

**URBAN LOCAL BODIES IN INDIA:  
QUEST FOR MAKING THEM SELF-RELIANT**

P.K.CHAUBEY

Indian Institute of Public Administration, New Delhi

Presented in the *National Seminar on Municipal Finances* to be held on December 29-30, 2003 by the Indian Institute of Public Administration, New Delhi under the auspices of the Twelfth Finance Commission.

Scholars with whom the author had privilege to have discussion are too numerous to mention yet he cannot afford not to acknowledge his gratitude to some of them. Special mention must be made about Ms. Nimish Jha who was bountiful in sharing her knowledge and providing literature solicited and unsolicited. Among others who helped in providing literature, including their own work, and shared their wisdom, the author would like to thank specifically to Dr. Shipra Maitra, Dr. Mukesh Mathur, Dr. O.P. Vohra, Dr. S.P. Singh, Dr. V.N. Alok, Dr. K.K. Pandey, Prof. Pranab Banerji and Prof. P.S.N. Rao. During the presentation, I received fruitful suggestions from Prof. D.K. Srivastava, Prof. Abhijit Dutta and Shri K.C. Sivaramkrishnan, among others, some of which I have tried to incorporate in the revision of the paper. Yet the sole responsibility for omissions and commissions, and lapses and errors lies with the author.

## **URBAN LOCAL BODIES IN INDIA: Quest for Making Them Self-Reliant**

P.K.CHAUBEY  
Indian Institute of Public Administration, New Delhi

### **INTRODUCTION**

India has undergone a silent yet definitely significant political revolution, almost simultaneously with eloquent economic reforms, in the first half of the nineties of the century gone by. Relative rise of market vis-à-vis state and relative importance of local governments vis-à-vis central government may be viewed as extension of the same logic. The import of perpetual existence, ensured with passage of 73<sup>rd</sup> and 74<sup>th</sup> Constitution Amendment Acts, 1992 may have yet to be fully realized by over 30 lakh people's representatives, including 73000 in urban areas, of whom over 10 lakh are women, through about 2 lakh rural panchayat bodies and about 3700 urban municipal bodies.

More importantly if oft quoted Gandhi's talisman of recalling the face of the poorest and the weakest, has any chance of being operational, in terms of realizing the impact of one's action on the poorest of the poor, it is only at the level of local governance where service is delivered to citizens at their doorstep and in their neighbourhood in concrete terms.

The Constitutional directive (Art. 40) to the State (of India, which means the Union and the unit States) to take steps to organize village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government, was followed more in breach than in observance, notwithstanding that many unit States did good work in many respects. It is a sad story to recount that the Article itself was included as an afterthought<sup>1</sup>. Urban local bodies that way were slightly more fortunate that they were in place and they got mentioned in the State List of the Seventh Schedule as item number 5 which reads: local government, that is to say, the constitution and powers of municipal corporations, improvement trusts, district boards, mining settlement authorities and other local authorities for the purpose of local self-government or village administration.

According to dictionaries, 'self-government' is a government under the control and direction of the inhabitants of a political unit rather than by an outside authority. In fact, the alien rule did think of self-government at local level or sub-provincial level. In different phases, they had different philosophy for promoting it—right from training of politicians to gradual self-government at higher levels<sup>2</sup>. In the present set-up, when the county is self-

governed, self-government should mean direct government of public affairs in which elected people have executive powers alongwith deliberative powers if not exactly what may termed as legislative powers.

Yet, it is true world over, under the modern dispensation and under the dominant Dillon philosophy, that the local governments draw/derive their authority from superior legislative bodies and do not have any legislative power but do enjoy considerable decision-making power<sup>3</sup>. While the Legislatures of the unit States are given exclusive power, under Article 246 (3), to legislate on items, with some restrictions, in the Concurrent List of the said schedule, legislation in the matter of local self-government fell in the exclusive jurisdiction of the unit States though Article 40 enjoins all levels of the Government to do their bit in organizing village panchayats and endowing them with such powers as enable them to function as units of self-government.

It was therefore expected of the State Legislatures and the State Governments to constitute and empower by legislation the local bodies so that they could act as the units of self-governments. While municipal acts and municipal bodies were already in existence from the time before independence much in the same way as today with little more autonomy and few more core functions and relatively more funds in the fifties and sixties, the rural local bodies were generally at the district level or at most sub-district level though village panchayats were desired by Royal Commission on Decentralisation (1907-08) and provincial legislations poured in for constitution of village panchayats after Government of India Act 1919. A little before independence, after resumption of power by Indian leadership in 1946, most of the provinces remodelled their village panchayat Acts with a view to conferring more powers and functions. However there was not much concrete until Balvantray Mehta study team (1959), constituted as a part of a larger committee on Community Development and National Extension Service, suggested a democratic structure for people's participation to make the implementation of these programmes more effective.

While many a State Government—both Congress and non-Congress—did tremendously good job of delineating the role of various inter-connected tiers of rural bodies and various levels of independent urban bodies so much so that the Constitutional Amendment Acts themselves drew aspirations on many items from them (Sivaramakrishnan, 2000), it remains a sordid fact that the local bodies were superseded no sooner they were constituted with the change of guards at the State level or they were kept under suspensions for long spells (a mirror image of what the Union governments did with State governments particularly in the seventies and the eighties of the gone by century). As of late the State Governments were short-lived, local bodies had little chance of survival. Worse than that, many public functions—which were genuinely local—were made part of state functions, neither technology nor other forces made this change necessary.

Many State leaders felt that the only solution to this quagmire lay in a Constitutional provision about the establishment and life of the local public representative bodies. Thus, after 40 years, under constitutional directive (Art. 40) did the Republic State of India come forward to constitute the local bodies in terms of broad structure yet left it to the unit States

to endow them with powers and authority to enable them function as units of self-government.

The exercise of bringing amendments to the Constitution for giving statutory status to the local elective bodies took about four years in its final attempt. Despite many setbacks and candid admission that these amendments are not a masterpiece of legal drafting (*ibid*, xi), it seems that in each stage of revival of the bills some serious and meaningful suggestions (and a few cumbersome suggestions) were made. In its final leg, the two bills were referred to the two separate Joint Parliamentary Committees. The draft bills had provision for the periodic constitution of State Finance Commission in each State to deal with financial relations between a State and its local bodies. The Joint Parliamentary Committees widened the scope of the Finance Commission through amendment of Art.280 (inserting clauses *(bb)* and *(c)*) to consider the recommendations of the Finance Commission of a State and suggest measures needed to augment the Consolidated Fund of a State (in order) to supplement the resources of the Panchayats and Municipalities in the State.

Reasoning why (urban) local bodies have become weak and are not able to perform effectively as vibrant democratic units of self-government, the Statement of Objects and Reasons made at the time of introduction of 74<sup>th</sup> amendment bill, mentions three facts, among a variety of reasons that hold good in case of many states: (i) failure to hold regular elections, (ii) prolonged supersessions, and (iii) inadequate devolution of powers and functions. The amendment sought to (a) put on a firmer footing the relationship between the state government and urban local bodies with regard to the functions and taxation powers and arrangement for revenue sharing, (b) ensure regular conduct of election and timely elections in case of supersession, and (c) provide adequate representation for weaker sections like scheduled castes, scheduled tribes and women. While with initial hitches and hiccups, the latter objectives have by and large been fulfilled almost in all states, the first one and the difficult one when the States are themselves facing the fiscal crisis, has been eluding serious attempt except in a few States. While the State Finance Commissions have been constituted in almost all states, adequate devolution of functions and funds has still to go a long way.

It is in this background that we are supposed to address in this piece on (i) functions transferred to Urban Local Bodies in the wake of 74<sup>th</sup> Amendment of the Constitution and (ii) adequacy of resources transferred to perform these functions. While many of the new functions suggested for transfer are regulatory or administrative in nature, adequacy of resources at the disposal of local bodies is a perennial question. Gopal Krishna Gokhale had moved a resolution in the Indian Legislative Council on 13<sup>th</sup> March 1912, which read:

That this Council recommends to the Governor General in Council that a Committee of officials and no-officials may be appointed to enquire into the adequacy or otherwise of the resources at the disposal of local bodies in the different provinces for the efficient performance of the duties, which have been entrusted to them, and to suggest, if necessary, how the financial position of these bodies may be improved (Manager of Publications, 1951, p.21).

Partly on assurance from the Finance Member of the Government of India and partly for the fact the resolution was sure to be defeated, Gokhale withdrew the resolution but the fact remains the local bodies, particularly rural ones, hardly had any powers and a huge proportion of whatever proceeds of land cess had to be devolved to them was to be deducted for chowkidari police. Gokhale had pointed out to the (a) inadequacy of services, (b) inadequacy of taxing powers and (c) inadequacy of grants—the matter again and again a subject of discussion.

Straight answers to the issues posed to us by the Finance Commission would have been far more easier but deceptive and therefore a somewhat longish response is being attempted here. As complexity of exercise would hardly permit one to check whether transfer of resources is commensurate with the transfer of additional functions, we shall consider only desired expenditure on the functions traditionally considered 'municipal'—core or otherwise and whether resources available are inadequate and if so, to what extent. I may hasten to add that not all municipalities were always resource-less otherwise they would not have undertaken many functions of non-obligatory character. Needless to mention, they had trust of the people too for carrying out collective functions!

There are three parts in this paper. Part A deals with Basics, Part B with urban local domain, and Part with adequacy of services and resources.

#### **PART A: BASICS OF LOCAL GOVERNANCE**

Before proceeding further, we should note that the bodies we are going to deal with have two characteristics 'urban' and 'local' and both have their own peculiarities. We shall primarily be dealing with matter concerning public finance/public economics. However, we do feel that some elements that are not adequately dealt with in fiscal economic domain concerning 'self', 'local', and 'urban' need to be first underlined. We iterate here a set of *panchasheelas* concerning the elements of 'self', 'local', and 'urban', which we try to adhere in our approach to address the issues of devolution of functions, functionaries and funds to the urban local bodies in a multi-layered federal polity, which is India.

#### **PANCHASHEELAS**

1. **Principle of Democracy in Structure:** It has been asserted in many committees concerned with local governance that what could be done at a lower level, must not be passed on to any higher level<sup>4</sup>. This suggestion emanates from two different quarters. In India, in reports of various committees and commissions, and of study teams and task forces—at state level and at national level, this is suggested in keeping with political ethos. In the western literature dealing with local public economics, finance and policy, which we increasingly refer to, the suggestion emanates from the consideration of economies of scale and spill-over area of externalities. In other words, in our reports it is giving vent to homo politicus in us while there man is primarily considered as homo economicus (and perhaps consumer qua consumer). That is why in their treatment local governments

would compete, as firms do, in the provision of a variety of public goods to allure the citizens and residents would move across the local jurisdictions suiting their tastes<sup>5</sup>. The citizens in the western models, not lands, are passive consumers, not active participants.

While we do not ignore the basic economic logic, we underline an important axiom that people are not just interested in the product howsoever it is provided, they very much wish to be a part of the process of decision-making. It is not a matter about what is gained but also how what is gained, is gained. The fact that polling percentage in local elections is somewhat (65-70 percent) higher than that at non-local elections (40-50 percent) may be taken as an indication of greater interest in local democracy.

It means the members and chairperson of the local governing bodies should all be elected ones, no matter how the chairperson is elected. The matter whether we should have party-less democracy or party-based democracy should not detain us here.

But all public bodies catering to local needs or to local areas should be part of the local self-government. If at all it is found desirable that certain functions need specialized knowledge or expertise—which in today's world almost all functions require, then such bodies should be subordinated to the local bodies. In other words, such bodies could assume the role of para-municipals rather than of para-statal.

Similarly, local bodies that have to take care of several bodies and several levels, like district planning committee and metropolitan planning committee have to be as representative as possible. It means that the members of these bodies should be from amongst the elected representatives.

Democracy believes that people have enough common sense to make decisions. Public decisions are too serious a matter to be left with the non-elected experts. One may question if the people commit mistakes. Yes, they can; we all do. Individuals, families, states and nations are all post facto discovered to commit mistakes. Then, I hold a view that 'the right to commit mistake should lie with the people who have to bear the consequences' and 'the people should not be made to suffer for somebody else's mistakes (like BDO Sahib's)'.

2. **Principle of Autonomy in Functioning:** Early scholars, like K.C. Wheare, writing in the area of fiscal federalism suggested that different tiers of government in a federal polity should be coordinate with each other rather than one being subordinate to another. As functional and financial domains could hardly ever match severally, inter-governmental transfers were

developed as a means to bring balance between expenditures and receipts at disaggregated level. Later, when it was found, say in the US, that federal government had much more resources than it needed for its traditional functions while its counterpart state and local governments had much less than needed for the functions assigned to them, the former resorted to undertake many local functions under national schemes/programmes. Many asserted that the essence of federalism is mutual inter-dependence rather than mutual independence, though inter-dependence often turns out to be dependence of so-called lower tier jurisdictions on higher ones (M.J.C. Vile is quoted by Reagan, 1972, p.11).

The existence of horizontal mismatch is the very basis for creation of vertical mismatch under the assumption that lateral transfers would involve heavy transaction costs in terms of processing information and conducting negotiation.

Local governments have been subject to so many restrictions on financial side, world over, if not on functional side. There is mismatch between rights and duties. Duties cast upon them are much larger than rights they have over resources<sup>6</sup>. Even if the gap is bridged through transfers from the higher levels, it is often not as a matter of right but only in terms of grants and loans (entailing burden in future).

Besides fiscal area, there are always some bodies to appraise/approve/sanction in the beginning, inspection in the middle and audit at the end. Their tax efforts are circumscribed by so many limitations in terms of rates, procedures and ceilings. Government departments determine the rates and the ceilings (and sometimes even the floors) and so is the case with exemptions and concessions. Certain traditional taxes are withdrawn without adequate compensation.

While recent Constitutional amendments have been so good otherwise, they echoed the same archaic state laws on the financial matters except the mandate for constitution of state finance commissions. May be the wisdom lay there: lest the amendments be miscarried. Yet, the point to be emphasized that the deviate governments must have functional autonomy to take initiative and innovate.

