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URBAN GROWTH AND GOVERNANCE IN SOUTH ASIA

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The year 2007-08 is a good time to reflect on the past, present and future of urbanisation in South Asia[2] since it marks sixty years since the countries of India, Pakistan and Sri Lanka came into existence as modern nation states. While urbanisation in South Asia predates these nation states which are a relatively recent construct, this paper focuses on the processes and challenges of urbanisation over these last sixty years. It describes trends in urban growth in South Asia and the institutional and economic structure of urban governance. It also focuses on urban problems and presents possible solutions.

The year 2008 also marks a watershed in human history when, for the first time, more than half of humanity, about 3.3 billion people, will live in towns and cities (Ash et al 2008). The world's population as a whole is expected to undergo substantial further growth in the first half of this century, almost all of which is expected to take place in the cities and towns of poor countries, while the world's rural population will remain flat at around 3 billion people (Montgomery 2008, Cohen 2003). In other words, of the projected additional 2.2 billion people between 2000 and 2030, 2.1 billion will be in urban areas and all but 0.1 billion of that urban increase will be in developing countries[3]. Thus, by 2030, each of the major regions of the developing world will hold more urban than rural dwellers, and by 2050 fully two-thirds of their inhabitants are likely to live in urban areas (Montgomery 2008).

These facts are particularly relevant for South Asia, home to over 1.6 billion people or a quarter of humanity, of which a third live in urban areas. As the world becomes increasingly urban, the centre of gravity of this process is moving to South Asia. Within seven years time, that is, by 2015 this region will account for 5 of the world's 12 biggest urban agglomerations (all with more than 15 million people), namely, Mumbai, Delhi, Kolkata, Dhaka and

[1] This paper has benefited greatly from comments by an anonymous referee.

[2] In this chapter 'South Asia' refers to the countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. For reasons of space and availability of data, however, much of the discussion will focus on the four major economies of the region, namely, India, Pakistan, Bangladesh and Sri Lanka which account for about 99% of the total GDP for South Asia. Further, in terms of demographics, the 'big three' (India, Pakistan and Bangladesh) account for 97% of South Asia's population and 76% of its urban population.

[3] The UN Population Division offers projections of urban population only as far as 2030. Its figures on urbanisation disguise major ambiguities and variations among countries in definitions of "cities" and "urban." http://www.un.org/esa/population/unpop. It is also worth noting that the annual rate of increase of urban population between the years 2000 and 2030, 1.8%, is nearly twice the projected annual rate of increase of global population during that period (Cohen 2003).

Karachi[4]. By the same year, 2015, over 540 million South Asians will live in towns and cities and by the year 2030 this figure will cross 813 million (United Nation 2005, Table A.3). These are colossal numbers by any yardstick[5].

At the same time, South Asia is witnessing rapid economic growth and transformation, and its towns and cities are at the heart of this process. All over South Asia, growth is taking place in dynamic sectors such as manufacturing, information technology, high-end service industries, trade, retail, and banking, insurance and finance, all of which are urban-centric (Table 1) [6]. By the year 2011, the urban share in India's national income is expected to go up to 65% (Government of India 2005)[7] even though only slightly more than 30% of the population will be urban by then. In Pakistan and Bangladesh, the hypertrophic cities of Karachi and Dhaka, respectively dominate the economy[8]. The mega-city of Karachi, for instance, not only accounts for a twelfth of the total population of the country's 160 million people, but also generates 60-70% of national revenue and over 40% of the value added in manufacturing.

Thus, while on one hand towns and cities are "engines of growth" for the rapidly growing economies of South Asia, unplanned and unmanaged urbanisation poses a serious threat to the very same growth, in addition to generating social tensions. All urban areas in the region, big and small, face similar challenges of providing good governance, livelihood opportunities, adequate housing, water, sanitation, transport and other amenities to their residents. Thus, a key conclusion of this paper is that unless South Asia can make its towns and cities liveable where its citizens can pursue economic progress, the region will not be able to sustain and accelerate its growth trajectory.

The paper is structured as follows. Section I reviews past, present and current trends in urban growth in South Asia. We examine to what extent the experience of South Asia in general, and that of specific countries in particular, tallies with the theory and practice of urban transitions. Following that, in the next two sections we examine the institutional and economic frameworks, respectively, of urban areas in the region. Divergences in the

[4] It may be noted of twelve urban agglomerations with over 15 million people in the year 2015, all but two (Tokyo and New York-Newark) will be located in developing countries (United Nations 2005, table A.11).

[5] To put the latter figure in perspective, global population is projected at 8.2 billion in 2030 of which 4.9 billion will be urban dwellers and 3.9 billion urban dwellers will live in less developed regions (United Nations 2005). (Note: the UN defines 'less developed regions' as all regions of the world except Europe, North America, Australia, New Zealand and Japan.)

[6] While the Indian success story is well known (it is at present the second fastest growing economy in the world), that of Pakistan is less well so. Despite the political turbulence, its economy too has been doing quite well. Recently (January 24, 2008) The Economist newspaper spoke highly of the latter's economic growth (averaging 7% annually during 2004-07) and said it had the best performing stock-market in Asia: Pakistani companies had high dividends on average--4%--and a low price/earnings valuation--under 15 times. Similarly, the economy of Bangladesh is doing respectably, and averaged real GDP growth of 5.7% annually during 2002-06, and is forecasted to average 6.2% a year in 2008-12. Finally, with the highest HDI (human development index) and per capita income in the region, Sri Lanka too still has the potential to become an Asian Tiger, if only the ruinous civil war would stop (see Table 1).

[7] The corresponding figures for 1993 and 1999 were 46 and 52%, respectively (GoI 2000, 2006).

[8] The term 'hypertrophic' is often used to define excessively large cities (from hypertrophy, a condition of overgrowth or excessive development of an organ or part -- the opposite of atrophy): one in ten Bangladeshis and one in twelve Pakistanis, live in Dhaka and Karachi, respectively.

penetration of urban local democracy across countries are noted, as are similarities in the precarious condition of municipal finances. The concluding section advances suggestions for addressing urban problems and thus making South Asian towns and cities liveable and truly engines of growth.

I. Patterns of urbanisation in South Asia[9]

Compared to the world as a whole, and to developing countries, sixty years ago South Asia was relatively less urbanised and continues to be so (Table 2). The reason is evident, namely, the relatively slow pace of urban growth in India. In 1950 India was more urbanised than China but the latter has overtaken India and is half as more urban than India at present, at 45% as compared to 30% in India (Table 2). India's slow pace of urban growth has been commented on by various urban experts and we return to this below when we focus on differences in the process and nature of urbanisation within South Asia.

There was (and is), however, considerable regional variation in urbanisation rates across developing countries (Table 3). At one end were countries of Latin America and the Caribbean with nearly three-quarters of the population living in urban areas (approximately the same level as developed countries). On the other hand in Africa and India two-thirds or more of the population was and continues to be rural. The gap, however, has narrowed and will continue to do so over the next two decades. By the year 2030, South Asia will be almost 70% as urban as compared to the world as a whole. This is as one would expect as the economies of the region evolve from being agrarian towards service and industry. Table 4 indicates a substantial decline in the proportion of the labour force employed in agriculture in South Asia over time. In fact, it is by now well accepted that urbanisation is a natural and inevitable consequence of economic development and that structural changes in the economy as a result of economic development, drive urbanisation (see for instance, the review by Henderson (2005) and recent papers by Davis and Henderson (2003), Henderson (2003), as well as Moomaw and Shatter (1996, 1993) and Mills and Becker (1986, chapter 2) for earlier studies)[10].

Historical and international patterns also suggest urbanisation is a logistic (S-shaped) curve that first rises slowly from low levels of urbanisation, then accelerates, and finally slows down (Becker et al. 1992)[11]. In other words, urbanisation accelerates as an economy

[9] In this paper we do not address definitional issues regarding urbanisation. For instance, there could be inter- and intra-country variation, as well as inter-temporal variation in the definition of urban areas. While different countries have different definitions of cities, the UN data we cite in this paper are adjusted, whenever possible, when there are definitional changes between two censuses in a country. On differing definitions of cities across countries, most careful empirical analyses use panel (time-varying cross-country) data. Thus, time-invariant definitional differences in urbanisation across countries are absorbed in the fixed effect. For further details on India, where debates on definitions have been most protracted, see Sivaramakrishnan et al (2005) and an older seminal study on India's urbanisation by Ashish Bose (1978). We do, however, discuss below conceptual issues of what constitutes an urban area for Pakistan, since they entail a significant underestimate of its urban population.

