% for the construction of housing for low paid employees. The corporate response to this concession is clearly that this level is not adequate to elicit a workers' housing program of any magnitude. Indeed, there is rarely seen to be any need to provide worker housing in or near urban centers. This is presumably because the supply of workers amply exceeds demand and there is consequently no financial justification in providing non-wage incentives to attract new workers; because health and productivity

benefits of good housing are neither perceived nor proven; nor are the advantages of company housing in fostering a corporate spirit evident. Equally, there seems to be little demand on the part of the labor unions to require housing assistance of employers, this being overshadowed as a welfare priority by more obviously pressing concerns.

This being said, little is formally known about provision of housing and housing benefits by corporate employers. Since some 10% of all industrial employees are housed by their employers, it is not an unimportant part of the housing market. The limited evidence is, however, that this comprises only a very small, and probably declining, part of the urban housing market. Most of the employee housing is provided directly, for rental. Private firms, too, provide a very limited amount of financial assistance for employee housing, but probably on a discretionary basis and--with the possible exception of some of the giants--on relatively a much smaller scale than public sector enterprises.

Private Sector Housing

Private, corporate, legal developers are predominantly active on the periphery of the metropolitan cities. They have little involvement in development within the larger cities, mainly because vacant land there is either owned by public agencies (and held for their own use or for ultimate disposal through public housing schemes), or is frozen under the Urban Land Ceiling Act (see Section 7). They also have little involvement in smaller cities (say, below 500,000 population) because of lack of effective demand (low incomes and apparent competition from subsidized public housing) as well as of the difficulties of accessing developable land and the more general problems of doing business, as described below.

In most cities, houses built by private developers are affordable to households at about the 40th percentile in the income distribution, and upwards, but the majority of the units are targetted to the high income groups. In Ahmedabad, some privately developed housing units are selling for the low price of Rs.25,000 or less, the product of a particularly enterprising group of businessmen there and of a government receptive to private sector development. In Ahmedabad, and probably also in other cities, most of the developers build under the cooperative umbrella. This gives them certain privileges in acquiring land, as well as access to cheap capital from the state Housing Finance Cooperative Society.

Wadhva (1986) quotes from an article in the Times of India, about the class of real estate developers that has emerged since the mid-1970s:

- As for the values, behaviour and world view of the new class, its most striking characteristic is its drive. These people

are making things happen. That they go about it in an uninhibited, pragmatic and amoral fashion is also true. They have had to fight to rise up from the bottom and they have learnt to manoeuvre the system of licenses and permits and negotiate through the shoals of our labyrinthine bureaucracy. It is easy to despair over the vulgarity, the new rich mentality and the lack of education of the new class, but we must remember that India's future depends on the energy of this new class."

Wadhva continues, in a memorable passage about the activities of these developers,

" The time consumed for getting No Objection Certificates, according to the developers we interviewed, can range from 2 to 5 years and for getting the final sanction, from 10 to 12 months. During the initial periods of submission of plan, the developer has to go to the office of the Competent Authority almost every day. 'The main business is to get the permission; construction is secondary'."

Although distrust of private developers by public sector officials remains--and there are documented cases of fraud and exploitation--there is a growing realization that their entrepreneurial abilities must be harnessed to help to provide shelter for specific income groups. To date, most of the developers have been active in areas just outside city boundaries (where the Land Ceiling Act does not apply). More recently, they are being licensed by municipal development authorities to undertake housing schemes on allotted land within city limits, according to regulations which include a requirement to provide a certain minimum area, at cross-subsidized rates, to members of the Economically Weaker Sections (households with a monthly income below Rs.750). Some city authorities--Lucknow and Bangalore, for instance and, most recently, Delhi--are making positive efforts to facilitate private sector developments.

Informal Sector Housing

The supply of houses by the formal sector, as described above, is small in relation to the need; it is becoming increasingly difficult for individuals to develop legal housing, if only because observance of the plethora of regulations has meant, according to Wadhva (1986) that "house building has become quite a tedious job and requires an expert's handling". As a result, the greater part of the supply of housing is built informally (illegally, but not necessarily in total contravention of all planning and building regulations). Most of this housing is built by individuals: some small proportion, within areas of formal housing, and to all intents and purposes indistinguishable from it--but most, within informal settlements.

[The following descriptions are taken from Mehta & Mehta, 1987.]

Squatter settlements are developed on illegally appropriated land, either by a community or by an opportunist slumlord. Publicly owned vacant land is a prime target, as is private land owned by absentee landlords or land which has been the subject of long legal disputes. The most usual form of tenure is owner-occupation. The quality of shelter varies very widely, depending on the income of the households. Many such settlements are upgraded in the course of time by the local authority, through the provision of very basic water and sanitation services and, often, by the grant of tenure.

A second group of informal settlements are quasi-legal: subdivisions (informal sites and service schemes) and tenements. These are built with the explicit agreement of the landowner. There are four basic types of these settlements:

- o community-based: in which a community, often with the help of a middleman, buys or leases land; subdivisions and allocations are made by the leaders of the group; house construction is according to the abilities of individual householders.
- o landlord-based: often, plots in outlying areas are leased to low income households. In some cases, the initial occupants have tended to become slumlords, who control all present developments. "The slumlord takes all the precautions to prevent any organisation of the tenants against him. In such cases, the response of the landlord may be to take legal action (which is rarely successful), to seek an intermediate solution of 'buying off' these people, or, those with political connections may manage to have their land 'acquired' for public purpose."
- o owner-developed rental units: 10 square meter dwelling units are rented, for Rs.80 to 100 (Ahmedabad, 1986); enforcement is strict, and defaulters are evicted outright. These settlements are generally on peripheral land, either under threat of public acquisition or zoned as green belts.
- o developer-initiated "unauthorized colonies": a "coloniser" buys land zoned for agricultural use, subdivides it, persuades a few households to start occupation and demonstrate the settlement's permanence, and sells the remainder of the plots (at an ever increasing price). Misra has documented some instances in Delhi where the coloniser has continued to take responsibility for the development and maintenance of the settlement, for instance by arranging for municipal stand-pipes, subletting electricity connections (illegally), providing building loans, supplying a free bus service and paving main roads. It is not known whether this phenomenon occurs in other cities.

6.5 Slums

Typologies

[The following section is based on UNCHS (1981).]

"Slums" are legally defined, but the definition varies from state to state, and the definitions are anyway not often rigorously applied. In common usage, slums are equivalent to low income settlements. They include the following distinct types:

- o Resettlement schemes: plots provided by government agencies, such as in Delhi after the city beautification programs of the mid-1970s, to house families evicted from slums.
- o Urban villages: small rural settlements, engulfed by cities in the course of their growth. There are estimated to be 110 such villages, accommodating 250,000 people, within Delhi alone.
- o Pavement dwellers: people who live and sleep on the streets, sometimes in spaces on pavements that have been bought or rented from their protectors--see Section 5.5.
- o Inner city slums: this includes a wide range of types of accommodation, including rooming houses and old structures converted for residential purposes (like the mohallas of Old Delhi), housing built by industrialists for rental by their workers (such as the chawls--walk-up tenements--of Bombay and Ahmedabad).
- o Unauthorized colonies: see above. There are over 900 such colonies in Delhi.
- o Squatter settlements: known as jhuggi-jhompris in northern India, are built on land that does not belong to the residents, either totally illegally (as on government land), or with the connivance of the landowners: in either case, in contravention of most planning and building regulations, and without any (or adequate) water supply or sanitation. Many of the more visible of these settlements are camps for construction workers.

The Extent of Slum Development

The 1983 Planning Commission Task Force estimated the slum population of the country in 1981 to have been between 32 and 40 million (20-26% of the total urban population). The country's twelve metropolitan cities were then believed to have almost one-third of their population residing in slums, accounting for about 40% of the total urban slum population.

1985 estimates by the NBO put the slum population in Delhi as 32% of its total population; in Bombay, 38%; and in Calcutta, 42%.

Dharavi

Bombay contains a slum called Dharavi, generally regarded as the world's biggest. Covering an area of 4.5 square kilometers, it has a permanent population of some 300,000, and a transient population of another 100,000 or so.

Half of the land belongs to the municipal corporation; the rest, to private landowners and the government. There are four municipal schools in the area, but no more than an estimated 7% of the children actually attend school. Nearly 40% of households live with 2 to 4 people in a room; 35% with between 5 and 9 people in a room; and 1% have 10 or more people living in a single room. There is one water tap for 320 people (which results in frequent fights), and one toilet for 300 (which results in defecation on open ground).

Health and Slums

Hardoy and Satterthwaite (1987) quote some of the health implications of such conditions:

" In Cheetpur, a squatter settlement in the city of Allahabad with some 500 people in 1984, 55% of the children and 45% of the adults had intestinal worm infections, while at the time of the survey 60% had scabies. Most inhabitants had food intakes of fewer than 1500 calories a day; among infants and children up to the age of four, 90% had intakes significantly below the minimum needed. Over a period of 14 years, 143 children's deaths had been recorded; malaria was the most commonly identified cause of death, followed by tetanus, injuries from accidents or burns, and diarrhoea, dysentery or cholera. Malnutrition was an important contributing factor in many of these deaths. The settlement's site is subject to flooding in the rainy season and a lack of drainage produces stagnant pools for much of the year. Two standpipes serve the entire population's water needs and there is no public provision for sanitation or the removal of household wastes.

Virtually all of the deaths and most of the diseases and injuries would not have occurred if the children had been born into households in the same city with sufficient income to ensure adequate diets and in reasonable quality homes with piped water and sanitation." (p.223)

Slum Upgrading

Slum upgrading, or Environmental Improvement, became a part of official housing policy in 1972. The rationale of slum upgrading is that in situ improvement of existing communities is socially preferable to relocation or redevelopment, and is financially cheaper, since requiring less investment in shelter and, sometimes, also in services. Even now, however, slum clearance and relocation schemes continue to play a major part of the housing programs in many cities. A 1987 press statement by the Slum Wing of the Delhi Development Authority, for instance, stated that their "main activity is to clear the slums keeping in mind the degree of dilapidation and develop the land so cleared either for providing rehousing flats to the affected slum or to provide public utilities in the congested pocket areas".

An Indian Country Statement says that the governments' emphasis is "mostly on providing infrastructural services in the slums without attempting to interfere with the dwelling units... It consisted of a fairly simple package of providing paved pathways for access, safe drinking water facilities, improved drainage and sanitation for disposal of solid and liquid waste. In some cases this has been supplemented with nutrition, health and education programmes." (ESCAP, 1983). More recently, upgrading schemes have often come to include the granting of security of tenure to existing residents, one effect of which is supposedly to encourage building in permanent materials. Upgrading schemes may also incorporate the provision of financial and technical assistance for the improvement or redevelopment of individual housing units.

Upgrading in Indian cities has, however, suffered in implementation, not least because inadequate sums of money are allocated to make significant improvements, or because the complexity of providing tenure in a political situation dominated by influential slum landlords meant that the major intended benefits of the scheme did not materialize. In common with other observers, Meera Mehta finds that

" a total lack of participation by the people, often [resulting in] imbalanced provision which is either socially unsuitable or loaded in favour of the more influential leaders. Reluctance and neglect on part of the local authorities and lack of commitment from the people have often led to extremely poor maintenance. Most authorities have shied away from providing security of tenure to the slum-dwellers which may bring the commitment necessary for effective maintenance of these amenities." (p.14)

One program that has achieved some degree of success is the Bustee Improvement Programme in Calcutta. Here, health surveys have demonstrated a significant reduction in disease in improved bustees; more extensive education services; and improved economic output and income as a result of support by commercial banks for small scale enterprises. In two-thirds of the bustees, owners and tenants have improved their dwellings; but rents have also increased, and economic benefits are accruing as much to the landlords and dwelling owners as to the tenants. And although, in its later years, the program had the financial support of the World Bank, prices were not set to fully recover costs and the scheme was more heavily subsidized than the Bank would normally approve.

6.6 Housing Finance

[Parts of this section of the report are abstracted from the Project Paper for HG-003.]

Development of the Housing Finance System

The importance of housing finance as a component of the housing delivery system was recognized in the 1970s, first with the creation of HUDCO and then in 1977, of the Housing Development Finance Corporation (HDFC). It was, however, not until the mid-1980s that any systematic attention was given to the development of a housing finance system. This attention was first articulated in the Seventh Five Year Plan (1985-90), published in October 1985, which indicated clear support for a more diversified and responsive housing finance system. The thrust of the Plan was that the supply of funds available for housing finance should be increased by tapping household savings rather than by increasing budget allocations. Without spelling out how this would occur, the creation of a national housing bank was seen as an essential precondition for resource mobilization and system development.

Subsequently, the Reserve Bank of India (RBI) established a committee to examine the institutional framework for housing finance. That committee confirmed its support for an apex housing bank, which would have the functions of coordination and regulation of the industry, the provision of financial support to housing finance companies, and would have an advisory and policy making role. It recommended that there should be "local level institutions to mobilise household savings and provide home loans"; and proposed the establishment of new institutions "of the HDFC type". Legislation to establish the National Housing Bank (NHB) was approved in December 1987, giving it the authority to undertake a wide variety of activities, as envisaged by the RBI committee: it is, for instance, authorized to make or guarantee loans, to undertake research and training, and to provide guidelines and technical assistance to housing finance companies.

The Financial Framework

An overriding feature of financial intermediation in India is government presence and control. The GOI directly and indirectly affects the flow of funds into the housing finance sector, from both public and private sources, by means of a complex network of policies, taxes and regulations. Direct sectoral controls are exercised by the GOI by means of instructions to public institutional investors, much of whose funds must be invested in specified places such as state governments, central government debt instruments and HUDCO debentures. Since 1951, GOI has used these policies to direct credit towards certain priority sectors such as agriculture and heavy industry and therefore away from housing.

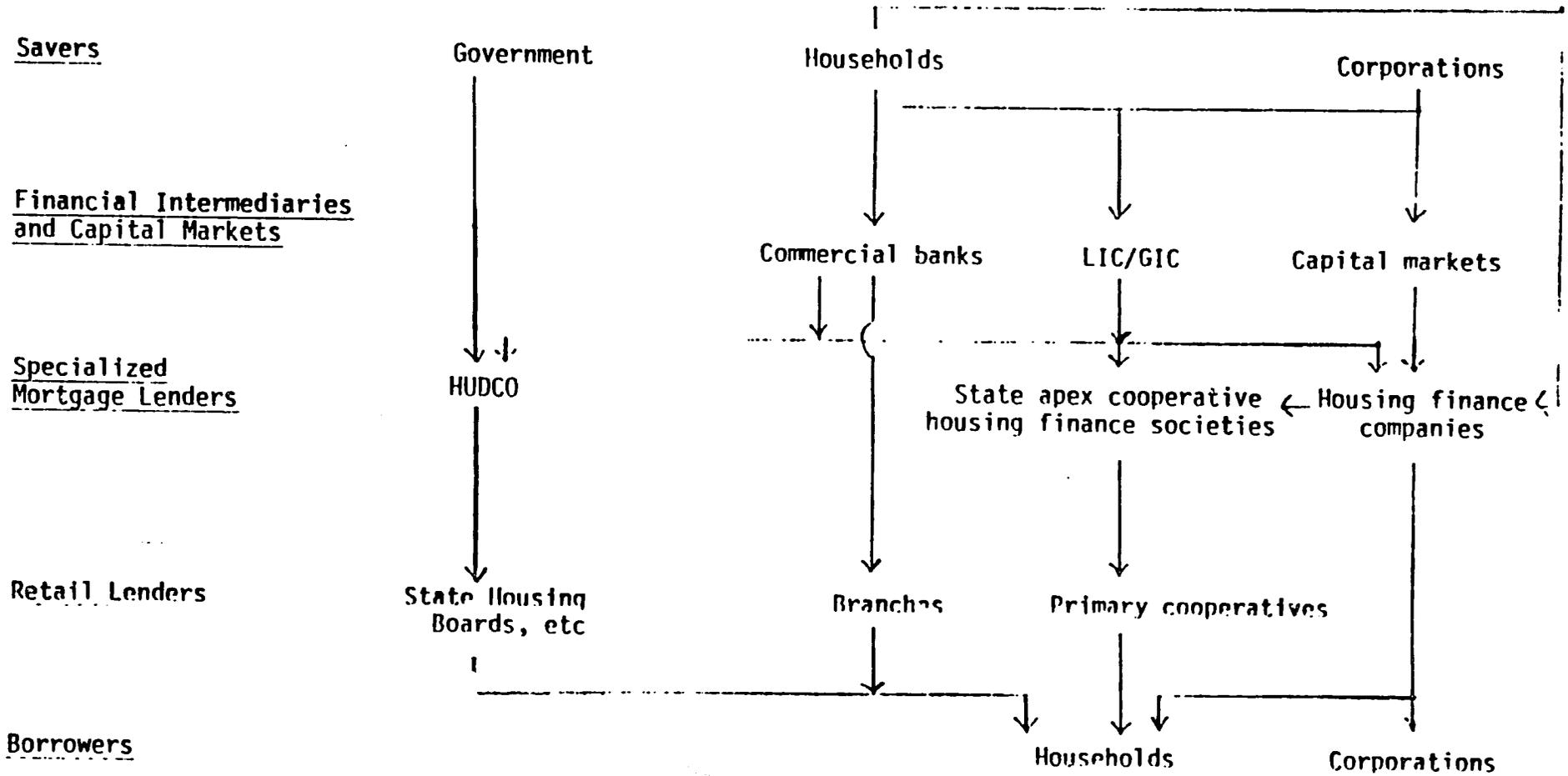
Most credit channelled to housing goes to public housing finance agencies at below-market rates of interest. A significant volume of credit available to HDFC--and thus in principle to all private and joint sector housing finance companies who can compete for it--is also directed and subsidized. GOI interest rate policies directly establish lending rates for commercial banks, insurance entities and other public participants in the capital markets, and private lenders must raise substantial portions of their lendable resources from these sources. To this extent, GOI interest rate policies influence both the cost of liabilities and the return on assets of private lenders. Although neither private nor joint sector housing finance companies are subject to any direct controls on interest rates they charge for retail mortgage lending, there is a widespread belief that the companies would be penalized if they deviated significantly from the norms established by HDFC.

The GOI also has strong controls over the sectoral distribution of capital through direct instructions to government financial institutions. Thus, the Life Insurance Corporation (LIC) is required to devote 25% of its annual new accretions to central government debt instruments, 25% to state governments, and 25% to other approved uses (e.g. government-guaranteed debentures such as those issued by HUDCO and the like). The limits are particularly important because the LIC is the largest provider of funds to the housing sector. The General Insurance Corporation (GIC) and the Army Insurance Fund also invest in the shelter sector and are subject to similar controls. For example, the GIC is required to invest 35% of its incremental funds in housing.

Similarly, GOI exercises detailed control over lending by commercial banks by setting targets for lending to priority sectors and by determining interest rates. For instance, until recently, banks were directed to lend Rs.150 crores (\$110 million) annually for housing. Various other financial requirements and directives, however, severely limit the freedom of bank management to allocate this credit according to market principles. At least 50% of the Rs.150 crores was earmarked for direct or indirect lending to members of the Economically Weaker Sections and Scheduled Castes or Tribes, under special credit schemes (carrying 4.5% interest) designed to benefit disadvantaged members of society.

