

**MUNICIPAL DECENTRALISATION IN INDIA:
A STUDY OF EFFICIENCY AND EQUITY
ACROSS STATES**

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CERTIFICATE

I, Dibyendu Samanta, certify that the dissertation entitled "MUNICIPAL DECENTRALISATION IN INDIA: A STUDY OF EFFICIENCY AND EQUITY ACROSS STATES" for the degree of MASTER OF PHILOSOPHY is my bonafide work and may be placed before the examiners for evaluation.

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*I dedicate this work to
my parents,
and my respected teacher,
Prof. Amitabh Kundu*

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Introduction

“We neglect our cities to our peril; for, in neglecting them, we neglect our nations”

President John F. Kennedy

Over the past twenty-five years, the developing world has been undergoing a demographic transition. There has been considerable increase in urban population across nations. While this has often been interpreted to suggest a potential increase in urban productivity, sections of scholars and administrators have perceived this as being responsible for additional pressure on the already strained and scarce urban public amenities such as electricity, water and housing. Access to basic sanitation, collection of solid wastes and urban transport as well as education and health services, pose similar problems (World Bank, 1995)¹.

All these issues are evident in India as well, especially as the urban population has been increasing rapidly over the last few decades, despite recent deceleration. Studies on service delivery demonstrate that municipal and other local level institutions in India are not able to provide adequate and equitable access to basic shelter, infrastructure and services (Kundu, Bagchi & Kundu, 1999)². 11 to 30% of India's urban population is dependent on questionable sources of water supply and another 57% lacks any form of sanitation (GOI, 1992)³. The Census

¹ World Bank,(1995), World Development Report, Washington DC.

² Kundu, A. S. Bagchi and D. Kundu, (1999), “ Regional Distribution of Infrastructure and Basic Amenities in Urban India: Issues Concerning Empowerment of Local Bodies” , 10th July 1999, Economic and Political Weekly.

³ Government of India, Ministry of Urban Development. The Nagarpalika Act, 1992. New Delhi.

of India for the year 2001 reports about 28.77% of India's population living in the urban areas in 2001 and this will increase to 31.99% by 2011. The size and growth of India's urban population has made the task of matching demand for urban basic services and its supply an extremely difficult task. A huge gap exists and one that is likely to continue for another fifty years. According to the Economic Survey 1998-99⁴, 90.62% of the urban population has been covered by drinking water supply by 1997 but only 49.32% by sanitation facilities. Thus as yet, in none of the basic amenities has there been 100% coverage, although, for water supply and sanitation, the target for reaching full coverage or close to it had been set for the last decade of the twentieth century. Going by the more recent estimates, as given in the India Infrastructure Report 2001⁵, municipal bodies in India would require an additional investment of around Rs 74,000 crores if the deficiencies in the existing level of services are to be eliminated and all sections of urban population are to be provided basic access by 2020. The Report also points out that in addition to this, an annual investment of 18,000 crores would have to be made to operate and maintain these services at the minimum levels.

It is important to note that though there has been rapid urban growth in terms of both population and area, but the development of complementary infrastructure has not taken place. On the top of it, with the advent of liberalisation and globalisation as major policy planks, the state and Central governments are no longer in a position to subsidise basic services in the city and the city governments have been largely left to fend for themselves. Planners, policy makers and people have also began to realize that cities are in such a bad shape mainly because planning agencies and urban local bodies (ULBs), which are chiefly responsible for the development and administration of urban areas, are not able to perform their functions efficiently.

⁴ Government of India, Economic Survey, 1998-99

⁵ Government of India, India Infrastructure Report, 2001

Efficiency and accountability are supposed to be the driving force of the new system of governance and the functioning of urban institutions. There has been a call for laying more emphasis on informed decision-making and use of flexible means of achieving success. In the background of this philosophy, the public sector organizations, along with other para-statal agencies are being brought under certain kind of fiscal discipline. Many of the infrastructural services are gradually being managed on commercial lines or transferred to private agencies. Given this macro economic scenario the Constitution (74th) Amendment Act, 1992 has been hailed as a major step in dismantling the state level bureaucracy, taking power to the people and initiating a process of democratic administration and planning at the grass-root level. It was considered as being a significant initiative towards decentralisation.

With liberalisation and globalisation, decentralisation has also become a major plank of public policy over the world in the recent years. The dictionary meaning of decentralisation as “the process of transferring the functions from the central government to the local units”⁶ masks the many nuances associated with the term. According to Wolman and McCormic (1994)⁷, “Decentralisation basically refers to a situation where the sub-national (or sub-state) unit of government have the discretion available to them to engage in effective (as opposed to illusory) decision making affecting their area”. Thus the basic idea of decentralisation is sharing the power of decision making with lower levels in the organization. Depending on the extent and the means by which power can be shared with the lower levels, Rodninelli (1990)⁸ has recognized four different forms of decentralisation:

i) Deconcentration

⁶ Webster's New Dictionary and Thesaurus.

⁷ Wolman, H & S. McCormic (1994), “*The effect of Decentralisation on Local Governments*” in Local Government and Market Decentralisation (ed) R. J. Bennett, United Nations University Press.

⁸ Rodninelli, D. A. (1990), “*Decentralizing Urban Development Programs: A Framework for Analysing Policy*”, Policy and Research Series, Research Triangle Institute for USAID.

- ii) Delegation
- iii) Devolution
- iv) Privatisation

Deconcentration, also sometimes called “administrative decentralisation”, implies limited transfer of central government powers, functions and resources to its field units. Delegation implies assigning some tasks to the lower level for administrative convenience, but the ultimate responsibility for these functions rests with the central government. Devolution implies a situation in which lower ranking units acquire greater autonomy in respect of certain defined functions including decision making authority, which can be taken back only after making amendments in the law. Privatisation is a form of decentralisation in which the government may transfer functions to voluntary organizations or allow certain functions to be performed by private enterprises. R.W Johnson (1991)⁹ and Kenneth Davey (1992¹⁰, 1996¹¹), agrees completely with the classical typology of Rodnelli. According to K.V Sundaram, (2001)¹², “ decentralisation refers to a situation in which lower ranking decision units acquire powers and responsibilities and also have control over the determination of the goals and targets”. According to him, true decentralisation entails three things:

- i) Assigning of responsibilities (i.e. Functions) with matching powers and requisite finances.
- ii) Rendering the decentralised level fully accountable for its activities.

⁹ Johnson, R.W, (1991), “ *Decentralisation : Improving Urban Management in Asia*” , Policy and Research Series, Research Triangle Institute for USAID.

¹⁰ Davey, Kenneth, (1992), “*Central Local relations: The institutional framework of Urban management*” Working Paper no. 5, Development Administration Group, University of Birmingham.

¹¹ Davey, Kenneth, (1996), “*Urban Management: The Challenge of Growth*” , Ashgate Publishing Company.

¹² Sundaram. K.V,(2001), “ *Decentralised Multi-level Planning – Principles and Practise*. Sage Publications.

- iii) Ensuring participation of the local population in planning and implementation.

In this study, decentralisation is taken to mean devolution in the sense that Rodninelli, Davey and Johnson spoke about it.

The need for decentralisation was a result of the fact that the global market has become more integrated due to the coming up of the trade liberalization regime and the opening up of financial markets by the developing nations, that started during the late 80's and the early 90's. The complexities of expanding government activities and a new paradigm of development focused on growth and equities became compelling factors to decentralise the authority of planning and development (Rodninelli and Cheema, 1988)¹³. Moreover, Central Governments are primarily concerned with managing macroeconomic policies and national political stability. They are often concerned with the provision of urban services except to the extent that it involves large scale capital-intensive investments (Rodninelli, 1990)¹⁴.

The idea of decentralisation enjoys easy popularity and its popularity has increased in the recent years. On account of its many failures, the centralised state has lost a great deal of legitimacy. In a closely interactive local community, decentralisation places decision-making in the hands of those who have information which outsiders lack. Local information can often identify cheaper and more appropriate ways of providing public services (Bardhan, 1996)¹⁵. Decentralised decision-making ensures the well-being of all those who are likely to be affected by such decisions, since self interest is supposed to guide them

¹³ Rodninelli, D.A. (1988), "Increasing the Access of Poor to Urban Services : Problems, Policy Alternatives and Organizational Choices", in Rodninelli and Cheema (eds) *Urban Services in Developing Countries: Public and Private roles in Urban Development*, The Macmillan Press Limited.

¹⁴ Rodninelli, D.A. (1990), "Decentralizing Urban Development Programs: A Framework for Analysing Policy", Policy and Research Series, Research Triangle Institute for USAID.

¹⁵ Bardhan, P, (1996), "Decentralised Development", *Indian Economic Review*, Vol XXXI, No. 2, Pp 139 - 156.

to arrive at decisions that are consistent with everybody's good. Actually, the local governments retain the informational advantage because of political accountability. In democratic countries, the local politicians may have more incentive to use local information than national or provincial politicians, since the former are answerable to the electorate while the latter have wider constituencies (where the local issues may get diluted). Accountability usually brings in decision-making and in implementation, which helps in improving quality and cost efficiency.

But, there are many reasons why decentralisation often does not work and some form of central control becomes necessary, even in the case of goods and services whose spatial characteristics do not encompass the whole country. The major trade-off is then between the need for policy co-ordination at some central level when there are economies of scale and of scope and interjurisdictional externalities (or spillovers) on one hand, and that of local information and accountability on the other. The importance of the two sides in this trade-off varies from case to case, and it is difficult to pass generic judgment on the appropriate extent of decentralisation without looking into the empirical details of each case.

As a political phenomenon, decentralisation is widespread. Out of the 75 developing and transitional countries with populations greater than 5 million, all but 12 claim to have embarked on some form of transfer of political power to local units of government (Aziz & Arnold, 1996)¹⁶.

India is no exception in this regard towards devolving powers and authorities. The decentralisation initiative in India started with the Constitution 73rd and 74th Amendment Acts, 1992. While the 74th CAA relates to the ULBs, the 73rd CAA relates to the Panchayati Raj

¹⁶ Aziz, A & D.D. Arnold (eds), (1996), " *Decentralised Governance in Asian Countries*", Sage Publications, New Delhi.

institutions. The present study is confined to the ULBs only. The 74th CAA provided for:

- i) Regular and fair conduct of municipal elections,
- ii) Limiting the state power to do away with democratically elected municipal governments,
- iii) Adequate representation to weaker sections and women in municipal bodies through reservation of seats,
- iv) Constitution of ward committees in municipalities with a population of 3 lakhs or more, to ensure popular participation civic affairs at the grass-root level,
- v) Specification by law, through state legislatures, of the powers and functional responsibilities to be entrusted to the municipalities and ward committees,
- vi) Placing the relationship of state governments and ULBs on a firm footing with respect to local taxation powers and revenue sharing between states and local authorities through statutory state finance commissions, to be set up every five years, and
- vii) Involvement of elected representatives in planning at district and metropolitan levels.

The 74th CAA envisaged that the governments of states and union territories would take action to pass new legislations or amend existing laws by 31st May 1994 to bring them in conformity with the constitutional provisions. This task of conformity legislations has since been completed.

In view of the above policy debate and the claims and counterclaims mainly with regard to the impact of decentralisation on the city governments in India, the present study attempts to critically analyse the issues dispassionately with empirical rigour. In a way, numbers of planners and administrators have viewed it as a panacea for

all evils. This study thus attempts to de-romanticise the concept of decentralisation.

Research Questions

- i) Can the actual devolution of functions as per the Twelfth Schedule be explained by the economic principles of asymmetric information?
- ii) Do confirmative legislations provide for adequate measures to honour the 74th CAA in both letter and spirit?
- iii) How far decentralising is the decentralisation initiative i.e. whether the decentralisation initiative has succeeded in empowering the city governments?
- iv) How far administrative decentralisation has a bearing on the revenue generation capacities, resource mobilisation and resource utilisation capacities of the city governments?
- v) Given all these concerns, to what extent has the state governments pursued decentralisation in the administrative, functional and the financial domains?
- vi) Whether the state government support has anything to do with the efforts of decentralisation?
- vii) What should be done further to make the process of municipal decentralisation really effective?

Objectives

- i) To ascertain the role of economic principles behind the functional allocation between the local governments and the state governments.
- ii) To compare the pre and post decentralisation phases of city governments in India covering administrative, functional and financial domains.

- iii) To analyse the interdependencies between the administrative, functional and financial domains of the city governments.
- iv) To ascertain the impact of functional devolution on the efficiency of operations of the city governments.
- v) To assess whether the efforts of decentralisation on the part of the city governments can affect the state governments' supports to them.
- vi) To suggest remedial measures in making the process of municipal decentralisation more efficient, effective and equitable.

Methodology

- To systematically address the issue of municipal decentralisation in India, this study, at the very outset would like to conceptualise the centralisation – decentralisation debate. Decentralisation is studied with the problem of asymmetric information in mind. Since smaller local governments have an informational advantage concerning public goods' production costs and the central government has imperfect information on externalities induced by local projects (Oates, 1972,1975,1977, 1991)^{17,18,19,20}, the modelling exercise tries to focus on the optimal size of local jurisdictions and on the shape of transfer schedules from the central government to the local bodies. Thus, the optimal size of local jurisdiction is ultimately a tradeoff between small jurisdictions so as to benefit from the geographical

¹⁷ Oates, W.E. (1972), "*Fiscal Federalism*", Harcourt Brace, Jovanovich, New York.

¹⁸ Oates, W.E. (edt), (1975), "*Financing the New Federalism*", John Hopkins University Press, Baltimore & London.

¹⁹ Oates, W.E. (edt),(1977), "*Political Economy of Fiscal Federalism*", Lexington Books, Lexington

²⁰ Oates, W.E.(edt), (1991), "*Studies in Fiscal Federalism*", Edward Elgar Publishing Limited, Massachusetts.

proximity effects on information and its easy availability and the central co-ordination mechanism in which externalities are more easily internalised by means of linear or non-linear tax -subsidy schemes.

- While looking into the functional aspect of the study, the only methodological tool used is ranking. The states have been ranked according to the actual devolution of the 18 functions to the city governments that have been listed in the Twelfth Schedule. Higher ranks (in values) have been given to states, which have devolved the greater number of functions.

- The administrative decentralisation rankings have been arrived at by giving the following weightage structure:

i) Elections to the ULBs:

a) States have been graded for their promptitude in conducting elections to the municipal bodies in accordance with the 74th CAA, as per the following scale:

No delay (i.e. in 1994)	- 5
12to 24 months (i.e. between 1994-95)	- 4
24 to 36 months (i.e. between 1995-96)	- 3
36 to 48 months (i.e. between 1996-97)	- 2
48 to 60 months (i.e. between 1997-98)	- 1
Above 60 months (i.e. between 1998-2000)	- 0

b) States have been grade according to the no of rounds of municipal elections that have been held since 1994, as per the following scale:

Two rounds of elections since 1994	- 2
One round of election since1994	- 1

c) States have been graded according to the percentage of city governments in which elections have been held, as per the following scale:

100 %	- 5
Between 99 to 100%	- 4
Between 97 to 99%	- 3
Between 95 to 97%	- 2
Between 80 to 95%	- 1
below 80%	- 0

- ii) Constitution of Ward Committees: States that have constituted ward committees for each municipal ward for all municipalities have been given a weightage of 5, whereas those that have constituted it in the corporation areas only are given a weightage of 3. No weightage is assigned to the state that has not constituted Ward Committees.
- iii) Constitution of District Planning Committees: States that have constituted DPCs in all the districts have been given a weightage of 5, whereas those that have constituted it in some districts only are given a weightage of 3. No weightage is assigned to the state that has not constituted DPCs so far.

Higher ranks (in values) have been given to states, which receive the maximum number of marks from the weightage structure as constructed above.

- To evaluate the progress towards financial decentralisation, the study has resorted to the calculation and inter-state comparison of
- Fiscal gaps,
 - Percentage share of own revenue to total revenue,
 - Percentage share of own - tax revenue to total revenue,

- d) Percentage share of non - tax revenue to total revenue,
 - e) Percentage share of other revenue to total revenue,
 - f) Percentage share of core services expenditure to total expenditure,
- of the ULBs and also separately of the three tiers of municipal entities.

The Compound Annual Growth Rates (CAGRs) of these revenue and expenditure indices also have been calculated.

- The following per capita revenue and expenditure indices, and their Compound Annual Growth Rates (CAGRs) have been calculated:
 - a) Per Capita Fiscal Gap (PCFG),
 - b) Per Capita Own Tax Revenue (PCOTR),
 - c) Per Capita Total Revenue (PCTR),
 - d) Per Capita Non Tax Revenue (PCNTR),
 - e) Per Capita Core Services Expenditure (PCCSE),
 - f) Per Capita Total Expenditure (PCTE),

of the ULBs only, since the population figures separately for the three levels of urban governance are not known.

- To answer the question as to how far decentralising is the decentralisation initiative, an attempt has been made in this study by establishing decentralisation index for the various states and analysing it's movement over the period 1990-91 to 1997-98. For this part of the analysis, three decentralisation indices will be considered, following Oates (1985)²¹ and Wolman and McCormick (1994)²².

1) Revenue Decentralisation Ratio (**RDR**)

$$= \{ORULB / (ORULB + RS)\} * 100$$

²¹ Oates, W. E. (1985), '*Searching for Leviathan*', American Economic Review, Vol – 75.

²² Wolman, H and McCormick, S. (1994), '*The Effect of Decentralisation on Local Governments*', in (ed) 'Local Government and Market Decentralisation', by Bennett, R.J., United Nation University Press.

Where ORULB = Own revenue of the ULBs, and
RS = Revenue of the state governments,

2) Expenditure Decentralisation Ratio **(EDR)**

$$= \{ \mathbf{EULB} / (\mathbf{EULB} + \mathbf{ES}) \} * 100$$

Where EULB = Own expenditure of the ULBs, and
ES = Expenditure of the state governments,

3) Financial Autonomy Ratio **(FAR)**

$$= (\mathbf{ORULB} / \mathbf{EULB})$$

Where ORULB = Own revenue of the ULBs, and
EULB = Own expenditure of the ULBs

i.e. it is the ratio of the total expenditure financed out of the own revenue reserves.

4) Then, a Composite Urban Decentralisation Index (CUDI) is derived as a sum of the weighted RDR and the weighted EDR.

The CUDI, following Wolman and McCormick, is defined as:

$$\mathbf{CUDI} = \mathbf{RDR} * \mathbf{FAR} + \mathbf{EDR} * (\mathbf{1} - \mathbf{FAR})$$

- A correlation table has been constructed between the Composite Urban Decentralisation Indices (CUDIs) and the decentralisation index given by the Eleventh Finance Commission (EFC).

- The impact of the decentralisation initiative would then be studied by establishing a univariate model:

$$\text{OTTR}_t = a + b * \text{CUDI}_t \quad (1)$$

$$\text{ORTR}_t = a + b * \text{CUDI}_t \quad (2)$$

$$\text{NTRTR}_t = a + b * \text{CUDI}_t \quad (3)$$

$$\text{OthRTR}_t = a + b * \text{CUDI}_t \quad (4)$$

$$\text{CSETE}_t = a + b * \text{CUDI}_t \quad (5)$$

$$\text{FAR}_t = a + b * \text{CUDI}_t \quad (6)$$

$$\text{PCOTR}_t = a + b * \text{CUDI}_t \quad (7)$$

$$\text{PCNTR}_t = a + b * \text{CUDI}_t \quad (8)$$

$$\text{PCCSE}_t = a + b * \text{CUDI}_t \quad (9)$$

$$\text{PCTE}_t = a + b * \text{CUDI}_t \quad (10)$$

$$\text{PCTR}_t = a + b * \text{CUDI}_t \quad (11)$$

$$\text{OTTR}_t = a + b * \text{RDR}_t \quad (12)$$

$$\text{ORTR}_t = a + b * \text{RDR}_t \quad (13)$$

$$\text{CSETE}_t = a + b * \text{EDR}_t \quad (14)$$

$$\text{PCOTR}_t = a + b * \text{RDR}_t \quad (15)$$

$$\text{PCCSE}_t = a + b * \text{EDR}_t \quad (16)$$

Where ,

OTTR_t = Percentage share of own tax to total revenue for the t^{th} period

ORTR_t = Percentage share of own revenue to total revenue for the t^{th} period

NTRTR_t = Percentage share of non tax revenue to total revenue for the t^{th} period

OthRTR_t = Percentage share of other revenue to total revenue for the t^{th} period

$CSETE_t$ = Percentage share of core services expenditure to total expenditure for the t^{th} period

FAR_t = Financial Autonomy Ratio for the t^{th} period

$PCOTR_t$ = Per capita own tax revenue for the t^{th} period

$PCNTR_t$ = Per capita non tax revenue for the t^{th} period

$PCCSE_t$ = Per capita core services expenditure for the t^{th} period

$PCTE_t$ = Per capita total expenditure for the t^{th} period

$PCTR_t$ = Per capita total revenue for the t^{th} period

RDR_t = Revenue Decentralisation Ratio for the t^{th} period

EDR_t = Expenditure Decentralisation Ratio for the t^{th} period

- This would be done by a cross-sectional analysis of the states at four points of time, two in the pre 74th CAA and two in the post (i.e. 1990-91, 1992-93 and 1995-96, 1997-98). The equations (7)-(11) are only with respect to the ULBs, because per capita figures for the Nagar Panchayats, Municipalities and Municipal Corporations could not be constructed due to the non availability of the data regarding the urban population residing in these three different categories of municipal entities separately. This section thus looks into the probable impact of the decentralisation initiative. Decentralisation is a long drawn process and obviously it is too early to analyse the impact of the same on any aspect of the finances of the city governments. Yet, this section will attempt to have an overall idea of the impact of decentralisation on the city governments in India.
- The financial decentralisation rankings have been arrived at by giving the lowest rank to the state, which has the greatest

Composite Urban Decentralisation Index (CUDI) for the year 1997-98.

- Spearman's Rank Correlation method has been used to compare the functional decentralisation, administrative decentralisation and financial decentralisation rankings of the ULBs of the 16 major states.
- Ranking has been done according to the larger share in the grant allocation per year as per the EFC recommendations, and rank correlations are used to compare the decentralisation rankings of the ULBs of the 16 major states with the rankings as per the grant allocations.

Finally the work will try to suggest measures that can make the process of municipal decentralisation in India more efficient and effective such that the objective of the 74th CAA i.e. giving "power to the people" is achieved.

Database

The study is based only on secondary data. The main sources of data are the Finance Commission Reports, especially the Tenth and Eleventh Reports. Besides this, various issues of Nagarpalika Network Newsletters published by the All India Institute of Local Self Government and the Compendium of Major Legislative Conformity with Constitution 74th Amendment Act, Study Series no. 70, NIUA, 1998 have also been used. 'Panchayati Raj in India – Status Report 1999' published by Rajiv Gandhi Foundation, March 2000, have also been consulted.

Literature Review and a Model on The Optimal Level of Local Jurisdictions

An overview of the literature

The studies in the relevant themes may broadly be grouped in to two categories:

Section 1: Theoretical studies on decentralisation of local bodies

Section 2: Empirical studies on decentralisation of local bodies,
particularly the city governments in India

- a) Legislative, Administrative and Functional aspects of decentralisation
- b) Devolution of financial powers and its impact

Many public administrators, political analysts, theoretical and empirical economists have examined the issue of decentralisation, both theoretically and empirically with respect to the working of the city governments in India. The studies they have conducted are varied in the sense that they have looked into the issue of decentralisation from almost diametrically varying angles, either from the administrative and legislative spheres or from the functional and financial spheres. Many studies have also examined the issue as an asymmetric information problem between the different tiers in the governance network.

Section 1

Theoretical studies on decentralisation of Local bodies

Characterising the optimal assignment of responsibilities to central and local jurisdictions and designing co-ordination schemes are the fundamental issues addressed in the theory of fiscal federalism. The extensive literature devoted to these issues has focussed on the disparities in local preferences, on the economies of scale in the production of local public goods, on the magnitude of externalities and spillover effects etc, as can be seen from the surveys of Oates (1972²³, 1991²⁴), Rubinfeld (1988)²⁵ and Wildasin (1986)²⁶. According to these surveys, decentralisation in the sense of devolution in a closely interactive local community places decision – making in the hands of those who have information which outsiders lack, an incentive advantage qualitatively similar to that of enjoyed by the market mechanism over the state. Local information can often identify cheaper and more appropriate ways of providing public services, apart from getting a better fit for locally diverse preferences. The main reason why in practice the local government still retains the informational advantage has to do with the political accountability. This is because in democratic countries local politicians may have more incentive to use local information than the national level politicians.

²³ Oates, W.E. (1972), '*Fiscal Federalism*', Harcourt – Brace – Jovanovich, New York

²⁴ -----(ed)-(1991), '*Studies in Fiscal Federalism*', Harcourt – Brace – Jovanovich, New York.

²⁵ Rubinfeld, D. (1988), '*The Economics of the Local Public Sector*', in book (eds) by J. Auerbach and M. Feldstein, '*Handbook of Public Economics*', Vol 2, North – Holland, Amsterdam.

²⁶ Wildasin, D. (1986), '*Theoretical Analysis of Local Public Economics*', in book (eds) E. S. Mills '*Handbook of Regional and Urban Economics*' Vol 2, North – Holland, Amsterdam.

Seabright (1996)²⁷ discusses the problem theoretically as one of allocation of control rights in the context of incomplete contracts where breaches are observable, though not verifiable in the administrative or judicial review, but subject to periodic electoral review, which creates appropriate incentives for local politicians.

Bardhan (1996)²⁸ has listed the various advantages of decentralisation in the sense of devolution. According to the author, accountability usually brings responsibility in decision-making and in implementation, which helps in improving the quality and increasing cost-efficiency. But, decentralisation often does not work and some form of central control becomes necessary. The major trade off is then between the need for policy coordination at some central level and interjurisdictional externalities on the other.

This predicament has been put in very simple words by Bird (1995)²⁹, according to whom, information asymmetry works both ways: the central government may not know 'what' to do, and the local government may not know 'how' to do it.

Theoretical arguments for and against decentralisation

The idea of decentralisation enjoys high popularity in the corridors of power, and its popularity has increased in recent years. On account of its many failures, the centralised state has lost a great deal of legitimacy. Decentralisation is often suggested and implemented as a way of reducing the role of the state in general. On the other hand, those who

²⁷ Seabright, P. (1996), 'Accountability and Decentralisation in Government: An Incomplete Contracts Model', European Economic Review, no 40.

²⁸ Bardhan, P. (1996), 'Decentralised Development', Indian Economic Review, Vol – XXXI, no – 2.

²⁹ Bird, R. (1995), 'Decentralising Infrastructure: For Good or For Ill?', in World Bank Discussion Paper, No 290, (ed) by A. Estache in 'Decentralising Infrastructure: Advantages and Limitations'. World Bank. Washington DC.

were still convinced of the importance of market failures some times turn for their resolution to the government at the local level, where the transaction costs are relatively low and the information problems less acute. Decentralisation thus provides a way out of the impasse of the bipolar state – versus – market debates.

The economic case for decentralisation

A basic shortcoming of the unitary form of government is its probable insensitivity to varying preferences among the residents of the different communities. In a closely interactive local community, decentralisation places decision-making in the hands of those who have information which outsiders lack, an incentive advantage qualitatively similar to that enjoyed by the market mechanism over the state. Local information can often identify cheaper and more appropriate ways of providing public services, apart from getting a better fit for locally diverse preferences, or getting rid of uniformity constraints in service delivery that a centralised supplier is sometimes compelled to adopt.

While sharing with the market mechanism the same informational advantage, a self-governing local community can sometimes be superior to the market in co-ordination and enforcement. Markets may fail as a co-ordination mechanism when private information renders individual market contracts incomplete or unenforceable. But, a local community, which has usually a stable membership and well developed structures of transmission of private information among the members, and if it has the power of sanctions of the local governments, has the potential of providing a more efficient co-ordination device.

The main reason why in practice the local government retains the informational advantage over the central government has to do with political accountability. In democratic countries, the local politicians may have more incentive to use local information than national or provincial

politicians, since the former are answerable to the local electorate, while the latter have much wider constituencies where the local issues may get diluted.

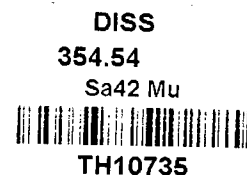
Accountability usually brings responsibility in decision – making and in implementation, which helps in improving quality and cost – efficiency. This is because decentralisation leads to more efficient levels of public output, since expenditure decisions are tied more closely to real resource costs.

The possibilities for welfare gains through decentralisation are further enhanced by the phenomenon of consumer mobility. As Charles Tiebout³⁰ (1956) has argued, in a system of local government, a consumer can to some extent, select as his place of residence a community that provides a fiscal package well suited to his preferences. Through this mechanism, one can get a sort of market solution to the problem of producing efficient levels of output of some public goods.

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Decentralisation may, moreover, result in greater experimentation and innovation in the production of public goods. A system of local governments may thus promote both static and dynamic efficiency in the provision of public goods and services.

On the revenue side, the main argument of devolving power to tax to the local level is to induce fiscal responsibilities and a stake in the cost-effectiveness in the expenditure.



³⁰ Tiebout, C (1956), 'A Pure Theory of Local Expenditures', Journal of Political Economy, Vol – 64. Oct

The economic case against decentralisation

A centralised or unitary form of government would generally possess a far greater capability to maintain high level of employment with stable prices than would a public sector characterised by extreme decentralisation. Without access to monetary policy, local governments have to rely on fiscal policy, i.e., expenditure on revenue programs, to stabilise their respective economies. But, the scope for an efficacious fiscal policy is severely limited because the multiplier effects associated with the local government tax and expenditure programs are typically small.

The use of deficit – finance policies to stimulate the local economies carries with it a cost to the local residents, a cost that is largely absent for the policies that the national level. The cost stems from the nature of local government debt. Within a national economy, there normally exists a high degree of mobility of financial capital; the residents of other community generally hold debt issued in one community to large extent. This means that the use of debt finance by a local government will tend to saddle the community with an external debt. In later years, repayment of the debt will necessitate a transfer of real income from the residents of the community to outsiders.