[10] For studies that specifically focus on the relationship between urbanisation and economic growth in developing countries, see Henderson (2002), Fay and Opal (2000), McCoskey and Kao (1998) and an earlier review by Kasarda and Crenshaw (1991).

[11] Interestingly enough, Becker in an earlier study on India's urban development (Mills and Becker 1986) argued that urbanisation follows a convex functional form in income. For the "S-shape" relationship see also

industrialises, slowing down once again only after urbanisation reaches 60-70% (Mohan 1996). There are important differences, however, as compared to the historical experience of industrialised countries in this regard (Mohan op. cit.). Whereas, in those countries employment in the urban service sector usually declined with rapid industrialisation and urbanisation, in South Asia services have grown as fast as industry. In other words, urbanisation in South Asia is a movement of people from agricultural activities to both industry and services. Moreover, the latter sector (often known as the urban informal sector) is characterised by low productivity and therefore employs much of the residual urban labour.

Another difference is that unlike in developed countries, city growth in South Asia is not mainly due to migration. Given the overall higher population growth rates, cities including in South Asia, are experiencing high natural growth rates even without significant migration. In fact, research by the United Nations Population Division shows that for developing countries as a whole (except China), about 60% of the urban growth rate is attributable to natural growth and the remaining 40% is due to migration and spatial expansion (Chen et al. 1998). Using census data for India for 1961-2001, Sivaramakrishnan and others (2005) arrive at a very similar figure, namely, urban natural growth accounted for 60% of the total increase in urban population[12].

This broad brush picture, of course, conceals marked differences in the process and nature of urbanisation within South Asia. To begin with, levels of urbanisation vary significantly across countries (Table 5)[13]. Whereas Pakistan is the most urbanised country in the region, Bhutan, Sri Lanka and Nepal are among the least urbanised. It is interesting to note in particular the low level of urbanisation in Sri Lanka given its relatively high per capita income and HDR scores vis-à-vis other countries in South Asia (Table 1). For Pakistan on the other hand, it is argued that since the 1980s at least, socio-economic-demographic changes have led to a blurring of the rural-urban divide into a continuum, especially in the Punjab and this has led to significant underestimation of the urban population. For instance, "recent demographic work (Ali 2003) indicates that Pakistan's primary cities have emerged as major urban systems, with their rural suburbs or "peri-urban" settlements integrated into the city economies. This phenomenon is most apparent in central Punjab's heartland where contiguous districts, comprising major cities, medium sized towns and peri-urban settlements have formed into a significant population agglomeration that has increased its political and economic importance (Ali 2003). More important, approximately half of this population resides in peri-urban settlements that had not been recognized as urban." (Cheema et. al 2006) Thus, the current level of urbanisation in Pakistan could be as high as 50%[14].

Davis and Golden (1954), Graves and Sexton (1979) and World Bank (2000). This view, however, has recently been contested by Davis and Henderson (2003) who find no evidence for a "S-shaped" (logistic) curve.

[12] Parenthetically we may mention here that city managers in South Asia, especially in India, often lament about 'unchecked' rural-urban migration as a root cause of urban problems. See for instance, the statement by Delhi's Chief Minister, Ms. Sheila Dixit on May 9 last year blaming the city's woes on migrants from the states of Bihar and Uttar Pradesh ("Delhi CM Sheila Dikshit Pulls a Raj Thackeray," PatnaDaily News, May 9, 2007: http://www.patnadaily.com/news2007/may/050907/sheila_dixit_blames_biharis.html). This evidence runs counter to that claim.

[13] In this table and some that follow China is included by way of comparison though it is not part of South Asia—given India's relatively enormous size in South Asia a meaningful comparison in these trends is often between India and China.

[14] Personal communication with Reza Ali, urban expert and author based at Lahore, Pakistan.

Looking at projected trends in urbanisation it can also be seen that within the next 20 years or so, almost all countries in the region will become significantly more urbanised with at least 30-40% the population living in urban areas, barring Bhutan and Sri Lanka (Table 6)[15]. With regard to the rate of urbanisation, contrary to popular belief, India's rate of growth of urban population will continue to be relatively slow in the short-run--about 2.3 percent annually during 2005-2010, ranking behind Bangladesh, Nepal and Pakistan in South Asia (Table 5). Other than Sri Lanka, with only 0.8% annual growth in urban population during the same period (thus, almost stagnating in urbanisation), India certainly lags behind other South Asian countries, and also when compared to its populous Asian neighbour China. Compared to the less developed region as a whole, medium-term (2005-10) urban population growth rates in India and Sri Lanka are slower (below 2.5% per annum) but faster in Bangladesh, Pakistan, Nepal and Bhutan (Table 5).

Taking a longer time horizon over the next two decades till the year 2030, more or less the same scenario prevails (Table 7). Thus, comparing the three most populous South Asian countries (India, Pakistan and Bangladesh), growth rates of urban population will be the slowest in India till the end of the forecast period, 2030-35. Outside the region, urban population growth in China will also slow down by 2030 but it would have reached a high level of urbanisation by then, over 60% (heuristically confirming the "S-shape" pattern of urbanisation).

Returning to the issue of the slow rate of urbanisation in India, by far the most populous country in South Asia, this is a cause for concern. In fact, in India during the 1980s, when there was acceleration in industrial growth and national income, the rate of growth of urbanisation slowed down (Mohan 1996). As compared to an annual growth rate of urban population of 3.86% during 1971-81, during the decade of 1981-91 this figure came down to 3.15% (Census of India 1991). The corresponding figures for decadal growth rates (the increase in urban population over the decade) were 46.14% and 36.10%, respectively. During 1991-2001 this figure fell to 31.30%, further substantiating the point about deceleration of urbanisation.

One reason for this deceleration could be a deceleration in rural productivity growth--the slow growth of agricultural productivity, except in certain pockets of the country did not release agricultural labour from rural areas. Another reason that has been advanced is inappropriate choice of technology or product composition in India's industrialization strategy (Becker et al 1992; Mohan 1996). Thus, it has been argued India's so-called Mahalanobis strategy[16] of import substituting industrialisation, particularly of channeling investment to the capital goods sector within manufacturing (comprising almost entirely state-owned enterprises) minimized the impact of new investment on labour demand, and hence on unskilled wages. In other words, the development of a very capital-intensive, inefficient capital goods industry along with the neglect of wage goods may have retarded urbanisation.

[15] As noted earlier, the United Nations does not forecast urban population beyond 2030.

[16] After the Indian statistician P.C. Mahalanobis who propounded and implemented this approach, most notably through the Second Five Year Plan.

In addition, it is not only the overall rate of growth of urban population that is important, but also the concentration of urbanisation, that is, the distribution of urban population across cities: even at a low level of urbanisation, the urban population could be concentrated in a few very large, hypertrophic cities. Thus, it has been argued these cities may experience very high rates of population growth and an inability to expand infrastructure fast enough to avoid problems. This begs the question of optimal city size. There is a large theoretical and empirical literature on agglomeration economies, namely, increasing returns at the city level[17]. For developing countries in particular, we quote Bertinelli and Strobl (2007): "(I)n fact, as developing economies evolve from an agricultural to a manufacturing and especially a service base, there are large benefits to urban concentration, as knowledge and information are supposed to be subject to distance decay effects (Lucas 1988). Thus, at least in earlier stages of development, one should be able to observe a strong link between economic development on the one hand and urban concentration on the other." (op. cit. pp. 2500-01) But it may also well be the case that beyond a certain size, diseconomies or negative externalities of too many people crowded together may set in, often referred to as congestion costs (Small 2007). In sum, this line of enquiry suggests urban concentration may be more important than urbanisation, *per se*.

In developing countries greater urbanisation has gone hand in hand with a sizeable increase in urban concentration over the past 50 years (Bertinelli and Strobl 2007). Specifically, whereas the growth of large cities, that is, cities with more than 5 million inhabitants, has been slow or even zero in the industrialised world, developing nations are experiencing ever-greater population concentration in large urban agglomerations and in mega-cities (cities with a population greater than 10 million). For instance, between 1975 and 2000, the number of mega-cities increased from 3 to 15 in developing countries, compared with a rise from 2 to 4 in developed countries (United Nations 2002).

The term 'primacy' has particular salience in the literature on urban concentration. Urban primacy refers to a country's largest one or two cities being "abnormally" large (using an adverb from Jefferson's 1939 seminal study on the subject) relative to the country's next largest cities. The reasons for the rise of primate cities and their impact, good or bad, have long been debated (see for instance the discussion in Moomaw and Alwosabi 2004)[18]. A key question often posed is whether there is 'excessive' primacy in low-income countries because of urban bias or other political economy reasons. We return to this in our discussion of South Asian cities below.