Figure 10

Intermediation for Housing Finance



Source: Adapted from Housing Finance Review, World Bank, 1986

Another part of the allocation for housing is made available as credits to bank employees. 40% of the Rs.150 crores has to be utilised as subscriptions to guaranteed bonds or debentures of specified public sector agencies--of which HUDCO is the largest--in order to fulfill GOI's reserve requirements, typically earning 9% interest. Any remaining credit is available to HDFC (or other borrowers), at 12.5%. The 1988 budget raised the lending target for commercial banks to Rs.225 crores in the current financial year, and to Rs.300 crores annually thereafter. The "surplus" is to be made available to individuals on terms similar to these of HDFC.

The Institutional Structure for Housing Finance

Figure 10, adapted from World Bank (1986), shows the structure of formal sector intermediation for housing finance in India. It omits the National Housing Bank, since its role as intermediary is indeterminate at the present time.

The Ministry of Urban Development is the central government's principal vehicle for the development of housing policy and programs. Insofar as housing policy is strongly influenced by GOI's financial policies, however, it is the Ministry of Finance which has the more effective controls over the volume and terms of lending for housing. As noted above, legislation has been passed to establish a National Housing Bank, although the scope of its practical functions are still a matter to be further defined. The NHB is discussed in some detail below.

Of the GOI institutions which provide indirect financing for housing, the most important is the Life Insurance Corporation. By the end of FY 1986, LIC had invested Rs.1,300 crores in housing, primarily through loans to apex housing cooperative finance societies, public housing boards and HUDCO.

HUDCO is India's apex housing finance institution for the public sector. It borrows from LIC and GIC, and has had the advantage of a number of loans from international agencies (the German KfW and British ODA). It generates additional revenues through government-guaranteed debentures which can be used by commercial banks as part of their reserve requirements. HUDCO onlends for specific projects, primarily in the public sector. By early 1988, it had made available Rs.2,700 crores (\$2 billion) for housing projects since it started operations in 1970. 90% of the dwellings financed by it were intended for the economically weaker sections of the community.

HUDCO's operations have been the subject of some criticism. It does not, for instance, exercise much control over its borrowing institutions, which design and construct schemes very inefficiently (it would typically be possible to reduce costs by 30% merely by redesign); which are lax at collecting repayments, thus not recycling funds for housing; and which do not always target their projects very precisely, with a result that many of the housing units intended for lower income groups actually benefit middle or even high income households. The World Bank also argues that HUDCO is subsidized, receiving large volumes of below-market rate, directed, financing; and that it is acting improperly by financing high income housing. HUDCO itself rejects the latter criticism (at least), primarily on the grounds that the surpluses from high income housing are used to cross-subsidize its cheapest housing loans, and is thus socially beneficial.

The structure of HUDCO is described more fully in Annex 6.

At the state level, HUDCO's funds and other public resources are used by state and municipal housing agencies--Development Authorities, State Housing Boards, Slum Clearance Authorities and the like. Three states have well-advanced proposals to set up state housing finance companies, which would address a complementary market to that served by HDFC and other independent housing finance companies. Their establishment depends on receipt of approval of the National Housing Bank.

Cooperatives are another important source of housing finance in India. Although they have long been part of India's social and economic fabric, and housing societies have played an important role in shelter provision, they have not been fully integrated into the larger finance system, nor have they been successful in mobilizing their own resources outside of the GOI's directed credit system.

The National Housing Bank (NHB)

The NHB, first envisaged in the Seventh Five Year Plan, was created by the National Housing Bank Act in December 1987 and, by the appointment of its Chairman, became operational in July 1988. The legislation is sufficiently broad to permit the Bank to play a number of roles, and it will be for the new Board and management to determine more precisely what its objectives and priorities will be. It is, however, clearly understood that it will be an "apex bank", with the responsibility for financing housing, promoting housing finance, and regulating the housing finance industry.

The NHB is a wholly-owned subsidiary of the Reserve Bank of India (RBI).

The NHB is still in the process of formulating its lending policies and procedures as of mid-September 1988. However, it is clear that the NHB will operate much like other development finance companies in India. It will be an institutional lender, i.e. it will provide credit to other institutions in the public, joint, and private sectors, which will undertake mortgage lending to households. NHB loans will be based on credit analysis of the borrowers and their agreement to fulfill conditions and covenants on financial management and lending policy.

The NHB will concentrate on providing long-term credit, although the interest rates and terms of their lending have not yet been defined. The NHB may operate several different kinds of lending programs for different types of borrowing institutions and different household target groups. Work is already under way to develop a "Deposit Linked Loan Scheme" that would be implemented with public sector commercial banks.

The NHB has two offices. The headquarters is in New Delhi and the second office is in Bombay. It is currently directed by a Chairman who is also the Managing Director. Although the NHB will have directors appointed by RBI, as well as by central and state governments, the Bank can be expected to retain the same kind of autonomy accorded other GOI development finance companies. Senior management intends to maintain a lean organization, of approximately 40-50 professional staff.

The NHB is funded with capital of Rs.100 crores (\$70 million), fully paid-up by the RBI. The National Housing Bank Act contains the provision for this capital to be increased to Rs.500 crores, which would also be subscribed by the RBI.

The source of additional funds was undetermined at September 1988, although the NHB was confident of being able to access two specific domestic sources, as follows.

Parliament has authorized that the NHB should receive Rs.100 crores exclusively to benefit rural housing, but has not specified the source of funds. In the event, the RBI has agreed to make Rs.50 crores available for this purpose, from its National Housing Credit (Long Term Operations) Fund. This would be a loan to the NHB, the terms of which are presently still under consideration. Precedent suggests, though, that the interest rate is likely to be between 6% and 8.75%, the loan to be repaid over 15-20 years.

The second source of funds is expected to be a bond issue. NHB anticipates receiving permission from RBI to borrow perhaps Rs.20-25 crores, some time in its first financial year (up to June 30, 1989). The bond issue would be long-dated, with a 9% tax-free return. The volume, terms and timing of the issue would be subject to agreement with the RBI.

Private and Joint Sector Housing Finance Companies

The existing private and joint sector housing finance sector is dominated by HDFC. The company was formed in 1977, began operating in 1978, and was the beneficiary of a series of HG loans from 1981. In the period since then, with the support and assistance of AID, HDFC has been extremely successful in delivering housing loans to a wide range of income levels, including below-median income households. It has had a consistent annual loan growth rate of 38%, by value, between 1981 and 1987. It has pioneered many innovative savings and loan instruments, and, by the development of some 19 branch offices, provides services to all geographic regions of the country. It is also providing financial and technical assistance to several new housing finance companies in the joint sector. HDFC has succeeded in prospering despite a financially restrictive domestic climate that has not favored the development of housing finance companies. It has become the role model for South Asia and further afield. Because of its domestic success, it has been able to influence public policy affecting housing finance and, in the last few years, to have attracted a number of competitor companies to the sector.

HDFC has approved loans exceeding Rs.1,000 crores in its 10 years of existence, providing financing for some 250,000 housing units throughout the country. In its 1987-88 financial year, 55,200 loans were approved for a total value of Rs.300 crores (thus averaging Rs.55,300 per loan).

Over the last four years, a number of market-oriented housing finance companies have started operations: some have been progeny of the highly successful HDFC, others have attempted to compete with it; some have the support of large public sector commercial banks and financial institutions, others are in entirely private ownership; some have been well and prudently managed, others have been fly-by-night exploiters in an unregulated market or for other reasons have failed to survive; some perceive their market to comprise higher income households; others understand the social and commercial importance of targeting lower income households.

Some thirty firms have been identified as emerging housing finance companies, all having been established since 1984. They broadly fall into three groups.

The first is of private sector, independent companies: public limited and private companies, quoted on the stock exchange.

The second group is of joint sector companies, established either as a subsidiary of one of the public sector banks or otherwise with a substantial shareholding by a public sector company. They are managed as for-profit companies on conventional commercial principles. The managers may or may not be public sector employees.

A third group comprises companies whose primary business is not housing finance, and those which have been established exclusively to finance the inventories of single developers, by mortgage or other forms of loans. Several of these companies use questionable financial and marketing techniques, and their stability may be dependent only on the success of pyramid selling techniques. Other companies in this group are non-banking finance companies which do not specialize in housing finance but which have sought to offer housing loans as part of a process of diversification. Several operate on the fringes of legality; at least two have failed recently.

The principal constraint faced by the market-oriented housing finance companies in expanding their operations is a shortage of loanable funds. At present, they rely to a considerable extent on three means of mobilizing resources: (1) the issue of equity capital; (2) savings and deposits from individuals and corporate entities; and (3) bank loans. Whereas structural reform in the shape of deregulation of the financial system is needed to address the broadest issues of resource allocation and mobilization, there are a number of other reasons for the difficulty faced by the industry in increasing its mobilization of domestic resources.

The resource mobilization activity of the emerging companies contrasts with that of HDFC, particularly in its early years. HDFC did not rely on the personal sector for most of its funding, but successfully accessed the corporate sector and other financial intermediaries. The emerging housing finance companies do not have the same opportunities and, by virtue of their immaturity, are at a disadvantage to HDFC in competing for a circumscribed volume of institutional funds. To a large extent, therefore, they will be obliged to diversify the number and type of investors and depositors from which they borrow, in a market which has already been exploited with some thoroughness by HDFC itself. On the other hand, liberalization and innovation in India's financial markets are promising to offer new opportunities of resource mobilization.

Informal Housing Finance

There have been very few studies which focus on the issue of informal housing finance in India. Most of the secondary sources support the observation that formal borrowing by householders accounts for something around 20% of the cost of new housing. (By the standards of other developing countries, this is not an exceptionally low proportion and would not call for particular comment beyond that it demonstrates the scope for expansion of a formal housing finance system.) Most authors define all other sources of finance as informal. Since the residual 80% includes personal savings, it does not, of course, follow that the informally-financed portion is borrowed from informal sources. Indeed, in India more than in many other countries, direct financing (savings of the household and the family) forms a relatively large proportion of the total cost of housing. Correspondingly, informal borrowing comprises a very small proportion of all personal housing finance.

Most personal financing is in financial form. As may be expected, savings of lower income households are predominantly in the form of cash; and of high income households, as bank deposits. Financial savings are supplemented by sale of assets--predominantly jewelry--to finance house purchase or construction. The World Bank's Housing Finance Review is of the opinion that the use of accumulated savings in low-yielding assets or asset liquidation is "probably at high opportunity cost".

Particularly for middle income households, borrowing from family members is an important supplementary source of funds. These are usually described as loans, therefore repayable at some time in the future, doubtless with some attendant social obligations that can be called upon by the lender as the need arises. Many may better be described as reciprocal gifts; although one study finds that many friends and relations do charge interest rates and, presumably, require repayment after a pre-determined period.

It may be a matter of some surprise that the proportion of finance provided by family members is not higher--as one might expect of a traditional society. One reason is doubtless that, in Indian society, which is still dependent to such a large extent on unpredictable sources of income (directly or indirectly from land; from self-employment or other informal sources), there is greater reluctance to lend for long periods with a knowledge that the loan could not be recalled in case of emergency.

Another partial explanation may be that, since much of the family wealth is invested in the form of dowry payments (including jewelry, which may later be sold to finance house purchase), there is relatively little spare cash available in mature households for onlending to family members.

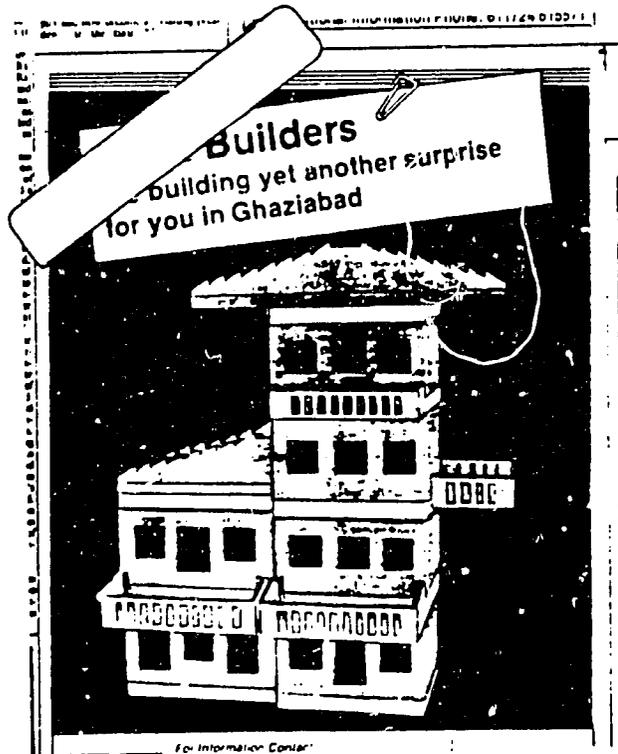
Housing loans from the unorganized money market are few and small. This is presumably because the moneylenders consider housing finance an unattractive proposition. In turn, it is doubtless unattractive because of (a) the absence of formal security on most housing loans, or of the information networks which are characteristic of informal transactions for trade financing; and (b) the opportunities for earning much higher returns on small, short-term consumer loans.

The south Indian chit funds (revolving credit societies) are a minor source of funding for home improvement. Some--at least--of the funds are commercially organised and officially recognised. They are structured to be attractive to a variety of income groups.

A conclusion that might have been expected from a review of informal financing is that the informal sector efficiently and effectively supplements formal sector lending for new housing. This appears not to be the case in India.

Housing Guaranty Programs

USAID/New Delhi has undertaken a sequence of Housing Guaranty (HG) programs in India. These have all had the primary objective of expanding and strengthening the housing finance system in India. They are discussed in Annex 7.



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7. LAND

7.1 Summary

Indian policies and practices regarding urban land have concentrated on equalizing access and controlling prices, through different degrees of socialization of land resources. A panoply of practices has been introduced, ranging from the Urban Land Ceiling Act, which sought to redistribute "excess" land to the poor, through the land banking and public development approach of the Delhi Development Authority, to conventional planning and building regulations. Among other findings are that:

- o Most of the land management measures have failed in their intent, and have often produced consequences opposite to those originally designed. This has resulted in a diminution of the legal supply of developable land and a parallel increase in prices.
- o The spirit of Indian enterprise--in both public and private sectors--has nevertheless ensured the adoption of alternative methods of land supply and development.
- o Land records in most cities are inaccurate and incomplete, being typically many years out of date.
- o The property tax, the single most important source of revenue to municipalities, is based on rental values, themselves depressed by rent control legislation. The tax is poorly administered, and actual revenues are well below potential returns.
- o Urban planning practice is not responsive to the needs of rapidly developing cities. Development regulations make legal development unduly expensive for low income households and enterprises.

7.2 Tenure

The concentration of land in a few, private, hands is the traditional pattern of land holding in India. It is a widely held belief that this pattern is found in India's urban areas as well. A survey published in 1975 indicated the pattern of urban land holdings, showing that 55 per cent of the urban households surveyed did not own any land. Many of India's present urban land policies are based on the presumption of this concentrated ownership and the associated specter of speculation. Land holdings by the public sector--central and state governments, and their agencies--are relatively unimportant as a general rule; housing authorities, for instance, have very small holdings, although a number of Development Authorities (i.e. in larger cities) have amassed significant land banks.

There are three main types of land tenure found in Indian cities: freehold, leasehold and, for lack of a more specific term, "unauthorized".

Freehold land (ownership in perpetuity being vested in the freeholder) is the most scarce and as a result the most costly. It is found in most urban areas, with the important exception of New Delhi. There, both widespread government acquisition of land and subsequent disposal on leasehold terms, and the initial leasehold tenure when the administrative center was moved from Calcutta, have reduced its prominence.

Leasehold tenure (in which the land is owned by a ground landlord who grants rights to a leaseholder to occupy and use the land for a specified period of time) has become increasingly important since the early 1960s when it was introduced as part of the Delhi Master Plan. This was done on the basis of the Ford Foundation's recommendations as a means for the public to capture a portion of the land's increased value, and to better regulate land use. The leasehold system in Delhi is uniquely hedged with conditions covering transfer, sale, sharing of incremental value, land use, building regulations, etc. "The result has been that while site development and market operations have been severely hampered, a flourishing parallel market prevails in which ingenious legal instruments have been devised to circumvent the rules, and transfers take place freely resulting in loss of government revenue and offering ample scope for corruption and harassment". (UN Seminar of Experts)

Unauthorized land tenure is widespread in India's urban areas. The two major sub-categories comprise land that is squatted upon, and land that has been illegally sub-divided and sold.

Squatting tenure rights are generally very weak--as reflected in the low (or no) cost of these plots. By convention, however, the larger and more well established of such settlements or colonies that have escaped demolition or destruction by fire are periodically "authorized". This implies the granting of tenure, and an eventual right to municipal services. Generally, long term leases are given. These specify minimum conditions pertaining to use and restrictions on transfer or sale of the plots.

Land Registration

Records of land ownership and right are needed by land agencies as a basis for effective property taxation and in order to manage public interventions efficiently (readjustment, land ceilings, acquisitions, etc). They are needed for the design of settlement upgrading schemes; and they are needed for the grant of mortgages. In practically all cities in India, however, the land records are inaccurate and incomplete. In Bangalore, for instance, property cadastral records are 10 to 15 years out of date, meaning that as much as half of the city's property is not adequately reflected in its tax rolls.

Kapoor comments, in addition, that

- even today, there is no institutional coordination between the registration authorities responsible for taking legal note of the land transactions, the municipal authorities whose major taxation revolves around land and buildings, and the development authorities who are concerned with land use controls. Under the circumstances, institutional coordination with census authorities who are most systematically involved in land-based records of population and economic activity... is totally out of question."

Nor is there any institutional knowledge of publicly-owned lands.

7.3 Land Policies and Practices

With regard to urban land policy, India relies on extensive land use regulation and social ownership of land. The thrust has generally concentrated almost exclusively on equalizing access and controlling price, through different degrees of socialization of land resources. These moves have been justified in the interests of the poor. Over the past quarter century there have been a series of attempts of achieving this goal, which, on balance, have accentuated the problems that were hoped to be solved. Land policies have not stressed the objective of economic efficiency in allocation.

The main instruments used by India in attempting to achieve this policy were fourfold:

Land Banking: Delhi has been used as a model for urban development measures in other metropolitan areas. According to the Town and Country Planning Organisation (TCPO), advanced land purchase is widespread among the development authorities in India today. It is, however, only in Delhi that such pre-eminent control over land development and planning is found.

Land on the periphery is acquired by a public authority at the prevailing agricultural prices, often years in advance of its use. Obtaining such land at low prices has obvious advantages in theory, but is not without problems. The primary problem is that it has led to the temptation to utilize this land based on its purchase, and not market price. The resulting intensity of land use is then often highly wasteful and inefficient. The result is that the urban area gets prematurely large in size, higher service costs per capita are experienced, along with higher transport costs.

In the capital, the Delhi Development Authority (DDA) is responsible for land development as well as managing other land on behalf of the

central government. A UN Seminar of Experts found, however, that the DDA has been slow to develop the land,

" thereby unnecessarily locking up Government investment and losing potential revenue from the sale and taxation of this land. Freezing large areas of land without developing and disposing of it has contributed to housing shortages, illegal squatter settlements on the frozen land and sky-rocketing land values in Delhi."

(See Delhi case study in Annex 3.)

Disposal of Public Land through Leasehold Tenure: Associated with land acquisition has been the practice of allocating the (often) developed land to the public for residential purposes only on a leasehold basis.