Moreover, the scope for redistributive programs is very much limited by the potential mobility of residents, which tends to be greater the smaller the jurisdiction under consideration. This suggest that, since mobility across national boundaries is generally much less than that within a nation, a policy of income redistribution has a much greater promise of success if carried out on the national level.

Turning to the allocation problem, especially for the pure public goods whose benefits extend to the individuals of all communities, a central

government is likely to provide a better approximation to the efficient level of output than would a system of decentralised decision-making, since in determining whether it will or will not produce an additional unit of the good, it considers only the benefits which its own residents will receive from the marginal unit, and as result, the full social value of the marginal unit of the public good is not taken into consideration. Thus, centralised co-ordination may be necessary in the case of inter-jurisdictional externalities, which the local authorities may be unable and sometimes unwilling to cope with.

Decentralisation without adequate redistributive transfers also exacerbates inter-regional inequality, as localities with better endowments and infrastructure tend to do better, generating the usual centripetal forces of the growth process.

Also for many local public goods, it is unlikely that the optimum scale in productions exceeds a reasonably sized local jurisdictions and so one may not require a national administration to utilise the scale economies. On the other hand, a proliferation of agencies in multiple jurisdictions sometimes unnecessarily increases overhead and administrative costs.

Decentralisation also generally results in lower tax collection levels as the local politicians may resort to populist measures to retain their strongholds.

As a direct result of such people – centered developmental processes, the MNCs are seen to enter the market, transforming their “global agenda” in the guise of the “local agenda”. Thus, the age-old pro-poor outlook of the national and local governments gives way to market control, with the gradual withering away of the nation-state.

Therefore, there arises the need for a federal system of governance, resulting from the trade – off between the need for policy co-ordination at some central level where there are economies of scale and scope and inter – jurisdictional externalities on one hand, and that for local information, accountability, participation and autonomy on the other hand.

Section 2

Empirical studies on decentralisation of local bodies, particularly the city governments in India

a) Legislative, Administrative and Functional studies

The study conducted by Venkateswaralu (1998)³¹ concludes that the city governments must immediately build up a strategy for capacity building and try to redefine the role of the government, largely in view of the increasing role of the municipalities as collaborating agencies. The author also looks into the budgeting, accounting and accounting processes of the ULBs, accountability in service delivery, management structure, human resource development and urban development planning. Thus, the democratisation and decentralisation process will have been vigorously pursued to build a strong local government. There is a need for inter- governmental and public – private partnerships in which the people play a pivotal role.

Sivaramakrishnan (2000)³², upon a comprehensive study of city governments, have reached a conclusion that what ever the short comings and the delays, the 74th CAA, the Conformity Laws and the

³¹ Venkateswaralu, U.R. (1998), '*Urbanisation in India: Problems and Prospects*', New Age International, New Delhi.

³² Sivaramakrishnan, K. C. (2000), '*Power to the People? The Politics and Progress of Decentralisation*', Konark Publishers, Delhi.

follow up actions taken so far represent a wide range of beginnings in decentralised governance. But, according to him, there are still many pending issues that merit public attention, debate and resolution. The role of the district as an entity of governance and as a platform for bridging the hiatus between the rural and the urban, vesting the elected head of the ULBs with executive powers so that accountability and authority are not divorced, and closer interface between the citizens and the city governments are some of the issues which merit greater attention than in the past.

The study by Ansari (2001)³³ concludes that the quality of urban governance will improve once decentralised decision – making models and feed back mechanisms are firmly in place. Various steps need to be taken to increase the participatory component in planning and development management systems in India to achieve sustainable urban development.

According to Kulwant Singh (2001)³⁴, who has examined the legislative, administrative and functional domains of urban governance in India in the post decentralisation phase, there has been a considerable variation among the states in the assignment of responsibilities and resources to the ULBs. He has pointed out that the state governments are reluctant to devolve powers to the city governments. The study calls for the categorisation of municipal functions into five categories namely, essential, environment management, planning, agency type and those relating to governance. The author also enquires into other issues relating to municipalities, namely institutional, territorial, the regional

³³ Ansari, J.H. (2001), '*Changing Role of Planning Agencies and Local Bodies: Implications for Good Urban Governance*', Spatio-Economic Development Record, Vol 8 , no 4, July – Aug .

³⁴ Singh, K.(2001, '*Urban Governance in India: Trends and Issues in Decentralisation after Constitution (74th) Amendment Act, 1992*', Spatio-Economic Development Record, Vol 8 , no 5, Sept – Oct.

and national roles, accountability and the setting up and working of the Central and State Finance Commissions.

In a series of articles, H. Singh (2002)³⁵, H.M Gollandaz (2002)³⁶, S.K. Banerjee (2002)³⁷ and S.M.Y. Sastry (2002)³⁸, have concluded that the numerous problems faced by the city governments at present arise out of the lack of financial resources. They also stressed on the fact that there is an urgent need for a structural change in the administrative set up of the municipal organisations so that the urban development functions as defined in the 74th CAA can be properly discharged by the respective municipalities.

b) Financial issues

A report by the National Institute of Public Finance and Policy (1995)³⁹, covering 293 municipalities from seven states, reveals that the per capita own revenue for D class cities, with a population above 5 lakhs, was more than three and a half times that of the A class towns, with a population below 1 lakh. The tax and non-tax revenue together constituted 90% of the total revenue in the case of the former while the figure for the latter was 70% only. Correspondingly, the percentage share of grants in total revenue for the D class cities was only 5% while that for

³⁵ Singh., H (2002), 'Revitalisation of Municipal Governance Through 74th Constitution Amendment Act, 1992', in book (ed) U.B Singh, 'Revitalised Urban Administration in India: Strategies and Experiences' Kalpaz Publications, Delhi.

³⁶ Gilandaz, H.M (2002), 'Empowerment of Urban Local Government in India', in book (ed) U.B Singh, 'Revitalised Urban Administration in India: Strategies and Experiences' Kalpaz Publications, Delhi.

³⁷ Banerjee, S. K. (2002), '74th Amendment Act, 1992: An Approach towards Strengthening of the Local Bodies', in book (ed) U.B Singh, 'Revitalised Urban Administration in India: Strategies and Experiences' Kalpaz Publications, Delhi.

³⁸ Sastry. S. M. Y. (2002), 'Problems of Resources Mobilisation of Urban Local Bodies', in book (ed) U.B Singh, 'Revitalised Urban Administration in India: Strategies and Experiences' Kalpaz Publications, Delhi.

³⁹ Redefining State – Municipal Fiscal Relations, vol – I , NIPFP, New Delhi.

the lower class towns was as high as 18%. Again, about 20% of the total expenditure of the A class towns is on general administration as compared to a figure of 12% for the D class cities. Thus, the study concludes that the larger cities are financially stronger and can take up public works and social infrastructure projects on their own, whilst this is not the case for the smaller towns.

Unfortunately, the NIPFP study does not consider the size classification followed by the Population Census and therefore fails to give further break-ups for class A towns. Also, the sample does not include many towns with less than 50,000 people and none with less than 10,000. When these towns are included in the sample, the disparity in revenue earnings across size class of urban centres becomes much sharper, as can be seen in the study conducted by the National Institute of Urban Affairs (1983)⁴⁰. A large majority of these towns have come to depend increasingly on grants – in – aid, primarily due to their poor economic base and incapacity to mobilise adequate tax and non-tax revenues. The study concludes that, faced with the decline in central or state assistance in recent years, it is not surprising that most of these towns do not make any investment for improving infrastructure and basic services.

Bagchi (1999)⁴¹ points out that in the absence of devolution of financial powers from the state governments, the political empowerment of the city governments, as envisaged by the 74th CAA, fails to make much sense. He notes that the shortage of resources is the greatest problem faced by the ULBs in India. He calls for reinstating octroi or any other appropriate alternative buoyant source of taxation for the city governments that grows linearly with the growth in the city's economic activity.

⁴⁰ National Institute of Urban Affairs (1983): *A Study of Resources of Urban Local Bodies in India and the Level of Services Provided*, NIUA, New Delhi

⁴¹ Bagchi, S. (1999), '*Myth of Empowering Urban Local Bodies*', *Economic and Political Weekly*, vol – 34, no – 37

Bagchi (2000)⁴² concludes that though the tax revenue generation and mobilisation capacities have certainly increased in the post 74th CAA enactment phase, especially in the Municipal Corporations, but the same does not hold true for the other revenue and non-tax revenue generation capacities of the city governments. But, the author considers the study to be limited as he did not consider the functional, legislative and administrative changes that have taken place in the ULBs in the post decentralisation phase.

Mathur (2000)⁴³ concludes on the basis of the finance data of 192 municipalities of various size categories of five states, that the 74th CAA does not endow the municipalities with any powers and finances; it merely provides a schedule of functions and responsibilities. The Constitution does not assign any fiscal powers to the municipalities and they derive these powers from the state, which is a dangerous trend. He has pointed out that the level of own revenue reserves of the ULBs has remained stagnant over the years. Besides, there is ineffective use of the non-tax based sources of revenue, the prevalence of a complicated and obsolete tax structure, horizontal and vertical imbalances and the absence of a coherent policy of transfers.

Wolman & McCormick (1994)⁴⁴, from a study of the data furnished by the local governments in USA for 1982-1992, and considering separately the legal and financial measures of decentralisation, concludes that these measures are quite uncorrelated with each other. Also, according to this study there existed a weak and non-significant relationship

⁴² ----- (2000), "Financial Implications of Decentralisation: Issues Concerning Resource Mobilization by Urban Local Bodies", Artha Vijnana, Vol. XIII, no. Dec.

⁴³ Mathur, O.P (2000), 'The Implications of Decentralisation for Municipal Finance', in book (eds) by K. Singh and F Steinberg, 'Urban India in Crisis', NIPFP.

⁴⁴ Wolman, H and McCormick, S. (1994), 'The Effect of Decentralisation on Local Governments', in (ed) 'Local Government and Market Decentralisation', by Bennett, R.J., United Nation University Press.

between the fiscal measure of decentralisation and local government per capita expenditure. The legal measure, on the other hand, was found to have a much more significant and positive relationship with local government per capita expenditure.

Jha (1993)⁴⁵ analyses the efficacy of the 74th CAA in providing the solution to the problem areas in local urban administration. He has looked at the 74th CAA from the angles of structure, composition, powers and functions, municipal finance and urban planning, and has concluded that despite several infirmities, it is historic and many ways— it gives the municipal governments the right to exist; it empowers the weaker sections and the women by providing for the reservation of seats; it provides for Ward Committees that will ensure accountability; and it provides for the constitution of CFC and SFCs, which will strengthen the fiscal capabilities of municipal authorities. But, according to the study, the failure to specify the functions and also the sources of local revenues has placed the local bodies under the total discretionary power of the state governments and there will be state encroachment into these spheres.

According to Kundu (1999)⁴⁶, the 74th CAA has been hailed as a major step in dismantling the state – level bureaucracy, taking power to the people and initiating a process of democratic administration and planning at the grassroot level. He has looked into the areas of augmentation of the revenue resources of the ULBs, mobilisation of capital resources and inequality across states and size class of urban centres, and have concluded that a large number of municipal bodies are not simply equipped to take up the responsibility of planning, especially

⁴⁵ Jha, Gangadhar. (1993), 'The Seventy – Fourth Constitutional Amendment and the empowering of Municipal Governemnt: A critique', Urban India, Vol XIII, No- 2

⁴⁶ Kundu,A, (1999), "Empowerment of Urban Local Bodies in India : A Search without a Perspective", Spatio – Economic Development Record, Vol no.6, Issue no. 6, Nov – Dec.

launching capital projects. According to him, it would be unwise to leave the issue of spatial inequality, implicit in the decentralisation model, unexamined or buried under a set of assumptions, notwithstanding the present zeal and enthusiasm for transferring the power to the local institutions and giving 'powers to the people'.

According to the studies conducted by Kundu, Bagchi & Kundu (1999)⁴⁷ and Kundu (2000)⁴⁸, a state and size class-wise analysis of the level of urban basic amenities reveals that disparities are extremely high in the nineties. The government and the para-statal institutions have not exhibited sensitivity in favour of the backward states, small and medium towns and the poor. The studies have concluded that privatisation; public- private partnerships and promotion of community-based projects have emerged as the only options for undertakings investment in basic amenities due to the resource crunch in the government. But, this changed perspective and a consequent decline in public investment are likely to accentuate the disparity in the levels of amenities across the size class of urban settlements. According to them, Constitutional Amendment for decentralisation is not sufficient for augmenting the resources of the ULBs, and must be backed up by the actual devolution of the powers and responsibilities and their use by the municipal bodies.

Thus, political analysts, economists and public administrators have favoured decentralisation as a tool for empowering city governments, both theoretically and empirically, as regards the improvements it may entail from the point of view of efficiency, participation, monitoring and accountability. But, a lot still remains to be done in this respect, as even

⁴⁷ ----- S. Bagchi and D. Kundu, (1999), "Regional Distribution of Infrastructure and Basic Amenities in Urban India: Issues Concerning Empowerment of Local Bodies", 10th July 1999, Economic and Political Weekly.

⁴⁸ ----- (2000), 'Urban Development, Infrastructure Financing and Emerging system of Governance in India: A Perspective', Discussion Paper no 48, Management of Social Transformation (MOST), UNESCO.

after the enactment of the 74th CAA, the city governments seem to be saddled with functions and responsibilities, and with very few buoyant sources of revenue in their hands.

The empowerment of ULBs has been called a myth (Bagchi, 1999)⁴⁹ and a search without a perspective (Kundu, 1999)⁵⁰. Infact, the shortage of resources is the main problem faced by the ULBs in India. On the one hand the ULBs have few buoyant taxes at their disposal, and on the other, even these taxes undergo certain unscientific methods of computation, as in the case of property tax, or suffer from inefficient collection because of unwarranted political intervention (Mathur, O. P, 2000; Kulwant Singh 2001)^{51,52}. The empowerment of ULBs in India has more or less remained a matter of discussion for scholars and researchers, since the ULBs are largely dependent on state government's transfers either through various grants or assigned revenues (Bagchi, 2000)⁵³.

The multinational corporations also have their own decentralisation agenda, whereby they wish to see the withering away of the powers of the state and the central governments. They want to enforce their own 'global agenda' in the guise of 'local agenda', on the sly, whereby they will interact directly with the ULBs, seeking only a letter of permission from the state governments with the promise that they will not interfere with

⁴⁹ Bagchi, S. (1999), "Myth of Empowering Urban Local Bodies", Economic Political Weekly, Sept 11.

⁵⁰ Kundu, A. (1999), "Empowerment of Urban Local Bodies in India : A Search without a Perspective", Spatio - Economic Development Record, Vol no.6, Issue no. 6, Nov - Dec.

⁵¹ Mathur, O.P. (2000), "The Implications of Decentralisation for Municipal Finance", in Urban India in Crisis (eds) K. Singh and F. Steinberg,

⁵² Singh, K. (2001), "Urban Governance in India : Trends and Issues in Decentralisation After Constitution Amendment Act 1992", Spatio - Economic Development Record, Vol no.8, Issue no. 5, Sept - Oct.

⁵³ Bagchi, S (2000), "Financial Implications of Decentralisation: Issues Concerning Resource Mobilization by Urban Local Bodies", Artha Vijnana, Vol. XIII, no. Dec , Pp 367 - 384.

the working of the MNCs in future. This is a dangerous trend, and coupled with the increasing access to capital markets and public-private partnerships that the city governments are resorting to, one is faced with the situation that only the bigger Municipal Corporations who have a huge resource base can survive in the future, while the smaller municipal entities will be still more worse off. This will increase even further the disparities within the size classes of the city governments in the future.

Most of the academic contribution on decentralisation has tended to be polemical rather than analytical or empirical. While there are many assertions about the promised benefits of decentralisation, there have been very few efforts to examine systematically whether these promised benefits are actually realised in practice. This study will try to make a comprehensive analysis of the legislative, administrative, functional and financial domains of the city governments in India, besides theoretically trying to examine why at all decentralisation takes place and the informational asymmetric problems between the different levels of government that gives rise to the allocation of functions between the city governments and the upper tiers of governance.

A Model on The optimal Level of Local Jurisdictions

Characterizing the optimal assignment of responsibilities to central and local jurisdictions and designing coordination schemes are fundamental issues addressed in the theory of fiscal federalism. The extensive literature devoted to these issues has focused on disparities in local preferences, on the economies of scale in the production of local public goods, on the magnitude of externalities and spillover effects, etc, as can be seen from the surveys of Oates (1972; 1991), Rubinfeld (1988) and Wildasin (1986).

For a given responsibility, the optimal assignment issue has two basic institutional assignments. Firstly, how many hierarchical levels are optimal: three stages (Centre, State and municipality), two or only one? Secondly, what are the optimal size and consequently the optimal number of jurisdictions, at a given hierarchical level? For instance, how many municipalities are optimal in a three-stage setting? In this model the focus is on the second issue. For simplicity's sake, the setup is limited to a two-stage hierarchy: a central government and a local jurisdiction.

The issue of the assignment of responsibilities has informational aspects commonly stressed in the political debates. The present model also focuses on the informational issues. A procurement problem is considered here in which a local government contracts with a private firm to produce a local public good. This public good is financed partly with local taxes and partly with subsidies paid by the central government. It involves externalities or spillover effects over the whole national territory, but the local government is concerned about the social welfare of its own citizens only.

In such a framework, under perfect information about technologies (and consequently, costs) and preferences, the optimal size of the local jurisdiction in charge of the project would be indeterminate. Whatever the size, the first-best solution can be reached for any level of decentralisation, since the central government can induce the local government to take the appropriate decision from the collective point of view by internalising the spillover effects resulting from the project through linear tax-subsidy schemes.

Things under imperfect information are much more complex and difficult to conceptualise. Two types of informational asymmetry are considered in the model, namely those concerning the cost of the project and the agent's preferences over the whole national territory. Firstly, it is assumed that the local government has imperfect information about the

production cost of the firm, but smaller the jurisdiction the more accurate is the information. Due to the geographical proximity effect, the variance of the marginal cost may be assumed to decrease with the size of the local jurisdiction. Secondly, it is assumed that the central government has imperfect information on spillover effects induced by the project and more specifically, that greater decentralisation entails more uncertainties about externalities. This may be due to the fact that the central decision-makers cannot observe a number of characteristics of the project and consequently, they cannot accurately appraise its effects on individual welfare. This may also be due to the fact that since externalities correspond to a difference in preferences between the central and local governments and the central government does not exactly know the local preferences. Thus, in this model, the optimal territorial organization is a trade-off between small jurisdictions so as to benefit from the geographical proximity effect on information and larger units in which spillover effects are more easily internalised by means of linear tax-subsidy schemes implemented by the Centre.

The Model

An economy characterized by a geographical space divided into n jurisdictions of equal size, all with local governments, is considered. A more decentralised decision-making will obviously correspond to smaller local territories, or equivalently to a larger number of jurisdictions. Thus, n can be considered as a decentralisation index. The economy also includes a central government, which is basically a coordination agency and may subsidize or tax local governments.

The model tries to analyse a procurement problem in which a local government, procures public goods and finances them with local taxes, contracts with a private firm for the production of a local public good which might entail external spillover effects.

Let the local public good be produced at cost

$$C = c \cdot q \dots\dots\dots (1)$$

where, $q \equiv$ quantity of the public good produced, and

$c \equiv$ marginal cost.

The local government in charge of the project maximizes a welfare function W_n , defined as the sum of the consumer's surplus S_n , over the local jurisdiction (whose size obviously depends on n), and the profit of the private contracting firm, Π . For the sake of simplicity, it is assumed that the owners of the contracting firm are located within the jurisdiction, whatever may be its size. Local public expenditures are financed through local taxation and subsidies paid by the central government.

S_n , the consumer's surplus over the local jurisdiction, is defined as the difference between the direct utility in nominal (monetary) terms associated with the public good, $U_n(q)$ and the social cost of the taxes paid by the consumers of the jurisdiction. An assumption is now made that the welfare cost of taxation exceeds the tax payments, t , by a proportion, λ , resulting from the deadweight loss due to the distortionary effects of taxation. For simplicity, λ is assumed to be independent of the size of the local jurisdiction where the taxes are levied.

Thus, we have,

$$S_n = U_n(q) - (1 + \lambda)t \dots\dots\dots (2)$$

In order that we arrive at some explicit solution, we have to assume that $U_n(q)$ is quadratic. Let $U_n(q)$ be of the form:

$$U_n(q) = q^2 + a_n q \dots\dots\dots(3)$$

Let t^* and s^* be respectively the taxes levied by the local government and by the central government to finance the local public good. s^* is paid to the local government as a subsidy. Here it is assumed that the

national taxes are evenly distributed among the jurisdictions, i.e. each jurisdiction is taxed to the same amount.

So,

$$t = t^* + s^*/n \quad \dots\dots\dots(4)$$

The net subsidy financed by other jurisdictions is then given by:

$$s = (n-1/n)s^* \quad \dots\dots\dots(5)$$

Thus, when $n > 1$, t^* and s^* are given by:

$$s^* = (n/n-1)s \quad \dots\dots\dots(6)$$

and,

$$t^* = t-(s/n-1) \quad \dots\dots\dots(7)$$

It can thus be said that any net subsidy schemes $s = s(q)$ that defines the contribution of the other jurisdictions as a function of q leads to a gross subsidy scheme of the form:

$$s^*=s^*(q)= [n.s(q)]/n-1 \quad \dots\dots\dots(8)$$

When $n = 1$, then $s = 0$, and only the sum $t = t^* + s^*$ matters.

For the sake of simplicity, we use only t and s to describe the tax subsidy scheme.

The profit of the form may be written as:

$$\Pi = t^* + s^* - cq \quad \dots\dots\dots(9)$$

or equivalently,

$$\Pi = t + s - cq \quad \dots\dots\dots(10)$$

Now the firm will only participate in the contracting process iff

$$\Pi \geq 0 \dots\dots\dots(11)$$

Thus, we have:

$$W_n = S_n + \Pi$$

or,

$$W_n = q^2 + a_n q - (1 + \lambda)t + t + s - cq$$

or,

$$W_n = q^2 + (a_n - c)q - \lambda t + s \dots\dots\dots(12)$$

The net national welfare, W , as evaluated by the central government differs from W_n . This may be due to two reasons, firstly, because the social surplus has to be calculated with a different coefficient a rather than a_n , and secondly, because of the social cost of the net subsidies, given by $(1 + \lambda) s$. The difference between a and a_n will then reflect external spillover effects induced by the project.

Thus,

$$W = W_n + (a - a_n) q - (1 + \lambda) s$$

or,

$$W = q^2 + (a_n - c) q - \lambda t + s + (a - a_n) q - (1 + \lambda) s$$

or,

$$W = q^2 + (a - c) q - \lambda (t + s) \dots\dots\dots(13)$$

This model tries to characterize the optimal decentralisation scheme in the perspective of fiscal federalism. In the set-up, the central government delegates responsibilities to the local jurisdictions and also subsidizes the jurisdictions to an extent. But, there is no direct

information transmission or transfers between the central government and the firms (the local agents).

Case I

Let there be perfect information about costs and preferences in the delegation set-up. Then, the optimal decision-making is considered as a benchmark. The problem of the optimal provision of public good is then maximization problem of the following form:

Maximize **W** subject to the firm's individual rationality constraint given by

$$\Pi = t + s - cq \geq 0$$

At the optimal level, the rationality constraint is binding.

Maximizing **W**, gives the optimal production of public good **q***, as:

$$q^* = \frac{1}{2}[(1+\lambda)c-a] \dots\dots\dots(14)$$

Under perfect information it becomes very obvious that the process of choosing a public good may be delegated to any decentralisation level **n** without any welfare loss. This amounts to subsidizing the local jurisdiction in the amount

$$s(q) = (a - a_n)q / (1 + \lambda) \dots\dots\dots(15)$$

Then,

$$W_n = q^2 + (a_n - c)q - \lambda t + (a - a_n)q / (1 + \lambda) \dots\dots\dots(16)$$

The problem of provision of public goods in the scenario of perfect information then reduces to the following maximization problem:

Maximize

$$W_n = q^2 + (a_n - c)q - \lambda t + (a - a_n)q / (1 + \lambda)$$

subject to the firm's rationality constraint, which becomes binding, given by:

$$\Pi = t + (a - a_n)q/(1 + \lambda) - cq \geq 0$$

This gives:

$$q = q^* = \frac{1}{2}[(1 + \lambda)c - a] \dots\dots\dots(17)$$

Hence, under perfect information, a linear subsidy leads the local government to the same choice as that of the central government by internalising spillover effects in the optimisation problem of the local jurisdiction, so that the first-best solution can be reached for any decentralisation level.

Case II

It is now assumed that both the local and the central governments have imperfect information about the production cost of the local public good. It is also assumed that the central government does not accurately know the welfare gains associated with the positive spillover effects induced by the public good. Let the marginal cost, **c**, be unknown to the local government, but perfectly known to the contracting firm. It is common knowledge that **c** is distributed on a closed interval according to a given prior probability distribution. For the sake of simplicity, it is assumed that **c** is uniformly distributed over [0, 1].

Obviously, the local government has more precise information than the central government about the marginal cost and it is assumed to perceive a signal, σ , of cost, as defined by:

$$\sigma = k/m, k \in \{ 0, 1, \dots, m - 1 \}$$

whenever

$$k/m \leq c \leq (k + 1)/m \dots\dots\dots(18)$$

This signal, in turn, results in a contraction of the support of the distribution of **c**, giving a posterior probability density function for **c**:

$$\begin{aligned} f(c|\sigma) &= m, \text{ if } \sigma \leq c \leq \sigma + 1/m \\ &= 0, \text{ otherwise } \dots\dots\dots(19) \end{aligned}$$

By hypothesis, the precision of the information decreases with the increase in the size of the local jurisdiction. Thus, m is supposed to be an increasing function of n :

$$m = \Phi(n) \dots\dots\dots(20)$$

It is assumed that $\Phi(1) = 1$ and $\Phi(n) = \infty$, for $n \geq N$. In other words, no specific signal is perceived at the central level and information is perfect for jurisdictions smaller than $1/N$. Thus it is never optimal to have $n > N$. Perfect centralisation corresponds to $n = 1, m = 1$; and perfect decentralisation corresponds to $n = N, m = + \infty$.

Now, the second informational assumption about local preferences has to be built up. It is assumed that $a_n; n \geq 1$, are correlated random variables whose joint distribution is common knowledge, that is, the information is completely known to all.

The realization of a_n is observed by the local government at level n if this government is in charge of the project, but the central government does not observe either a_n or a , and thus is not in a position to calculate $(a - a_n)q$, the spillover effect. It can be imagined that a_n can be appraised after observing a number of characteristics of the project which is possible at the project managing level (the local government in charge of the project); and not at the central coordination level (the central government). In the case where the management of the project is centralised, i.e., $n=1$, then a is observed at the central level and no externality occurs. When the management is decentralised, i.e., $n > 1$, the central government only knows the distribution of a .

It is also assumed that $\text{var}(a - a_n)$ is non-decreasing with n . So, more decentralisation implies more uncertainty about spillovers. $a \geq a_n, \forall n$, which will ensure that the optimal public good production is always strictly positive is another assumption.

The local government thus perceives two signals, one about cost (σ) and the other about local preferences (\mathbf{a}_n), while the central government only knows the probability distribution of \mathbf{c} and \mathbf{a}_n , $n \geq 1$.

The previous indifference result about the decentralisation level does not hold any more as soon as information is imperfect. The following two polar cases can then be considered:

Case (a)

It is first assumed that the information is perfect about \mathbf{c} and imperfect about \mathbf{a}_n , $n \geq 1$. Then, maximizing W_1 (with $\mathbf{s} = \mathbf{0}$) subject to $\mathbf{t} - \mathbf{c}\mathbf{q} \geq \mathbf{0}$, gives $\mathbf{q} = \mathbf{q}^*$. Hence, perfect centralisation is optimal in this case.

Case (b)

It is now assumed that information is perfect about \mathbf{a}_n , $n \geq 1$ and imperfect about \mathbf{c} . It is supposed that the central government subsidizes the local jurisdiction of level N in the net amount $\mathbf{s}(\mathbf{q}) = (\mathbf{a} - \mathbf{a}_n)\mathbf{q}/(1 + \lambda)$. At the level N , information about \mathbf{c} is perfect and the local government chooses $\mathbf{q} = \mathbf{q}^*$. Perfect decentralisation is optimal in this case.

Two shift parameters; \mathbf{x}_1 and \mathbf{x}_2 are now introduced that characterize the prior information about costs and spillovers (externalities). A larger value of \mathbf{x}_1 corresponds to more accurate information on cost, while a larger value of \mathbf{x}_2 corresponds to more accurate information on external spillover effects. This means that for a given number of jurisdictions n , increasing \mathbf{x}_1 shrinks the support of \mathbf{c} and increasing \mathbf{x}_2 lessens both the variants of the external spillover effects and marginal increase in variants associated with the decrease in the size of jurisdictions.

Then, eqn. (20) can be reframed as:

Assuming $\mathbf{m} = \Phi(\mathbf{n}, \mathbf{x}_1)$ with $(\delta\Phi / \delta\mathbf{n}) > \mathbf{0}$, $(\delta\Phi / \delta\mathbf{x}_1) > \mathbf{0}$ and $\mathbf{var}(\mathbf{a} - \mathbf{a}_n) = \mathbf{f}(\mathbf{n}, \mathbf{x}_2)$ with $(\delta\mathbf{f} / \delta\mathbf{n}) > \mathbf{0}$, $(\delta\mathbf{f} / \delta\mathbf{x}_2) < \mathbf{0}$; for an optimal solution, $1 < \mathbf{n}^* < N$, it is found that $(\delta\mathbf{n}^* / \delta\mathbf{x}_1) < \mathbf{0}$ and $(\delta\mathbf{n}^* / \delta\mathbf{x}_2) > \mathbf{0}$.

From a study of cases (a) and (b), it can be said that the optimal number of jurisdictions is decreasing with α_1 and increasing with α_2 . In other words, the more precise the information on costs (respectively on external spillover effects), the more centralised (respectively decentralised); the optimal solution should be *ceteris paribus*. Intuitively, when information on costs is more precise, the firm's informational rent is lower and it is optimal to put the emphasis on spillover internalisation, which pushes towards more centralisation (more emphasis on the coordination mechanism). Likewise, reducing informational rent has priority when externalities / spillover effects are less uncertain and this leads to more decentralisation.