In South Asia, *prima facie*, Dhaka in Bangladesh and Karachi in Pakistan appear to be primate cities. As stated at the outset, these two cities dominate the economic and urban demographic landscape of their respective countries—one in three urban dweller in Bangladesh and one in five urban dweller in Pakistan lives in Dhaka and Karachi, respectively (Table 8). This is also true of Kathmandu vis-à-vis Nepal[19]. Given the huge

[17] See Duranton and Puga (2004) for a theoretical survey on the micro-foundations of urban agglomeration economies and Rosenthal and Strange (2004) for a review of the empirical evidence.

[18] Important contributions to the literature are Ades and Glaeser (1995) and Bertinelli and Strobl (2007) among others.

[19] It may be noted in passing that primate cities occur in developed countries as well. In 2005, London, Paris and Tokyo, for instance, accounted for 16, 21.2, and 42%, respectively, of their countries' urban population. To further illustrate the dominance of these 3 cities the next biggest cities in their respective countries (and their % share of urban population) were Birmingham (4.3%), Marseilles/Lyon (3% each) and Osaka-Kobe (13.4%).

population of India, a hypertrophic or primate city has not emerged, *per se*. As one would intuitively expect as the economic and physical size of a nation increases, it enables several production sites, creating new urban centers, and, thus, reducing the tendency towards urban primacy. That said, the megalopolises of Mumbai, Delhi and Kolkata are huge by any standard. Further, in all the 'big three' countries, and in South Asia as a whole, a significant proportion of the total population lives in million plus cities, a level where strains on urban infrastructure may start manifesting themselves (Table 9). Thus, the absence of a primate city (or cities) notwithstanding, 1 in 10 Indian lives in a city of more than a million people and the same is true in Bangladesh and Pakistan.

More formally, we compute alternative measures of primacy for the 'big three' South Asian countries and for China (Table 10). The first measure of primacy, the 2-city index, is the ratio of the population of the largest city to that of the second largest city, where cities are defined as urban agglomerations. In the literature, in recognition of countries where the two largest cities are of about the same size–biprimate countries[20]–the 4-city index is also computed, as the ratio of the population of the largest city to that of the sum of the populations of the second through fourth largest cities. There is yet another measure of primacy, which is the ratio of the sum of the population of the two largest cities to that of the third and fourth largest cities. Since the latter measure reduces the emphasis on the largest city, we restrict ourselves to the 2-city and 4-city indices. As expected, Bangladesh Pakistan rate highly on these indices, especially as compared to India, underlining the primacy of Dhaka in particular and of Karachi to an extent (Table 10).

On the reasons for primacy, two broad strands have emerged in the literature. The first focuses on underlying demographic and economic considerations. In other words, urban primacy depends upon size (gross domestic product, population, and land area), economic development (GDP per capita), population density, industrialization, and whether the largest city is the capital city (Moomaw and Alwosabi 2004). Social scientists such as geographers, political scientists, and sociologists, on the other hand, put forward explanations of urban primacy, which focus on international economic relations and internal political factors. In particular, dependency theory implies economies, particularly developing economies, that are more open to foreign trade, experience increased primacy because (dependent) trade concentrates production in the larger cities. Thus, according to Castells, "dependent urbanisation", which implies developing countries rely on industrialised countries for trade, investment, aid, and technology transfer, "causes a superconcentration in the urban areas" (primate cities) (Castells 1977: 47-48).

After subjecting these hypotheses to empirical testing with a sample of 30 countries from Asia and the Americas[21], Moomaw and Albosawi (2004) conclude it is not the case "that excessive primacy is inherent in low-income countries because of urban bias, dependent urbanisation, and/or world systems considerations." (op. cit., p. 167) In fact, they find much of primacy can be explained by economic and demographic considerations. Thus, larger countries (in terms of GDP, population, and land area) and countries with greater density of GDP and greater density of population per unit of land have less primacy. In other words,

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[20] For South Asia only in the case of India, Delhi, Kolkata and Mumbai are roughly the same size.

[21] Bangladesh, India, Pakistan and Sri Lanka are included in the sample. Nepal had to be dropped because of unavailability of data.

proxies for economies of scale and transportation cost are the major determinants of primacy, and world systems theory, dependency theory, and theories of urban bias are not necessary to explain observed primacy. If this is true then it would be difficult to argue that extremely large cities are parasitic, and by the same token make a case against globalisation on these grounds. This finding is of interest in the context of opening up of the economies of South Asia and the debates that still surround this issue.

Turning specifically to the question of the impact of urban concentration on economic growth, we rely on a recent study by Bertinelli and Strobl (2007). They use a sample of 70 countries, two-thirds of which are developing countries[22], to test whether urban primacy (defined here as the share of national urban population living in the largest agglomeration)[23] has an inimical impact on the growth rate of per capita GDP. The authors find an increasing relationship between urban primacy and economic development, but only up to a certain level (35% or 0.35 level of primacy), at which point economic growth becomes independent of concentration (in other words the growth-primacy curve increases and then flattens out, Bertinelli and Strobl 2007: Figures 1 and 2, pp. 2504-05). It is evident then that all South Asian countries in the sample (and Nepal now, though not in the 1950s, see Table 8) are on the increasing part of the primacy-growth relationship.

Putting the findings of these studies together, it appears the hypertrophic nature of some South Asian cities may be due to inherent scale economies and not due to faulty policies such as urban bias or external factors such as dependent urbanisation. Further, it does not appear urban concentration is excessive at the moment in South Asia. Also, as noted earlier the level of urbanisation in South Asia is low even when compared to developing countries.

While none of this is to argue that cities in the region do not face problems, it does substantiate the "cities as engines of growth" point made at the beginning of this paper. This also puts the ball firmly in the court of urban governance. The people in charge of managing South Asia's cities cannot resort to the excuse that their cities are of unmanageable size or that their countries are over-urbanised, or finally that they are victims of external forces such as globalisation. Indeed, the truth is far from it. The evidence looked at so far leads to the inescapable conclusion that urban problems in South Asia are more those of poor governance than over-urbanisation and/or hypertrophic growth. This is what we turn to next.

II. The governance of South Asian towns and cities

That urban areas of South Asia need to be managed better, cannot be disputed. We begin our discussion of urban governance with the *raison d'etre* for urban local bodies (or ULBs as they are referred to in India), that is, the core functions they are supposed to undertake. This is followed by a brief description of the distinct manner in which institutions of urban

[22] Included here are Bangladesh, India and Pakistan.

[23] The range of this variable in the dataset is from 0.05 (or 5%) to 1 (or 100%). The latter value refers to Singapore. As Henderson (2003) points out primacy measured thus is a crude measure of urban concentration. But at the same time it is universally used because it is easily computable for a panel dataset. More important, Henderson (1999) shows this measure of urban primacy is closely correlated with the conceptually correct measure of urban concentration, namely, the Hirschman-Herfindahl index which is the sum of squares of the share of every city in a country in national urban population.

governance have evolved over the last 60 years in major South Asian countries, namely, Bangladesh, India, Pakistan and Sri Lanka.

The colonial period in the history of these countries is an important watershed in our context. As a UNESCAP study on local government points out "(A)ll countries have long indigenous histories of local governance, although not necessarily institutional forms of local government.. Occupation by colonial powers in Asia and the Pacific left *legacies of centralized administrative rule more suited to command, maintenance of law and order and revenue extraction rather than governance and participation at the local level*. Inherently, colonial models of administration were imposed on local communities mostly with disregard for their historical systems of governance." (Sproats 2002, p. 3, emphasis added)

Thus, starting from a common colonial heritage, each country in South Asia has moved along a different trajectory given its own socio-political and economic circumstances. In all countries, however, local governments have been subjected to the vicissitudes of fortune: they have been "uplifted, pulled down, resurrected and experimented to death" (Kamal, 2000, p. 3). At present, the state of urban governance in all these countries leaves much to be desired, as is the case with governance in general.

A key function of all levels of government (central, state/provincial[24] and local) is to provide public goods or merit goods—national defence, law and order, education, neighbourhood parks, and such like. The crucial difference, however, between local governments at the city/town level and higher levels of government at the state/provincial or central level, is in the *nature of public goods/services* ULBs are expected to provide. And it is in this difference that the challenges and opportunities of urban governance lie.

