CHAPTER I
Introduction

India, which figures in the middle rung in the hierarchy among low income countries, is facing an acute shortage in the provision of basic services for its growing urban population in general and the poor in particular. The problem apparently is more serious in less developed states and small and medium towns, many among these experiencing rapid demographic growth during the past few decades. Many of the developed states and metropolitan cities, too, are facing difficulties in providing the minimum level of amenities, despite their higher level of income as also revenue generating capacity.

It has been observed that cities make important contributions to economies of developing countries, producing more than 60 percent of gross national product. The effectiveness of cities in performing their functions as “engines of economic growth,” however, depends largely on capacities of local governments to mobilize local resources, provide infrastructure, and improve access to shelter and services. Further, rapid urbanisation in developing countries has led to increased incidence of urban poverty, inadequate access to housing, primary health care and water supply, the proliferation of slums and squatter settlements, and urban environmental degradation.

Most municipal governments lack financial and administrative resources to provide basic urban services. Government investments have been cornered often by middle to high-income colonies. Left to themselves, the urban poor have resorted to informal mechanisms to obtain basic services. However, the availability of services is very low due to their low paying capacity, uncertainties of service delivery and costs being very high due to illegal or semi legal nature of functioning in the informal market (Cheema 1987; Rondinelli and Cheema 1988; Rodwin 1987).¹

A number of para-statal agencies were created entrusted with the responsibility of provision of basic services to urban population during fifties, the decade of launching of a strategy of planned development. Within a few years of their operation, these agencies

¹ It has been estimated that 30 to 50 percent of the residents of most large Asian cities live in such settlements (Cheema 1993).
faced sharp criticism on grounds of inefficiency, lack of cost effectiveness and continuous dependence on grants for sustenance. The criticism gathered momentum during late seventies and eighties and as a consequence the pattern of urban governance experienced significant changes. The organisational structure and the supporting financing system existing in the earlier decades went through a process of restructuring. Subsidised institutional funds made available to the para-statal agencies through complex institutional arrangement also came down drastically. As a result of the economic reforms and fiscal controls introduced formally in the early nineties, the budgetary support to the government declined drastically. Also, the "financial discipline" imposed by the Reserve Bank of India and other public sector financial bodies compelled these agencies and the urban local bodies (ULBs) to generate resources internally or borrow from the financial institutions, and in a few cases, from the capital market at a high rate of interest. This has come in the way of the ULBs taking up projects for slum improvement or delivery of services to the poor as they have low affordability. As a result of all these, the level of basic amenities is likely to become less in the future years for the urban poor.

It may be noted that urban infrastructure financing requirements are far more than the limited resources available from government sources. India Infrastructure Report (Rakesh Mohan Committee, 1996) has estimated that Rs. 2,50,000 crore would be needed for covering the backlog in service provision and for making new investments and operations and maintenance for the next 10 years. This would mean an estimated annual requirement of Rs. 25,000 crore. Against this figure, the Ninth Five Year Plan puts an estimate of Rs. 12,000 crore for urban development, water supply and sanitation. This implies that proposed funds for urban infrastructure development is less than one tenth of the requirement at the macro level and it is proposed that the local bodies would come forward in a big way to mobilise a part of the required resources (Suresh 2000).

The Eighth and the Ninth Plans, thus, envisaged cost recovery to be built into the municipal finance system. The cities are expected to undertake capital investment in water supply and sanitation facilities, in addition to covering the operational costs. Moreover, most of the projects on urban development are to be undertaken through institutional finance rather than budgetary support. A strong case has been made to make
the agencies accountable and financially viable. Also, the cost of borrowing for these agencies has gone up significantly, thus discouraging them to undertake socially desirable but financially unremunerative projects, like those for providing water supply and sanitation facilities in low income areas. These policy changes are likely to accentuate disparity in the availability of services across states, size class of urban centres and within cities. The problem would be more critical for small and medium towns, since these have low economic base and very little possibility of mobilising resources internally.

