



YASHWANTRAO CHAVAN ACADEMY OF DEVELOPMENT ADMINISTRATION

**Final Report**

**Best Practices in the Financial Management of  
Urban Local Bodies in India**

**Submitted To**

**Ministry of Housing and Urban Poverty Alleviation  
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## Preface

India is a rapidly urbanizing country. Urban management has therefore been an ever growing concern in India. The 74<sup>th</sup> amendment to the Constitution of India has paved way for urban local self governance through putting greater responsibilities on the Urban Local Bodies (ULBs). In order to deliver their increased responsibilities ULBs need to be empowered through greater devolution of resources. At the same time, they also need to develop capacities and competencies for handling their responsibilities and resources in an accountable manner.

The agenda of governance reforms of ULBs therefore remains integral to the agenda of devolution. Without adequate reforms, ULBs can face difficulties in coping with devolution. Several guiding frameworks have emerged to assist ULBs in achieving the required reforms such as the National Model Municipal Law, National Municipal Accounting Manual, Reform Conditionalities of JNNURM, etc. However, many ULBs, especially the smaller municipal councils, find these goals too distant and abstract. They need to be shown the actual path leading to these goals. Seeing is believing, therefore, the already existing good practices of progressive ULBs can best illuminate the path for other ULBs in search of clues and directions.

It is with this view that the present report has been compiled by YASHADA for consideration of the 13<sup>th</sup> Finance Commission of India. The best practices presented in this report are focused on certain themes provided by the Ministry of Housing & Urban Poverty Alleviation, Government of India. We are aware that there are good practices in many other spheres of urban governance also, however, those have not been considered owing to the predetermined scope of the documentation. The compilation presented in the report has been prepared through a meticulous process of literature review, calling information from ULBs in specified templates and finally the physical visits to ULBs to understand the current status and issues of selected practices.

The present report is primarily a compilation and thematic organization of the information received from ULBs as well as other sources such as articles and reports available in the print and electronic media. The compilation is meant purely for informing the Commission about the good and exemplary initiatives in the urban sector. We have therefore taken the liberty of reproducing certain materials in parts. We remain grateful to the authors and owners of the information compiled in this report.

I sincerely hope that the Commission will find the report useful.

(V. Ramani)  
Director General, YASHADA

## Acknowledgements

We are grateful to the 13<sup>th</sup> Finance Commission for providing YASHADA an opportunity to compile the best practices in the financial management of ULBs. This was a great learning and a rewarding journey for the study team.

The Ministry of Housing & Urban Poverty Alleviation, Government of India, provided the terms of reference as well as generous financial support to the study.

A large number of ULBs actively responded to YASHADA's call for information on their good practices. It was this enthusiastic response that really enabled YASHADA to take the study forward.

The ULBs selected for the final documentation extended all possible support to the study team of YASHADA. They shared various documents / materials on practices, their officers spared time out of busy schedules for detailed discussions on practices. In some cases they even helped the study team with the local logistic arrangements.

In addition to the information provided by ULBs, several reports and articles available in the print and electronic media were referred to and partly used in the compilation. A list of such sources has been enclosed at the end of the report. However, in case of any omissions, we wish to sincerely record our gratitude to all the authors of the information compiled in this report. The compilation is meant purely for the academic purposes and for the public benefit.

The student-interns of the Kohinoor Institute of Management, Khandala, played an important role in carrying out the actual visits to ULBs for documenting the current status of practices.

Our consultant Shri Vivek Date, an infrastructure finance expert, provided valuable insights to the study and helped in formulating its academic framework.

A large number of persons within and outside YASHADA contributed to the study. While it is not possible to name every one, we recognize and appreciate the fact that this report is essentially the product of a collective effort.

Sumedh Gurjar  
Director,  
Research & Documentation Centre,  
YASHADA

Poonam Meheta  
Coordinator,  
NRCUP, YASHADA

Greeshma Nagdeo  
Research Assistant, YASHADA

## Contents

Section	Title	Page
<b>1. Background</b>		10
1.1	Trends of Urbanization in India	10
1.2	Challenges of Urban Management	11
1.3	The Paradigm of Urban Local Governance	12
1.4	ULB Finance: The Mismatch of Resources and Responsibilities	14
1.5	The Role of Finance Commissions in Strengthening ULB Finance	16
1.6	Need for Promoting the Model Practices of ULB Management	16
1.7	Inception of the Study of Best Practices of ULBs	17
<b>2. Overview of Study</b>		18
2.1	Mandate	18
2.2	Terms of Reference	18
2.3	Approach of Study	20
2.4	Method and Process of Study	21
<b>3. Defining ‘Best Practices’</b>		25
3.1	Problem of Defining Best Practices	25
3.2	Some Fallacies	25
3.3	Characteristics of Genuine Best Practices	26
3.4	Best Practices: Real or Ideal?	26
<b>4. Financial Management of ULBs: Conceptual Framework</b>		28
4.1	The Integrated Nature of ULB Management	28
4.2	Framework of the Model Municipal Law	30
4.3	Framework of Municipal Finance Management	32
4.4	Theme Wise Framework	36

<b>5. Best Practices of ULBs in India</b>	40
5.1 The General Scenario of Best Practices of ULBs	40
<b>5.2 Maintenance of Municipal Finance Statistics</b>	48
Practice 1 Creation of Centralized System of Municipal Finance Statistics of ULBs (ULBs of Karnataka along with Directorate of Municipal Administration)	48
Practice 2 Adoption of Financial Reforms (Municipal Corporation of Greater Mumbai, Maharashtra)	57
<b>5.3 Practices in Resource Mobilization</b>	65
Practice 1 Sustained Financial Reforms for Optimal Resource Mobilization (Ahmedabad Municipal Corporation, Gujarat)	65
Practice 2 Resource Mobilization for Up-gradation of School Infrastructure (Greater Visakhapatnam Municipal Corporation, Andhra Pradesh)	74
Practice 3 Optimization of Property Tax Collection using GIS (Hassan Municipal Corporation, Karnataka)	77
Practice 4 Regularization of Water Connections to Augment Revenue (Nagpur Municipal Corporation, Maharashtra)	79
<b>5.4 Practices in Expenditure compression, outsourcing &amp; PPP</b>	82
Practices 1 Integrated City Transport Management through PPP (Bangalore Municipal Corporation, Karnataka)	82
Practice 2 Sewage Treatment Plant on BOT basis through Citizens' Participation (Alandur Municipal Corporation, Tamil Nadu)	89
Practice 3 Maintenance of Street Lighting through Private Service Providers (Vijaywada Municipal Corporation, Andhra Pradesh)	92
Practice 4 Automated Parking System through Public Private Partnership Bangalore Municipal Corporation, Karnataka	94
Practices 5 Use of Waste Plastic Bags in Road Construction through PPP (Bangalore Municipal Corporation, Karnataka)	98

<b>5.5 Practices in Accrual Accounting, Audit &amp; Transparency</b>	102
Practice 1 Adoption of Accrual Based Accounting System (Greater Hyderabad Municipal Corporation, Andhra Pradesh)	102
Practice 2 Fund Based Double Entry Accrual Accounting System (ULBs in Karnataka through Directorate of Municipal Administration)	107
Practice 3 Adoption of Accrual Based Accounting (Vijaywada Municipal Corporation, Andhra Pradesh)	113
Practice 4 Adoption of Transparency & Audit Measures through E-Governance (Ahmedabad Municipal Corporation, Gujarat)	116
<b>5.6 Practices in Delegation of powers to ULBs : 3Fs</b>	119
Practices 1 Delegation of Powers to ULBs (ULBs and the State Government of Kerala)	119
<b>5.7 Practices in Transfer of Funds to Local Bodies</b>	137
Practice 1 Urban Infrastructure Development through Urban Development Fund (ULBs of Tamil Nadu and the State Government)	137
<b>5.8 Practices in Accountability of Local Bodies</b>	149
Practice 1 Public Record of Operations and Finance (PROOF) (Bangalore Municipal Corporation, Karnataka)	149
Practice 2 24-Hour Control Rooms for Public Grievance Redressal (Hubli-Dharwad Municipal Corporation, Karnataka)	154
<b>5.9 Practices in the <i>in situ</i> Slum Development</b>	157
Practice 1 Slum Networking for Improved Slum Infrastructure and Services (Ahmedabad Municipal Corporation, Gujarat)	157
Practice 2 Slum Improvement through Partnership with Community and NGO ASHA (NGO) and Delhi Municipal Corporation, Delhi	163



6. Observations & Recommendations	168
6.1 Observations Regarding the Finances of ULBs	168
6.2 Observations Regarding the Best Practices of ULBs	169
6.3 Recommendations for Strengthening the Finances of ULBs	171
6.4 Recommendations for Enhancing Best Practices of ULBs	171
6.5 Specific Recommendations to the 13 <sup>th</sup> Finance Commission	174
6.6 Linking ULB Best Practices to the JNNURM Reform Agenda	181
Sources of Information on Practices	184

## 1. Background

### 1.1 Trends of Urbanization in India

Like many other developing countries, India is undergoing rapid and extensive urbanization over the last few decades. According to the Census 2001, out of the total population of 1027 million in India, about 285 millions live in urban areas. Table 1 shows the data on the number of urban agglomerations/ towns, the total population, urban population and urban population as a percentage of the total population for various Census years from 1901 to 2001.

The most urbanized states in India are the National Capital Territory of Delhi (with 93% of the population classified as urban), Tamil Nadu (43.9%), Maharashtra (42.4%) and Gujarat (37.4%). Maharashtra, with an urban population of 41 million, represents 14% of India's total urban population while Uttar Pradesh and Tamil Nadu account for about 35 and 27 million, respectively.

While on the one hand there has been an enormous growth in the absolute number of people living in urban areas (during 1951-2001 the urban population increased from 62.4 million to 285.3 million) on the other there has also been an increasing concentration of the urban population in Class I towns or cities (population of 100,000 or more). In 1991, about two-thirds of the urban population lived in 300 Class I UAs/ towns, which constituted less than 8% of the 3,768 urban agglomerations. Table 2 shows the distribution of urban population by the size class of urban agglomerations/ towns. Accompanying the growth in the number of urban centres, are cities joining the league of *metropolitan cities*. For example, in 1901, Kolkata was the only metropolitan city in the country. The number of metropolitan cities increased from 5 in 1951 to 35 in 2001.

## 1.2 Challenges of Urban Management

The role of urban areas as engines of growth has increased much significantly as compared to the population. For example, urban areas contributed 41% to the national economy in the year 1981 which has gone up to 55% in 1991 and 60% in 2001. Thus, cities are emerging as engines of productivity and economic growth and it is now recognised that national economic growth and poverty reduction efforts will be increasingly determined by the productivity of towns and cities.

At the same time, however, a large majority of the urban population in India, especially the urban poor lack adequate access to basic amenities and services such as housing, transport, water supply and sanitation, schools, hospitals, etc. Increasing urbanisation and the concentration of the population are associated with increasing issues in cities and towns, such as high population density, traffic congestion, pollution, slums, rise in urban poverty, environmental degradation, shortage of housing, civic services and infrastructure etc. Urban Local Bodies (ULBs) which bear the primary responsibility of providing basic civic amenities are experiencing a number of constraints such as poor revenues, inefficient organisational and human resources, lack of supportive environment etc. Hence, ULBs are not in a position to discharge their responsibilities effectively to improve service levels.

While the urban infrastructure seems to crumble under the pressure of the ever growing urban population, the cities have also emerged as reservoirs of knowledge, skills, social capital, infrastructure facilities and are the preferred destinations of domestic and foreign investment. The positive role of cities has assumed more significance in this new age of globalisation, liberalisation and information revolution. There is a growing realisation therefore, that the problems associated with urbanisation emanates from poor city management and finances rather than being endemic to city growth per se.

