**A Policy Brief**

**ECONOMIC GOVERNANCE AND SPATIAL PLANNING IN SMALL AND MEDIUM TOWNS: A CASE FOR CONVERGENCE**

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**Introduction:**

Small and medium towns (SMTs) have recently come into focus in discussions of urbanization in India. The findings of the 2011 census have revealed a historically unprecedented increase in the number of new census towns, from 1,362 in 2001 to 3,894 in 2011. This is a jump of 2,774 towns, a six-fold increase from previous censuses.[[1]](#footnote-1) This finding suggests a shift away from the hitherto top-heavy pattern of urbanization observed in India (Chattopadhyay 2008, Himanshu 2008, Kundu and Sarangi 2005) wherein large cities have grown at a much faster rate than smaller towns and cities, and have absorbed much larger proportions of rural-urban migrants. India’s Tenth and Eleventh Plans had expressed concern about this concentration of demographic and economic growth in large cities, and the Eleventh Plan had considered an approach of spatially balanced urbanization through the creation of growth centers in small and medium towns.

The creation of such growth centers implies planning interventions on two fronts. First, it involves fostering economic growth through appropriate planning, to sustain and improve the livelihoods of town residents and of potential in-migrants into these towns. Second, it involves spatial and infrastructural planning to ensure appropriate services, such as drinking water, sanitation, health care, education, and transportation for its growing population. Policy documents, particularly of the state’s Department of Municipal Administration and Water Supply, acknowledge the importance of both these aspects of planning.

This policy brief, however, uses findings from a case study of the economically vibrant town of Ambur in northern Tamil Nadu, to highlight the significant institutional disjunctures that exist on the ground between economic and spatial/infrastructure planning. We highlight how these disjunctures tend to produce further disconnects between economic growth and the overall development of the town, particularly in terms of sustainability and inclusiveness. Most importantly, the findings of our case study highlight the importance of recognizing and including informal sectors of small town economies in economic governance, as these sectors account for the bulk of productive activity and livelihood opportunity in the town.

**Background:**

Tamil Nadu is the most urbanised state in the country according to the 2011 census, with nearly 50 percent of its population living in towns and cities. It is also a state where urbanisation is relatively well distributed. In comparison with Maharashtra or Gujarat, the other highly urbanised states in the country, Tamil Nadu has a larger number of towns per unit area and a better mix of small, medium and large towns, as also a better spatial spread of these towns (Rukmani, 1994). Urban and industrial growth has been concentrated in several small town clusters spread throughout the state, specialising in a range of activities like clothing, home furnishings, textiles, leather, lock-making, matches, fireworks, printing, dyeing, poultry, coir products, transport equipment servicing, engineering services, and auto component making.

Some of the vibrant urban-industrial regions like the Tiruppur knitwear cluster, the Karur home furnishings cluster, the Ambur leather cluster and the printing cluster of Sivakasi have been identified by multilateral agencies like the United Nations Industrial Development organization (UNIDO) and by government agencies as dynamic clusters and have been the site of several targeted interventions to improve their competitiveness and their economic dynamism. However, such interventions have failed to take into account the fact that economic dynamism will be unsustainable if the growth spaces do not allow for improvements in human development.

Simultaneously, the 74th amendment has sought to vest greater powers and responsibilities to local governments for economic planning. It envisaged that municipalities would be endowed with powers and authority to, among other things, prepare plans for economic development and social justice. The government of Tamil Nadu has also recognized the importance of economic planning for urban areas, as evident from its conformity legislation to the 74th Amendment, the amended District Municipalities Act of 1948, which declared that “the State Government may entrust to the Municipality (or Town Panchayat), the wards committee or any other committee constituted under this Act … powers and responsibilities … with respect to the preparation of plans for economic development and social justice.”

However, as we shall point out in this note, these plans have not materialized, and economic development in SMTs, even in prominent industrial towns such as Ambur, proceeds in a largely unplanned manner, with disappointing outcomes for the development of the town as a whole and even for the majority of its economic actors. Planning for economic upgrading through cluster development interventions has not automatically ensured social upgrading. If small and medium towns are to serve the role of being nodes of capital accumulation and places where residents can experience improved standards of life, a serious rethink on the mechanisms of economic governance and planning for sustained local livelihoods is in order.

This note is based on a case study of Ambur town, which involved, in addition to a study of secondary literature, fieldwork over a period of six months, from September 2012 to February 2013. The primary data collection included a sample survey of 170 households in the town to understand the linkage between livelihoods of residents and the economy of the town, and detailed interviews with various key stakeholders in the town and the leather sector.