However functional autonomy has little meaning if there is not enough financial independence. Said verily the Local Finance Enquiry Committee (Manager of Publications, 1951, p.1): no system of local self-government can be successful unless it is provided with adequate funds. It quoted from the Presidential Address of Sardar Vallabhbhai Patel, who was incidentally the Chairman of the Ahmedabad Municipality at that time, at the Provincial Local Bodies Conference at Surat in 1935 to have said:

It is being said that the franchise of the electorate has been enlarged and the local bodies have been given very wide powers. True, I accept it. But what good would come out of it unless and until the question of local finances is settled first. The extension of franchise and widening the scope of duties would be like dressing a dead woman. (ibid, p.1)

Taxes, duties tolls, fees and cesses should preferably be devolved through a piece of legislation. If voting by feet is the fear then the rates may be decided by the government but total administration should lie with local elected bodies. If the cost of collection is high, cess imposed by a local body, which is adjunct in nature, can be collected at higher level but the proceeds should be passed on immediately even by the collection office itself. The cardinal principle should be that, in most cases, the local bodies should have enough resources of their own to provide for the core municipal services.

3. **Principle of Fraternal Feeling:** We are discussing the issues of those urban local bodies, which have their rural counterparts and which are saddled in a framework of Union-State federal polity and do not exist in isolation, like Greek cities. They are not constituents of a unitary polity though existence of local governments makes any polity of reasonable size, a federal one in some concrete sense.

When people of different habitations come together to form a multi-habitation political unit on their volition, which rarely happens in real history, it may be conjectured that there are in existence some public goods having spillovers beyond local areas for provision of which they need a larger political area. But why political area?

Of late, we are witnessing common economic unions happening and we have for quite some time been talking of developing a common national market and so on in our own country too, where perhaps unintentionally many barriers got created between states and even between districts because of circumstances. Some cultural affinity and some societal ethos make them form a political union. No two countries are of the same size whether by population or by area or by any other criterion like race or area. We also know that they have come about by historical circumstances and accidents.

Yet there seems to exist, at least in common perception, some commonality, which bind the people together and make others alien. We are then one but not completely so. For example, in a society long nurtured in a tradition of village exogamy, it is not only two families but two habitations too develop some common interest.

The point is that we look forward to cooperate with fraternal units in larger interest of the total community even if we have to suffer temporarily a bit.



The question of equity across habitations then assumes significance. If the two units are not having the same capacities but the two units feel that both the units should enjoy the same level of consumption of certain goods, the resources may have to be transferred from the more prosperous to the less prosperous. The limit to transfer is half the difference in the present should it reverse the positions of the two units in question<sup>7</sup>.

While redistribution is a major responsibility cast upon the modern government, the units cannot perpetually continue to enjoy transfer of resources. The resentment from the more prosperous is likely to erupt. Some would point out its impact on efficiency too while others would point towards non-fiscal transfer of resources from one unit/area/ jurisdictions to another.

We should note that in all multi-habitation polities there will always be need for equity transfers from some units to others though the sets of habitations cannot continue to be the same. While more prosperous ones have been objecting to the redistributive measures undertaken by Planning Commission and Finance Commission, we have started hearing from some no-so-well-off states that they should also be put in the special category states<sup>8</sup>.

4. **Principle of Diversity in Preferences:** As human beings, we are very similar and in very broad terms our needs may be quite similar. But our geography, history and culture make us choose some very different goods. This may be true of public goods as well. We have long been suggested a division between national public goods and local public goods. There could be full spectrum of public goods from local to global and no given set will fit all the countries. Yet, it can scarcely be gainsaid that the quantity and intensity, and also priority, of our collective wants for local public goods may differ considerably across habitations in comparison to national public goods or global public goods. This diversity has long been regarded as geographical variation in tastes.

We may note that many commentators point towards variation or differences in the sets of functions across different states, between rural and urban, and between different levels of municipal governments as if uniformity in itself is a desirable attribute in all cases. This confusion arises because of their impatience for summary statistics. Diversity is too easily confused with disparity.

In view of certain scholars, differences in local aspirations, in provision of public goods and in provision of public utility services are the substantial economic bases for local governance of public affairs of local nature. It is further asserted that local politicians are better informed about local tastes

and their choices would better conform to local taste. Voters can be better informed of services and costs thereof, which they can easily relate.

Part of the confusion referred to owes to the emergence of national concern for many local public goods, semi-public goods and merit goods as well as to universal kind of technology. Nevertheless, the regard for diversity should continue to be a cardinal principle.

5. **Principle of Heterogeneity of Units:** Size of our States vary from 6 lakh to 16 crore, that of union territories varies from 70 thousand to 130 lakh and of cities, within the category of urban habitations, the range varies from a few hundreds to several millions. We may have a district of 2 lakh and also of 20 lakh. There are several factors making this to happen, population size is only a proxy and being used for the purpose of illustration. This simply suggests that we should expect not a uniform list of functions across the states or even within the states, as we often do.

Our States had taken due note of such diversity and their acts could be seen as differentiated products. Our politicians and bureaucrats, while drafting and reviewing the amendment bills, had wisdom to take cognizance of the fact and provided a lot of flexibility to the state legislatures in devolving or delegating functions to a particular category in their respective states. And they exercised this option in quite judicious manner. However, researchers in this area do not feel happy with an amazing level of diversity and wish that could there be a uniform list so that their studies could be easily handled.

Therefore, we have to keep this factor in mind so that we are not after simple solutions of fit-all variety.

Another point that deserves mention here is that our megapolises and metropolises are not truly local. They are spread over many districts. The metropolises are local in the sense that they are sub-state entities. This seems to have been in minds of the members of the JPC when they insisted on the provision of metropolitan planning council in the 74<sup>th</sup> constitutional amendment bill (Sivaramakrishnan, pp.98-100).

#### **GOODS AND BADS OF URBAN LOCAL HABITATIONS**

Some public goods and utility services could be provided rather economically if a habitation has sufficient population size and is sufficiently dense. Internal roads could be paved, footpaths could be provided and drainage of wastewater could be arranged. Water supply pipes and sewer pipes underground and electricity wires/cables and telephone wires/cables, earlier over-ground and now underground could all run in parallel. These networked services would not be cheap in habitations too small in size or too sparsely

inhabited. This felicity is considered as the economies of scale. The same logic applies to development of market.

As these features permitted better division of labour, there usually emerged a more diverse pattern of economic activities—one leading to another except in a few specialized towns such as temple towns and cantonment boards. This could be termed as the economies of scope. Most towns are today industrial/ commercial in character. Urbanization is found to be associated with industrialization

These peculiarities put together made urban life different than its rural counterpart. The leisure activities, pastimes and amusement in two types of habitations are markedly different.

However, development in size and density in cities and development of technologies in different fields may turn out to be synchronous or non-synchronous. Some utility services need not be in public domain as they may no longer be natural monopolies. It is just possible that density, a positive idea, may cross a limit and becomes congestion. In North Eastern District of Delhi, density is 30000 persons per sq. km. and there may be still denser pockets in many other cities. Solution to space scarcity in terms of high-rise buildings may pose problems for water supply, drainage and sewerage, making roads porous. Communication means make the roads congested and subways and flyovers are failing to be adequate. Vehicular traffic and electricity power generating stations are degrading the environment. Clean ground and dirty air! But then drainage and sewerage may pollute the watercourses. Public goods will then have to be defined so as to include the activities that try to do away with private bads.

Then, there develop what have been called urban agglomerations (though in definitional sense there are very small urban agglomerations in India) and what could perhaps be termed as multi-local habitations. The idea that everybody should know everybody else and that every citizen identifies himself with the city, has lost meaning in the present-day world. Plato's ideal city was to have 5040 persons, no more.

Further, urban localities were not unknown for poverty but slums are then the gift of development in urban locales and lack of similar development in rural counterparts. They are the product of push and push, rather than push and pull. More than 600 towns with population more than 50000 have more than 4 crore people in slums—around a quarter of their aggregate population. Mumbai's 50 percent population lives in slums. Even Meghalaya is having more than 40 percent urban population living in slums. Kerala is the only state, which has less than 2 percent of urban population living in slums.

In addition, in many large States, the recent data shows that incidence of poverty, in urban areas is higher than that in rural areas. While in U.P. and M.P., the rural and urban incidence ratios are equal, in Kerala and Andhra Pradesh urban incidence ratios are more than twice of their rural counterparts. In Tamil Nadu, Maharashtra and Gujarat, urban incidence ratios are distinctly higher than their respective rural counterparts while in Karnataka urban incidence ratio is 1.5 times the rural counterpart. This leaves among the

large states only Assam, Bihar, Orissa and West Bengal where urban scene is relatively better so far as poverty is concerned but they all have poverty ratio around or over 40 percent except West Bengal where it is less than 30 per cent. They are the states having low urbanization rate as well.

It is true that for the country as a whole the tempo of urbanization had slowed down during the eighties and has further slowed down during the nineties, thanks to push-push factor. For urbanization levels of 1991, 1998 and 2001, see Appendix Table 1. The disaggregated picture is that in Uttar Pradesh and Tamil Nadu among the major states and Arunachal Pradesh among the smaller states the URGD is pretty high. In Tamil Nadu and Goa, the rural population has somewhat declined while it has risen in Lakshadweep and Daman and Diu. In the case of smaller states, it may be a matter of classification of habitations. Significant point though to note is that the URGD in the case of Kerala and Manipur is negative, which means the rate of growth of rural population is higher than that of urban population. We all know that rural habitations in Kerala are no worse, and perhaps better, than their urban counterparts. In fact, if there is filth in Kerala it is in bigger cities.

Thus, urban local bodies have great advantages of diverse economic activities, economies of scale and of scope in provisioning of services but have great disadvantage of shouldering many more responsibilities. There are around 3700 urban local bodies with 100 corporations, 1500 municipal councils and 2100 nagar panchayats, besides 56 cantonment boards—a kind of extra-constitutional body. For their state-wise distribution, see Table 1.

Let us further note a few legal facts. The Fifth Schedule Areas in many states and Sixth Schedule Areas in Assam, Meghalaya, Tripura and Mizoram have been specifically excluded from the operation of the 73<sup>rd</sup> and 74<sup>th</sup> Amendments under State legislation. The Parliament has to first extend the provisions through legislation. While the Parliament has passed legislation in respect of rural local bodies in 1996, it has yet to act to extend the provision for urban local bodies. As a result, in the states of Mizoram and union territories of Dadar and Nagar Haveli no municipal bodies exist. In Meghalaya, the Municipal Act is still under consideration. In Jammu and Kashmir and Sikkim, the Municipal Acts have been passed rather late. No place seems to have been declared urban in Arunachal Pradesh. In all these states there exists urban population. It simply means that many urban places are non-municipalized. In some States, under popular demand or as a populist measure, some nagar panchayats, as recently in Haryana, have been de-municipalized (Kulwant Singh, 2001). Elsewhere, which means in all large states, the Conformity Acts were passed before the deadline of June 1, 1996. Except Bihar and Pondicherry, municipal bodies have been constituted though there were cases of serious delays elsewhere for the first set of elections (Sivaramakrishnan, 2000).

TABLE 1: DISTRIBUTION OF STATE-WISE URBAN LOCAL BODIES

	Municipal Corporations		Municipal Councils		Nagar Panchayats		Urban Local Bodies	
	April 1998	Sept. 2002	April 1998	Sept. 2002	April 1998	Sept. 2002	April 1998	Sept. 2002
Andhra Pradesh	7	7	94	109	15	1	116	117
Arunachal Pradesh	--	--	--	--	--	--	--	--
Assam	1	1	28	29	50	38	79	68
Bihar <sup>1</sup>	6	5	70	32	94	80	170	117
Chhattisgarh	--	6	--	20	--	49	--	75
Goa	--	--	14	13	--	--	14	13
Gujarat	6	6	85	85	58	58	149	149
Haryana	1	1	81	21	--	46	82	68
Himachal Pradesh	1	1	19	20	28	31	48	52
Jharkhand	--	1	--	17	--	22	--	40
Jammu & Kashmir	--	--	2	3	67	67	69	70
Karnataka <sup>2</sup>	6	6	121	124	88	87	215	217
Kerala	3	5	55	53	--	--	55	58
Madhya Pradesh	18	14	103	86	283	234	404	334
Maharashtra	15	19	229	224	--	2	244	245
Manipur	--	--	7	8	21	21	28	29
Meghalya	--	--	6	6	--	3	6	9
Mizoram <sup>3</sup>	--	--	2	--	4	1	6	1
Nagaland <sup>1</sup>	--	--	--	--	9	8	9	8
Orissa <sup>1</sup>	2	2	30	33	70	68	102	103
Punjab	4	4	96	97	37	30	137	131
Rajasthan	3	3	11	11	169	169	183	183
Sikkim	--	--	--	--	--	8	--	8
Tamil Nadu <sup>1</sup>	6	6	102	102	636	611	744	719
Tripura	--	--	1	1	12	12	13	13
Uttar Pradesh	11	11	226	193	447	417	684	621
Uttanchal	--	1	--	31	--	28	--	60
West Bengal <sup>1</sup>	6	6	112	112	4	4	122	122
Andaman & Nicobar	--	--	1	1	--	--	--	1
Chandigarh	--	1	--	--	--	--	--	1
Delhi	--	1	--	1	--	--	--	2
Pondicherry	--	--	--	5	--	--	--	5
Dadra & N. Haveli	--	--	--	--	--	--	--	--
Lakshadweep	--	--	--	--	--	--	--	--
Daman & Diu	--	--	--	2	--	--	--	2
TOTAL	96	107	1494	1443	2092	2091	3682	3641
July 2000	--	101	--	1430	--	2009	--	3540

1. Nagar Panchayats are known as notified area committees in Bihar and Jharkhand, notified area authorities in West Bengal, town area committees in Jammu and Kashmir, town committees in Nagaland, notified area councils in Orissa, and town panchayats in Tamil Nadu. 2. In Karnataka, municipal councils are of two categories: city councils and town councils, elsewhere they are municipal councils or municipalities. 3. In Mizoram, proposed to be set up.