Decentralisation has become the keyword of urban governance in the nineties. The underlying idea of decentralisation is to transfer not only the responsibility of planning and management from the central and state governments to the local bodies, but also powers of raising resources (Kundu 1996). With further liberalisation measures being launched, private participation and market-based mechanisms would play increasingly important role in the provision of urban services (Singh and Tai 2000). The private sector is unlikely to pick up infrastructural projects meant for slums or urban poor, due to difficulties of recovering costs. Even if they do, they tend to price them out of the reach of the poor. While privatisation seems to be able to take care of the issues of quality and efficiency, it is unsuited to tackle the problem of equity. This is likely to increase the intra-urban inequity. The state governments must, therefore, realise that the difficulties of meeting the objective of social justice through the independent functioning of civic bodies (Jha and Siddiqui 2000).

A significant development in the context of mobilising resources from the capital market or even taking a major loan from the public sector institutions like Housing and Urban Development Corporation of India (HUDCO) is introduction of the system of rating creditworthiness. The performance-rating index has been evolved to identify the performance level of borrowing agencies, which has become an important component of project appraisal exercise. Rating of agencies is based on certain market-based parameters and this has become almost mandatory for mobilising resources from the capital market or institutional sources. It is a tool for risk assessment. Since the organisational structure, financial profile and functioning of the borrowing agencies vary significantly, separate proforma have been devised for different category of agency, viz.,
Public housing agencies, parastatal agencies, urban local bodies, agencies channelising funds to ULBs etc. Parameters used for all categories of agencies are the same, although eightages vary among different borrowing agencies. The credit rating agencies nergerg on the urban scene are Credit Analysis and Research (CARE), Credit Rating Information Services of India Limited (CRISIL), Investment Information and Credit Rating Agency of India (ICRA) etc. These have been supported directly or indirectly by international banking cum development agencies (Kundu 2001).

Another significant development in the field of infrastructure financing is the operation of escrow accounts by which the debt repayment obligations are given utmost priority and kept independent of the overall financial position of the borrowing agencies. These agencies (city governments or utility boards) are required to tie up certain portions or the entire amount of their potential earnings like state government grants, property tax, octroi etc., to service the debt. A trustee, who is paid for the service, monitors the debt servicing and that a borrowing agency would not have access to the pledged resources until the pan is repaid. In fact, even institutional agencies such as HUDCO have made it mandatory for local bodies to escrow part of their revenue sources to service their debts.

All these measures of financial discipline introduced in the nineties would understandably come in the way of resource mobilisation by the weak local bodies. With 100 percent cost recovery being built in to the system of borrowing, it would be increasingly difficult for the small ULBs to access funds. A few among the small local bodies in the developed states, like centres connected with national or international market for historical reasons, tourist places etc. would be successful in complying with the strict conditionalities and obtain loans. A large majority of the ULBs in the less developed districts of the backward states, however, which are in dire need of investment in infrastructure and basic services, would be unable to exhibit the required credit worthiness.

With the decline of the budgetary allocation for urban infrastructure in real terms and the inadequacy of resources at the hands of the agencies responsible for providing urban infrastructure, capital investments are declining. It is argued that institutional borrowing
and the primary capital market are thus, the only potential sources for financing urban infrastructure. However, both these sources have a prerequisite in that the borrowing agency should be able to demonstrate its creditworthiness to the lender or investor (represented by a credit rating agency). The borrowing and repayment capacities of city governments is difficult to assess as requisite information on their financial status does not exist or is extremely weak (Pandey 2000).

Given these trends in the context of provision of basic services, serious deficiencies therein, high and growing inequalities in the level and quality of services across and within cities etc, the present study analyses the dynamics of urban development and changing system of governance in the country. The macro and state level study focuses on the disparities in the provision of electricity, water supply and toilet facilities. The rest of the study takes up the facilities like water supply and sanitation only. In an attempt to identify the factors responsible for the deficiency and disparity in the provision of services, interdependence among a set of indicators on urban growth rates, socio-economic development, level of amenities and institutional funding etc., has been analysed at the state, district, town and ward levels. The impact of the changes in the organisational and institutional structure, select programmes, the system of governance etc. on the availability of basic amenities has also been examined, quantitatively as well as qualitatively, to find explanations for the present problem and to propose remedies to it.