The problems with this approach arise with the prohibition typically contained against immediate sale. The restriction has a serious effect on efficiency in residential location, as well as in the labor market. As with the first instrument, leaseholds also increase the difficulty in annual valuations for tax purposes; the alternative is to generate revenue directly from appreciation captured in regular lease increments, in lieu of property taxes.

Restrictions on Land Use: See Section 7.7.

Urban Land (Ceiling and Regulation) Act, 1976: The primary purpose of the Act is to provide for the imposition of a ceiling on vacant land in urban areas; for the acquisition by public agencies of land in excess of the ceiling; and to regulate the construction of buildings on such land. Its objectives were to prevent the concentration of urban land in the lands of a few persons; to reduce speculation and profiteering and to bring about an equitable distribution of land in urban areas. Implicitly, it was also intended to control land prices.

All transactions--with the exceptions noted below--were prohibited in land holdings above a certain size, depending on the population of the city.

Delhi, Bombay, Calcutta, Madras	500 m ²
Other cities over 1 million	1,000 m ²
Cities 300,000 - 1 million	1,500 m ²
Cities 200,000 - 300,000	2,000 m ²

Towns and smaller cities were exempt from the provisions of the Act.

All landowners were required to register their land holdings and surrender the "excess" to the state government. The compensation payable was fixed at 8.3 times the annual income actually gained during the previous five years.

The central, i.e., National Act came into force in early 1976, and was adopted in all Union Territories and most States with the exceptions of Jammu & Kashmir, Kerala and Tamil Nadu.

The problems with the Urban Land Ceiling Act are numerous. The Ceiling has the same problems regarding efficiency in allocation as does large scale public acquisition--for this is just another method to achieve that result. In addition, the Ceiling is inequitable as well: different individuals are subject to ceilings which are quite different in value, although the compensation is the same.

The Act contains two important exemptions. Section 21 exempts 'excess' land from acquisition by the government if it is used for the development of housing for the "Economically Weaker Section" of the population; the total nationwide figure exempted under this Section is 3,445 hectares. Section 20 exempts land on the grounds of "public interest" or "undue hardship", 40,419 hectares were exempted under this provision--60% of this figure in Gujarat alone. Needless to say, land exempted under Section 20 is very valuable, and the pressure to grant the exemption very great. At least 10,500 ha are currently under litigation.

The estimate of 'excess' urban land is around 166,000 hectares; of that amount, the government has taken physical possession of only 3,852 ha.; and of this amount, only 621 ha has been used for the construction of housing (0.37% of total 'excess' land), and the greater part of that not aimed at low-income households.

The figures below indicate how much land has been taken possession of in the five major cities for which information is available:

	<u>land taken</u>	<u>land allotted for residential use</u>
Delhi	2 ha	0 ha
Madras	72 ha	10 ha
Ahmedabad	59 ha	3 ha
Hyderabad	440 ha	283 ha
Calcutta	35 ha	4 ha.

The Act thus did not make any significant impact in acquiring excess vacant land. It did, however, have the effect of freezing the urban land market and as a result pushing up urban land prices in general.

Wadhva believes that the Act

" did not make any difference to the housing situation of the very poor. The poor were squatting illegally on urban lands prior to the enactment of [the Act] and they continued to do so. The only difference is that earlier they were squatting on lands (say) worth Rs.200 per sq. meter and now they squat on the same lands which have increased in value to say Rs.2,000 per square meter. The groups which have really been affected are the low middle income groups - who either had to drop out of the legal formal market altogether or had to reduce their demand for housing space substantially."

The National Commission on Urbanisation has recognized the shortcomings of the Act, but

" is of the view that as an instrument for making land available for city development, aimed at maximising the common good, the Urban Land (Ceiling) and Regulation Act, 1976 must be retained on the Statute Book, rationalised and made easy of implementation".

The Commission's proposals include permitting owners of "excess" land to build on it housing units of less than 80 square meters or to transfer it to a cooperative housing society within five years. During these five years, any vacant land would be subject to tax. Thereafter, any remaining vacant land would be publicly acquired.

Public Land Acquisition

Prior to the 1976 Urban Land Ceiling Act, the primary method for acquisition of private lands required by the state for public purposes was the Land Acquisition Act of 1894. Land can also be acquired privately under this Act if the company for whom the land is intended is engaged in any work which is for a "public purpose". The Acquisition Act requires compensation on the basis of the land's market value, based on recent sales in the area as officially recorded, and it also requires the government to pay the owner a "solatium", ranging from 15%-30% of such market value in consideration of the compulsory nature of the acquisition.

Although a section in the Land Ceiling Act states that it should over-ride all other Acts, its conflict with the Land Acquisition Act has caused confusion. State Governments have taken the view that land likely to be made available under the Ceiling Act should not be acquired under the 1894 Act. Since acquisition under the Ceiling Act almost always gets delayed in the courts, the result is that land needed for housing is not made available to the public. For example, where a large site proposed

for a site and services project contains land that, under the existing policies, must be acquired using both methods, the delay approaches permanence. The acquisition process is bedevilled with litigation on the part of landowners, routinely resulting in long delays; and, on the part of public sector agencies, often in attempts to acquire considerably more land than is legitimately needed for public purposes.

The 1894 Acquisition Act contains no definition of "public purpose". In many cases the state high courts and/or the Supreme Court of India have upheld the landowner's contention that the acquisition in question was not for a 'public purpose'. The courts also often support requests for compensation to levels of speculative market values.

7.4 Land Delivery Systems

There are five basic land supply models in urban India--see Figure 11:

[quoted by Baross from Benninger, C., "Formal and semi-formal strategies of land acquisition"]

Public sector, legal: carried out by government after acquiring land or consolidating holdings into an integrated town planning scheme.

Public sector, extra-legal: carried out by statutory agencies with standards (of infrastructure, plot size etc.) which are below those applicable to other developments.

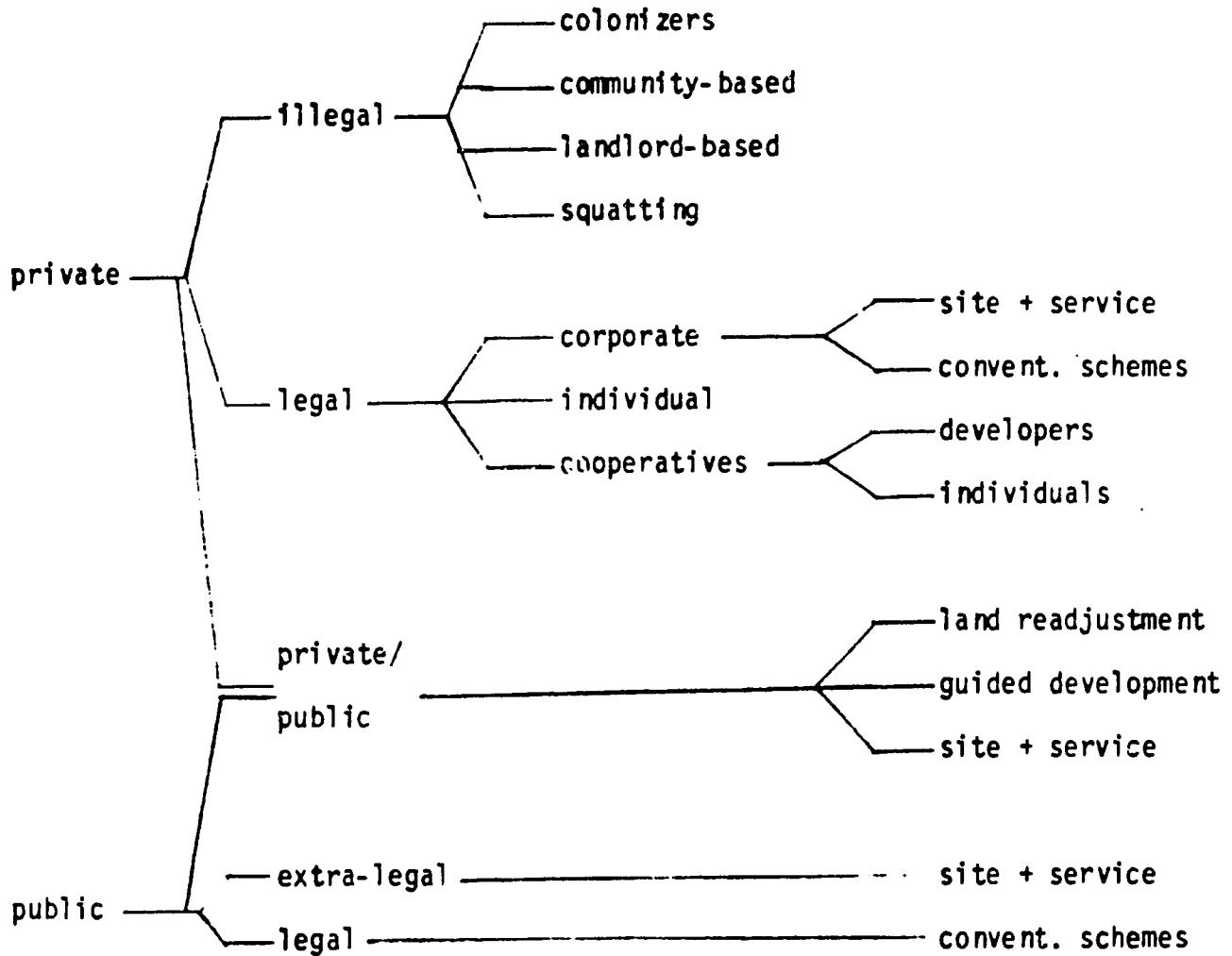
Private sector, legal: carried out in accordance with procedures and standards set by the local authorities.

Private sector, illegal: Carried out by a highly organised but unauthorized set of private "colonizers" (see Section 6.4).

Squatting: carried out by individuals and communities, on public and private land.

Figure 11. Land Delivery Systems

(acquisition/assembly; servicing; disposal)



Dissatisfaction with these alternatives has led both public and private sector agencies to experiment with new forms of land delivery, as follows.

Land Readjustment: This requires collaboration between public sector agencies and private owners in the conversion of underutilized land for urban uses. Although the 1894 Land Acquisition Act is still preferred by the vast majority of public officials, largely because they are familiar with it, this 'new' technique is winning some adherents. It has some history in India under differing names and forms: "plot reconstitution" in many cities, "land sharing", or simply, "town planning schemes" in others.

Land holdings in a particular area are pooled, the holding is developed, and land is returned to the original owners in proportion to the value of their original holdings. The owners benefit by being able to sell off a part of their land at urban prices or to retain newly-serviced land; the public benefits by an increase in the supply of urban land with no net financial outlay.

The main drawback is the time taken to hold negotiations and proceed through the relatively complicated planning and development processes, particularly as land readjustment schemes average 200 ha each. The average time from start to completion of the process has been 14 years in Gujarat, and 15 years in Maharashtra. Land owners are reportedly reluctant to participate in a scheme because of these delays, and because of the difference in assessed values at the beginning and end of the process.

The World Bank has included a land sharing/readjustment component in its newly-approved Tamil Nadu Urban Development Project for the upgrading of private slums.

Guided urban development: This, too, is a component of the Tamil Nadu Urban Project. Subdivision and servicing of the land is financed and undertaken by private developers in accordance with standards agreed with the Madras Metropolitan Development Authority (MMDA). Community facilities and off-site infrastructure are to be provided or facilitated by the MMDA. Residential plots for low income families are to be purchased by the MMDA at the same price as in public schemes; the remaining plots, for higher income households and commercial use, are to be sold by the developers at market prices. Such a process has not yet been tried in India.

Private site and service schemes: An Agra developer, Eldeco, has succeeded in implementing what amounts to a site and service scheme within the bounds of the law--in contrast to the Delhi developers, noted in Section 6.4. In Agra, the developer acted as facilitator and intermediary between prospective purchasers and sellers of land in the first phase, and between plot holders and infrastructure contractors in the second phase.

7.5 Land Prices

There are several recent studies on urban land prices, which purport to show increases of up to 100% annually. The studies that we have seen are not well documented, and do not appear to take account either of inflation or that central land values rise in proportion to the growth of the city's economy. The reported figures do not bear a close resemblance to actual market conditions for lower cost housing, in particular. Nevertheless, there is little doubt but that land prices have increased, over the last decade, more rapidly than the general level of prices.

Some observers put the blame for this on land speculators. Gupta, for instance, says that this "clearly underlines the need for public participation in the urban land market". A number of people include the Delhi Development Authority as one of the speculators, since it is said to be more interested in making money by selling land to high income groups than in making affordable land available to the poor. Others point to the Urban Land Ceiling Act, which has certainly severely curtailed the legal supply of land, especially for infill development.

Most cities have a shortage of land that is legally developable, and of land that is supplied with municipal infrastructure services. Equally, however, many cities have entrepreneur-developers, sometimes aided by a flexible administration, that supply land extra-legally and provide the most basic services, presumably at prices that are affordable to all but the poorest households.

7.6 Land Taxation

Property Tax

The property tax is the most important single source of revenue available to Indian municipalities.

The valuation of property is based upon annual rental value, as controlled for rental properties under the various rent control acts. Actual market value, which many landowners capture through a "key money" system, is several times higher. A 1981 study conducted in Calcutta by the National Institute of Public Finance and Policy concluded that municipal revenue would increase by at least Rs.20 crores if the rateable value could be linked to the market rather than to the rent controlled value. The Ahmedabad Municipal Corporation has estimated a doubling of its property tax receipts if such a change was undertaken, and such an estimate is equally true of almost every city in India.

An alternative would, presumably, be to raise the rate of taxation on existing valuations. This would doubtless lead to inequities, but could increase municipal revenues. The problem is political, not technical.

The revenue from property tax is also adversely affected by wide levels of exemption and poor collection. Only an estimated 50% of total demand is collected, and large arrears are the subject of court disputes.

Even without the crucial reform described above, more frequent, widespread, and objective valuations could greatly enhance the revenue available to municipalities from this source. In Madras, officials are examining a property tax system based on a different form of valuation, i.e., the age of structure, type of area, etc. Although innovative forms of property/taxation are needed, it may be that this idea would open the municipality to widespread litigation. In Delhi, a recent exercise to increase revenue from property taxation by the municipal corporation simultaneously (1) sought to liquidate arrears, and introduced a system of voluntary self-assessment; (2) increased tax rates on rural non-residential properties; and (3) streamlined methods of collection, including granting of rebates for timely payment of tax. Property tax revenues doubled in one year.

Other Forms of Land Taxation

India also has limited experience with other urban land based taxes. However, despite long-time discussion about the social justice of such a tax, no levies are consistently placed to capture a portion of the "unearned increment" in land value increase brought about by urban development. The Bombay Metropolitan Region Development Authority is reported to have the power to charge up to half of the amount by which private land is increased in value by its own development projects. The Authority itself would assess the value of the increase. We believe, however, that it does not exercise these powers.

Parts of India have had experience with a capital gains tax which is levied at the time of transfer or sale of urban land, and some urban authorities have levied a "development charge" which is collected at the time of granting planning permission, e.g., for a change in zoning classification from Agricultural to Residential. These methods are, reportedly, susceptible to undervaluation of properties and widespread "black money" transfers, and to bribery and corruption.

7.7 Land Use

The TCPO reports that an average of 15.4% of the total urban area is vacant land. The figure ranges from 25% in metropolitan cities with populations greater than 1,000,000, to only 1% in cities in the next range (500,000, to 1,000,000). One reason that the figure is relatively high in metro cities is that the development authorities have purchased large amounts of land in advance in a "land banking" arrangement, and will develop or dispose of the land over time.

The complete range of land uses in the larger of urban areas is given in Table 10.

Table 10
Land Use by City Size

	<u>Population, 1981</u>		
	100,000 - 500,000	500,000 - 1,000,000	Over 1,000,000
	% of total area		
Residential	40.3	33.2	28.4
Commercial	2.4	3.2	1.8
Industrial	5.4	14.0	5.2
Park	3.5	3.4	4.2
Public	12.8	15.0	8.6
Roads	11.4	10.3	7.5
Vacant	12.7	10.7	25.4
Other(1)	11.5	10.2	19.0
Total	100.0	100.0	100.0

Note: (1) "Other" includes cantonments and defence installations.

Source: Yadav (1985)

By way of comparison, the percentage of major land uses recommended in the TCPO's model planning legislation is given below:

Residential	43 - 48 per cent
Commercial	2 - 3 per cent
Industrial	10 - 12 per cent
Parks & Open Space	11 - 14 per cent.

It is interesting to note that only 7.5% of metro cities' land area is devoted to roadways. This is approximately one-third of what is considered optimal in modern western urban areas. When consideration is given to the encroachments on many of the roads, the usable percentage is even lower.

Obstacles to Urban Development Relating to Land

Land use changes in the urban core have not been able to keep pace with the changing economic situation. This is partly because the revenue objectives of different levels of government remain unreconciled to the current town planning priorities, partly because there are no disincentives to public agencies acquiring and keeping large areas of land that they are unlikely to need in the foreseeable future, and partly because of the conflicting social and economic goals found in Indian society. The result is that large tracts of valuable lands remain underutilized in terms of today's need. The clearest example is from Bombay, where permission is refused to relocate and redevelop obsolete textile mills in the center of the city, on the grounds that jobs are needed there--contradicting the planners' plea for encouragement of journey-to-work flows in an out-of-town direction.

Military cantonments exist in every large city: very large areas consisting of barracks, married service quarters, open spaces, community and commercial facilities, etc. These are governed by a central government law, which gives the officer in charge absolute authority over land use, and excludes the cantonment from jurisdiction of local municipal and state authorities. McAuslan comments that, "while cantonments are usually well laid out and managed, their presence makes that much more difficult any comprehensive planning or reallocation of land".

The urban planning laws and practices in use today are more suited, and indeed were developed for the planning of "greensite" development, such as new towns and newly developing towns and cities. For the most part they are not at all suitable for use in the built-up urban areas in India today. In addition, these practices, largely brought over from England several decades ago unmodified, are alien to the popular social structures of the Indian context, and are at cross-purposes with the popular life-styles of the public at large. The West Bengal Town and Country (Planning and Development) Act of 1979 is a case in point. Among other things, it requires that all development and land use must conform with Detailed Development Plans. McAuslan comments that

" to prepare a land use map showing current land use in Calcutta is about as feasible as counting the grains of sand on a beach. To assume it can be done in a year implies that the Calcutta Metropolitan Development Authority has an infinite number of skilled staff with nothing to do except make the map... Even if practice followed the law, it is questionable whether such an allocation of resources would actually help produce a more equitable land policy in Calcutta."

Urban planning practices are described and discussed in Annex 4.

As in other countries, planning standards are applied to subdivisions with the intention of maintaining a desirable environment. Regulations cover such matters as minimum plot sizes, the ratio of open space to saleable land, sidewalk dimensions and the size of plots for public facilities. The World Bank undertook a study, in 1984, to calculate the financial implications of the regulations applied in Uttar Pradesh (UP).

The study found that the minimum standards implied a plot cost affordable only to households with monthly incomes exceeding Rs.2,500 (1983 prices). The plots would thus be unaffordable to the poorest 95% of the population of, for instance, Kanpur. Amendments to the regulations proposed by the UP Town and Country Planning Department would considerably improve affordability, but would also increase the unit land development cost. The paper shows how redesign could yet further improve affordability and simultaneously reduce costs from Rs.155 to Rs.135 per square meter (a reduction of 13%).