## SOME ELEMENTS OF LOCAL PUBLIC ECONOMICS

Local public political bodies are expected to deal with local public affairs with the exercise of local public choice. In the economic domain, they are public goods, public utilities and public works of local nature or local character<sup>9</sup>. While public goods chiefly possess the characteristics of non-rivalry in joint consumption and non-excludability of any consumer in consumption of these goods like sweeping and street lighting. If all individual consumers consume the same amount of a good at the same time, then the consumption is said to be non-rival and therefore non-rival consumption is also referred to as joint consumption. (But you need not consume it jointly). Yet there are only a few pure public goods. For example, beaches on holidays, parks in fine weather and city streets during rush hours become goods of rival consumption. Non-excludability is often technical but it may be political or economic too. While technically it may be feasible to debar the consumers, who do not pay for the service, the cost of excluding them may be sometimes prohibitive. As their consumption cannot be priced to individuals all of whom are supposed to consume the same amount<sup>10</sup>, they need to be financed from common pool of resources. Some scholars therefore prefer to call them common pool services. There are other public goods, which share the property of non-rivalry but not that of non-excludability for example the use of roads. Such public goods can be accessed on payment<sup>11</sup>. Important point to note is that local public goods are supposed to have local reach<sup>12</sup>.

Public utilities are often natural monopolies and their services are provided through over-ground or underground networks. Some of these services like water supply or electricity can be priced with ease. As charges for some of the services are known as toll, some scholars prefer to call them toll services. Such business organizations are subject to special government regulations. Very often they are in the charge of municipal governments and sometimes in the charge of some parastatal organizations. Even if they are owned and run by private parties, they are subject to certain government regulations. Ownership and operation have often shifted between private and public hands as also between local and state/nation or para-municipals to parastatals. There could even be separation between ownership and operation.

Electricity supply is no longer a local affair unless electricity generation (through use of solar or wind) is restricted to non-conventional resources. Water supply is increasingly becoming a non-local affair. Unbundling of various levels of supply will permit distribution part to be handled through local authority.

Public works are constructed for public use or enjoyment especially when financed and owned by the government. Roads, culverts, bridges, flyovers and subways in the modern days and dug-wells, tanks and playgrounds in the olden days, are all examples of public works. They have quality of some degree of 'public-ness'. Many of the utilities such as waterworks could also be called so.

In theory the usual distinction made is between local and national. And we will not discuss here global ones. Except in Greece of City-States of olden days, there has always been made a distinction between local and non-local public goods/utility services. Further, it

depends basically on the technology whether a particular service is a natural monopoly. Even a public good may change into a private good.

## **PART B: URBAN LOCAL DOMAIN**

### **FUNCTIONAL DOMAIN OF MUNICIPALITIES**

What should be dealt with by a particular local body would depend on the nature of the good as well as on the capacity/capability of that body as also on what other non-local bodies are doing in that local area. In our Constitution, matters of local public sphere are enumerated in the State List because the unit States were expected to constitute local bodies and assign them the tasks, functions and responsibilities and empower them with adequate resources so that the local bodies could look after the tasks assigned to them<sup>13</sup>. Since the unit States failed to do this job adequately, the State of India stepped in. The amendments evolved a uniform pattern of local bodies across the country with little scope in details, suggested some of the functions/responsibilities/tasks for devolution/delegation, if already not devolved/delegated, and exhorted the State Legislatures to endow the local bodies with such power, authority and resources as may be necessary for carrying out such functions. In respect of Schedule Fifth and Sixth Areas, the Parliament has yet to extend the provisions for urban local bodies.

#### *Constitutional Position*

Part XI of the Constitution deals with the relationship between the Union and the States and it has two chapters—Chapter I dealing with legislative relations and Chapter II dealing with administrative relations. Of the eleven articles dealing with legislative relations, Art. 246 delineate the legislative competence of the Parliament and the State Legislatures as regards the subject-matters. The clause (3) of the article stipulates exclusive power to the State Legislatures to make laws with respect to any of the matters enumerated in List II in the Seventh Schedule while the clause (2) stipulates co-extensive power to the State Legislature along with the Parliament with respect to any of the matters enumerated in List III in the Seventh Schedule. All subject matters related with local functions are listed in List II and List III and traditionally local powers of raising resources (taxes, user charges and loans) are also listed in the List II. As the local bodies are not legislative bodies (but only deliberative bodies), local bodies do not have any exclusive domain of their own. Their domain is co-extensive with and a subset of the state's functional domain.

#### *Twelfth Schedule*

Art. 243W suggests that the Legislature of a State may, by law, endow the municipalities with such powers and authority as may be necessary to enable them to function as institutions of self-government and further suggests that such law may contain provision for the devolution of power and responsibilities upon municipalities—subject to such conditions as may be specified—with respect to (i) the preparation of plans for economic development and social justice and (ii) the performance of functions and the implementation of schemes as may be entrusted to them including those in relation to the matter listed in the Twelfth Schedule. Art. 246 also suggests that the Legislature of a State may, by law, endow the Committees (the Wards Committees) with such powers and

authority as may be necessary to enable them to carry out the responsibilities conferred upon them including those in relation to the matters listed in the Twelfth Schedule.

Certain things should be clear. First, this article is not a statutory binding for the State Legislatures. Second, provision for devolution of power and responsibilities, with conditions, is indicative. Third, the Twelfth Schedule is only illustrative; all matters listed therein neither need to be devolved, nor are they suggested to be exhaustive. Fourth, the schedule indicates only the subject-matters of functions, not the functions themselves that could be entrusted. Fifth, powers, responsibilities and authority may be devolved by the law in anticipation of functions and schemes that may be entrusted to them.

#### *Some Exercises on Functional Domain*

All major States had Municipal Laws as well as Municipal Bodies much before they came into existence in the present form. (They are thus the foster parents.) There might have been many Municipal Acts by which the municipal bodies were governed, partly because of reorganization of states in different phases. For example, there are four Municipal Acts in the State of Maharashtra (Pethe, et al, 2003) while Andhra Pradesh had two. Some States only amended their existing acts, others repealed the old ones and legislated new ones and still others have them for the first time. Usually there are two Acts—one dealing with municipal corporations and the other with other municipalities. The issue is what are the functions assigned to the urban local bodies—which are now of three levels: Municipal Corporations, Municipal Councils and Nagar Panchayats. Some small states do not have any urban local bodies; others do not have any municipal corporations. Among the major ones do not have any nagar panchayats. There are in existence cantonment boards as well, on which the Constitution is silent. As there has to be a division of local functions between different tiers of rural panchayats, the note has to be taken of the size of habitation in the legislations for different levels of urban local bodies. Large heterogeneity in urban local bodies even within a given category and wide spectrum of 'local public goods' and 'local public utilities' make the exercise rather difficult. Some State Acts have differentiated different levels within a given category like municipality.

However, scholars and researchers have been busy in collating the information related with the subject matters listed in the Twelfth Schedule and have tried to put the information in a tabular form. While in many cases, earlier municipal Acts had elaborate details on functions that were devolved to urban local bodies, the amendment Acts did not specify them. In some other cases, they bodily lifted the subject-matters and listed them as functions in their respective Amendment Acts. In still other cases, an elaborate exercise was carried out and functions and sub-functions were listed. Further, as most of the major States had separate laws for municipal corporations and other municipalities, it could have been advisable that two/more different tables were prepared, also because what was needed for Patna would not be needed for Sewan. But then geographical peculiarities would require their consideration too. And if different State Legislatures think differently, we should rather welcome the approach rather than castigate them for non-uniformity in their conformity Acts.

We could see four such compilation tables: NIUA (2000), Sivaramkrishanan (2000), AILSG (2001) and Singh (2001). While the NIUA (2000) has given separate summary



tables for municipalities and municipal corporations with respect to 18 functions in the Twelfth Schedule as well as for 28 additional functions. While municipality table covers 12 States and the municipal corporation table covers three municipal corporations and three states. In detailed tables for each state, the NIUA (2000) cross-classifies the functions according as they have been made obligatory or discretionary and whether they fall in the category of (i) public health, (ii) medical relief, (iii) public works, (iv) education, (v) development and (vi) others. Sivaramakrishnan (2000) gives two tables for nagarpalikas—one for 18 functions (subject-matters) of the Twelfth Schedule and the other for 21 additional functions. But in the text he does point out there is little meaning in the distinction between obligatory and discretionary functions for discretionary activities do not come as a sequence after obligatory ones. Simply because a municipality is in arrears in payment of electricity dues for street lighting, which is an obligatory function, will not close down a primary school because education is listed as a discretionary item.

AIILSG (2001) did prepare the table for 13 states, including Delhi, showing which of the eighteen functions/subject-matters have been assigned to the nagarpalikas. Singh (2001) has concentrated only on three States of Kerala, Tamilnadu and West Bengal, showing which of the 18 functions devolved have been put in the category of obligatory or discretionary. Singh (2001) has also matched the entries in twelfth schedule with those in the State List and Concurrent List of the Seventh Schedule).

While these efforts are commendable, they are all partial and there are discrepancies between them as also in these tables and detailed Acts. However, this is inherent in the kind of exercise; after all it is matter of judgement whether to tick a particular subject-matter as yes if only an item or two out of that subject-matter is mentioned. There are not one or two but several Acts in some states! There is thus a lot of confusion as perhaps none of the scholars could have access to all Acts and amendments thereto.

Unfortunately some scholars have just counted the numbers as if a set of five core functions is equivalent another set of five functions of secondary importance.

#### *Present Position of the Functional Domain*

Based on the study of secondary sources, we come to following general pattern. All major states have assigned to their urban local bodies the responsibility of (i) 'public health, sanitation, conservancy, and solid waste management' (Item 6 of Schedule XII, Item 6 of State List of Schedule VII); (ii) 'provision of urban amenities and facilities such as parks, gardens and playgrounds' (Item 12 of Schedule XII, Item 18 of State List and Item 20 of Concurrent List in Schedule VII); (iii) 'burials and burial grounds, cremations and cremation grounds and electric crematoriums' (Item 14 of Schedule XII, Item 10 of State List in Schedule VII); (iv) 'vital statistics including registration of births and deaths' (Item 16 of Schedule XII, Item 30 of Concurrent List in Schedule VII); and (v) 'regulation of slaughter houses and tanneries' (Item 18 of Schedule XII, Item 15 of State List in Schedule VII). While the last two are regulatory in nature, the middle one is a serious problem only in metropolis. Somebody did comment that only the task that has really been left with the ULBs is that of 'jhadoo lagao'. I think scavenging in a town/city is a great duty.

Almost all the States have assigned to their urban local bodies the responsibility of (vi) urban forestry, protection of environment and promotion of ecological aspects (Item 8 of Schedule XII, Item 6 of State List in Schedule VII), major exception being Delhi; (vii) water supply for domestic, industrial and commercial purposes (Item 5 of Schedule XII and Item 17 of State List in Schedule VII), major exception being Delhi, Andhra Pradesh (in fact Hyderabad) and Madhya Pradesh; (viii) roads and bridges (Item 4 of Schedule XII and Item 13 of State List in Schedule VII), major exception being Uttar Pradesh and Delhi; (ix) cattle pounds and prevention of cruelty to animals (Item 15 of Schedule XII and Item 15 of State List and Item 17 of Concurrent List in Schedule VII), major exception being Andhra Pradesh; (x) public amenities including street lighting, bus stops and public conveniences (Item 17 of Schedule XII and Item 5 of State List and Item 20 of Concurrent List in Schedule VII), major exception being Andhra Pradesh.

With few exceptions, the states have assigned (xi) safeguarding the interests of the weaker sections of society, including the handicapped and the mentally retarded (Item 9 of Schedule XII and Item 9 of State List and Item 16 of Concurrent List in Schedule VII), and (xii) promotion of cultural, educational and aesthetic aspects (Item 13 of Schedule XII and Items 12/33 of State List and Item 25 of Concurrent List in Schedule VII).

What is important is that many States have reservation on the items listed in the beginning in the Schedule XII. While Andhra Pradesh, Gujarat, Maharashtra, and Delhi have reservation in assigning the responsibility of urban planning (including town planning) and urban poverty alleviation, Uttar Pradesh joins the abovementioned States when it comes to assigning the regulation of land use and construction of buildings and Madhya Pradesh will join them in not assigning the responsibility of slum improvement and upgradation. Karnataka and West Bengal would join them in not assigning the responsibility of planning for economic and social development.

It should be noted that matters that need to be locally dispensed with are all part of the State List. As there could hardly be a uniform division of functions and powers—both listed in the same list—they were advisedly enumerated in the State List so that a given State could take a contextual decision. A State of 15 crore with municipal bodies of 25 lakh could not be expected to devolve the same set of functions as a State of 15 lakh with municipal bodies no bigger than 25000. Yet, it is surprising that regulation of land use and construction of buildings in a city could not be trusted to the city government.

It is understandable that cities with slums having 50 percent of their population cannot handle the problem on their own, or more precisely from their own resources. Could they do so there would not have sprawled the slums with such great proportions. Now, contribution of those living in slums is being recognized. Local bodies need to be supported in improving the living conditions in their slums. Yet, let it be under the auspices of respective city governments and through the wards committees.