**Ambur: An Economic Profile**

Ambur has established itself as a global player in the production of leather and leather goods. In 2012, it is reported to have generated Rs. 2408 crores in export earnings, and was notified as a ‘Town of Export Excellence’ in India’s Foreign Trade Policy 2009-14 (Outlook 2013). Starting out as an exporter of raw hides, Ambur has moved, in the last 30-40 years, into leather tanning and processing, and more recently into a successful exporter of leather products. Ambur has been recognized by the UNIDO as an industrial cluster with high growth potential, and has been the site of interventions, both by UNIDO and various arms of the state, to improve its competitiveness as a cluster.[[2]](#footnote-2) Importantly, Ambur has also been seen as more dynamic than other leather or footwear clusters in the country, due to its ability to cater to the export market through production of relatively more unit value-added products (Tewari 2002).

This dynamism, as Tewari points out, was enabled by state policies of disincentivising exports of low value-added items like semi-finished or raw skins, which pushed firms to compete through the production of high quality finished leather goods and through collective action by industry leaders. CLRI and the Council for Leather Exports (CLE), both central government organisations headquartered in Chennai have played an important role in helping the cluster tide over market bottlenecks at different points in time and move up the value chain through technology support. More recently, UNIDO, in partnership with CLRI, Central Footwear Training Institute (CFTI)[[3]](#footnote-3) and leather sector associations has launched programmes like training, quality improvements and exposure visits to familiarize owners and workers to frontier industry practices. Further, AEDOL (Ambur Economic Development Organsation Ltd) a public-private enterprise has been set up in the town with support from UNIDO to further improve the competitiveness of the cluster.

At present, Ambur is home to about 10 large shoe factories, 100 odd medium and small factories, and a substantial informal home-based and small workshop-based production catering to multiple segments of the domestic market as well as undertaking job-work for export firms.

The economic dynamism of Ambur has been accompanied by spatial expansion, with most of the new export units coming up in the neighbouring villages. It has generated large-scale employment opportunities, particularly for women, in both the town and surrounding villages, even as it throws up new challenges for economic governance of this sector. Large numbers of commuting workers, who reside in the town and commute to rural areas for work, or vice-versa, have become a key phenomenon with this expansion.

These patterns of growth and development, as we highlight below, have undermined many of the foundations of social reproduction in the town and hence the quality of life of its residents.

**Cluster Development and Local Development are not the Same!**

The dominance of the leather sector as an employer in the town was clear: more than 41% of workers in our sample were employed in various segments of the leather industry. Work in export factories specializing in leather products accounted for the major share of this sector’s employment (67%). Only 13% reported working in tanning and leather processing segments, indicating a clear shift in the economic base of the town from leather processing to production of value-added leather products. The remaining workers were spread among various smaller segments of leather product manufacture, ranging from jobwork for export factories to different aspects of shoe assembly for the domestic market using rejects of the export market.

Interestingly, although leather accounted for 41% of workers in our sample, it only accounted for only 35% of income, despite the fact that most of the leather workers were employed in export shoe factories. In fact, 90% of those employed in the leather sector reported a monthly income of less than Rs 5000, clearly indicating the low wages prevalent in the sector. Economic mobility within the factories was non-existent for bulk of the workers: salary levels of workers that had worked more than 5 years were not very different from salaries earned at the time of joining. Entry level salaries were low, at Rs 4000/month, lower than the prevailing wage rates in tanneries, or the daily wage rates in agriculture. Formal factory employment thus does not quite have the connotation of ‘decent work’ that one normally associates with formal sector employment. As a result, despite being the dominant employer in the town, the leather sector was clearly not the horizon of future aspiration for the majority of Ambur’s residents. Only 14% of those working in the leather sector wanted their children to work in this sector.

The disconnect between the quality of life of residents in the town and the economic dynamism of the leather sector manifests in other domains as well. Town level planning, hampered by paucity of both human and financial resources, is inadequate even to ensure basic public services in the town leave alone plan for sustainability of livelihoods in the town. First, the financial strength of the municipality remains weak, a highly anomalous situation for a town whose main industry generates many thousands of crores in export earnings annually. The fact that many of the export factories are located outside the town limits exempts these large units from tax liabilities to the municipality, even as they enjoy the services of the town as a source of housing for both their workers and managerial staff.

A significant part of the deficit was due to the municipality’s high expenditures on water supply. This brings us to the second anomalous feature of Ambur’s development: a town that hosted the thriving leather industry due to its location on the bank of the Palar River, with its copious supplies of fresh water, is now chronically thirsty and perennially on the lookout for new sources of water. A third of Ambur’s households do not have access to protected supplies, according to the Census 2001 data. Following the closing down of various water supply schemes due to pollution of river and groundwater, drinking water for the town is currently brought in by private tankers, at enormous cost to the municipality – around Rs.1.5 crore annually, one of the biggest expenditure heads of the municipality.