### 1.3 The Paradigm of Urban Local Governance

The Constitution (74<sup>th</sup> Amendment) Act, 1992 is a path-breaking initiative in the urban governance reform in India. The Amendment aim at conferring the constitutional status of a third-tier government to the urban local bodies. The Act introduces certain uniformity in the structure and mandate of Municipal Governments across the country. It emphasises the participation of directly elected representatives of the people in planning, management and delivery of civic services. The 74<sup>th</sup> Amendment Act lies on the foundation that all ‘power’ in a democracy rightfully belongs to ‘the people’. It stipulates that if the State Government dissolves a Municipality, election to the same must be held within six months. The Act also makes it mandatory for State Governments to constitute District and Metropolitan Planning Committees, with predominant representation being given to the elected members of the urban and rural local bodies.

Regarding the functional domain of ULBs, the 74<sup>th</sup> Amendment Act envisages that the State Governments may, by law, endow them “*with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibilities upon Municipalities, subject to such conditions as may be specified therein, with respect to (i) the preparation of plans for economic development and social justice; (ii) the performance of functions and implementation of schemes as may be entrusted to them including those in relation to the matters listed in the Twelfth Schedule....*” [Article 243W]. Thus, the role envisaged of the Urban Local Bodies is much broader than that as providers of public services.

The Ministry of Urban Development (MoUD), Government of India finalized a Model Municipal Law (MML) of India in October 2003. The basic objectives of the MML are to implement in totality the provisions of the 74th CAA for empowerment of the urban local bodies (ULBs), and provide the legislative

framework for implementation of the Ministry's urban sector reform agenda. This initiative is expected not only to enhance the capacities of ULBs to leverage public funds for development of urban sector but also to help in creating an environment in which ULBs can play their role more effectively and ensure better service delivery. Based on MML, many state governments have initiated revisions of their municipal laws.

### **The Twelfth Schedule to Constitution**

- Urban planning including town planning
- Regulation of land use and construction of buildings
- Planning for economic and social development
- Roads and bridges
- Water supply for domestic, industrial and commercial purposes
- Public health, sanitation, conservancy and solid waste management
- Fire services
- Urban forestry, protection of the environment and promotion of ecological aspects
- Safeguarding the interests of weaker sections of society, including the handicapped and the mentally retarded
- Slum improvement and up gradation
- Urban poverty alleviation
- Provision of urban amenities and facilities such as parks, gardens, and playgrounds
- Promotion of cultural, educational and aesthetic aspects
- Burials and burial grounds, cremations, cremation ghats/grounds, and electric crematoria
- Cattle pounds, prevention of cruelty to animals
- Vital statistics including registration of births and deaths
- Public amenities including street lighting, parking lots, bus stops and public conveniences
- Regulation of slaughter houses and tanneries

## 1.4 ULB Finance : The Mismatch of Resources and Responsibilities

The finances of ULBs form an important element of the larger fiscal scenario of the country as ULBs are the Constitutional entities engaged in providing a variety of civic amenities and infrastructure. The 74<sup>th</sup> Amendment assigned enormous responsibilities to municipalities, which include the preparation of plans for economic development and social justice as well as the implementation of schemes as may be entrusted to them including those in relation to the 18 items listed in the Twelfth Schedule to the constitution. In addition to the items of responsibilities referred to in the Constitution, the Legislature of a State, by law, can assign responsibilities to Urban Local Bodies relating to the two items mentioned above. To perform these tasks, local bodies have to be financially sound with commensurate amount of powers for raising resources. However, while the Constitution has specified and listed the expenditure responsibilities, it does not provide a clear regime of taxes and revenue sources of ULBs.

The expenditure liability of a municipality depends on the service cost, service norms and population parameters. This applies to all categories of services. Revenues raised depend on the size of revenue base, extent of access to the base, the rates and the collection efficiency. This is true for all collectible resources. The fiscal gap can be redressed in the following broad ways: (a) reducing municipal responsibilities, (b) scaling down municipal service norms, (c) cutting costs and unnecessary expenditures, (d) enhancing municipal power to raise revenues, (e) increasing transfers from higher levels of government, and (f) stepping up local effort to raise revenues. Reforms to correct the municipal fiscal gap will need to address all of these factors in a comprehensive manner.

Till date, a separate list of taxes exclusively for municipal bodies does not exist. Many commissions such as the Local Finance Committee (1951) and Taxation inquiry Commission (1953-1954) have been set up from time to time to look into

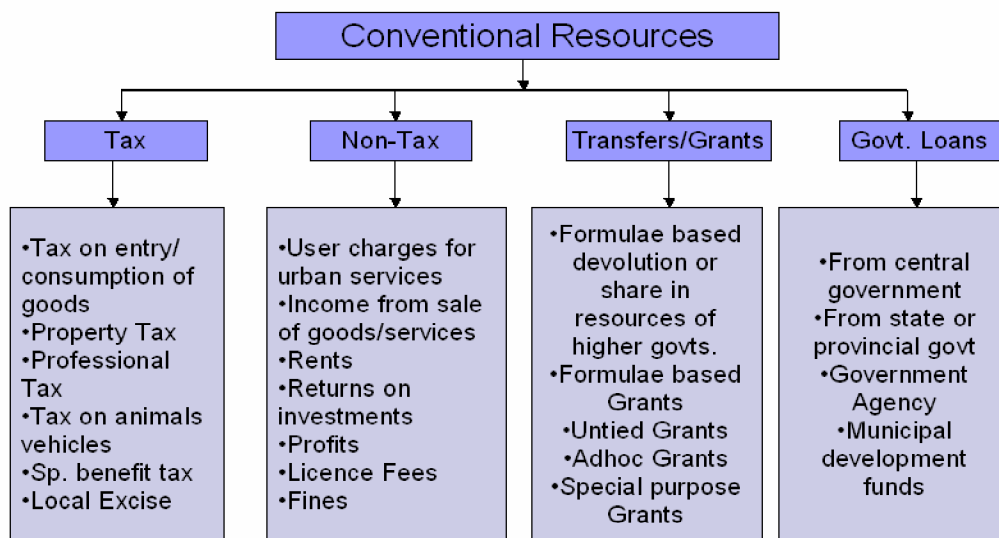
the issue of Municipal finance. However, even today the municipal finance is largely left to the discretion of the respective State Governments.

### Distribution of Taxes between the Centre, States and ULBs

Government of India	State Government
Income Tax, Wealth Tax, Corporate Tax, Customs Duties and Excise Tax	State Excise, Professional Tax, Sales Tax, Entertainment Tax and Land Revenue Tax
Urban Local Bodies (As permitted under State Acts)	
Tax on Land and Buildings, Taxes On Vehicles, Entry Tax on Goods (Octroi), Use Consumption and Sale, Theatre/ Show Tax and Tax on Advertisements other than in Newspapers.	

As a result, most ULBs find it difficult to match the available resources with the responsibilities assigned to them by the Constitution and the respective States. The taxes, duties, tolls and fees to be levied by the municipalities and assigned to them as also the grants-in-aid to be given to them have been left at the discretion of State Governments. This has allowed the fiscal mismatches to continue because there is not adequate decentralization of ULB resources to correspond to the decentralization of ULB expenditures.

### Conventional Sources of ULB Revenue



## 1.5 The Role of Finance Commissions in Strengthening ULB Finance

In acknowledgement of the need to periodically review the balance of functions and finances between the States and ULBs a provision has been made in the Constitution for the establishment of State Finance Commissions (SFCs) every five years (Article 243-I as per the 73<sup>rd</sup> Amendment). The State Finance Commissions are expected to review the financial position of ULBs and to make recommendations regarding the “*principles*” of devolution of resources from the State Government to ULBs and the “*measures*” needed to improve their finances and functioning.

Further, the Amendment of Article 280 of the Constitution of India requires the Central Finance Commission to suggest measures needed to augment the consolidated fund of the states to supplement the resources of municipalities on the basis of the recommendations of the State Finance Commissions.

## 1.6 Need for Promoting the Model Practices of ULB Management

It does not need much emphasis or explanation that the ‘*measures*’ needed to improve the finances and functioning of ULBs imply much more than the fiscal devolution alone. It points to the improved practices of ULB management as a whole. It is a widely acknowledged fact that the different aspects of ULB management such as revenue optimisation, cost-effectiveness, process reform & reengineering, transparency & accountability, people-centeredness, etc., are all interlinked and therefore need simultaneous and synchronous reforms. In a country of great diversity and multiplicity it is difficult to devise standard formulae of ULB reforms. Hence, perhaps the best strategy of consolidating the wisdom on ULB reforms is to map the best practices in this sector and to attempt a generic analysis of these practices with a view to promote their replication and scale-up.



While it is necessary to explore the avenues of greater fiscal autonomy of ULBs it is equally necessary to build their capacities to handle the funds in a meaningful, effective and transparent manner. The financial management of ULBs is faced with an omnipresent challenge of balancing the economic growth with social justice. While focusing on the resource mobilization and public-private-partnership for creation of better urban infrastructure and services, it is equally necessary to ensure that the infrastructure and services remain accessible and affordable to the urban poor. Often the enthusiasm of creating high-end infrastructure and services undermines the concerns of urban poverty thus creating a progressive social imbalance. Greater autonomy of ULBs in planning and expenditure also means their greater responsibility and accountability towards the citizens. Unfortunately, a large majority of ULBs, especially the smaller municipal councils, still lack in the basic systems, skills and capacities necessary for good urban management.

## **1.7 Inception of the Study of Best Practices of ULBs**

With this backdrop, and in the wake of constitution of the Thirteenth Central Finance Commission, the Ministry of Housing and Urban Poverty Alleviation (MoHUPA), GoI, commissioned to YASHADA the task of documenting the best practices in the financial management of ULBs in India.

## 2. Overview of Study

The Ministry of Housing and Urban Poverty Alleviation (MoHUPA), GoI, commissioned the study of best practices in the financial management of ULBs to YASHADA in August 2008. YASHADA evolved a design and framework for the study, collected preliminary information on the best practices of ULBs and made an interim presentation to the Thirteenth Finance Commission during its conference at the Institute of Rural Management Anand (IRMA) during December, 2008. The design and framework presented by YASHADA was accepted by the Commission with certain suggestions. The Mandate and ToR as presented in the following sections are largely based on the suggestions made by the Commission.

### 2.1 Mandate

The mandate of the study is to map, document and analyse the best practices in the financial management of ULBs in India with a view to promote certain concrete mechanisms of effective ULB management across the country.

### 2.2 Terms of Reference

The consolidated Terms of Reference as consolidated based on the letters of the Ministry and the discussions with the Commission are as follows:

**a) Themes for Documentation:** The best practices of ULBs are to be documented under the nine themes:

- Maintenance of municipal finance statistics;
- Resource mobilization;
- Expenditure compression including outsourcing, PPP;
- Measures for accrual accounting, audit & transparency;

- Delegation of powers to ULBs : Functions, Functionaries & Finances;
  - Transfer of funds to local bodies;
  - Accountability of local bodies;
  - Best practices relating to *in situ* slum development;
  - How the current best practices can be enhanced.
- b) **Geographical Scope:** The geographical scope of documentation is the whole of India;
- c) **Definition of ULBs:** Only the practices of ULBs, i.e., Municipal Corporations, Municipal Councils and Nagar Panchayats, are to be considered for documentation. The initiatives / practices of various Urban / Metropolitan Development Authorities and Urban Public Sector Undertakings, Urban Development Boards, etc., are not to be included in the study;
- d) **Scale of Documentation:** About 10 best practices may be documented under the nine themes. However, in the final analysis the related themes and practices may be further clubbed / integrated so as to suggest key mechanisms of good ULB management.
- e) **Deliverables of Study:**
- i) Mapping of best practices of ULBs across India;
  - ii) Detailed documentation of about 10 select practices;
  - iii) Critical analysis of practices resulting in recommendation of key mechanism for good ULB management across India.
- f) **Time Frame:** The initial time frame for the study was nine months from the date of commencement. However, based on the interim presentation to the Commission in December 2008 it was agreed upon that the final report of the study would be presented by April 2009.