#### *Core and Non-core Functions*

Urban local bodies are governments even if they are derivate of the their respective State governments. Therefore, they will carry out some regulatory function. But traditionally

municipal Acts have classified municipal functions as obligatory and discretionary. Historically, it was the obligatory charge (rather than function) on the local bodies to defray the cost of local policing as, it was argued, the Imperial Government could not afford local policing throughout the country (Rao, 1965) and there were instances of thuggee, burglary, waylaying and dacoity. In literature, many other dichotomous classifications prevail such as mandatory-optional, statutory-discretionary, statutory-delegated, traditional-additional and of common-pool funded and toll services. The additional functions have been called as transferred functions as the state governments earlier performed them and now they have been transferred. They cover activities, projects and institutions under both Plan and non-Plan categories (Kerala's First State Finance Commission' Final Report, 1996, p.20). To all these can be added 'agency functions' where there is some role for local bodies in implementation of centrally sponsored schemes. While suggesting constitutional, legislative and administrative changes, the Eleventh Finance Commission recognized local functions to be of civic, regulatory and development character (Eleventh Finance Commission, 2000, p.84). When it came to the identification of items in the Twelfth Schedule, it classified them as follows: item numbers 4,5,6,14 and 17 as core functions, 9,10,11,12,13 and 15 as welfare functions, and 1,2,3,7,8,16 and 18 as development functions (ibid, p.312 and p.313n).

Economists' choice has however been public goods and public utilities. Pethe et al (2003) prefer to discuss sets of municipal functions in terms local public good (LPG) and extended local public functions (LPG-E).

Practitioners have however preferred to classify local municipal functions as regulatory/administrative, service and development or regulatory, service, welfare and developmental. However, the Eleventh Finance Commission (2000) classified the subject-matters of the Twelfth Schedule in terms of core, welfare and development functions in one place and civic, regulatory and development at another. Six core municipal services, as identified by the National Institute of Rural Development (NIRD) and National Institute of Public finance and Policy (NIPFP), are enumerated as: primary education; primary health; municipal roads; drinking water supply; sanitation; and street lighting (Eleventh Finance Commission Report, 2001 p.75). While discussing the maintenance thereof the Commission adds three more civic services like cremation and burial grounds, public conveniences and other common property resources but deletes roads (ibid, p.76). Other common property should hopefully include municipal roads (not specially mentioned) and parks, heritage buildings, etc. Sanitation is often detailed as scavenging, collection and disposal of refuse and drainage. Some scholars emphasise drainage and solid waste management.

Planning Commission had constituted a Working Group on Expenditure Norms under the chairmanship of Raja Chelliah, which concluded that the following functions be regarded as the core municipal functions: water supply, sanitation/sewerage, solid waste collection, primary education, primary health. The following will present a comparative picture of core functions suggested by some of the committees/commissions:

Zakaria Committee	Finance Commission	Planning Commission
Water Supply	Drinking Water Supply	Water Supply
Drainage/Sewerage	Sanitation	Sanitation/ Sewerage; Solid Waste Collection
Roads & Works	Municipal Roads	
Street Lighting & Electricity Distribution	Street Lighting	
	Primary Education	Primary Education
	Primary Health	Primary Health

It is important to note that primary education and primary health are not counted among the core functions by the Zakaria Committee while roads and street lighting are not counted as core services by the Planning Commission while Eleventh Finance Commission has counted them all along with drinking water supply and sanitation with some qualification. While Zakaria Committee had included electricity distribution (a public utility) in addition to street lighting (a public good), the Finance Commission restricted to street lighting. Further, roads and works of Zakaria Committee become just municipal roads in the Finance Commission. In fact, it may be a matter of style of writing, as many public works incidental to roads etc. cannot just be excluded. However, State Finance Commissions have taken more realistic view. For example, first Kerala Finance Commission suggested street taps rather than water supply (which, according to the Twelfth Schedule, means water supply for domestic, industrial and commercial purposes) because it is only in Thrissur among the municipal corporations, where the municipal corporation undertakes water supply. Andhra Pradesh mentioned cleaning of roads and drains, sanitation and drainage and street lighting.

According to Pethe et al (2003), the term 'core services' does not have a precise connotation in economics and they prefer the category of local public goods. They include street lighting, sanitation, and roads along with fire brigade in the LPG category and excludes water supply, which can be metered. Education and water can be added in the extended LPG category.

#### *Multi-Body Functional Domain*

In many States, the functions are delegated through executive orders rather than transferred through a piece of legislation so that, it is apprehended, they can be withdrawn easily. Even if they are not formally withdrawn, they can be effectively withdrawn or not delegated at all by instituting boards and authorities for municipal functions. Even, the Union Government over time has been introducing a good number of schemes in which local bodies are performing delivery or agency functions with no role in preparation or implementation. The District Rural Development Agency and the District Urban Development Agency are the cases in point, which are operating instruments of the Ministry of Rural Development and Ministry of Urban Development respectively. These are the ministries responsible for implementation of the new provisions. The Eleventh Finance Commission (2000, p.83) has taken a different view on this issue and has suggested that they should discharge their duties in helping the local bodies emerge as institutions of self-government and should therefore

take lead in integrating their agencies with the new set-up so that other ministries follow the suit.

The scene in many states is quite messy. Besides, urban local bodies there are Development Authorities—practically in all municipal corporations—and there are Special Purpose Authorities much at the wishes of the WB/WHO, first in water supply and later even in sanitation and drainage. While the representatives of city governments were not consulted in procurement of loans or in preparation and execution of the schemes by their respective state governments, the loan liability was passed on to the city governments under the presumption that it is a basically a municipal function. In some cases, even operation and maintenance was overtaken by para-statal. Of late, after the new dispensation, due to resentment of elected civic bodies, some of these functions have been restored to municipalities and functionaries are under the control of the municipal authorities. Then there are agencies, as noted above, for carrying out centrally sponsored schemes.

The present scene of management or mismanagement of local affairs is reminiscent of late nineteenth century's Britain where flourished a number of ad hoc local authorities like school boards, health boards, burial boards, highway boards with overlapping jurisdictions and a lack of coordination with omnibus local government. Golding (1955) has quoted a comment in terms of "a chaos of areas, a chaos of franchise, a chaos of authorities and a chaos of rates" Our present scene can be depicted by the following diagram (Fig.1):

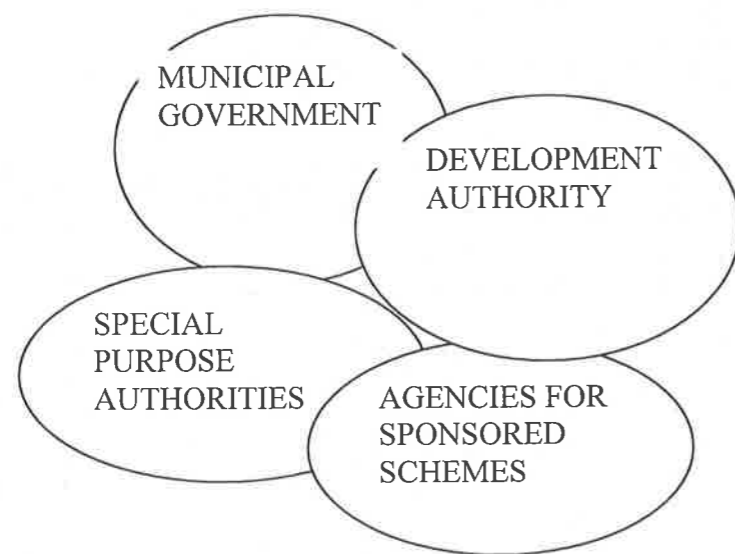


Fig.1

The result is that there is a lot of confusion confounded with misallocation of resources and handicap in development of capabilities of local governments. There is a lot of frittering of energy of local people's representatives and officials in 'fitting their requirements with guidelines' and thereby making experts in manipulations. In Kerala, you

should to build a house in Rs.22000 and in Jaisalmer you should build a latrine close to your kitchen!

It has been noted by the Eleventh Finance Commission that there are many schemes dealing with these subjects in the State Plans and there are many centrally sponsored schemes and it suggests that such schemes should have been transferred to the local bodies long ago (p.73). They should be transferred ere long along with funds and functionaries (p.73 and p.76). To that extent there would be no extra financial burden on the Union government or the respective state governments. The Commission has further suggested that the capital cost of the civic services would be met by the states while cost and operation and management would be borne by the local bodies from their resource pool including transfers from their respective states. Hopefully, operation and maintenance costs do not include all revenue costs such as interest charges on the capital borrowed by the State Government on behalf of the local bodies.

### **FINANCIAL DOMAIN OF URBAN LOCAL BODIES**

It was pointed out by the Report of a Task Force chaired by Raja Chelliah that local expenditure as a percentage of all expenditure by the union, states and local government came down from 8.0 percent in 1960-61 (hardly a substantial beginning was made in instituting PRIs) to 4.5 percent in 1980-81. For 1997-98, according to our rough calculations, it is just 4.0 percent and thus hardly 1.0 percent of our GDP. It is possible that the scenario was much worse in late eighties and early nineties. It does not mean, we should be careful in our analysis, that expenditure on local affairs is so low: it simply means that *non-local governments incurred expenditure on local affairs or local affairs were treated as state/national affairs*. For example, the state government later on paid salary of erstwhile municipality teachers, say in U.P. But expenditure of a government is a function of the resources at its command too.

#### ***Categories of Receipts***

A government levies, collects and appropriates taxes, duties, tolls, fees and cesses; it gets net proceeds of certain taxes/duties collected by government of another level; it can get a share in proceeds of certain other taxes/duties, again collected by government of another level; it usually receives general and specific grants from other governments and other bodies, besides donations/contributions by individuals; and it can receive property incomes and interest on loans made people, other governments or its own corporate enterprises. For utility services it can demand user charges. It can also raise loans. For the utility services such as water, it can demand user charges. It does receive some revenue for regulatory and administrative activities in terms of fees, fines and penalties but they are neither nor should be turned into revenue-raising propositions. The receipts in case of an urban local body may broadly be categorized as:

- a) Tax Revenue Receipts from (i) its own taxes, (ii) assigned taxes and (iii) shared taxes;
- b) Non-Tax Revenue Receipts: (i) property income in terms of rent, royalty, interest, and profits/dividends, (ii) user charges for public utility services such as water, electricity; and (iii) fees (like license fees), fines and penalties;

- c) Grants: (i) in lieu of withdrawn taxes, (ii) in aid of revenue to meet the shortfall in revenue (general grant) or in aid of certain desirable activities; and
- d) Loans for particular project or for any purpose.

A municipality may have its own enterprise like BEST/DTC/DMS and it can receive dividends. It may generate its own electricity like many cities did when local stations used to generate DC electricity or may purchase electricity and distribute to its residents as the NDMC does. While these are commercial enterprises they are neither supposed to make huge perennial profits nor incur perpetual losses. They may indulge in cross-subsidisation between different uses of the service or different sections of the society.

***Constitutional Provision***

A local government being a derivate of state government can do so under the provisions made by the state legislature or the state government. These provisions stipulate the bases and their rates, exemptions and rebates and concession and other conditions such as procedures and limits. So would be the case with assignment of tax proceeds and share in tax proceeds. Case would be no different in the matter of grants and loans. In fact, while there is no reference to loans and user charges, there are laid down broad guidelines in other matters in the 74<sup>th</sup> Constitutional Amendment Act. The Act repeats the existing laws and practices. The Art. 243X stipulates that, the Legislature of a State may, by law,

- (a) authorize a Municipality to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedures and subject to such limits;
  - (b) assign to a Municipality such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits;
  - (c) provide for making such grants-in-aid to the Municipalities from the Consolidate Fund of the State;
  - (d) provide for constitution of such Funds for crediting all moneys received, respectively, by or on behalf of the Municipalities and also for the withdrawal of such moneys therefrom,
- as may be specified in the law.

A redeemable feature of the 73<sup>rd</sup> and 74<sup>th</sup> Amendment Acts is the provision regarding constitution of State Finance Commission and its mandate and the direction to the Governor to cause every recommendation made by the Commission to be laid before the Legislature of the State. However, it is at the sole discretion of the Legislature to accept any of the recommendations. So far the experience is not very encouraging yet there is no point in getting dissuaded.

***Present Financial Domain***

A perusal of the taxation provisions in the state laws reveals that while power to collect certain taxes is vested with the municipalities, the rates and revision thereof, procedure of collection, ceilings and floors, method of assessment, exemptions and concessions etc are reserved with government to be declared through notification.

Octroi and property/house taxes are two most significant municipal taxes from the viewpoint of revenue. Octroi, an indirect tax, was favoured in comparison to house tax, a direct tax, by the urban middle class composed of lawyers, traders and teachers, who came to power in municipal boards and councils, claimed Sivaramakrishnan (2000, p.159)

Octroi<sup>14</sup> is an ancient tax on goods entering a city for sale, use or consumption. The East India Company<sup>15</sup> collected it as a central tax between 1808 and 1835. It was condemned by Charles Trevelyan who was in 1828 asked by Bentick to enquire into hindrances caused by this impost (on more than 200 items). In fact, it was power of search, which could stop internal trade by the delay it would necessarily occasion, was used but for extortion. Its effect on national morals was far worse than on national wealth and it only excited the locals against foreign traders. East India Company, though reluctant, was compelled to abolish it. Provincial government did not impose it either.

Sivaramakrishnan (2000, p.159) reports its reappearance in 1870 in Mirzapur. In 1864, principles of octroi as town duties were enunciated by same Charles Trevelyan, which were in essence (i) levy of impost on very few items of local consumption and not on items, which attracted customs with low rates (in the form of *chungee* which means handful) (Manager of Publications, 1951, pp.145-58). Though it was an important source, practically all committees on tax reforms condemned it as it was always found to relapse into abuses every time and everywhere it was introduced.

Except for four states of Gujarat, Maharashtra, Orissa and Punjab where revenue position of municipalities is somewhat better, the compensation paid in lieu of this tax by the states such as Haryana and Madhya Pradesh has been quite low and payment is delayed. Eleventh Finance Commission (p.76) recommends its replacement by a suitable tax. One may suggest its reintroduction in a way that traffic does not get obstructed and process is quickly completed. One can think of green and red channels in international terminals.

There is no state where property tax is not collected. It is rated as the single most important local tax. Property tax comprises of basic house/building tax plus service taxes such as water/drainage tax, lighting tax, and conservancy/scavenging tax. There is clear-cut division between local and non-local jurisdiction everywhere that immovable property (real estate) is taxed by the local government and movable property, by the non-local government. Usually, the rate is uniform but some cities did have progressive rates.