As an illustration, the assignment of educational responsibilities at different levels may be considered. Expenditure for kindergarten and primary schools should be delegated to municipalities while higher education should be taken care of by the central government. This is because preferences about education of younger children are not much sensitive to sociological diversities and thus are rather homogenous. Furthermore, externalities induced by kindergarten and primary schools can be estimated by the central government in a more satisfactory way. On the other hand, higher education may entail large uncertainties about spillover effects through their consequences on productivity and social inequality. Also, local preferences concerning higher education may be very sensitive to the sociological diversity of jurisdictions; hence there is large uncertainty about local preferences estimates. The quality of information about spillover effects and local preferences thus suggests that centralisation should increase from kindergarten to primary schools to secondary schools to colleges. Thus, maintaining and suitably accommodating schools for primary education, and construction and maintenance of government school buildings are part of the functional domain of the city governments under the Twelfth Schedule, but higher

education lies within the functional domain of the state and Central governments.

The urban bus transportation network is another illustration of the model, which can be used to explain many hierarchical relationships and size-structures in the theory of fiscal federalism. Here, the product is assumed to be measured in terms of the average daily commuting time for the local users. The local public authorities obviously have better information about bus routes, traffic parameters and local household's preferences than more centralised administrative layers. It can be said that the smaller the size of the jurisdiction, the more precise the transportation cost estimates by the public authorities. But, the larger jurisdictions have more expertise in obtaining information regarding costs, since they may know the cost histories of similar projects. As attention is focused on intermediate size local territories in the model, the learning effect is dominated by the geographical proximity effect. Such a local activity also entails various spillover effects that may be imperfectly known to the central government. When the size of the jurisdiction increases, some of these spillover effects become internal and the variance of the residual aggregate spillover decreases. Thus, centralisation should increase with the increase in the size of the transportation networks. This is validated in the context of the city governments in India, since as per the Twelfth Schedule, though the provision of public amenities including street lighting, bus stops and public conveniences are part of the functional domain of the municipal entities, but the transportation networks are almost always under the state governments.

The main conclusion of this model is that, the choice of the level to which decision-making regarding local public goods should be delegated, results from a trade-off between uncertainty about private costs of public good suppliers and uncertainty of the size of the external spillover effects.

To some extent, this trade-off can offer an explanation to the actual division of responsibilities among local governments and the state government, as per the Twelfth Schedule.

Chapter – III

**Functional, Administrative and Legislative
Decentralisation: An Inter-State
Comparative Analysis**

Section – 1: FUNCTIONAL DOMAIN OF ULBS

Under the Constitution of India, the legislative field is divided between the Central and state governments and there are three legislative lists. The entries in these lists delimit the areas of legislative competence of the Parliament and the state legislatures. These entries are not sources of legislative powers but are merely topics for legislation.

The legislature of any Indian state derives its authority to legislate from Article 246 of the Constitution read with the entries in List II (State List) and List III (Concurrent list) of the Seventh Schedule to the Constitution.

Unlike the functional jurisdiction of the states, which follow a Constitutional delimitation, the functional domain of local bodies in India, including the city governments, is derived from the responsibilities, which are delegated by the states to the ULBs, through, legislation. Article 240 W of the Indian Constitution read with the Twelfth Schedule provides the basis for the state legislature in India to assign the functions to the city governments in the respective states. But, the provisions of the Article 240 W are not mandatory. It is for the legislature of the state to decide as to which powers and authority, which it may devolve on a municipality. Thus the 74th CAA has not specified and powers directly to the municipalities and it has left it to the discretion of the state governments. Though the enactment of the 74th CAA gave the

impression that henceforth the gradual state encroachment on municipal functional domain will stop altogether, a closer look at the enabling provisions does not make it look like so. Left to the state governments, it is expected that the devolutions of functions will not be as complete as it's supposed to be in the Twelfth Schedule. Drawing from the experience of indifferent attitude of the state governments in the past, the Constitutional Amendment should not have left the actual devolving of functions on the will of the state governments who are required to push through new enactments providing for local functions according to the new schedule. It has now been realised that it was only a pious hope that they would actually do so. The para-statal organisations and specific purpose authorities like the Slum Clearance and Improvement Board, Water Authorities and Urban Development Authorities, and the like still thrive in the states and the traditional municipal functions are in reality as fragmented as before. Thus, the hope that the era of constituting specific purpose authorities by withdrawing functions related to urban planning from the municipal arena will come to an end with the enactment of the 74th CAA hasn't been realised as yet. Moreover, the Indian Parliament which decided on enacting the 74th CAA; also enacted a new law for the National Capital Territory of Delhi, taking away water supply and Slum Improvement from the Municipal Corporation of Delhi (MCD). The functions that these para-statal organisations are performing were listed in the Twelfth Schedule and were to be devolved to the municipal authorities. Thus, what was required was to provide for a list of functions in the Constitution of India in unambiguous terms; the Twelfth Schedule ought to have been made mandatory and not discretionary.

In India, traditionally, the municipal acts listed the functions under two categories, namely 'obligatory functions' and 'discretionary functions'. Potable water supply, sanitation and sewerage, drainage, street lighting,

street cleaning and refuse collection, street paving, health services etc, are obligatory functions, whereas urban transport, construction and maintenance of parks and playgrounds etc are some of the discretionary functions. The 74th CAA, has, however, listed eighteen functions and proposed that the state legislatures may, by law, specify those, which they choose to include in their respective enactments.

A grave area of doubt relating to the devolution of functions pertains to the nature of the some of the functions, which seem to be quite ambitious and even redundant and irrelevant for the municipal authorities. Planning for economic and social development, protection of the environment and promotion of ecological aspects, urban poverty alleviation is functions belong to this category. Though these are important functions yet the performance of these functions requires a much strong financial capability and human resources, which the municipal bodies are lacking largely. With the existing funds, they are not in a position to discharge even the basic functions. Even the provisions relating to strengthening of their financial base are not likely to be achieved in the near future. To expect them to discharge these highly technical planning functions efficiently and effectively, therefore, seems to be a tall order indeed. But, these functions are of tremendous social importance and are best handled locally. Collection and application of local knowledge, mobilisation of local resources, and community involvement are of vital importance for the successful implementation of environmental protection and poverty alleviation programmes. There are thus valid reasons to link them to inter-governmental transfers, as has been stressed by many urban analysts.

Thus, the city governments are required to provide for services irrespective of their administrative and financial capacity to do so, and

have to face unexpected new terms of their own, as a consequence of the new sets of standards.

The Twelfth Schedule of the 74th CAA provides for the basis of the state legislatures to assign functions to the municipalities in their respective states. At the time of implementing the 74th CAA the state governments were expected to review all the 18 functions entrusted to the municipalities and formulate a new set of municipal functions while amending Conformity Legislations. There were thus the expectations that the Twelfth Schedule, though limited and illustrative would provide an opportunity to various state governments for reviewing the functions entrusted to the city governments and to formulate a new set of municipal functions, which could then be incorporated in the Conformity Legislations. The Conformity Legislations indicate that there are wide differences in the perceptions of the state and the union territory governments regarding the functions to be discharged by the ULBs. A total view on municipal functions, synchronising those contained in the older municipal acts and those in the Twelfth Schedule, is absent. Three types of provision in many municipal act i.e. covering obligatory and discretionary functions and those as 'may be' prescribed by the state governments, imply that the bundle of municipal functions, for which state governments is to make financial provisions by law and the State Finance Commission (SFC) is to prescribe financial devolution is not precisely defined.

Now the study resorts to an inter-state comparison of Conformity Laws as is shown in table 1.

Table - 1: An inter-state comparison of the functional domain of ULBs

Sl no	Functional Devolution As Per The Twelfth Schedule	AP	Assam	Bihar	Gujar at	Harya na	HP	Karnat aka	Kerala	MP	Mahar ashtra	Orissa	Punjab	Rajast han	TN	UP	WB
1	Urban Planning Including Town Planning	No	INF	Yes	No	Yes	INF	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes
2	Regulation Of Land-Use And Construction Of Buildings	No	INF	Yes	No	Yes	INF	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes
3	Planning Of Economic And Social Development	No	INF	Yes	No	Yes	INF	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes
4	Roads And Bridges	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
5	Water Supply For Domestic, Industrial And Commercial Purposes	No	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
6	Public Health, Sanitation, Conservancy And Solid Waste Management	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
7	Fire Services	No	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
8	Urban Forestry, Protection Of The Environment And Promotion Of Ecological Aspects	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
9	Safeguarding The Interests Of The Weaker Sections Of The Society	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes

10	Slum Improvement And Up-gradation	No	INF	Yes	No	Yes	INF	Yes	Yes	No	No	No	Yes	Yes	Yes	Yes	Yes
11	Urban Poverty Alleviation	No	INF	Yes	No	Yes	INF	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
12	Provision Of Urban Amenities And Facilities Such As Parks, Gardens, Playgrounds	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
13	Promotion Of Cultural, Educational And Aesthetic Aspects	No	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
14	Burials And Burial Grounds; Cremations, Cremation Grounds And Electric Crematoriums	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Cattle Pounds, Prevention Of Cruelty To Animals	No	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
16	Vital Statistics Including Registration Of Births And Deaths	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
17	Public Amenities Including Street Lightings, Bus Stops, Public Conveniences	No	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
18	Regulation Of Slaughter Houses And Tanneries	Yes	INF	Yes	Yes	Yes	INF	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Sources: Various issues of Nagarpalika Network Newsletters, NIUA

The West Bengal Municipal Act, 1993, consolidated and amended the laws relating to urban municipal affairs previously contained in various separate acts. Chapter 6 of this Act contains an elaborate listing of obligatory functions grouped in four categories, namely public works, public health and sanitation, town planning and development and administration. Additionally, the Act also listed various functions, which the municipalities may provide at their discretion, education being one of those. Another section in the chapter provided for the transfer of the various functions and duties to be devolved to the municipalities, along with the funds and personnel required. Items like social welfare, primary education, public distribution, sports and youth services, environmental safety also figured in the list. All in all, West Bengal has an elaborate listing of 49 obligatory and 40 discretionary functions. Taking the various provisions into account, it can be said that the West Bengal Municipal Act, 1993, covered all the items listed in the Twelfth Schedule of the Constitution and also added some of its own.

The Kerala Municipalities Act, 1994, contains by far the most elaborate list of municipal functions. According to it, Kerala has devolved 11 additional functions with 98 sub functions. Under Section 30 of the Act, a separate Schedule, identified as the First Schedule to the Act, lists 27 groups of items. Social welfare contains items like child welfare, anganwadis, homes for the disabled children and physically handicapped, orphanages, adult education, legal aid for weaker sections etc which are the significant features of the list, and are not present in the Conformity Legislations of other states. In addition, cultural and educational activities, including the control and supervision of primary and high schools, libraries, non-formal education etc comprise another important group. Development of entrepreneurship, training programs for employment and public distribution system also figure in the Schedule. Apart from the comprehensiveness of the Schedule, the real

significance of the Kerala Act lies in the fact that under Section 30 (III) and 30 (IV), the government is required to transfer all institutions, schemes, buildings, other properties, assets and liabilities, as also Central and State plan allocations and annual budget allocations connected with the matters mentioned in the First Schedule, to the municipalities concerned.

While under both the Kerala and West Bengal Acts, the state governments have the rights to prescribe some conditions accompanying such transfer, the Kerala Act is more forth right in declaring the intent of the transfer. This was followed up by government orders from various departments carrying out the transfer. In the case of West Bengal, the broad distinction between obligatory and discretionary functions and transfer of additional tasks through a careful step-by-step approach has been maintained. Notwithstanding these distinctions, the West Bengal and Kerala Acts go well beyond mere conformity to the Constitutional Amendment and have indeed utilised the opportunity for clarity and amplification in the functional domain of the ULBs.

Tamil Nadu is another state where an Urban Local Bodies Act has been prepared consolidating different acts for different municipalities into one. Since passed in 1999, the Act contains an exhaustive listing of the powers and functions of a municipality with a broad categorisation of obligatory, discretionary and delegated functions. According to this Act, 15 additional obligatory functions have been devolved to the ULBs. Punjab has prepared a similar comprehensive legislation. They have devolved the function of planning for economic development and social justice, in addition to the entrustment of functions included in the Twelfth Schedule. In Maharashtra and Gujarat, previous municipal laws had listed the obligatory functions. After the Constitutional Amendment, some additions were made such as socio-economic planning, protection of

the environment etc. but the main provision regarding the municipal functions and responsibilities remained as before.

Unfortunately, in many of the other states the functional domains of the municipalities appear to be confused. This is mainly because in these states, the Conformity Legislations was limited to some essential items such as elections, reservations, etc, as required by the Constitution. The functions and powers have been largely untouched and are to be found scattered in the various chapters and sections of the municipal laws and byelaws, which existed before as well as in government orders issued and revised from time to time.

Many states such as Andhra Pradesh, Orissa, Karnataka, Rajasthan Uttar Pradesh, Haryana, and Madhya Pradesh have chosen to leave the assignment of some municipal functions as a task of delegated, rather than principal legislation. The Andhra Pradesh Act, asks the executive to delegate to the municipalities several or only a few functions and also alter their scope as it pleases at any time. Similar is the case of the other mentioned states. Though Bihar has also legalised all the functions listed in the Twelfth Schedule as legitimate municipal functions, but it was also a task of delegation and a large amount of power still rested with the state governments.

Another opportunity was available for many states to address the functional domain of the municipalities when the SFCs were set up. After all, funds and functions go together. But here again, the opportunity was not seized. In some cases, the SFCs chose not to enter into the subject, while in some others the terms of reference specifically excluded consideration of such items, more as a matter of propriety rather than substance. The SFCs would have very well made some judgements about the functions and responsibilities of the ULBs, which would have made

the assessment of financial requirements more realistic. The states would have been benefited by such an objective assessment by the SFCs. The failure to address the functional domain appears to be a matter of inhibition and bureaucratic reluctance, and it has resulted in reducing the value of the reports of the first generation SFCs.

Conclusion

The 74th CAA has not specified and powers directly to the municipalities and it has left it to the discretion of the state governments. Though the enactment of the 74th CAA gave the impression that henceforth the gradual state encroachment on municipal functional domain will stop altogether, a closer look at the enabling provisions does not make it look like so. Left to the state governments, it is expected that the devolutions of functions will not be as complete as it's supposed to be in the Twelfth Schedule. Drawing from the experience of indifferent attitude of the state governments in the past the Constitutional Amendment should not have left the actual devolving of functions on the will of the state governments who are required to push through new enactments providing for local functions according to the new schedule.

The functional domain continues to be an unresolved issue in many states. However, debate has begun in the local authority circles about the need to make the list of functions mandatory rather than illustrative, and apply it uniformly to the states. It has also been suggested that since there is much commonality of items between rural and urban local bodies, a composite schedule, may be more useful than two separate schedules than at present. But, this would not be an easy task. However, there is no reason why the example set by Kerala, West Bengal and Tamil Nadu cannot be followed towards amore rational redefinition of functions and responsibilities in keeping with the spirit and substance of the Constitution.

There is an urgent need for the categorisation of municipal functions into the following three types:

- i) The 'core or essential municipal functions', which any municipality must perform and whose costs must constitute the first charge on municipal funds;
- ii) The 'agency functions', which may be performed by the municipalities due to their proximity to the beneficiaries and higher levels of their public accountability, the pre-condition being that all the costs would be underwritten by their state government on whose behalf such functions are performed;
- iii) The 'commercially viable functions', whether performed by the public or the private sector, in cases where issues of cost recovery are important.

Ranking of the States

Upon making an inter-state comparison of the functional domain of the city governments' in the post 74th CAA enactment period, the states can be ranked as per their functional empowerment in the following manner:

<u>States</u>	<u>Ranks</u>
Kerala	1
West Bengal	2
Tamil Nadu	3
Punjab	4
Gujarat	5
Maharashtra	6
Bihar	7
Rajasthan	8

Haryana	9
Karnataka	10
Orissa	11
Uttar Pradesh	12
Madhya Pradesh	13
Andhra Pradesh	14
Assam & Himachal Pradesh	INF

Section - II: LEGISLATIVE AND ADMINISTRATIVE DOMAIN

The 74th CAA envisages a 'systemic change' in municipal governance in the country. It prescribes an institutional framework for the efficient delivery of urban services. The main legislative and administrative characteristics of the act are:

- i) The Act provides for three categories of urban areas, Nagar Panchayats for transitional areas, which is turning from rural to urban areas; Municipal Councils for smaller urban areas and Municipal Corporations for larger urban areas, decided on the basis of the population of the area, the density of the population of that area, income and percentage of employment in non agricultural activities by the governor of the state. The term of the municipalities shall be for five years each.
- ii) Reservation of seats in the municipal bodies for SCs / STs in proportion to their population to total population in the city governments. Out of these seats, 1/3rd shall be reserved for SC/ST women.

- iii) 1/3rd of the total number of seats shall be reserved for women (including the number of seats reserved for SC / ST women).
- iv) The constitution of Ward Committees for a group of wards is mandatorily prescribed for cities with more than three lakh population, with no bar for the constitution of such committees in cities / towns with lesser population, with a view to taking municipal governance closer to the people (Article 243 Wb)
- v) The constitution of District Planning Committees (DPCs) for consolidation of plans prepared by Panchayats and municipalities in the district and preparation of district plans as a whole. Four-fifths of the members of the committee shall be elected from the members of the Panchayats and of the municipalities of the district in proportion to their population [Article 243 Z D (1)].
- vi) The constitution of Metropolitan Planning Committees (MPCs) to prepare draft development plans for the metropolitan areas as a whole [Article 243 Z E (1)]
- vii) The state governments would decide the procedures for maintenance of audit and accounts.
- viii) Municipal elections have been made mandatory every five years.
- ix) The state governments should provide for the representation of MPs and MLAs in the ULBs.
- x) The relationships between the state governments and the ULBs should be placed on a firm footing with respect to local taxation powers and revenue sharing between states and local authorities through statutory State Finance Commissions (SFCs), to be set up every five years.

Performance of the city governments in the post decentralisation period

Article 243 ZF of the 74th CAA stipulates that 'any provision of any law relating to municipalities in force in any state, immediately before the commencement of the Constitutional Amendment which is inconsistent with its provisions should be amended or repealed before the expiration of one year from such commencement'. Some of the states felt that more time should be given for reviewing the existing municipal legislations and amending them as necessary. Notwithstanding all these views, the implementation of the Amendment Act within one year was a constitutional requirement and any extension of time would have required amending the amendment itself, which was not considered appropriate.

Conformity Laws: The Conformity Legislation brought out by the states varied from a mere repetition of the provisions of the 74th CAA to fairly elaborate amendments of existing state laws. All the 15 major states and some of the smaller states like Goa, Manipur, Tripura and Delhi enacted Conformity Laws. This did not however, mean that the Conformity Legislation was the product of serious analysis and thinking. In as many as twenty states, the Conformity Laws were put in place only at the last minute, in April 1994, when the time limit of one year was nearing its end. A review of the laws reflects much ambivalence and lack of enthusiasm on the part of most states.

Size Classification: In regard to the setting up of the municipal bodies, the 74th CAA provided three types – a Nagar Panchayat for transitional areas, Municipal Council for a smaller urban area and a Municipal Corporation for a larger area. Some broad criteria such as population and its density, revenue generated, employment in non agricultural

activities etc were mentioned in Article 243 Q of the Constitution, but the details of these and other criteria were left to be defined by the states. The states in their turn have come up with varied definitions of these criteria and thus there is no homogeneity in the size classifications of ULBs

Local Body Elections: With regard to the organisation of elections, the Conformity Legislation from different states has more or less been uniform in the provision for the State Election Commission. The establishment of such Commissions as an independent authority has helped election to the local bodies to be regarded as an important activity, which was previously dismissed as a miscellaneous responsibility of the District and Sub-Divisional administration because of the very large number of representatives being elected, as also the higher visibility that local elections usually enjoy, the state governments have allowed the State Election Commissions a fair measure of autonomy. Municipal elections have been held in all major states with only a few exceptions, as shown in the table below. About 70,000 elected representatives, one-third of them being women, have come into the urban political stream. Since 1994, there have been two rounds of elections in Andhra Pradesh, Gujarat, Haryana, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttar Pradesh and West Bengal. With the exception of Bihar, the other states had one round of elections.

Table 2: Urban Local Elections Held After 1994 (Number Of ULBs And Year Of Election)

States	Municipal Corporations			Municipal Councils			Nagar Panchayats			ULBs	
	elections held	% elections held	Year	elections held	% elections held	Year	elections held	% elections held	Year	elections held	% election held
Andhra Pradesh	7	100.00	1995 & 2000	94	100.00	1995 & 2000	15	100.00	1995 & 2000	116	100.0
Assam	1	100.00	1995	25	89.29	1996-97	42	84.00	1997 & 2000	68	86.0
Gujarat	6	100.00	1994 & 2000	85	100.00	1994-95 & 2000	58	100.00	1994-95 & 2000	149	100.0
Haryana	1	100.00	1994 & 2000	20	24.69	1994 & 2000	32	96.97	1994 & 2000	53	46.0
Himachal Pradesh	1	100.00	1995	19	100.00	1995	28	100.00	1995	48	100.0
Karnataka	6	100.00	1996-97	121	100.00	1996	88	100.00	1996	215	100.0
Kerala	3	100.00	1995 & 2000	53	96.36	1995 & 2000			1995 & 2000	56	96.5
Madhya Pradesh	18	100.00	1994 & 1999	103	100.00	1994 & 1999	283	100.00	1994 & 1999	404	100.0
Maharashtra	15	100.00	1997-98	228	99.56	1997-98			1997-98	243	99.5
Orissa	2	100.00	1995 & 2000	29	96.67	1995 & 2000	70	100.00	1995 & 2000	101	99.0
Punjab	3	75.00	1998	96	100.00	1998	34	91.89	1998	133	97.0
Rajasthan	3	100.00	1994 & 1999	11	100.00	1994 & 1999	169	100.00	1994 & 1999	183	100.0
Tamil Nadu	6	100.00	1996	102	100.00	1996	611	96.07	1996	719	96.6
Uttar Pradesh	11	100.00	1995 & 2000	226	100.00	1995 & 2000	444	99.33	1995 & 2000	681	99.5
West Bengal	6	100.00	1994 & 1999	112	100.00	1994 & 1999	4	100.00	1994 & 1999	122	100.0
All India	89	98.89		1324	95.11		1878	97.91		3291	96.7

Sources: Various issues of Nagarpalika Network Newsletters, All India Institute of Local Self Government

Role of MPs and MLAs: In the case of the Nagarpalika Bill, the Joint Parliamentary Committee added a provision to Article 243 R for representation of MPs, MLAs and MLCs with voting powers, but it did not stipulate any restrictions on the voting powers relating to the elections of the chairpersons or any other matter. Panchayats and municipalities are

Table – 3: Voting Rights of MPs / MLAs in ULBs

States	MP	MLA	Election of Chairperson (Direct / Indirect)
Andhra Pradesh	Yes (NV)	Yes (NV)	Direct
Assam	Yes (V)	Yes (V)	Indirect
Bihar	Yes (V)	Yes (V)	Indirect
Gujarat	No	No	Indirect
Haryana	Yes (V)	Yes (V)	Indirect
Himachal Pradesh	No	Yes (V)*	Indirect
Karnataka	Yes (V)	Yes (V)	Indirect
Kerala	No	No	Indirect
Madhya Pradesh	Yes (NV)	Yes (NV)	Indirect
Maharashtra	No	No	Indirect
Orissa	No	No	Indirect
Punjab	No	Yes (V)	Indirect
Rajasthan	Yes (V)	Yes (V)	Indirect
Tamil Nadu	Yes (NV)	Yes (NV)	Direct
Uttar Pradesh	Yes (V)	Yes (V)	Direct
West Bengal	No	No	Indirect

**In MCs only; NV: Non voting member; V: Voting member*

Sources: Various issues of Nagarpalika Network Newsletters, All India Institute of Local Self Government

the building blocks of the Assembly and Parliament. MPs and MLAs regard their jurisdictions as mutually exclusive but both seem disinclined to grant similar domain for the Municipalities. Certain state governments have provided for the representation in municipalities, whereas, the 74th CAA has no such provision. In some states, they have no voting rights, where as in some others they have these rights. In some states, they are not members of the municipalities. Table 3 gives the position regarding voting rights of the MPs and MLAs in the ULBs. In Madhya Pradesh, Haryana and Tamil Nadu, MPs and MLAs are represented in the Municipalities but have either no voting rights or no restricted voting rights. In Andhra Pradesh, Assam, Karnataka, Rajasthan and Uttar Pradesh, representations with voting rights have been provided. Gujarat, Kerala, Maharashtra, Orissa and West Bengal have not provided for such representation. In the case of Punjab, representation with voting rights is limited only to MLAs. The Conformity Laws thus indicate the continued ambivalence and confusion in the

thinking of different states. Though the voting rights of MPs and MLAs in the city governments has been considered to be an indicator of administrative decentralisation as per the EFC report, but most political analysts and economists are of the opinion that this constitutes a direct interference in conducting elections to the post of chair-person, as well as in the routine affairs of the city governments. So, this study does not consider the voting rights of MPs and MLAs in ULBs to be a positive indicator of administrative decentralisation.

Setting up of Ward Committees: The 74th CAA provides for constitution of Ward Committees, consisting of one or more wards, within the territorial area of a municipality having a population of 3 lakh or more. The essence of this provision is to bring about proximity between the people and the local governments so that these committees could play an effective role at the '*mohalla*' level in the delivery of municipal elections. West Bengal and Kerala have provided for a ward committee for each municipal ward for all municipalities. Some other states have provided for Ward Committees only in corporation areas for groups of wards with members to be nominated by the ward councillors or by the corporation as a whole or by the state government or a combination of these.

The West Bengal Municipal Act, 1993, has been amended to incorporate a provision regarding composition and functions of a Ward Committee for each ward of a municipality. Some other states like Gujarat, Andhra Pradesh, Maharashtra and Karnataka have provided for Ward Committees only in corporation areas for groups of wards with members to be nominated by the state government. The same is the case with Punjab. However, none of the states have provided for elected representatives of the Ward Committees, as the ward councillor and the city council as a whole will nominate them.

This highly varied arrangement between the states in regard to Ward Committees is quite different from the pattern in the 73rd Amendment. On an average, one panchayat covers 2,000 to 3,000 persons. In comparison, one Ward Committee in urban area is for 31,000 in Kolkata to 6 lakhs in Delhi. These figures are indicative of the enormous gap between the citizens and their elected representatives to interact meaningfully. Thus, instead of increasing the proximity to people, the distance has been increased, and so the purpose of setting up of Ward Committees is not being achieved.

Table – 4: Ward Committees in Municipal Corporations

Municipal Corporations	No of Wards	No of Ward Committees	Population per Ward Committee
Greater Mumbai	221	25	397,000
Kolkata	141	141	31,000
Delhi	134	12	601,000
Chennai	155	10	384,000
Pune	111	13	121,000
Kanpur	110	11	171,000
Lucknow	110	11	147,000
Varanasi	80	08	116,000
Ludhiana	70	14	74,000

Sources: Various issues of Nagarpalika Network Newsletters, All India Institute of Local Self Government

Setting up of District Planning Committees: The 74th CAA makes it mandatory for the state governments to constitute a District Planning Committee (DPC) to consolidate the plans prepared by the Zilla Parishads, Panchayat Samities, Gram Panchayats, Nagar Panchayats, Municipal Councils and Municipal Corporations and also to prepare a draft plan for the whole district. The states of Assam, Gujarat, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal have constituted the DPCs for this purpose. However, a few states like Andhra Pradesh, Bihar and

Uttar Pradesh have not made this provision. Punjab has remained content to pass enabling laws only.

Table – 5: Status of District Planning Committees in Different States

Major States		Status
1	Andhra Pradesh	Under Examination
2	Assam	Constituted
3	Bihar	Not Constituted
4	Gujarat	No provision for DPC
5	Haryana	Not Constituted
6	Himachal Pradesh	Constituted
7	Karnataka	Constituted – ZP Chairman is the Chairman of DPC
8	Kerala	Constituted
9	Madhya Pradesh	Constituted – Minister in Charge of the district as Chairman
10	Maharashtra	Not Constituted
11	Orissa	Constituted – Minister as Chairman
12	Punjab	Not Constituted
13	Rajasthan	Constituted– ZP Chairman is the Chairman of DPC
14	Tamil Nadu	Constituted – District Collector as Chairman
15	Uttar Pradesh	Constituted – Minister as Chairman
16	West Bengal	Constituted – ZP Chairman is the Chairman of DPC

Source: Rajiv Gandhi Foundation, 'Panchayati Raj in India – Status Report 1999', New Delhi, March 2000

Setting up of Metropolitan Planning Committees: According to the 2001 Census, there are 35 metropolitan areas in the country. Nearly 37.8% of the total 285.4 million urban population is living in the metropolitan areas. Article 243 Z E provided for MPCs, one-third of whose members are elected representatives of urban and rural local bodies and the others are to be nominated representing various state and central government agencies responsible for various services in the

metropolitan areas. It was made obligatory for the state governments to constitute MPCs in every metropolitan area. Though several states have passed enabling laws to set up MPCs, except for West Bengal, Karnataka, Kerala, Maharashtra and Tamil Nadu, none have been constituted so far.

Formation of State Finance Commissions: The next important provision in the 74th CAA relates to the setting up of the State Finance Commissions (SFCs). States have followed up the provision through conformity laws and also by establishing the SFCs. There has not been any reluctance in this regard presumably because states hoped that this would facilitate increased central assistance. The first SFCs were established in 25 states and most of them had already submitted their reports except Bihar and Orissa. SFCs are constituted once in 5 years and infact their 2nd term became due in 1999. Several states have set up their 2nd SFCs. The term of the Central Finance Commission it self was over in 1999. There is, thus, a mismatch in the timing of both the Finance Commissions. Further, notwithstanding the constitutional provision that sufficient explanation on the non-acceptance of the recommendations is required to be provided by the state governments, few have considered it necessary to do so. Even where reports have been acted upon, it is unclear if the recommendations have been put into effect fully and whether these have made any significant impact on the financial status of the local bodies.