## 2.3 Approach of Study

Any effort of documenting and analyzing the best practices in public administration / governance needs to carry three frames of reference:

- i) Available academic / theoretical wisdom on that aspect;
- ii) Prevailing legal-policy framework governing that aspect;
- iii) Established mechanisms and practices relating to that aspect.

There is always some accumulated wisdom on any aspect of public governance that is drawn from the experience and analysis from world over. Such established wisdom provides the ultimate vision and direction of public governance in that area though it is not always be possible to follow that vision in the immediate context because the prevailing public policies and legal frameworks may not be fully in tune with the academic / theoretical positions. However, an academic perspective on any aspect of public governance is always helpful in understanding the ultimate dimensions of the issues at hand. Rigorous academic perspectives are available on virtually all aspects of ULB management through contributions of different disciplines such as Economics, Public Administration, Sociology, Law, Management Sciences and so on. These perspectives are highly useful in assessing where does a good practice in ULB management actually stands with regard to its ultimate potential in theory.

The second aspect highlights the scope and limits of new initiatives / innovations in any particular sphere of public governance in the immediate context of the prevailing laws and policies. A fundamental way in which good management practices differ from the totalitarian reform is that they do not envisage change in the basic framework of law and policy in force for the time being. Instead, they try to device effective measures for achieving the true spirit of that legal-policy framework. Thus, any good management practices need to be analyzed with reference to the enabling as well as limiting effects of the legal-policy regime.

Finally, the established mechanisms of executing public affairs including the institutional setup, administrative arrangements, functional processes, decision-making systems, monitoring systems, etc., make a significant impact on the performance and fate of any innovative practice. The sustainability of any practice depends on how well it harnesses the strength of the existing systems at the same time also overcoming its weaknesses and disadvantages. Any good management practice therefore needs to be examined closely in the context of the ground realities in which it is rooted.

The study carried out by YASHADA has tried to integrate all the above perspectives while identifying the best practices and also in assessing their viability, sustainability and amenability to replication.

## **2.4 Method and Process of Study**

With the above approach the study was carried out through the following steps:

### **i) Literature Review on the ULB Finance Management**

The study began with a critical review of literature on ULB Finance resulting in the formulation of a conceptual framework on good financial management of ULBs with focus on the nine themes specified for the documentation of best practices. The conceptual framework helped in understanding the linkages and interdependencies across the various aspects of ULB management so that the best practices could be later analyzed in an integrated framework and certain coherent mechanisms of effective ULB management could be arrived at.

ii) **Literature Review on the Concept and Characteristics of Best Practices**

The review of literature was also carried out on the concept and characteristics of Best Practices and the methods of their documentation so as to develop a clear understanding as to what constitutes a best practice. This effort was felt necessary to avoid certain fallacies commonly associated with the best practice documentation and to ensure that the practices finally selected for documentation are truly the best. Also reviewed were various templates available in the literature for documenting the best practices.

iii) **Designing, Pre-testing & Finalizing Templates for Data Collection**

The templates formulated by YASHADA for compiling data on the ULB best practices are at two levels. The first level is an exploratory template to be sent to ULBs at the beginning of the study for calling basic information about their practices, whereas the second level is an analytical template for presenting the analyzed information of ULBs. The first and second level templates are enclosed as **Annex-I** and **Annex-II** respectively.

iv) **Compilation of Published Information on ULB Best Practices in India**

All published information on the innovative / good practices of Indian ULBs was compiled through review of related reports, ULB websites, journals, etc. An extensive review of reports published by the Rating Agencies like CRYSil and others was also carried out.

v) **Calling Information from ULBs across India**

As next step the first level template developed by YASHADA was sent to a large number of ULBs as well as the State Directorates of Municipal Administration and the State Urban Development Departments under a

cover letter requesting them to send the information of good ULB practices known to them.

**vi) Preparing a Master Inventory of ULB Practices**

Many ULBs responded well to YASHADA's request for information on their respective practices. Next, the information collected from the literature and that sent by ULBs was pooled together to form a master list of ULB practices in India.

**vii) Scrutiny and Short-listing of ULB Practices for Detailed Investigation**

Using the master list the process of scrutiny and short-listing of ULB practices was initiated. It was noticed that a large number of practices that have appeared in the literature under the title of ULB practices are in reality the initiatives of urban / metropolitan development authorities or other public sector organizations. These practices were separated out. Similarly, it was noticed that certain practices, which were at the peak of their performance till recently are now in a state of progressive decline. In some other cases it was felt that the practices were just in a take-off mode and thus too young to be considered as established models. In certain situations, it was evident that the practices were initiated and driven by certain individuals in the position of authority and there were no signs of their internalization into the institutional system of ULBs. Also, certain practices appeared quite promising but could not be related meaningfully to any of the nine themes specified by the Ministry. With these and other critical considerations, the practices were reorganized into A, B and C categories. Only the A category practices would be pursued for field visits and further investigation.

### **viii) Visits to ULBs for Detailed Investigation**

The practices selected for further investigation including field visits were then analyzed using the available information and were rewritten in the second level template as discussed earlier. This helped in properly organizing all available information and pinpointing the gaps / lacunae for further investigations. The concerned ULBs were contacted through mail and phone and visits were fixed in consultation with the key officials concerned with the practices. The announcement of general elections affected the availability of officers and other concerned personnel at many ULBs though generally the response of ULBs was good. Trained investigators with formal qualification in the discipline of Finance Management visited the select ULBs and carried out a first hand assessment of practices.

### **ix) Analysis and Report Formulation**

The data so compiled was examined and analyzed with the help of experts from the field of urban finance. The data on each practice was first analyzed individually to assess its potential for replication and long-term sustainability. The analyzed practices were organized under the respective themes. As the next step, the data was reviewed and analyzed across practices and themes to observe the linkages and synergies. This analysis helped in formulating the last section of the report on the overall inferences and recommendations.



### **3. Defining ‘Best Practices’**

#### **3.1 Problem of Defining Best Practices**

In a country of great magnitudes and diversity like ours the viability of any new idea or conceptual innovation cannot be established unless it is tested and verified on the ground. Even when an innovation gets established in a particular situation its amenability to replication elsewhere remains uncertain. Replication is often misconceived as bare imitation without consideration to the contextual variation and therefore the need for customization. This invariably results in failure of excellent initiatives when being replicated under different circumstances and contexts.

#### **3.2 Some Fallacies**

Many innovations or initiatives, which initially appear very promising, eventually turn into fallacies because adequate attention is not paid to the aspect of their institutionalisation into the prevailing system of public administration / governance. Some of the dangers that the good practices need to guard against are:

- even the most promising initiatives can crash overnight;
- today’s celebrated practices can turn into the greatest fallacies of tomorrow;
- innovations can turn counter-productive to their own objectives;
- most innovations are personality driven, which fade away with the innovator;
- most innovations die during replication;
- most innovations are nothing more than an old wine in a new bottle;

The real challenge in identifying best practice, therefore, is

- How to ensure that we don’t base long-term policies on short-term success stories?
- How to make out true & lasting best practices?

### 3.3 Characteristics of Genuine Best Practices

To guard against the fallacies discussed above, it is necessary to examine every best practice for evidence of the following characteristics:

- Firstly, it should be **PERCEIVED** by all stakeholders as having made a positive difference to their lives and well-being;
- Secondly, although it may be born of specifically local concerns, a good practice must resonate with other urban communities – i.e. it should be **REPLICABLE**, relevant, sustainable and strengthen the relationship of accountability between policy makers, providers and citizens and increase transparency in the system;
- Thirdly, the institutional, legal and social aspects and all backward and forward **LINKAGES** should have been carefully taken into account;
- Fourthly, the **OWNERSHIP** of the good idea should be quickly passed on from the single initiator to the implementing levels, to ensure it survives change of key personnel;
- And finally, a good practice must be periodically reviewed, monitored and constantly improved to keep it **CONTEMPORARY**.

### 3.4 Best Practices: Real or Ideal?

Best Practices, in their abstract sense, are certain tested and generalized principles, which get embodied in specific institutional arrangements, functional processes, normative systems, etc., in tune with the respective contexts. Real life practices only provide an evidence of practical feasibility and viability of those principles. It is therefore necessary that the best practice documentation not only

describes an innovation / initiative but also carries out a critical analysis of the parameters underlying its success or eventual failure if that is the case. A parametric analysis of a best practice within a well-defined context brings out the whole dynamics of its operational processes. Such an understanding then helps in suitably adjusting / altering those processes while the practice is being replicated under a different context. The paper focuses on analyzing every best practice with a view to suggest a possible strategy of its replication.

Best practices are often misunderstood as a set of physical acts or activities being practiced by certain organizations, groups or individuals. In reality, best practices are essentially certain broad guiding principles embodied in certain physical acts or activities. It is therefore quite possible to draw useful principles even from practices not in use any more or left incomplete. What is important is to pick up those underlying principles and look for the avenues of their sustained replication. In other words, best practices in real life are a mere reflection, often imperfect, of the ultimate potential of a new idea or innovation.

## **4. Financial Management of ULBs : Conceptual Framework**

### **4.1 The Integrated Nature of ULB Management**

In the era of globalization, privatization and decentralization, the financial management of ULBs has assumed many new dimensions. The unprecedented pace of urbanization and rapid transformation of urban lifestyles over the last few years has put unforeseen demands on urban infrastructure and finance.

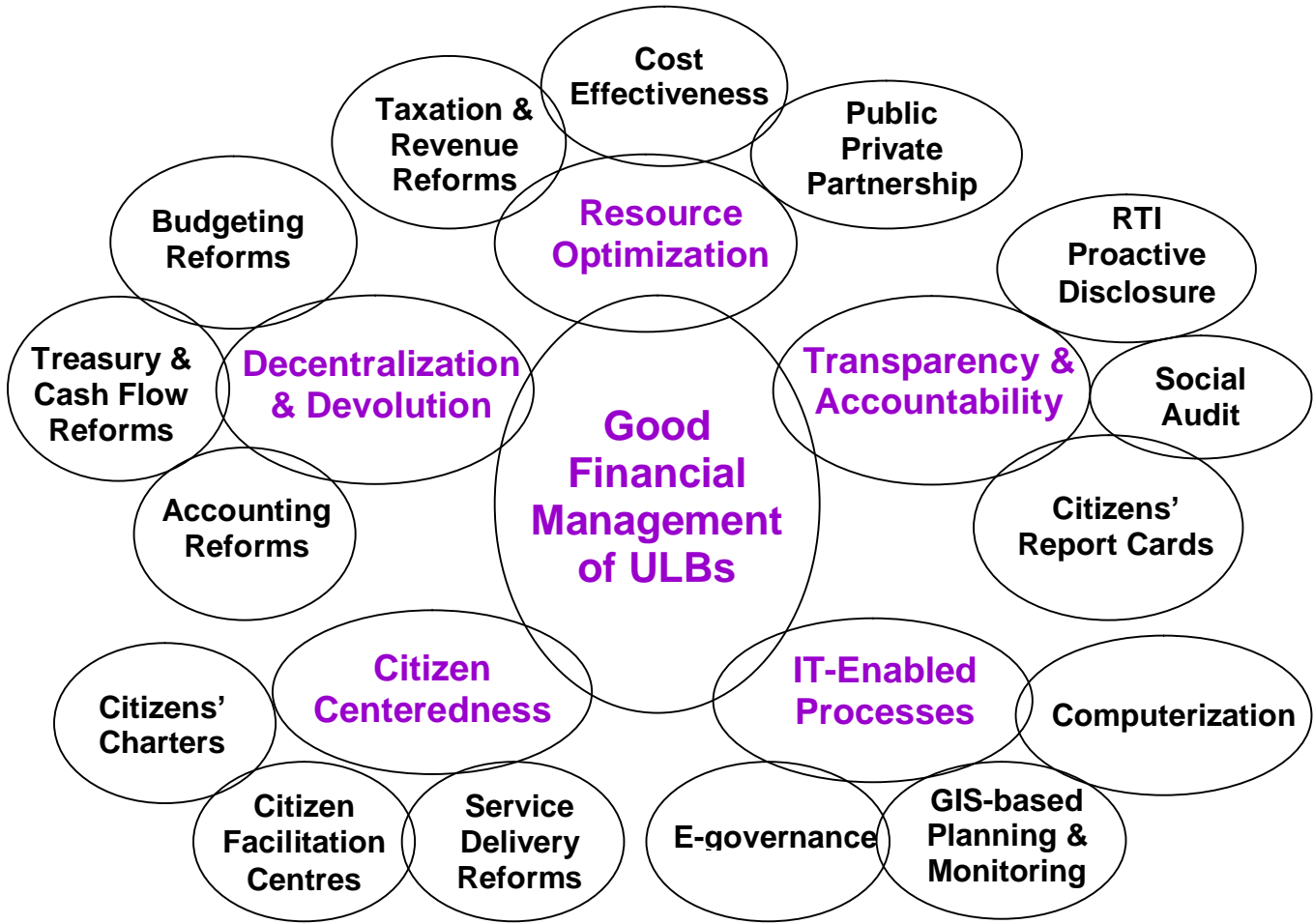
It is very clear that these demands would not be matched unless ULBs optimize their revenues and other resources through innovative taxation, user charges and the newer avenues of Public-Private-Partnership. With the onset of decentralization and devolution the ULBs also need to revamp their budgeting processes so as to meet the expectation of bottom-up planning. A strong reform of ULB accounting coupled with streamlining of cash flows between ULBs and States / Center stands a prerequisite for effective devolution.