ULBs for the most part, cater to needs of residents within their jurisdiction and provide goods/services such as schools and public libraries, dispensaries/hospitals, water supply and sewerage, garbage collection, street lighting and roads. These are termed as *local public goods* (LPGs), that is, public goods whose benefits are limited to those living in a locality. A key feature of these local public goods/services (unlike national defence, for instance) is that for many of them *exclusion is possible in principle*—those who do not pay can be excluded from consuming these goods/services. To elaborate, fees can be charged for schools or user charges can be levied for supplying water if the ULB so desires (and at varying rates for different economic classes starting from zero price or full subsidy). In contrast, the comfort of a safe border (national defence) is available to all that reside within that border, that is, exclusion is not possible for a *pure public good*. Excludability, of course, is not always possible nor desirable for local public goods such as law and order (police) or public libraries and parks.

More important is the fact that the local public goods provided by ULBs such as a city park, a stretch of city road, a fire department, a school are available to everyone in the community, but for any given level of infrastructure *the more people who use the facility the more crowded it becomes and the less it is available or useful to others*. If there are more people in a city for the same number of policemen or library books, availability per person will decline. Again, this is not the case with national defence. Thus, local public goods (unlike pure public

[24] Sub-national units are called states in India and provinces in Pakistan and Sri Lanka. Bangladesh has a unitary form of government. There are 30 states in India, and 4 and 9 provinces, respectively, in Pakistan and Sri Lanka.

goods such as defence) may or may not exhibit non-excludability but they are partially or wholly rival. The term 'rival' here simply means that the more something is used/consumed by one person the less there is for others, like a loaf of bread and unlike sunshine or national defence.

What does all this imply for the provision of local public goods and for urban governance? First, based on the famous Tiebout hypothesis (named after the Chicago economist Charles Tiebout who articulated it in 1956)[25] it is possible in principle for ULBs through a process of competition with one another to provide efficient levels of LPGs—in the quantities and forms the residents want. To paraphrase Tiebout, local communities (i.e., ULBs) are more responsive to the needs and preferences of those who actually receive the goods and local communities have greater incentives for efficiency. Thus, ULBs as representatives of local communities are central to the urban management process.

Second, the nature of LPGs is in accordance with the principle of *subsidiarity*, which states that matters ought to be handled by the smallest (or, the lowest) competent authority[26]. Subsidiarity is, in principle, one of the features of federalism. This concept is found in several constitutions around the world, e.g., the Tenth Amendment to the United States Constitution. More recently, it is a key organising principle behind the European Union (EU) and is articulated in Article 5 of the Treaty establishing the European Community. It is intended to ensure that decisions are taken as close as possible to the citizen.

The third implication of the nature of LPGs is that for several of them user charges are *feasible* (that is, exclusion is possible) and *desirable* (since these goods may be rivalrous). With respect to the latter, without cost recovery through user charges or user-pays-principle, the good may suffer from overuse/depletion. In other words, there is a sound conceptual basis to the goal of making ULBs financially sustainable and improving municipal finances: municipalities mostly provide goods and services to those living within its jurisdiction and it is these people that must cover the costs of providing these goods directly through user charges, or indirectly through property taxes (or as a distinct second best through commodity taxes such as sales tax or octroi)[27].

We now turn to a brief overview of the institutions of urban governance in the four major South Asian countries[28].

Bangladesh (which was a part of Pakistan until 1971) has a unitary form of government. For administrative convenience the country is divided into six divisions below which are 64 *zila* (districts), each further subdivided into *upazila* (subdistricts) or *thana* (police stations). The district is the focal point of administration in Bangladesh. The area within each police station, except for those in metropolitan areas, is divided into several *unions*, with each union

[25] See Tiebout (1956).

[26] Subsidiarity is the notion that a central authority should have a subsidiary function, performing only those tasks that cannot be performed effectively at a more immediate or local level.

[27] With regard to poverty alleviation and/or weaker sections of society, it is not clear whether the goal of redistribution should be a local or regional/national decision (especially in a country such as India with free movement of people). This aside, subsidised provision of local services can be built into an overall framework of cost recovery of LPGs.

[28] This discussion is based, *inter alia*, on Sproats (2002).

consisting of multiple villages. In metropolitan areas, police stations are divided into wards, which are further divided into *mahallas*. There are no elected officials at the divisional, district or subdistrict levels, and the administration comprises only government officials. Direct elections are held for each union and for each ward, electing a chairperson and a number of members. In principle, local government in urban areas is entrusted to elected bodies. While the census recognised 522 urban areas in 1991 (with a minimum population of 5000), as of 2003 only 286 of the larger areas among these had local governments. The six largest cities (namely, Dhaka, Chittagong, Khulna, Rajshahi, Barisal and Sylhet), have the status of a City Corporation, while the rest of the 286 areas are known as *Pourashavas* or municipalities.

Thus, *Pourshavas* (municipalities) and City Corporations constitute the two types of urban local governments in Bangladesh. Their functions are basically similar with some distinction being made for compulsory and optional functions. In terms of the analytical framework presented above they are supposed to provide a wide range of local public goods and services including garbage collection, maintenance of streets and street lighting, water supply and drainage, traffic management, maintenance of educational institutions, public libraries, and parks and gardens[29]. As in other South Asian countries, however, acute shortage of funds is a *leitmotif* for urban local bodies in Bangladesh. Thus, d*e facto*, their key LPG functions are mainly restricted to garbage collection, street lighting, water supply and parks and gardens. An additional function not listed but one that *Pourshavas* and City Corporations have been carrying out (either through own funds as in Dhaka or through external funding) is slum improvement.

Urban local governments in Bangladesh large and small, are subject to strong control from higher levels of government, specially the central government. For instance, the size and boundaries of ULBs and their power to make regulations and conduct their affairs are all subject to central government approval. This control is particularly pernicious when it comes to urban finances as noted by UNESCAP, "(I)n the field of finance, government supervision and control is wide and strict. In addition to financial control in general, the central government can wield power by reducing or enhancing grant-in-aid to local bodies, even to city authorities like Dhaka"[30]. In general, the political, administrative and fiscal autonomy of municipalities and corporations in Bangladesh leaves much to be desired.

Sri Lanka also has a *de facto* unitary form of government, with the President as the head of state and head of government. The country is divided into 9 provinces for administrative purposes[31]. Below these are 25 districts and 330 divisional secretariats[32]. Unlike Bangladesh, however, Sri Lanka has adopted decentralisation policies which have resulted in

[29] For details see country paper on Bangladesh in the UNESCAP study cited above: http://www.unescap.org/huset/lgstudy/country/bangladesh/bangladesh.html Accessed on 9 April 2008.

[30] Ibid.

[31] An indicator of severe regional imbalance is that the Western Province which includes the capital Colombo, has the highest density of population and the least land area as compared to the other provinces. Also, it alone accounts for half of national income (and 60% of industrial output) as well as 30% of population but less than 6% of total area of the country.

[32] See 'The Local Government System in Sri Lanka' , Country Profile, Commonwealth Local Government Forum http://www.clgf.org.uk/index.cfm/pageid/124/Sri+Lanka. Accessed on 9 April 2008.

formal devolution of powers to provincial councils. Local authorities also function in both urban and rural areas as third tier of government. There are three types of urban local bodies, namely, 18 municipal councils (towns with population more than 30,000), 42 urban councils (towns with 10,000-30,000 people) and 270 pradeshiya sabhas for smaller towns with associated rural hinterlands. The capital city of Colombo has its own municipal council.

The powers and responsibilities of local bodies, primarily in the areas of public and environmental health, have remained unchanged since constitutional recognition was given to local governments in 1987[33]. Since most local bodies do not have a strong revenue base they depend on central government transfers through the provincial councils which have responsibility under the constitution for their supervision[34]. Thus, there is excess excessive dependence on, and influence of, the centre in terms of local government finances. The centre regularly takes decisions on devolved subjects that entail financial commitments by the provinces but cannot meet them[35]. It is also true that in Sri Lanka after the 1987 devolution the primary, if not the sole focus has been centre-province relations—while the 13th constitutional amendment devolved governance to provincial and local levels and the latter face increased demand for provision of public goods and services, they remain handicapped by limited financial and human resources.

While ***Pakistan***, *prima facie*, is a federation (of four provinces, namely, Punjab, Sindh, Baluchistan and North Western Frontier Province or NWFP) as per its Constitution, given long periods of military rule (for about half of its history) centripetal tendencies have been very strong. Local governments are not formally embodied in the Constitution and they exist under the supervision of various provincial governments which have merely delegated some of their functions and responsibilities to local governments through promulgation of ordinances[36].