Administrative Decentralised Rankings:

The rankings have been arrived at by giving the following weightages structure:

i) Elections to the ULBs:

a) States have been graded for their promptitude in conducting elections to the municipal bodies in accordance with the 74th CAA, as per the following scale:

No delay (i.e. in 1994)	- 5
12 to 24 months (i.e. between 1994-95)	- 4
24 to 36 months (i.e. between 1995-96)	- 3
36 to 48 months (i.e. between 1996-97)	- 2
48 to 60 months (i.e. between 1997-98)	- 1
Above 60 months (i.e. between 1998-2000)	- 0

b) States have been grade according to the no of rounds of municipal elections that have been held since 1994, as per the following scale:

Two rounds of elections since 1994	- 2
One round of election since 1994	- 1

c) States have been graded according to the percentage of city governments in which elections have been held, as per the following scale:

100 %	- 5
Between 99 to 100%	- 4
Between 97 to 99%	- 3
Between 95 to 97%	- 2
Between 80 to 95%	- 1
below 80%	- 0

ii) Constitution of Ward Committees: States that have constituted ward committees for each municipal ward for all municipalities have been given a weightage of 5, whereas those that have constituted it in the corporation areas only are given a

weightage of 3.No weightage is assigned to the state that has not constituted Ward Committees

- iii) Constitution of District Planning Committees: States that have constituted DPCs in all the districts have been given a weightage of 5, whereas those that have constituted it in some districts only are given a weightage of 3. No weightage is assigned to the state that has not constituted DPCs so far.

The administrative decentralization rankings thus arrived at is as follows:

States	Ranks
West Bengal	1
Karnataka	2
Kerala	3
Tamil Nadu	4
Maharashtra	5
Gujarat	6
Madhya Pradesh	7
Orissa	8
Rajasthan	9
Punjab	10
Himachal Pradesh	11
Uttar Pradesh	12
Andhra Pradesh	13
Assam	14
Haryana	15
Bihar	16

Conclusion:

The follow up legislations indicate that in the spheres of functional, legislative and administrative decentralisation and popular participation through Ward Committees and Planning Committees, many states have not gone much beyond the letters of the 74th CAA. The central issue of decentralisation, i.e. how to ensure efficient provision of local public goods and services have not been addressed adequately. Amendments to the municipal legislations in the various states have only been with regard to the electoral reforms. While elections have taken place in accordance with the provisions of the Constitution, little effort has been made to enlarge the functional and financial domain of the municipalities. Regarding reservations for SCs / STs and women, all the state governments have made provisions in accordance with the constitutional stipulations. Many of the SFCs have submitted their reports to the state governments but there is a great deal of reluctance by the state governments to accept its recommendations. On the contrary, many states have further reduced the financial powers of the municipalities after the SFC reports were submitted. The mandatory provisions of the 74th CAA regarding the Ward, District and Metropolitan Planning Committees are yet to be operationalised. Even the legal framework is not yet ready in many of the states.

**Financial Domain of the City Governments: An Inter-
state Comparative Analysis of Pre and Post
Decentralisation Periods**

The Constitution 74th Amendment Act 1992, which came into effect on 1st June 1993, is considered to be a major break-through in the history of urban governance in India. The need for decentralisation was a direct result of the fact that the global market has become more integrated due to the coming up of the trade liberalisation regime and the opening up of the financial markets that started during the late eighties and the early nineties, coupled with the increasing population pressure of the urban areas. The present chapter attempts to look into the aspect of decentralisation initiative in India in the form of 74th Amendment from the financial point of view. The objective is four - fold:

The first objective is to look into the fact that how far decentralising is the decentralisation initiative i.e. whether the decentralisation initiative has succeeded in empowering the ULBs in the true sense, specifically speaking in respect of their financial situation or is it merely a search without a perspective.

The second objective is to ascertain that if there has been any empowering of the ULBs, how far has it got reflected in the resource generation capacity, or resource mobilisation capacities of the ULBs.

The third objective is to find out the degree of interdependence between the functional, administrative and financial decentralisation efforts.

The fourth objective is to assess how far has been the devolution of grants to the ULBs by the central government been affected by the decentralisation initiatives taken by the city governments

Section I: Financial Implication of the 74th Amendment

The financial strengthening of the urban local governance through the 74th CAA has remained confined to the provision for the mandatory constitution of the State Finance Commissions (SFCs) at the expiry of every five years. The other important provision that has implication for improving the finances of the municipal entities is the amendment of Article 280 of the Indian Constitution by inserting Section 3(C) into it. Article 280 3 (C) requires that the Central Finance Commission (CFC) to suggest measures needed to augment the consolidated fund of the state to supplement the resources of the ULBs in the state on the basis of the recommendation made by the SFCs. The SFCs were formed under the provision of Article 243 (I) of the 73rd CAA, which is referred to in the 74th CAA, 1992. The mandatory constitution of the Finance Commissions (FCs) by the state governments once in every five years is the only positive feature in the 74th CAA regarding the finances of the ULBs. The states have generally taken the view that the words ‘ measures needed to augment the consolidated funds of the state’⁵⁴ be interpreted to mean that the CFC has a duty cast on them to recommend the devolution of funds to the states for meeting the developmental and other requirements of the Panchayati Raj Institutions (PRIs) and ULBs. The 10th CFC was the first one to have the additional responsibility in its Terms of Reference (ToR) to considered the SFC’s recommendations regarding ULBs and PRIs, while recommending transfer of centre’s resource to the states. However the major problem faced in the process was the mismatch in the timing if the constitution of the 10th CFC and

⁵⁴ Paragraph 8.7 of the 11th Finance Commission Report, 2000, Government of India , New Delhi.

the first generation of the SFCs. The 10th CFC could not incorporate the recommendations of the first generation of the SFCs and as a result much of its recommendations were made arbitrarily. Similar fortune was also in the wings for the 11th CFCs. However, paragraph 6 of the ToR for the EFC as contained in the Presidential Order, dated, 3rd July 1998, requires the EFC to make their own assessment about the manner and the extent of augmentation of the Consolidated Funds of the states. Much of these recommendations have been made arbitrarily in the absence of the 2nd SFCs' reports. Thus, Article 243(Y) of the 74th CAA empowers the SFCs constituted under Article 243 (I) to review the financial position of the municipalities and make recommendations to the governor as to:

- (a) the principles which should govern –
 - (i) the distribution between the state and the municipalities of the net proceeds of the taxes, duties, tolls, and fees levialble by the states ;
 - (ii) the determination of the taxes, duties, tolls, and fees which may be assigned to, or appropriated by, the municipalities;
 - (iii) the grants-in-aid to the municipalities from the Consolidated Fund of the state;
- (b) the measures needed to improve the financial position of the municipalities ;
- (c) any other matter referred to the SFCs by the Governor in the interest of the sound finance of the municipalities.

Article 243 (ZF) of the 74th CAA stipulates that “any provision of any law relating to the municipality in force in a state immediately before the commencement of the 74th CAA 1992, which is inconsistent with the provision of this part, shall continue to be in force until amended or repealed by a competent legislature, or other competent authority or

until the expiration of the one year from such commencement, whichever is earlier". The notion was that the state governments were required to bring into force the change relating to municipal administration within one year of the date of coming into force of the 74th CAA i.e. June 1994. In other words, the state governments were required to amend their municipal acts as per the provision of the 74th CAA; the state governments were to bring the Conformity Legislation within the stipulated period of one year. However, considerable reluctance was observed on the part of the state governments to put in place the Conformity Legislations (CLs). Most of the states put in place the CLs during the last minute, in April 1994⁵⁵. However, the same reluctance or lack of enthusiasm was not observed regarding the constitution of the SFCs. As many as 11 states had constituted their FCs between April and June 1994 and 15 SFCs had submitted their reports by December 1997⁵⁶. There has not been any reluctance in this regard presumably because states hoped this would facilitate increased central assistance. Yet the enthusiasm that was shown by the state governments in constituting the FCs was lacking at the time of the implementation of the recommendations therein, as it would have put undue pressure on the finances of the state governments already in a financial mess. A major shortcoming of the 74th CAA was that it did not specify any stipulated period within which the recommendations were to be implemented by the state governments. As a consequence much of the recommendations were far from being implemented. Moreover, the 74th CAA did not specify the composition of the SFCs and as a result, often some of the very part of the government machinery i.e. the existing bureaucrats are inducted into the SFCs making the procedure of the recommendations regarding financial devolutions to the local governments (ULBs and PRIs) more

⁵⁵ Sivaramakrishnan. K.C. (2000), '*Power to the People? The Politics and Progress of Decentralisation*', Konark Publishers.

⁵⁶ 11th Finance Commission Report, 2000, Government of India, New Delhi

biased and often meaningless. Therefore, often the very procedure of empowering the local governments seems to be misleading, without much of their financial strengthening of the local administration, which was a state subject according to Article 12, schedule 5, list II of the Constitution. Article 268 and Article 269 of the Constitution of India specify the duties that are to be levied by the central government but will be collected by the state governments. It also clearly mentions those duties and taxes that will be levied and collected by the central government but are to be assigned to the states. No such provision was kept for the ULBs in India. The 74th CAA was in reality, reluctant enough to keep such provisions. Article 243 X of the Constitution of India does not specify the duties tolls and taxes to be levied and collected by the municipalities and those to be collected by the state and assigned to the local bodies. The ultimate decision of authorising and assigning selective taxes to the local bodies continues to reside with the state legislature. Thus, it can be seen that the 74th CAA has more or less succeeded in keeping the financial powers of the ULBs within the jurisdiction of the state governments, and the empowering of the ULBs have remained strictly limited to political empowerment. But, political empowerment does not make much sense without financial empowerment.

Section – II: Effect of Decentralisation on the Resource Mobilisation and Utilisation Capacities of the City Governments

This section will make a pre and post decentralisation comparative analysis of the resource availability, resource generation and resource mobilisation position of the city governments as a whole and also separately for the various categories of the ULBs i.e. Nagar Panchayats (NPs), Municipalities and Municipal Corporations (MC). This will be done by a cross – sectional analysis of the states at four points of time, two in

the pre 74th Amendment period i.e. 1990-91,1992-93 and two during the post i.e. 1995-96 and 1997-98.

Movement of Fiscal - gaps through the years

Urban governments in developing and industrial countries alike complain about the lack of resources to provide sufficient services to their populations. The gap between the perceived need for services and the financial resource to provide them can be attributed in many cases to demand for unrealistically high standard of service, which are beyond the financing capacity of an urban economy. The fiscal gaps may also have its origins in the mis-allocations of functions and revenues to urban governments by central authorities. Urban population in India has grown rapidly in recent years and is likely to do so. This growth has lead to concomitant increases in the demand for a minimum level of public services for each new urban dweller, which necessitates increased expenditure by the city governments. Rising incomes in urban areas have also increased the demand for public services, yet the revenues of the local authorities, most directly affected, have not usually increased commensurately. The primary explanation of this situation is that the city governments are often restricted in their revenue-raising capacity by income – inelastic sources such as property taxes, specific excises, fees and fines, toll taxes and transfers from the centre. Thus, the city governments are faced with a severe shortage of resources even after the decentralisation initiative and the devolution of powers and functions undertaken in the wake of the 74th CAA, as can be seen from the tables 1,2,3,4, and 5.

From table 1 (given below) it is seen that the fiscal gap in (Rs Lakh) is the maximum in Maharashtra followed rather closely by Andhra Pradesh. Healthy resource availability situation is found in the states of Gujarat, Punjab, Rajasthan Uttar Pradesh and Himachal Pradesh for which the

revenue figures are more than the expenditure. What is more surprising in the sudden change in the resource availability situation in West Bengal immediately after the enactment of the 74th CAA.

Table -1: Fiscal Gap of ULBs (in Rs Lakhs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	Total Fiscal Gap
Andhra Pradesh	-991924.21	-1349217	-1318556	-2074966	-2585460	-2591635	-3832109	-4093515.83	-18837384
Assam	194.54	-915.27	-987.21	-704.78	-1347.85	-431.15	-999.83	-1378.4	-6569.95
Bihar	INF	INF	INF	INF	INF	INF	INF	INF	INF
Gujarat	4027.36	2972.52	8214.81	10787.83	17498.36	15973.37	13939.38	24120.94	97534.57
Haryana	-11989.63	-13673.6	-16754.6	-21566.1	-16511.3	-14493	-24096.69	-16603.13	-135688.1
Himachal Pradesh	-17.41	137.94	51.37	152.6	242.26	185.04	872.64	494.4	2118.84
Karnataka	-2170.46	1663.87	-3882.4	149.7	2577.36	-2775.8	-6457.1	-2907.84	-13802.67
Kerala	-872.76	-793	-1544.69	-2510.65	-2671.97	-816.48	-330.18	-1152.65	-10692.38
Madhya Pradesh	-2079.52	-1982.72	-3885.31	-4686.99	-5758.57	-9835	-517255.4	-13699.25	-559182.77
Maharashtra	-1036970.9	-596599	-640649	-794863	-770605	-1286972	-3067253	-9868216.72	-18062129
Orissa	-647.09	-1430.81	-1324.52	-2079.72	-2318.67	-2033.94	-2046.16	-2059.44	-13940.35
Punjab	3501.48	2012.36	3704.7	4255.53	23811.95	12269.98	13787.04	10953.88	74296.92
Rajasthan	684.05	1236.72	106.27	-234.33	1690.91	5527.38	1179.68	2102.06	12292.74
Tamil Nadu	-1783.2	-3142.98	-8163.6	-12827.3	-8535.66	-2204.93	-10771.8	-2682.67	-50112.1
Uttar Pradesh	366.77	1049.35	140.11	-2629.45	-1927.6	3790.62	136.32	2100.25	3026.37
West Bengal	-6348.09	-6870.7	-5862.34	-8224.89	33905.92	34254.18	41177.93	53867.97	135899.98
ALL INDIA	-2046445.3	-1968167	-1990798	-2961347	-3317017	-3841030	-6888681	-13912963.9	-36926450

Source : 11th Finance Commission Report, 2000, Government of India, New Delhi

The picture is quite the same even in the case of the movement of the Per Capita Fiscal Gap (PCFG) of ULBs (in Rs) as given below in table 2. While Maharashtra trails Andhra Pradesh as regards PCFG, the third position is taken by Haryana, as was the case in the case of fiscal gap (FG). The situation has been equally dismal for the states even after the enactment of the 74th CAA. As in the case of FG, a healthy resource availability situation is seen in the states of Gujarat, Punjab, Rajasthan Uttar Pradesh and Himachal Pradesh. A sudden turn for the better is seen in the case of West Bengal after 1993-94 i.e. immediately after the enactment of the 74 CAA. If a comparison is made between the pre and post decentralisation phases i.e. before and after 1993-94, it can be seen

that the situation has worsened in the states of Andhra Pradesh, Maharashtra, Orissa and Assam; while it has remained equally dismal for Karnataka, Kerala and Tamil Nadu. The picture has improved for the states of Gujarat, Himachal Pradesh, Punjab, Rajasthan, Uttar Pradesh and West Bengal, with West Bengal showing a remarkable improvement. The PCFG figures are most healthy in the post decentralisation phase for Punjab, followed by West Bengal.

Table 2: Per Capita Fiscal Gap of ULBs (in Rs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	Total Fiscal Gap
Andhra Pradesh	-5545.46	-7542.95	-7371.54	-11600.33	-14454.31	-14488.83	-21423.84	-22885.26	-105312.52
Assam	7.82	-36.79	-39.68	-28.33	-54.18	-17.33	-40.19	-55.41	-264.09
Bihar	INF	INF	INF	INF	INF	INF	INF	INF	INF
Gujarat	28.27	20.87	57.66	75.73	122.83	112.12	97.85	169.32	684.64
Haryana	-295.69	-337.22	-413.21	-531.87	-407.21	-357.43	-594.28	-409.47	-3346.40
Himachal Pradesh	-3.88	30.71	11.44	33.97	53.93	41.19	194.27	110.06	471.70
Karnataka	-15.61	11.96	-27.92	1.08	18.53	-19.96	-46.43	-20.91	-99.24
Kerala	-11.36	-10.33	-20.11	-32.69	-34.79	-10.63	-4.30	-15.01	-139.22
Madhya Pradesh	-13.56	-12.93	-25.33	-30.56	-37.54	-64.12	-3372.19	-89.31	-3645.54
Maharashtra	-3395.28	-1953.40	-2097.63	-2602.56	-2523.13	-4213.83	-10042.87	-32310.75	-59139.46
Orissa	-15.28	-33.79	-31.28	-49.11	-54.75	-48.03	-48.32	-48.63	-329.17
Punjab	58.42	33.58	61.81	71.01	397.31	204.73	230.04	182.77	1239.68
Rajasthan	6.79	12.28	1.06	-2.33	16.80	54.91	11.72	20.88	122.11
Tamil Nadu	-9.35	-16.47	-42.79	-67.24	-44.74	-11.56	-56.46	-14.06	-262.68
Uttar Pradesh	1.33	3.80	0.51	-9.52	-6.98	13.73	0.49	7.61	10.96
West Bengal	-33.93	-36.73	-31.34	-43.97	181.24	183.10	220.11	287.95	726.44
ALL INDIA	-984.42	-946.77	-957.65	-1424.52	-1595.62	-1847.69	-3313.73	-6692.68	-17763.07

Source: 11th Finance Commission Report, 2000, Government of India, New Delhi
 Census 1991, Government of India.
 Census 2001, Government of India.
 Mid-year population figures are estimated.

The FGs of Nagar Panchayats as shown in table 3 (given below) shows huge deficits for Assam, Karnataka, Orissa and Tamil Nadu. The Nagar Panchayats of Uttar Pradesh, as also West Bengal and Rajasthan seem to do well in the post 74th CAA phase.

Table 3: Fiscal Gap of Nagar Panchayats (in Rs lakhs)

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	INF	INF	INF	131.62	-80.08	-809.68	11.82	-27.4
Assam	-252.29	-271.09	-235.64	-281.35	-366.16	-252.55	-390.29	-359.7
Himachal Pradesh	-9.83	-10.48	-35.65	-27.19	-6.97	31.43	126.51	44.76
Karnataka	-93.3	-31.64	-81.56	-114.47	-211.05	-385.3	-1071.81	-1196.48
Madhya Pradesh	299	-4.65	-11.24	-7.4	4.92	-28.92	-432.22	-359.37
Orissa	-1635.78	-493.79	-576.71	-676.01	-754.08	-868.5	-1165.85	-978.79
Punjab	469.93	412.23	624.73	613.91	457.33	365.78	409.01	232.52
Rajasthan	825.42	1056.17	-102.31	139.48	545.66	3302.76	-1093.16	-397.65
Tamil Nadu	91.24	93.02	157.58	185.74	-90.63	-1140.31	-1770.31	3405.09
Uttar Pradesh	68.32	-459.48	-273.33	-440.68	-275.63	51.64	469.95	717.9
West Bengal	82.54	84.22	96.6	114.39	128.24	28.85	-24.99	-37.74
All India	313.65	-1315.77	-1598.23	-1279.82	-1937.46	-753.32	-9026.51	-2907.81

Source: 11th Finance Commission Report, 2000, Government of India, New Delhi

Table 4: Fiscal Gap of Municipalities

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	INF	INF	INF	2261.51	947.12	2184.41	1454.3	2966.45
Assam	-96.35	-140.84	-133.89	-286.35	-411.37	-110.39	-377.24	-58.67
Gujarat	-749.99	-151375	-526.98	-1004.88	489.59	-2288.7	-7838.6	-2850.33
Haryana	-10654	-11484.5	-13836.3	-13905.6	-10516.2	-10111.3	-15184.3	-12024.3
Himachal Pradesh	8.11	54.75	0.12	77.77	79.01	131.34	583.46	303.86
Karnataka	-1250.28	-795.68	-1309.78	1648.7	207.73	-1828.91	1069.5	597.09
Kerala	-689.28	-758.81	-1031	-1289.77	-1272.68	9800.97	916.6	-279.16
Madhya Pradesh	-533.17	-1503.48	-1116.01	-735.28	-1386	-2780.06	-10227.1	-2777.04
Maharashtra	-477266	-534481	-557402	-668294	-569310	-836060	-957384	-1649530
Orissa	-551.87	-1083.15	-1038.11	-1276.1	-1224.3	-1163.87	-948.42	47310.93
Punjab	3280.32	2615.67	3660.41	4158.76	5407.55	9199.71	9281.5	8804.47
Rajasthan	-38.76	139.03	191.35	-108.04	625.66	1155.16	1241.91	2238.87
Tamil Nadu	-1143.04	-4384.75	-6010.11	-6168.2	-2935.36	1709.64	-10428.4	-12785.2
Uttar Pradesh	-173.09	1650.66	-210.52	-458.54	-366.38	2429.74	1016.37	2732.35
West Bengal	-5652.62	-7996.53	-7256.47	-7126.1	-8063.81	-11751.2	-6690.39	1135.34
ALL INDIA	-495194	-559967	-586238	-693019	-560847	-849068	-986578	-1662852

Source: 11th Finance Commission Report, 2000, Government of India, New Delhi

As is apparent from table 4 (above), the fiscal gap of Municipalities shows an even more dismal picture than that of the Nagar Panchayats. While the municipalities in Haryana, Karnataka, Maharashtra, Tamil Nadu and West Bengal seem to be the worst off, almost every state except Punjab (with the most healthy figures), Andhra Pradesh, Himachal Pradesh and Rajasthan (which has shown a turn around after 1994), seem to be in a

dismal cash crunch and suffering severely due to the failure to mobilise more resources to meet the increasing demands for funds for financing urban basic infrastructure.

Table 5: Fiscal Gap of Municipal Corporations

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	-991924	-1349217	-1318556	-2127359	-2586327	-2593941	-3833576	-4096454.88
Assam	543.18	-503.34	-617.68	-137.08	-570.32	-68.21	-232.9	-960.03
Gujarat	4777.35	5647.24	8741.214	11792.71	17008.77	18262.07	21777.98	26971.27
Haryana	-1335.63	-2189.17	-2918.34	-7660.51	-5995.13	-4381.65	-8912.4	-4578.84
Himachal Pradesh	-15.69	93.67	86.9	102.02	170.22	22.27	162.67	1145.78
Karnataka	-826.88	2491.19	-2491.06	-1384.53	2580.68	-561.59	-4254.32	-2308.45
Kerala	-183.48	-34.19	-513.69	-1220.88	-1399.29	-1286.45	-1246.78	-873.49
Madhya Pradesh	-1845.35	-2274.59	-2758.06	-3943.11	-4577.47	-7026.02	-10091.1	-10562.84
Maharashtra	-559705	-62118.8	-83246.9	-126569	-201295	-450912	-2109870	-8218686.75
Orissa	340.57	146.13	290.3	-127.61	-340.31	198.43	68.11	-191.58
Punjab	-248.77	-1015.54	-580.44	-517.04	17947.07	2904.49	4096.53	1916.89
Rajasthan	-102.61	41.52	1835.23	-265.77	519.62	1069.46	-13589.1	260.84
Tamil Nadu	-731.4	1148.75	-2311.07	-6814.8	-5509.68	-2774.26	1426.91	6697.44
Uttar Pradesh	471.55	-141.83	597.96	-1730.23	-1286.39	1309.24	-1350	-1350
West Bengal	-778.01	1041.61	1297.53	-1213.18	41841.49	45976.53	47893.31	52770.37
ALL INDIA	-1551565	-1406885	-1402962	-2267048	-2727233	-2991208	-5893076	-12247194.3

Source: 11th Finance Commission Report, 2000, Government of India, New Delhi

The fiscal Gap of Municipal Corporations (table 5) show abysmal figures, meaning awkwardly large fiscal deficits for Andhra Pradesh and Maharashtra. Again, with the exception of Gujarat and Himachal Pradesh, which show a sustainably good resource position both in both the pre and post decentralisation phases, and West Bengal, and Punjab, which show a remarkable shift towards better figures in the post decentralisation phase, all other states show large fiscal deficits.

Thus, taking a holistic view, West Bengal and Rajasthan seems to have made a remarkable turn about in the post decertralisation period; while Gujarat, Punjab and Himachal Pradesh and Uttar Pradesh, to some extent, show a consistent good performance in both pre and post decentralisation periods. Since the Municipal Corporations are endowed with large revenues and they also have to incur the costs of maintaining

a large number of urban basic services, their fiscal gaps are the highest, followed by those of the Municipalities.

The tragic situation relating to the fiscal gaps can be redressed, in principal, in four ways:

- i) a reduction in the responsibilities that require local expenditure ;
- ii) an increase in the local authority to raise revenue;
- iii) an increase in the amount of revenue transferred from the higher levels of governments;
- iv) an increase in the local effort to raise revenue in the face of unchanged revenue – raising authority.

Trends in the movement of revenue indices

It is perhaps useful to begin by pointing out that the revenue importance of city governments in the country's federal structure in terms of what they are able to raise with the financial powers assigned to them is extremely low. Under the present municipal legislations, most ULBs are required to provide many infrastructure and related services, in addition to their other assigned functions of provision of social services and regulating developmental activities. There are differences in the state laws and municipal byelaws regarding the range of functions the local bodies are required to carry out. However, a number of services are common to most state municipal legislations. These services include:

- i) Provision of water supply;
- ii) sanitation and waste water management;
- iii) solid waste management;
- iv) drainage and
- v) streets and streetlights.

Municipal revenue forms a very insignificant portion of the total government budget. Their resource bases are also extremely small. But, they are required to maintain a balanced budget in the revenue account. It means that the expenditure budget is determined not by actual requirement but by the flow of revenue realised during the year. Low revenue generation has been a major reason for widening the gap between the supply and demand of civic services the share of ULBs' revenue in the total public sector revenue in India has declined from nearly 8% in 1960-61 to 4.5 % in 1977-78⁵⁷. Also, table 6 indicates that this share has remained almost stable during the last twenty years.

Table 6: Share of Centre, State and ULBs in Total Government Revenue

Level	1990-91	1997-98
Centre's Revenue	54954 (52.91)	138514 (54.60)
States' Revenue	28463 (32.58)	102996 (40.59)
ULB's Revenue	3930 (4.49)	12178 (4.80)
Total Revenue	87347 (100)	253688 (100)

Source: 11th Finance Commission Report, 2000, Government of India, New Delhi
Economic Survey 1999 – 2000, Government of India, New Delhi.

Very low share of municipal revenue compared to that of the central and state governments coupled with low and declining proportion of municipal expenditure refer to extremely limited fiscal power of the ULBs. It suggests that the various tax – based and non tax - based revenue sources have failed to improve the financial health of the ULBs and capitalise on the benefits of expanding urbanisation, even after the enactment of the 74th CAA. Further, this amount is only 0.6% of the country's GDP (at factor cost). Considering the fact that the municipal areas produce over 50% of the country's GDP, it is evident that the city

⁵⁷NIPFP, (1995), Redefining State – Municipal Fiscal Relations, Vol – 1.

governments are not able to establish effective linkages with the activities carried out within their own jurisdictions, and thus remains peripheral to the Indian economy.

The movement of the percentage share of Own Revenue to Total Revenue

Own revenues form an important component of the total revenue receipts of the city governments of India. As the table 7 shows, these account for 62 to 73% of the revenue receipts as per the all India figures.

Table – 7: All India Revenue Indices of City Governments

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
% OT / TR								
ULBs	49.22	50.19	51.12	52.4	50.74	51.01	49.4	48.38
Nagar Panchayats	32.43	33.46	33.51	36.23	38.49	30.77	29.13	25.73
Municipalities	42.66	36.93	44.3	43.84	44.96	48.06	44.71	43.83
Municipal Corporations	53.67	54.11	31.76	57.79	53.93	54.08	53.13	52.5
% NT / TR								
ULBs	20.38	19.2	18.55	19.25	17.13	17	16.92	17.47
Nagar Panchayats	17.41	17.81	14.3	15.63	14.71	16.68	15.59	13.85
Municipalities	28.15	17.54	17.72	18.73	16.53	18.23	17.04	15.98
Municipal Corporations	22.05	20.57	20.05	20.27	17.76	17.95	17.87	18.82
% OR / TR								
ULBs	69.6	69.39	69.66	71.89	73.27	73.33	71.41	62.4
Nagar Panchayats	49.84	51.27	47.81	52.3	53.41	46.8	44.96	39.76
Municipalities	59.91	60.86	60.12	61.56	60.92	63.06	59.61	58.85
Municipal Corporations	75.71	74.67	75.52	78.39	79.62	80.07	78.64	66.11
% OTH R / TR								
ULBs	30.4	30.61	30.34	28.35	26.83	26.84	28.86	29.63
Nagar Panchayats	50.16	48.73	52.19	48.14	46.8	53.46	55.28	60.42
Municipalities	40.09	39.14	39.88	38.44	39.08	36.94	40.39	41.15
Municipal Corporations	25.29	25.33	24.48	21.94	20.52	20.16	21.75	21.86

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

If one looks separately at the three tiers of ULBs, it can be clearly seen that the Own-Revenue as a percentage of the Total Revenue is the highest for the Municipal Corporations and the lowest for the Nagar

Panchayats. There has been little perceptible change in the share of Own-Revenues in the revenue structure of municipalities. Now, if one makes an inter-state comparison of the city governments, it is clearly seen that the figures for Gujarat, Maharashtra and Punjab are uniformly the highest; while those of Himachal Pradesh, Haryana and Kerala have shown poor results in the post decentralisation period. Orissa and Rajasthan also show uniformly good results. West Bengal seems to have made a remarkable turn around in the post decentralisation as compared to the previous one as is seen in Table 8.