In this new scenario, ULBs also stand more accountable to their citizens and taxpayers. They are already the preferred targets of queries under the Right To Information Act, 2005, and they need to get more proactive in disclosing their financial information as a step towards greater transparency. An active participation of citizens in the monitoring and evaluation of ULB programmes and expenditures can go a long way in establishing their financial and social accountability. Social audit, public hearings, citizens' report cards are effective tools for this purpose. The citizens' charters can greatly help in making the ULB management more people-centric.

This coupled with service delivery reforms and citizens' facilitation mechanisms can greatly enhance the impact of ULBs. Needless to say that the higher levels of computerization, e-governance and GIS based decision-support / monitoring

mechanisms can help ULBs in all these endeavors and ultimately in achieving a seamless financial management.

### Integrated ULB Management - A Conceptual Framework



It is evident from the above discussion that the financial aspect of ULB management cannot be clearly dissociated from the other aspects and from the ULB management as a whole. All aspects of ULB management are interrelated and hence affect each other. A narrow focus on the financial management alone can, therefore, result in an inadequate and lopsided view of the issues at hand.

## 4.2 Framework of the Model Municipal Law

The diversity of contexts in which ULBs across the country exist and operate is such that the issues of ULB management can often pose a perplexing picture. In order to bring certain uniformity in this scenario and to establish certain minimum conditions of ULB management, the Ministry of Urban Development (MoUD), Government of India has finalized a Model Municipal Law (MML) of India in October 2003. The basic objectives of the MML are to implement in totality the provisions of the 74th Constitutional Amendment for empowerment of ULBs, and to provide the legislative framework for implementation of the Ministry's urban sector reform agenda. This initiative is expected not only to enhance the capacities of ULBs to leverage public funds for development of urban sector but also to help in creating an environment in which ULBs can play their role more effectively and ensure better service delivery. The salient Features of MML are as follows:

### i) Institutional Setup of ULBs

- Executive powers should vest with Empowered Standing Committee
- Five-year term for Mayor/Chairman
- Provision for wards and ward committees
- Functions classified in terms of core, assigned by government, and others
- Dissolution of elected council only after review by a committee
- Re-election of dissolved council within six months

### ii) Financial Management

- State government to prepare municipal accounting manual
- Municipalities to prepare annual balance sheets
- Provision for appointment of a Municipal Accounts Committee
- Provision for appointment of chartered accountants as auditors
- Capital and revenue heads to be separated out in municipal accounts
- Separate accounting heads proposed for water supply, roads, etc.

- Annual subsidy reports
- Annual inventory of municipal properties
- Comprehensive debt limitation policy by state government
- Enabling access to capital markets and financial institutions for capital investments

**iii) Municipal Revenue and Tax Regime**

- Property tax (PT) assessment system on area or capital value basis
- Provision for self-assessment system for PT
- Unique property numbering system
- Reference to implementation of SFC's recommendations

**iv) Urban Infrastructure and Services**

- Participation of private sector, NGOs, and CBOs in delivery of services
- Service charges to reflect O&M and capital costs
- Provision to meet the Hazardous and Bio-medical Waste Handling Rules of MEF, GOI
- Provision to meet the Solid Waste Handling Rules of MEF, GOI
- State-level regulatory commission on municipal services

**v) Municipal Planning**

- Representation to municipalities on District/Metropolitan Planning Committees
- Provision for implementation of development plans by Municipalities
- Easy planning approvals to small-sized buildings designed by architects

The broad framework laid down by MML is also useful in assessing whether or not the actual practices of ULB management are moving in the right direction.

### 4.3 Framework of Municipal Finance Management

The ever increasing needs of society coupled with changing global scenarios and growing population size, poses a challenge to Urban Local Bodies (ULBs). This is especially so with respect to issues such as poverty, inadequate infrastructure etc. These challenges call for more efficient, effective, transparent and accountable public service and reforms. In order to cope with these challenges, municipal officials need to be equipped with all the necessary tools. Revenues and expenditures should be properly identified and planned accordingly. Otherwise, all of the strategic plans and other derivative plans will be futile. This implies that, municipal financial management is the most important part of the strategic management process that requires careful planning.

#### a) What is Municipal Financial Management?

Municipal financial management involves very important activities of planning, sourcing, utilizing & disbursing, controlling and reporting.

- Planning: deals with selecting the activities to be financed;
- Sourcing: is about identifying and making necessary arrangements for financing the planned activities.
- Utilizing & Disbursing: deals with the application of the finance in an economic, efficient and effective manner.
- Controlling: verifying the proper use of resources in an efficient, economic and effective manner as per the guidelines and procedures; and action plan put forward so as to prevent or minimize fraudulent activities, wastage, etc.
- Reporting: is about compiling all the necessary data and producing an informative and timely report to the management, financiers and other stakeholders.

The aforementioned few points determine the role of municipal financial managers involved in both the managerial role of allocation, distribution,



stabilization and controlling; and the accounting role of recording transactions, producing reports and analyzing the reports.

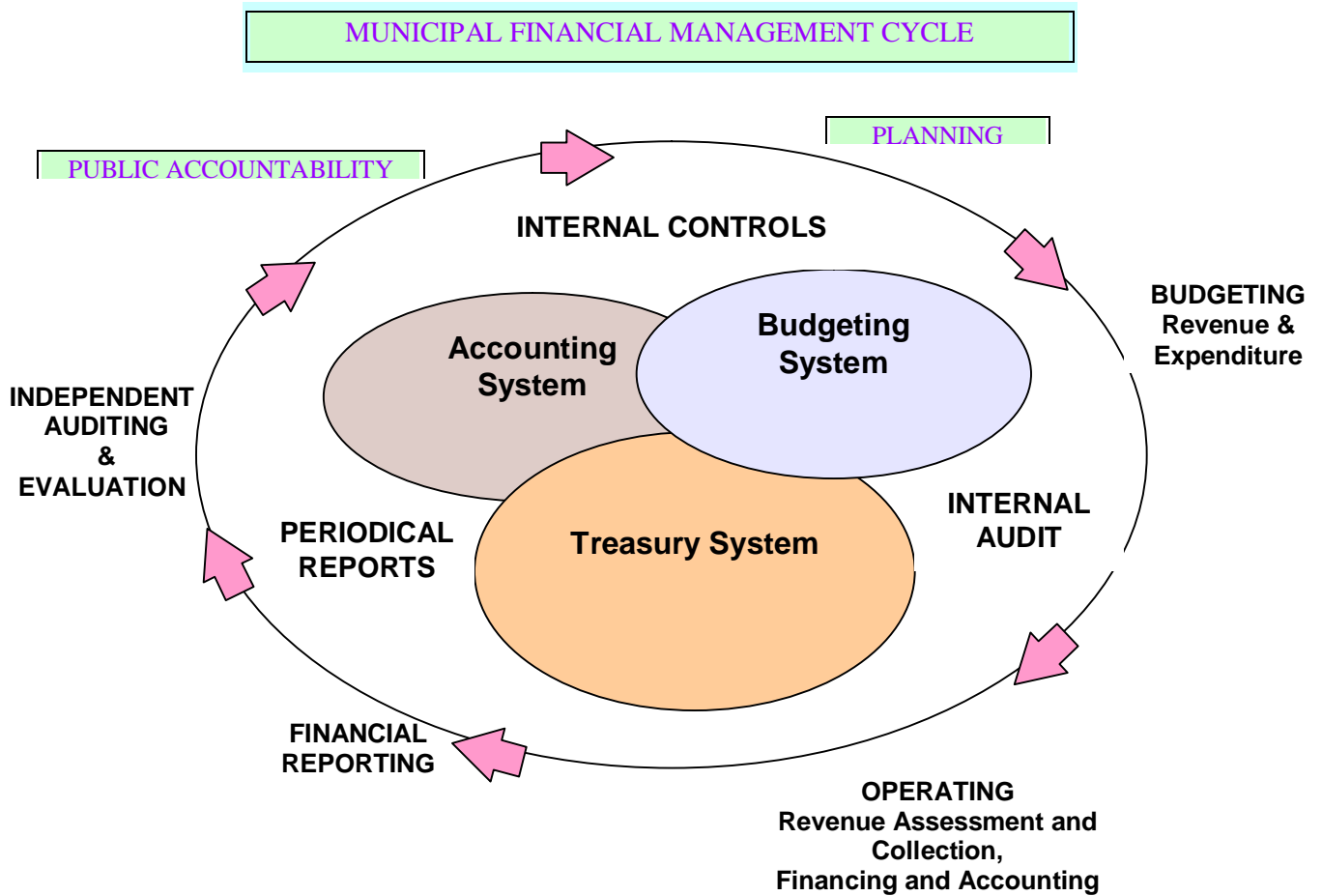
### **b) Core Features of Good Financial Management**

Good financial management is expressed through good budgeting, accounting and auditing.

- *Good Budgeting*: when budgets are prepared with inputs from implementers, supported by strong, effective and feasible action plans.
- *Good Accounting* deals with detailed identification and categorization of financial transactions; proper recording of the transactions and timely production and analysis of reliable financial statements by following generally accepted accounting principles.
- *Good Auditing* means strict and regular follow-up on the sourcing, allocation, and application of financial and other resources in line with the target and budget. The ultimate aim of auditing is to prevent public properties from embezzlement, abuse, misappropriation, etc. Moreover, good auditing practice calls for independent, impartial, timely and ethical evaluation of activities and financial transactions.

### **c) Municipal Financial Management Cycle**

The overall municipal financial management system can be viewed as a collection of several integrated and closely coupled components comprising accounting, budgeting, treasury management, internal controls and audit. Accounting is an essential element of the overall system. Without proper accounting system, an ULB would not have any clear idea of how well it is performing financially, whether it is becoming more solvent or more indebted, whether it will likely have sufficient funds, whether financial activities are being executed according to the plans. Furthermore, without proper accounting, it becomes impossible to state whether funds entrusted to an ULB have been used for the intended purposes.