The Bank paper concludes that

" many development regulations are working against their original intentions. By making legal development too expensive for most urban households and by effectively excluding private sector developers from legal development, large areas of cities are left to develop outside the scope of urban regulations where even the most minimal services and environmental protection are not provided. Coordination with city-wide development plans becomes impossible when most development is illegal. The impact of this situation is felt most heavily by the lowest income groups whom government regulations should strive to protect but who can least afford legal development."

Building regulations are no easier to follow, if only because of the complexity of the many sets of legislation and the obscurity of the language. McAuslan quotes a requirement of the Madras City Corporation Building Rules:

" The level of foundation shall be such that the minimum depth for the foundation to prevent the soil moving laterally under pressure shall be according to Rankine's theory",

which is then set out in mathematical symbols. It would be a matter of chance if building contractors were to comply with Rankine's theory or, indeed, with many other of the regulations.

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8. INFRASTRUCTURE

8.1 Summary

This section gives a brief overview of the variety of delivery systems for urban infrastructure--and, in particular, for water supply, sanitation and solid waste management. It finds that, although the formal responsibilities for the sector are allocated to the state and municipal authorities, individuals, housing cooperatives and the private corporate sector together supply and maintain services in an ad hoc variety of ways. But the supply and maintenance of services is grossly deficient and the shortfalls are still often appalling.

Among other findings are that:

- o a quarter of the population in India's cities does not have either tapped water supply or sanitation facilities, and one third have no electricity; in the city of Patna, half of the population does not have a potable water supply;
- o 40% of the urban water supply is polluted;
- o services are priced at well below their economic cost, leading to excessive potential demand and a shortfall of re-investable revenues; but charges are often not collected;
- o services are progressively better provided to households in higher income groups; the rich are therefore the prime beneficiaries of the (considerable) subsidies;
- o access to water and sanitation have improved substantially in this decade;
- o the government, donor agencies and the private commercial sector are demonstrating the applicability of low cost sanitation systems;
- o there are some initiatives to manage the disposal of solid waste, but management techniques and technologies are often conservative and inappropriate.

The lack of interest among Indian urbanists in the field of infrastructure, too, is disheartening. The World Bank has undertaken several project-based initiatives in water, sanitation and solid waste management; but other than in the reports of these projects, very few references have been found to any comprehensive or India-wide studies.

8.2 Infrastructure Delivery Systems

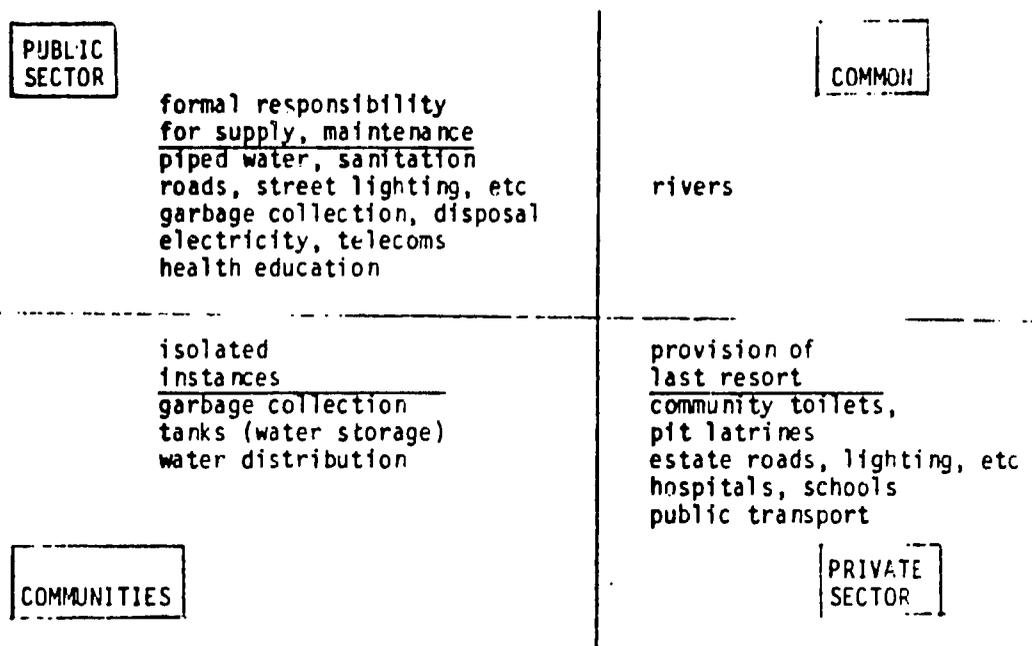
The responsibility for providing and maintaining infrastructure clearly falls to the state governments. For urban infrastructure, these responsibilities have often been assigned to the municipal corporations and, in some cases, to specialized agencies. There is, however, no uniformity, nor any policy which determines priorities or selects areas where action is needed most urgently. The level of services provided by the municipal authorities is acknowledged to be substandard in both quantity and quality. Shortfalls in supply are significantly greater in low income settlements than in neighborhoods serving urban elites. Harday and Satterthwaite claim that "there is no city in India with an adequate water supply or satisfactory environmental sanitation".

There has been a limited response to these deficiencies of public provision, by households, communities, the corporate private sector and cooperatives. Most widely, this has been on an individual basis, e.g. by households collecting water from streams, burning their domestic refuse or channelling storm water from around their own houses. The following sections give some examples of non-public responses in water supply, sanitation and solid waste disposal.

The most clearcut example of non-public provision of a public service is in the field of transport. A high proportion of urban transport in every town and city is in the private sector. This includes not only autorickshaws, bicycle rickshaws and taxis but, in many towns, buses and even ferries. Calcutta is the most widely quoted instance of a city with private bus service, where unsubsidized private buses account for about two-thirds of all bus trips. Meanwhile, according to Roth, "the Calcutta State Transport Corporation, which operates similar routes at the same fares, has to be subsidized to the equivalent of US\$1 million a month by a government that is desperately short of funds for other purposes".

Private sector real estate developers typically provide all infrastructural services themselves in their own housing schemes on the periphery of large cities, preferring not to rely upon promises of provision by public sector agencies. These estates thus have privately-constructed and operated boreholes and water supply systems, sanitation systems, electricity generators, roads, as well as private schools and clinics. This is true both of high cost formal developers (in areas such as Gurgaon, a few kilometers south-west of Delhi) and, in many cases, also of informal subdivisions on the urban fringe (as described by Misra) and of estates built by housing cooperatives. The perceived success--and limitations--of these undertakings is such that a proposal is reportedly being considered by the Ministry of Urban Development for the establishment of joint sector New Town Development Corporations.

Figure 12. Infrastructure Supply Systems



As for education and health care facilities, Hardoy and Satterthwaite state that

"their location, design and administration tends to favour middle and upper-income groups. Many of the better schools, colleges and medical facilities are too expensive for the poor. And although primary education and basic medical services are free, they are usually ill-designed to serve the needs and aspirations of the poor who often make little use of them."

The National Commission on Urbanisation points to a deterioration in service provision over the years, not least because of shortcomings in the operation and maintenance of facilities. Examples can be drawn from all areas. For instance:

- o recreational areas are provided liberally throughout new public housing schemes; often, however, they are left unmaintained and, therefore, unusable for their intended purpose;

- o communal toilets are provided by public authorities, especially for slum areas; but these are unmanned and, in the absence of any municipal cleaning service or community organization to shoulder the responsibility, quickly become choked, and the pans broken;
- o the Delhi Transport Corporation (DTC) has had to double its services in just five years and now carries 5 million passengers each day; yet one-fifth of its buses have exceeded their lifespan but remain in service because of lack of replacements (the DTC makes a loss of Rs.0.05 for every kilometer its buses run).

Responsibility for this state of affairs can be laid at many doors. Among other culprits, however, is the institutional structure of so many cities and their infrastructure services that requires one organization to plan and construct new facilities, and another to operate and maintain them. There is reportedly often even no consultation between the two parties. This situation is further discussed in Section 9.

8.3 Water Supply

Access to Water

It is officially estimated that the volume of piped water supplied to larger cities averages about 125 liters per capita per day (lcpd). Consumption is presumably much less than this, due to system leakages and losses. This estimate of consumption compares with the government's standard of 200 lcpd, and with a WHO absolute minimum requirement of 70 lcpd.

Ministry of Urban Development statistics show the proportion of the urban population with access to piped water to have increased from 72% in 1981 to 79% in 1986--the figures being supplied by individual state governments. Table 11 quotes the official figures for the larger states, some of which are at variance with estimates by other observers. (Maharashtra, for instance, which includes the city of Bombay, claims that 99.7% of its urban population has access to piped water.) Table 12, in turn, reproduces figures quoted in India Today, which, however, are not attributed to a given source.

These statistics supposedly represent the total population living in settlements with a piped water supply--that is, including those with a public standpipe, sometimes shared by several hundred other people. No

Table 11

Access to Urban Water Supply by State, 1981-86

% of population with access to piped water

	1981	1986/87
Uttar Pradesh	70.3	69.3
Bihar	63.4	63.6
Maharashtra	94.9	99.7
West Bengal	60.0	68.3
Andhra Pradesh	55.3	62.4
Madhya Pradesh	67.1	80.5
Tamil Nadu	80.9	88.2
Karnataka	88.8	98.7
Rajasthan	56.3	54.5
Gujarat	88.9	93.4
Orissa	34.4	37.1
Kerala	59.7	85.6
Assam	25.9	37.5
Punjab	65.6	71.2
Haryana	40.0	100.0
Union Territories	81.1	97.3
India	72.3	79.2

Source: Central Public Health and Engineering Works Department,
Ministry of Urban Development.

Table 12

Domestic Access to Urban Services

% of homes without services

	Power	Tap water	Toilet
Calcutta	37.1	66.9	50.0
Bombay	22.4	41.7	26.6
Delhi	24.9	48.6	31.8
Madras	34.6	68.6	31.3
Bangalore	27.7	56.5	43.7
Ahmedabad	24.2	33.1	26.1

Source: India Today, January 31, 1988

figures are available to show on-plot provision. Access to water does not mean either that it is readily accessible (it being necessary to stand in line for several hours to collect a day's supply, in the more extreme cases), or that there is necessarily a continuous supply, or that the water is potable. Very often, none of these conditions are met.

Thus, in many cities, perhaps even in most, water is supplied on only a few hours each day, and sometimes not even on every day. This is rarely a problem to households able to afford a storage tank (and almost never a problem to even wealthier households which can afford suction pumps to draw water from the public mains). It is, however, a severe problem to households without private storage, including all those people dependent on public standpipes.

The inadequacy of supply causes at least two major problems. The first is of the time and energy taken by poorer families to collect water at an hour when it is available. ("How can our workers be efficient when they need to get up at 3 o'clock in the morning for their water?", commented an industrialist at a recent meeting.) Time spent in water lines is often time that could be spent sleeping or earning an income.

The second problem is that mains water supplies are, at best, poorly treated. Many municipalities supply water to the mains straight from underground sources without any treatment. One municipality reports treating its supplies with liquid chlorine and bleaching powder (which is presumably not ideal). But even with adequate treatment, the absence of continuous pressure in the mains means that inward leakages of pollutants can readily occur. Even properly treated water can thus become polluted before it reaches its point of delivery at standpipes or in homes. The government's own estimate is that 40% of piped water is not potable.

The consequent health problems are severe. Various measures of urban health are quoted in Sections 5.4 and 6.4.

Delivery Systems

All of the state governments are responsible for the supply and treatment of water to their residents. In most cases, these responsibilities have been transferred to local urban bodies, but some state governments retain the authority to provide and/or operate urban water supply systems. In other cases, responsibilities (for supply and/or operation) have been allocated to specialized statutory undertakings, such as Metrowater (in Madras) and Water Supply and Sewerage Boards in a number of the larger cities and towns. An NIUA study, (Management of Urban Services), has found that all of the undertakings they surveyed were deficient in several respects. Apart

from their basic failure to provide sufficient water to meet minimum needs, the study notes that typically 30-40% of the supply is lost in transmission. (This figure is high, but not unprecedented: a target figure in developed countries is around 10%; water losses by the Bangkok Metropolitan Water Authority, by way of comparison, recently averaged 43%.) The NIUA finds that staff skills and management both have room for considerable improvement.

The Seventh Five Year Plan attributes the inadequacies of the urban water supply system to shortages in the Plan's financial resources, not to managerial or organizational inefficiencies and constraints. The NIUA's research clearly indicates, however, that operational issues should be of greater concern.

If municipalities and water authorities supply water to three-quarters of the urban population, what of the other quarter? The greater part of those people lacking any access to piped water supplies manage by one of three means: walking to another settlement that does have a public standpipe; illegally tapping public mains; or using streams, ponds or boreholes. All of the latter sources are likely to be polluted and, of course, the people making use of such sources can rarely afford to boil or chemically treat the water to make it safe.

A traditional source of water in towns and villages has been the "tank", or communal reservoir for rainwater. These were often built and maintained in past centuries by the local ruler or colonial authority. In more recent years, maintenance of tanks has been neglected. Urban developers, public and private, have filled and built upon them, thus reducing the supply of water for domestic purposes (and probably also exacerbating problems of surface water drainage).

Private and community initiatives to supply water are believed to be relatively uncommon--with the exception of the private and cooperative housing developers outside larger towns, who install their own estate supply systems. There are, however, no known studies which confirm or refute this supposition. In Madras--a city which has suffered more severe water shortages than most others--private tankers are brought into service to transport water from coastal areas to supply bulk consumers.

Vaidya quotes an instance of community action, also from Madras:

- Many households have to depend upon water tanks provided by the Metropolitan Water Supply Board (MWSB). These water tanks are filled up daily by mobile van of the Board. Distribution of water through storage tanks creates many problems such as...quarrels among the households. ... Various neighbourhoods (30 to 40 households each) have [therefore] made one person as in-charge of MWSB water tank. It is kept outside the house of this person.

" Distribution of water through the tank is supervised by this person. He gives only a certain number of pots per household. He also collects 10 paise per pot of water from the slum dwellers. He is responsible for paying Rs.8 per trip to the Board workers as an incentive to bring water regularly to the slum. For this service, this person is allowed to collect water free from the tank for his household's use. In addition, this role gives him a considerable respect and recognition among the community."

An instance of commercial initiative is known from Bangalore. Here, the Chamber of Commerce undertook a comprehensive study of alternative methods of supplying water, in a situation of increasing water shortages, which was becoming desperate for householders and industrialists alike. The alternatives proposed, including rainwater harvesting and secondary use of treated sewage, call for initiative (and capital) from the private corporate sector. The proposals appear to merit further investigation, but are reported to have met resistance from existing interests in the city. It is not known if there have been similar proposals in other cities nor, indeed, whether the recommendations for Bangalore have been tried elsewhere in India.

Pricing

Domestic and industrial water is generally, but not invariably, metered and charged. The metering system is, however, haphazard. In Baroda, for instance, 73% of all connections are unmetered; in Villupuram, according to the NIUA, "more than 50% of the meters were said to be always out of order". Where water is not metered, a water tax or a surcharge on the property tax may be levied. Supplies from public standpipes are free, although some authorities impose a nominal monthly charge for provision of this service on each dwelling in the settlement.

There is no uniformity of consumption tariffs throughout the country: sometimes there is differentiation between users (domestic/commercial/industrial) and, sometimes, a progressive charge which, increases per unit consumed as consumption increases. Where use of water is priced, however, prices are generally set well below marginal costs. India Today tells us that in Bangalore, for instance, the cost of supply is Rs.8.00 per 1,000 liters, compared with the average charge of Rs.1.75.

There are two important consequences of present pricing practices. The water authorities cannot generate sufficient revenues to augment their inadequate storage, treatment and supply facilities, and perhaps not even to meet the costs of operations and maintenance. Secondly, there is little incentive for consumers to conserve water (where supply permits, consumption exceeds demand at an economic price). Several water supply authorities have been made aware of these arguments through a

series of World Bank projects but, at least in some cases, have preferred to forego the capital assistance rather than increase charges to levels that are seen as politically unacceptable.

8.4 Sanitation

The Ministry of Urban Development statistics report that the proportion of the urban population with access to water-borne sanitation has increased from 25.0% in 1981 to 40.4% in 1986, although it is by no means clear how such a massive increase was achieved. Ribeiro quotes figures for an intermediate year, that only 20% of urban households had flush systems connected to a sewerage system, of which only 7% had exclusive use of the facility. Another 14% had water-borne toilets connected to septic tanks, and 33% had bucket or dry latrines. The remaining 33% (then almost 11 million households) had access to no facilities at all. This results in the despoilation of open drains and public ground, with the resultant threat of disease. Ribeiro estimates that Rs.500 crores (\$350 million) is spent annually in terms of medical treatment and lost production due to disease caused by these conditions.

All cities with populations over 100,000 are required by law to provide water-borne sewerage systems, although the preceding statistics make it clear that they do not actually do so. The sewage is, in any case, often not treated and is discharged directly into watercourses. In Bangalore, for instance, treatment capacity is projected to reach no more than 52% of flow this year.

Smaller towns are--according to government policy--to be provided with low-cost sanitation systems. The main system that is being promoted is a pour-flush latrine with a water seal and twin leach pits (Figure 13). Some 40,000 demonstration units have been built under the auspices of the government, UNDP and the World Bank's Technical Advisory Group.

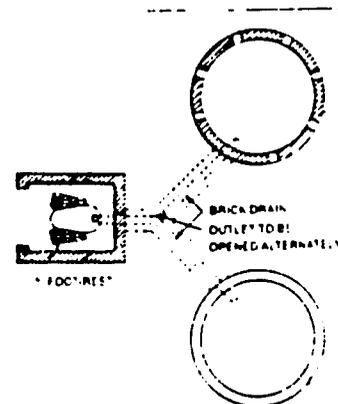
Figure. 13

The Twin-Pit Pour-Flush Latrine

The pour-flush twin-pit latrine consists of a squatting pan with a steeply sloped bottom and a water-seal trap set in a cement floor. The water-seal prevents odors and keeps out insects. The trap is connected to one of two leach pits which are located to the back or side of the pan. After the latrine is used it is flushed by hand using a small container holding about 1.5 to 2 liters of water. The excreta are carried through a pipe or drain into one of the pits.

The liquid in the pit percolates into

the subsoil and the gases are absorbed by the soil, leaving the solids behind to undergo decomposition. Each pit is designed to last about three years before it becomes filled. The excreta are then diverted to the second pit. When the filled pit is left for about two years the pathogens die off and the contents turn into organic humus safe for handling. The humus is removed and may be used as manure. The pit is then ready for use again when the second pit is full.



Sewerage authorities--whether state governments, municipalities or autonomous water and sewerage bodies--are entitled to levy sewerage surcharges on water rates in order to finance their operations. We do not know, however, how many do this.

Roy has provided the following statement of management responsibilities for non-sewered sanitation systems.

" Pit latrines in low income settlements are primarily managed by the private individuals and groups and in some cases the Local Authority also is involved. Bucket latrines are constructed by private individuals but their maintenance depends a great deal on the local authorities. For pour-flush toilets with single or twin pits, involvement of local authority for maintenance is eliminated. The maintenance can be done by the private individuals but in the present system the planning, design and implementation are being done by public sector agencies. Pour-flush toilets with septic tanks are relatively conventional and these are mostly provided and managed by private individuals. The maintenance is also done by private individuals, the periodic cleaning of septic tanks at 5 to 10 years interval being organised by the Local Authorities."