**Objectives of the Study**

The thesis would try to achieve the following:

a) Analyse the trends and pattern of urbanisation across states and size class of settlements during the seventies, eighties and nineties focussing on their economic bases and their capacity to mobilise resources for provision of infrastructure and basic amenities.

b) Assess the disparity in the provision of basic services across states and size class of settlements and its interrelation with urban growth and economic base.
c) Analyse the organisational and institutional structures at various levels for providing basic amenities and identify the vertical and horizontal linkages among them and the deficiencies in their functioning, focusing on the changes brought about during the period of liberalisation.

d) Study the pattern of urbanisation, its economic base and the nature of governance in the state of Gujarat, which has gone in for innovative system of municipal administration and financing of urban services and analyse its changing policies and perspectives on urban governance. An attempt is made to analyse the variation in level of amenities across size class of towns in the state in relation to the socio-economic characteristics, municipal income and expenditures.

e) Examine the variation in the level of basic services and physical quality of living for the towns in the district, urban agglomeration and wards in the municipal corporation of Ahmedabad and analyse the interdependencies among the indicators of basic amenities and other socio-economic characteristics.

f) Analyse the pattern of capital and revenue income and expenditure and debt-financing system in the metropolitan city of Ahmedabad and examine whether the concerned local body has the necessary economic potential to broaden its resource base as envisaged in the 74th Constitutional Amendment Act.

g) Examine the recent initiatives taken by the city authority to involve the community to decentralise and privatise some of the services and assess whether the present initiatives would improve the level of services in the future.

**Hypotheses**

Based on the above objectives, the following hypotheses have been formulated and tested empirically:

a) The urban growth pattern in India reflects dualism. The class I cities in the developed states show a higher growth of urban population than those in the backward states which may be attributed to the stronger economic base of the
former. The small and medium towns of the backward states, on the other hand, register a higher growth rate than their counterparts in the developed states. This can partly be attributed to government expenditures in certain district or taluka headquarters but largely to the immigration of rural population because of push factors. Smaller towns, particularly those in backward states have serious deficiencies in infrastructure and basic amenities, compounded by their higher demographic growth.

b) Large cities in developed states enjoy a high level of basic services compared to those in backward states. The positive relationship of population size with economic base and level of amenities can be noted within the relatively developed state like Gujarat.

c) The availability of amenities is linked to the level of municipal revenue and expenditure.

d) The coverage of population with basic services tends to be low in smaller towns also because of their incapacity to tap institutional finance or private capital. Further, the towns located in close proximity of metropolitan cities in the developed states tend to enjoy higher level of services, which is denied to the towns in the distant hinterland.

e) With the decline in budgetary support to the state level agencies and passing of the 74th Constitutional Amendment Act (CAA), local bodies in Gujarat are required to generate resources from internal sources. This has led to serious inter regional and intra- regional disparity.

f) Large cities like Ahmedabad in the state of Gujarat has resorted to debt financing by borrowing from the capital market which has increased their vulnerability and may accentuate intra-city disparity.

g) There is significant disparity in the level of services and physical quality of living within the district, urban agglomeration and Municipal Corporation of Ahmedabad. The city of Ahmedabad as also the towns in its close proximity has
high level of amenities because of their stronger economic base and revenue generating capacity. There is significant disparity in the physical quality of life even within the corporation. The wards that have a high level of economic activity exhibit poor physical quality of living and a low level of social development. The residential wards with high quality of living tend to have high social development and succeed in pushing out economic activities to other wards that have a high incidence of poor, migrant and Scheduled Caste and Scheduled Tribe (SC & ST) population. The people in the former are capable of paying higher user charges and thereby attract higher levels of investment by private sector and some of the government schemes that have cost recovery condition. The intra-city disparity in the provision of basic amenities, therefore, is likely to increase in future years, resulting in segmentation of the city.

Area of the Study

The study has been conducted at three levels; at the all India level, taking the major 15 states as the units of analysis; state level, taking the different size class of urban centres as the units of analysis and city (or urban agglomeration) level taking wards (or towns) as units of analysis. The state of Gujarat and Ahmedabad city has been taken up for detailed study. Further, towns falling within Ahmedabad district and urban agglomeration has also been the units of analysis.

Database

The study is based on secondary as well as primary data. The all-India and state level analysis draws on data from various secondary sources. Indicators of basic amenities has been constructed by taking data from Household Tables, Town Directories, etc. of the Census of India and various rounds of National Sample Survey data (primarily 32nd, 44th, 49th and 54th rounds). Data for construction of demographic and socio-economic indicators have been drawn from Population and Economic Tables of the Population Census, NSS volumes, Eleventh Finance Commission Report, Gujarat State Finance Commission Report, various volumes of Economic Survey, Reserve Bank of India

\(^2\) Map No. 1.1
Bulletin etc. Published and unpublished data on the governmental programmes and financial allocations have been gathered from the Ministry of Urban Affairs and Employment, Planning Commission and HUDCO. Also, reports of various Committees and Working Groups set up from time to time by the Government of India and State Governments have been examined.