Pakistan also presents a unique case of local governance reforms in South Asia since these reforms were initiated by a non-representative (military) centre using a 'to-down' approach (Cheema et al. 2006). The first phase of extensive local government reforms was implemented under the military regime of General Zia-ul-Haq from 1979, though the process began during the preceding civilian government of Prime Minister Z.A. Bhutto. General Zia introduced the system of electoral representation at the local level through local government ordinances (LGOs) and local elections were held during 1979 and 1980 in all four provinces. In doing so, he followed the example of a previous military ruler Field Marshal Ayub Khan of combining (non-democratic) centralisation at the federal and provincial levels with a legitimization strategy that instituted electoral representation at the local level (Cheema et al. 2006). This strategy has also been viewed as creating a competing class of collaborative

[33] The 13th amendment to Sri Lanka's Constitution in November 1987 was a far reaching amendment that led to the formation of Provincial Councils as well as a third tier of local government. The amendment devolved functions to elected provincial governments including provision of LPGs.

[34] 'The Local Government System in Sri Lanka' , Country Profile, Commonwealth Local Government Forum http://www.clgf.org.uk/index.cfm/pageid/124/Sri+Lanka. Accessed on 9 April 2008.

[35] See the country paper on Sri Lanka in the UNESCAP study cited above: http://www.unescap.org/huset/lgstudy/country/srilanka/srilanka.html Accessed on 9 April 2008.

[36] See the country paper on Pakistan in the UNESCAP study cited above: http://www.unescap.org/huset/lgstudy/country/pakistan/pakistan.html Accessed on 9 April 2008.

local-level politicians supporting the military as opposed to national or provincial politicians (Jalal 1995). Indeed, it has been argued that the centripetal tendency during periods of military rule in Pakistan has always been combined with local government empowerment. This unique feature of local government in Pakistan adds another dimension to the focus once notices in South Asia on federal-provincial relations. It has been noted, however, that "the increased political importance of local bodies *was not complemented by any further decentralisation of federal or provincial administrative functions or financial powers to the local level*" (Cheema et al. p. 262, emphasis added). In fact, local governments continue to lack constitutional protection and their creation and existence remain at the whim of the provinces. This conclusion broadly holds even for the new round of local government reforms initiated by the most recent military ruler General Musharaf (op. cit.).

Whereas in Pakistan local governments exist *de facto* (in a manner of speaking) though not mandated by the Constitution, the situation in ***India*** is the opposite—though a *de jure* framework for local government was created more than 15 years ago, in practice implementation has been tardy at best. Specifically, through the 73rd and 74th amendments to the Constitution in 1992, an explicit provision was made for a third tier of (local) government for rural and urban areas, respectively. The 74th amendment in particular, provides a basis for state governments to create and assign various responsibilities to ULBs and to strengthen urban governance. The important provisions of this amendment include constitution of three types of ULBs, devolution of greater functional responsibilities and financial powers to elected ULBs, adequate representation of weaker sections and women in ULBs, regular and fair conduct of municipal elections, and constitution of Ward Committees, District Planning Committees, Metropolitan Planning Committees and State Finance Commissions[37].

The reality, however, is that devolution of functional and financial powers by state governments has been uneven. Thus, by and large ULBs (and by corollary the 74th amendment) remain ineffective. Most urban functions in most states are carried out by officials answerable to the state government and/or by parastatal agencies controlled by state governments, e.g., water supply and electricity. While the 12th schedule of the 74th amendment mentioned earlier (Article 243W of the Constitution) clearly delineates the 18 functions to be performed by ULBs, most of these have not yet been devolved by state governments[38]. For instance, the very first function in the 12th schedule (town planning) continues to be done by state/central agencies. For example, the recent Master Plan for Delhi was prepared by a central government agency, Delhi Development Authority (DDA). Further, as we see in the following section the financial health of ULBs remains precarious at best. Among other things this has had a telling effect on their autonomy.

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[37] For details see http://indiacode.nic.in/coiweb/amend/amend74.htm Accessed on 12 April 2008.

[38] These are: (i) urban planning including town planning, (ii) regulation of land-use and construction of buildings, (iii) planning for economic and social development, (iv) roads and bridges, (v) water supply for domestic, industrial and commercial purposes, (vi) public health, sanitation conservancy and solid waste management, (vii) fire services, (viii) urban forestry, protection of the environment and promotion of ecological aspects, (ix) safeguarding the interests of weaker sections of society including the handicapped and mentally retarded, (x) slum improvement and upgradation, (xi) urban poverty alleviation, (xii) provision of urban amenities and facilities such as parks, gardens, playgrounds, (xiii) promotion of cultural, educational and aesthetic aspects, (xiv) burials and burial grounds; cremations, cremation grounds and electric crematoriums, (xv).cattle pounds; prevention of cruelty to animals, (xvi) vital statistics including registration of births and deaths, (xvii) public amenities including street lighting, parking lots, bus stops and public conveniences, and xviii) regulation of slaughter houses and tanneries.

To summarise, this quick overview of the institutional arrangements for urban governance in South Asia reveals that the so-called third tier of government is tentative at best. Its growth is thwarted either by higher tiers of government at the federal (central) and/or the provincial (state) level. Thus, in Bangladesh and Sri Lanka (smaller and more or less unitary countries) it is the central government that is very hands-on, whereas in India it is the state governments that have not implemented the 74th amendment in good faith. In Pakistan on the other hand, one sees a pattern of what may be called 'pseudo-decentralisation' with an authoritarian non-representative central government creating a local government structure for various reasons mentioned above. Further, in addition to limited functional and administrative autonomy (and perhaps because of this) the financial condition of ULBs is also precarious and they are dependent on transfers from higher levels of government. All of this has very serious implications for urban governance in South Asia and for the provision of local public goods and services which we argued at the beginning of this section is the *raison d'etre* for urban local government. In the following section we focus on the financial aspect of managing South Asian towns and cities since the dynamics of resource generation and disbursement at the local level are important determinants of extent of decentralisation and devolution. In fact, as we argue later in the paper there is circularity here with resource mobilisation determining autonomy and decentralisation at the local level and *vice versa*.

III. Financial aspects of governing South Asian towns and cities

Greater decentralisation of government functions has to be accompanied by concomitant fiscal devolution as well as increasing capacity of local governments to raise revenues on their own. Indeed, one of the guiding principles of decentralisation requires the devolution of financial powers to follow functional devolution. In other words, the extent of autonomy depends on the extent to which local bodies can raise revenues independently and also allocate their resources for expenditure.

In this section we examine key features of urban finance for major South Asian countries, in particular, the composition of revenue and expenditure. This enables us to gauge the fiscal health of cities and towns in the region. We note that revenue sharing and fiscal devolution are mostly determined at higher levels of government level, *inter alia*, by bodies such as national and state Finance Commissions (in the case of India and Pakistan) and similar agencies in Bangladesh and Sri Lanka. This is followed by a normative discussion of how non-conventional budgetary resources could be mobilised for augmenting municipal finances.

From an analytical perspective a generic problem with regard to urban finance (indeed, with regard to finance for all sub-national governments) is the mismatch between revenues and expenditures: as argued earlier, local governments are typically better suited to providing local public goods and are also perhaps better suited to respond to the diversity of preferences across sub-national jurisdictions. For various reasons, however, it is harder for sub-national governments to raise revenue from taxes than it is for central governments. For instance, mobility of factors of production such as labour and capital is greater across jurisdictions within a federation than across nations (Singh and Srinivasan 2002). This revenue-expenditure mismatch is often termed as vertical fiscal imbalance (VFI). It is a common characteristic of federal systems whereby the federal government has access to revenues in excess of its own spending needs while sub-national governments are assigned significant expenditure responsibilities but commensurately less revenue raising powers (Sharma 2006).

More formally, VFI is the result of differing determinants of optimal assignments of expenditure and tax authorities[39]. The end result is that a situation arises where sub-national governments rely on the centre for revenue transfers. In India for instance, ULBs account for a little over two percent of the combined revenue of all levels of government, federal, state and local (Reserve Bank of India 2007). Further, total municipal revenues in India account for only 0.75% of GDP, against 4.5% for Poland, 5% for Brazil and 6% for South Africa (Mohanty et al. 2007). Local governments in India and Pakistan cannot raise even 10% of their expenditure though after decentralisation of functions they have been forced to assume responsibility and incur expenditure for local public goods such as local roads, water supply and sanitation and also town planning (Bardhan and Mookherjee 2007). In general, a review urban finance for major South Asian countries reveals that ULBs suffer from both vertical and horizontal fiscal imbalances.