But its rates are archaic and administration is found to be lacking. There are instances when properties of same values are giving taxes from almost nothing to substantial. It has been reported by the Kerala Finance Commission (1996, p.55) that a commercial property earning Rs.10 lakh annually paid only Rs1291 as tax while a similar property paid close to Rs.3.5 lakh. Reforms have recently been attempted in some municipal corporations. Switching over from annual retable/ratable/ lettable value to unit-value based on zone of location, from inspection-based assessment to self-assessment by the owner/occupier, from receiving demand note to filing returns, as with income tax—especially in certain corporations, have yielded substantial rise in tax collection. The yield could increase ten-fold



in some cases. There is therefore need for accelerating such reforms elsewhere. States could be recommended for doing away with concessions and exemptions and amend their rent control acts. The Eleventh Finance Commission has suggested that the property tax should be made recoverable from the occupier (which is a practice in England) so that the tax is not avoided/evaded for want of owner being elsewhere.

Some states permit advertisement tax while others permit entertainment/theatre or show tax. Some permit terminal tax and others permit entry tax. Some states have permitted their urban local bodies to collect education cess and others have gone for development cess or drainage cess. Like water tax, lighting tax, animal/vehicle (non-motorized) tax, and professional tax, there are innumerable taxes listed in the acts but they do not yield any sizable revenue. In some states, some of these taxes are adjunct to property tax so that cost of collection could be reduced as well as that people differently located in economic terms could be charged different rates for the same level of services such as street lighting and scavenging.

While municipal Acts have not specified the statutory assignment or division of net proceeds of taxes, this is a widely prevalent practice. Similarly, almost all states give general and specific grants-in-aid to their local bodies. They also pass on the moneys received for implementation of centrally sponsored schemes. Some of the states have transferred their schemes of local nature along with funds and functionaries. They have adopted a pragmatic approach of giving supervisory and controlling power to local bodies while retaining the power of appointment/dismissal and promotion/demotion with them. Kerala has shared its plan budget with its local bodies to the extent of 40 percent.

## **PART C: ADEQUACY OF SERVICES AND RESOURCES**

### **BASIC PRINCIPLES**

For a given level of expenditure, it is obvious that the less is the own revenue the more is needed the transfer to make the resources adequate. If an economy could be effected on expenditure without compromising the quantity, quality or intensity of services or more resources could be garnered from the local economy either as better tax efforts or more rational user charges (with due care for social justice dimension), there would be to that extent less need for transfer of resources.

With a view to keeping matter simple, we shall not be concerning ourselves in this paper with capital cost of providing infrastructure or the method of its financing though we understand its importance and criticality when there is so much need for undertaking such projects. Partly we are not sufficiently armed with the relevant data and partly because the emphasis of the Finance Commission is on revenue expenditure on maintenance and operation of services, also because there are only a few municipalities, which have any revenue surplus to spare for capital investment. Further, the data we are going to use are state aggregate, leaving no scope for seeing any revenue surplus, which could be invested in capital works. We understand if there are no works what are the urban local bodies going to

maintain and if there are no utilities there is nothing for them to operate. Yet we shall be concerned only with operation and maintenance of municipal functions.

Our interest basically lies here in the fact whether own revenue of the ULBs in a particular state has been able to cover the expenditure on operation and maintenance of core civil services. We should however remember that such aggregative exercises are somewhat misleading as they hide the troubles of poor municipal bodies as if the prosperous ones have really transferred their surpluses to the poor ones, much in the same way as high per capita income may hide the fact of poverty. In other words, an aggregate surplus/deficit does not suggest that the ULBs in a particular state are severally in a state of surplus/deficit.

Subject to these limitations, adequate transfer—whether as assignment or sharing of certain taxes or pooled taxation proceeds or grants—would be equivalent to deficit in revenue resources. However, if present expenditure itself is found inadequate in relation to some norms, and which may well be the case for inadequate availability of the resources, then inadequacy of resources has to be measured in terms of the difference with normative level of expenditure and the actual level of revenue. Of course, these norms have to be realistic by national parameters rather than by global parameters. Some scholars may suggest use of some potential level of revenue instead of present level of revenue as some studies have suggested, which could be realized but for inefficiency in administration. We have not done that.

#### ***DATA BASE AND CONSISTENCY EXERCISE***

However, before we embark upon to judge the level of inadequacy of resources, it would be proper to find the present scene of expenditure. For consistency requirement we have accepted the state-wise database for the year 1997-98 the latest year for which the Eleventh Finance Commission could gather detailed information on revenue and expenditure as there is no better dataset is available. While the expenditure is divided between that on *core services* (water supply, street lighting, sanitation, roads and burial and burial grounds) and *other services* (other than those listed above), the total revenue is divided between *own revenue* and *other revenue*—the former being divided between *tax revenue* and *non-tax revenue*.

We have considered those states, which have been covered in the Eleventh Finance Commission, ignoring Uttaranchal, Chhattisgarh and Jharkhand as separate states. These states have been treated here as part of their parent states.

#### ***Data Problems***

But the dataset available has innumerable problems; even if we ignore the fact in different states the texture of municipal services is different. If we accept the data mechanically, as does Govind Rao (2001, pp.12-13), all ULBs would be found to incur in 1997-98 an expenditure of over Rs.151308 crore while all PRIs spend about Rs.20931 crore, suggesting that all local bodies spend roughly Rs.172239 crore (which would be more than half the revenue expenditure of the Union Government of India). Based on this database, M.G. Rao (2001, pp.12-13) wished us to believe that the total expenditure of all governments

put together spent in a sum equivalent to 34.8 percent of the GSDP (GDP?) while revenue collection and accrual stood at 18.3 percent and 19.8 percent respectively! He also tries to make us believe that the three levels of the government were spending almost equal amounts (ibid). Going into further details, one discovers from his exercises (ibid, p.30-31) that (i) the ULBs in Maharashtra spend to the tune of 63 percent of the NSDP of Maharashtra and all LBs put together to the tune of almost 66 percent; (ii) the ULBs in Andhra Pradesh spend to the tune of 53 percent of the NSDP of Andhra Pradesh and all LBs to the tune of 56 percent; (iii) in West Bengal, percentage of own revenue to total revenue is more than 67 percent.

We did not believe it and checked up with other sources such as the RBI's analysis of state finances and Reports of the State Finance Commissions. We explored problems with some suspected cases and finally found that, in the case of three states, data had to be treated. We have ignored the states, which are too small for aggregate exercises like the ones attempted here.

#### *Data Treatment*

Checking each basic figure of expenditure and revenue for each level of municipality, seeing if there was a sudden jump, comparing core expenditure with own revenue/total revenue and total expenditure with own revenue/total revenue, computing ULB-state revenue expenditure ratio, and tallying total other revenue with transfers from the states to their PRIs/ULBs as given in the RBI analysis for dimensional purposes, we appropriately shifted the decimal point to the left in quite a few cases and used plausible proportions of core-total expenditure or own-total revenue so that various ratios and proportions are in line. In the case of Andhra Pradesh, expenditure figures, in the case of West Bengal, revenue figures and in the case of Maharashtra, both revenue and expenditure figures had to be adjusted. The details of the exercise are given in an appendix given in the end.

Table 2 presents the data for the aggregated picture of all ULBs. For Bihar only information that is available is about the 'other revenue'. The EFC has committed error of treating information not furnished as zero in many cases, including Bihar. ULBs do not exist in Anrunachal Pradesh, Mizoram and Sikkim. The EFC does report the information on the ULBs in union territories including NCT of Delhi. We have changed the order of the States. Sixteen States, whose revenue expenditure was above Rs.30 crore, except Bihar, find place in alphabetic order. Then are placed smaller states and Bihar in the end.

#### *Present State of Affairs*

Mahrashtra and Rajasthan are the only two states where expenditure on core services is found to be higher than that on services other than the core. Which could mean that municipalities are in non-municipal business and perhaps non-municipal governments are in the municipal business. Which could also mean that funds for non-municipal schemes are flowing from governments of other levels and local governments as agents nominally or notionally handle the schemes. The figures are occurring on the both the sides of accounts. This is corroborated by the fact that in many major States such UP, MP, WB, Karnataka and Kerala, and also in states like Assam, Jammu & Kashmir, Goa, Meghalaya and Tripura, the ULBs spend much larger sum on services other than core ones.

Municipal Revenue Deficit (MRD) could be easily defined as the excess of municipal revenue expenditure (MRE) over municipal revenue receipts (MRR). That is, we have  $MRD = MRE - MRR$ . But when we define it respect of a state as  $MRD(S) = \sum MRE - \sum MRR$ , we commit a mistake because no local body does transfer its revenue surplus to any revenue deficit local body. It should not except in a case of an emergency; it should rather go for supplementing its capital receipts—received as loans or as capital grants—for raising its own infrastructure. But we can do no better than resort it. The Eleventh Finance Commission aggregated municipal revenues and municipal revenues for all three different levels of municipal bodies.

Of the 20 states whose revenue deficit/surplus can be calculated we find that in 1997-98, six states had revenue surplus whereas fourteen states had revenue deficit. Surplus states include Gujarat, Maharashtra, Andhra Pradesh, Rajasthan, U.P. and Manipur. In some cases like Manipur data may not be properly classified. Except in the case of Gujarat and Himachal Pradesh, the magnitude is so small as to account for the difference in the opening balance and closing balance. And there may be no wisdom in under-consumption if income is low! For example, in U.P., core expenditure is lower than that of Haryana, not to say anything of MP, Rajasthan, Gujrat and Tamil Nadu.

TABLE 2: EXPENDITURE AND REVENUE OF ULBs FOR 1997-98 (Rs. Crore )

	Core Expenditure	Other Expenditure	Total Expenditure	Own Revenue	Other Revenue	Total Revenue
1. Andhra Pradesh	202.9	512.9	715.8	345.5	307.1	751.8
2. Assam	20.2	53.4	73.6	16.0	39.6	55.6
3. Gujarat	369.3	581.6	950.9	810.3	381.8	1192.1
4. Haryana	164.5	179.7	344.2	104.07	74.15	178.4
5. Himachal Pradesh	11.0	23.5	34.6	21.5	18.0	39.5
6. Jammu & Kashmir	12.0	63.1	75.1	3.2	33.8	37.0
7. Karnataka	151.8	294.0	445.8	162.4	254.4	416.8
8. Kerala	84.5	188.1	272.6	113.9	147.1	261.1
9. Madhya Pradesh	226.7	394.7	621.4	148.2	336.2	484.4
10. Maharashtra	2223.5	1754.9	4978.3	4503.9	674.4	5178.3
11. Orissa	39.7	98.2	137.9	85.2	32.1	117.3
12. Punjab	52.6	306.8	359.4	152.1	62.7	214.8
13. Rajasthan	349.7	139.3	489.0	380.2	129.8	510.0
14. Tamil Nadu	521.0	730.9	1251.9	658.8	566.3	1225.1
15. Uttar Pradesh	134.3	471.6	605.9	172.3	454.5	626.9
16. West Bengal	98.0	283.1	381.1	75.3	298.3	373.6
17. Goa	3.66	13.4	17.1	7.0	8.9	15.9
18. Manipur	0.2	2.7	2.8	2.6	1.3	3.9
19. Meghalaya	1.2	5.8	7.0	0.2	5.00	5.2
20. Nagaland	0	0.9	--	1.2	1.3	2.5
21. Tripura	2.5	8.1	10.6	1.2	6.0	7.2
22. Bihar	--	--	66.0	39.7	--	--

Is there a need to develop any other criterion to judge the scene better? One may think, on a long-term basis, a local government —nay any government —should generate

enough revenue to meet its core activities/duties. Then, Municipal Basic Deficit (MBD) can be defined as the excess of core expenditure (MCE) over its own revenue (MOR). For all ULBs in a state, we can write  $MBD(S) = \sum MCE - \sum MOR$ . Table 3 presents both municipal revenue deficit/surplus (MRD) and municipal basic deficit/surplus (MBD). Surpluses are negative deficits.

TABLE 3: STATE-WISE MUNICIPAL REVENUE DEFICIT/SURPLUS AND BASIC DEFICIT/SURPLUS (Rs. Crore)

	Municipal Revenue		Municipal Primary	
	Surplus	Deficit	Surplus	Deficit
1. Andhra Pradesh	-36		-142.6	
2. Assam		18		4.2
3. Gujarat	-241.2		-441	
4. Haryana		165.8		60.43
5. Himachal Pradesh	-4.9		-10.5	
6. Jammu & Kashmir		38		8.7
7. Karnataka		29	-10.6	
8. Kerala		11.5	-29.4	
9. Madhya Pradesh		137		78.5
10. Maharashtra	-200		-2280.4	
11. Orissa		20.6	-45.5	
12. Punjab		144.6	-99.5	
13. Rajasthan	-21		-30.5	
14. Tamil Nadu		26.8	-137.8	
15. Uttar Pradesh	-21		-38	
16. West Bengal		7.5		22.7
17. Goa		1.2	-3.34	
18. Manipur	-1.1		-2.4	
19. Meghalaya		1.8		1
20. Nagaland		-1.2		
21. Tripura		3.4		1.3

Andhra Pradesh, Gujarat, Maharashtra, Uttar Pradesh and Rajasthan have both the surpluses. Their ULBs as an aggregate are able to meet their expenditure on core services from their own revenue and total expenditure from their total revenue. Apparently, they are facing no resource crunch. But as pointed out earlier, in some cases it may not be a case of satisfaction; for example, when expenditure on core/all services are poor by some normative minimum standards. Uttar Pradesh may be a case in point. There are states having primary surplus but revenue deficit, suggesting that they have undertaken many non-core activities while their core activities are perhaps being undertaken by other agencies. Small deficits may also be a reflection of low expenditure.

Let us repeat that there may be some ULBs not faring well in a State where ULBs as a fraternity are performing quite well and vice versa. Further, let it be pointed out in some cases it is possible that in view of the scarcity of resources, they may well be spending much less even on core services than desirable much in the same way as some poor do save.