For the state level study, in addition to the above mentioned secondary sources, data on municipal income and expenditure pattern of the local bodies of Gujarat have been collected from Gujarat Municipal Finance Board and by sending questionnaires to individual local bodies. For the city and ward level analysis, primary information has been gathered in the city of Ahmedabad from the Ahmedabad Municipal Corporation and through discussions with the concerned officials, slum dwellers, community groups and non-governmental organisations. Through this, an attempt has been made also to cross check the disaggregated information on the current and capital expenditures as also get the first hand information regarding the impact and of select programmes and projects at the ward level.

Methodology

The basic thrust of the study is to explain the variations in the availability of basic amenities across states, towns and wards. A substantial part of the study pertains to the analysis of changing institutional structure, in response to launching of the programmes of structural adjustment and 74th Constitutional Amendment. In the absence of precise quantitative data, qualitative information have been gathered regarding the institutions and agencies involved in the delivery and financing of urban services. Also, data on municipal income and expenditures have been collected covering a period before and after economic liberalisation and the 74th Constitutional Amendment for the ULBs in Gujarat and Ahmedabad city in particular. These have then been examined along with various policy and evaluation reports/documents. The statistical analysis at all the three levels has been carried out using a select set of indicators pertaining to urban growth, economic structure, level of amenities, government and institutional funding etc. The town and city level study involves construction of indicators pertaining to municipal
finance and socio-economic condition. An analysis of interdependencies of these indicators using simple correlation coefficients has been attempted for understanding the dynamics of urban growth. Further, composite indices have been constructed for a few socio-economic indicators. The composition has been done after making the indicators scale free by dividing each indicator by their mean values. Also, an analysis of coefficient of variations of the indicators helps in identifying the levels of dispersion across states and size class of urban centres.

For the purpose of plotting information cartographic techniques/maps have been used. Three types of maps have been used. These are: a) map showing the location of the major states in India and their administrative boundaries, b) dot map showing the location of towns belonging to different size classes in the state of Gujarat, c) choropleth map indicating the socio-economic condition of the wards in Ahmedabad.

Chapterisation

Following the present introductory chapter, the second chapter focuses on analysis of demographic growth and economic structure of urban centres towns and their implications for provision of urban basic services in the country. The analysis is done at the state and size class level for 1981 and 1991. The third chapter analyses the disparities in the availability of water supply, sanitation and electricity facility across states and size class of urban centres for the eighties and nineties. It further examines the interdependencies in the availability of services with per capita income, poverty and economic bases of states during both the pre and post reform period.

The fourth chapter focuses on the existing organisational structure and financing system for the provision of basic services during the periods before and after the introduction of structural adjustments and passing of the 74th CAA. The chapter focuses on the agencies responsible for capital investment and operation and maintenance of services, pattern of HUDCO funding across states and size class of towns, new instruments of financing etc. and the changes that has come about in the post reform period.
The fifth chapter looks at the pattern of urbanisation, economic development and access to amenities in Gujarat with special reference to the income and expenditure pattern of the urban local bodies and their interdependencies with socio-economic characteristics of the towns and access to basic amenities. This analysis is done for both the pre and post decentralisation period to bring about the changes, if any, in the financing pattern of ULBs as a fallout of the reforms and the 74th CAA.

The sixth chapter analyses the pattern of urbanisation and development dynamics in the city of Ahmedabad. It examines the interdependencies of availability of services with the socio-economic characteristics of the city and its hinterland. It further examines the trend and pattern of income and expenditure of Ahmedabad Municipal Corporation since the mid-eighties to the late nineties in an attempt to identify the changes over time. The chapter also examines the innovative instruments of financing, privatisation of certain services and involvement of the Community Based Organisations (CBOs) and Non Governmental Organisations (NGOs) in the provision of services and their likely impact on the intracity disparity in future years.

The seventh chapter summarises the conclusions of all the chapters and then tries to put forward a policy perspective for tackling the problems due to deficiencies in the basic amenities, particularly in the backward regions and small towns, focusing on the urban poor.
Source: Census of India, 1991