Table – 8: Percentage Share of Own Revenue to Total Revenue of ULBs

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	40.15	47.19	42.79	19.09	46.78	49.67	50.17	52.86
Assam	43.89	67.24	71.59	72.14	76.82	64.02	69.30	59.65
Gujarat	68.34	69.06	67.13	69.22	70.42	78.75	80.40	67.97
Haryana	71.05	72.15	76.68	70.41	70.90	67.46	42.18	58.39
Himachal Pradesh	71.65	70.67	71.97	66.75	64.43	60.80	46.83	54.41
Karnataka	49.16	41.26	56.95	56.07	44.06	43.81	47.67	38.96
Kerala	70.29	70.63	71.76	70.39	68.98	59.51	47.61	43.65
Madhya Pradesh	47.13	51.76	45.83	47.68	47.73	26.08	26.84	30.59
Maharashtra	90.73	90.37	89.60	93.88	90.98	90.57	90.15	70.39
Orissa	61.97	64.83	66.57	66.63	70.69	72.65	64.40	72.60
Punjab	79.54	81.08	75.72	77.38	86.44	85.68	85.62	86.62
Rajasthan	74.32	72.72	73.98	78.01	75.75	72.41	73.87	74.54
Tamil Nadu	55.26	52.02	50.12	56.31	59.19	60.15	54.60	53.77
Uttar Pradesh	37.08	27.87	27.49	30.18	28.98	29.60	27.62	27.49
West Bengal	20.84	22.54	23.77	23.92	71.20	73.52	67.37	67.57
ALL INDIA	69.60	69.39	69.66	71.89	73.27	73.33	71.41	62.40

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

This is also reinforced in table 9 showing the Compound Annual Growth Rates (CAGRs) of percentage share of own revenue to total revenue of ULBs.

Table 9: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Revenue to Total Revenue of ULBs

STATES	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	3.24	5.10	3.16	4.01
Assam	27.72	-3.66	-3.47	4.48
Gujarat	-0.89	5.47	-7.10	-0.08
Haryana	3.89	-4.18	-6.97	-2.76
Himachal Pradesh	0.22	-5.47	-5.40	-3.86
Karnataka	7.63	-8.37	-5.70	-3.27
Kerala	1.04	-6.05	-14.36	-6.58
Madhya Pradesh	-1.39	-17.13	8.30	-5.99
Maharashtra	-0.62	0.36	-11.84	-3.56
Orissa	3.65	2.96	-0.03	2.29
Punjab	-2.43	4.21	0.55	1.23
Rajasthan	-0.23	-0.71	1.46	0.04
Tamil Nadu	-4.76	6.27	-5.45	-0.39
Uttar Pradesh	-13.90	2.50	-3.63	-4.18
West Bengal	6.80	45.70	-4.13	18.30
ALL INDIA	0.04	1.73	-7.75	-1.55

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Now, looking separately at the three tiers of city governments, it is seen that for Nagar Panchayats, Assam, Himachal Pradesh, Karnataka, Orissa, Punjab and Rajasthan show uniformly good results; but those of West Bengal and Uttar Pradesh are abysmally low. In the post decentralisation phase has been really worse off in terms of Own Revenue generation as shown in the tables 10 and 11.

Table – 10: Percentage Share of Own Revenue to Total Revenue of Nagar Panchayats

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	38.89	38.91	42.16	42.88	40.08
Assam	89.07	93.12	92.08	92.50	94.72	61.88	47.16	40.02
Himachal Pradesh	72.36	73.42	72.96	72.18	70.54	61.00	48.70	67.62
Karnataka	57.74	49.06	55.42	50.66	64.34	47.66	55.14	47.57
Madhya Pradesh	31.91	31.20	31.34	30.57	4.99	12.82	11.81	13.88
Orissa	55	71.45	70.98	64.67	63.18	61.65	52.93	63.69
Punjab	64.23	72.31	56.92	55.50	67.14	69.80	69.27	77.99
Rajasthan	67.46	65.41	67.95	70.13	68.87	58.77	63.26	66.06
Tamil Nadu	37.67	37.72	30.21	40.37	38.21	41.50	38.64	24.63
Uttar Pradesh	33.31	42.88	31.35	43.16	46.35	46.14	36.25	35.31
West Bengal	3.72	4.17	4.27	4.37	6.45	7.65	5.36	5.26
Total (All India)	49.84	51.27	47.81	52.30	53.41	46.80	44.96	39.76

Table 11: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Revenue to Total Revenue of Nagar Panchayats

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	INF	INF	-2.49	INF
Assam	1.67	-12.40	-19.58	-10.80
Himachal Pradesh	0.41	-5.79	5.28	-0.96
Karnataka	-2.02	-4.90	-0.09	-2.72
Madhya Pradesh	-0.89	-25.76	4.05	-11.21
Orissa	13.60	-4.58	1.64	2.11
Punjab	-5.86	7.03	5.70	2.81
Rajasthan	0.36	-4.72	6.02	-0.29
Tamil Nadu	-10.44	11.16	-22.96	-5.88
Uttar Pradesh	-2.98	13.74	-12.51	0.83
West Bengal	7.13	21.45	-17.07	5.07
Total (All India)	-2.05	-0.70	-7.82	-3.17

Source (Table 10 &11): Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

For Municipalities, Maharashtra shows the highest figures (100%), meaning that it has no other revenue components; while West Bengal shows tragically bad figures. Rajasthan and Punjab show uniformly good results; while Assam, Himachal Pradesh and Haryana seem to have done quite badly in the post decentralisation phase. (Table 12 &13)

Table 12: Percentage Share of Own Revenue to Total Revenue of Municipalities

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	42.39	43.47	46.40	46.64	46.71
Assam	97.25	97.30	97.67	97.90	98.73	63.32	45562.03	34.63
Gujarat	56.11	59.94	50.28	60.15	54.55	62.39	64.57	5.52
Haryana	67.97	70.68	88.60	84.69	81.82	71.08	50.13	65.91
Himachal Pradesh	60.95	52.71	56.02	45.60	49.26	45.96	37.51	38.10
Karnataka	54.93	57.55	59.61	71.34	64.13	55.02	60.84	49.94
Kerala	64.69	64.48	65.99	67.07	63.93	52.23	42.22	41.11
Madhya Pradesh	38.07	73.68	37.44	37.86	29.13	29.55	26.47	28.72
Maharashtra	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Orissa	56.17	54.32	57.19	59.84	64.49	66.17	64.60	6.88
Punjab	77.39	80.94	72.84	75.14	75.30	83.36	84.59	85.39
Rajasthan	82.35	82.47	84.68	86.09	84.85	81.17	74.51	72.34
Tamil Nadu	62.57	60.54	56.00	66.93	63.61	70.39	61.45	57.49
Uttar Pradesh	39.20	27.90	28.91	31.14	27.43	28.77	26.95	25.36
West Bengal	21.17	22.71	23.96	24.17	24.33	26.65	21.26	21.06
TOTAL (All India)	59.91	60.86	60.12	61.56	60.92	63.06	59.61	58.85

Table 13: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Revenue to Total Revenue in Municipalities

STATES	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	INF	INF	0.33	INF
Assam	0.21	-13.45	-26.04	-13.71
Gujarat	-5.34	7.46	-70.25	-28.20
Haryana	14.17	-7.08	-3.71	-0.44
Himachal Pradesh	-4.14	-6.39	-8.95	-6.49
Karnataka	4.17	-2.64	-4.73	-1.35
Kerala	1.00	-7.50	-11.28	-6.27
Madhya Pradesh	-0.84	-7.59	-1.41	-3.95
Maharashtra	0.00	0.00	0.00	0.00
Orissa	0.90	4.98	-67.74	-25.91
Punjab	-2.98	4.60	1.21	1.42
Rajasthan	1.41	-1.40	-5.60	-1.83
Tamil Nadu	-5.40	7.92	-9.62	-1.20
Uttar Pradesh	-14.12	-0.16	-6.11	-6.03
West Bengal	6.40	3.61	-11.11	-0.07
TOTAL (All India)	0.17	1.60	-3.39	-0.25

Source (Table 12 & 13): Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

For the Municipal corporations (Table 14 & 15), the states of Gujarat, Maharashtra, Punjab, Rajasthan and Orissa show a consistent good

Table 14: Percentage Share of Own Revenue to Total Revenue of Municipal Corporations

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	40.15	47.19	42.79	49.76	51.45	54.26	54.51	59.49
Assam	28.95	53.30	55.81	60.96	63.51	64.93	89.13	9.42
Gujarat	74.55	72.95	75.11	72.92	77.76	85.98	86.35	73.54
Haryana	82.08	80.23	49.75	46.27	52.72	58.64	31.59	45.45
Himachal Pradesh	86.02	89.67	88.62	89.50	78.07	76.77	59.81	65.49
Karnataka	45.75	33.34	55.36	43.70	34.23	37.27	38.82	32.37
Kerala	79.61	58.46	82.03	76.49	79.11	77.29	60.61	48.82
Madhya Pradesh	52.88	55.10	51.23	53.96	50.65	28.86	31.26	35.82
Maharashtra	89.41	88.99	88.09	92.92	89.58	89.09	88.57	65.51
Orissa	67.24	78.18	80.62	82.08	86.15	85.37	71.45	84.56
Punjab	83.17	81.95	80.83	82.11	92.39	88.29	87.87	88.54
Rajasthan	79.29	77.19	59.37	83.49	78.28	88.04	9061.08	88.23
Tamil Nadu	56.22	51.31	53.69	56.25	62.98	60.97	57.21	67.44
Uttar Pradesh	35.72	25.01	25.02	26.58	27.47	27.54	26.28	27.70
West Bengal	19.22	22.17	23.28	22.95	94.91	95.43	94.00	94.07
All India	75.71	74.67	75.52	78.39	79.62	80.07	78.64	66.11

performance. The Own-Revenue collections of West Bengal seem to have made a remarkable positive shift in the post decentralisation phase. Assam has also improved a lot in the domain of Own-Revenue collections. At the same time, the figures for Haryana, Himachal Pradesh and Madhya Pradesh have taken a turn for the worse in the post decentralisation phase

Table 15: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Revenue to Total Revenue in Municipal Corporations

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
Andhra Pradesh	3.24	8.24	4.71	5.78
Assam	38.85	5.17	-61.91	-14.82
Gujarat	0.38	4.61	-7.51	-0.19
Haryana	-22.15	5.64	-11.97	-8.10
Himachal Pradesh	1.50	-4.67	-7.64	-3.82
Karnataka	10.01	-12.35	-6.81	-4.82
Kerala	1.51	-1.97	-20.52	-6.75
Madhya Pradesh	-1.57	-17.41	11.41	-5.41
Maharashtra	-0.75	0.38	-14.25	-4.35
Orissa	9.50	1.93	-0.48	3.33
Punjab	-1.42	2.99	0.14	0.90
Rajasthan	-13.47	14.04	0.11	1.54
Tamil Nadu	-2.27	4.33	5.17	2.63
Uttar Pradesh	-16.31	3.26	0.29	-3.56
West Bengal	10.08	60.04	-0.72	25.47
All India	-0.13	1.97	-9.13	-1.92

Source (Table 14 & 15): Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi.

The movement of the percentage share of Own Tax to Total Revenue

The trend observed in the discussion of the previous variable i.e. the share of Own Revenue to Total Revenue, is almost replicated here. The Municipal Corporations having the highest share and the Nagar Panchayats the lowest as per the all India Figures (Table - 7).

Table - 16: Percentage Share of Own Tax to Total Revenue of ULBs

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	25.98	32.22	29.91	14.01	32.16	35.57	33.57	31.96
Assam	15.88	25.40	33.40	31.26	29.67	25.46	21.73	20.72
Gujarat	58.44	59.83	59.92	60.90	62.95	70.32	72.74	60.47
Haryana	53.97	49.84	48.33	42.42	42.27	41.78	28.96	37.60
Himachal Pradesh	34.11	31.08	32.69	29.55	24.07	25.17	20.21	20.72
Karnataka	42.54	33.45	47.97	33.95	34.43	35.50	39.75	32.52
Kerala	48.07	48.78	57.56	47.36	48.60	41.97	33.12	30.16
Madhya Pradesh	31.09	35.95	30.23	31.42	33.43	15.93	15.23	18.17
Maharashtra	66.54	66.68	66.51	70.09	68.49	68.57	68.61	69.21
Orissa	50.83	51.88	54.05	55.24	56.87	58.78	53.03	61.77
Punjab	56.92	58.29	54.38	57.90	70.97	66.42	65.46	67.79
Rajasthan	56.59	55.37	59.36	62.42	61.06	58.04	57.03	56.90
Tamil Nadu	29.67	29.41	30.47	35.05	35.97	38.89	31.32	27.36
Uttar Pradesh	10.18	11.60	11.23	10.72	12.45	11.80	10.81	10.79
West Bengal	11.56	12.80	14.45	15.03	5.00	INF	INF	INF
ALL INDIA	49.22	50.19	51.12	52.40	50.74	51.01	49.40	48.38

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

For the city governments as a whole, the figures for Gujarat, Maharashtra, Punjab, Orissa and Rajasthan are uniformly high (tables 16 & 17).

Table - 17: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Tax to Total Revenue of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	7.30	5.95	-5.21	3.00
Assam	45.03	-8.65	-9.79	3.87
Gujarat	1.26	5.48	-7.27	0.49
Haryana	-5.37	-4.74	-5.13	-5.03
Himachal Pradesh	-2.10	-8.35	-9.27	-6.87
Karnataka	6.19	-9.55	-4.29	-3.76
Kerala	9.43	-9.99	-15.23	-6.44
Madhya Pradesh	-1.39	-19.23	6.80	-7.39
Maharashtra	-0.02	1.02	0.47	0.56
Orissa	3.12	2.84	2.51	2.82
Punjab	-2.26	6.89	1.03	2.53
Rajasthan	2.42	-0.75	-0.99	0.08
Tamil Nadu	1.34	8.47	-16.12	-1.15
Uttar Pradesh	5.03	1.66	-4.38	0.83
West Bengal	11.80	INF	INF	INF
ALL INDIA	1.91	-0.07	-2.61	-0.25

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

For the Nagar Panchayats (table 18 & 19), Karnataka, Orissa, Punjab and Rajasthan show uniformly good results; but those of West Bengal and Uttar Pradesh are very low. Madhya Pradesh has really performed very badly in the post decentralisation phase.

Table - 18: Percentage Share of Own Tax to Total Revenue of Nagar Panchayats

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	29.04	31.03	318.85	31.48	29.32
Assam	31.62	35.26	31.47	29.88	32.18	26.99	22.88	16.50
Himachal Pradesh	21.71	22.03	21.89	21.65	21.16	18.30	14.63	20.28
Karnataka	42.47	35.25	35.08	31.24	39.36	37.36	42.59	38.99
Madhya Pradesh	27.95	27.11	27.36	26.49	4.69	10.11	8.87	10.49
Orissa	43.95	57.00	58.83	49.99	48.62	48.34	43.47	53.88
Punjab	37.74	44.77	35.36	35.62	42.87	46.08	47.13	53.96
Rajasthan	42.84	41.81	50.32	49.11	51.69	43.18	46.63	48.13
Tamil Nadu	31.39	31.44	24.30	35.14	31.36	26.02	22.76	14.56
Uttar Pradesh	5.36	6.73	5.15	8.89	7.70	9.25	7.50	7.31
West Bengal	1.83	1.99	1.99	2.00	4.15	5.79	378.20	3.75
Total (All India)	32.43	33.46	33.51	36.23	38.49	30.77	29.13	25.73

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table - 19: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Tax to Total Revenue of Nagar Panchayats

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	INF	INF	-69.67	INF
Assam	-0.25	-16.53	-21.80	-8.87
Himachal Pradesh	0.41	19.51	5.28	-0.96
Karnataka	-9.12	-33.94	2.16	-1.21
Madhya Pradesh	-1.05	20.88	1.84	-13.06
Orissa	15.70	-7.82	5.58	2.95
Punjab	-3.21	6.89	8.22	5.24
Rajasthan	8.38	-19.74	5.57	1.68
Tamil Nadu	-12.01	-27.52	-25.20	-10.40
Uttar Pradesh	-2.06	4.00	-11.12	4.52
West Bengal	4.40	149.12	-19.52	10.83
Total (All India)	1.66	-2.80	-8.56	-3.25

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

In tables 20 and 21, it can be seen that the municipalities in Maharashtra show the highest figures (above 90%). On the other hand, Uttar Pradesh and West Bengal again show bad performance as far as

Own-Tax generation is concerned. Gujarat, Punjab and Rajasthan show a consistent good performance.

Table - 20: Percentage Share of Own Tax to Total Revenue of Municipalities

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	32.66	31.29	33.81	32.85	27.35
Assam	16.67	19.40	27.24	25.13	27.95	23.59	19.36	11.68
Gujarat	42.95	46.71	38.62	44.89	44.04	49.34	51.15	4.25
Haryana	45.61	45.73	50.40	44.92	41.07	39.52	29.89	37.28
Himachal Pradesh	38.40	33.21	35.34	28.73	31.04	28.95	23.63	24.00
Karnataka	41.84	37.82	41.06	24.82	38.62	35.71	45.52	36.15
Kerala	44.97	45.54	44.31	45.52	41.13	33.69	26.47	25.31
Madhya Pradesh	32.77	68.20	32.07	33.09	35.19	26.40	22.51	25.37
Maharashtra	91.34	90.98	90.58	90.12	90.01	89.45	88.82	88.10
Orissa	42.61	41.28	41.76	47.65	49.10	49.56	48.71	5.29
Punjab	50.98	52.60	47.34	51.61	44.80	59.71	61.78	62.44
Rajasthan	71.96	72.03	72.27	75.51	71.96	74.22	63.67	61.81
Tamil Nadu	31.91	31.91	35.66	35.89	39.94	50.80	32.72	34.40
Uttar Pradesh	11.05	10.36	11.19	12.41	10.90	10.54	13.66	9.38
West Bengal	11.43	12.51	14.21	14.88	14.97	16.24	12.46	11.84
TOTAL (All India)	42.66	36.93	44.30	43.84	44.96	48.06	44.71	43.83

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table - 21: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Tax to Total Revenue of Municipalities

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	INF	INF	-10.07	INF
Assam	27.85	-4.68	-29.64	-4.95
Gujarat	-5.17	8.50	-70.65	-28.14
Haryana	5.12	-7.79	-2.86	-2.84
Himachal Pradesh	-4.07	-6.43	-8.95	-6.49
Karnataka	-0.93	-4.55	0.62	-2.07
Kerala	-0.74	-8.72	-13.33	-7.88
Madhya Pradesh	-1.08	-6.28	-1.97	-3.59
Maharashtra	-0.41	-0.42	-0.76	-0.51
Orissa	-1.01	5.88	-67.32	-25.77
Punjab	-3.64	8.05	2.26	2.94
Rajasthan	0.22	0.89	-8.74	-2.15
Tamil Nadu	5.70	12.52	-17.71	1.08
Uttar Pradesh	0.66	-1.98	-5.66	-2.31
West Bengal	11.51	4.54	-14.61	0.50
All India	1.91	2.75	-4.50	0.39

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

In the case of Municipal Corporations (tables 22 and 23), Gujarat, Maharashtra, Orissa, Punjab and Rajasthan shows very good results.

Table - 22: Percentage Share of Own Tax to Total Revenue of Municipal Corporation

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	25.98	32.22	29.91	34.62	33.34	38.01	34.48	36.68
Assam	14.15	25.74	36.48	33.37	29.85	26.01	22.77	30.12
Gujarat	66.29	65.41	70.02	67.42	71.71	79.60	80.85	68.03
Haryana	79.74	72.40	43.64	38.19	44.27	46.23	27.72	38.15
Himachal Pradesh	37.80	34.02	36.30	35.05	17.85	25.11	18.32	16.73
Karnataka	42.93	31.34	52.49	41.46	32.37	35.21	35.92	30.03
Kerala	53.22	54.36	52.99	50.73	63.59	62.16	49.19	40.03
Madhya Pradesh	31.20	32.51	30.23	31.83	29.60	13.69	14.17	17.46
Maharashtra	63.03	63.18	63.00	66.94	65.17	65.28	65.37	66.10
Orissa	63.60	66.73	73.54	75.59	75.32	76.01	64.86	80.36
Punjab	64.87	64.90	64.00	67.04	84.28	74.07	70.54	74.37
Rajasthan	67.05	64.63	49.95	72.06	65.51	70.48	68.51	65.53
Tamil Nadu	27.31	27.17	29.63	34.53	34.77	36.02	33.95	31.08
Uttar Pradesh	10.31	14.10	12.58	14.86	14.74	13.43	12.36	13.04
West Bengal	13.02	15.50	16.80	16.85	INF	INF	INF	INF
All India	53.67	54.11	317.65	57.79	53.93	54.08	53.13	52.50

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table - 23: Compound Annual Growth Rates (CAGR) of Percentage Share of Own Tax to Total Revenue of Municipalities

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	7.30	8.31	-1.76	5.05
Assam	6.05	-10.66	7.60	11.39
Gujarat	2.78	4.37	-7.55	0.37
Haryana	-26.02	1.94	-9.16	-10.00
Himachal Pradesh	-2.01	-11.56	-18.39	-11.00
Karnataka	10.58	-12.46	-7.66	-4.98
Kerala	-0.22	5.46	-19.74	-3.99
Madhya Pradesh	-1.57	-23.20	12.94	-7.96
Maharashtra	-0.02	1.19	0.63	0.68
Orissa	7.53	1.11	2.82	3.40
Punjab	-0.67	4.99	0.20	1.97
Rajasthan	-13.69	12.16	-3.58	-0.33
Tamil Nadu	4.16	6.73	-7.12	1.86
Uttar Pradesh	10.50	2.20	-1.46	3.42
West Bengal	13.61	INF	INF	INF
TOTAL	14.32	-44.57	-1.48	-0.31

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Figures for Uttar Pradesh, on the other hand, belie good figures. The Own-Tax collections have taken a dip in the post decentralisation phase for Haryana, Himachal Pradesh and Madhya Pradesh.

Movement of Per-Capita Revenue Indices of ULBs through the years

The Per-capita Own-tax revenue (PCOTR) for ULBs (tables – 24 & 25) shows the best figures for Maharashtra followed by those of Punjab and Gujarat, in order, almost uniformly. The per-capita figures are very low for West Bengal and Uttar Pradesh. The variable shows a rather good result for Haryana, Himachal Pradesh, Orissa, Rajasthan and Tamil Nadu. On a comparison of pre and post decentralisation periods, it is found that the figures for Madhya Pradesh has declined almost

Table – 24: Per Capita Own-Tax Revenue (PCOTR) for ULBs (in Rs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	12.22	16.35	19.77	67.43	70.83	90.81	99.30	116.45
Assam	17.81	20.01	26.43	31.41	27.88	33.69	32.04	32.98
Gujarat	158.98	194.80	233.94	267.88	340.24	417.51	469.26	506.04
Haryana	86.27	133.42	120.78	106.58	121.98	143.51	154.90	165.28
Himachal Pradesh	76.00	86.22	91.34	99.40	94.05	114.43	140.17	182.27
Karnataka	44.26	49.15	57.56	60.52	68.93	73.09	94.33	97.46
Kerala	53.03	60.28	73.99	68.71	76.63	83.48	92.77	102.51
Madhya Pradesh	47.01	62.32	52.83	62.65	73.21	35.65	44.73	57.40
Maharashtra	352.29	416.11	491.50	580.56	684.37	808.41	954.94	1128.05
Orissa	70.59	87.47	101.76	108.00	123.44	139.19	143.73	171.06
Punjab	197.04	210.13	219.97	266.78	566.38	443.65	493.96	530.45
Rajasthan	94.42	106.29	124.63	147.27	172.14	229.93	254.03	288.30
Tamil Nadu	51.24	59.01	66.56	87.74	113.21	147.72	142.29	175.68
Uttar Pradesh	12.04	15.38	16.10	15.92	19.71	20.83	22.28	24.51
West Bengal	9.33	10.70	14.01	17.62	17.23	INF	INF	INF
TOTAL	93.06	110.57	126.94	152.75	187.64	214.28	245.37	283.41

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi, Census 1991, Government of India. Census 2001, Government of India. Mid-year population figures are estimated

monotonically while those of Andhra Pradesh has shown an increasing trend in the latter period as compared to the previous one.

Table – 25: Compund Annual Growth Rates (CAGR) of Per Capita Own-Tax Revenue of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	27.19	66.23	13.24	38.00
Assam	21.82	8.43	-1.06	9.20
Gujarat	21.31	21.30	10.09	17.99
Haryana	18.32	5.92	7.32	9.73
Himachal Pradesh	9.63	7.80	26.21	13.31
Karnataka	14.04	8.29	15.47	11.94
Kerala	18.12	4.10	10.81	9.87
Madhya Pradesh	6.01	-12.29	26.89	2.89
Maharashtra	18.12	18.04	18.13	18.09
Orissa	20.07	11.01	10.86	13.48
Punjab	5.66	26.35	9.35	15.20
Rajasthan	14.89	22.65	11.98	17.29
Tamil Nadu	13.97	30.44	9.05	19.25
Uttar Pradesh	15.64	8.97	8.47	10.69
West Bengal	22.54	INF	INF	INF
TOTAL	16.79	19.07	15.01	17.24

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table – 26: Per Capita Total Revenue (PCTR) for ULBs (in Rs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	47.02	50.74	66.08	481.19	220.24	255.34	295.77	364.41
Assam	112.12	78.77	79.12	100.48	94.00	132.34	147.44	159.18
Gujarat	272.07	325.60	390.39	439.90	540.46	593.72	645.17	836.79
Haryana	159.86	267.67	249.92	251.24	288.58	343.49	534.91	439.55
Himachal Pradesh	222.79	277.39	279.43	336.41	390.75	454.60	693.67	879.47
Karnataka	104.05	146.92	120.01	178.24	200.19	205.92	237.28	299.67
Kerala	110.34	123.56	128.54	145.10	157.67	198.93	280.06	339.95
Madhya Pradesh	151.21	173.34	174.73	199.42	219.00	223.79	293.78	315.83
Maharashtra	529.40	624.00	739.03	828.36	999.18	1179.03	1391.81	1629.79
Orissa	138.88	168.60	188.27	195.52	217.06	236.80	271.04	276.94
Punjab	346.20	360.50	404.49	460.76	798.07	667.90	754.55	782.45
Rajasthan	166.84	191.97	209.97	235.94	281.94	396.19	445.44	506.64
Tamil Nadu	172.70	200.66	218.42	250.35	314.75	379.88	454.34	642.16
Uttar Pradesh	118.22	132.64	143.37	148.50	158.38	176.55	206.12	227.08
West Bengal	80.75	83.59	96.97	117.26	344.98	369.94	446.73	491.67
TOTAL	189.08	220.29	248.34	291.49	369.77	420.10	496.69	585.85

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi Census 1991, Government of India. Census 2001, Government of India. Mid-year population figures are estimated

The Per-Capita Total Revenue (PCTR) for ULBs shows the best figures for Maharashtra followed by Punjab and Gujarat in that order. This variable also shows an almost similar trend as that of PCOTR. (Tables 26 &27)

Possible Explanations of the trends of the Revenue Indices

The differences in the trends are nothing else but different forms of horizontal imbalances, and are attributable to several factors:

- i) Interregional or inter-state differences in the fiscal domain of the city governments (octroi levies are one example of the differences in the fiscal domain);
- ii) Differences in the tax base and the tax rates of the Nagar Panchayats, Municipalities and Municipal Corporations and also of the same class between states;
- iii) Differences in the level of efficiencies with which the city governments use their resource-raising powers;
- iv) Uneven resource endowments resulting in different yield levels even with the application of the same tax base and tax rates.

There remains very little doubt that the Municipal Corporations enjoy more autonomy than the other two categories of ULBs and as a consequence they are comparatively financially strong enough than the others. It is also seen that while the PCTR values of the Municipalities are almost three times than the Nagar Panchayats; that of the Municipal Corporations are almost four times of the Municipalities.

Own revenue consists of property taxes, octroi, advertisement taxes, betterment levies, tax on vehicles, boats and animals, a host of charges for the services rendered and fines and fees. But, city governments in India have just two major taxes to rely upon - octroi and property tax. Basically, octroi is the only tax within the jurisdiction of the city

governments that has the potentiality to grow overtime with the growth of the economic activities of the city. However, octroi is on its way out except for the states of Gujarat, Maharashtra⁵⁸ and Punjab. These states have also given due consideration to the fact whether to continue with the same due to the growing resentment among the traders for the time and energy wasted in the process of its collection. Thus the best way to improve the situation was to do away with it rather than attempt a more scientific and time saving mode of collection. Interstate analyses of the PCTR figures of ULBs show that they are uniformly higher in the states with octroi and are almost twice the ones that do not have it. Moreover, the revenue grows at a much faster rate in the cities that have octroi as a source of revenue. Much of the functional devolution to the city governments as a result of the 74th CAA would remain ineffective in the absence of such buoyant sources of revenue for the ULBs. As a

Table - 27: Compound Annual Growth Rates (CAGR) of Per Capita Tax Revenue of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
Andhra Pradesh	18.55	56.92	19.46	33.98
Assam	-16.00	18.70	9.67	5.13
Gujarat	19.79	15.00	18.72	17.41
Haryana	25.03	11.18	13.12	15.55
Himachal Pradesh	11.99	17.61	39.09	21.67
Karnataka	7.40	19.72	20.63	16.31
Kerala	7.93	15.67	30.72	17.44
Madhya Pradesh	7.50	8.60	18.80	11.10
Maharashtra	18.15	16.85	17.57	17.43
Orissa	16.43	7.94	8.14	10.36
Punjab	8.09	18.20	8.24	12.35
Rajasthan	12.18	23.57	13.08	17.20
Tamil Nadu	12.46	20.26	30.02	20.64
Uttar Pradesh	10.12	7.19	13.41	9.77
West Bengal	9.58	56.25	15.28	29.44
All India	14.60	19.15	18.09	17.53

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

⁵⁸ The government of Maharashtra has also abolished octroi for the Municipalities by an Ordinance of April 1999. However it continues to exist for the Municipal Corporations.

consequence, the city governments, mainly Municipal Corporation, in Gujarat, Maharashtra and Punjab are financially well equipped to undertake additional functions.

The inter-state analysis of percentage share of own revenue to total revenue (table – 8) also reveals that the own tax revenue of the ULBs in the states, which are yet to abolish octroi, contributes as high as 60 to 70% of the total revenue for that state. Moreover, the share often becomes higher. On the other hand, tax revenues contributed meagrely to the total revenue earned for the states without octroi. The share hovered around 30 to 40% during the early 1990s but have shown declining trends towards the later years, except for Andhra Pradesh and West Bengal. Yet, the corresponding shares account for less than half of the same contributed by the ULBs in the octroi levying states.