In ***Pakistan*** each of the three levels of the governments has a specified schedule of local taxes and sources of income but for local governments these are not commensurate with the services rendered. The provinces are responsible, *inter alia,* for highways, urban transport, irrigation and mineral resources. The provincial governments have assigned certain responsibilities like elementary education, health and local roads to local governments (UNESCAP 2002). As in India, the National Finance Commission (NFC) of Pakistan decides on revenue sharing between the federal and provincial governments. Provincial Finance Commissions (PFCs) have also been established to allocate funds between the provinces and local governments based on criteria like population, area, relative backwardness as well as matching grants.

The tax base of provincial and local governments is limited due to the control exercised by the federal government over all major tax revenues like import duties, sales tax (levied as a VAT), excise duties and income tax (corporate and personal). Currently provinces receive a share of federally levied and collected taxes as a transfer which account for 80 per cent of the provincial revenues. The ordinances under which local governments were established (see section II) permit transfers from provincial to local governments, namely, District and City District Governments (CDGs). The latter in turn make transfers to Town and Union Councils (UCs)[40]. In addition to these transfers local governments have other sources of revenue through taxes on property and motor vehicles, etc. They also collect fees for services provided such education (schools and colleges) and health facilities (see Table 11). The major source of revenue, however, is transfer from higher levels government. In fact, under the local government ordinances (LGOs) of 2000, provincial governments are responsible for financing, regulating and supervising local governments instead of providing direct social and economic services[41]. Thus, while *prima facie* we see a shifting of authority and funding to lower echelons of government, constitutional protection for local governments is very limited, making them more vulnerable to the provincial policies. For instance, local

[39] For a theoretical discussion see Boadway and Tremblay (2006) and Boadway, Cuff and Marchand (2003), and the references therein. Vertical fiscal imbalance between different levels of government is distinct from horizontal fiscal imbalance which refers to differences in the ability to raise revenues among sub-national jurisdictions themselves, e.g., various cities and towns.

[40] In the City District System, the CDGs take predominance over towns regarding provision of services to reap economies of scale.

[41] Under these ordinances local government s are not allowed to transfer monies to a higher level of government except by way of repayment of debts contracted before the ordinances were promulgated.

governments can be created and dissolved by provincial governments. The latter also have very limited autonomy over investment decisions.

In ***India***, according to the 12th (federal) Finance Commission[42] there were 3,723 urban local bodies (ULBs) of which 109 were Municipal Corporations, 1,432 Municipal Councils and 2,182 *Nagar Panchayats*[43]. Their functions *de jure* have increased considerably since the enactment of the landmark 74th constitutional amendment. The size of the municipal sector, however, remains small in India accounting for 0.75% of GDP and approximately 2.5% or less of total government expenditure (Tables 12 and 13). It is estimated ULBs in India derive an average of 40% of their revenue from grants and other transfers from state governments (World Bank 2004). In addition to grants from state government (as determined by the State Finance Commissions or SFCs) ULBs also receive pass through grants from the federal Finance Commission as well as through centrally sponsored parastatal organizations.

In general, revenues from the larger ULBs, namely, municipal corporations (MCs) can be classified as tax revenues, non-tax revenues, assigned (shared) revenues, grants-in-aid, loans and other receipts (see Table 14 for details). A recent study of the finances of 35 ULBs in large Indian cities (all cities with population more than 1 million in the 2001 Census) reveals an interesting fact, namely, most MCs generate a revenue surplus and that resource gaps are "not very large" (Mohanty et al. 2007 p. iv). This picture of apparent fiscal health is because ULBs in India (as in Pakistan) are generally not allowed to run deficits. Further, balanced budgets co-exist with a normative deficit in the provision of LPGs (or 'under-spending').

The so-called under-spending is inferred through an examination of the norms on per capita spending on core services laid out by the Zakaria Committee, compared to actual per capita spending[44]. Thus, it is estimated the level of 'under-spending' on average for the 35 large MCs is about 76%, ranging from about 31% in the city of Pune to more than 94% in Patna (Mohanty et al. 2007). The study also notes that cities in economically backward eastern states of Bihar and Uttar Pradesh have the highest level of 'under-spending' whereas those in the economically stronger western states such as Gujarat and Maharashtra 'under-spend' the least. It is also the case that Gujarat and Maharashtra are the only states that still impose octroi, an import tax on goods entering municipal limits.

Three other issues need emphasis in an analysis of urban local finance in India, namely, inefficient tax administration, low cost recovery and poor quality of expenditure. With regard to tax administration though property taxes comprise a significant share of tax revenue their potential is still untapped in the absence of comprehensive cadastral surveys and widespread under-valuation and evasion. Taking the best performing MC in the previously cited study as a benchmark for collection, it has been estimated that the untapped revenue

[42] The Finance Commission (FC) in India is a constitutional body appointed every 5 years to, *inter alia*, determine the distribution of tax revenues between the centre and state and also grants to state governments. The 12th FC submitted its report in 2004. The report of the 13th FC is expected in 2009.

[43] These three types of ULBs were created under 74th Amendment to the Indian Constitution in 1992: (i) Municipal Corporations for larger urban areas, (ii) Municipal Councils for smaller urban areas, and (iii) *Nagar Panchayats* for areas in transition from a rural area to an urban area.

[44] This exercise should be viewed as illustrative since the Zakaria committee estimates for per capita spending norms were for the year 1964(!) and only for 5 core services (see Table 15). More important, they were not based on estimation of any underlying cost function.

potential of property tax is about Rs. 106 billion (approx. US$2.7 billion at current exchange rates)[45].

Cost recovery is also extremely weak in Indian MCs averaging below 25% of expenditure. As with property taxes, there is considerable scope for levying user charges and fees with an estimated revenue potential of Rs. 97 billion (US$2.5 billion)[46]. Interestingly, cities such as Mumbai, Pune and Surat in states with 'better' urban governance/lower 'under-spending', namely, Gujarat and Maharashtra have below average user charges. Thus, we conjecture their dependence on a regressive and outdated tax such as octroi gives them elbow room in not implementing user charges and fees.

Finally, unproductive expenditure on administration and establishment (overheads) as a proportion of total expenditure is an important factor in determining the ability of MCs to provide LPGs. Some MCs spend more than 50% of total expenditure on overheads crowding out capital and maintenance expenditures. On average MCs spend as much as 36% on overheads and only about 14% and 12%, respectively, on O&M and capital (Mohanty et al. 2007).

In ***Bangladesh***, unlike India and Pakistan local government reform has focused on rural governments. Also, in terms of services provided by different tiers of urban local governments (and in terms of sources of finance), there is hardly any difference between City Corporations (CCs) and *Pourashavas*. Thus, sanitation, solid waste disposal, roads, streetlights, traffic maintenance, urban poverty and slum improvement are in the jurisdiction of CCs and the Pourshavas. For the major cities of Dhaka and Chittagong, however, a parastatal agency the Water and Sewerage Authority (WASA) manages water supply and waste collection. Further, just as the parastatal agency DDA mentioned earlier, looms large in various civic functions in Delhi there is the Capital Development Authority (RAJUK in Bangla) in Dhaka and the Chittagong Development Authority (CDA) in Chittagong. Major development projects in these cities are undertaken by these parastatals.

Property taxes, user charges for public utilities, fees, fines, rental income, government grants and funds are the sources of revenue (Table 16). An interesting feature *vis-à-vis* urban local finance in Bangladesh is the important role of international donors due to poor cost recovery of user charges at the municipal level. Donor funds are only channelled through the governments. According to the budget of the Dhaka City Council for the 2001-02 the main sources of revenue are taxes (48%) and rent (21%). With regard to expenditure for the same period, salaries constituted a massive 44% of total expenses.

In contrast to Pakistan, India and Bangladesh, ***Sri Lanka*** has no formal policy of revenue sharing between the central and local governments and decisions are made on an *ad-hoc* basis by the Finance Commission. In a typical ULB such as the municipal council (MC) of Badulla, an upcountry tea plantation town, salaries constitute 60% of expenditure whereas revenue grants (41%) are the major income source. In a unique move the central government provides financial transfers to cover salary bills, in whole for smaller local authorities and

[45] See Table 45 in Mohanty et al. (2007).

[46] See Table 45 in Mohanty et al. (2007).

about 50% for the Colombo Municipal Corporation[47]. This, in particular, indicates the dependency of local governments on the central government. The former are not allowed by law to run budget deficits (as in Pakistan and India).