Similarly, in some cases, just the opposite is possible: an ULB is exerting to provide better services even if has to face deficit. Nobody knows which way lies prudence!

#### *Adequacy of Services Provided at Present*

This brings us to the question of checking the availability of resources against normative requirements. And we choose the national norms, ignoring geographical factors and, more than that, the issue of local choice and priority! A report on 'Augmentation of Financial Resources of Urban Local Bodies', better known as Zakaria Committee, had suggested two set of norms for operation and maintenance expenditure—one for core municipal services and the other for all municipal services—in per capita terms at 1960-61 prices according to the population size of the city. See Table 4. One may note as the size of a city increases, the proportion of expenditure on core services decreases.

TABLE 4: ALL-INDIA PER CAPITA NORMS FOR CORE AND ALL MUNICIPAL SERVICES (Rs. IN 1960-61 PRICES)

City Size	Over 20 lakh	Between 5 and 20 lakh	Between 1 and 5 lakh	Between 50000 and 1 lakh	Between 20000 and 50000	Less than 20000
Water Supply	10.80	10.20	9.80	8.64	7.56	7.42
Drainage & Sewerage	12.20	11.90	10.80	9.30	8.70	8.20
Roads & Works	2.50	2.20	1.80	1.35	1.20	1.10
Street Lighting & Electricity Distribution	3.00	2.85	2.50	2.30	2.15	2.00
<b>Core Services</b>	<b>28.50</b>	<b>27.15</b>	<b>24.90</b>	<b>21.59</b>	<b>19.61</b>	<b>18.72</b>
Education	6.00	5.00	4.00	3.00	2.00	1.00
Medical and Health	3.00	2.00	1.00	0.75	0.50	0.25
Fire Fighting	0.50	0.40	0.30	0.20	0.10	0.05
Horticulture	0.50	0.38	0.20	0.08	0.06	0.05
General Administration	5.00	4.00	3.00	2.00	2.00	1.00
<b>All Services</b>	<b>43.50</b>	<b>39.03</b>	<b>33.40</b>	<b>27.62</b>	<b>24.27</b>	<b>21.07</b>
Core to All Ratio (%)	65.5	69.56	74.55	78.17	80.80	88.85
Population weights in 2001	0.196	0.163	0.244	0.010	0.182	0.114

Core services in these norms include water supply, sewerage/sewage disposal, storm water drainage, construction of roads and paths and street lighting and electricity distribution—operation and management part, but not primary education and primary health. These norms are said to be very old as for example electricity distribution may not be a municipal function, let alone a core function, in many states. With per capita income having become more than double in around forty years, these norms in aggregative terms may be accepted as conservative ones and we therefore opt for them even if they are somewhat ambitious and even if the functions included here have no one-to-one correspondence with those included in the Eleventh Finance Commission list. Since suggested municipal domain is much larger, it should be possible for us to accept these norms for an aggregate exercise.

However, the detailed data that we have command over does not permit us to go for as detailed an exercise as this one. We therefore do not go for city-size norms but for nation-

wide norms. We have also to update these norms. And if possible, we should take care of inter-state urban price differentials.

#### *Nation-wide Norms*

We choose to impose national composition of urban population in 2001 by size distribution of UAs/Towns<sup>18</sup>. The weighted averages turn out to be Rs.30.13 for all services and Rs.22.00 for core services by using population weights of urban habitations in different size-classes as suggested by Zakaria Committee, noted in the last of the table above.

#### *Updating the norms*

Using spliced all-India consumer price index for urban non-manual employees as deflator, Mathur (2001) has obtained the norms for 1997-98 at current prices. With the use of the same deflator, these weighted norms come out to be around Rs.485 for all services and Rs.355 for core services.

#### *Converting National Norms into State-wise Norms*

Using implicit national urban poverty line as numeraire, state urban poverty lines, are converted into price differential factors for different states, data being obtained from Saxena (2001). Multiplication of these factors gives us the state-specific Zakaria norms at 1997-98 prices.

#### *Projection of Urban Population*

We then worked out urban population for each of the states for 1997-98 using rate of growth per annum during the decade between 1991 and 2001<sup>19</sup>.

#### *Desirable Expenditure*

Multiplying the urban population with these norms, one can find out normative expenditure for each of the states for urban population. One may note that this population includes non-municipalised urban population. Subtracting the actual expenditures from the respective normative counterparts, the deficiency in provision of municipal services can be gauged with ease. See Table 5.

#### *Deficiency in Service*

In this exercise, we have used both the expenditures, core and total, and compared the actual ones with normative ones under the assumption that expenditure incurred reflects the level of service. We find that in none of the states, except Maharashtra, the ULBs as a whole are meeting the desired standards set in 1960s as far as core services are concerned. Part of the reason may lie in the fact that many of the core municipal services—like water supply and electricity distribution—are not provided by the municipal bodies and therefore norms may need to be moderated in certain cases. The scene is slightly better if we consider the overall gap. The ULBs in Gujarat, Haryana, Himachal Pradesh, Maharashtra and Punjab are incurring expenditure that would suffice expenditure on full Zakaria basket though they may be undertaking such other services, which may not be included in Zakaria basket. For details see Table 5.

A little calculation will show us that barring exceptions actual expenditure on core services by ULBs is abysmally low. Exceptions are Maharashtra exceeding its actual/norm ratio beyond 1, Haryana around 90 percent, Rajasthan around 80 percent, Gujarat and Himachal Pradesh around 60 percent, and Tamil Nadu around 50 percent. Actual core expenditure in Andhra Pradesh and Kerala is around 30 percent of the norm. The ULBs in Assam, Karnataka, Madhya Pradesh, and Punjab spend below 25 percent of the norms and UP, West Bengal and Goa end up with less than 15 percent. But it is possible that the scene is not that bad for many of the core services are being handled by the para-statal and it is possible in some states the ULBs may be cost effective. The excess shown in the case of Maharashtra, cost may not be reflective of the level of services. These ratios dramatically improve when we consider all activities together as money may be forthcoming with ease for other (non-municipal) activities from other levels of the government for sponsored schemes. Maharashtra is a special case where partly for dominant position of Mumbai, partly for higher price level of services compared to urban Maharashtra, and for extra-municipal activities historically undertaken by municipal bodies in Greater Mumbai, they may be spending on many activities.

TABLE 5: NORMATIVE AND ACTUAL EXPENDITURES IN 1997-98 (Rs. Crore)

	Actual Expenditure		According to Zakaria Norms		Zakaria Expenditure Deficiency	
	Core	Total	Core	Total	Core	Total
	1. Andhra Pradesh	202.9	715.8	703.7	961.4	500.8
2. Assam	20.2	73.6	83.1	113.5	62.9	39.9
3. Gujarat	369.3	950.9	644.7	880.8	275.4	-70.1
4. Haryana	164.5	344.2	177.6	242.6	13.1	-101.6
5. Himachal Pradesh	11.0	34.6	18.0	24.5	7.0	-10.1
6. Jammu & Kashmir	12.0	75.1	69.3	94.7	57.3	19.6
7. Karnataka	151.8	445.8	664.0	907.2	512.2	461.4
8. Kerala	84.5	272.6	301.6	412.0	217.1	139.4
9. Madhya Pradesh	226.7	621.4	757.6	994.1	530.9	372.7
10. Maharashtra	2223.5	4978.3	1584.1	2164.2	-639.4	-2814.1
11. Orissa	39.7	137.9	188.0	256.8	148.3	118.9
12. Punjab	52.6	359.4	227.4	310.6	174.8	-48.8
13. Rajasthan	349.7	489.0	443.4	605.7	93.7	116.7
14. Tamil Nadu	521.0	1251.9	1077.3	1471.8	556.3	219.9
15. Uttar Pradesh	134.3	605.9	1096.2	1497.6	961.9	891.7
16. West Bengal	98.0	381.1	680.7	930.0	582.7	548.9
17. Goa	3.66	17.1	25.5	34.9	21.8	17.8
18. Manipur	0.2	2.8	14.8	20.2	14.6	17.4
19. Meghalaya	1.2	7.0	11.1	15.1	9.9	8.1
20. Nagaland	0	--	8.1	11.1	8.1	11.1
21. Tripura	2.5	10.6	13.5	18.5	11.0	7.9
22. Bihar	--	66.0	403.2	560.9	--	--

We should also bear the fact in mind that there is no one-to-one correspondence between the activities enumerated in Zakaria Committee and those actually undertaken by or



entrusted to the municipal bodies. The exercise serves the purpose of broadly gauging the dimension of the task to be addressed.

***Desirable Expenditure and Actual Revenue***

Finally, we need to see the gap between the expenditure that should have been incurred on operation and maintenance (with the assumption that utilities are in place!) by the urban local bodies and the revenues that were available to them because of their own efforts and that were made available—largely through transfers from other level of governments (primarily, the state governments). We have therefore gauged the gap between normative expenditure and actual revenue. See Table 6. We have not corrected the revenues for the potential, it should be noted, which better administration and better civic governance would have brought in and would bring in hereafter.

TABLE 6: ACTUAL REVENUE AND NORMATIVE EXPENDITURE (Rs. Crore)

	Actual Revenue		Normative Expenditure		Normative Revenue Deficiency	
	Own	Total	Core	Total	Core Gap	Total Gap
1. Andhra Pradesh	345.5	751.8	703.7	961.4	358.2	209.6
2. Assam	16.0	55.6	83.1	113.5	67.1	57.9
3. Gujarat	810.3	1192.1	644.7	880.8	-165.6	-311.3
4. Haryana	104.07	178.4	177.6	242.6	73.53	64.2
5. Himachal Pradesh	21.5	39.5	18.0	24.5	-3.5	-15
6. Jammu & Kashmir	3.2	37.0	69.3	94.7	66.1	57.7
7. Karnataka	162.4	416.8	664.0	907.2	501.6	490.4
8. Kerala	113.9	261.1	301.6	412.0	187.7	150.9
9. Madhya Pradesh	148.2	484.4	757.6	994.1	609.4	509.7
10. Maharashtra	4503.9	5178.3	1584.1	2164.2	-2919.8	-3014.1
11. Orissa	85.2	117.3	188.0	256.8	102.8	139.5
12. Punjab	152.1	214.8	227.4	310.6	75.3	95.8
13. Rajasthan	380.2	510.0	443.4	605.7	63.2	95.7
14. Tamil Nadu	658.8	1225.1	1077.3	1471.8	418.5	246.7
15. Uttar Pradesh	172.3	626.9	1096.2	1497.6	923.9	870.7
16. West Bengal	75.3	373.6	680.7	930.0	605.4	556.4
17. Goa	7.0	15.9	25.5	34.9	18.5	19
18. Manipur	2.6	3.9	14.8	20.2	12.2	16.3
19. Meghalaya	0.2	5.2	11.1	15.1	10.9	9.9
20. Nagaland	1.2	2.5	8.1	11.1	6.9	8.6
21. Tripura	1.2	7.2	13.5	18.5	12.3	11.3
22. Bihar	39.7		403.2	560.9	363.5	

With the notion that at the least expenditure on core municipal services, which are said to be obligatory as well, should be met from municipalities' own resources, we have computed the two gaps—one between the normative expenditure on core municipal services and actual own revenue and the other between the normative expenditure on all municipal services and total revenue at its command. We may call them Normative Revenue Deficiencies (NRDs): Core-Own Deficiency (COD) and Total Revenue Deficiency (TRD).

We find that the ULBs as a whole in Gujarat, Maharashtra, and Himachal Pradesh can meet the expenditure on core services from their own resources. And these are also the states whose ULBs can meet full Zakaria basket with the resources at their command—their own and transferred provided that transfer is not withdrawn as some of the grants may be tied ones. Otherwise the gaps are large and therefore there is need for greater revenue realization as well as for larger transfers. If we just concentrate on core services and believe that they should be met with municipality's own resources, we find that ULBs in Rajasthan needs to raise its resources by 20 percent while those in Punjab, Haryana and Tamil Nadu by 50-70 percent and in Orissa and Andhra Pradesh by 100 percent. The ULBs in Kerala should raise their resources by 150 percent and Karnataka by 300 percent. What about UP, MP, Bihar, Assam and West Bengal? The scene is: Assam by 4 times, UP and MP by 5 times and Bihar and West Bengal by 8-9 times of the present level. Can they do so? In the short-run, they cannot. But in the long-run, they must. Since some of these services are public utilities, user charges commensurate with cost of supply would be a prudent practice—with some built-in cross-subsidization among users and uses.

It is not clear to us as to whether transfers for centrally sponsored schemes are included in the other revenue and it is possible that different states have different practices. This is our considered view that these schemes along with funds and functionaries without external baggage be should be transferred to the local bodies. There could be instituted some training programmes for local body representatives and officials. But there should be no other encumbrances.

#### **MAKING URBAN LOCAL BODIES SELF-RELIANT**

Essentially, a government should be self-reliant in its primary duties. However, in a federal structure we consider it desirable that each citizen should consume a minimum of certain goods/services, irrespective of his/her domicile—with due respect to local choice. But different units would have perhaps different capacities to cater these services. Therefore, it would surely not be a case where each unit government would be totally self-sufficient to meet expenditure on activities in its sphere. We should therefore limit the sphere further. The principal canon employed in this paper had been that there is a core sphere expenditure on which should be met by local body's own resources. It is true that local resources may not be so neatly divided between public and private uses and those available for public uses into different tiers of governments—when they have concurrent jurisdictions. Transfers from one unit to another and one level to another may assume a myriad of forms. Yet, large transfers from other layers of government to a local government mean greater dependence. Therefore, our first attempt should be to make the local bodies earn their own revenue by transferring power to tax all local bases, which are tax-buoyant as well. Only then we should think of financial transfers. And as a matter of principle, financial transfers should be in the order of, in terms of magnitude and priority, (i) proceeds of assigned taxes, (ii) proceeds of shared taxes—preferably after pooling, (iii) untied grants and then (iv) specific grants (Chaubey, 1998; 2003).