One alternative sanitation system that is gradually winning acceptance in India is known as "sulabh" toilets. These communal facilities are named after the investors, Sulabh International, who build, operate and maintain them. The toilets are typically built in blocks of 80 units, with an adjacent ablution block. A nominal charge is made for their use by adult males; women and children are admitted free. All users are provided with soap. The toilets use the pour-flush, water-sealed sanitary composting model. Sulabh toilets were first introduced in Patna in 1974; were found socially and commercially acceptable; and have subsequently been built in a few other cities. There are now (1988) 200 such community toilets in operation, some of which generate bio-gas for street lighting and domestic use. It has been announced that sulabh toilets are to be utilized in Delhi's resettlement areas that have been the scene of hundreds of recent deaths caused by contaminated water supply.

8.5 Solid Waste Management

Solid waste management--the collection, transportation and disposal of garbage--has also become viewed as a local authority responsibility. Typically, domestic waste is taken by households to communal neighborhood containers. From there, it is collected by municipal garbage trucks, up to two or three times a week, and transported to pits or quarries, where it is dumped. There are few, if any, door-to-door collection services, little use of transshipment or of alternative vehicles other than mechanized trucks, and little experience of landfill or incineration for disposal.

Several cities give contracts to private enterprises for the collection of garbage. Bhavnagar is quoted as an example of a town where garbage collection has been contracted out with some degree of success. Delhi, by way of contrast, gives at least one example of a community that, being dissatisfied with the public waste collection service, has clubbed together to pay for a handcart and an operative to collect waste from each household each morning, and transport it outside the neighborhood.

An NIUA study (Management of Urban Services) found the proportion of total waste that is actually collected by the municipalities to be relatively low (60-85% of the total generated; a proportion that is consistent with findings from other developing countries). Presumably the uncollected garbage is consumed by pigs, cows and other creatures, or is collected by scavengers, as well as simply blowing in the wind.

According to India Today,

" To Patna goes the dishonour of being called the "garbage city of India", as Dr. C.P. Thakur, a local Congress(I) MP, puts it. The city generates enough garbage to fill a football stadium every day. It has 5,000 sweepers and 58 tractors to clear the muck. But a recent survey came out with shocking findings: only 15 of the 58 tractors function and a fifth of the sweepers were non-existent--their wages were drawn and shared by the others. The polluted water and uncleared garbage have been causing severe health problems. Dr. Thakur reports that every third person in the city suffers from a Delhi belly."

The situation is thus far from satisfactory, in terms of health hazards resulting from uncollected refuse and inefficient utilization of resources. (In Bangalore, for example, 60% of the refuse vehicles are unroadworthy, reports Vagale, compared with a typical downtime of 10-20% in developed countries.) Nor have wastes been seen as a potential asset capable of reuse, beyond informal sector recycling of raw materials. Waste generation rates are around 370 gm per capita per day, low even by the standards of poor countries, but there is a high density of waste, and a high proportion that is combustible.

There are a few composting plants throughout the country which take advantage of these characteristics, but it is reported that the transport costs associated with their operation are generally subsidized. Among other initiatives to utilize solid waste, the government of Maharashtra is reported to have approved the establishment of a waste gasification plant. And the Delhi administration, with the assistance of the GOI's Department of Non-Conventional Energy, has developed a process for generating electricity from gases extracted from a sanitary landfill. Delhi, it is estimated, has the potential for generating 60MW of electricity a day from this source, equivalent to nearly 8% of peak demand (source: Government of Karnataka).

The costs of solid waste collection are generally met through a surcharge on the property tax.

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9. URBAN FINANCE AND MANAGEMENT

9.1 Summary

The concept of urban management, although well understood by professionals in Delhi, is not yet generally practiced beyond the bounds of traditional urban administration. As a consequence, this section of the report describes little more than the system of local government and its financing.

Because of the complexity of the urban systems described in previous sections, and because of the parallel magnitude of urban needs, considerable sophistication is required of local governments in India. This section finds, however, that municipal governments, at all levels and throughout the country, lack the resources and the trained personnel to undertake even their statutory functions, let alone to initiate innovative management programs.

Largely because of perceptions of a lack of ability on the part of urban administrations, many responsibilities--particularly for capital works--have been taken away from local, elected, governments and given to specialized agencies answerable only to the state governments. There is a multiplicity of such agencies in most cities, some with overlapping responsibilities; in other cases, certain management functions are not allocated to any agency. Coordination between the various bodies is generally negligible. A major consequence is that responsibilities for capital development and maintenance are now separated, and the maintenance of many facilities is seriously deficient. Governments' reluctance to raise taxes and charges also partially explains their inability to undertake adequate maintenance.

A number of innovative mechanisms have been developed to channel capital finance to urban governments, from the private sector as well as from parastatal organizations. They do not, however, make up a comprehensive system of capital financing, and the volume of finance available is inadequate to meet the overall level of needs.

9.2 Urban Government

The national Constitution allocates responsibility for urban financing and management to the state governments, with no specific reference to a lower level of authority. Local governments are, therefore, creatures of individual states. As such, their powers and responsibilities differ from state to state. Nomenclature is, however, broadly uniform. In descending order of urban size, the responsible bodies are known as:

- o municipal corporations, usually constituted for cities exceeding 300,000 population;

- o municipal councils, which enjoy slightly less autonomy than municipal corporations; for cities and towns exceeding 20,000 population; (there were 1,774 municipal corporations and councils in 1986);
- o town area committees and notified area committees (there were 839 Town and Notified Area Committees in 1986);
- o sanitary committees; and
- o cantonment boards, in areas under military control--see Section 7.7 (56 in 1980).

Functions

The following functions are common to most urban local bodies in India:

- o water supply, sanitation and public health;
- o roads and street lighting;
- o provision of common facilities, including dispensaries and maternity homes, primary and pre-primary schools;
- o provision of measures for public safety;
- o regulation and control of development, and other regulatory and enforcement functions.

Urban local authorities are also permitted to undertake a number of other functions, including housing construction, promotion of cooperative housing societies and provision of city transport services. Telephones and telecommunications, railways and ports are under the control of the central government; electricity is the responsibility of state agencies.

Over the past years, many local government functions have been ceded to special agencies. Examples include bodies with responsibility for water and sewerage, land development, or city transport. As an illustration, Table 13 lists those agencies functioning in Madras in 1978 (today's list would not be greatly different). The administrative structures of Delhi, Bombay and Calcutta are even more unwieldy.

Various rationales have been put forward for the establishment of these new bodies. For one thing, there was seen to be a need for bodies which can transcend metropolitan boundaries and undertake developmental functions on a regional basis. Other arguments relate to economies of scale and to the need to set up agencies to undertake functions which, for different reasons, were seen to be beyond the capabilities of the municipalities. More pertinently, these other organizations were formed in a reaction against state government perceptions of incompetence and corruption on the part of the traditional municipal authorities, and of their inability to perform a developmental role in the face of continuing service deficits. Sundaram has also cited "the insistence of the World Bank in many aided projects in the past to set up new institutional forms to handle all aspects of the project owing to the perceived weakness of the local bodies".

Table 13

Madras Metropolitan Area Institutions - 1977

Departments and directorates of the state and central governments concerned with infra-structure planning and investment activities in the Metropolitan Area
Defense Ministry (defense cantonments, factories, and townships)
Posts and Telegraphs
Civil Aviation
Telephones
Port Trust
Railways (long distance and suburban)
Fisheries
Social Welfare
School Education
Tamil Nadu Dairy Development Corporation (milk supply)
Tamil Nadu Small Industries Corporation (industrial estates)
Statutory entities with specific functions of planning or control for the Metropolitan Area or a large part of it
Madras Metropolitan Development Authority
Directorate of Public Health
Inspectorate of Factories
Police Department
Regional Transport Authority
Labor Department
Fire Services Department
Civil Aviation Department
Statutory bodies or utilities with statewide or larger jurisdiction, also functioning in the Metropolitan Area
Tamil Nadu Housing Board
Tamil Nadu Water Supply and Drainage Board
Electricity Board
Pallavan Transport Corporation
Town and Country Planning Board
Statutory bodies with metropolitan or local jurisdiction
Madras Metropolitan Development Authority
Madras Metropolitan Water Supply and Sewerage Board
Slum Clearance Board
Madras City Municipal Corporation
4 municipalities
4 townships
16 town panchayats

Source: Abhinav Datta and others, "Organization Framework for Metropolitan Planning and Development, Preliminary Report: City Surveys" (New Delhi: Indian Institute of Public Administration, Calcutta: Indian Institute of Management, June 1978), pp. 60-61

Reproduced from Metropolitan Management - The Asian Experience, K.C.Sivaramakrishnan and Leslie Green

In addition to these specialized urban agencies, there are many parastatal organizations which are involved in urban development. These typically include Housing Boards, Slum Clearance Boards, transport corporations and industrial development authorities.

Administration

Municipal corporations and councils are elected bodies, whose presiding officer, the Mayor, has little more than a ceremonial function, and rarely any executive power. The councils operate through a number of committees which function as authorities for sanctioning expenditure.

In many states, however, large numbers of urban local bodies have been suspended, presumably on the grounds of inefficiency. The Planning Commission Task Force on the Management of Urban Development comments,

" Whatever the grounds for such action, little evidence is available that the administration of these municipalities has improved measurably under the direct administration of the State. On the contrary, most decisions of a political nature, such as taxation, are found to be deferred on the grounds that they should await municipal elections. Yet, for a variety of reasons, real or otherwise, such elections are invariably delayed. The indiscriminate, frequent and prolonged use of supercession powers indicates that it has degenerated into an instrument of expediency rather than reform."

Most urban local governments have only a single level of administration. At least six of India's metropolitan cities (Calcutta, Bombay, Madras, Delhi, Kanpur and Hyderabad), however, have opted for "administrative decentralization". Here, a second tier of municipal units, variously called zonal offices, ward offices or borough committees, perform purely local functions such as primary health and education, local road and drainage maintenance, street sweeping or garbage collection. The basic pattern of administration by local units is determined more by tradition and local judgement than through committee power structure or on the grounds of effectiveness and accountability. Despite favorable experiences in these cities, the Planning Commission Task Force concluded that it was premature to suggest any means of organized decentralization, due to "current conditions in local bodies".

Local Government Personnel

Personnel practices differ from state to state. Some municipalities independently appoint staff and undertake their own personnel administration; in other states there is a unified local government service, in which certain categories of municipal staff constitute a career service for the whole state; in yet others, there is an integrated service in which transfers are possible between state and local

government bodies. Pay and conditions of service for local government servants are broadly the same as for state government employees. There are about 2.5 million local government workers in India. We do not know, however, how many of these are in urban government, although HSMI estimates that some 300,000 are housing professionals.

The chief executive of a municipality is normally known as the Municipal Commissioner. He will be appointed from the cadre of the (GOI) Indian Administrative Service (IAS), which implies that the nominee is periodically rotated between appointments. For many municipal councils, the Chief Executive Officer is drawn from a state-wide cadre of chief municipal officers (including those for health, engineering and accounting services).

The Planning Commission Task Force finds that personnel development in urban local authorities is poor. They argue that this situation is, in part, due to a vicious circle: municipalities are seen to be weak, corrupt and inefficient; they are therefore unable to attract and retain qualified staff; which, in turn, confirms the image of inefficiency.

As for internal administration of the urban local bodies, observers comment variously on the virtual absence of delegation of authority or responsibility, highly centralized procedures, an organizational emphasis on seniority and security, poor internal coordination, the absence of even medium term corporate planning, lack of management information systems, low salaries, lack of adequately qualified staff, poor training and the absence of staff motivation. These problems are not, of course, unique to the local government system nor, indeed, to India.

Technical and Project Assistance

Datta reports that "there are a few notable efforts in making technical assistance to the municipal authorities available through specially-created organizations by a few states. For instance, technical assistance in project appraisal is provided to the municipal authorities in the states of Gujarat (Municipal Finance Board) and Kerala (Urban Development Finance Corporation), along with development finance."

Most development projects in the towns are executed by state departments of public works or similar, on an agency basis. For instance, state public health engineering departments often prepare water supply and sewerage projects for municipal authorities at a nominal charge. State government departments of highways, education and health may also be involved in the development of urban services. Datta notes, too, that a Central Valuation Board has been created in West Bengal to undertake valuation of real property for municipal taxation.

Urban Development Authorities

The 1970s saw the formation of urban development authorities for many cities, for reasons broadly similar to those put forward to justify the creation of other specialized agencies. Urban development authorities are creatures of state governments, and have no popular representation. The Planning Commission Task Force finds that, because of this, they are "typically not responsive to local needs and conditions".

Urban development authorities are only found in cities with populations over 100,000. Of the twelve largest cities, ten have a metropolitan development authority (MDA). The primary role of the MDAs varies widely: in Delhi, the MDA is predominantly engaged in real estate development; in public works in Calcutta; and in investment programming in Madras. The Madras MDA, perhaps exceptionally, has also been given the task of regulation and control of land use and building construction. In Calcutta, Bombay and Madras, the MDAs have responsibility for the planning and supervision of World Bank aided projects; and in Calcutta and Bombay, also for aspects of their implementation. In many other cities, the urban development authorities tend to be little more than public works agencies, taking on most new capital works for the city.

The most significant public services involving major budgetary expenditures which continue to be provided by municipalities, then, are maintenance of roads and garbage collection. Otherwise, the municipalities' most important tasks are regulatory, involving a wide range of licensing activities, including planning and building controls.

New Town Development Authorities

A new town development authority, the City and Industrial Development Corporation (CIDCO), was formed in 1971 to develop Vashi, "New Bombay". The purpose of the undertaking is to create a major new settlement--ultimately to accommodate about 2 million people, and 800,000 jobs--as an alternative to a continuing massive growth of Bombay proper. CIDCO is wholly owned by the government of Maharashtra, with subscribed capital of Rs.4 crores (\$3 million). Its brief is to develop the land with appropriate infrastructure, to construct housing and community facilities and make land available for housing, and to promote commercial and industrial activities. After an early borrowing in the market, CIDCO is now entirely self-supporting from the development and sale of land, with no additional financial subventions from the state government. It has had problems, some of which still continue; but after a slow start (when it had inadequate communications with Bombay), Vashi is now growing fast.

Some one hundred new towns have been built in India since Independence, mainly due the development of new industrial or mining enterprises. The steel towns of Rourkela and Durgapur are cases in

point. Often, the industrial management has refused to agree to the establishment of municipal corporations for these towns, themselves continuing to take responsibility for town management and maintenance. In other cases, separate Notified Area Authorities have been set up under the control of the industrial authority. Critics find these new industrial towns unusually deficient in both housing and infrastructure, and in the maintenance of urban services.

There are current proposals to establish about one hundred new town development authorities, in the joint sector. Drawing on the experience of past experiments in public sector urban development, these would be created to develop major new settlements, or the expansion of existing small towns, in conjunction with large new public and private sector industrial units.

Municipal Coordination

Where MDAs, municipal bodies and state utility undertakings co-exist, the allocation of tasks among them has been ad hoc, and has not necessarily followed territorial, technological or functional lines. Where it exists, coordination has generally been informal and non-legalistic, relying, for instance, on discussions among the IAS officers heading the various urban bodies. In Bangalore and, probably, in other cities, the chairmen of various urban authorities are ex-officio members of the governing boards of others; but this has not obviously resulted in any improvements in coordination.

One of the more severe problems arising from this dissipation of urban functions is the split between responsibilities for maintenance and for capital expenditure. For instance, an urban development authority may be responsible for the planning and installation of infrastructure in new housing estates, and the municipality has to maintain it. There may even rarely be discussion between the two sides, with consequent disagreement about the propriety of investments that have already been made, or about their standard of design or construction. Frequently, then, no-one takes responsibility for their maintenance.

The Delhi and Calcutta MDAs are often cited as examples of the problems of centralized coordination. In the case of Delhi, its powers of coordination are derived from statutory provisions of the master plan process, and the fact that the powerful position of Lieutenant-Governor is the chairman of the MDA. And yet Delhi manifests as many problems of coordination as any city. In the case of Calcutta, recent experience indicates that the quality of the planning, capital budgeting and coordinating processes are not enhanced or assured by bringing various metropolitan level agencies under the so-called "one umbrella" structure. On the contrary, the preoccupation with projects has undermined and delayed strategic planning for Calcutta. The most recent

urban development program adopted by the authority with World Bank assistance is a clear departure from the single command concept. It reverts about half of the project formulation and execution responsibilities to local authorities.

In an attempt to find a solution to the problems of inter-agency liaison, the state government of Karnataka has established a Bangalore Metropolitan Region Development Authority, broadly following the pattern of the Bombay MRDA. This body is intended to coordinate the activities of all the city development agencies, including the Bangalore Development Authority, as well as to finance and implement certain schemes which have a regional impact and otherwise no clear sponsoring agency. The Authority has, however, neither financial muscle nor any power of sanction, needing to rely exclusively on its powers of persuasion. To date, it is understood not to have had a major impact on the city's development.

Public and Private-Sector Partnership in Settlements Management

Sections 6 and 8 have given several examples of successful interventions by the private sector in the development of urban shelter and infrastructure. In a few cases, there has been genuine partnership between the two sectors; in most cases, however, the private sector has intervened, almost by default, in what has been seen as an area of public sector responsibility. There is little knowledge on the part of urban managers as to the potentials of working with the private sector (as distinct from merely permitting it to operate), and virtually no experience of public sector management of the private sector in urban development.

Spatial Planning

Physical planning practices have been discussed in Section 7.7 and Annex 4. The conclusion was that the legislative framework, and codes and standards derived from it, are totally inappropriate to the tasks facing local administrations in India.

Training

The Planning Commission Task Force listed the institutions that offer training in municipal administration:

- o Centre for Urban Studies, Indian Institute of Public Administration (IIPA), Delhi, which "has the longest continuing record of research and training in urban management...The target audience is mainly upper and medium level [local government officials]".

- o Regional centers of the IIPA at Lucknow, Hyderabad and Bombay. "The objectives and scope of these regional centres are similar to that of the IIPA Centre. However, because of their regional location, the audience at the Training Courses are usually middle to junior levels of municipal staff."
- o The TCPO and HSMI both run occasional courses and seminars in relevant subjects.
- o Universities and Institutes of Technology offer undergraduate and graduate courses in city and regional planning, transport planning, etc, but not in urban management. The Indian Institute of Management in Bangalore once did provide such a course (and has expressed interest in resuming it), but had to abandon it due to lack of interest by sponsoring organizations.

The Task Force could also have identified the Institute of Local Government Studies in Calcutta, which serves municipalities in West Bengal; and the All-India Institute of Local Self-Government, based in Bombay but with 19 regional training centers. The latter Institute is an autonomous, non-profit organization. It offers a diploma course in local self-government, a course which "is organised with the objective to develop among Municipal executives a comprehensive understanding about Municipal Administration...", and a number of specialized courses in urban health management and other topics.

The Task Force concluded that "while each of these organisations has done commendably in sustaining over a period of time these training activities in spite of very limited resources, the fact remains that even their combined efforts amount to only a very small portion of the training needs... Formulation and upgrading of skills at the technician level constitutes an enormous gap at present." There have been several recommendations for a training needs assessment study in the field of local administration, but no such study has been carried out.