But, though there are many advantages of levying octroi in a micro perspective as a source of revenue for the ULBs, it might have certain negative impact if seen from a macro perspective. Since it distorts the normal movements from one state to another in addition to the wastage of time and energy consumed, it is often referred to as a 'bad tax'. Octroi being a tax with the city governments, the final decision towards approval of its rates relating to various commodities lies with the state governments. As a result often there arises variation in the rates of these taxes between states. Moreover, the rates of these taxes vary between cities of a particular state. Several state governments, to mention Madhya Pradesh, have discussed the issue of reintroducing octroi. Provided octroi is abolished keeping in view its adverse macro implications, it is required to evolve major tax sources for the city governments which has its growth potential derived from cities' economic growth.

However, mere devolving tax sources to the city governments would not solve the issue. Another major tax, property tax, with the city governments have also not succeeded in yielding its potential, though the property values have kept on sky-rocketing over the years. The property tax system has continually suffered from the widely known problems of a narrow base, persistent under-valuation, high tax rates (ranging between 20 to 40% of the rental values) and poor enforcement. The property tax is computed in India on the basis of the annual rental value (ARV) of the property, and a major flaw lies in the process of its computation itself. Moreover, undue political interference and petitions filed in the courts by the assesseees contributed towards long delay and sometimes non collection of the arrears. But, in recent years, in the absence of octroi, property tax has remained the sole source of revenue for the city governments. Thus, it has been observed that the policies adopted by the state government (abolishing octroi) have been self-defeating.

Movement of the Non-tax Revenue component of the city governments over the years

The Non-tax component is perhaps the most disappointing feature of the revenue structure of the city governments. It accounts for less than 20% of the total revenue resources of the ULBs, indicating that the ULBs have neither been able to effectively put into use the concept of “user charges”, nor adjust the various types of licence fees, fines, etc in line with the prevailing market rates.

At the All India level (table 7), the Municipal Corporations seem to be the worst sufferers in the sense that in the immediate post decentralisation initiative period, they have registered a negative rate of growth of the non

tax revenue component, followed by a positive growth rate of 2.39 in the next period.

Table –28: Percentage Share of Own Non-Tax to Total Revenue of ULBS

State	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	14.16	14.96	12.88	5.07	14.62	14.54	16.60	20.90
Assam	28.00	41.84	38.19	40.88	47.15	38.56	47.57	38.93
Gujarat	9.91	9.24	7.20	8.32	7.47	8.43	7.67	7.50
Haryana	18.00	22.31	28.35	27.99	28.63	25.11	13.22	20.79
Himachal Pradesh	37.54	39.58	32.92	37.21	40.36	35.63	26.62	33.69
Karnataka	6.62	7.80	8.98	22.11	9.63	8.32	7.92	6.44
Kerala	22.23	21.74	24.33	23.03	20.38	17.55	14.48	13.49
Madhya Pradesh	16.04	15.81	15.59	16.27	14.30	10.15	11.62	12.42
Maharashtra	24.18	23.69	23.10	23.79	22.48	22.01	21.54	21.27
Orissa	11.14	12.95	12.52	11.39	13.83	13.86	11.37	10.84
Punjab	22.62	22.80	6.49	19.48	15.47	19.26	20.15	18.83
Rajasthan	17.72	17.35	14.62	15.59	14.70	14.47	16.84	17.64
Tamil Nadu	25.59	22.61	19.65	21.27	23.35	21.26	23.28	26.42
Uttar Pradesh	26.90	16.27	16.26	17.02	16.53	17.80	16.81	16.70
West Bengal	9.28	9.74	9.32	8.88	3.12	INF	INF	INF
TOTAL (All India)	20.38	19.20	18.55	19.25	17.13	17.00	16.92	17.47

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table – 29: Compound Annual Growth Rates (CAGRs) of Percentage Share Own Non Tax to Total Revenue of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	-4.65	12.43	-6.20	5.72
Assam	16.78	0.32	0.48	4.82
Gujarat	-14.75	5.38	-5.66	-3.90
Haryana	25.49	-3.97	-9.00	2.08
Himachal Pradesh	-6.36	2.67	-2.76	-1.53
Karnataka	16.46	-2.53	-12.01	-0.40
Kerala	4.62	-10.32	-12.32	-6.88
Madhya Pradesh	-1.39	-13.33	10.60	-3.59
Maharashtra	-2.28	-1.59	-1.70	-1.82
Orissa	6.01	3.46	-11.59	-0.40
Punjab	-46.44	43.71	-1.11	-2.59
Rajasthan	-9.19	11.47	-6.50	-0.07
Tamil Nadu	-12.38	2.66	11.47	0.45
Uttar Pradesh	-22.25	3.06	-3.15	-6.59
West Bengal	0.22	INF	INF	INF
TOTAL (All India)	-4.61	-2.87	1.37	-2.18

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

As can be seen from the tables 28 & 29, it is evident that the only states making healthy collections of non-tax revenue are Assam and Himachal Pradesh. West Bengal and Gujarat return the most dismal figures.

Table – 30: Percentage Share Own Non-Tax to Total Revenue of Nagar Panchayats

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	9.85	7.88	10.27	11.40	10.76
Assam	57.44	57.86	60.62	62.62	62.54	34.89	24.29	23.51
Himachal Pradesh	50.65	51.40	51.07	50.52	49.38	42.70	34.07	47.33
Karnataka	15.26	13.81	20.34	19.42	24.99	10.30	12.55	8.58
Madhya Pradesh	3.97	4.09	3.98	4.08	0.30	2.70	2.95	3.39
Orissa	11.91	14.45	12.15	15.16	14.56	13.31	9.48	9.81
Punjab	26.49	27.54	21.57	19.88	24.27	23.72	22.14	24.03
Rajasthan	24.61	23.60	17.63	21.02	17.19	15.59	16.64	17.93
Tamil Nadu	6.28	6.28	5.90	5.23	6.84	15.49	15.88	10.07
Uttar Pradesh	27.95	36.14	26.21	34.27	38.65	36.89	28.75	28.00
West Bengal	1.89	2.18	2.28	2.37	2.30	1.86	9.82	1.38
All India	17.41	17.81	14.30	15.63	14.71	16.68	15.59	13.85

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table- 31: Compound Annual Growth Rates (CAGRs) of Percentage Share Own Non-Tax to Total Revenue of Nagar Panchayats

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	IN	INF	-67.64	INF
Assam	2.72	-16.82	-17.90	-11.98
Himachal Pradesh	0.42	-5.79	5.28	-0.96
Karnataka	15.44	-20.31	-8.69	-7.89
Madhya Pradesh	0.17	-12.10	11.90	-2.24
Orissa	1.00	3.10	-14.17	-2.74
Punjab	-9.77	3.22	0.64	-1.39
Rajasthan	-15.36	-4.03	7.26	-4.42
Tamil Nadu	-3.04	37.91	-19.35	6.98
Uttar Pradesh	-3.17	12.07	-12.87	0.03
West Bengal	9.86	-6.60	-13.91	-4.42
All India	-9.37	5.26	-8.87	-3.21

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

The trend is almost the same for Nagar Panchayats. It is evident from the tables 30 & 31 that while Assam and Himachal Pradesh are the only

states that have put up a good performance, West Bengal and Madhya Pradesh returns the same sad condition.

Table – 32: Percentage Share Own –Non-Tax to Total Revenue of Municipalities

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	9.73	12.18	12.59	13.79	19.36
Assam	80.59	77.89	70.43	72.78	70.78	39.73	26.24	22.95
Gujarat	13.17	13.23	11.66	15.26	10.11	13.06	13.42	1.27
Haryana	22.36	24.95	38.20	39.77	40.75	31.57	20.25	28.62
Himachal Pradesh	22.55	19.50	20.67	16.87	18.23	17.00	13.88	14.10
Karnataka	13.09	19.73	18.54	46.51	25.51	19.31	15.32	13.78
Kerala	19.72	18.94	21.68	21.55	22.80	18.54	15.75	15.80
Madhya Pradesh	5.30	5.47	5.37	4.77	5.11	3.14	39.53	3.35
Maharashtra	8.66	9.02	9.42	9.88	9.99	10.55	11.18	11.90
Orissa	13.55	13.04	15.43	12.18	15.39	16.61	15.88	1.59
Punjab	26.41	28.33	25.51	23.53	30.50	23.65	22.81	22.95
Rajasthan	10.39	10.45	12.41	10.58	12.89	6.96	10.84	10.53
Tamil Nadu	30.66	28.62	20.34	31.03	23.72	19.59	28.73	23.09
Uttar Pradesh	28.15	17.54	17.72	18.73	16.53	18.23	17.04	15.98
West Bengal	30.66	28.62	20.34	31.03	23.72	19.59	28.73	23.09
TOTAL (All India)	28.15	17.54	17.72	18.73	16.53	18.23	17.04	15.98

Table – 33: Compound Annual Growth Rates (CAGRs) of Percentage Share Own Non Tax to Total Revenue of Municipalities

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	INF	INF	24.02	INF
Assam	-6.51	-17.37	-23.99	-16.42
Gujarat	-5.90	3.84	-6.88	-28.39
Haryana	3.07	-6.16	-4.78	3.59
Himachal Pradesh	-4.25	-6.31	-8.95	-6.49
Karnataka	19.02	1.36	-15.52	0.74
Kerala	4.84	-5.09	-7.69	-3.12
Madhya Pradesh	0.66	-16.33	3.19	-6.35
Maharashtra	4.27	3.84	6.19	4.63
Orissa	6.69	2.48	-6.91	-26.36
Punjab	-1.73	-2.49	-1.50	-1.99
Rajasthan	9.32	-17.55	23.02	0.19
Tamil Nadu	-18.55	-1.25	8.58	-3.97
Uttar Pradesh	-20.67	0.96	-6.37	-7.77
West Bengal	-18.55	-1.25	8.58	-3.97
TOTAL (All India)	-20.67	0.96	-6.37	-7.77

Source (both tables 32 & 33): Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

From the tables 32 & 33, it comes to the notice that Assam is the only state returning good figures, but the non tax revenue collection in this state is also has declined in the post decentralisation phase. Gujarat and Maharashtra performed badly on this front, but this is over compensated by the octroi tax collection of these states.

Upon a careful perusal of the tables 34 and 35 (below), it becomes clear that Himachal Pradesh is the only state showing above average figures while the non-tax revenue collections of Gujarat, Haryana, Orissa and West Bengal are really bad.

The situation appears to be more dismal if we examine the CAGRs of the percentage share of non-tax revenue to total revenue of the city governments one by one (Tables 29, 31, 33 & 35). While ULBs have recorded negative growth rates for the period 1993 – 96 (-2.87), but positive growth rate for the period 1996 – 98 (1.37).

Table – 34: Percentage Share Own –Non-Tax to Total Revenue of Municipal Corporations

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	14.16	14.96	12.88	15.14	18.11	16.25	20.03	22.80
Assam	14.80	27.56	19.33	27.58	33.66	38.91	66.36	58.56
Gujarat	8.26	7.54	5.09	5.50	6.05	6.38	5.51	5.51
Haryana	2.34	7.82	6.11	8.08	8.45	12.41	3.86	7.30
Himachal Pradesh	48.22	55.64	52.47	54.46	60.22	51.65	41.50	48.76
Karnataka	2.82	2.00	2.87	2.24	1.86	2.06	2.91	2.34
Kerala	26.39	26.30	29.04	25.76	15.52	15.13	11.42	8.78
Madhya Pradesh	21.68	22.59	21.01	22.12	20.57	15.17	17.09	18.36
Maharashtra	26.38	25.80	25.09	25.98	24.42	23.81	23.20	22.81
Orissa	3.64	11.45	7.08	6.49	10.84	9.37	6.59	4.20
Punjab	18.30	17.04	16.82	15.07	8.11	14.22	17.33	14.17
Rajasthan	12.24	12.55	9.42	11.43	12.77	17.56	2209.78	22.71
Tamil Nadu	28.91	24.14	24.06	21.72	28.21	24.95	23.26	36.36
Uttar Pradesh	25.41	10.91	12.43	11.72	12.73	14.11	13.92	14.66
West Bengal	6.20	6.68	6.48	6.10	INF	INF	INF	INF
TOTAL	22.05	20.57	20.05	20.27	17.76	17.95	17.87	18.82

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table – 35: Compound Annual Growth Rates (CAGRs) of Percentage Share Own – Non-Tax to Total Revenue of Municipal Corporations

<i>States</i>	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	-4.65	8.06	18.46	7.04
Assam	14.29	26.27	22.67	21.72
Gujarat	-21.50	7.83	-7.03	-5.61
Haryana	61.72	26.67	-23.33	17.68
Himachal Pradesh	4.31	-0.52	-2.84	0.16
Karnataka	0.84	-10.46	6.61	-2.63
Kerala	4.90	-19.53	-23.80	-14.54
Madhya Pradesh	-1.57	-10.28	10.00	-2.35
Maharashtra	-2.49	-1.73	-2.12	-2.06
Orissa	39.44	9.75	-33.04	2.05
Punjab	-4.13	-5.45	-0.18	-3.59
Rajasthan	-12.29	23.09	13.72	9.23
Tamil Nadu	-8.77	1.21	20.73	3.33
Uttar Pradesh	-30.05	4.31	1.93	-7.56
West Bengal	2.26	INF	INF	INF
TOTAL	-4.62	-3.62	2.39	-2.23

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Opposite is the case with the Nagar Panchayats, which showed a positive growth rate for the period 1993-96 (5.26), followed by a negative growth rate for the period 1996-98 (-8.87). Similar to the trend of the Nagar Panchayats is the trend of the Municipalities, with a positive growth rate for the period 1993-96 (0.96) being followed by a negative period for the period 1996-98 (-6.37). But, the Municipal Corporations show a negative growth rate for the 1993-96 period (-3.62). In the next period of 1996-98 there is a positive growth rate of 2.39 for them.

Table – 36: Per Capita Non-Tax Revenue (PCNTR) of ULBs (in Rs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	6.66	7.59	8.51	24.42	32.20	371.45	49.09	76.18
Assam	31.39	32.95	30.22	41.07	44.32	51.02	70.13	61.97
Gujarat	26.96	30.07	28.11	36.62	40.35	50.03	49.47	62.75
Haryana	28.78	59.70	70.85	70.31	82.63	86.24	70.72	91.39
Himachal Pradesh	83.64	109.80	91.98	125.16	157.70	161.96	184.67	296.30
Karnataka	6.89	11.46	10.78	39.41	19.27	17.13	18.79	19.30
Kerala	24.52	26.86	31.27	33.42	32.13	34.91	40.56	45.86
Madhya Pradesh	24.25	27.40	27.25	32.44	31.31	22.72	34.13	39.23
Maharashtra	128.03	147.82	170.68	197.10	224.65	259.48	299.82	346.62
Orissa	15.47	21.83	23.57	22.28	30.01	32.83	30.80	30.01
Punjab	78.31	82.18	26.25	89.76	123.43	128.62	152.06	147.34
Rajasthan	29.57	33.30	30.69	36.77	41.44	573.49	75.01	89.37
Tamil Nadu	44.20	45.38	42.92	53.25	73.50	80.76	105.77	169.64
Uttar Pradesh	31.80	21.58	23.31	25.27	26.18	31.42	34.65	37.91
West Bengal	7.49	8.14	9.04	10.42	10.77	INF	INF	INF
TOTAL	38.54	42.29	46.06	56.10	63.33	71.41	84.02	102.33

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi Census 1991, Government of India. Census 2001, Government of India. Mid-year population figures are estimated

Table 36 shows that uniformly good per-capita figures are returned by Himachal Pradesh, Maharashtra, Tamil Nadu and Punjab; while the situation is really sad on the front for the states of Andhra Pradesh (though it has improved a lot in the post decentralisation period), Karnataka and West Bengal. None of the states have performed any better than the average picture of the previous years.

Table – 37: Compound Annual Growth Rates (CAGR) of Per Capita Non-Tax Revenue of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
Andhra Pradesh	13.04	25.20	-54.71	41.64
Assam	-1.88	19.07	10.21	10.20
Gujarat	2.11	21.19	11.99	12.83
Haryana	56.90	6.77	2.94	17.95
Himachal Pradesh	4.87	20.75	35.26	19.80
Karnataka	25.08	16.69	6.15	15.85
Kerala	12.93	3.74	14.62	9.36
Madhya Pradesh	6.01	-5.88	31.40	7.11
Maharashtra	15.46	14.98	15.58	15.29
Orissa	23.43	11.68	-4.39	9.93
Punjab	-42.10	69.85	7.03	9.45
Rajasthan	1.88	16.53	-60.52	17.12
Tamil Nadu	-1.46	23.46	44.93	21.18
Uttar Pradesh	-14.38	10.46	9.84	2.54
West Bengal	9.86	INF	INF	INF
TOTAL	9.32	15.74	19.71	14.97

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Thus, the results on this front appear to be mixed, with the Nagar Panchayats and the Municipalities showing a positive growth immediately after the enactment of the 74th CAA, this is followed by a negative growth rate for the period 1995-96 to 1997-98; but the ULBs as a whole and the Municipal Corporations showing the reverse trend. In the immediate post decentralisation period, the Municipal Corporations have done remarkably well as compared to the other two tiers of city governments, with as many as 8 states recording positive growth rates. The municipalities, however, registered higher growth of non-tax revenues only for five states, but five states have registered positive growth rates for the period 1996-98, after recording negative growth rates for the period 1993-96. Nagar Panchayats seem to be the worst sufferer on this front, in the sense that they have registered negative growth on the non-tax revenue front for all states except four. Among the ULBs, Tamil Nadu is the only state, which has shown tremendous

increase in the growth of their non-tax revenues in the second period i.e. the immediate post decentralisation phase.

Possible explanations of the trends shown by the non revenue indices

A basic cause of the weak finances of the ULBs in India is the zero or the negligible level of the implementation of the user charges against the services provided. Yet, the share of user charges will be further lowered as a substantial share of non-tax revenue consists of the rent from municipal properties and the licence fees. Even today most of the services provided today in urban India are either free of cost or at negligible prices. As a consequence, user charges have remained far from being a major source of revenue for the ULBs. Much of the cost of these services are recovered from the taxes often computed on the basis of property tax payable, which has its own limitations.

The low implementation of user charges has been reflected in the lower cost recovery and hence low level of investment in this sector. Though some of the state governments have given the authority to the city governments to revise the user charges within permissible limits, it seems that it is yet to be exploited to its full potential as a buoyant source of revenue for the city governments.

Movement of the share of Other revenue to Total revenue through the years.

The Other-revenue comprising of the grants from the state governments to their city counterparts, seems to have favoured the weakest of the municipal entities, the Nagar Panchayats. It is apparent from the table 7. Some of the states like Assam, Himachal Pradesh, Karnataka, Madhya Pradesh and Rajasthan have registered some of the tremendous increase

Table – 38: Percentage Share of Other Revenue to Total Revenue of ULBS

State	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	59.86	52.81	57.21	22.82	53.22	50.33	49.83	47.14
Assam	56.11	32.76	28.41	27.86	23.18	35.98	30.70	40.35
Gujarat	31.66	30.94	32.87	30.78	29.58	21.25	19.60	32.03
Haryana	28.95	27.85	23.32	29.59	29.10	33.11	57.82	41.61
Himachal Pradesh	28.35	29.33	28.03	33.25	35.57	39.20	53.17	45.59
Karnataka	50.84	58.74	43.05	43.93	55.94	56.19	52.33	61.04
Kerala	29.71	29.37	28.24	29.61	31.02	40.49	52.39	56.35
Madhya Pradesh	52.87	48.24	54.17	52.32	52.27	73.92	73.16	69.41
Maharashtra	9.27	9.63	10.40	6.12	9.02	9.43	9.85	9.52
Orissa	38.03	35.17	33.43	33.37	29.31	29.35	35.60	27.40
Punjab	20.46	18.92	24.28	22.62	13.56	14.82	14.38	13.38
Rajasthan	25.68	27.28	26.02	21.99	24.25	27.59	26.13	25.46
Tamil Nadu	44.74	47.98	49.88	43.69	40.81	39.85	45.40	46.23
Uttar Pradesh	62.92	72.13	72.51	69.82	71.02	70.40	72.38	72.51
West Bengal	79.16	77.46	76.23	76.08	288.03	26.48	32.63	32.43
TOTAL (All India)	30.40	30.61	30.34	28.35	26.83	26.84	28.86	29.63

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

in the growth of other revenues during the immediate post decentralisation period (table 38 & 39). This is perhaps due to the state

Table – 39: Compound Annual Growth Rates (CAGRs) of Percentage Share of Other Revenue to Total Revenue of ULBS

STATES	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	-2.24	-4.18	-3.22	-3.35
Assam	-28.85	8.20	5.89	-4.60
Gujarat	1.91	-13.53	22.76	0.17
Haryana	-10.26	12.39	12.09	5.31
Himachal Pradesh	-0.57	11.84	7.84	7.02
Karnataka	-7.98	9.28	4.23	2.65
Kerala	-2.50	12.76	17.98	9.58
Madhya Pradesh	1.22	10.92	-3.10	3.96
Maharashtra	5.90	-3.22	0.48	0.37
Orissa	-6.25	-4.25	-3.38	-4.58
Punjab	8.93	-15.18	-4.99	-5.89
Rajasthan	0.66	1.96	-3.94	-0.13
Tamil Nadu	5.59	-7.21	7.70	0.47
Uttar Pradesh	7.35	-0.98	1.48	2.05
West Bengal	-1.87	-29.71	10.67	-11.97
TOTAL (All India)	-0.11	-4.00	5.07	-0.37

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

governments' decision to provide the city governments with the dues that they often owed for long. Much of the disbursement of the grants were at the discretion of the state governments and continues to be so even now, as is apparent from the tremendous fluctuations in the growth rates. Some of then state governments, which did not take the initiative to devolve the dues to the ULBs, also did not deprive them completely, as an increase in the growth of revenue from external sources i.e. grants and shared taxes for these states were seen during the latter years.

Table – 40: Percentage Share of Other Revenue to Total Revenue of Nagar Panchayats

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	INF	INF	INF	61.11	61.09	580.89	57.12	59.92
Assam	10.93	6.88	7.92	7.50	5.28	38.12	52.84	59.98
Himachal Pradesh	27.64	26.58	27.04	27.82	29.46	39.00	51.30	32.38
Karnataka	42.26	50.94	44.58	49.34	35.66	52.34	44.86	52.43
Madhya Pradesh	68.09	68.80	68.66	69.43	5.38	87.18	88.19	86.12
Orissa	25.69	28.55	29.02	35.33	36.82	38.35	47.04	36.31
Punjab	35.77	27.69	43.08	36.98	32.86	30.20	30.73	22.01
Rajasthan	32.58	34.59	32.05	29.87	31.13	41.23	36.74	33.94
Tamil Nadu	62.33	62.28	69.79	49.69	61.79	58.50	61.36	75.37
Uttar Pradesh	66.69	57.12	68.65	56.84	53.65	538.56	63.75	64.69
West Bengal	96.28	95.83	95.73	95.63	93.55	92.35	94.64	94.74
Total (All India)	50.16	48.73	52.19	48.14	46.80	53.46	55.28	60.42

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

From the tables 40, 41 & 42, it is apparent that almost a similar situation exists for he Municipalities. But, the Municipal Corporations seem to be not much favoured except for some of the states. The latter years have seen a comparatively better off situation even for the Municipal Corporations, so far as the disbursement of the state government grants and other state revenues are concerned. This is a positive scenario that during the third period of analysis i.e. 199596, all the three tiers of ULBs and consequently also the ULBs as a whole have registered higher rates of growth of other revenue as compared to the previous two periods i.e. 1990-91 and 1992-93.

Therefore, one can conclude that the states to a large extent have preferred to disburse their own funds in the name of empowerment rather than actually empowering the city governments by making them eligible enough to increase their own revenue generation capacity through both the tax and non-tax sources. Herein lies the politics of the decentralisation initiative⁵⁹. On a holistic note, one realises that, much of the benefits of the decentralisation benefits have remained confined to the larger corporations. However, though the decentralisation initiative increased the resource generating capacity of the larger corporations, the smaller municipal entities seem to have become more dependent on the state governments grants for their revenues.

Table – 41: Percentage Share of Other Revenue to Total Revenue of Municipalities

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	INF	INF	INF	57.61	56.53	53.60	53.36	53.29
Assam	2.75	2.70	2.33	2.10	1.27	36.68	54.40	65.37
Gujarat	43.89	40.06	49.72	39.85	45.45	37.61	35.43	46.89
Haryana	32.03	29.32	11.40	15.31	18.18	28.92	49.87	34.09
Himachal Pradesh	39.05	47.29	43.98	54.40	50.74	54.04	62.49	61.90
Karnataka	45.07	42.45	40.39	29.57	35.87	44.98	39.16	50.06
Kerala	35.27	35.52	34.01	32.93	36.07	47.77	57.78	58.89
Madhya Pradesh	61.93	64.70	62.56	62.14	59.71	70.45	73.55	71.28
Maharashtra	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Orissa	43.83	45.68	42.81	40.16	35.51	33.83	35.46	31.11
Punjab	22.61	19.06	27.16	24.86	24.70	16.64	15.41	15.91
Rajasthan	17.65	17.53	15.32	13.91	15.15	18.83	25.49	27.66
Tamil Nadu	37.43	39.46	44.00	33.07	36.39	29.61	38.55	42.51
Uttar Pradesh	60.80	72.10	71.09	68.86	72.57	72.33	73.05	74.64
West Bengal	78.83	77.29	76.04	75.83	75.67	73.35	78.74	78.94
All India	40.09	39.14	39.88	38.44	39.08	36.94	40.39	41.15

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

⁵⁹ Sivaramakrishnan. K.C. (2000), 'Power to the People? The Politics and Progress of Decentralisation', Konark Publishers

Table – 42: Percentage Share of Other Revenue to Total Revenue of Municipal Corporations

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	59.85	52.81	57.21	50.24	48.55	45.74	45.49	40.51
Assam	71.05	46.70	44.19	39.04	36.49	35.07	10.87	11.32
Gujarat	25.45	27.05	10.57	27.08	22.24	14.02	13.65	26.46
Haryana	17.92	19.77	5.23	53.73	47.28	41.36	68.41	54.55
Himachal Pradesh	13.98	10.33	11.23	10.50	21.93	23.23	40.19	34.51
Karnataka	54.25	66.66	44.64	56.30	65.77	62.73	61.18	67.63
Kerala	20.39	19.34	17.97	23.51	20.89	22.71	39.39	51.18
Madhya Pradesh	47.12	44.90	48.77	46.04	49.83	71.15	68.74	64.18
Maharashtra	10.59	11.01	11.91	7.08	10.42	10.91	11.43	11.09
Orissa	32.76	21.82	19.38	17.92	13.85	14.63	28.55	15.44
Punjab	16.83	18.05	19.17	17.89	7.61	11.71	12.13	11.46
Rajasthan	20.71	22.81	19.70	16.51	21.72	11.96	12.89	11.77
Tamil Nadu	43.78	48.69	46.31	43.75	37.02	39.03	42.79	32.56
Uttar Pradesh	64.28	74.99	74.98	73.42	55.87	72.46	73.72	72.30
West Bengal	80.78	77.83	76.72	77.05	5.09	4.57	6.00	5.93
All India	24.29	25.33	24.48	21.94	20.52	20.16	21.75	21.86

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Movement of the Expenditure Indices through the years

Upon a careful perusal of the tables 43, 44, 45, 46, 47 & 48, it is evident that about half of the total expenditure of the Nagar Panchayats and the Municipal Corporations are spent on the core services, while the figures

Table – 43: All India Expenditure Indices of City Governments

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
% CSE / TE								
ULBs	40.94	30.42	31.55	32.85	29.58	33.45	54.77	66.9
Nagar Panchayats	48.28	48.76	48.5	47.49	48.04	49.45	49.83	51.62
Municipalities	22	25.19	28.59	26.54	28.65	24.36	24.95	17.75
Municipal Corporations	47.23	32.26	32.49	34.74	29.81	36	60.59	75.25
% OTH E / TE								
ULBs	59.06	69.58	70.05	67.15	70.43	66.55	45.23	33.1
Nagar Panchayats	51.72	51.24	51.5	52.51	51.96	50.55	50.17	48.38
Municipalities	78	74.81	71.41	73.46	74.86	75.64	75.05	82.25
Municipal Corporations	52.77	67.74	67.51	65.26	70.19	64	39.41	25.51

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

for the Municipalities is about one fourth of the total expenditure. This is due to the fact that the Municipal Corporations have more capacity to generate resources, while the Nagar Panchayats receive a greater section of grants - in - aid

Table – 44: Percentage Share of Core Services Expenditure to Total Expenditure of ULBs

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	21.46	29.40	28.57	31.31	23.76	24.88	42.82	34.60
Assam	35.97	38.25	31.04	37.11	25.32	29.79	32.69	37.88
Gujarat	36.38	35.42	35.58	37.25	35.64	37.60	42.19	38.83
Haryana	39.52	51.95	49.10	41.24	43.97	50.97	50.29	47.79
Himachal Pradesh	32.44	32.04	31.61	31.18	32.22	32.88	37.59	31.85
Karnataka	25.31	26.76	22.16	24.33	26.91	28.69	26.73	34.05
Kerala	29.26	30.18	31.00	29.99	31.43	31.69	29.65	30.99
Madhya Pradesh	35.18	35.06	34.95	36.53	37.59	37.51	34.46	36.48
Maharashtra	58.63	30.63	35.20	35.73	42.50	46.78	71.10	81.60
Orissa	26.79	26.26	30.67	24.25	24.61	23.79	25.02	28.81
Punjab	26.12	27.70	24.80	23.96	17.74	19.12	14.69	14.63
Rajasthan	68.84	69.09	6.96	69.76	70.19	71.99	71.87	71.52
Tamil Nadu	39.56	40.68	36.71	36.96	35.57	40.17	35.65	41.62
Uttar Pradesh	25.79	21.70	21.95	21.46	21.04	17.06	21.99	22.16
West Bengal	20.73	16.58	17.50	21.29	17.26	16.90	21.03	25.72
Total (All India)	40.94	30.42	31.55	32.85	29.58	33.45	54.77	66.90