It may be pertinent to see whether there exists any potential for greater taxation. Therefore, we conducted what may be called a feasibility exercise. We compare in this exercise core municipal requirement and total municipal requirement with per capita urban

net state domestic product. As there exist no data for state net domestic product of urban area, we made a bold attempt.

Researchers working in the area of urban development tell us that less than 30 percent urban population contributes close to 60 percent to the GDP. It implies that urban productivity and therefore the per capita income is about twice the national average. Which means urban-rural differential, suggested by 30 population contributing 60 percent, is 7:2 (=3.5). At lower level per capita income the urban-national productivity ratio may be higher but at higher level, this ratio should decline and tend towards 1 at very high level of urbanization. The logic is simple. When urbanization is 50 percent they cannot contribute 100 percent GDP!

In India till date urbanization in no state has exceeded the mark of 50 percent and except Himachal Pradesh no state it is less than 10 percent. We suggest, roughly speaking, 20 percent urban population can contribute 50 percent GDP, 30 percent urban population can contribute 60 percent GDP and 40 percent urban population would contribute 70 percent GDP and may be 40 percent urban population contributes barely 75 percent GDP. Keeping this in mind, in order to have an idea of urban per capita income we allotted the following sequence:

Urban Population Ratio (UPR)	10	20	30	40	50
Urban Total Differential (UTD)	30	48	60	68	75
Urban Total Per Capita Factor (UTPCF)	3.0	2.4	2.0	1.7	1.5

Further, for each state, allowing average marginal increase depending on the range, we find out the urban-total per capita factor and estimate per capita urban state net state domestic product—which we accept as per capita income in the absence of any other better measure. See Table 7.

TABLE 7: URBAN POPULATION AND INCOME RATIOS

State	UPR	UTD	UTPCF	State	UPR	UTD	UTPCF
1. Andhra Pradesh	27.0	56.4	2.1	12. Punjab	34.0	63.2	1.8
2. Assam	12.7	34.8	2.7	13. Rajasthan	23.4	52.1	2.2
3. Gujarat	37.4	65.9	1.8	14. Tamil Nadu	43.9	70.7	1.6
4. Haryana	29.0	58.8	2.0	15. Uttar Pradesh	21.0	49.2	2.3
5. Himachal Pradesh	9.7	29.1	3.0	16. West Bengal	28.0	57.6	2.0
6. Jammu & Kashmir	24.9	53.9	2.2	17. Goa	49.8	74.8	1.5
7. Karnataka	34.0	63.2	1.8	18. Manipur	24.0	52.8	2.2
8. Kerala	26.0	55.2	2.1	19. Meghalaya	19.6	47.3	2.4
9. Madhya Pradesh	25.0	54.0	2.2	20. Nagaland	17.7	43.9	2.5
10. Maharashtra	42.4	69.9	1.6	21. Tripura	17.0	42.6	2.5
11. Orissa	15.0	39.0	2.6	22. Bihar	13.4	36.1	2.7

Note: The figures first two columns are in percentage whereas those in the third are in natural units.

In our exercise, we have considered the states that existed before late 2000 when three states were bifurcated. Uttranchal's NSDP figures are not available while Chhattigarh's and Jharkhand's are. We have therefore got the weighted average for composite Bihar and

for composite Madhya Pradesh. In the case of Uttar Pradesh, Uttranchal being a small state will not materially affect the per capita income of Uttar Pradesh. While there is not much difference between per capita incomes of Madhya Pradesh and Chhattisgarh, there is substantial difference between those of Bihar and Jharkhand. Jharkhand's per capita income at Rs.9551 is more than twice of Bihar's 4014 in 1997-98.

We have tried to find out the ratio of core expenditure to per capita income as well as that of total expenditure to per capita income. While per capita income is related to net state domestic product (urban), the expenditures are desirable ones. In poor states, price levels are lower and therefore expenditure norms in money terms are also somewhat lower. But the general pattern though not universal that emerges is: poorer is a state, the higher is proportion needed to flow to the ULBs in that state. See Table 8.

TABLE 8: PER CAPITA EXPENDITURE NORMS AND URBAN PER CAPITA INCOME (in RS.) AND NORM TO INCOME RATIOS (in PERCENTAGE)

	Normative Expenditure		Per Capita Income		Expenditure Income Ratio	
	Core	Total	State	Urban	Core	Full
1. Andhra Pradesh	357.55	488.50	11683	24404	1.465	2.002
2. Assam	269.01	367.42	7966	21866	1.230	1.680
3. Gujarat	371.31	507.29	16585	29232	1.270	1.735
4. Haryana	328.56	448.81	17530	35544	0.924	1.263
5. Himachal Pradesh	329.18	448.06	13488	40464	0.813	1.107
6. Jammu & Kashmir	303.48	414.71	9491	20537	1.477	2.019
7. Karnataka	399.81	546.25	12566	23358	1.711	2.339
8. Kerala	372.96	509.49	14231	30214	1.234	1.686
9. Madhya Pradesh	399.13	523.73	9393	20289	1.967	2.581
10. Maharashtra	421.91	576.41	18915	31192	1.353	1.848
11. Orissa	369.87	505.23	7973	20730	1.784	2.437
12. Punjab	303.48	414.53	18764	34879	0.870	1.188
13. Rajasthan	364.25	497.57	10997	24475	1.488	2.033
14. Tamil Nadu	440.06	601.21	15388	24793	1.775	2.425
15. Uttar Pradesh	325.43	444.60	7776	18218	1.786	2.440
16. West Bengal	319.89	437.05	11682	24032	1.331	1.819
17. Goa	421.21	576.47	32647	49075	0.858	1.175
18. Manipur	269.02	367.17	9039	19886	1.353	1.846
19. Meghalaya	269.61	366.77	10281	24800	1.087	1.479
20. Nagaland	268.93	368.53	13052	32342	0.831	1.139
21. Tripura	268.17	367.49	9658	24202	1.108	1.518
22. Bihar	296.87	412.99	5361	14451	2.054	2.858

The ULBs in Goa and Nagaland join those in Punjab, Haryana and Himachal Pradesh (part of erstwhile Punjab) where core services as an aggregate need less than 1.0 percent (0.8-0.9 percent) of the urban net state domestic product while requirement of all services ranges between 1.1 percent and 1.25 percent. If they have adequate power to collect their own resources, they should be able to do so. Even Nagaland, as appears from its NSDP per capita figures, is not a poor state: its level is close to twice of Assam, Orissa and UP. Next

comes Tripura where the ULBs need a claim of 1.1 percent and 1.5 percent for core services and all services. The ULBs in Assam, Gujarat and Kerala—all in different regions, at different levels of urbanizations, and with different per capita incomes—need 1.25 percent of their respective urban NSDPs for core services and 1.70 percent for all services. Assam may not afford it on its own but for Gujarat and Kerala, this should not be a problem. The same is the story is with Manipur, Maharashtra and West Bengal—again in different regions, at different levels of urbanizations and with different per capita incomes—where requirement of the ULBs for provision of core services is 1.35 percent and for all services is 1.85 percent. Manipur is much poorer than the other two and the ULBs therein may not be able to collect resources commensurate with its requirement. Jammu and Kashmir join Andhra Pradesh and Rajasthan where the ULBs need about 1.5 percent of their respective NSDPs for core services and around 2.0 percent for all services. Jammu and Kashmir is somewhat behind Rajasthan, which is somewhat behind Andhra Pradesh in terms of per capita NSDP but not necessarily in terms of urbanization. Even if Jammu and Kashmir is to be helped otherwise, its municipalities should try to stand on their own legs, as there are many states much poorer than it. The ULBs in Karnataka and Tamilnadu on the one hand and U.P. and Orissa are in that category, which requires around 1.75 percent of their NSDP for core services and around 2.45 percent for all services. While Andhra Pradesh is somewhat behind Tamil Nadu, Orissa and U.P. are far behind. They need transfer of resources at the moment. The ULBs in M.P. need a little less than 2.0 percent of its urban NSDP and Bihar, a little more than 2.0 percent for provision of core services. The requirement for all services is 2.6 percent for the ULBs in MP and 2.9 percent for Bihar. Though MP is somewhat richer than U.P., Bihar is far poor. There is need to flow resources to their ULBs from outside the state.

Undoubtedly such exercises are subject to many limitations yet they provide a clue to the solution. This exercise does show that the problem of resources for urban local bodies is not un-surmountable. The issue is to evolve a proper mechanism for transfer of resources from local people to local bodies and from higher level of governments to local bodies. And for very poor state, there may be no go but to go for transfer from the national government, where Finance Commission and planning Commission both have a role to play and the former is mandated by the constitution in this regard as well.

For greater revenue realization, it has been emphasised time and again that there exists a lot of potential but there is need for better functioning of local governments on the both the sides—providing better services and ensuring better compliance in the matter of general taxes. It seems that the things are improving after emergence of the new set up. State governments have to reform many archaic laws and lessen number of conditions. With rationalization of rates and method of collection it has been found that the yield of property tax has risen tremendously. Entertainment tax, which is somewhat buoyant and totally local in nature, should immediately be transferred to the local bodies by all states—at the moment Goa, Haryana, Kerala, Madhya Pradesh, Maharashtra and Utter Pradesh have done so. If octroi has to be abolished, some other equally buoyant tax should be transferred to the urban local bodies.

The cardinal principle of existence of any government, let alone an ULB, is that it should meet its expenditure (at least revenue one) on core services from its resources. Such

an ULB can be said to be self-reliant. It is needless to say that they should not manage this balance by abdicating their responsibilities.

Transfer of taxes ensures taxation and representation both at the local bodies and that helps local people to assert in getting services and in checking misuse of resources. Followed by it would be sharing of pooled proceeds of state taxes with local bodies—both rural and urban. Then, grants should be the last resort to transfer resources—resources should flow to the local governments as a matter of right, not as a concession or consideration. Only then the ULBs would be units of self-government.

#### **In the End**

We have not advised substitution of civic bodies by civil societies for the formers' primary duties. Civil societies are otherwise most welcome to supplement and complement. We have not advised absolving the municipal bodies of primary services by wholesale contracting out them to private bodies but they need not employ somebody needing service of two hours a day or once in a week. We have not dwelt on the good points of e-governance lest its use should be confused with good governance. The import of the Constitutional Amendments brought in the sphere of local governance of local public affairs lies in restoring the rule of democratically elected representatives. Selected young professionals, howsoever competent and smart, should not replace elected city fathers and village elders. The chief belief of democracy lies in its respect the wisdom of the electorate in electing right people, who have to be duly assisted for specialized jobs by selected professionals.

#### **NOTES**

1. For constitutional debate, see Singhvi (1989) and for Gandhi's reaction on learning that the Draft Constitution has no provision for village panchayats, which he thought should be the base of democracy, see Mathew (1996).
2. Rao (1966)
3. In Gandhian philosophy, Part III and Part IV of the Constitution, the word 'state' stands for the Government and Parliament of India and the Government and the Legislature of each of the States and all local or other authorities within the territory of India or under the control of the Government of India.
4. This was echoed time and again. The latest being assertion by Karnataka..
5. Tiebout, Charles (1956)
6. With development comes affluence (resources) to higher tier jurisdictions and effluents (duties) to lower ones. See Reagon (1972)
7. Chaubey (1998) has developed a framework wherein it has been shown that there are two kinds of activities in public sphere: intra-unit and inter-unit. Inter-unit activities will have the same standards but intra-unit activities of common nature may have of the same standard but for natural differences.
8. Plan assistance is given to a state in terms of grant and loan. A special category state receives it 90:10 grant-loan ratio while a non-special category state receives it in 30:70 ratio. All eight North-Eastern states, Jammu & Kashmir, Himachal Pradesh and now Uttranchal enjoy special category status.

9. These are extreme cases of market failure. Existence of externality in production and consumption of certain goods make the private marginal cost/benefit diverge from social marginal cost/benefit. Correction of externalities is devised through taxes of goods, fines for effluence, subsidies for effluence-abating devices and various controls.
10. The problem of non-revelation of preference is often referred to as the problem of free-riding and very often pointed out. But the problem of forced-riding is easily ignored. Street-light tax collected as adjunct to house tax will have to be paid by a blind citizen as well.
11. Ostrom couple has devised a four-fold classification based on presence/absence of possibility of joint consumption and excludability. They are known as individual (the same as private good), collective goods (the same as public goods), common-pool goods (some people call them open-access goods) and toll goods. Toll goods are the ones, access to which could be denied—not necessarily through toll. See Ostrom and Ostrom (1977) and Chaubey (2004).
12. However, local goods, not necessarily public goods, may produce non-local bads.
13. Government of India Act (1919) had transferred the subject of local self-government to the provincial governments and therefore the Government of India stopped issuing any official instructions to them, which they were doing earlier. However, this Act had separate Schedules for local taxes.
14. It operated in India before Manu as also in Europe since Roman empire. It was levied on customs line. Later, the State sought a percentage from the proceeds where the privilege of levying was given to the city governments. Under the Regulation of 1805, octroi was levied on articles imported for consumption or use within the town.
15. East India Company, which was a trading company, has sought and got exemption from this duty from the Moghul rulers. G
16. This was done in connection with construction of an index of decentralization for determining allocation to states for local bodies. In the case of panchayats, development functions have been divided between agricultural & allied and industries though the weights for both of them are the same. Eleventh Finance Commission (p.310, 311n).
17. One may, on the parallel of primary deficit (consumption) and primary deficit (investment), development for services based on user services and others. But in fact, on deeper probing, one gets to know that all subsidizations are cross-subsidiazation.
18. Alternatively one could opt for state-wise composition of urban population by city-size.
19. Projecting total population and urban population means rural population has to be accepted as residual.

#### REFERENCES

- Bird, R.M. (1998), *Designing Sate-Local Transfers for Uttar Pradesh* (Mimeograph).
- Davey, Kenneth (1989), *Strengthening Municipal Government: A Discussion Paper*, Infrastructure and Urban Development Department, World Bank.