9.3 Urban Finance

Despite the shortfalls in provision and maintenance of public services noted in preceding sections, municipal budgets are in surplus. This apparent paradox is explained by the statutory requirement that, in most states, municipalities are not permitted to have deficit budgets. Further, notes the Planning Commission Task Force on urban finance, "most municipalities do not have proper capital accounting and there is usually no provision for depreciation and debt charges through the operation of a sinking fund, with the result that either obsolete machinery and equipment are not replaced or the cost of replacement is charged to capital account... Paradoxically therefore the existence of surpluses is an indication of the low service levels existing in our cities."

Virtually all urban authorities are apprehensive about potential resistance to the introduction of new taxes, or to increases in the rates of existing taxes. In addition, there is general laxity in the collection of taxes. (In 1983 the NIUA estimated that only 40-50% of municipal taxes and charges levied were actually collected.) As a result, revenue collections are well below any level that could theoretically be attained.

Sources of Municipal Revenue

Taxation: About 65% of municipal revenues derive from taxation. In the past, octroi (a tax on goods passing an administrative boundary) was the most important tax, but this is being abolished throughout the country. Insofar as it is being replaced, local authorities receive compensatory payments from the state governments. These are claimed to be generally less than the proceeds from octroi.

Property taxes are discussed in Section 7.6. They are generally supplemented by a number of specific service taxes, such as for fire protection, education or water, using the same base for assessment purposes as the property taxes themselves.

Non-tax revenues: About 15% of municipal revenue comes from user charges, (non-tax revenues), for instance for water consumption. The discussion of water pricing in Section 7.3 can be generalized to cover all municipal user charges.

Profits from enterprises: Kerala is reported to be the only state in which municipalities make a profit from commercial enterprises, such as milk supply.

State grants: Grants from state governments constitute about 20% of municipal revenues. Practices vary, however, from state to state. Datta notes that "in the states of Maharashtra and Gujarat the municipal corporations are supposed to be financially self-reliant, owing to their larger tax powers. On the other hand, there is no such distinction made in the state of West Bengal, where the municipal corporations are relatively more favoured by way of state grants..." Municipalities are wholly dependent on the discretion of state governments for the receipt of grants.

The entire area of state-municipal fiscal relations remains vague and unclear: there are no well-established institutional arrangements, although there are certain established transfer mechanisms. These take several forms, including "assigned revenue" (e.g., receipts from fines in breach of municipal laws) and shared taxes (the most common being the motor vehicle tax: a fixed percentage of total receipts is distributed, on a basis that is not always explicit). Annex 5 describes state control mechanisms for municipal finances.

Capital Finance

With the partial exception of Bombay, Madras and Calcutta, no municipal authority is permitted to raise loans without the explicit authority of the state government. Only municipal corporations can borrow in the open market, with the approval of the state and central governments, and the RBI. Other municipal bodies can borrow only from state governments.

The principal source of loan finance, whether incurred by municipal authorities or specialized agencies, is the state government. The other major sources of funds are LIC (which is statutorily required to invest in "social" projects such as water and housing - see Section 6.6), GIC, HUDCO and a few state corporations such as the Kerala Urban Development Finance Corporation. Funding from these sources is, however, severely limited and, as the Task Force explains, "even dynamic local bodies who have the capacity to undertake new projects with financial support are seriously constrained in their efforts to improve services". Some of the urban development authorities have, however, now become self-financing through their land development activities, requiring no additional external capital finance.

So far as is known, Bombay is the only development authority which prepares capital investment plans matched with an explicit recognition of the availability of resources, as contrasted with a "wish list" of projects.

Integrated Development of Small and Medium Towns Program

This centrally-sponsored scheme was set up in 1979 to support land acquisition and development in smaller towns. It is financed by soft loans from central government, matched by contributions from state and local governments. Among other criteria, loans will only be approved provided that local governments have a demonstrable ability and willingness to maintain the assets created, and to repay the loan; and that local government staff training is initiated prior to approval of the loan. Loans are approved by an inter-departmental committee. Monitoring and approval of payments is the responsibility of the TCPQ.

Performance Incentives

Calcutta has adopted a system of performance incentives, whereby the state government is committed to make up a local government's resource gap provided that it makes a reasonable effort to improve its fiscal performance.

Similarly, the newly approved World Bank Tamil Nadu Urban Development Project has established a Municipal Urban Development Fund. This will finance capital investments by municipalities in specified categories of urban development. The fund will be based on financial and service performance criteria, and will incorporate a system of incentives for improving municipal resource generation and maintenance of services. The fund is intended to be self-sustaining; municipal projects are to be financed by a mixture of loans and grants, the mix depending on each municipality's resource base, resource generation efforts and service needs.

Alternative Sources of Urban Financing

National Infrastructure Bank: "As the problems created by rapid urbanisation are stupendous and have wide-ranging social and political ramifications", according to the Seventh Five Year Plan, it has been proposed to establish an Urban Infrastructure Development Finance Corporation. The Plan allocated Rs.55 crores as capital for the Corporation: Rs.35 crores for urban development and Rs.20 crores for water and sanitation. The Corporation was to augment these resources by raising funds from institutional sources. Otherwise, the plan document was silent on institutional and financing arrangements envisaged.

The Corporation has not been formed, but neither has the idea been abandoned, being intermittently resurrected by representatives of MUD. The problems that have been discussed include the repayment capabilities of municipal councils and the need for greater financial discipline. But it is recognized that the new institution could become an important tool in the development of more rigorous urban financial management.

National Cities Development Fund: The National Commission on Urbanisation, in its interim report, found that there is a need and justification for the establishment of a fund for the development of infrastructure in the "national cities" of Delhi, Bombay, Calcutta and Madras. Some ideas of how it might be organized were given in the report, and are now summarized in Annex 2. In the twelve month period that has elapsed since the publication of the interim report, there has been little support expressed in public for the Commission's proposal.

Private financing: 1988 saw the advent of the Infrastructure Leasing & Financial Services Ltd, a company established with the financial and technical support of the Central Bank (a public sector commercial bank), UTI and HDFC. Apart from an interest in equipment leasing, investment banking services and "money market operations...with a focus on the development of secondary markets", the firm proposes to finance "large infrastructure projects like highways, bridges and power plants through the formulation of commercially viable schemes of financing established in conjunction with private sector and public sector sponsors".

Although the organization is probably unique, this is not the first occasion on which the private sector has proposed the financing of large scale public infrastructure works. Bombay industrialists, for instance, are vying with one another to obtain permission from the government of Maharashtra to build a road link between the city of Bombay and the mainland, whether as a tunnel or a bridge. The return would be generated from concessions to develop the land that would thus be opened up.

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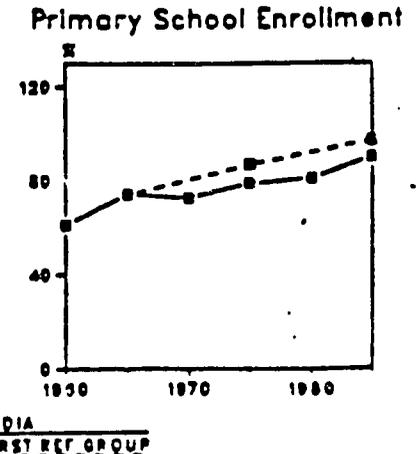
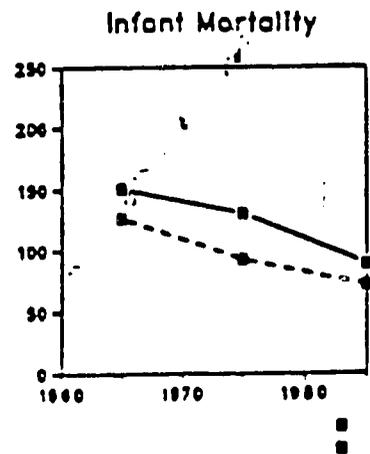
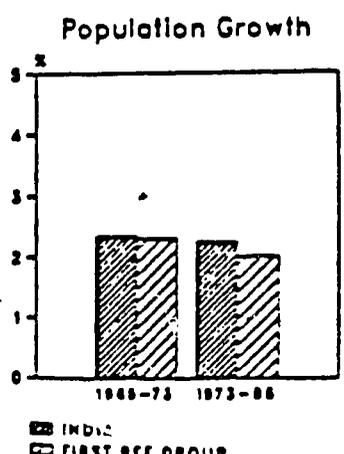
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ANNEX 1

1967 SOCIAL INDICATOR DATA SHEET

INDIA

	1965	1973	Most Recent Estimate	Reference Groups (MRE)	
				Low-income	Lower mid income
AREA					
Total land area (thou sq km)	3,287.6	3,287.6	3,287.6		
Agricultural (% of total)	53.9	54.5	55.0		
GMP PER CAPITA (current US\$)	100	120	270	260	820
POPULATION AND VITAL STATISTICS					
Total population (mill)	487	586	780		
Urban pop. (% of total)	19	21	25	22	36
Population growth rate(%):					
Total		2.3	2.2	2.1	2.5
Urban		4.0	4.2	3.8	4.2
Life expect. at birth (yrs)	45	49	56	60	58
Population projections:					
Pop. in 2000 (mill)			996		
Stationary pop. (mill)			1,625		
Population density per sq km of agricultural land	275	327	381	349	284
Pop. age structure (%):					
0-14 yrs	42	43	40	37	39
15-64 yrs	54	54	56	59	55
65 and above	4	3	4	4	6
Crude birth rate (per thou)	45	39	33	29	36
Crude death rate (per thou)	20	16	12	10	11
Total fertility rate	6.2	5.5	4.5	3.2	3.6
Infant mort. rate (per thou)	151	133	89	72	82
Child death rate (per thou)	23	19	11	9	11
Family planning:					
Acceptors, annual (thou)	2,985	4,369	6,826	..	..
Users (% of married women)	..	19	35	..	..
FOOD, HEALTH AND NUTRITION					
Index of food production per capita (1979-81 = 100)	..	90	109	115	108
Per capita supply of:					
Calories (per day)	2,100	1,954	2,126	2,339	2,514
Proteins (grams per day)	53	48	51	55	56
Pop. per physician (thou)	..	4.9	2.6	8.9	6.9
Pop. per nurse (thou)	..	3.7	1.9	2.4	1.4
Pop. per hospital bed (thou)	..	1.7	1.3	1.1	0.8
Access to safe water (% of population):					
Total	..	31	54
Urban	..	80	80
Rural	..	18	47



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1987 SOCIAL INDICATOR DATA SHEET

INDIA

	1965	1973	Most Recent Estimate	Reference Groups (MRE)	
				Low-income	Lower mid income
LABOR FORCE					
Total Labor Force (thou)	206,872	235,659	299,144		
Female (%)	31	29	26	31	29
Agriculture (%)	73	71	70	72	55
Industry (%)	12	13	13	13	16
- Participation rate (%):					
Total	42	39	39	41	35
Male	56	54	55	54	49
Female	27	23	21	28	20
Age dependency ratio	0.9	0.8	0.8	0.7	0.8
HOUSING					
Average size of household:					
Total	..	5	..	..	..
Urban	..	5	..	..	..
Rural	..	5	..	..	..
Percentage of dwellings with electricity:					
Total	..	..	..	..	..
Urban	..	..	..	..	..
Rural	..	..	..	..	..
EDUCATION					
Enrollment rates:					
Primary: Total	74	79	90	97	103
Male	89	94	105	109	110
Female	57	62	73	84	97
Secondary: Total	27	26	34	32	40
Male	41	36	44	41	48
Female	13	16	23	25	39
Pupil-Teacher ratio:					
Primary	41	43	55	36	32
Secondary	23	21	..	18	20
Pupils reaching grade 6 (%)	..	40	..	49	71
INCOME, CONSUMPTION, AND POVERTY					
Energy consumption per cap. (kg of oil equivalent)	100	123	201	310	345
Percentage of private income received by:					
Highest 10% of households	35	34	..	..	..
Highest 20%	49	49	..	..	..
Lowest 20%	7	6	..	..	..
Lowest 40%	17	16	..	..	..
Est. absolute poverty income level (US\$ per capita):					
Urban	..	..	132 a	..	..
Rural	..	..	114 a	..	..
Est. pop. below absolute poverty income level (%):					
Urban	..	..	40 a	..	..
Rural	..	..	51 a	..	..
Passenger cars/thou pop.	0.2	1.2	..	0.3	4.0
Newspaper circulation (per thousand population)	13.0	15.1	..	16.0	14.0

IECSE August 1987

Not available. Note: Most recent estimates of population and GNP per capita are for 1986 unless otherwise noted. Group averages are population weighted. Country coverage depends on data availability and is not uniform. Unless otherwise noted, 1965 refers to any year between 1962 and 1968, 1973 between 1970 and 1978, and most recent estimate between 1980 and 1986. a. 1979.

Definitions of Social Indicators

The definition of a particular social indicator may vary among countries or within one country over time. For instance, different countries define "urban area" or "safe water" in different ways. For more detailed definitions, see the technical notes to the World Development Indicators.

AREA (thousand square kilometers)

Total - Total surface area comprising land area and inland waters.

Agricultural (percentage of total) - Estimate of agricultural area used for crops, pastures, market and kitchen gardens or lying fallow, as a percentage of total.

GNP PER CAPITA (US\$) - 1986 GNP per capita estimates at current market prices, calculated by the conversion method used for the *World Bank Atlas*.

POPULATION AND VITAL STATISTICS

Total population - mid-year (millions), 1986 data.

Urban population (percentage of total) - Different countries follow different definitions of urban population which may affect comparability of data among countries.

Population growth rate (percent) - total and urban - Annual growth rates of total and of urban populations.

Life expectancy at birth (years) - Number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.

Population projections

Population in 2000 - Projections of population given total population by age and sex, fertility and the demographic parameters of mortality rates, and migration in the base year 1980.

Stationary population - Projected population level when zero population growth is achieved: i.e., the birth rate is constant and is equal to the death rate, the age structure is stable, and the growth rate is zero.

Population density, agricultural land - Population per square kilometer (100 hectares) of agricultural area.

Population age structure (percent) - Children 0-14 years, working-age group 15-64 years, and people of 65 years and over as percentages of population.

Crude birth rate - Annual live births per thousand population.

Crude death rate - Annual deaths per thousand population.

Total fertility rate - Average number of children that would be born alive to a woman during her lifetime, if during her childbearing years she were to bear children at each age in accordance with prevailing age-specific fertility rates.

Infant (aged 0-1) mortality rate - Number of infants per thousand live births, in a given year, who die before reaching one year of age.

Child (aged 1-4) mortality rate - Number of deaths of children, aged 1-4, per thousand children in the same age group, in a given year.

Family planning - acceptors, (thousands) - Annual number of acceptors of birth-control measures received under the auspices of a national family planning program.

Family planning - users (percentage of married women) - Percentage of married women of child-bearing age who are practicing, or whose husbands are practicing, any form of contraception. Child-bearing age is generally 15 to 44, although for some countries contraceptive usage is measured for other age groups.

FOOD, HEALTH AND NUTRITION

Index of food production per capita (1979-81 = 100) - Index of per capita annual production of all food commodities. *Production* excludes animal feed and seed for agriculture. *Food commodities* include primary commodities (for example, sugarcane instead of sugar) which are edible and which contain nutrients (for example, tea and coffee are excluded). They include nuts, fruits, pulses, cereals, vegetables, oil seeds, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights.

Per capita supply of calories - Computed from energy equivalent of net food supplies available in a country, per capita, per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries, established by United States Department of Agriculture, provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal or pulse protein.

Population per physician - Population divided by the

number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by the number of practicing graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per hospital bed - Population divided by the number of hospital beds available in public and private, general and specialized hospitals, and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician.

Access to safe water (percentage of population) - total, urban, and rural - People (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from springs, sanitary wells, and protected boreholes). In an urban area this may be a public fountain or standpost located not more than 200 meters away. In rural areas this implies that members of the household do not have to spend a disproportionate part of the day fetching water.

LABOR FORCE

Total labor force (millions) - Economically active, including armed forces and unemployed but excluding housewives and students.

Female (percent) - Female labor force as a percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as a percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as a percentage of total labor force.

Participation rate (percent) - total, male, and female - Participation rates are the percentage of population of all ages in the labor force. These are based on ILO data on the age-sex structure of the population.

Age dependency ratio - Ratio of population under 15, and 65 and over, to the working age population (age 15-64).

HOUSING

Average size of household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and main meals.

Percentage of dwellings with electricity - total, urban,

and rural - Conventional dwellings with electricity in living quarters, as a percentage of all dwellings.

EDUCATION

Enrollment rates

Primary school enrollment - total, male and female - Gross enrollment of all ages at primary level as a percentage of school-age children as defined by each country, and reported to Unesco. While many countries consider primary school age to be 6-11 years, others use different age groups. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are younger or older than the country's own standard primary school age.

Secondary school enrollment - total, male and female - Computed in a similar manner, but including pupils enrolled in vocational, or teacher training secondary schools. The age group is usually 12 to 17.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in school divided by the total number of teachers.

Percentage pupils reaching grade six - The percentage of children starting primary school, that continue until grade six.

INCOME, CONSUMPTION, AND POVERTY

Energy consumption per capita (kilograms of oil equivalent) - Annual consumption of commercial primary energy (coal, lignite, petroleum, natural gas, and hydro, nuclear and geothermal electricity).

Income distribution - Income (both in cash and kind) accruing to percentile groups of households ranked by total household income.

Passenger cars (per thousand population) - Includes motor cars seating fewer than eight persons.

Newspaper circulation (per thousand population) - Average circulation of a "daily, general interest newspaper," defined as a news periodical published at least four times a week.

Estimated absolute poverty income level (US\$ per capita) - urban and rural - Absolute poverty income level is that below which a minimal nutritionally adequate diet plus essential nonfood requirements are not affordable.

Estimated population below absolute poverty income level (percent) - Percentage of urban and rural populations who live in "absolute poverty."

ANNEX 2

NATIONAL COMMISSION ON URBANISATION

The following summary is based on the Commission's Interim Report, dated January 1987. A final report was presented to the Prime Minister in August 1988 but, by October 1988, had not been published at the time this present report was being drafted.

Background

At the initiative of the Prime Minister, a National Commission on Urbanisation was constituted in 1985 with the following terms of reference:

- "i) To examine the state of urbanisation in the country with reference to the present demographic, economic, infrastructural, environmental, physical, shelter, energy, communication, land, poverty, aesthetic and cultural aspects;
- ii) To identify priority action areas, make projections of future needs and estimate available resources;
- iii) To formulate and recommend basic guidelines for the specific action plan in each of the identified priority action areas;
- iv) To evolve and recommend policy frames and suggest basic approaches for the encouragement of manageable urbanization;
- v) To recommend an institutional framework for monitoring the effective implementation of the Commission's recommendations; and,
- vi) To consider any other matter having a bearing on urbanisation and make suitable recommendations thereon."

There were nine members on the Commission, the majority of whom were from the private sector or academia. The Commission constituted working groups that were made up of Commission members and/or outside experts in eighteen topical areas. In addition, they commissioned twelve studies on various urban topics.

As can be discerned from the terms of reference, the Commission's task was divided into grappling with both the problems and the opportunities inherent in India's urbanization. The Commission's attitude to the issues was constructive, evidenced by the statement that "urban India has a very positive role to play in the restructuring of the Indian economy over the next few decades".