Budgeting involves planning how resources are to be collected and distributed within/across activities. Budgeting should be realistic and relevant and it must periodically receive feedback from the accounting function. The entire budget exercise starts with setting up budgets and targets and ends with the taking of an action. Budgets are usually set up in the light of past experience after taking into account the changes that are expected to occur in the future. It must be the constant endeavor of the management to see that actual performance does correspond with the budget concerned. Since budgets assume the optimum efficiency attainable, the system of budgetary control helps to increase efficiency and enable the ULB to achieve targets, which are considered attainable.

- *Treasury Management* deals with the custody and management of assets and liabilities, such as checking accounts, petty cash, accounts payable and loans payable. The treasury component also provides important information to the accounting component that supports its recording, reconciliation and reporting tasks.
- *Internal Controls* consist of all resources, systems and tools that help in ensuring that the ULBs and its financial management functions operate as intended. They also help prevent errors, mis-statements, misappropriations, and other forms of losses to the ULB. Sound internal controls imply that the ULBs are operating efficiently.
- *Internal Auditing* is a monitoring component. It consists of internal audit conducted by auditors reporting to the Commissioners/ Councils of ULB, and external audit, which is more independent but typically involves a more narrow scope of work focused on attestation/certification of financial statements. All of the financial management components above are subject to review by the audit functions.

#### **d) Consequence of 74<sup>th</sup> Constitution Amendment**

The 74<sup>th</sup> Constitution Amendment Act (CAA) has been flaunted as an initiative to decentralize power and strengthen democracy at local level. The CAA accords constitutional status to ULBs and prescribes a near uniform local governance structure valid across the country. Due to this amendment, the responsibilities of ULBs stand increased. With the inclusion of additional municipal functions in the 12<sup>th</sup> Schedule of Constitution, the requirement for municipal finances for upgrading existing services is fairly high.

## 4.4 Theme Wise Framework

After taking a look at the overall framework of ULB management, it is necessary to view the framework of each of nine themes identified for the best practice documentation.

### i) **Maintenance of municipal finance statistics**

- Financial data to be maintained as per the MIS provided in the National Municipal Accounting Manual;
- Budget provisions should be mentioned along with classification codes;
- Receipts data :
  - § Government grants: Central, State, other grants;
  - § Own tax & non-tax revenue : Octroi, property tax, water tax, building permission fees, property rent, tree-cess, fire tax, various license fees, special education tax, advertisement tax, etc.
- Expenditure: Infrastructure development, outsourced works, maintenance; establishment, pay role, procurement, etc;
- Debts and liabilities;
- Guarantees;
- Accounts reconciliation;
- Appropriate reflection of BOT, PPP, etc.

### ii) **Resource mobilization including use of taxation, user charges, etc.**

- Optimization of network of own tax / non-tax revenue and user charges without losing sight of the mandate of social justice;
- Use of GIS and E-tools for tax fixation and recovery;
- Linking tax to market value (ex. : area-based approach);
- Innovative incentives to tax payers;
- Aggressively demanding the CSS, CFC, SFC funds;
- Maintaining proper database of own revenue for its effective pooling;

- Proper planning for effective utilization of own revenue;
- iii) Expenditure compression through cost saving methods including outsourcing, public private partnership**
- Creation of assets & services through public-private partnership : Minimum or zero investment models;
  - Outsourcing of functions to cost-effective service providers;
  - Use of cutting-edge technology;
  - Competitive procedures of procurement;
  - Coordination between concerned agencies to avoid duplication;
  - Right-sizing of the institutional machinery;
  - Optimal planning and monitoring to prevent time & cost over-run.
- iv) Adoption of accrual accounting, audit and transparency measures**
- Switch over to accrual based accounting system;
  - Switch over from expenditure accounting to outcome accounting to build up a database for effective audit;
  - Online accounting solutions;
  - E-tools for effective cash flows, timely disbursements, treasury & bank reconciliation;
  - Effective conduct of, and compliance to, internal & statutory audits;
  - Proactive disclosure of public works and expenditure;
  - Social audit of public accounts
- v) Delegation of powers to municipalities by state government including all three 'F's functions, funds and functionaries**
- Withdrawal of line agencies / PSUs from municipal services;
  - Withdrawal of State authorities from regulatory functions;
  - Minimization of administrative controls of the State;
  - Autonomy in fund-raising & entering PPP;

- Effective control of own tax and non-tax revenue;
  - Sharing of State's divisible pool;
  - Devolved funds as entitlements not grants;
  - Dedicated and permanent ULB cadres of officers;
  - Devolution of proportionate salary budgets to ULBs;
- vi) **Transfer of funds from Government of India / Finance Commission / Planning Commission to local bodies**
- Role of States in routing of funds to ULBs
  - Minimization of technical clearances by line agencies;
  - E-tools for timely cash flows and disbursements to ULBs;
  - Online authentication mechanisms for fund disbursement;
  - Gradual switchover to banks and newer payment gateways;
  - Online network of ULBs for timely and correct financial reporting to State, Centre, CAG;
- vii) **Accountability of local bodies to the citizens' charters, NGO participation, etc.**
- Proactive efforts for formulating citizens' charters;
  - Inviting public representations & hearings for city DPs;
  - Proactive disclosure under the RTI Act, 2005;
  - Social audit of public works, expenditure, outcome;
  - Involvement of NGOs / civil society platforms in planning, execution, monitoring and audit of ULB activities;
  - Representation of civil society in all major committees / bodies of ULBs at all levels;
  - Compliance to local fund audit;

**viii) Best practices relating to in situ slum development**

- Participatory assessment of slum amenities and services;
- Microplanning for slum development;
- Formation of slum action committees for monitoring;
- Convergent programming;
- Optimal coordination of all concerned agencies;
- Tie up with private developers for slum rehabilitation;
- Innovative FSI & TDR incentives for housing without investment;
- Social audit of slum development activities;

**ix) How the current best practices can be enhanced**

- Institutionalization of current practices into the mainstream of ULB management;
- Replication of best practices in other ULBs;
- Devising mechanisms of wide dissemination of best practices among the ULBs;
- Integration of mutually supportive practices to create a self-enhancing mechanism of effective ULB management;

## 5. Best Practices of ULBs in India

### 5.1 General Scenario of Best Practices of ULBs

#### i) Practices Across Regions

YASHADA has documented 86 municipal finance practices from different cities and towns of various States in India. These practices have been received mainly from the urban local bodies and in some cases from the State government agencies and NGOs. The overall spread of the practices shows a definite trend. It can be seen that greater is the economic development of a state, more is the initiative to carry out good work. The new initiatives in urban finance are prominently noticeable in the more developed and more urbanized states like Gujarat, Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu and Kerala where some of the best practices related to municipal finance statistics, resource mobilization, public private partnership, expenditure compression etc. can also be observed. The pattern of distribution of practices shows a stark regional disparity. A majority of practices seem to be concentrated in the south and north-west regions, their occurrence is relatively uncommon in the northern, central and eastern regions and they are virtually unheard of in the north-eastern region.

The regional disparity in the distribution of practices can be explained readily. The south and the north-west regions have many centers of booming economic activity. The pace of urbanization is rapid and therefore demands on municipal finance management are also greater. There is greater potential of investment especially from the private sector and hence numerous initiatives of public-private-partnership by ULBs are seen in these regions. Apart from resource mobilization and cost-compression the PPP initiatives also help ULBs utilize the cutting-age technology available with the private players. In other regions, PPP does not seem to pick up well as the private players do not



see strong incentives for involving themselves in the city management initiatives. It appears, therefore, that the overall economic mobilization of cities is quite necessary for triggering PPP and the related aspects.

The regions showing greater economic mobilization of cities / ULBs are also the ones where prominent initiatives are seen in the areas of accounting reforms, finance statistics systems, fund transfer mechanisms, etc. It is very clear that with greater revenue mobilization and complex fund transactions such reforms become inevitable and therefore need-driven. In absence of such felt need, mere policy provisions cannot drive the reform processes. In the States like Karnataka and Tamilnadu, the Urban Development Departments have launched the State-wide initiatives of ULB accounting reforms, finance data systems and more rational fund transfer systems. Similar trends are also seen in cities like Mumbai and Ahmedabad. This again points to the fact that perhaps ULB reforms need to be incentivized through greater revenue mobilization and fund flows. Unless the economic growth of cities picks the momentum they are perhaps not likely to take the reform agenda seriously. The intervention of States in facilitating such fund mobilization is therefore an important step towards promoting ULB reforms.

## **ii) Practices Across Large and Small ULBs**

Another important pattern emerging from the documentation of practices is that most of the initiatives are concentrated in metro cities and bigger towns as compared to the small and medium towns. This can be attributed to the paucity of funds and a lack of skills and capacities with the small and medium towns for taking up innovative initiatives. ULBs with chronic fund deficits seem to be uninterested in reforms because they do not see a clear advantage in that. This is evident from the fact that the smaller ULBs like municipal councils have very rarely reported innovative practices initiated on their own. However, it is important to note that wherever the State governments have

taken keen interest and lead, even the small and medium towns have shown exceptional progress in good financial practices. The accrual based accounting in the municipal councils of Gujarat and Karnataka, GIS based property tax assessment in Karnataka, solid waste management and cluster development of landfill sites in Gujarat, public grievance redressal System in Karnataka, infrastructure development in Tamil Nadu, energy saving initiatives in Andhra Pradesh, solid waste management in Sikkim can be cited as few examples where the small and medium towns also have exhibited good development due to the initiative of the state governments.

For the larger ULBs, certain sectors like urban transport are fast merging into the open market economy innovative ULBs like those in Bangalore, Indore, Surat, etc., have been able to bring in private investments as well as technology for streamlining these important urban services without additional investments. In fact, these services are turning into promising business ventures for the ULBs too. Again, the basic ability of mobilizing funds and investments seems to remain the prerequisite for good practices in the urban service delivery. Some of the resourceful ULBs seem to be tackling well with even with complex tasks like slum rehabilitation. Again, such ULBs have the capacity to create alliances and partnerships with NGOs and private players and to drive investments into activities like slum development, which hitherto have never been looked at as economically viable ventures. Thus, whatever the scenario may be, the resource mobilization seems to be the key driving force for ULB initiatives.

### **iii) Practices Across the ULB Reform Frameworks**

The ULB reform initiatives can be broadly categorized under JNNURM-Linked Initiatives, State Level Initiatives and Optional Initiatives.

a) **JNNURM Linked Reforms:** The JNNURM has provided the urban sector in India a great fillip towards reforming the governance practices, improving the infrastructure and providing basic services to the urban poor. The pumping in of funds along with the mandatory and optional reforms has provided an opportunity to carry out many good practices in urban India. Mandatory Reforms at ULB Level:

- i) Adoption of modern, accrual-based double entry system of accounting in Urban Local Bodies.
- ii) Introduction of system of e-governance using IT applications like GIS and MIS for various services provided by ULBs.
- iii) Reform of property tax with GIS, so that it becomes major source of revenue for Urban Local Bodies (ULBs) and arrangements for its effective implementation so that collection efficiency reaches at least 85% within *the Mission period*.
- iv) Levy of reasonable user charges by ULBs/Parastatals with the objective that full cost of operation and maintenance is collected within *the Mission period*. However, cities/towns in North East and other special category States may recover at least 50% of operation and maintenance charges initially. These cities/towns should graduate to full O&M cost recovery in a phased manner.
- v) Internal earmarking within local body budgets for basic services to the urban poor.
- vi) Provision of basic services to urban poor including security of tenure at affordable prices, improved housing, water supply, sanitation and ensuring delivery of other already existing universal services of the government for education, health and social security.

b) **State Level Reforms:**

- i) Implementation of decentralization measures as envisaged in Seventy Fourth Constitutional Amendment. States should ensure

meaningful association / engagement of ULBs in planning function of Parastatals as well as delivery of services to the citizens.