Dollery, Brian E. and Wallis, Joe L. (2001), *The Political Economy of Local Government*, Edward Elgar, Cheltenham.

Golding, L. (1955), *Local Government*, English University Press Ltd., London.

Government of India (2003), *Economic Survey 2002-03*.

Government of India (2000), *Report of the Eleventh Finance Commission for 200-2005*.

Government of India and UNCHS (2001), *Good Urban Governance Campaign: India Launch*.

All India Institute of Local Self-Government (2001) *Decentralisation and Municipalities*.

L.M. Sighvi Report on *Revitalisation of PRIs for Democracy and Development*, as excerpted in Kuruksheta (1989), Vol. 37, No.5.

Mathews, George (1996), *Panchayats: The Local Self-Government System in India*, Included in *Decentralised Governance in Asian Countries*, edited by Abdul Aziz and David D. Arnold, Sage Publications, New Delhi.

Mathur, Mukesh P. (-), *Constitutional 74<sup>th</sup> Amendment Act and the Urban Local Bodies: A Brief Review*, National Institute of Urban Affairs (Mimeograph).

Mathur Om Prakash (2001), *Approach to State-Municipal Fiscal Relations*, National Institute of Public Finance and Policy, New Delhi.

National Institute of Urban Affairs (1998), *A Compendium of Municipal Legislations in Conformity With Constitution (Seventy Fourth) Amendment Act, 1992*.

Pethe, Abhay, Ajit Karnik and Dilip Karmakar (2003), *Finances of Urban Local Bodies in Maharashtra: A Statistical Profile*, Included in *India Infrastructure Report 2003*, 3i-Network.

Rao, M. Govind (2001) *Fiscal Decentralisation in Indian Federalism*, Working Paper 98, Institute for Social and Economic Change, Bangalore.

Rao, V. Venkata (1965), *A Hundred Years of Local self-Government in Assam*, Bani Prakas Mandir, Pathsala.

Reagon, Michael D. (1972) *The New Federalism*, New York University Press.

Reserve Bank of India (2000), *State Finances: A Study of Budgets of 1999-2000*.

Savas, E.S. (2000), *Privatization and Public-Private Partnerships*, Affiliated East-West Press Pvt. Ltd., New Delhi.



Singh, B.N. and Maitra, Shipra (2001), Formation of Wards Committee, Included in *Good Urban Governance Campaign: India Launch*.

Singh, Kulwant (2001), Urban Governance in India: Trends and Issues in Decentralisation, Included in *Good Urban Governance Campaign: India Launch*

Sivaramakrishanan, K.C. (2000), *Power to People?: The Politics and Progress of Decentralisation*, Konark Publishers Pvt. Ltd., Delhi.

Srivastava, D.K. (2000), *Fiscal Federalism in India—Contemporary Challenges: Issues Before the Eleventh Finance Commission Report*, Har-Anand Publications Pvt. Ltd., New Delhi.

Final Report of First State Finance Commission of Kerala (1996)

Report of Second Himachal Pradesh State Finance Commission, 2002

Report of First Goa State Finance Commission,

Report of First Maharashtra State Finance Commission,

#### **APPENDIX: TREATMENT OF FINANCIAL DATA OF ULBs IN CERTAIN STATES**

##### **Maharashtra**

One could scarcely believe that in 1997-98 while revenue of all urban local bodies is Rs.497762.26 lakh, its expenditure is Rs. 10365978.98 lakh, which is almost 21 times of the former. The problem was with whole data set. The Eleventh Finance Commission noticed large discrepancies in the figures for own revenue of municipal councils and municipal corporations furnished by the State Government, the Commission worked out the figures for own revenue for the years 1990-91 through 1997-98 on the basis of figures for the years for 1990-91 and 1994-95 as given in the SFC report and by applying thereto annual growth rates as indicated in the SFC report (EFC, p.256n and p.259n). But what is surprising is that the EFC simply accepted zero figures for other revenue while in the SFC report there are available figures to help one work out other revenue figures too. Actually, there are equally large and most disturbing discrepancies in the expenditure figures, which were uncritically accepted by the EFC! For example, total expenditure of all municipal councils is almost 25 times its revenue. Again, while in the case municipal councils other expenditure is 4 to 6 times the corresponding core expenditure, in that of municipal corporations, it is /6 to 1/18 times.

As there existed no nagar panchayats, we studied the data for municipalities and municipal corporations. In the Eleventh Finance Commission's Report, we found that other revenue was shown as nil in the case of municipalities, which we did not accept. From State Finance Commission Report, we found by totalling the revenues of three categories of municipalities for the year of 1994-95 that other revenue forms Rs.116.32 crore while own

revenue is Rs.408.61, which tallied with the figure reported in the EFC even by component. Accepting this ratio, we projected the figure for 1997-98, which comes out to be Rs.20067.42 lakh as the correct figure for other revenue, which should largely include grants from the state. Along with own revenue of Rs.70491.3 lakh, this will give total revenue of Rs.90558.72 lakh. In the EFC Report, the expenditure of municipalities is Rs.1720021.27 lakh, which is 19 times of improved revenue. Hardly believable! For 1994-95, we find per capita expenditure on various categories of services for each category of municipalities and also population size, our calculations showed that Rs.248.6 crore were spent on core services and Rs.208.3 crore were spent on other services by 229 municipalities, total revenue expenditure being Rs.456.9 crore, which is close to revenue expenditure given by the SFC (p.101) as Rs.467.48 crore. The core expenditure as given in the EFC is 6.6 times of that given in the SFC, while other expenditure as given in the EFC is 21.3 times of that given in the SFC. Scaling down the core expenditure for 1997-98 by SFC/EFC ratio for 1994-95, which is now found to be around Rs.39572 lakh, and accepting other/core expenditure ratio for 1994-95, we estimate the other expenditure for 1997-98 to be around Rs.33157.07 lakh. The total expenditure of municipalities comes out to be Rs.72729.07 lakh

In the case of municipal corporations, the revenue figures reported in the State Finance Commission for 1990-01 through 1994-95 broadly tally with their counterparts in the Eleventh Finance Commission Report. Except for one correction for printing error, we accept the figures for 1997-98: own revenue Rs.379895.96 lakh, other revenue Rs.47376 lakh and total revenue Rs.427270.96 lakh. But in the case of expenditure, we find position to be very uncomfortable. The core expenditure declines from Rs.602795.58 in 1990-91 to Rs.110509.54 in 1991-92, which is less than one-fifth of the former. Then, it gradually rises to become Rs.291826.85 lakh in 1994-95, still less than one-half of what it was in 1990-91. Then, it becomes Rs.567972.84 lakh in 1995-96, still less than what it was in 1990-91. Then it becomes four times next year (Rs.2244312.33 lakh) and again four times still next year (Rs.8195804.75 lakh), which is more than 19 times the total revenue. However, in the SFC Report, the core expenditure is Rs. 60358 lakh in 1990-91, suggesting that there is error in placing of decimal point to the right—raising it only 10 times. From detailed exercise on figures available in the SFC, we find that in 1994-95 while the core expenditure is Rs.120154 lakh, other expenditure is Rs.93556 lakh and therefore total expenditure ratio is Rs.213710 lakh. The core-total ratio is 0.5622. For 1997-98 the Department of Urban Development had projected total expenditure of Rs.325099 lakh, which can be divided in terms of the above ratio as Rs.182780 lakh as core expenditure and Rs.142329 lakh as other expenditure. Our figures, which are given below, are based on this exercise.

	Expenditure (Rs. Lakh)			Revenue (Rs. Lakh)		
	Core	Other	Total	Own	Other	Total
Municipal Councils	39572	33157	72729	70491	20067	90558
Municipal Corporations	182780	142329	325099	379896	47376	427272
Urban Local Bodies	222352	175486	497828	450387	67443	517830

### Andhra Pradesh

Total reported municipal expenditure of Andhra Pradesh was almost 50 percent of the NSDP. We would not believe it.

It is surprising if anybody could treat the 'information not furnished' on revenue equivalent to zero revenue. This is precisely what the researchers with the Eleventh Finance Commission did for the years 1990-91 to 1992-93. So, let us go inside and find out figures for each of levels of municipalities.

In the case of nagar panchayats, the figures for overall revenue seem to match with overall expenditure within a margin of 10 percent, plus or minus, though expenditure on core services is just 1/5-1/6 of the total expenditure. We have no way to change/correct them but we do not correct them basically because their weight is not even 2 percent in the total.

In the case of municipal councils, the figures for overall revenue seem to match with overall expenditure within a margin of 10 percent, though expenditure on core services is just 1/4-1/6 of the total expenditure. We have no way to change/correct them and we do not correct them. Their weight is not so low. But it appears that non-municipal bodies, parasstatals, provide most of the core services. So, we accept the figures.

In the case of municipal corporations, the scene is very messy. The expenditure figures are 120-130 times the revenue figure. We take it as a case of misplacement of decimal point and shift it by two digits to the left. Then, total expenditure is found to be around 30 percent higher, which we take as acceptable.

	Expenditure (Rs. Lakh)			Revenue (Rs. Lakh)		
	Core	Other	Total	Own	Other	Total
Nagar Panchayats	218	893	1111	434	649	1084
Municipal Councils	5748	23440	29188	15019	17135	32154
Municipal Corporations	14329	26955	41284	19000	12942	31944
Urban Local Bodies	20295	51288	71583	34553	30706	75182

### West Bengal

In this case, the Eleventh Finance Commission was quite careful in not adding figures when some of them missing. As break-up of own revenue in terms of tax and non-tax revenue in respect of Calcutta and Howrah municipal corporations was not available for a few years (1994-95 through 1997-98), the Commission avoided totalling available figures—mainly because the sum of the two components would not have tallied with the sum of the total. But one finds that while in 1990-91 total expenditure is around 1.5 times the total revenue, in 1997-98 it is total revenue, which is around 2.5 times the total expenditure. Both look odd. However, there is gradual rise in total expenditure from Rs.21454.75 lakh to Rs.34951 lakh in 1995-96 and after an abrupt rise in 1996-97 (Rs.42394.92 lakh) it reaches Rs.38111.55 lakh in 1997-98. On revenue side, on being circumspect, one notices that own revenue jumps from Rs.5246.14 lakh in 1993-94 to 45953.16 lakh in 1994-95, which is about

9 times of the former. Going into details, one notices that it is in respect of municipal corporations that the total revenue jumped from Rs.584.77 lakh in 1993-94 to Rs.40714.93 in 1994-95 and then this trend continues. How did it go un-noticed by the Commission's eyes is surprising. Anyway, we feel that the decimal point should shift to the left by two digits. Once we do that we find for 1997-98, as against total expenditure of Rs.5876.63 lakh, the total revenue is Rs.4028.70 lakh instead of Rs.58647 lakh as reported in the EFC Report (p.260). While corrected total revenue may be found too low when compared with the total expenditure, uncorrected total revenue is ten times the total revenue. Using reported figures for nagar panchayats and municipal councils, we obtain the figures for all urban local bodies.

	Expenditure (Rs. Lakh)			Revenue (Rs. Lakh)		
	Core	Other	Total	Own	Other	Total
Nagar Panchayats	99	171	270	12	220	232
Municipal Councils	7157	24808	31965	6970	26130	33100
Municipal Corporations	2545	3331	5877	552	3477	4029
Urban Local Bodies	9801	28310	38112	7534	29827	37361

APPENDIX TABLE 1: URBAN POPULATION AND LEVEL OF URBANISATION

States	Population (Number)			Level of Urbanisation (%)		
	1991	1998	2001	1991	1998	2001
Andhra Pradesh	17887126	19680821	20503597	26.89	27.02	27.07

Arunachal Pradesh	110628	180528	222688	12.80	17.74	20.41
Assam	2487795	3089097	3389413	11.10	12.21	12.72
Bihar	11353012	13581551	14665897	13.14	13.29	13.36
Goa	479752	605402	668869	41.01	46.96	49.77
Gujarat	14246061	17362877	18899377	34.49	36.47	37.35
Haryana	4054744	5405349	6114139	24.63	27.61	29.00
Himachal Pradesh	449196	546804	594881	8.69	9.44	9.79
Jammu and Kashmir	1839400	2283525	2505309	23.83	24.56	24.88
Karnataka	13907788	16607781	17919858	30.92	33.03	33.98
Kerala	7680294	8086524	8267135	26.39	26.09	25.96
Madhya Pradesh	15338837	18981162	20277919	23.18	24.86	24.98
Maharashtra	30541586	37545895	41019734	38.69	41.25	42.40
Manipur	505645	550154	570410	27.52	24.92	23.88
Meghalaya	330047	411700	452612	18.60	19.31	19.62
Mizoram	317946	399798	441040	46.09	48.45	49.49
Nagaland	208223	301194	352821	17.21	17.58	17.74
Orissa	4234983	5082832	5496318	13.37	14.47	14.97
Punjab	5993225	7492944	8245566	29.55	32.56	33.95
Rajasthan	10067113	12173027	13205444	22.88	23.23	23.38
Sikkim	37006	51905	60005	9.10	10.46	11.10
Tamil Nadu	19077592	24480449	27241553	34.15	40.69	43.86
Tripura	421721	503408	543094	15.29	16.48	17.02
Uttar Pradesh	17605915	33684103	36682874	12.65	20.66	21.02
West Bengal	18707601	21278964	22486481	27.48	27.86	28.03
<i>Union Territories</i>						
Andaman and Nicobar Is.	74810	101994	116407	26.80	30.8	32.67
Chandigarh	574646	729974	808796	89.68	89.75	89.77
Dadra and Nagar Haveli	11720	32562	50456	8.47	16.98	22.89
Daman and Diu	47538	54190	57319	46.86	39.16	36.26
Delhi	8427083	11303661	12819761	89.93	92.08	93.01
Lakshadweep	29089	27573	26948	56.28	47.73	44.47
Pondicherry	516934	605679	648233	64.05	65.80	66.56
Total	207565056	259367803	285354954	24.57	26.76	27.78