The Commission addressed itself to the following main issues:

- i) the position of urban India and its economy in the overall economy of the country;
- ii) the regional patterns of urbanization which are discernible, and the secular and induced trends and forces of urbanization;
- iii) the capacity of urban India to gainfully absorb both the secular growth of urban centers and the growth induced by migration;
- iv) the issues relating to the physical infrastructure which services cities;
- v) the laws, rules and regulations dealing with the urban process;
- vi) resources for urban growth and the identification of new sources, in keeping with the overall national economic strategy;
- vii) land as a resource for urbanization;
- viii) housing imperatives and the planning, research and technological responses;
- ix) the dimensions of urban poverty and the development of appropriate responses;
- x) a review of urban building form and aesthetics in order to identify patterns which are in consonance with resources and cultural heritage;
- xi) the evolving of policies and strategies for the conservation of the urban heritage;
- xii) the ecological impact of urbanization and the quality of urban environment;
- xiii) urban tensions, violence and disorientation; and,
- xiv) the institutional framework for the management of the urbanization process and administration of urban centers.

The Focus of the Commission's Interim Report

The Urban Financial Resource Base

The Commission was concerned with this issue and, in particular, the ability of municipalities themselves to mobilize resources. The Commission felt, that if anything, there has been an increasing

encroachment by the States on local resources.

For this reason, the Commission believed that a new institutional arrangement to cover the relationship between local bodies and the state governments is required before there can be equitable sharing of resources between national, state, and local levels of government.

India's "Nerve Centres": Calcutta, Bombay, Delhi and Madras

The Commission strongly believed that these four metropolitan cities, termed "National Cities", are the backbone of India's economy and that the needed investment must be found if they are to become even better engines of national growth and prosperity. The Commission seemed to realize that the point is well past when it could be debated as to whether the country's economy should hinge on the rural or urban sector. At this point in time, they are both of critical importance. When the drought of 1987 drastically reduced harvests over much of India, the entire economy was set back. India's GDP growth rate fell to 1.8%, from an average of 4.9% between 1980-87. The Commission believed that the collapse of one or more of the National Cities could have the same effect, if not so suddenly, perhaps even more drastic. Consider:

- o Bombay alone contributes 40% of the country's income tax revenue, and accounts for 24% of overseas trade;
- o 4.8 million of Bombay's total population of 8.2 million people are migrants, most of whom send considerable amounts of funds back to family members in many parts of India; and,
- o Calcutta's economy serves a market throughout north-eastern India with an estimated population of over 200 million people--the city of Calcutta in terms of its infrastructure has some bearing upon the livelihood of most of them.

The cost of the required improvements is high. The Commission states the cost of meeting Calcutta's "needs" alone at Rs.20,000 crores (\$14 billion). The Commission felt that one of the principal causes of the inability of the National Cities to pay for their own development is the "erosion of their economic base". They seemed to feel the existence of old, obsolete industries in the midst of these metropolitan areas, instead of "technologically contemporaneous and efficient economic activities", does not allow the rebuilding of these cities' wealth.

In short, the Commission questioned the GOI's industrial location policies, that neither allow new industry to enter the National Cities, nor the old to wither away, relocate, or even renovate. As the Commission says, "What logic is there to forcing decaying industry to continue to occupy valuable city space without contributing to the wellbeing of the city?"

The Rent Control and Urban Land Ceiling Acts

The Commission recognized that these two Acts have been responsible for significant urban development problems, not least of which is in the area of low-cost shelter. The laws "have acted as positive disincentives for easy access to land and the investment of resources in land development and housing construction". The Commission included in its interim report recommendations which while, mitigating the distortions, are intended to fully preserve the Urban Land Ceiling Act's aim of generating housing for the shelterless, and the Rent Control Act's objective of protecting tenants from summary actions.

The original rent control regulations were enacted about fifty years ago as a temporary measure developed to help allot vacant premises and fix a "fair" rent. Gradually the laws (each State typically has its own) have become permanent and their focus has become a freezing of rent at existing levels, and the protection of the tenancy rights of the occupant.

In theory, the various State versions of the Rent Act have the following provisions:

- i) control of letting and leasing of vacant buildings;
- ii) fixation of fair or standard rent;
- iii) protection of tenants from arbitrary eviction;
- iv) the obligation of owners regarding up-keep and maintenance;
- v) the rights of owners in case of misuse, non-payment of rent, etc.;
- vi) the procedure whereby owners can re-gain possession of the premises.

As is usually the case with rent control legislation, these Acts have seriously distorted the rental housing market. These effects are for the most part well known, and include a widespread "key money" system and physical deterioration of the rental housing stock.

Key Observations

Urban and economic growth patterns indicate that rural prosperity generates as much migration to urban places in India as does rural poverty. Not only is prosperity actually leading to the growth of urban areas, but there should be even faster growth if the full benefits of economic development are to be reaped by agriculturists.

The Commission is of the view that the thrust towards urbanization, both secular and induced, is inevitable, desirable, and well distributed.

The national and state governments have an unique opportunity for guiding the present urban pattern towards a system in which towns and cities continue to maintain strong, hierarchical, poly-centric linkages with defined hinterlands and micro-regions. There is no particular compulsion in India to concentrate urban activity only in a few large metropolitan areas. The logic for harnessing the potential of all or some of the 555 fastest growing towns is self-evident; any effort in this behalf should reap high dividends.

Distortions in the urban system are caused by:

- o lop-sided investment
- o wrong priorities
- o overstressing of the urban system in certain cities where localized pressures have built-up to explosive proportions
- o inadequate infrastructure
- o inefficiencies of management and defects in the legal system.

In its final report, the Commission was to look at the GOI's industrial policy, especially with regard to location, availability of infrastructure, and the offering of incentives. (The Commission feels that the mis-use of the policy has encouraged the growth of major industrial plants, largely unserved by the supporting physical and social infrastructure on the periphery of many large cities.)

The clearest signs of urban decay and poverty are the proliferation of slums. These underline the government's failure in three crucial areas:

- o urban land (served with access to employment)
- o housing finance
- o planning (inability to anticipate the scale of demand).

The Seventh Five-Year Plan states, "In fulfilling the basic needs of the population, housing ranks only next to food and clothing in importance." However, the actual total financial allocation contained in the Seventh Plan (1985-90) is only 1.3%, and the central government's share is only 0.16%.

The Commission's Major Interim Conclusions

The central government, according to the Commission, should assist the National Cities in a manner that permits them a continuing access to funds that can be recycled and reused, i.e., a municipal loan fund. Such a fund should be centered in an institution that will service initially

the National Cities, and eventually all metropolitan urban areas. (HUDCO would then fund urban development work in smaller cities, and the new National Housing Bank would take responsibility for housing.)

The Commission recommended that the share of urban development and housing investment for the proposed fund in the five-year plans be increased from about 1% to 2.5-3%, or about Rs.1,000 crores (\$700 million), with half being made available during the current seventh five-year plan ending in 1990.

Three models for this proposed fund were offered by the Commission; it would be administered through a specialized institution modeled along the lines of IDBI.

- o The first alternative is advancing money from the national budget, with 70% coming from the central government, and 10% each from the state governments of West Bengal, Maharashtra, and Tamil Nadu.
- o The second model would be of tapping the capital market (as HDFC has done). For this to be possible, partial privatization of the National and Metropolitan Cities Development Bank (which has been proposed) would have to be accepted. The Commission accepts this as doubtful in a climate where all large banks are nationalized.
- o The other method is that of raising funds through bonds or debentures. The Commission felt the sales of the financial instruments might be confined to the National Cities themselves.

The fund itself would be used to force the municipalities to revamp revenues and their administration. It would finance up to 75% of the project costs, the balance coming from the client municipality or development agency. The institution would be required to develop an appraisal, monitoring and evaluation capability which could not only oversee the proper utilization of the funds, but also ensure prompt repayment so that the fund could revolve.

ANNEX 3

URBAN PROFILES: BOMBAY, CALCUTTA AND DELHI

Bombay

Since the early 1970s, Bombay has been India's principal center for trade and industry. According to the 1981 census, Greater Bombay was calculated to have a population of over 8.2 million, spread over 440 sq. kms. The growth rate during the prior decade was 38%, a 5% drop from the preceding 10-year period. This rate of growth was moderate relative to that of many other Indian cities, and the city certainly has seen periods of faster growth itself: during the period from 1845-64, the population rose from 566 to 817,000. However, if the city continues to expand at the presumed rate of 65-75,000 households per year, by 1991 it will have about 14,000,000 residents and will be the largest metropolitan area in the nation.

The city's industrial sector accounts for about 670,000 jobs, or two-fifths of the total metropolitan employment. The sectoral distribution among the 1.5 million jobs indicates that economic diversity is considerable. The growth rate reflects economic strength. High in-migration and rising labor participation are characteristic of Bombay's present growth.

The economy of the State of Maharashtra has itself been expanding, outperforming the national economy during the 1970s. Bombay is by no means an economic parasite living-off an impoverished hinterland. Its flourishing economy is closely linked to that of an equally flourishing region.

Even though per capita incomes in the metro region were in 1976 the highest in the country, when last measured, in 1976, nearly half the population was estimated to have incomes below the poverty level.

	Greater Bombay		Bombay Metro. Region	
	area, sq.km.	pop. million	area, sq.km.	pop, million
1971	438	6.0		
1981	438	8.2	4.375	11.0 (total) 10.5 (urban)

Metropolitan Problems

Until the end of the second world war, Bombay was considered to be one of the best serviced and most efficiently run cities of India. After the war, and especially since Independence, rapid in-migration drove the growth rate to nearly 5% per year (and close to 8% in the suburban areas). The city limits of Bombay were expanded in 1951 and again in 1958 to incorporate the suburban growth, with the idea of providing expanded services. But the system was overwhelmed, the level of investment inadequate, and infrastructure and housing services began a decline that has continued to this day.

Examples of these deficiencies include:

- o the level of water available in the metropolitan region's largest industrial satellite towns is just 25 liters per head, or one-fifth the supply in the city of Greater Bombay;
- o areas outside the original city limits have no access to a sewerage system, and areas within, to deteriorating service; and,
- o the commuter rail system which accomodates 3.9 million passenger trips a day is on average operating at 150% of capacity with no significant investment for repairs.

Government Structure

While the entire metropolitan region of Bombay covers 4,375 sq. km., the Municipal Corporation of Greater Bombay (BMC) administers slightly less than 440 sq. km.. Among nationwide municipal entities the BMC is clearly preeminent. Created in 1888, the BMC, until 1984, could not be "superseded" by the state government--a power unmatched by any other municipal body. The BMC's scale of investment is the highest in the country. For example, during the fourth five-year plan (1971-75), \$107 million of the total nationwide municipal investment of \$192 million was accounted for by the BMC and its main subsidiary, Bombay Electric Supply & Transport Undertaking (BEST), in those 440 square kilometers.

The BMC's range of services (including BEST) is wider than that of any other municipal body, and includes transportation, electricity, and hospitals, along with the traditional municipal activities. The BMC's annual budget in the mid-1980s averaged some \$142 million, which includes a capital account budget of \$46.4-\$50.0 million. With a workforce of 90,000, the BMC is considered to be the largest civic body in the country.

A large number of state government departments and agencies are involved in regulatory and investment activities in the Bombay metro region. Many handle services outside the jurisdiction of the BMC. State bodies are significantly involved with housing, as the BMC is almost inactive in that area. This work consisted of both direct construction of new rental housing, and slum upgrading. Today, the emphasis is on upgrading of existing slums, along with some construction of housing for sale. Central government bodies are also present, such as the Ministry of Communication's Posts and Telegraph Department, responsible, inter alia, for the Bombay telephone system.

In total, there are over twenty-five major governmental bodies functioning in the metropolitan region. Lack of coordination is agreed to be a major problem.

The Fiscal Situation

The BMC has the largest revenue and capital budget of any city in India; its finances remain strong in spite of a large debt load. The key point is, however, that the BMC has been able to finance only 40% of the growing needs of the expanding population. The principal revenue sources, property tax and octroi (tax on goods coming into the city), are restricted. The expansion of the property tax in particular is severely constrained by its link with rent controlled values. Octroi is being abolished.

In practice, even in a relatively wealthy city such as Bombay, capital investments in the metropolitan region's public facilities and services are made principally by state and central government agencies, and parastatal organizations. And as is often the case, lack of programming coordination results in these resources not being utilized as efficiently as they could be.

The BMC's tax revenues have been expanding at around 9% a year, but this increase has been barely sufficient to keep real per capita revenue constant. It has had to borrow to finance most capital development, and now has a total debt of some \$228 million. While the corporation could incur a higher debt burden, its access to capital markets is strongly controlled by the state government.

Housing in Bombay

As weak as many of Bombay's urban services are, the city's major problem is commonly thought to be its housing. A 1976 survey of the metro area indicated slums with a population of 2.8 million persons. Updated figures in 1981 have increased that figure to at least 4.0 million--approximately 45% of Greater Bombay's population. What is significant is that the growth rate, 6.2% per year, represented by these figures, is larger than the overall growth rate for the metro area as a whole.

Since the mid-'70s at least \$20-25 million has been expended in slum upgrading programs affecting some 2.9 million residents. As for Bombay's population in non-slum housing, the 1981 survey indicated that 77% occupy one-room dwellings, and that 81% lack a separate kitchen.

Calcutta

The Calcutta Metropolitan District (CMD) covers an area of 1,414 sq. km.; the city of Calcutta and its twin of Howrah cover an area of about 133 sq. km.. Most of the growth in the CMD has occurred outside the city of Calcutta, whose growth rate dropped to 4.5% per year during the 1971-'81 census period, compared to the 7.6% and 8.5% during the previous two decades. Since 1981, the population of the CMD has been increasing by only 200,000 persons annually, principally due to natural increase. It is the slowest growing metropolitan city in India.

Although per capita incomes in Calcutta are higher than in the State of West Bengal, or in India as a whole, in absolute numbers the concentration of poor urban households is unmatched in India. Poverty thus underlies many of Calcutta's problems, including those of urban services.

While the population of the Calcutta Urban Area was estimated in 1981 as 9.2 million, the metro region was estimated in the early 1960s to serve a total market of 150 million living in north eastern India. Since that time industrial production in Calcutta has fallen at least 10% (in contrast to a national rise of 52%). The decline of Calcutta was first forewarned in 1914, and during the subsequent years of rapid economic, cultural, and physical change, urban development failed to keep pace. While this decline has been due to a number of factors, some relate directly to infrastructure problems.

In 1961, Prime Minister Nehru commented, "It would be a tremendous tragedy if the country's biggest city (Calcutta) went to pieces".

	Calcutta U.A.		Calcutta Metro. Region	
	area, sq.km.	pop. million	area, sq.km.	pop, million
1971	662	7.4	1,269	8.3
1981	852	9.2	1,414	10.0+

Infrastructure and Urban Services

The current status and condition of services may be judged from the following:

- o piped water is only available in the City of Calcutta and parts of a few other municipalites in the metro region;
- o waterborne sewage is limited to only one third of the area in the core of Calcutta City, but the primary treatment plant has not worked for years and the sewage just flows into the river and, eventually, the Bay of Bengal;
- o the city's flat topography combines with a deficient drainage system to result in an annually recurrent problem of serious flooding;
- o between 35% and 40% of the homes have no access to electricity;
- o an estimated 3 million persons live in the area's bustees, and another 2.5 million in non-bustee slums.

Structure of Government

Factionalism, fragmentation and conflicts of interest between the state and local levels of administration have been a perennial feature of the CMD's policies and politics. During the 1960s, there were 570 separate units of government having national, provincial, local, or special status, and yet no single law recognized the rise of the metropolitan region, nor did any institution do so until the creation of the Calcutta Metropolitan Planning Organisation (CMPO) in 1961.

The CMPO developed, with the help of the Ford Foundation, UNDP, and WHO, what was termed a "Basic Development Plan" (BDP). It was not a typical land use plan, but rather a broad spatial framework, the aim of which was to arrest further deterioration of the physical infrastructure in the metro region. The BDP was problem-oriented and contained a package of specific schemes to improve water supply, drainage, traffic and transportation, and living conditions in the slums.

While the BDP also proposed an elaborate reorganization of administration in the CMD, the overall proposals represented a striking example of the neatness vainly sought by metropolitan planners as a solution to fragmented and inefficient administration. The proposed concept of functional authorities relied heavily on foreign experience, and attempts to create such bodies at the metropolitan level were not successful.

The Calcutta Metropolitan Development Authority (CMDA), established in 1970, embodied the metropolitan concept strongly advocated in the BDP, but its mandate combined the functions of planning, programming, financing, and implementation - with emphasis on tackling a variety of sectoral projects through the existing structure of state and local agencies.

During the mid-'70s, the IDA and IBRD lent over \$120 million; another \$147 million was added in 1983 with the Third Calcutta Urban Development Project. A further \$56 million went into a separate public transport project. Thus, by the end of 1983, \$450 million was being invested in Calcutta's infrastructure. By the Sixth Five-year Plan (1975-80), investment in this sector had risen to almost \$6 per capita, one of the highest levels in India.

It is estimated that 2 million slum dwellers have benefited from these improvements, but, since many rent the house they live in, they have been hit by demands from landlords for increased rent. Other improvements such as the increase in treated water have been realized, but some areas such as solid waste collection have not improved much at all. Unfortunately, the institutional capacity of the metropolitan agencies, particularly that of the local bodies, has been unequal to the task of maintaining the assets created.

Case Study: Urban Land Policy in Delhi

The central government set up the Delhi Development Authority (DDA) in 1961 as a response to unplanned squatter developments during the 1950s resulting from the influx of refugees following partition, a rise in urban land prices, and a perception of a urban service breakdown. The government felt the planned development of Delhi would address each of these problems.

The Delhi Master Plan, developed in 1962-3 with Ford Foundation assistance, called for the public acquisition by the DDA of 72,000 acres between 1961 and 1981. Prior to this time, private developers bought freehold land on a widespread basis. Over 90,000 plots were eventually developed, largely in south and west Delhi. This private sector 'land bank' has recently dried-up. Little new land has come onto the market since 1976, and nearly all the serviced plots are now built upon.

During this period, 70,000 acres were "notified" as required by the 1894 Land Acquisition Act, representing nearly all of the urbanizable land in the city. It represents one of the largest land acquisition efforts for urban development of all time. As of the beginning of 1983, a total of 43,000 acres had actually been acquired by the DDA.

Of the 43,000 acres purchased by 1983, the following uses were made:

- 14,000 acres - DDA residential development schemes (middle income)
- 7,000 acres - DDA squatter resettlement projects
- 11,000 acres - industrial, commercial, and institutional
- 7,000 acres - parks, tree reserves, and other open space
- 2,000 acres - "unauthorized" use
- 4,000 acres - still vacant.

The average cost of the DDA land acquisitions was between Rs.5 and 10/sq. meter, whereas the price of raw land charged to the housing allottees averaged Rs.62/sq. meter. The actual cost of the developed land for this residential use ranged between Rs.260 and 420/sq. meter. In comparison, prices of land developed for commercial use were established by auction during 1981-82 in the range of Rs. 5,000-6,000/sq. meter.

The fact that Delhi was India's first master planned city does not mean that today the city is planned. A 1979 study indicates that at that time only 37% of the city's residential "localities" were planned. About half of these had been developed by the DDA, and the remainder by the private sector. Of this latter group, "authorized" areas accounted for 54%, and "unauthorized" the remainder. The authorized localities are inhabited by the original population of the city, i.e., Old Delhi, and the unauthorized areas were largely located on the periphery, especially to the north and east of the core. (Yadav 1979)

Land was disposed through auctions (except for low income groups and cooperative societies), and profits were to be used to finance slum upgrading and resettlement projects. Transfer of leased land was restricted for 10 years. The scheme is reputed to have been financially successful. It has, however, been criticized on the grounds that (a) resultant house prices are unaffordable to the target groups; and (b) densities are excessively low - points that are perhaps not unrelated.