In concluding our overview of urban finance in South Asia we return to our point at the beginning of this section, namely, that of a mismatch between revenue expenditure. This mismatch has been exacerbated by the increased responsibility and functions that urban local bodies in South Asia are being asked to shoulder, either *de facto* due to the growing urban population in the region, or *de jure* such as through the 74th constitutional amendment in India. In this discussion we have highlighted the ubiquitous dependence of urban local bodies on grants and transfers from higher levels of government. Given the inevitability of vertical fiscal imbalance inherent in a federal set-up, to some extent this dependency is to be expected and will remain. As our discussion of urban finances in India indicates, however, there is considerable scope for implementing conventional solutions such as increasing the efficiency of tax administration especially of property taxes, cost recovery of services and improving the quality of expenditure. But it is also possible for South Asian cities to look beyond conventional prescriptions and tap non-conventional budgetary resources to augment municipal finances (Asher 2005).

At the beginning of the paper we argued cities are "engines of growth" for the growing economies of South Asia. In an urbanising and globalising world South Asian cities have a unique opportunity to harness new sources and methods of finance. Indeed, it may be imperative for them to do so since economic growth in the region can only be sustained if its cities can successfully compete globally for internationally mobile investment and factors of production. For one, cities can harness existing physical assets more effectively. Local governments often own prime real estate and also control land in and around major transport hubs such as railway stations, bus terminals and airports (Asher 2005). Commercialisation of these assets in a prudent and transparent manner can generate significant one-time and continuous streams of revenue. Second, cities could create and sell property rights for various goods and services such as transferable development rights (TDRs) for land and permits for motor vehicles. In the latter case, Singapore's experience with auctionable Certificates of Entitlement (CoEs) for plying motor vehicles is instructive. Third, treasury management is a way for generating revenue at all levels of government and one that should be fully exploited. Treasury management comprises two related elements. First, "when the receipts such as taxes, utility charges, provident and pension fund contributions have been sent, they should be *credited in the government organizations account in the shortest time as possible*" (Asher 2005, p. 953, emphasis added). Second, any excess cash balance should not lie idle, even for a day. As Asher points out "Businesses routinely have treasury operations from which they derive income" (op. cit., p. 953). It is, of course the case that treasury management will have to be preceded by modernising accounting practices and systems of ULBs. Finally, for financing infrastructure and other large and lumpy expenditures, local governments could tap financial and capital markets. For instance, "future property tax receipts… of local governments can be securitized to generate revenue which could help finance much needed infrastructure. This will require cleaning up of the financial accounts of the municipalities and preparedness to be rated by credit rating agencies" (op. cit., p. 953-4).

[47] 'The Local Government System in Sri Lanka' , Country Profile, Commonwealth Local Government Forum http://www.clgf.org.uk/index.cfm/pageid/124/Sri+Lanka. Accessed on 9 April 2008.

IV. Concluding remarks

Unplanned and unmanaged urbanisation poses a threat to sustained economic growth in South Asia largely because this growth emanates from urban centres. It is not however the case that South Asia is over-urbanised or that its cities are too big (hypertrophic) or that urban concentration is excessive at the moment. Our conclusion is that urban problems in South Asia are more those of poor governance, a missing triad of Fs—functionaries, functions and funds. First, urban local democracy, at the level of cities and towns where the composition and amount of local public goods is decided and provided, has not been able to take root in any country in the region. Urban residents of South Asia in that sense do not enjoy the fruits of representative government whereby through means of an elected government they can decide on the nature and level of local public goods to be provided. Thus, cities and towns largely continue to be run by bureaucrats who (if at all) are only accountable upward but not downward to urban residents. Democratisation of cities and towns whereby accountable and elected leaders are in charge (and who in turn can hire professional city managers) is imperative. Second, urban local bodies need greater functional autonomy. In other words, higher echelons of government have to 'let go'. In India, for instance, on ground and sincere implementation of the 74th Amendment to Constitution enacted 15 years ago in 1992 is urgently required. Finally, functional autonomy goes hand in hand with fiscal autonomy. Cities and towns in South Asia have to 'get their act together' with regard to mobilizing greater funds through conventional and non-conventional sources. Revenues from assets such as land and property tax needs to be effectively tapped. Full cost recovery and levying user charges (keeping in mind vulnerable groups) is another often mentioned revenue enhancing device as is pruning of unproductive expenditure. Tackling these three Fs is imperative to manage urbanisation in South Asia. The challenge is tremendous but so is the opportunity.

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Table 1. The major economies of South Asia (and China) 2006

	Population (million)	GDP (US$ billion; market exchange rate)	GDP (US$ billion; purchasing power parity)	GDP per capita (US$; market exchange rate)	GDP per capita (US$; purchasing power parity)	Human Development Index; value[+] (rank[*]) 2005	Real GDP annual growth, EIU forecast (2008-12) (%)
Bangladesh	156.0 **(1.9)**	62 **(5.7)**	290	397	1,861	0.347 (140)	**6.2**
Bhutan	0.64 (…)	0.8 (…)					
India	1,095 **(1.5)**	923 **(7.8)**	2,743	842	2,504	0.619 (128)	**7.5**
Nepal	25.9 (…)	8.0 **(2.4)**					**3.0**
Pakistan	160.9 **(1.8)**	127 **(6.0)**	415	788	2,587	0.367 (136)	**5.8**
Sri Lanka	19.2 **(0.4)**	27 **(5.8)**	85	1,404	4,411	0.743 (99)	**5.7**
China	1, 315 **(0.6)**	2,774 **(10.1)**	9,985	2,110	7,596	0.777 (81)	**9.0**

Source: 1. Economist Intelligence Unit (EIU): Data pertain to 2006. Figures in parentheses are average annual growth rates, 2002-06.
2. UNDP 2007-08 (+ maximum value 1.0, * out of 177 countries).

Table 2. Population by region (1950 and 2010) (thousands)

	1950		2010		2030	
	Total population	Urban population (% urban)	Total population	Urban population (% urban)	Total population	Urban population (% urban)
World	2,519,470	731,765 (29.0)	6,842,923	3,474,571 (50.1)	8,199,104	4,912,553 (60.0)
Less developed regions[a]	1,706,698	308,583 (18.1)	5,617,246	2,553,051 (45.5)	6,948,446	3,901,492 (56.1)
South Asia	**453,528**	**70,632 (15.6)**	**1,567,666**	**472,628 (30.1)**	**1,970,140**	**813,357 (41.3)**
India	357,561	60,936 (17.0)	1,183,293	356,388 (30.1)	1,449,078	589,957 (40.7)
China	554,760	72,119 (13.0)	1,354,533	608,587 (45.0)	1,446,453	872,671 (60.3)

Source: Authors' own calculations based on United Nations 2005 (Tables A.3 and A.5)
Note: The UN defines 'less developed regions' as all regions of the world except Europe, North America, Australia, New Zealand and Japan.

Table 3. Demographic, economic and human development indicators for major developing countries and regions, about 1990

Country/ Region	Total Population (millions)	Annual population growth rates		Total fertility rate[a]	Urban population (%)		Urban population growth rates		% of urban population in largest city	Urban sex ratio (males/100 females)	GNP per capita US$	GNP per capita annual growth rate		Real GDP per capita (US$)[b]	Infant mortality per 1000 live births
		1960-1992	1992-2000	1992	1960	1992	1960-1992	1992-2000	1990	1990-91	1992	1965-1980	1980-1992		
China	1184	1.9	1.0	2.0	19	28	3.1	3.8	4	1083	480	4.1	7.6	1950	44
India	884	2.2	1.8	3.8	18	26	3.4	3	6	1119	310	1.5	3.1	1230	82
Indonesia	189	2.1	1.5	2.9	15	33	4.7	4.3	17	999	680	5.2	4.0	2950	58
Arab States	230	2.6	2.9	4.8	30	30	4.5	3.5	31	-	-	-	-	4452	67
Sub Saharan Africa	510	2.8	2.9	6.3	15	30	5	4.5	-	-	559	1.4	-1.8	1346	97
Latin America and the Caribbean	450	2.4	1.8	3.1	50	73	3.6	2.4	24	-	2791	2.7	1.0	5730	45
Developing Countries	4220	2.3	1.8	3.5	22	36	3.8	3.2	-	-	982	4.6	4.0	2595	70
World	5420	1.9	1.5	3.1	34	44	2.7	2.6	-	-	4534	-	-	5430	-

Source: Gugler (1996), Table 1.1 (data from UNDP 1995)

a. Total fertility rate is the average number of children born to a woman in her lifetime.
b. Real GDP is based on conversion in terms of purchasing power parity.