The town’s respondents also cite the lack of quality healthcare in the town with poor staffing and other resource constraints plaguing public hospitals in the town. Quality institutions of higher education too have not come up in recent years and respondents often send their children to nearby towns to study. According to key informants, higher level managers and senior executives of the large companies, almost invariably, maintain their primary residences and their families in Chennai or Bangalore, especially if they have school- or college-going children. This is a key dimension of civil society formation in the town. The fact that the leading economic actors of the town are non-resident considerably diminishes their stakes and collective middle class action in demanding better social and physical infrastructure for the town. In fact, resident activists perceived the interests of the elite leather and shoe sector entrepreneurs to be antagonistic to the interests of the town. In their view, the exporters had escaped all the hardships the townspeople suffered due to pollution of air, groundwater and agricultural lands, even as the industrialists benefited from the profits generated through such environmental degradation and resource depletion.

**Implications and Some Lessons:**

This case study of a medium town with a dynamic economy generating substantial employment provides some important insights that challenge the common assumption of mutually beneficial links between economic growth, infrastructure and human development in a town. It points to the need to understand the specific structure and dynamics of a town’s economy and design spatial, infrastructural and social interventions that address the gaps and needs in this situation. Economic upgrading, i.e, movement into more value adding activities do not necessarily imply better welfare for actors (like workers) in the cluster/value chain. Yet, contemporary cluster development strategies are premised on a trickle-down view of the effects of economic upgrading. They assume that additional value generated by regions or clusters automatically translate into gains for all actors in the chain. This is partly due to a ‘sectoral bias’ in cluster development strategies that fails to recognize the spatial embeddedness of clusters, i.e. how firms and other actors in a value chain are located within a spatial milieu which is critical to social upgrading. This failure to recognize the possibility of economic upgrading being accompanied by social downgrading is at the roots of the disconnect that we witness in the case of Ambur town.

Interventions in SMTs should be oriented toward strengthening their economic base to create viable and resilient livelihood opportunities for their growing populations. Unfortunately, the contemporary preoccupation with bridging the infrastructure gap in urban India has edged out what little efforts were earlier made to address economic development in SMTs. The Integrated Development of Small and Medium Towns (IDSMT) program, from 1979-80 to 2005, was tasked with providing employment opportunities as well as infrastructure in towns, but it was subsumed in 2005 by the UIDSSMT, which restricted its focus to improving infrastructure and “governance”.

In emphasizing the need to support economic strengthening in SMTs as an integral part of planning and policy-making, commentators posit a close and interdependent relationship between socio-economic development and the strengthening of the infrastructure and services of the town. In other words, the links between economic development and infrastructure interventions tend to be taken for granted as mutually causal, self-generating or automatic. Government documents also carry the same model: for instance, the 2012-13 Policy Note of Tamil Nadu’s Department of Municipal Administration and Water Supply (MAWS) declares that financial resources provided to ULBs under the state’s urban development missions “stimulated economic growth through planned urbanization” (MAWS Policy Note p. 6). “Planned urbanization” here refers to state plans and assistance for municipal infrastructure investments, in water, sanitation, street lights, roads and garbage collection. The guiding assumption here is that such interventions will directly translate into a stimulus for economic growth and development in the towns.

In practice, however, despite the important role prescribed by the 74th Amendment for ULBs in planning for local economic development, such functions continue to be carried out by parastatal agencies (such as, in Tamil Nadu, the Directorate of Town Planning and the Department of Municipal Administration), that have kept planning roles in the hands of bureaucrats and expert planners accountable to the state government. Municipal plans thus tend to be irrelevant to local needs and realities, and often fail to be implemented.

1. (Kundu 2012) notes that the number of towns, cities and urban agglomerations in India had earlier grown at a sluggish rate, increasing by only 2,541 throughout the last century. He proposes that part of this growth in the number of towns in 2011 is attributable to “census activism”, an enhanced attention to declaration of towns by the census department in response to academic and administrative pressure to review its data collection methods. [↑](#footnote-ref-1)
2. http://www.dcmsme.gov.in/clusters/unido/listassit.htm [↑](#footnote-ref-2)
3. An autonomous institute under the central government’s Ministry of Small Scale Industries. CFTI in turn has received assistance from UNDP for improving its capacity. [↑](#footnote-ref-3)