

Why cities matter

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Rapid growth of GDP will have to be driven by non-agricultural sectors. For that we need to acknowledge the importance of urbanisation more fully, fix our cities



CITIES AT CROSSROADS

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URBANISATION IS THE talk of the town. A number of new initiatives have been launched by the government of India in the last two years, raising the level of ambition of Indian cities — smart cities, clean cities (Swachh Bharat), rejuvenated cities (Amrut), and housing for all. The first recognition of the importance of urbanisation, after years of neglect by both the Centre and the states, came in 2005 when the government of India launched the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in December 2005. The mission ran its course till March 2014, with mixed results. Public service delivery improved only in cities where state governments provided an enabling environment for innovation and better governance.

Indian cities mostly remain in very poor condition with respect to public service-delivery and governance. For the new initiatives to succeed, it is important to recognise that while some funding through the new missions will help, as in the case of JNNURM, the key issue is whether our cities will be empowered with finances and capacity by the state governments and helped by the government of India. Without this, private funds will not come forth to supplement the limited funds of the government and the hope of public-private partnership will not materialise. There must, of course, be elected local governments as the Constitution mandates, but there must also be greater autonomy to the elected urban local governments in the running of city affairs. Unless this is done, our cities will not be able to improve the quality of life of their citizens and also play their role as engines of rapid growth.

In order to explain why cities matter, particularly for India's current stage of develop-

ment, let me begin with some frequently asked questions about the relationship between rapid economic growth, structural transformation and urbanisation.

If we aspire for GDP growth of 8 to 10 per cent per annum, which is necessary to improve economic conditions in India and remove/reduce poverty within a short period, this can only be driven by industry and services sectors, which can grow much faster than agriculture. After having grown at close to 4 per cent per annum during the Eleventh Plan period (2007-08 to 2011-12), agricultural growth in India has slowed down to less than 2 per cent in more recent years. Undoubtedly, Indian agriculture can and should grow at 4 to 4.5 per cent per annum and, for this, we need to make large investments in research and development, soil and water management and agricultural extension. But rapid growth of GDP will have to be driven by non-agricultural sectors.

Faster growth of industry and services leads to a decline in the share of agriculture in both GDP and employment. This is called structural transformation and should be welcomed. Urbanisation occurs when people move out of rural areas into cities in search of employment and opportunity. This has been the development experience of almost all countries. This is because cities play an important role in developing industries and services. By generating economies of agglomeration and by acting as centres of knowledge and innovation, they make investments in industry and services more productive.

India has been among the fastest growing economies of the world for quite some time now. In the last 12 years or so (2003-15), the growth rate of GDP was 7.7 per cent per annum, and the latest estimate for 2015-16 shows only a minor dip to 7.6 per cent. However, the rapid growth has not been associated with employment growth in non-agricultural sectors. The change in the structure of output has not been accompanied by a change in the structure of employment. About 50 per cent of the workforce is still "employed" in agriculture, even though agriculture contributes less than 15 per cent to GDP.

With far too many people dependent on agriculture for their livelihoods, productivity of labour is low in Indian agriculture as farmers engage in labour-intensive farming. This limits their potential to earn a higher in-

come. Since it is not possible for the existing rural population to earn a decent living in rural areas, they have to, and do, move to the cities. To absorb the exodus of people from rural to urban areas, we need to fix our cities. We need to provide employment, skills and opportunity for people to engage in industry and services sectors.

Indian cities are simply not ready to support non-agricultural growth of the kind we need. They are in a state of disrepair and are visibly deficient in the public services they provide, with alarming consequences for public health. With rising incomes and the even faster rising aspirations of India's young population, patience is running out. Whether it is the severe air pollution in Delhi, traffic congestion in Bangalore, the floods in Chennai or the garbage menace in a number of cities, technology provides only a small part of the solution. The larger challenge is that of reorienting the federal framework to strengthen governance.

The government of India can provide strategic leadership and the new missions are very welcome from this perspective. But the funds needed for the missions are much larger than what the government of India has offered, or can possibly offer, given the competing demands on the financial resources of the Centre. The private sector can generate funds for urban infrastructure projects but will do so only if a reasonable return is assured, and for this, reforms in urban planning, finance and management are crucial, and state governments will have to be the principal players.

Public-private partnership works best when it is based on an open and transparent arrangement, with a clear assignment of risks, backed by an effective dispute-resolution mechanism. The Centre can help with a model framework. But state governments will have to come on board in a partnership mode with the urban local bodies, the community and the private sector to make public-private partnerships work.

Whether the new national missions will succeed in bringing about urban rejuvenation depends on how much the Centre can nudge/push the state governments to bring about the necessary reforms.

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Isher Judge Ahluwalia launches her new series of monthly columns: 'Cities at crossroads'. Her 'Postcards of Change' were published in 'The Indian Express' and 'The Financial Express' from January 2010 to January 2014, documenting stories of significant innovation and substantial impact in some Indian cities and towns. The columns were updated and published as 'Transforming Our Cities: Postcards of Change' by Harper Collins in the Express Group Book Series in 2014. Ahluwalia is back with her insights on why urbanisation is not a choice but a compelling reality which needs to be planned and harnessed for better living.