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

The share of core services expenditure to total expenditure declined from 26.54% in 1993-94 to 17.75% in 1997-98 for the Municipalities. The corporations on the other hand could increase the percentage share of core services expenditure from 34.7% to 75.25% during the same period. This is a pointer towards a supposed improvement in the quality of life as well as an increase in the property values. In the case of the Municipal

Table – 45: Compound Annual Growth Rates (CAGRs) of Percentage Share of Core Services Expenditure to Total Expenditure of ULBs

STATES	CAGR 91-93	CAGR 93-96	CAGR96-98	CAGR91-98
Andhra Pradesh	15.39	-4.51	17.93	7.06
Assam	-7.11	-1.36	12.77	0.74
Gujarat	-1.11	1.85	1.63	0.94
Haryana	11.47	1.25	-3.16	2.75
Himachal Pradesh	-1.29	1.33	-1.59	-0.27
Karnataka	-6.44	8.99	8.95	4.33
Kerala	2.93	0.73	-1.12	0.82
Madhya Pradesh	-0.32	2.38	-1.38	0.52
Maharashtra	-22.52	9.94	32.08	4.84
Orissa	6.99	-8.12	10.04	1.04
Punjab	-2.56	-8.29	-12.53	-7.94
Rajasthan	-68.20	71.87	-0.33	0.55
Tamil Nadu	-3.67	3.04	1.79	0.73
Uttar Pradesh	-7.74	-8.06	13.98	-2.15
West Bengal	-8.13	-1.16	23.37	3.12
Total (All India)	-12.21	1.97	41.42	7.27

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Corporations, it is the state of Maharashtra which stands out registering the best performance; while the same state puts forward a very bad

Table – 45: Percentage Share of Core Services Expenditure to Total Expenditure of Nagar Panchayats

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	INF	INF	INF	17.92	16.67	17.55	14.65	19.63
Assam	32.77	31.11	33.88	34.14	38.52	43.03	46.59	44.82
Himachal Pradesh	32.11	30.47	29.44	31.02	27.36	23.98	21.51	10.51
Karnataka	23.63	40.06	27.86	29.71	30.74	30.36	30.01	28.88
Madhya Pradesh	39.59	39.77	38.52	37.23	47.59	49.89	44.94	43.36
Orissa	32.42	33.26	31.40	28.83	28.95	28.81	27.23	28.63
Punjab	14.33	19.49	17.79	16.18	18.20	16.02	15.84	16.21
Rajasthan	72.08	72.08	71.84	72.04	72.11	75.18	76.50	75.79
Tamil Nadu	50.90	50.74	49.76	48.90	48.48	46.32	47.78	55.81
Uttar Pradesh	31.10	31.60	31.06	29.69	29.32	24.99	30.86	30.49
West Bengal	0.00	0.00	0.00	0.00	0.00	0.00	36.71	36.64
Total (All India)	48.28	48.76	48.50	47.49	48.04	49.45	49.83	51.62

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table – 46: Percentage Share of Core Services Expenditure to Total Expenditure of Municipalities

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	18.64	18.41	20.30	20.14	19.69
Assam	38.06	37.77	39.04	42.18	42.14	56.08	50.31	51.47
Gujarat	40.79	4.09	40.61	42.79	41.56	39.05	41.33	43.72
Haryana	34.80	49.67	48.60	43.69	37.13	42.35	48.01	42.95
Himachal Pradesh	33.32	33.13	31.69	29.18	30.87	30.03	35.52	41.57
Karnataka	30.79	30.89	32.32	26.58	31.25	36.49	40.07	51.62
Kerala	27.84	28.57	28.63	28.19	30.48	31.28	26.92	29.12
Madhya Pradesh	43.76	45.98	45.95	49.79	44.19	47.17	41.72	46.79
Maharashtra	20.10	23.39	27.54	25.31	27.11	22.88	23.49	15.31
Orissa	21.56	19.53	32.19	20.14	21.94	20.32	20.40	23.06
Punjab	23.37	21.76	22.58	23.31	14.53	14.54	12.78	11.74
Rajasthan	70.20	69.77	71.56	72.60	71.16	70.20	70.84	70.85
Tamil Nadu	31.14	32.30	30.81	39.10	35.46	38.82	29.61	35.03
Uttar Pradesh	27.83	23.28	23.07	26.24	21.50	18.18	24.74	24.33
West Bengal	17.40	17.19	18.13	17.82	17.89	17.57	17.67	22.39
TOTAL (All India)	22.00	25.19	28.59	26.54	28.65	24.36	24.95	17.75

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

performance as the percentage share of core services expenditure to total expenditure of Municipalities are concerned. For the same variable,

Table – 47: Percentage Share of Core Services Expenditure to Total Expenditure of Municipal Corporations

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	21.46	29.40	2.86	31.42	23.81	24.92	42.98	34.71
Assam	36.23	40.31	27.39	35.77	12.20	10.28	14.66	27.37
Gujarat	33.48	32.05	32.38	34.01	31.67	36.58	42.83	35.73
Haryana	66.53	64.16	50.82	36.89	55.72	69.32	53.74	57.95
Himachal Pradesh	31.55	31.85	33.32	33.94	37.49	40.58	48.79	36.84
Karnataka	21.91	23.75	22.97	22.78	24.45	23.53	23.15	26.46
Kerala	31.80	33.10	35.29	32.97	33.07	33.10	34.83	34.51
Madhya Pradesh	31.89	30.74	30.82	32.59	33.22	30.89	30.16	31.42
Maharashtra	85.95	48.32	51.21	56.96	62.68	74.53	90.63	94.79
Orissa	33.15	36.73	27.27	30.21	26.22	26.26	31.07	39.67
Punjab	28.50	31.93	26.71	24.85	19.89	22.27	15.98	16.55
Rajasthan	63.68	64.59	65.29	64.89	67.07	68.54	65.58	65.71
Tamil Nadu	42.35	44.87	37.24	32.24	32.22	38.32	35.02	38.79
Uttar Pradesh	22.51	17.74	18.43	14.59	19.17	14.63	18.01	18.58
West Bengal	45.86	0.00	0.00	45.76	0.00	0.00	44.55	43.31
TOTAL	47.23	32.26	32.49	34.74	29.81	36.00	60.59	75.25

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Table - 48: Per Capita Expenditure on Core Services (PCCSE) of ULBs (in Rs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	1200.05	2232.91	2125.07	3783.03	3486.96	3667.98	9299.88	8044.26
Assam	37.52	44.20	36.87	47.80	37.51	44.58	61.33	81.29
Gujarat	0.26	0.31	0.26	0.34	0.26	0.31	0.43	0.57
Haryana	180.02	314.25	325.60	322.96	305.95	357.22	567.87	405.77
Himachal Pradesh	73.54	79.04	84.71	94.29	108.52	135.95	187.72	245.02
Karnataka	30.29	36.12	32.78	43.11	48.88	64.80	75.83	109.16
Kerala	35.61	40.40	46.08	53.32	60.50	66.41	84.32	109.99
Madhya Pradesh	57.96	65.30	69.92	84.00	96.44	107.99	127.02	147.81
Maharashtra	2301.00	789.52	998.48	1226.02	1497.13	2522.66	8129.93	27697.06
Orissa	41.31	53.15	67.34	59.31	66.90	67.76	79.91	93.79
Punjab	75.15	90.57	84.97	93.37	71.07	88.57	77.08	87.73
Rajasthan	110.18	124.14	14.54	166.23	186.10	245.69	311.73	347.40
Tamil Nadu	72.02	88.34	95.90	117.37	127.86	157.22	182.09	273.12
Uttar Pradesh	30.15	27.96	31.36	33.91	34.79	27.78	45.22	48.64
West Bengal	23.78	19.95	22.45	34.33	28.27	31.57	47.66	52.39
ALL INDIA	480.45	355.05	380.50	563.65	581.42	758.58	2087.15	4869.25

Table - 49: Compound Annual Growth Rates (CAGR) of Per-capita Share of Core Services Expenditure of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	33.07	19.95	48.09	31.23
Assam	-0.87	6.53	35.04	11.68
Gujarat	0.00	6.04	35.60	11.87
Haryana	34.49	3.14	6.58	12.31
Himachal Pradesh	7.33	17.08	34.25	18.76
Karnataka	4.03	25.50	29.79	20.10
Kerala	13.75	12.96	28.69	17.48
Madhya Pradesh	9.83	15.59	16.99	14.31
Maharashtra	-34.13	36.20	231.35	42.68
Orissa	27.68	0.21	17.65	12.43
Punjab	6.33	1.39	-0.48	2.24
Rajasthan	-63.67	156.61	18.91	17.83
Tamil Nadu	15.39	17.91	31.80	20.98
Uttar Pradesh	1.99	-3.96	32.32	7.07
West Bengal	-2.84	12.03	28.82	11.95
ALL INDIA	-11.01	25.86	153.36	39.22

Source (both 48 & 49): Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi Census 1991, Government of India. Census 2001, Government of India. Mid-year population figures are estimated

Rajasthan records the most uniform good figures for the ULBs as a whole, as well as separately for the three categories of ULBs.

Table – 50: Per Capita Total Expenditure of ULBs (in Rs)

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	5592.48	7593.69	7437.62	12081.53	14674.55	14744.17	21719.62	23249.68
Assam	104.30	115.56	118.80	128.81	148.18	149.67	187.63	214.59
Gujarat	243.80	304.73	332.72	364.17	417.63	481.59	547.32	667.48
Haryana	455.55	604.90	663.13	783.11	695.79	700.92	1129.20	849.02
Himachal Pradesh	226.67	246.68	268.00	302.44	336.82	413.41	499.40	769.41
Karnataka	119.65	134.96	147.92	177.17	181.66	225.88	283.71	320.58
Kerala	121.70	133.89	148.65	177.79	192.46	209.56	284.36	354.96
Madhya Pradesh	164.76	186.27	200.06	229.98	256.55	287.91	3665.98	405.14
Maharashtra	3924.68	2577.39	2836.66	3430.92	3522.32	5392.87	11434.69	33940.54
Orissa	154.16	202.39	219.54	244.62	271.81	284.82	319.36	325.57
Punjab	287.78	326.92	342.67	389.75	400.75	463.17	524.51	599.68
Rajasthan	160.05	179.68	208.91	238.27	265.14	341.28	433.72	485.76
Tamil Nadu	182.04	217.14	261.21	317.59	359.50	391.44	510.80	656.22
Uttar Pradesh	116.89	128.84	142.86	158.02	165.36	162.82	205.63	219.47
West Bengal	114.68	120.32	128.30	161.22	163.74	186.83	226.62	203.72
ALL INDIA	1173.51	1167.06	1205.99	1716.02	1965.39	2267.79	3810.41	7278.53

Table – 51: Compound Annual Growth Rates (CAGR) of Per-capita Share of Total Expenditure of ULBs

States	CAGR 91-93	CAGR 93-96	CAGR 96-98	CAGR 91-98
AndhraPradesh	15.32	25.62	25.57	22.57
Assam	6.72	8.00	19.74	10.86
Gujarat	16.82	13.12	17.73	15.47
Haryana	20.65	1.86	10.06	9.30
Himachal Pradesh	8.74	15.54	36.42	19.08
Karnataka	11.19	15.16	19.13	15.12
Kerala	10.52	12.13	30.15	16.52
Madhya Pradesh	10.19	12.90	18.62	13.72
Maharashtra	-14.98	23.88	150.87	36.10
Orissa	19.34	9.07	6.91	11.27
Punjab	9.12	10.57	13.79	11.06
Rajasthan	14.25	17.77	19.30	17.19
Tamil Nadu	19.79	14.43	29.48	20.10
Uttar Pradesh	10.55	4.46	16.10	9.42
West Bengal	5.77	13.35	4.42	8.55
ALL INDIA	1.37	23.43	79.15	29.78

Source (both 50 & 51): Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi, Census 1991, Government of India. Census 2001, Government of India. Mid-year population figures are estimated

As can be seen from the tables 48 & 50, the PCCSE and PCTE of ULBs show uniformly good values for Maharashtra, Andhra Pradesh and Haryana and the worst ones for Gujarat. But, the PCTE for Gujarat is not that bad, meaning that the percentage share of other expenditure to total expenditure is very high in Gujarat.

The CAGRs of PCCSE and PCTE of ULBs has been on a monotonically increasing trend ever since the enactment of the 74th CAA.

Possible explanations of the trends in the movement of the Expenditure Indices

The higher incidence of the establishment and administrative expenses of the ULBs in India is the main reason why they are unable to spend much on core services. An analysis of the share of expenditure on establishment and administration shows that many corporations spend 50% or even a higher proportion of their total expenditure on the same⁶⁰. While the Municipal Corporations that are considered to be financially strong have to spend so much, one can well estimate the poor condition of the weaker Municipalities and Nagar Panchayats. Moreover, most of these expenses are unproductive in nature. This is particularly due to the fact that inspite of having privatised many of its services, a large number of employees are still to be maintained on the attendance of the city governments. The tappings of the capital market for funds either through public or private placements poses a further pressure on the establishment expenses on the city governments. The trustees to the bondholders are to be paid by the ULBs to monitor the escrow account till the debts are serviced. In this, some of the revenue sources, in total or in parts, are ear-marked for this purpose and the revenue out of these

⁶⁰ Bagchi, S. (2001), '*Financing Capital Investment in Urban Infrastructure: Constraints in Accessing Capital Market by Urban Local Bodies*', Economic and Political Weekly, Jan – 27.

sources are directly transferred to the escrow account for debt servicing. Moreover, payments are to be made annually to the credit rating agencies for keeping watch on the rating of the ULBs. In addition, brokerage fees, issue advertisement expenses and printing and distribution expenses are to be made by the ULBs. These establishment expenses, which are often recurring in nature, often go beyond the financial capacity of the ULBs. Thus, to make the ULBs adopt the innovative financing mechanisms for financing the capital investments in urban basic services, it is imperative to make them financially strong. For that, taxes of the sort of octroi that have direct link with the growth of the economic activities of the cities have to be reintroduced. Also, user charges have to be imposed to a large extent for the services provided. The resource mobilisation capacity of the city governments are to be immediately enhanced as these measures themselves have certain additional burden of establishment expenses and escrowing of certain revenue sources that the local body will have to do away with till the debts are repaid.

Section III: Movement of the Decentralisation Indices over the years

Much of the impact analysis of decentralisation on the financial situation of the ULBs would depend on the way the concept of “decentralisation” is defined. As a result, the various operational measures employed across studies and frequently even within the same study, rarely relate to a conceptual definition what is meant by decentralisation⁶¹. Based on the legal, functional and financial aspects, various measures of decentralisation could be constructed. Stephens (1974)⁶², Stonecash (1981)⁶³ and Zimmerman (1981)⁶⁴, provide decentralisation measures

⁶¹ Wolman, H and McCormick, S. (1994), '*The Effect of Decentralisation on Local Governments*', in (ed) 'Local Government and Market Decentralisation', by Bennett, R.J., United Nation University Press.

⁶² Stephens, G.R. (1974), '*State Centralization and the Erosion of Local Autonomy*', Journal of Politics, Vol - 36.

⁶³ Stonecash, J. (1981), '*Centralization and State - Local Fiscal Relations*', Western Political Quarterly, Vol - 34.

with respect to the financial, functional and legal aspects of the state and the local governments in USA. But not much has been done in the Indian context towards measure of decentralisation particularly with respect to its financial aspect, mainly due to the dearth of data. However, recently the EFC has taken up an Index of Decentralisation (20%) as a criteria for devolving EFC grants to the states for the ULBs in addition to the criteria of urban population (40%), geographical area (10%), distance from average PCGSDP (20%), own revenue efforts of municipalities in a state (5%), using states own revenue as an indicator and own revenue efforts of municipalities in a state, using GDP as an indicator (5%). The decentralisation index has been constructed considering the following criteria:

- i) Enactment of state municipal legislation in conformity with the 74th CAA
- ii) Intervention in the functioning of the municipal bodies
- iii) Assignment of the functions to the municipalities in the state municipal legislations Vis - a - Vis, the 12th Schedule.
- iv) Transfers of functions to the municipalities by way of notifications or orders of the state governments
- v) Assignment of taxation powers to municipalities as per state municipal acts
- vi) Levy of taxes by the municipalities
- vii) Constitution of SFCs and submission of Action taken reports
- viii) Action taken on the major recommendations of the SFCs
- ix) Elections to municipalities.
- x) Constitution of District Planning Committees.

⁶⁴ Zimmerman (1981), ' Report of the United States Advisory Commission on Inter-Governmental Relations'.

Because of the non-availability of many of the in formations required for constructing a meaningful decentralisation index, this study has to limit its analysis only to the financial definition.

Following the methodology as mentioned in the introduction chapter RDR, EDR, FAR and CUDI have been calculated

Movement of Revenue Decentralisation Ratio and Expenditure Decentralisation Ratio through the years.

An analysis of the movements of the measures of decentralisation i.e. the decentralisation indices, both revenue and expenditure, show that there has not been any remarkable increase in the value of the indices during the latter half of the 1990s for most of the states considered

Table – 52: Revenue Decentralisation Ratio of ULBs

States	1990-91	1992-93	1995-96	1997-98
AndhraPradesh	0.63	0.71	2.25	2.43
Assam	0.68	0.54	0.62	0.54
Gujarat	7.27	5.94	7.23	6.77
Haryana	2.35	3.16	1.82	1.73
Himachal Pradesh	0.88	0.85	0.7	0.98
Karnataka	1.79	1.72	1.45	1.51
Kerala	2.42	2.09	1.65	2.16
Madhya Pradesh	2.35	1.87	1.02	1.3
Maharashtra	14.43	15.75	16.45	18.15
Orissa	1.65	1.79	1.84	1.81
Punjab	7.71	6.18	6.2	6.01
Rajasthan	3.31	3.1	3.65	4.33
Tamil Nadu	3.46	2.89	3.95	4.62
Uttar Pradesh	1.44	0.92	0.94	0.97
West Bengal	4.82	0.82	5.86	5.87
ALL INDIA	3.95	3.8	4.16	4.5

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

The All India RDR has shown gradual increase between 1993-94 and 1997-98, after declining in the first half of the decade (Table 52). Most of the states have shown an overall decline during the period 1990-91 and 1997-98, except Rajasthan, Tamil Nadu, Maharashtra, Himachal Pradesh, Orissa and West Bengal.

The RDR considered, is basically an index of own-revenue generation capacity of the ULBs. As a consequence, the decline in RDR, gets reflected in an increasing dependence of the ULBs on the state government funds, either in the form of grants or in shared / assigned taxes. The point, which is most surprising to note from the trends in the movement of RDR is that for 10 out of 16 states (for which the study has been conducted), there has been an increase in the values of RDR just after the implementation of the 74th CAA in 1993. Moreover, 6 of these 10 states i.e. Andhra Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal, have registered further increase in the RDR values during 1995-96 to 1997-98.

Table – 53: Expenditure Decentralisation Ratio of ULBs

<i>States</i>	1990-91	1992-93	1995-96	1997-98
Assam	0.53	0.97	0.7	0.92
Gujarat	5.22	4.48	5.46	4.48
Haryana	7.91	9.34	4.25	3.92
Himachal Pradesh	0.81	0.74	0.55	0.61
Karnataka	2.28	2.34	1.77	1.73
Kerala	2.36	2.31	1.67	1.5
Madhya Pradesh	2.67	2.56	2.02	2.37
Orissa	1.92	2.13	1.9	1.87
Punjab	4.91	4.11	3.73	3.65
Rajasthan	3.28	3.01	2.73	3.84
Tamil Nadu	3.42	3.29	4.03	4.38
Uttar Pradesh	1.22	0.84	0.6	0.68
West Bengal	1.82	1.76	1.89	0.73
ALL INDIA	2.39	2.32	2.11	2.12

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi. * The EDR computed on the basis of the EFC information shows awkwardly high values for Andhra Pradesh and Maharashtra so EDR figs are calculated without considering those states.

States that have a decline in RDR between 1995-96 and 1997-98 after registering increase in the previous period are Assam, Gujarat, Orissa and Punjab. Therefore speaking broadly, the 74th CAA does not seem to have made much of headway on this front.

Though there has been a gradual increase in the decentralisation index as shown by the RDR, a complete opposite trend is established by the EDR bearing a gradual decline. A regular decline during the period is observed at the All India level. The trend at the interstate level shows that there has been a decline in the intensity of decentralisation during 1992-93 and 1995-96, reflecting the lower role of the city governments in meeting its expenditure responsibilities. Though there has been a decline during the periods 1992-93 and 1995-96 for almost all the states, except Haryana, Orissa, Punjab and West Bengal; all other states have shown increase in the value of the variables during the latter sub-period 1995-96 to 1997-98 (table 53).

Thus, the movement of RDR and EDR, though showing different trends in the period 1992-93 and 1995-96, the trend is almost the same during the latter sub-period i.e. 1995-96 and 1997-98. On a holistic note, one can conclude that as there has been increasing incidence of own revenue sources for the city governments to undertake their functions, there has been an increase in the expenditure trend by the ULBs though, a large part of that might have financed out of the state government grants, particularly during the latter years of the 1990s. The trend that has been achieved in the long run shows that there is tendency towards decentralisation as shown by the movement by the RDR and EDR towards devolving funds and responsibilities respectively to the city governments. Though there have been some fluctuations for some of the states, but the general trend is in accordance with the essence of

decentralisation i.e. empowering them with more revenue resources to make them capable enough to undertake the devolved functions.

Movement of the Financial Autonomy Ratios

Upon a careful examination of the tables 54, 55, 56, 57 and 58, it is evident that the Nagar Panchayats, the smallest of the municipal entities,

Table – 54: All India Financial Autonomy Ratios of City Governments

FARs	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
ULBs	0.1121	0.131	0.1435	0.1221	0.1379	0.1358	0.0931	0.0502
Nagar Panchayats	0.5052	0.4875	0.4532	0.5033	0.5079	0.4613	0.3911	0.3898
Municipalities	0.1121	0.1161	0.1185	0.1288	0.1651	0.1406	0.1337	0.0968
Municipal Corporations	0.1072	0.1314	0.1484	0.115	0.1281	0.1295	0.0821	0.041

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

show the healthiest figures, which is mainly due to the fact that they do not have much functional responsibilities to perform.

Table – 55: Financial Autonomy Ratios (FARs) for ULBs

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	0.0034	0.0032	0.0038	0.0076	0.0070	0.0086	0.0068	0.0083
Assam	0.4718	0.4583	0.4768	0.5628	0.4873	0.5660	0.5445	0.4425
Gujarat	0.7627	0.7379	0.7876	0.8361	0.9113	0.9708	0.9478	0.8521
Haryana	0.2493	0.3193	0.2890	0.2259	0.2941	0.3306	0.1998	0.3023
Himachal Pradesh	0.9829	1.1245	1.0427	1.1123	1.1601	1.0996	1.3890	1.1430
Karnataka	0.4275	0.4491	0.4620	0.5641	0.4856	0.3994	0.3987	0.3642
Kerala	0.6373	0.6518	0.6205	0.5744	0.5651	0.5649	0.4689	0.4180
Madhya Pradesh	0.4325	0.4817	0.4003	0.4135	0.4074	0.2027	0.0215	0.2385
Maharashtra	0.1224	0.2188	0.2334	0.2267	0.2581	0.1980	0.1097	0.0338
Orissa	0.5583	0.5401	0.5709	0.5326	0.5645	0.6040	0.5465	0.6176
Punjab	0.9568	0.8941	0.8938	0.9148	1.7213	1.2355	1.2316	1.1303
Rajasthan	0.7747	0.7769	0.7435	0.7725	0.8055	0.8406	0.7587	0.7775
Tamil Nadu	0.5243	0.4808	0.4191	0.4439	0.5182	0.5837	0.4856	0.5262
Uttar Pradesh	0.3750	0.2869	0.2759	0.2836	0.2775	0.3209	0.2769	0.2844
West Bengal	0.1467	0.1566	0.1796	0.1739	1.5002	1.4558	1.3280	1.6308
All India	0.1121	0.1310	0.1435	0.1221	0.1379	0.1358	0.0931	0.0502

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi.

Table – 56: Financial Autonomy Ratios (FAR) of Nagar Panchayats

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	0.4625	0.3531	0.4764	0.4341	0.3909
Assam	0.4107	0.4114	0.4891	0.4561	0.4342	0.4070	0.2765	0.2603
Himachal Pradesh	0.6958	0.7068	0.6474	0.6633	0.6915	0.6559	0.6192	0.7074
Karnataka	0.4191	0.4313	0.4129	0.3542	0.4218	0.3818	0.3373	0.3093
Madhya Pradesh	0.3536	0.3115	0.3124	0.3051	0.4993	0.1276	0.1118	0.1327
Orissa	0.5171	0.5543	0.5579	0.4895	0.4681	0.4456	3.5993	0.4672
Punjab	1.3810	1.3797	1.2036	1.0309	1.0510	0.9579	0.9259	0.9096
Rajasthan	0.7525	0.7391	0.6724	0.7105	0.7209	0.7088	0.5993	0.6492
Tamil Nadu	0.3828	0.3828	0.3085	0.4121	0.3785	0.3851	0.3513	0.2747
Uttar Pradesh	0.3407	0.3680	0.2935	0.3803	0.4299	0.4676	0.3931	0.3948
West Bengal	0.4297	0.4474	0.5062	0.4226	0.5473	0.0955	0.0479	0.0452
Total (All India)	0.5052	0.4875	0.4532	0.5033	0.5079	0.4613	0.3911	0.3839

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

The all India FAR figures of the other entities and the ULBs as a whole show little or no fluctuations in the post decentralisation phase, meaning that the enactment of the 74th CAA did not leave much impression on the FARs.

Table – 57: Financial Autonomy Ratios (FAR) of Municipalities

STATES	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
AndhraPradesh	INF	INF	INF	0.4798	0.4544	0.5083	0.4922	0.5146
Assam	0.7910	0.7315	0.7739	0.6328	0.5892	0.5672	0.3422	0.3335
Gujarat	0.5306	0.0503	0.4884	0.5699	0.5567	0.5733	0.4920	0.4990
Haryana	0.2192	0.3140	0.2983	0.2669	0.3356	0.3392	0.2252	0.3190
Himachal Pradesh	0.6210	0.5889	0.5603	0.5167	0.5515	0.5461	0.6091	0.4653
Karnataka	0.4405	0.5130	0.4927	0.8388	0.6568	0.4625	55.6054	0.5221
Kerala	0.5724	0.5712	0.5673	0.5691	0.5523	5.4623	0.4493	0.4046
Madhya Pradesh	0.3417	0.5579	0.3112	0.3390	0.2439	0.2179	0.2474	0.2306
Maharashtra	0.0404	0.0430	0.0490	0.0489	0.0670	0.0553	0.0578	0.0410
Orissa	0.4723	0.4152	0.4518	0.4564	0.5013	0.5312	0.5451	0.5906
Punjab	1.1429	1.0884	1.0498	1.0805	1.1866	1.5629	1.4696	1.3810
Rajasthan	0.8145	0.8536	0.8829	0.8434	0.9376	0.9415	0.8458	0.8837
Tamil Nadu	0.5705	0.4467	0.3782	0.4634	0.5504	0.7579	0.4298	0.3882
Uttar Pradesh	0.3875	0.3055	0.2860	0.3046	0.2693	0.3237	0.2814	0.2812
West Bengal	0.1484	0.1435	0.1646	0.1764	0.1769	0.1733	0.1742	0.2180
TOTAL (All India)	0.1121	0.1161	0.1185	0.1288	0.1651	0.1406	0.1337	0.0968

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

While Gujarat, Himachal Pradesh, Punjab and Rajasthan records uniformly good figures, those of Andhra Pradesh are uniformly dismal. The most surprising element that comes to notice is the complete turn-around of West Bengal on this score in the post decentralisation phase as compared to the previous one.

Table – 58: Financial Autonomy Ratio (FAR) of Municipal Corporations

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	0.0034	0.0032	0.0038	0.0037	0.0033	0.0041	0.0034	0.0046
Assam	0.3872	0.3857	0.3675	0.5641	0.4531	0.6263	0.7973	0.0610
Gujarat	0.9156	0.8827	0.9776	0.9919	1.1489	1.2486	1.2812	1.0767
Haryana	0.4216	0.3476	0.2567	0.1531	0.2228	0.3034	0.1613	0.2674
Himachal Pradesh	0.8195	1.1297	1.0891	1.1030	1.0481	0.7907	0.7137	7.1062
Karnataka	0.4196	0.4077	0.4450	0.3964	0.3971	0.3611	0.3181	0.2970
Kerala	0.7527	0.5791	0.7166	0.5834	0.5871	0.5993	0.5060	0.4431
Madhya Pradesh	0.4724	0.4856	0.4437	0.4522	0.4151	0.2142	0.2273	0.2632
Maharashtra	0.1805	0.6482	0.6192	0.5885	0.5085	0.3637	0.1310	0.0324
Orissa	0.8547	0.8463	0.9475	0.7731	0.7671	0.9097	0.7272	0.8038
Punjab	0.8109	0.7474	0.7681	0.7888	2.1240	1.0406	1.0829	0.9691
Rajasthan	0.7779	0.7772	0.7527	0.8073	0.8277	0.9652	0.9412	0.8970
Tamil Nadu	0.5367	0.5451	0.4850	0.4410	0.5360	0.5635	0.5910	0.7546
Uttar Pradesh	0.3690	0.2477	0.2594	0.2416	0.2585	0.2921	0.2503	0.2643
West Bengal	0.1328	0.5143	0.5998	0.1555	38.4669	36.7590	9.7160	9.3880
TOTAL	0.1072	0.1314	0.1484	0.1150	0.1281	0.1295	0.0821	0.0410

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi

Possible explanations of the trends in the movement of FAR

It is observed that compared to the industrial countries whose local governments normally account for 20 to 35% of the total spending by them, the fiscal decentralisation in India remains a distant goal. This is essentially due to the fact that own revenues in almost all the states are fragmented and markedly inadequate for meeting their total expenditure responsibilities. The problem of vertical imbalance caused by the fact that the expenditure needs are greater than the revenue means is

widespread among the city governments. Although this problem persists even at the other governmental levels, its consequences in terms of the degree of dependence of ULBs for meeting their revenue expenditure responsibilities are severe.