- ii) Rationalisation of Stamp Duty to bring it down to no more than 5% within *the Mission period*.
- iii) Enactment of community participation law to institutionalize citizen participation and introducing the concept of the Area Sabha in urban areas.
- iv) Assigning or associating elected ULBs into “city planning function” over a period of five years; transferring all special agencies that deliver civic services in urban areas and creating accountability platforms for all urban civic service providers in transition.

#### **C) Optional Reforms:**

- i) Repeal of Urban Land Ceiling and Regulation Act.
- ii) Amendment of Rent Control Laws balancing the interest of landlords and tenants.
- iii) Enactment of Public Disclosure Law to ensure preparation of medium-term fiscal plan of ULBs and release of quarterly performance information to all stakeholders.
- iv) Revision of bye-laws to streamline the approval process for construction of buildings, development of sites, etc.
- v) Simplification of legal and procedural frameworks for conversion of agricultural land for non-agricultural purposes.
- vi) Introduction of Property Title Certification System in ULBs.
- vii) Earmarking at least 20-25% of developed land in all housing projects (both Public and Private Agencies) for EWS/LIG category with a system of cross subsidization.
- viii) Introduction of computerized process of registration of land and property.

- ix) Revision of bye-laws to make rain water harvesting mandatory in all buildings to come up in future and for adoption of water conservation measures.
- x) Bye-laws on reuse of recycled water.
- xi) Administrative reforms, i.e., reduction in establishment by bringing out voluntary retirement schemes, non-filling up of posts falling vacant due to retirement etc., and achieving specified milestones in this regard.
- xii) Structural reforms
- xiii) Encouraging Public-Private partnership.

From the perspective of municipal finance, the Reform Agenda has given substantial impetus to a number of good initiatives. Cities like Greater Mumbai, Nagpur, Hyderabad, Chennai, Ahmedabad, Thiruvananthapuram, Bhopal, Shimla, Vijaywada, Vishakhapatnam, Indore etc have accomplished accrual-based double entry system of accounting. Greater Mumbai, Hyderabad, Chennai, Kolkata, Surat, Rajkot, Coimbatore, Madurai have initiated system of e-governance using IT applications like GIS and MIS for various services. The reform of property tax with GIS and 90% collection efficiency has been successfully implemented in Hyderabad, Vijaywada, Vishakhapatnam, Rajkot, Vadodara, Pune, Coimbatore, Madurai, Chennai, Agra, Allahabad. Several cities have undertaken internal earmarking within local body budgets for basic services to the urban poor. Among the state level reforms, Kerala, Andhra Pradesh, Maharashtra, Bihar, Chhattisgarh, Gujarat, Madhya Pradesh, Tamil Nadu, Tripura, West Bengal are forerunners in the implementation of decentralization measures and Andhra Pradesh, Assam and Gujarat have enacted the community participation law. The optional reform of Introduction of Property Title Certification in ULBs has been impleted in Chandigarh and Rajkot whereas Chandigarh, Ahmedabad, Rajkot, Surat, Vadodara, Jabalpur, Amrutsar, Ludhiana, Jaipur and Ajmer have been successful in earmarking at least 20-25% of developed land in all housing projects (both Public and Private Agencies) for EWS/LIG category with a system of cross subsidization. State governments & ULBs are encouraging PPP.

### Distribution Of Themes Across Regions of India

	Municipal Finance Statistics	Resource Mobilization	Expenditure Compression & PPP	Accounting & Audit Reforms	Delegation of Powers	Transfer of Funds	Transparency & Accountability	In-situ Slum Rehabilitation
<b>NORTH</b>								
Delhi								Delhi
Punjab			Chandigarh					
<b>EAST</b>								
West Bengal			Kolkatta					
Orissa		Bhubaneshwar						
Assam			Guwahati					
<b>WEST</b>								
Rajastan			Jaipur					
Gujarat		Ahmedabad	Ahmedabad	Ahmedabad				Ahmedabad
		Mandavi City	Surat					
			Vadodara					
			Jamnagar					
			Rajkot					
Maharashtra		Mumbai	Mumbai	Pune				Mumbai
		Ulhasnagar	Kalyan	Nagpur				
		Kolhapur	Dombivali	Thane				
		Nagpur	Virar	PCMC				

	<b>Municipal Finance Statistics</b>	<b>Resource Mobilization</b>	<b>Expenditure Compression &amp; PPP</b>	<b>Accounting &amp; Audit Reforms</b>	<b>Delegation of Powers</b>	<b>Transfer of Funds</b>	<b>Transparency &amp; Accountability</b>	<b>In-situ Slum Rehabilitation</b>
<b>Regions</b>								
		Akola	Thane					
		Pune	Nasik					
<b>SOUTH</b>								
Karnataka	Whole State	Bagalkot	Banglore	Banglore				
		Manglore		Hubli-Dharwad				
		Hubli-Dharwad						
		Hassan						
		Hosadurga						
		Ramnagar						
Kerala		Kozikode			Whole State			
Tamilnadu			Chennai	Chennai		Whole State		
			Combitore					
			Alandur					
AP		Vishakhapatnam	Vijayawada	Hyderabad				Vishakhapatnam
		Hyderabad	Vishakhapatnam	Vishakhapatnam				
			Guwahati	Vijayawada				

## 5.2 Practices in Maintenance of Municipal Finance Statistics

### Practice 1: Creation of Centralized System of Municipal Finance Statistics of ULBs (ULBs of Karnataka along with Directorate of Municipal Administration)

**A) Project objectives:** To create and maintain a Centralized Database of Municipal Finance Statistics of 214 ULBs of Karnataka State through financial process reforms and e-governance tools.

**B) Project Background:** The Rule 136 of the Karnataka State Municipal Accounting Manual has empowered the Directorate of Municipal Administration (DMA) to create a finance and accounts database of ULBs through inducing the financial process reforms, use of IT tools with a view to achieve transparency of the financial information.

- Rule 136:
  - Sub rule 1 - Accounts may be kept in computer based system.
  - Sub rule 2 - DMA may modify the information requirements of KMF Forms.
  - Sub rule 3 - DMA, when it is satisfied about the stability of the software, it may request the Govt. to dispense manual maintenance of Records & Registers & Which will be maintained in Computer.
  - e-Gov financials an accounting software developed by e-Gov foundation Trust.
- Developed exclusively for Urban Local Bodies.
- User Friendly, doesn't require specific accounting Knowledge.



**C) State Level Nodal Agency:** A State Level Nodal Agency for consultation on accounting reforms was appointed for framing the implementation strategy. A special cell called Municipal Reform cell has been created to carry on municipal reforms, under this a dedicated team headed by Deputy Controller, a Chartered accountant & 6 trained accountants were placed to monitor the Accounting Reforms implementation & at ULB level Field level Consultants were appointed to hand hold them during inception for one year. Accountant has been made accountable along with all section heads of ULBs for their roles & responsibilities.

**D) Project partners:** The major stakeholders are Karnataka Urban Infrastructure Development Finance Corporation, State Accounts Department, Directorate of Municipal Department, Karnataka Electricity Board, Karnataka Water Supply and Sewerage Board and Urban local Bodies (ULBs) of Karnataka. During the development of new system, consultative workshops and meetings have been conducted. The project is divided into III phases, where first phase was started on 01.04.2006 covering 51 ULBs and effectively completed. II phase was started from 01.04.2007 covering 73 ULBs and final stage has started from 01.04.2009. Budget preparation, one of the key financial controls is now subjected to public participation through rounds of public meetings for consultation. Preparation of financial statements, cost & financial indicators, budget variance & publicizing them in two local newspapers promulgates the transparency & public accountability. Financial reporting helps in acquiring new sources of finances for emerging needs of infrastructure development. Financial information helps in optimum utilization of funds for better citizen service. Finance related information is hosted on ULB website for public access and information. E-Gov financial software has been tested and certified by software testing and quality center, ministry of IT, Government of India.



Survey Department for Property Title Certification. Even it can be used by Electricity Department, Transport, Census Department etc.

- Centralized database accessed by ULBs through web connectivity. This gives required information to the State Level Agency (DMA) to evolve State Level Plans

## **F) Software applications:**

### **i) General features:**

- Web Based applications & can be accessed over internet
- Ease of Installation
- Multi-user, Integrated Database System
- Integration Platform
- Proactive Information Disclosure
- Short cut keys
- Working on Multiple Windows
- Selection from drop down list
- Screen Help
- Voucher Numbering
- Built in Calendar

### **ii) Sequence of Software usage**

- Create financial year using Processing Menu – Financial Year
- Create Masters : Master Menu
  - Bank Masters
  - Contractor / Supplier Masters
  - Procurement Order
  - Feed the Opening Balance through Processing Menu – Opening
- Use the Transaction Menu screen to enter Vouchers prepared manually
- Reports are generated which can be seen by entering Report Menu

### **iii) Menu Tree Over View**

- Transactions
- Reports
- Masters
- Processing
- Deductions

### **iv) Transactions:**

- Receipts
- Property Tax Collection
- Miscellaneous Receipt
- Bills Accounting
  - Contractor
  - Supplier
  - Salary
- Payments
  - Bank
  - Cash
  - Advance
  - Pay Supplier/Contractor
  - Salary
- Journal proper
  - Create
- Contra Entry
  - Cash Deposit
  - Cash withdrawl
  - Cheque Deposit
  - Bank to Bank
- Confirm Vouchers
- Cancel Vouchers

**v) Reports:**

- Financial statements
  - Balance Sheet
  - Income & Expenditure Account
  - Receipt & Payment Account
- Accounting Records
  - Trial Balance
  - Cash Book
  - Bank Book
  - Journal Book
  - General Ledger
  - Sub-Ledger
  - Day Book
  - Opening Balance report
  - Cheque In Hand Report
- MIS Reports
  - Contractor Supplier Report
  - Receipt Register

**vi) Masters:**

- Chart of Accounts
  - Chart of accounts
  - Add bank
  - Add/modify branch and modify bank
  - Create/modify/view detailed code
- Code-screen mapping
- User-defined codes
- Tax setup
- Source of financing
- Collection/payment point
- Procurement orders

- Create procurement order
- Modify procurement order
- View procurement orders
- Supplier/contractor
  - Create supplier/contractor
  - Modify supplier/contractor
  - View supplier/contractor
- Setup cheque in hand/cash in hand
- Accounting entity

**vii) Processing:**

- Financial year
- Opening
- Closing period

**viii) Deductions:**

- Masters
  - Party type
    - » Create party type
    - » view party type
    - » Modify party type
  - Contract type
    - » Create contract type
    - » View contract type
    - » Modify contract type
  - Recovery master
    - » Create recovery
    - » View recovery
    - » Modify recovery
- Remittance recovery
  - Create remittance recovery

- View remittance recovery
- Modify remittance recovery

**G) Data Updating Schedules:** Data updating happens through the following schedules:

- Daily procedures
- Monthly procedures
- Quarterly procedures
- Year end procedures

**i) Daily Procedures:**

- Updating of books of prime entry.
- Physical verification of cash balance.
- Deposit of collection in Bank.
- Ledger posting.
- Updation of Classified Register.

**ii) Monthly Procedures:**

- Payment of pension fund & leave salary contribution for employees on deputation.
- Remittance of Statutory recoveries.
- Transfer to SC/ST Development Fund.
- Transfer from 'Specific Grant' to 'Income' or 'Deferred Income'.
- Transfer from 'Ear marked Fund' to 'Ear marked Fund utilised'.
- Balancing of Ledger a/c.
- Preparation of monthly R and P, Trail Balance, consolidated statement of DCB.
- Bank Reconciliation Statement.
- Reconciliation of Interfund transfer accounts.
- Reconciliation of sub ledgers with control accounts.

**iii) Quarterly Procedures:**

- Reconciliation of CWIP a/c with Register of Public works (KMF 41) and Summary Statement of Status on CWIP (KMF 42).