Table 4. Labour force distribution in selected South Asian economies (%)

	Agriculture		Industry		Services	
	1960	1996-2005*	1960	1996-2005*	1960	1996-2005*
Bangladesh	86	52	5	14	9	35
India	74	67	11	13	15	20
Pakistan	61	42	18	21	21	37
Sri Lanka	57	34	13	23	30	39

Source: UNDP 2007-08, UNDP 2005 (Human Development Report various issues) (***** Data refer to the most recent year during the period specified.)

Table 5. Urbanisation in South Asia (and China) 2007

	Total population in millions (2007)	Annual growth rate (%) (2005-10)	% Urban (2007)	Urban population annual growth rate (%) (2005-2010)
Bangladesh	147.1	1.8	26	3.5
Bhutan	2.3	2.2	12	5.1
India	1,135.6	1.4	29	2.3
Nepal	28.2	1.9	17	4.8
Pakistan	164.6	2.1	36	3.3
Sri Lanka	21.1	0.8	15	0.8
China	1,331.4	0.6	42	2.7
Less developed regions	5398.4	1.3	44	2.5

Source: United Nations Population Fund (2007)

Table 6. Trends in urbanisation in South Asia (and China), 1950-2030 (% urban population)

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka	China	Less developed regions
1950	4.2	2.1	17.0	10.6	2.7	17.5	15.3	13.0	18.1
2010	27.3	12.8	30.1	32.1	18.2	37.0	15.1	44.9	45.5
2015	29.9	14.8	32.0	34.8	20.9	39.6	15.7	49.2	48.0
2020	32.9	17.0	34.4	38.0	23.9	42.7	16.9	53.2	50.7
2025	36.3	19.5	37.3	41.5	27.2	46.2	18.8	56.9	53.4
2030	39.9	22.4	40.7	45.2	30.6	49.8	21.4	60.3	56.1

Source: United Nations (2007)

Table 7. Growth of urban population in South Asia, 1950-2030 (and China)

	Year	India	Pakistan	Bangladesh	China
Total population (thousands)	1950	357561	36944	41 783	554760
	2000	1021084	142648	128 916	1273979
	2010	1183293	175178	154 960	1354533
	2020	1332032	211703	181 180	1423939
	2030	1449078	246322	205 641	1446453
Urban population (thousands)	1950	60936	6473	1774	72119
	2000	282480	47284	29900	455800
	2010	356388	64812	42292	608587
	2020	457619	90440	59525	757766
	2030	589957	122572	82064	872671
% urban	1950	17	17.5	4.2	13
	2000	27.7	33.1	23.2	35.8
	2010	30.1	37	27.3	44.9
	2020	34.4	42.7	32.9	53.2
	2030	40.7	49.8	29.9	60.3
Urban population annual growth rate (%)	1950-55	2.62	4.50	3.86	3.6
	2000-05	2.30	3.04	3.47	3.08
	2010-15	2.46	3.35	3.44	2.38
	2020-25	2.56	3.17	3.31	1.57
	2030-35	2.30	2.66	2.85	1.04

Source: United Nations (2005).

Table 8. Population trend of largest urban agglomeration as of 2000 (millions)

	1950	2000	2015
India (Mumbai)	2.86 (5.21)	16.09 (5.7)	21.87 (5.4)
Bangladesh (Dhaka)	0.42 (23.5)	10.16 (34.0)	16.84 (33.5)
Pakistan (Karachi)	1.05 (16.2)	10.02 (21.2)	15.16 (19.8)
Nepal (Kathmandu)	0.10 (45.0)	0.64 (19.6)	1.28 (18.7)

Source: United Nations (2005) Tables A. 12 and A.15

Notes:
1. Figures in parentheses are population of largest agglomeration as percentage of national urban population.
2. UN only reports urban agglomeration with at least 750,000 inhabitants as of 2005. Thus, data for Colombo is not available since its population was around 650,000.

Table 9. Population in urban agglomerations > 1 million (% of total population)

	1960	1970	1980	1990	2000
India	7	7	9	10	11
Bangladesh	2	4	6	9	11
Pakistan	11	13	15	16	17
South Asia	7	7	9	10	12

Source: World Bank (2006)

Table 10. 2-city and 4-city indices (2005)

	2-city index	4-city index
Bangladesh	3.0	1.9
Pakistan	1.85	1.1
India	1.2	0.5
China	1.4	0.5

Source: Authors' own calculations based on United Nations 2005 (Table A.12). The 2-city index and 4-city index have been calculated based on the formulae P1/P2 and P1/(P2+P3+P4), respectively, where P1…Pk are the populations of the largest urban agglomerations.

Table 11. Sources of revenue for local governments in Pakistan

	Taxes/rates	*Fees*	*Other sources*
City District Government	- Vehicles (except motor vehicles) - Local rate on land	- Schools, colleges and health facilities maintained/ owned by the district - Licenses - Specific Services	- Tax collection charges on behalf of higher levels of government - Tolls on new roads and structures (except national and provincial entities)
Tehsil/Town Council	- Services - Property tax	- Advertisements and billboards - Public events - Entertainment	- Tax collection charges as above - Public utilities (e.g., lighting and drainage)
Union Council	Village and neighborhood guards	- Fees on markets - Civil status registration	- Maintenance of public utilities

Table 12. Revenue significance of municipal sector in India

Year	Municipal Revenue (Rs. Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Revenue (as per cent of Total Revenue of)		
			State Govt.	Central Govt.	Combined State & Central Govt.
1998-99	11,515	0.72	4.4	4.1	2.5
1999-00	13,173	0.75	4.2	4.4	2.5
2000-01	14,581	0.77	4.2	4.5	2.4
2001-02	15,149	0.73	4.1	4.2	2.3

Source : (i) Reports of Eleventh and Twelfth Finance Commission, (ii) Economic Survey, GoI 2004-05.

Table 13. Expenditure significance of municipal sector in India

Year	Municipal Expenditure (Rs. Crore)	Percentage of GDP at Factor Cost	Relative share of Municipal Expenditure (as per cent of Total Expenditure of)		
			State Govt.	Central Govt.	Combined State & Central Govt.
1998-99	12035	0.75	4.52	4.31	2.21
1999-00	14452	0.82	4.60	4.85	2.36
2000-01	15743	0.83	4.53	4.84	2.34
2001-02	15914	0.76	4.22	4.39	2.15

Source: (i) Reports of Eleventh and Twelfth Finance Commission (ii) Handbook of Statistics on Indian Economy, RBI 2005-06

Table 14. Sources of revenue for municipal corporations in India

Revenue Head/Category	Sources of revenue
Tax revenue	Property Tax, Octroi, Advertisement Tax, Tax on Animals, Vacant Land Tax, Taxes on Carriages and Carts
Non-Tax revenue	User Charges, Municipal Fees, Sale & Hire Charges, Lease amounts
Other receipts	Sundry receipts, Law charges costs recovered, Lapsed deposits, Fees, Fines & Forfeitures, Rent on Tools & Plants, Miscellaneous Sales *etc.*
Assigned (Shared) revenue	Entertainment Tax, Surcharge on Stamp duty, Profession Tax, Motor Vehicles Tax
Grants-in-aid	(i) Plan Grants made available through planned transfers from upper tier of Government under various projects, programmes and schemes (ii) Non-Plan Grants made available to compensate against the loss of income and some specific transfers
Loans	Loans borrowed by the local authorities for capital works *etc.* – HUDCO, LIC, State and Central Governments, Banks and Municipal Bonds

Source: Mohanty et al. (2007) Table 16

Table 15. Zakaria Committee norms for expenditure on services

(Rupees per capita at 1996-97 prices)

City Class	Water Supply		Sewerage		Storm Drainage		Roads		Street Lights	
	Capital	O & M	Capital	O & M	Capital	O & M	Capital	O & M	Capital	O & M
AA	968	161	1117	182	611	-	1207	37	447	45
A	700	152	968	177	432	-	1043	33	372	42
B	699	146	819	161	387	-	611	27	328	37

AA - More than 20 Lakhs population; A - 5-20 Lakhs population; B – 1-5 Lakhs population

Source: Mathur and Singh (1998)

Table 16. Sources of revenue for local governments in Bangladesh

Source	*Sub-components*
Property tax	Property tax on annual value of buildings and lands Conservancy rate Water rate (except Dhaka and Chittagong) Lighting rate
Shared property tax	Surcharge on the transfer of property ownership
Other taxes	Tax on professions, trade and callings Tax on vehicles and animals Tax on cinema, dramatic and entertainment Tolls and minor taxes (on advertisement, marriage etc.)
Non-tax source	Fees and fines Rents and profits from property Other sources
Loans	Internal, from banks, etc. International agencies
Government grants	Salary compensation grants Octroi compensation grants Normal development grants Extraordinary grants