Movement Of Composite Urban Decentralisation Indices through the years.

Table 59 shows that the financial decentralisation has been achieved to a large extent in the states of Gujarat, Haryana, Punjab, Rajasthan and Tamil Nadu. But, Assam, Uttar Pradesh and West Bengal are left in the lurch.

Table – 59: Composite Urban Decentralisation Index of ULBs

States	1990-91	1992-93	1995-96	1997-98
Assam	0.61	0.74	0.67	0.71
Gujarat	6.78	5.63	7.18	6.43
Haryana	6.52	7.55	3.45	3.26
Himachal Pradesh	0.83	0.77	0.6	0.75
Karnataka	2	2.01	1.58	1.59
Kerala	2.40	2.17	1.66	1.78
Madhya Pradesh	2.49	2.15	1.23	1.56
Orissa	1.8	1.98	1.88	1.85
Punjab	5.03	4.33	3.15	3.34
Rajasthan	3.29	3.04	2.87	3.95
Tamil Nadu	3.44	3.06	4	4.5
Uttar Pradesh	1.35	0.9	0.83	0.89
West Bengal	4.38	0.99	0.83	0.89
All India	3.15	3.07	2.99	3.25

Source: Computed from 11th Finance Commission Report, 2000, Government of India, New Delhi. * The CUDIs could not be derived for Andhra Pradesh and Maharashtra being provided for the ULBs by the EFC report.

Even after the enactment of the 74th CAA it is observed from the all India figure of CUDI that the values for index did not fluctuate much in the four sub periods.

Non – Correlation of Composite Urban Decentralisation Indices with the EFC Decentralisation Indices.

The main problem in the research design involves the conceptualisation and measurement of decentralisation. According to most analysts,

decentralisation means the dispersion of political decision-making between national and local governments i.e. the scope of discretion available to the lower level governments with respect to decisions regarding political issues, including the amount of revenues to be raised, the amount of expenditure to be made and the allocation of expenditure among various funds. Decentralisation, thus, is closely akin to the concepts of local autonomy and discretion. It is a 'behavioural' concept, although one that is presumably highly affected by the structural characteristics.

Operationalising this conceptual definition is extremely difficult since there is no obvious measure for decentralisation. A 'legal' or 'structural' measure would order national or state governments according to the degree of local discretionary authority given to sub-units.

Most studies, however, rely on the behavioural rather than legal or structural measures of decentralisation. As Oates argues "Fiscal measures are a reasonably satisfactory proxy for what really needs to be measured, namely the amount of independent decision making power in the provision of public services at different levels of government"⁶⁵.

This study has used the most frequently used fiscal output measures for decentralisation i.e. RDR, EDR, and CUDI, which are 'resource capture' definitions of decentralisation, measuring what Stonecash terms "who does what"⁶⁶

The legal measure of decentralisation (CDIEFC) and the behavioural / financial measure of decentralisation (CUDI) are uncorrelated with each other as shown in table 60.

⁶⁵ Oates, W. E. (1985), '*Searching for Leviathan*', American Economic Review, Vol – 75

⁶⁶ Stonecash, J. (1981), '*Centralization and State - Local Fiscal Relations*', Western Political Quarterly, Vol – 34.

Table – 60: *Correlation table between the constructed CUDIs and CDIEFC*

	CUDI90	CUDI92	CUDI95	CUDI97	CDIEFC
CUDI90 Pearson Correlation	1.000				
CUDI92 Pearson Correlation	.872**	1.000			
CUDI95 Pearson Correlation	.782**	.778**	1.000		
CUDI97 Pearson Correlation	.743**	.750**	.976**	1.000	
CDIEFC Pearson Correlation	.003	.013	.098	.130	1.000

** Correlation is significant at the 0.01 level (2-tailed).

Thus the legal and behavioural measures reflect two different conceptions of decentralisation rather than two different measures of the same concept, as was stressed by Wolman and McCormick.

The EFC has constructed the index of decentralisation with a set of ten indicators, out of which only two are financial ones. And even among these, there remain serious lacunae while defining them. The EFC's statements show that the first of these two indicators relates to the assignment of taxation powers to the ULBs as per State Municipal Acts. A list of 33 taxes have been prepared by them and among these, the house / property tax has been given the highest weightage of 3, followed by the profession tax with a weightage of 2, and the remaining taxes 1 each. But in reality, almost all the states are house / property tax as well as profession tax levying states, so there is very little to choose among them on these scores. The EFC has left out the levy of octroi by some states, which form about 60 to 70% of the total tax revenue generated by the states of Gujarat, Punjab and Maharashtra. The second indicator is related to the interstate comparison in the levy of taxes by the ULBs, but this too suffers due to the definitional problems mentioned above.

This study takes into account the percentage shares of own revenue and expenditure of the ULBs to the combined revenue collection and expenditure incurred respectively of the ULBs and the states put together, which is defined as the RDR and the EDR respectively. It also takes into account the share of expenditure financed out of the own revenue collections of the ULBs (FAR). The composite index formed, CUDI, is thus, a totally financial measure, which takes into account the decentralisation initiatives from both the revenue and expenditure sides, and then arrives at the CUDI by taking the FARs as the weightages. CUDI is, therefore, a more full proof financial measure than the financial indicators of the EFC's decentralisation index.

This means that the decentralisation index constructed by the EFC fails to capture the actual financial decentralisation taking place in the ULBs. This leads to the conclusion that political / administrative decentralisation does not always guarantee the financial one. Without financial empowerment of the ULBs i.e. until and unless they get access to enough revenues to finance their functional and administrative responsibilities, they are not going to be empowered in the real sense of the term.

Regression Results Between Revenue and Expenditure Indices and CUDI

This section will try to provide a comparative picture of the financial situation of the city governments in the pre and post decentralisation phases on the basis of the various categories of municipal entities. As per the 74th CAA, there are three categories of local bodies - Nagar Panchayats, Municipalities and Municipal Corporations. The analysis would be done with respect to the broad categories of the revenue and expenditure sources. The impact of the decentralisation initiative would then be studied by establishing a univariate model.

This would be done by a cross-sectional analysis of the states at four points of time, two in the pre 74th CAA and two in the post (i.e. 1990-91, 1992-93 and 1995-96, 1997-98) The equations relating to the per capita indices are only with respect to the ULBs, because per capita figures for the Nagar Panchayats, Municipalities and Municipal Corporations could not be constructed due to the non availability of the data regarding the urban population residing in these three different categories of municipal entities separately. This section thus looks into the probable impact of the decentralisation initiative. Decentralisation is a long drawn process and obviously it is too early to analyse the impact of the same on any aspect of the finances of the city governments. Yet, this section will attempt to have an overall idea of the impact of decentralisation.

An analysis of the impact on the resource mobilisation capacity of the city governments as a result of the decentralisation initiative shows that for all the three tiers, and also for the ULBs as a whole, the impact on the tax revenue generation capacity has been positive as is revealed from the positive β coefficients in the regressions carried out as per the equations (1), (2), (7) & (11). Moreover, the value of the coefficients are increasing over the years showing that the decentralisation initiative as adopted through the 74th CAA has had a positive on the tax revenue

Table – 61: Regression Results Between Per-capita indices (ULBs) and CUDI

	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
PCOTR	0.371	0.609	0.5	0.707	0.62	0.787	0.604	0.777
PCNTR	0.002	-0.044	0.061	0.246	0.007	0.082	0.002	0.041
PCTR	0.218	0.467	0.409	0.64	0.41	0.64	0.315	0.661
PCCSE	0.013	0.112	0.221	0.47	0.022	0.148	0.021	0.146
PCTE	0.054	0.232	0.218	0.467	0.076	0.275	0.038	0.196

Table – 62: Regression Results between percentage indices and CUDI

Regression Results between Percentage Share of Own-tax to total Revenue and CUDI								
	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.259	0.509	0.307	0.554	0.53	0.728	0.439	0.663
Nagar Panchayats	0	0.018	0.226	0.476	0.318	0.564	0.186	0.431
Municipalities	0.096	0.31	0.269	0.518	0.37	0.608	0.081	0.285
Municipal Corporations	0.325	0.57	0.207	0.455	0.389	0.623	0.325	0.57
Regression Results between Percentage Share of Own Revenue to Total Revenue and CUDI								
	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.083	0.287	0.307	0.554	0.53	0.728	0.469	0.783
Nagar Panchayats	0.2	-0.447	0.001	-0.024	0.057	0.239	0.049	0.22
Municipalities	0.006	-0.074	0.135	0.367	0.285	0.534	0.085	0.296
Municipal Corporations	0.105	0.324	0.03	0.174	0.093	0.305	0.359	0.543
Regression Results between Percentage Share of Non-tax Revenue to Total Revenue and CUDI								
	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.195	-0.441	0.029	-0.172	0.165	-0.406	0.101	-0.318
Nagar Panchayats	0.354	-0.595	0.211	-0.46	0.076	-0.275	0.49	-0.222
Municipalities	0.092	-0.303	0.002	-0.043	0.019	-0.139	0.048	-0.219
Municipal Corporations	0.206	-0.419	0.139	-0.373	0.175	-0.418	0.095	-0.308
Regression Results between Percentage Share of Non-tax Revenue to Total Revenue and CUDI								
	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.083	-0.287	0.209	-0.458	0.234	-0.484	0.194	-0.441
Nagar Panchayats	0.222	0.472	0.001	0.025	0.056	-0.237	0.049	-0.221
Municipalities	0.03	0.172	0.076	-0.275	0.18	-0.424	0.217	-0.466
Municipal Corporations	0.105	-0.324	0.359	-0.559	0.093	-0.305	0.008	-0.092
Regression Results between Percentage Share of Other Revenue to Total Revenue and CUDI								
	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.017	0.13	0.253	0.503	0.128	0.358	0.165	0.406
Nagar Panchayats	0.026	-0.161	0.125	0.354	0.169	0.411	0.308	0.555
Municipalities	0.001	0.037	0.12	0.347	0.018	0.133	0.014	0.119
Municipal Corporations	0.253	0.503	0.255	0.505	0.185	0.43	0.109	0.331
Regression Results between Financial Autonomy Ratios (FARs) and Composite Urban Decentralisation Index								
	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.002	-0.043	0.002	0.041	0.006	0.078	0.001	0.224
Nagar Panchayats	0.259	0.509	0.26	0.51	0.154	0.392	0.105	0.325
Municipalities	0.009	-0.093	0.001	0.037	0.074	0.272	0.08	0.284
Municipal Corporations	0.009	0.097	0.003	-0.057	0.236	0.486	0.204	0.452

generation capacity and own revenue mobilisation capacity of the city governments. The intensity of the impact has understandably been the highest for the Municipal Corporations and declines as one goes down the tier of municipal entities for the Municipalities and the Nagar Panchayats. A careful perusal of the R² also makes one come to the conclusion that the impact of the decentralisation initiative so far as the tax generating and own revenue mobilising capacities of the city governments are concerned, has remained confined to the largest of the municipal entities, the Municipal Corporations (Table 61 & 62).

Table – 63: Regression results between Percentage indices and Decentralisation Ratios

Regression Results between Percentage Share of Own-tax to total Revenue and Revenue Decentralisation Ratio

	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.18	0.424	0.415	0.644	0.2	0.448	0.173	0.415
Nagar Panchayats	0.001	0.037	0.144	0.379	0.042	0.204	0.038	0.296
Municipalities	0.069	0.263	0.252	0.502	0.209	0.457	0.07	0.264
Municipal Corporations	0.132	0.363	0.398	0.631	0.5	0.707	0.444	0.667

Regression Results between Percentage Share of Own Revenue to Total Revenue and Revenue Decentralisation Ratio

	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.068	0.261	0.199	0.446	0.457	0.676	0.41	0.64
Nagar Panchayats	0.075	-0.274	0	0.017	0.017	0.129	0.001	-0.031
Municipalities	0.004	-0.066	0.043	0.206	0.089	0.299	0.149	0.386
Municipal Corporations	0.06	0.245	0.18	0.424	0.39	0.625	0.354	0.595

Regression Results between Percentage Share of Core Services Expenditure to Total Expenditure and Expenditure Decentralisation Ratio

	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
ULBs	0.056	0.236	0.288	0.536	0.134	0.366	0.134	0.346
Nagar Panchayats	0.019	0.139	0.053	0.231	0.039	0.197	0.247	0.497
Municipalities	0.024	0.155	0.123	0.351	0.014	0.12	0.042	0.206
Municipal Corporations	0.253	0.503	0.224	0.474	0.202	0.45	0.088	0.297

Table – 64: Regression results between Per-capita indices (ULBs) and Decentralisation Ratios

	1990-91		1992-93		1995-96		1997-98	
	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β	R ²	Stdized β
PCOTR & RDR	0.559	0.748	0.868	0.931	0.507	0.712	0.454	0.674
PCCSE & EDR	0.022	0.149	0.242	0.492	0.009	0.096	0	0.007

Though there has been some positive impact on the taxation count of the ULBs, being largely confined to the Municipal Corporations, on the nontax revenue side the decentralisation initiative has not done much, and the coefficients are mildly negative. The R² figures are also remarkably low suggesting the low explanatory power of the percentage share of nontax revenue to total revenue through CUDI. Thus, The non-tax revenue component has remained largely neglected in the sense that not much has been done at the state level towards improving the revenue generating capacity of the state governments out of the non-tax sources (Table 62). The same trend is also observed in the case of the regression of the per capita non-tax revenue with CUDI, which shows mildly positive coefficients for the last three periods, along with very low R² values (very low explanatory powers).

There seems to be an inverse relationship between the percentage share of other revenue to total revenue and CUDI, as is suggested by the negative β values. But, the R² values are not much, therefore the explanatory power of the equation is very low. Thus, the trends in the assignment of the grants-in-aid and the shared taxes seem to have run in the opposite direction to that of the CUDI. This is because the other revenue component seems to be on a monotonically declining trend, especially in the post decentralisation phase.

The regression results between the percentage share of core services expenditure to total expenditure and CUDI for the four periods show that, except for the Nagar Panchayats in 1990 – 91, all the other β coefficients are positive, with the Municipal Corporations having the highest ones followed by those of the Nagar Panchayats. Surprising is the case of the Municipalities, which have not been able to increase its percentage share even after the decentralisation initiative of 1993-94. The R^2 figures are uniformly low suggesting that the equation (4) has very little explanatory power. The per capita core service expenditure and per capita total expenditure results with CUDSI shows an almost similar trend, with the only significant coefficient found in the year 1992-93. After that, the coefficients are insignificant but positive, meaning that the decentralisation initiative did not have much impact on either the PCCSE, total expenditure or the percentage share of the core service expenditure.

The regression results between the Financial Autonomy Ratio and CUDI throws up some interesting points. Though the β coefficients show a monotonically increasing trend through the ULBs as a whole as well separately for the three tiers, but they were the maximum for the Nagar Panchayats in the pre decentralisation and are the maximum for the Municipal Corporations in the post decentralisation phase. This is evidence enough to suggest that the Municipal Corporations are the most autonomous among the three categories of ULBs in the post decentralisation period.

The regression results between the percentage share of own-tax revenue to total revenue and the revenue decentralisation ratio (RDR) for the ULBs as a whole as well as separately for the three categories of ULBs, shows that the financial decentralisation on the revenue side has had a positive impact on the tax revenue generation capacity, more prominently, in the post decentralisation phase. The positive β value range from mildly positive for

the Nagar Panchayats to highly positive ones for the largest of the municipal entities, the Municipal Corporations. The R^2 values also goes on increasing as one moves up the tiers of municipal administration, showing that the explanatory power of the equation also increases. For the ULBs as a whole, both the β co-efficients and the R^2 values are increasing in the post decentralisation phase, meaning that revenue decentralisation definitely have made a positive impact on their tax generation capacities.

The regression results between the percentage share of own revenue to total revenue and the revenue decentralisation ratio (RDR) for the ULBs as a whole as well as separately for the three categories of ULBs follows a largely similar trend with the exception that the β co-efficients are negative for the year 1990-91 for both the Nagar Panchayats and the Municipalities, and for 1997-98, for the Nagar Panchayats only. In this case also, the best results are shown by the Municipal Corporations.

The regression results between the per-capita own-tax revenue and the revenue decentralisation ratio (RDR) for the ULBs shows that the β co-efficients as well as the R^2 values have been consistently high, both in the pre and the post decentralisation phases, indicating a strong positive relationship between the two.

The regression results between the percentage share of core services expenditure to total expenditure and the expenditure decentralisation ratio (EDR) for the ULBs as a whole as well as separately for the three categories of city governments shows that the Municipal Corporations are the only entities who have high β co-efficients as well as high R^2 values, though they show a decline in the post decentralisation phase. The interesting point to note is that for the Nagar Panchayats, the turn-around in this score is astounding in the post 74th CAA phase. The β co-efficients for the ULBs as a whole were the highest in 1992-93, decreased thereafter and increased

again in 1997-98. Though, expenditure decentralisation have had some positive impact on the percentage share of core services expenditure to total expenditure of ULBs, it has remained largely confined to the Nagar Panchayats, the smallest of the municipal entities, in 1997-98, and for the Municipal Corporations almost throughout the time period considered.

The regression results between the per-capita core services expenditure (PCCSE) and the expenditure decentralisation ratio (EDR) for the ULBs shows the highest β co-efficients for 1992-93, and their magnitude has been on the decline ever since. Thus, PCCSE does not seem to be too much affected by the expenditure decentralisation of the city governments. (Tables 63 & 64)

Financial Decentralisation Rankings:

According to the Composite Urban Decentralisation Index (CUDI) for the year 1997-98, the state – wise rankings are follows:

States	Ranks
Gujarat	1
Tamil Nadu	2
Rajasthan	3
Punjab	4
Haryana	5
Orissa	6
Kerala	7
Karnataka	8
Madhya Pradesh	9
West Bengal	10
Uttar Pradesh	11
Himachal Pradesh	12
Assam	13

The CUDIs could not be derived for Andhra Pradesh and Maharashtra due to the awkwardly large values obtained on computation of EDRs; while Bihar did not furnish the required information.

Interdependencies Between The Three Domains Of The ULBs

If one performs Spearman's rank correlations between the functional, administrative and financial rankings of the city governments of the 16 major states, the value obtained is quite high between the functional and administrative rankings (0.599), and between the functional and financial rankings (0.559). But, the rank correlation between the financial and administrative rankings yields a very low figure (0.225). This means that though the functional and administrative as well the functional and financial domains are quite highly correlated with each other, while the financial and administrative domains are very much uncorrelated. This again reiterates the fact that political / administrative decentralisation does not always guarantee the financial decentralisation.

If one performs Spearman's rank correlations between the grant rankings given as per the share of grants per year for ULBs under the EFC's recommendations and the functional, administrative and financial rankings of the city governments of the 16 major states, the value obtained between the grant rankings and the financial rankings is the lowest (0.159), that between the grant rankings and the functional rankings is marginally higher (0.379), while that between the grant rankings and the administrative rankings is the highest (0.633). Thus, grants to the city governments seem to be largely based on the administrative decentralisation parameters, which on its own is quite uncorrelated with the financial decentralisation parameters.

Section IV: Conclusion

In the financial domain, one can say that the bludgeoning fiscal gaps of the city governments year after year appears to be an inherent contradiction, since they are required to maintain a balanced budget by Constitutional stipulations. This fiscal gap is met by the shared taxes and grants-in-aid provided for by the state governments, which is a dangerous trend. Even if the decentralisation initiative has made some headway towards improving the tax generating capacity of the city governments, it has been to a large extent remained confined to the Municipal Corporations. But the possibility of improvement on this, count for the lower tiers of the city government cannot be ruled out in the long run keeping in view the existing trend. The decentralisation initiative has almost remained ineffective in improving the resource generation out of the non-tax and other revenue sources for the ULBs. The movement of the CUDI shows some positive initiatives towards the empowering of the city governments, but the impact of decentralisation so far on the resource generation and revenue mobilisation capacity of the ULBs, has remained almost insignificant except for the tax revenue components of the Municipal Corporations and to some extent for the Municipalities. On the expenditure side, the enactment of the 74th CAA did not have any perceptible influence on the expenditure assigned for the operations and maintenance of the core services, which are the basic necessities indispensable to the city life. There is enough evidence to suggest that the share of expenditure financed out of the city governments' own revenue have been directly affected positively by the decentralisation drive in the wake of the 74th CAA. Therefore, the impact of the 74th CAA has largely been a mixed bag, and is never an undisguised blessing for the ULBs. Taking a holistic view, it is uncertain that the move for decentralisation will lead to the empowerment of the

city governments and 'carrying power to the people'. It is to be kept in mind that transferring of responsibilities to the city governments without examining their economic base and resource - raising capacity would have serious socio-economic impact.

The state government is no more in a position to continue the subsidisation of the urban basic services and has to look for non-conventional methods of financing civic amenities, through funds from the capital market or building up public - private partnerships (PPPs). But, the success of such experiments will depend on the financial self sufficiency of the ULBs. This will need certain financial, structural, institutional, administrative changes and restructuring of the city governments. To make such initiatives successful, the measures should incorporate:

- i)** Providing certain revenue sources at the disposal of the city governments that have the reflection of the cities' income as octroi;
- ii)** Transformation of the urban governance system as a whole, where the state governments would exercise limited control over the finances and administration of the ULBs
- iii)** Exploiting user charges to its full potential as a buoyant source of revenue for the ULBs to increase the cost recovery of the services
- iv)** Strengthening of the capital market structure, which would make it possible to make long term investments for the urban basic infrastructure sector.

Conclusion

Decentralisation is the current buzzword among the academia and the political analysts alike. Consequently, the 74th CAA has been hailed as the harbinger of a new era of empowered and vigorous system of urban self –governance in India. The expectations were high that it will refurbish the whole system of urban-local self –governance by implanting a new structure of municipal authorities with additional devolution of functions, planning responsibilities, new system of fiscal transfers and empowerment of the women and the weaker sections of the society. The Amendment was supposed to provide the much-needed institutional capabilities to the otherwise fragile system of urban self–government in India in dealing with the impulses of urbanization and urban growth.

The model, built within the asymmetric information framework, is an attempt to conceptualise the centralisation-de centralisation debate.

In such a framework, under perfect information flows among the different tiers of decision-makers about technologies (and consequently, costs) and preferences, the optimal level of the local jurisdiction in charge of the project would be indeterminate. Whatever the size, the first-best solution can be reached for any level of decentralisation. Things under imperfect information are much more complex and difficulty to conceptualise. Two types of informational asymmetry are considered in the model, namely those concerning the cost of the project and the agent's preferences over the whole national territory. Thus, in this model, the optimal territorial organization is a trade-off between small

jurisdictions so as to benefit from the geographical proximity effect on information and larger units in which spillover effects are more easily internalised. The main conclusion of this model is that, the choice of the level to which decision-making regarding local public goods should be delegated, results from a trade-off between uncertainty about private costs of public good suppliers and uncertainty of the size of the external spillover effects. To some extent, this trade-off can offer an explanation to the actual division of responsibilities among local governments and the state government, as per the Twelfth Schedule.

The second part of the study looks into the effect of decentralisation on the city governments in India in the light of the 74th CAA separately from the standpoint of the three domains of governance, the functional, administrative and the financial.

The analysis of the **functional domain** leads to the conclusion that the passing of the 74th CAA has not resulted in the automatic transfer of powers from the state governments directly to the municipalities. Instead, it has been left to the discretion of the state governments. An overview of the back-up legislations leads to the conclusion that the Constitutional Amendment should not have left the actual devolving of functions on the will of the state governments who are required to push through new enactments providing for local functions according to the new schedule. The functional domain continues to be an unresolved issue in many states. However, debate has begun in the local authority circles about the need to make the list of functions mandatory rather than illustrative, and apply it uniformly to the states. It has also been suggested that since there is much commonality of items between rural and urban local bodies, a composite schedule, may be more useful than two separate schedules than at present. But, this would not be an easy task. However, there is no reason why the example set by Kerala, West

Bengal and Tamil Nadu cannot be followed towards a more rational redefinition of functions and responsibilities in keeping with the spirit and substance of the Constitution.

The functional decentralisation index values show that Kerala, West Bengal and Tamil Nadu take the first three places. Unfortunately, many states such as Andhra Pradesh, Orissa, Karnataka, Rajasthan, Uttar Pradesh, Haryana, and Madhya Pradesh have chosen to leave the assignment of some municipal functions as a task of delegated, rather than principal legislation. Therefore, in these states the functional decentralisation index values are very low, thus pointing out the presence of a huge gap as far as the devolution of powers are concerned between states. This is mainly because in these states, the Conformity Legislations was limited to some essential items such as elections, reservations, etc, as required by the Constitution. The functions and powers have been largely untouched and are to be found scattered in the various chapters and sections of the municipal laws and byelaws, which existed before as well as in government orders issued and revised from time to time.

The analysis of the **legislative and administrative domain** gives interesting insights into the functioning of the city governments with respect to that of the states. The follow up legislations indicate that in the spheres of legislative and administrative decentralisation and popular participation through ward committees and planning committees, many states have not gone much beyond the letters of the 74th CAA. The central issue of decentralisation, i.e. how to ensure efficient provision of local public goods and services have not been addressed adequately. Amendments to the municipal legislations in the various states have only been with regard to the electoral reforms. While elections have taken place in accordance with the provisions of the Constitution, little effort has been made to enlarge the functional and financial domain of the

municipalities. Regarding reservations for SCs / STs and women, all the state governments have made provisions in accordance with the constitutional stipulations. Many of the SFCs have submitted their reports to the state governments, but there is a great deal of reluctance by the state governments to accept its recommendations. The mandatory provisions of the 74th CAA regarding the Ward, District and Metropolitan Planning Committees are yet to be operationalised. Even the legal framework is not yet ready in many of the states.

The administrative decentralisation index values constructed from a set of five different legislative and administrative indicators show that West Bengal, Karnataka and Kerala, take the first three places, while Uttar Pradesh, Andhra Pradesh, Assam, Haryana and Bihar fare the worst. Thus, the legislative back up to the Constitutional Amendment have not taken place in many states and the actual operationalisation have not taken place in many others, again pointing out the high degree of unevenness among states with respect to the decentralisation initiatives undertaken. The need of the hour is that the legislative and administrative support system should be clearly drawn; the back up legislations should be immediately passed and the actual operationalisation process should be made mandatory for the states.

In the **financial domain**, one can say that the bludgeoning fiscal gaps of the city governments year after year appears to be an inherent contradiction, since they are required to maintain a balanced budget by Constitutional stipulations. This fiscal gap is met by the shared taxes and grants- in -aid provided for by the state governments, of which the largest share is that of the grants, which is an unhealthy trend. There is, thus, the need for evolving a new system for determining the potential revenue mobilising capacities of the city governments, which will depend on their economic bases, and will replace the currently existing gap-filling approach. Even if the decentralisation initiative has made some

headway towards improving the tax generating capacity of the city governments, it has been to a large extent remained confined to the Municipal Corporations. But the possibility of improvement on this count for the lower tiers of the city government cannot be ruled out in the long run keeping in view the existing trend. The decentralisation initiative has almost remained ineffective in improving the resource generation out of the non – tax and other revenue sources for the ULBs. The movement of the CUDI shows some positive initiatives towards the empowering of the city governments, but the impact of decentralisation so far on the resource generation and revenue mobilisation capacity of the ULBs, has remained almost insignificant except for the tax revenue components of the Municipal Corporations and to some extent for the Municipalities. On the expenditure side, the enactment of the 74th CAA did not have any perceptible influence on the expenditure assigned for the operations and maintenance of the core services, which are the basic necessities indispensable to the city life. There is enough evidence to suggest that the share of expenditure financed out of the city governments' own revenue have been directly affected positively by the decentralisation drive in the wake of the 74th CAA. The financial decentralisation rankings show that Gujarat, Tamil Nadu and Rajasthan, take the first three places, while Uttar Pradesh, Himachal Pradesh, Assam and West Bengal fare the worst.

The legal measure of decentralisation (CDIEFC) and the behavioural / financial measure of decentralisation (CUDI) are uncorrelated with each other. Thus the legal and behavioural measures reflect two different concepts of decentralisation rather than two different measures of the same concept. The EFC has constructed the index of decentralisation with a set of ten indicators, out of which only two are financial ones. And even among these, there remain serious lacunae while defining

them. The composite index formed in the study, CUDI, is thus, a totally financial measure, which takes into account the decentralisation initiatives from both the revenue and expenditure sides, and then arrives at the CUDI by taking the FARs as the weightages. CUDI is, therefore, a more full proof financial measure than the financial indicators of the EFC's decentralisation index. This means that the decentralisation index constructed by the EFC fails to capture the actual financial decentralisation taking place in the ULBs. This leads to the conclusion that political / administrative decentralisation does not always guarantee the financial one. Without financial empowerment of the ULBs i.e. until and unless they get access to enough revenues to finance their functional and administrative responsibilities, they are not going to be empowered in the real sense of the term.

Rank correlation values between the functional, administrative and financial rankings of the city governments of the 16 major states suggests that though the functional and administrative as well the functional and financial domains are quite highly correlated with each other, the financial and administrative domains are very much uncorrelated. This again reiterates the fact that political / administrative decentralisation does not always guarantee the financial decentralisation.

Rank correlation values between the grant rankings given as per the share of grants per year for ULBs under the EFC's recommendations and the functional, administrative and financial rankings of the city governments of the 16 major states leads us to conclude that grants to the city governments seem to be largely based on the administrative decentralisation parameters, which on its own is quite uncorrelated with the financial or functional decentralisation parameters.

Therefore, the impact of the 74th CAA has largely been a mixed bag, and is never an undisguised blessing for the ULBs. Taking a holistic view, it is uncertain that the move for decentralisation will lead to the empowerment of the city governments and 'carrying power to the people'. It is to be kept in mind that transferring of responsibilities to the city governments without examining their economic base and resource-raising capacity would have serious socio-economic impact.

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