**iv) Year End Procedures:**

- Reconciliation of Receivable account.
- Physical verification of stores.
- Reconciliation of closing stock with balances in GL.
- Physical verification of Fixed Asset.
- Reconciliation of Fixed Asset a/c.
- Reconciliation of Deposits & Advance, Loans etc.
- Confirmation of Permanent Advance & Miscellaneous advance.
- Confirmation from Govt/ Govt Agency
- Accrual of interest accrued, but not due on borrowings.
- Accrual of interest on investments.
- Provision for year end expenses.
- Provision for unrealised receivables.
- Accounting of depreciation.
- Preparation of Annual Financial Statements.
- Closing of Ledger accounts.
- Carrying forward balances in Assets and Liability accounts.

**H) Result Achieved:** The above innovative process has resulted in greater efficiency and transparency in the financial management. Some of the impacts are:

- GIS based Property Tax Information System has enabled ULBs to identify the un-assessed properties and bring them under tax net. This has resulted in identifying 30-40% unassessed properties.
- Fixed Assets worth crore of rupees otherwise unnoticed have been physically identified, enumerated and brought into records.
- Further, e-Governance has resulted in higher transparency, general awareness about ULB administration and increased accountability.



**Practice 2: Adoption of Financial Reforms**  
**(Municipal Corporation of Greater Mumbai, Maharashtra)**

**A) Project objective**

- i) To adopt systems of Transparent Budgeting, accounting, financial management.
- ii) Create financially self-sustaining agencies for urban governance.
- iii) Enable e-Governance applications leading to reduction in cost and time of services.

**B) Pre Project Situation:** Accounts of ULB were maintained on Cash Basis leading to the following difficulties:

- i) It was rather difficult to know their creditability,
- ii) It was difficult to review the amount receivables.
- iii) Budgeting exercise was not effective as there remained always a huge gap between anticipated and actual results.
- iv) Clear picture on value assets and liabilities was not available. As such correct financial assessment of Corporations financial position was not assessed.
- v) Tax payers & investors were not able to know the real financial position of MCGM.

**C) Project planning and implementation:**

- i) Central Govt. has created "National Urban Renewal Mission" with a view to providing basic civic services-amenities, housing development and carrying out improvement in Corporation area. MCGM not only initiated Budgetary and Accounting Reforms but also implemented SAP, an integrated ERP in fulfillment of the reform requirement.
- ii) MCGM shifted to Accrual Based Double Entry Accounting System with effect from 1<sup>st</sup> April 2007. The said project is being completed in two phases:  
Phase I: Implementing the accrual based accounting and budgetary system.

Phase II : Incorporating Valuation of Assets in financial statements.

**D) Phase I: Implementing the accrual based accounting and budgetary system**

- i) MCGM appointed a reputed Audit firm to assist in implementing accounting and budgeting reforms.
- ii) Accounting system had to take care of five different Budgets such as a) Main Health & Main Primary b) Slum improvements c) Primary Education d) water supply & sewerage and e) Tree authority.
- iii) Near about 10 Funds, 2500 Cost Centres, 7717 G.L. Codes, 68 functionary, 321 functions to meet the requirement of M.C.G.M.
- iv) Reformed Budget comprised of levels such as 1) Fund, 2) Function, 3) Functionary, 4) Geographical code, 5) General Ledger Account Code
- v) Books of accounts, Balance sheets, Profit and Loss account as well as Budgets were prepared as per National Manual of accounting methodology
- vi) **Funds:** represented 5 budgets as mentioned earlier plus two more such as provident fund and pension fund
- vii) **Functions:** System comprised of 10 functions of ULB such as General administration, Public works, Health, Sanitation & Sewerage etc. and its sub-functions etc. Coding structure is made into two levels i.e. function group & functions
- viii) **Functionaries:** Functionaries represent the department which carries out various functions / activities of the ULB. A system of responsibility code is used whereby departmental head is the first level of functionary, his direct

subordinates are at second level & their direct subordinates are at third level & so on. There are about 41 departments. In order to improve the quality and performance of the services rendered to the citizens, units providing the services to the entire city are upgraded and status of the department is given to them, e.g. major hospitals etc. In addition to this, those departments which are rendering their services to other departments are also awarded the status of the department e.g. Transport, Municipal Power Laundry, Security, Municipal Printing Press etc. Therefore, in new system there are 76 departments or functionaries

- ix) **Field:** Field comprised Geographic areas such as Head office, Zonal offices, Wards etc and Location Type/Units were such as schools, fire stations, water treatment plant etc., within the geographic area (wherever applicable)
- x) **Accounts Code:** There are two levels i.e. major head & minor head. 1<sup>st</sup> digit of the code represents the type of Account, i.e., '1' for Income, '2' for Expenditure, '3' for Liability & '4' for Asset
- xi) **Codification Structure:** Codification Structure for MCGM covers functions, functionary, fields and accounts
- xii) Budget is prepared with "bottom up approach". Budget is prepared with inputs from the lower most levels i.e. the cost center of individual department. It assists in effective monitoring and clear division of the various services of the Corporation thus, aiding in clearly identifying the cost specific to the particular geographic area / department.
- xiii) Budget is prepared on the accrual basis thus factoring only those incomes and expenses, which pertain to the respective budgeting period. It helps in providing a clear picture of the Corporation's affairs for particular period. At the same time, accounting policies would be those as specified by NMAM, which brings uniformity at national level.

xiv) **Impact on Financial Management:** The Benefits accrued to MCGM after the initiative were as follows:

- a) Revenue recognized properly as and when earned
- b) Costs matched either against revenues so recognized or against the relevant time period to determine periodic income
- c) A distinct difference maintained between revenue and capital items
- d) Effective follow up of receivables & ascertainment of payables
- e) Full cost of servicing captured
- f) It will assist long term planning at City level
- g) Generated precise picture of earnings & expenditure of ULB
- h) Enabled better financial management
- i) Credit rating, one of the pre-requisites for mobilizing funds through debt instruments facilitated
- j) Function-wise, geographic area wise income and expenditure available
- k) Easy to understand and instant Access to the Citizens
- l) Facilitated accountability of functionaries
- m) Performance targets at functionary level

xv) **Accounting system enabled E-Governance:**

- a) MCGM capitalized the benefits of accounting reforms by introducing “SAP” a popular integrated ERP system.. It contains various modules like Finance & Control, HR, Materials Management, Fleet Management, Project Systems, Citizen Portal etc. All modules are interconnected and finance is the backbone. Receipts & Vouchers are being generated through system. Indents / Work Order are being issued by user dept.
- b) Certification on receipt of material and its processing is done through system only. Authorized person of finance module releases the payment after confirmation of facts & figures. Functions of the accounts personnel are shifted from mere data entry to more of analytical and decision making.

- c) Audit & checking functions are being carried out by the system. Systems of pay roll, water bills, Octroi collection, property tax collection, etc. are continued & interfaced with SAP.

*M.C.G.M was honored by Hon. Prime Minister being first ULB in the nation for implementation of successful financial reforms.*

#### **xvi) Benefits of E-Governance**

##### **a) Benefits for Citizens**

- q Fast, Flexible, Convenient services through well defined systems and procedures
- q (Anytime / Anywhere / 24 x 7 x 365 mode)

##### **b) Benefits for Municipal Corporation**

- q Greater operational efficiency
- q Better Planning & Supervisory Control
- q Fast & real time access to accurate information for various management functions

#### **E) Phase II: Listing, verification & valuation of all assets of M.C.G.M.**

- i) **Asset listing, verification and valuation:-** This task of asset listing, verification and valuation for all capital assets was completed with the help of 4 external agencies and then was uploaded in the SAP ( ERP ) system. Asset Registers were prepared in digital form department wise / ward wise.

##### **ii) Outputs and outcome of Phase II**

- a) Opening of Citizen Facilitation Centres at all the 24 Ward Offices having facility of all types of revenue receipts across the counters
- b) Facility of online payment through Banks
- c) “Sify-i-way, Sify Cyber Cafe / Franchisee, its Cash” outlets provided facility of payment through internet to the citizens not having the bank account and I.T. literacy

- d) Green Channel Facility to the reputed importers for hassle free octroi clearance
- e) Swift Card (Silver Card) facility has been introduced for fast clearance of vehicles at octroi Naka carrying material like earth, bricks, stones etc. regularly
- f) System of depositing collection in the nearest branch of S.B.I. to avail the benefit of core banking system established
- g) All payments are happening through SAP system and Day Book is maintained Centrally
- h) Maintenance of Asset / Deposit / Advances etc. registers in the system
- i) Global Positioning System to track vehicles
- j) Citizen Portal established.

**iii) Overall Outcomes**

- a) MCGM succeeded in submission of Reformed Budget for the financial years 2007-08, 2008-09 and 2009-10 consecutively.
- b) Real time budget versus actual comparison and analysis has become possible.
- c) Strict budgetary control through system is possible as all modules are connected to Finance Module of SAP.
- d) 100 % receipt and payment through SAP system.
- e) Control over payment of bills is possible only if purchase order exists, budget provision is available, quantity not exhausted and the same is certified by the competent appropriate authority.
- f) Effective management of cash flow is possible because all receipt and payments are done through system only.
- g) Daily MIS about collection and expenditure was available account wise and area-wise.
- h) Real time trial balance, income & expenditure and balance sheet at M.C.G.M. level is possible.

**iv) Challenges / Difficulties:**

- a) The earlier system was time tested, and much more known to all concerned. There was big challenge of “**Change Factor**”.
- b) Prior to preparation of NMAM, a pilot study of some ULB’s was carried out and MCGM was then specifically excluded from it because of its size and expanse of operations. MCGM took up the challenge and became the first ULB to successfully implement the financial reforms.
- c) No guidelines were available about conducting the audit of all transactions when e-Governance project are implemented.
- d) MCGM was the first ULB to undertake listing, verification and valuation of all assets including underground utilities. Hence, availability of experts who possess the actual experience of such type of project was a problem.

**F) Replication:**

- i) Accrual based accounting system has become almost compulsory on all ULBs.
- ii) MCGM provide the widest range of services and as such the implementation of accrual accounting system was a tough task. In reformed budget there are as high as about 7,717 General Ledger codes. The reformed system of the Corporation is totally exhaustive and any other ULB can use very easily the system by selecting required activities.
- iii) It has not only adopted accrual based accounting system but also took the fullest advantage by implementing the ERP system. Various convenient services are to citizens and are IT savvy or not. Hence there such ERP systems will not only be welcomed at other metros but also at comparatively smaller ULBs.

**G) Sustainability**

- i) MCGM completed the accounting reforms and then implemented ERP
- ii) Reforms are facilitating better management and control than ever. System will generate newer opportunities for better, faster and convenient services
- iii) Benefits, tangible and intangible are bound to exceed the cost and efforts in implementation

#### **H) Limitations**

- i) Implementation of the system at such a level of magnitude requires support of external professionals. ULB staff is required to work as a team with such professionals
- ii) A large number of staff are required to be trained to handle the system. Capacity building efforts involved are very high. ERP system creates further demands on the staff
- iii) During the time of implementation the staff might be required to handle extra work pressure

#### **I) Monitoring & Evaluation**

- i) The impact can be measured in terms of growth in tax collection, returns on deployment of surplus funds, savings in cost of services both service wise and area wise
- ii) Better Performance evaluation is possible only with such kind of reforms
- iii) The citizen-friendly services introduced by MCGM would not have been possible with reforms in accounting system.

**J) How far adopted by other ULBs:** Following the initiative of MCGM the cities of Hyderabad, Ahmedabad and Chennai have initiated similar efforts.