At the time of the DDA's founding, there were an estimated 45,000 squatter households on public land. By 1975, a survey conducted by the TCPO indicated more than 142,000 structures in 471 illegal colonies. It was clear by then that "planned development" through a master plan would not stop the growth of illegal squatter settlements.

Other squatter communities were cleared from congested areas of Delhi and relocated. Between 1960 and 1975 over 53,000 households were thus relocated. The real moves came, however, between 1975 and mid-1976: 120,000 households were moved to resettlement colonies on the eastern edge of Delhi. One of them, Jahangirpuri, is the country's largest resettlement colony. It has 12 blocks of 2,000 houses each, with a total population of around 100,000. The community does not have piped water or a waterborne sewerage system.

Subsequently, mass clearances and resettlement of slum dwellers have diminished, and many of the unauthorized communities have been "regularized". This implies security of tenure, but does not automatically imply the provision of basic urban services.

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ANNEX 4

URBAN PLANNING

Urban planning was first practiced in Bombay in 1915, at the instigation of the English planner, Patrick Geddes. Madras followed suit five years later, and the Punjab, in 1922. The enabling legislation for this work was brought from England and was used with little or no modification.

Little changed after Independence. The Constitution requires that only state governments can enact laws relating to land use and local government. The central government can only enact legislation in regard to planning for its own Union Territories, but even then, it is left to the local municipal body to implement the plans.

The role of the central government has been to draft model planning legislation for use, as desired, by state and metropolitan governments. The first model town and country planning law was prepared in 1960 by the central Regional and Urban Planning Organisation. Most states have subsequently used this model to revise their existing planning laws.

The model legislation was revised, reissued, and renamed the Regional and Town Planning and Development Law in 1985 by the Town and Country Planning Organisation (TCPO). The model law covers all aspects of urban planning and development except land acquisition.

The model law also suggests the method by which the legislation can be implemented. Each state is to establish a Regional and Town Planning Board, and the office of Chief Town Planner. The Board is an advisory body which coordinates the developmental activities at state and local levels. In most cases, states also have a Ministry of Urban Development which interfaces with the national level and the metropolitan development authorities.

According to the TCPO, town planning in India, as elsewhere, was mainly concerned with physical planning, but has now become more comprehensive in nature and now deals with economic and social issues as well. This may be so, but the legislation at the national level is still almost entirely concerned with physical planning matters. This new model law, intended as a guideline only, has been recommended to the states for adoption with such modifications as suit local conditions.

Several states, however, still rely on legislation that is antiquated, and in a few cases some lack any legislation at all. For example, Jammu & Kashmir's planning law dates from the early 1960's, and does not provide for comprehensive planning and plan implementation. Development authorities, however, have been established for Srinagar and Jammu, although neither city has had a master plan prepared for it. As of 1985, there was no effective planning legislation available in the

State of Rajasthan. The existing legislation, dating from the late 1950's, empowers the state to prepare a master plan for any urban area, although none have been prepared. A draft Rajasthan Town and Country Planning Bill has been developed which specifically excludes the Jaipur metropolitan region since it has its own Development Authority.

Several north-eastern states and smaller Union Territories also lack planning legislation and capacity. In all cases the TCPO is available to consult and help develop the necessary legislation. In several instances, this process is now under way.

Examples of planning and development legislation at the state and municipal levels indicate that little effort has been made to adapt them to the circumstances found in Indian cities today. In other words, the legislation is still modeled too closely on obsolete western patterns, and does not acknowledge Indian cities' unique features, special needs, and resource constraints.

In an effort to maximize the practical application of planning, the TCPO has embarked upon a program to link itself by computer to the state planning offices. Up to this point the use of computers has been sporadic. The U.N. and bilateral donors have contributed computer hardware and software, but it has tended to be scattered through a variety of government departments and levels. The attempt now is to centralize and begin to rationalize its use. The Eighth Plan (1990-95) is expected to set aside resources for building-up computer units in the TCPO and at the state level.

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ANNEX 5

STATE CONTROL OF MUNICIPAL FINANCES

Borrowing

No municipal authority can raise a loan without the explicit approval of its state government. With the exceptions of the large municipal corporations (Bombay, Calcutta and Madras), municipal authorities may only borrow from the state governments. (In case of emergency, the municipal authorities sometimes borrow from commercial banks--but only with state permission.) The central government does not directly lend to the municipal governments, although central funds are routed through the states for undertaking specific municipal projects.

Taxation

State control over municipal taxation takes place in two ways: first, control over imposition of a new tax; and second, approval of tax rates. Furthermore, all indebted municipalities need state government permission to abolish or reduce a municipal tax.

Budget and Expenditure

In a number of states, municipal budgets require state approval, but for an indebted municipality such approval is mandatory. State control over municipal expenditure is quite extensive and rigid. In a few states, even municipal corporations have to approach the state governments for approval of capital project estimates.

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ANNEX 6

HOUSING AND URBAN DEVELOPMENT INSTITUTIONS

[Descriptions enclosed in quotation marks are taken directly from Shelter in India, Development Alternatives, New Delhi, October 1986.]

Central Government

Ministry of Urban Development (MUD)

MUD is the successor to the former Ministry of Public Works and Housing, and retains many of the functions implied by that name, including the provision of housing for government employees. Since housing and urban development are state government responsibilities, the functions of MUD in these areas are largely advisory and hortatory. MUD was, for instance, the body that drafted the National Housing Policy and was responsible for steering it through numerous meetings and corresponding drafts. It was responsible for providing the secretariat for the National Commission on Urbanisation, and prepares statements on the sector for international conferences. It takes the lead in drafting model or national legislation, including the revisions to the Urban Land Ceiling Act and the Delhi Rent Control Act.

MUD has a number of subsidiary agencies for which it has nominal responsibility, including HUDCO (and its associate, HSMI), the National Buildings Organisation and the Town and Country Planning Organisation. It also has some responsibilities for the National Institute of Urban Affairs. All of these organizations are briefly described below.

MUD is headed by a Secretary. There are five Joint Secretaries immediately lower in the hierarchy: of these, those most relevant to the shelter and urban sectors have responsibility for Housing & Human Settlements, and for Urban Development.

National Buildings Organisation (NBO)

"This is a clearing house for information on building and building research in the country and disseminates the products of various R&D organizations. It works to improve the production of traditional building materials and promote new building material industries and rural housing through research, training and demonstration and develop housing and building statistics." The NBO has 15 Regional Housing Development Centres spread throughout the country.

Town and Country Planning Organization (TCPO)

The TCPO is a department of the Ministry of Urban Development, formed from the amalgamation of two other departments in 1962. It has primarily an advisory role, in the formulation of policies at national level and

model legislation and advice on physical planning matters to state governments. It has a consultancy service, through which it prepares land use plans for other public agencies. The TCPO is headed by a Chief Planner, who reports to the Secretary, Ministry of Urban Development. The functions of the TCPO are more fully discussed in Annex 4.

Housing and Urban Development Corporation (HUDCO)

The following description of HUDCO is abstracted from a paper jointly authored by the now Joint Secretary (Housing), Ministry of Urban Development and the Financial Advisor to HUDCO (Sundaram and Ahuja, 1983).

"HUDCO was set up in 1970 as a government owned company in order to

- (a) finance or undertake
 - (i) housing and urban development programmes;
 - (ii) development of new or satellite towns;
 - (iii) setting up of building material industries; and
- (b) extending consultancy assistance for projects within India and abroad.

The resources of HUDCO are derived from equity, government guaranteed debentures, borrowing from financial institutions and internal resources. ...With these funds, HUDCO supports projects in:

- urban and rural housing
- sites and services
- squatter upgradation
- employee housing
- cooperative housing
- private housing
- urban development schemes
- building material schemes
- commercial projects.

The loans are given to housing agencies and development authorities etc at terms geared to generate housing within the affordable capacity of different income categories. The HUDCO terms include:

- all-inclusive cost ceilings
- graded scale of loan assistance
- differential interest rates
- differential repayment period."

HUDCO's operations are discussed in Section 6.5 of this report.

National Housing Bank

The NHB is described in Section 6.5.

State and Local Governments

State Housing Ministries

"The Housing/Urban Development Ministry at the State level is the coordinating authority in the area of urban and often rural shelter. They have overlapping functions with the Public Works Ministry and the departments and ministries dealing with local authorities, and water supply and sanitation."

State Housing Boards

Housing Boards are semi-autonomous agencies which execute "social housing" programmes in each State. Their statutory responsibilities are to "promote" housing, but their activities are typically confined to land acquisition and the construction of conventional housing schemes. There are about 40 such boards (including Slum Boards and Rural Housing Boards). They would typically employ about 200 professionals, of whom half would be engineers and architects. Projects are usually executed through contractors.

Municipal Corporations

There are about 2,000 municipal corporations and municipalities in the country. They derive their authority from State legislation, which varies from place to place. In general, all urban local bodies have the following responsibilities:

- o water supply, sanitation, public health and conservancy;
- o roads, street lighting and building control;
- o provision of "common facilities"; and
- o provision of measures for public safety.

Municipal corporations generally (but not invariably) have a larger population and area than municipalities, and enjoy a higher degree of autonomy and tax powers than other urban bodies.

In a number of cases, however, the duties of the municipalities have been very considerably lessened by the transfer of responsibilities to other bodies, such as Development Authorities and utility undertakings. In many instances, their residual responsibilities are limited to little more than maintaining facilities which were originally planned, financed and provided by some other agency.

Development Authorities

Development Authorities are agencies of the state governments and, like the municipal authorities, their duties and powers differ from city to city. In general, however, they are responsible for capital

development, particularly of new lands, and often act as public works agencies. In other cases, they have responsibility for metropolitan management, planning and land acquisition and development. They have generally been created in response to specific situations, and where the existing local authorities were seen as incapable of fulfilling the required functions at that time.

There are about 200 Development Authorities in India, ranging from the huge Delhi Development Authority (DDA) with 50,000 employees, downwards. Average employment is about 1,000, of whom 250 are professionals. Most, but not all large towns have Development Authorities: Pune and Nagpur are cases in point where they have not been created.

Government Research Institutes

National Institute of Urban Affairs (NIUA)

The NIUA was established by the government to act as a center for the advanced study of urban and regional development and administration, to offer consultancy services, sponsor training courses and to act as a clearing house of information. The Ministry of Urban Development nominates the President of the NIUA's governing body, and is required to approve the appointment of its director. It also provides an annual grant-in-aid, and sponsors a number of research studies and events. In all other respects, however, the Institute is autonomous. It has recently published a number of reports of studies, including two series that have been widely used in the preparation of this study ("State of India's Urbanisation", and papers on urban poverty).

Central Building Research Institute (CBRI)

"CBRI is the premier institution for building research in the country with a wide span of activities ranging from building materials, design, construction, settlement planning to rural housing. It has a fair research budget and large numbers of qualified scientists... The Institute disseminates its information and techniques through six extension centres and the NBO."

Structural Engineering Research Centre

"SERC works on specialised design and development work in the field of high rise buildings, large span structures, industrialised and other specialised building systems. SERC has done some limited work in the area of low cost construction relating to roofing elements and foundations."

Human Settlements Management Institute (HSMI)

HSMI was established in 1985, as a subsidiary of HUDCO, to provide training to human settlements professionals; to provide a forum for interaction among professionals, academics, administrators and others; and to promote research. It has been working to date with the assistance of professionals from the Institute of Housing Studies, Rotterdam, under an Indo-Dutch Technical Assistance Program.

HSMI offers a number of training activities, in particular short courses in the design and management of housing projects. The training courses are intended for mid-career, middle management level professionals. The participants are predominantly, but not exclusively, drawn from state and municipal bodies.

It has an ambitious research program (again, mainly in the field of shelter, and largely public-sector project oriented). In part, this is an in-house program, but to a large extent it is managed by HSMI through the grant of research fellowships. HSMI also offers consulting services and an information and documentation service, although these are presently subsidiary activities.

Others

The Forest Research Institute is interested in the engineering of timber structures. The National Council for Cement and Building Materials draws its support from the cement industry.

Training Institutions

The report of the Training Needs Assessment Study for HSMI listed the following as the main training institutions for human settlements projects:

- o Indian Institute of Public Administration (IIPA)
- o Indian Institutes of Management (Ahmedabad and Calcutta)
- o National Institute of Urban Affairs (see above)
- o Regional Centres for Urban Studies: one at IIPA, others at Lucknow and Osmania University, Hyderabad
- o All India Institute for Local Self Government, Bombay
- o State Government Training Centres
- o Human Settlements Management Institute (see above).

In addition, an International Network Training Programme on Low Cost Water Supply and Sanitation has been set up, and is being implemented through the All India Institute of Hygiene and Public Health, and the Centre for Environmental Studies, Anna University, Madras.

Training in architecture is offered at the Indian Institutes of Technology, and the main schools of Planning and Architecture (which include Delhi, Bombay, Madras, Ahmedabad and Chandigarh, among others).

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ANNEX 7

THE MISSION'S PAST URBAN PROGRAMS

The Shelter Sector Strategy

The Mission's Shelter Sector Strategy was formalized in 1984. It reflected the concept of the first Housing Guaranty (HG) project in India, and has guided all subsequent work in the sector, up to and including the design of the most recent project, the Housing Finance System Program (HG 003).

The strategy paper argued that public policy in India had accorded a low priority to investment in housing. This resulted in large numbers of people being ill-housed; these people, in turn, were less productive, have greater difficulty educating themselves and are a greater burden on health, public safety and other services than well-housed citizens. The paper also found that, since many are denied the opportunity to buy themselves a house, then capital and labor, which would be drawn to housing in a more neutral market, were not being invested.

At the same time, there was seen to be considerable demand for housing by households whose incomes and savings would be adequate to purchase a market rate dwelling if the supply of houses and long-term financing were restricted only by market forces, and if regulations were designed to promote equity and openness in the marketplace. It was argued that demand would be forthcoming if there were adequate institutional development.

The goal was therefore articulated of developing "a fully functioning private housing finance system which raises its capital internally and which makes long-term shelter finance available to households with a wide range of income levels, including lower income households".

The strategy paper justified using housing finance as the point of entrance to the housing sector, rather than addressing issues such as infrastructure or construction management, on four grounds:

- (1) The first step in turning suppressed demand into effective demand is to provide capital with which that demand can be expressed.
- (2) AID had (by 1984) already initiated the process of developing a housing finance system, through its support of HDFC. Much, however, remained to be done, in the shape of "developing other institutions which will ultimately expand the reach of the private sector in housing, permit specialization and market segmentation, encourage competition, permit the deconcentration of risks and profits, and increase the number of private sector voices advocating needed policy changes".

- (3) AID's resources were relatively limited, and it must therefore concentrate on fields "within measurable boundaries".
- (4) The problems and opportunities of other sub-sectors (land use was given as an example) are almost boundless, and would "require familiarity with a panoply of legal systems, hundreds of local economic contexts and political sensitivities".

AID proposed to follow three steps to pursue its goal of developing the housing finance system. The first entailed augmenting the resources of and providing technical assistance to "a client institution". The second step required the advocacy of policy changes which would allow the client to expand further, to reach lower income clients and to assist other institutions to reach such clients. The final step of the cycle was to select a new institution with which to work, in order to "achieve the critical mass of primary financial activity necessary to support secondary activity".

HG-001: Private Sector Housing Finance Program

Consistent with this strategy, the Housing Guaranty (HG) program in India initially focused support on the Housing Development Finance Corporation (HDFC), a joint sector mortgage lender which started operations in 1978. Under the Government of India's (GOI) highly regulated financial system and its use of directed credit, HDFC, as a market-oriented housing finance institution, was at a severe disadvantage in its early years in mobilizing resources for lending to household borrowers. The purpose of the HG program was to enable HDFC to continue to expand its operations and firmly establish itself in the market as a source of mortgage financing.

Project HG-001, the Private Housing Sector Program, was authorized in August 1981. It consisted of a two-phase \$30 million HG loan to HDFC to finance market rate loans to individuals and corporate entities for families with incomes below the urban median. The funds were fully disbursed by April 1984.

HG-002: Private Housing Finance for Low-Income Families

HG-002 was authorized in 1984, originally for \$60 million, later enlarged to \$95 million. As in HG-001, the proceeds were loaned to HDFC in several tranches; the objective was to consolidate the company's growth, but with a greater emphasis on sectoral development. By September 1988, \$60 million had been disbursed, and the remaining \$35 million was expected to be disbursed by the end of 1988.

Over the period of these two HG programs, and with the support and assistance of AID, HDFC has become extremely successful in delivering housing loans to a wide range of income levels, including below-median income households. It has had a consistent annual loan growth rate of 38%, by value, between 1981 and 1987. It has pioneered many innovative savings and loan instruments and, by the development of some 18 branch offices, provides services to all geographic regions of the country. It is also providing financial and technical assistance to several new housing finance companies in the joint sector. HDFC has succeeded in prospering despite a financially restrictive domestic climate that has not favored the development of housing finance companies. It has become the role model for South Asia and further afield. Because of its domestic success, it has been able to influence public policy affecting housing finance and, in the last few years, to have attracted a number of competitor companies to the sector.

HG-003: Housing Finance System Program

The most recent program, authorized in September 1988, is designed to develop a system of market-oriented housing finance companies by (1) providing critically-needed lending capital to meet near-and mid-term needs of eligible companies serving a number of geographic areas; (2) fostering a relationship between recent entrants to the sector and the new National Housing Bank, in order to improve the new firms' ability to mobilize resources, manage their portfolios, increase lending to low income households, and operate more efficiently within the existing public policy environment; and (3) addressing a number of sectoral constraints on expanding the system, through technical assistance, training and policy dialogue.

The program will channel funds through an intermediary, the National Housing Bank which, in turn, will on-lend rupees to housing finance companies that meet eligibility requirements. These are, principally, adherence to sound commercial and financial practice and lending to households below the median income.

It is to be a five year, \$50 million, program, of which \$25 million is reserved for firms which are entirely in private ownership.

Technical assistance and training are an important component of the program. These will be directed both at NHB, to enable it to administer housing finance programs, and at the primary lenders, to enable them to function efficiently and, most importantly, to help them mobilize resources in addition to HG funds.

While the program addresses the need of the fledgling housing finance system for additional liquidity, it simultaneously addresses several of the government's own policy initiatives. These include the mobilization

of additional domestic resources for housing, extension of the benefits of housing finance to lower income households and to wider geographic areas, and strengthening sustainability of the system by laying the groundwork for development of a secondary mortgage market.

The Country Development Strategy Statement (CDSS)

The Mission's CDSS for 1989-94 was completed in June 1988. It recognizes that India's primary challenge in the next decade will be to sustain and accelerate its recent economic achievements in the face of massive poverty, a persistently high population growth rate and increasing strain on its financial, institutional and natural resources. Only by increasing the productivity and efficiency of its resources and investments across the board will India be able to maintain a growth path to middle income status in the next 12 - 15 years. The strategy aims to support such an evolution by addressing certain critical constraints to increased growth and productivity, while ensuring complementary, well-targetted actions against poverty among India's most vulnerable groups.