#### **K) Enhancing quality of implementation**

- i) Accounting reforms and ERP systems can become a strong base for initiative such PROOF at Bangalore
- ii) Periodic Citizen satisfaction surveys will help documenting the benefits and understand the scope for improvements



### 5.3 Practices in Resource Mobilization

**Practice 1: Sustained Finance Reforms for Optimal Resource Mobilization**  
**(Ahmedabad Municipal Corporation, Gujarat)**

**A) Pre project situation:** Despite a very large budget, the Ahmedabad Municipal Corporation (AMC) faced a serious financial crisis in 1993-94 as it had been pending beyond its means. The Corporation implemented effective measures to raise its octroi and property tax collections substantially in a short period of time. Thereafter, it issued municipal bonds in a pioneering format and reformed its system of property tax assessment. Due to the success of these initiatives, the AMC's financial condition has completely turned around. In terms of financial health, the Ahmedabad Municipal Corporation (AMC) is considered to be one of strongest urban local bodies in India. However, just ten years ago, the financial condition of AMC was rather poor. In the middle of the Financial Year 1993-94, the Corporation faced a major financial crisis. It had accumulated cash losses of Rs. 350 million and drawn a bank overdraft of Rs. 220 million. In each of the preceding ten years, the AMC had spent more than it earned and the deficits were carried forward. It was time for drastic action and major reforms in the functioning of AMC. Coincidentally, the elected body of the Corporation had just been superseded and state government had appointed an Administrator as the Chief Officer. This provided a strong opportunity for the administration to initiate financial reforms. The AMC's system of property tax assessment was very complicated and in many ways irrational. Being based on notional rental value of properties, the assessed values were very low. These could not be revised due to the constraints of the Rent Control Act and related judicial decisions. Consequently, the AMC could only raise the tax rates which stood at 73% of the annual ratable value in the case of residential properties and 83% for non-residential properties. These high rates had a psychological impact on the property owners, which lowered their willingness to pay the tax. Another undesirable outcome of the low assessment of property values was that 72% of the total number of residential properties in Ahmedabad and 31% of the commercial properties were

exempted from paying the general property tax. There was also enormous disparity between assessment of self-occupied and tenant-occupied properties. The ratio of tax burden was 1:15 in favor of the former. The end result of this irrational structure of the property tax system was that people perceived the system to be grossly unfair and non-transparent. It also led to corrupt practices in the tax department of AMC and the system was commonly described as “Inspector *Raj*”. The octroi department of AMC had even worse reputation in 1993-94. People perceived it to be full of corruption. Most people thought that it was easy to evade octroi by under-invoicing the goods, or by dodging the check posts, or by paying small bribes. Till 1993-94, the traditional method of financing infrastructure projects for the city was to obtain grants from the state government or take loans from HUDCO or LIC, backed by state government guarantees. These loans were neither cheap nor easy to obtain. The AMC certainly had little to no control on these sources of financing. As a result, capital projects had to be financed from surplus revenue income or just deferred year after year. It is not surprising that the city’s basic infrastructure (roads, water supply and drainage) was in shambles in 1993-94. Diagnosis of the existing situation showed that while there was need to control expenditure, the critical problem area was revenue enhancement. Specifically, it was concluded that the system of property tax assessment needed to be revamped and rampant evasion of octroi had to be checked. Further, the top management felt that the AMC should explore alternative sources for financing infrastructure projects from capital markets instead of relying exclusively on traditional methods.

**B) Project objective:**

- i) To enhance the revenue income of AMC to tackle the financial crisis that the civic body was facing.
- ii) To mobilize resources for city’s infrastructure up-gradation.
- iii) To realize the full revenue potential of property tax and octroi.

**C) Project planning & implementation:**

- i) **Strategy for Improving Octroi Collection:** Octroi is the most important source

of income for the AMC. Octroi continues to contribute almost 60% to AMC's total revenue income.

- n The AMC's strategy for improving octroi collection was based on greater vigilance at *nakas*; strict action against tax evaders and corrupt staff; rationalization of rates and procedures; and use of better communication technology.
- n The AMC established a Market Research Cell and inducted Cost Accountants for preparing valuation books on the basis of prevailing market rates. This was done to stop under-invoicing.
- n The system of random physical verification was introduced to prevent under-invoicing and under-valuation of goods. Thirteen vigilance squads were pressed into service for round-the clock checking of vehicles entering the city.
- n Anti-social elements facilitating the evasion of octroi were tackled with the help of police.
- n The AMC staff indulging in corrupt practices was punished.
- n All octroi checkpoints were equipped with a wireless system for rapid communications. The major *nakas* were computerized.

**ii) Municipal Bonds for Infrastructure Projects:** As the AMC's drive for increasing octroi and property tax collections started showing impressive results within a short period of six months, the Corporation took a bold decision to address the infrastructure needs of the city.

- n A corporate plan for infrastructure development was prepared. It included projects worth Rs. 7420 million to be implemented over a period of 3 to 5 years. It was decided that the AMC would raise finances from the capital markets in the form of municipal bonds.
- n It was essential to establish credibility in the debt market to be able to raise funds. The AMC carried out a number of institutional strengthening measures by decentralizing administration, recruiting business management professionals, improving the contracts administration system and building internal capacities for managing large projects.

- n Having set its house in order, the AMC approached CRISIL, the top credit rating agency in India, to evaluate the Corporation's credit worthiness. This was a pioneering step, as no other urban local body in the country had gone for credit rating until then. It was given the rating "A+" in 1995-96, signifying high safety for timely payment of interest and principal for raising resources from the capital market.
- n On obtaining the rating, the AMC floated the first issue of municipal bonds in India for Rs. 1000 million to be used for financing the planned water supply and sewerage projects. The bonds carried a coupon rate of 14% per annum. The issue, which eventually materialized in January 2002, was oversubscribed. While Rs. 750 million worth of bonds were issued under firm allotment to financial institutions, the remaining bonds worth Rs. 250 million were subscribed by public at large. Further, these bonds were secured through the escrow mechanism tied to AMC's revenue from octroi, unlike the bonds issued by the Bangalore City Corporation that were backed by a guarantee from the state government.
- n The AMC repeated its innovative approach for financing infrastructure projects in March 2002 by becoming the first urban local body in India to issue tax-free municipal bonds. Once again Rs. 1000 million were mobilized with a coupon rate of 9%. Unlike the first time, this issue was fully under private placement with firm allotment. AMC has since then issued two more municipal bonds in the year 2004 and 2005. These were worth Rs. 580 million and Rs. 1000 million respectively. Both were privately placed and issued to 5 and 12 investors respectively.
- n The AMC has also been restructuring its debts in the changing market scenario so as to minimize its losses. The first and the second municipal bond money has been repaid and regular by the provision of escrow account. Funding from the first two municipal bonds were used for the construction of the Rask Weir for provision of surface water supply to AMC, in construction of a water treatment plant and partly for construction of roads and bridges. The funding from the third and fourth municipal bonds was used partly for

water and sanitation projects and mainly for roads and bridges project including the Bus Rapid Transit System.

- n Highlights of a systematic approach to infrastructure development in the city.
  - o Issue Size - Rs.1000 million; of which Rs.750 million is on a firm allotment basis
  - o Underwriting - Net public offer of Rs.250 million fully Commitment underwritten
  - o Face Value - Rs.1000 at par Redemption - In three tranches of Rs.333, Rs.333 and Rs.334 at the end of 5th, 6th and 7th year
  - o Interest - Interest @ 14% per annum payable semi annually on the outstanding principal
  - o Deemed date of allotment - February 01, 1998
  - o Credit Rating - AA(SO) - By CRISIL
  - o Security - Charge/Mortgage on AMC's properties
  - o Structured obligation - Escrow on Octroi revenues of AMC
  - o Listing - ASE, NSE

**iii) Property Tax Reforms:** Property tax is the second most important source of revenue for the AMC, though significantly lesser than octroi. Property tax consistently accounts for 20% of the total revenue income of AMC. The AMC administration understood the deficiencies of the existing system of property taxation and they were determined to replace it with an alternative more rational system. However, it was obvious that the process of changeover to a new system would take a long time while the financial problems of the corporation needed immediate response.

- n In the first phase of reforms, a number of effective steps were taken to increase property tax collection with immediate effect:
  - First, the municipal records of properties were updated and a large number of previously unrecorded properties were added.
  - Next, all existing properties whose assessed value was grossly inadequate were reassessed.

- Finally, a number of punitive actions were taken against property tax defaulters. These included disconnection of water supply and drainage services; attachment of movable and immovable properties; and occasionally auction of properties for tax recovery.
- n In the second phase of reforms, the AMC decided to evolve an “area-based property tax system” to replace the existing system based on annual ratable value.
  - The ground work that began in 1999 was an elaborate exercise. It involved large-scale survey of properties throughout the city and computerization of data. Nearly one million properties were surveyed.
  - At the same time certain amendments had to be made to the Bombay Provincial Municipal Corporation Act (applicable in Gujarat) to accommodate the new system. This in turn involved issuing of special notices and bills to property owners; conducting hearings to receive objections; piloting the proposed changes through the standing committee; and seeking approval of the state government.
- n The entire process was completed in about two years and the new system was introduced in the second half of 2001-02. Under the new formula, the property tax is computed by applying a per unit tax rate to the total carpet area of the property and adjusting for location, age, type of use and whether the property is owner or tenant occupied. Main features of the new system are as follows:
  - The standard factor is one (‘1’) in all the cases.
  - The value of each factor is raised or lowered depending on the type of locality, the type of the building, the age of the building and the occupancy of the residential building.
  - The factors are determined by the Corporation as prescribed under the rules.
  - The prevailing market value of the land determines the location factor of the area.
  - Independent bungalows pay higher rates than ordinary flats.
  - The properties above 10 years of age get discount of 15% which extends up to 50% for properties which are more than 40 years old.
  - The self-occupied property pays half the tax as compared to tenanted property.

- The non-residential properties get similar benefits for location, age, occupancy but they pay higher rates according to the use of property.

**D) Leadership Roles and Political Support:** The initiatives described here are spread over nearly a decade. During this period from different Municipal Commissioner were appointed to the post. No doubt that they led the initiatives with equal vigor. However, it is also true that the Municipal Commissioners were supported by three Deputy Commissioners who were looking after the departments of general administration, finance and octroi. The individuals who served in these posts had many years of experience in municipal administration. This reflected in the quality of operational leadership they provided during the implementation of these initiatives. The elected body of the AMC was solidly behind these initiatives. They discharged their responsibility as elected representatives to facilitate the due process of debating the issues and shaping policies.

**E) Results Achieved:**

- n *Revenue income from octroi:* It is no exaggeration that the measures taken by the AMC to plug the leakages of octroi income were enormously successful. It is said that the heavy crackdown on octroi evasion started showing results within one week. In fact, the daily income from octroi jumped from Rs. 30 lakh a day to Rs. 70 lakh a day in less than five years. At present, the AMC receives nearly Rs. 150 lakh per day from octroi.
- n *Water supply and drainage infrastructure:* Over the last ten years the AMC has successfully implemented a number of projects related to water supply and sewerage systems. A study of inter-city comparisons of quality of life (City Monitor, 2002) has given a high rating to Ahmedabad's infrastructure in these two sectors. The AMC implemented an ambitious water pipeline project for bulk transmission of water from the Raska weir located at a distance of 120 km from the city. The city has more than adequate water treatment capacity. The sewerage system covers 100% of the city area. The funds raised through municipal bonds met a significant part of the cost of this infrastructure.

- n *Revenue income from property taxes:* The various initiatives of the AMC for increasing property tax revenues have also shown impressive results. The initial drive to increase the properties in the tax net and actions against the defaulters produced immediate results. The tax revenue income doubled within two years and has increased steadily since then. Another major jump came in 2001-02 when the new area-based system was introduced. The graph shows steady increase in property tax revenues.
- n *Other impacts of property tax reforms:* There are several other tangible impacts of the new system. The number of exempted properties has come down drastically. The disparity between owner-occupied and renter-occupied properties was reduced drastically. Other inequities, such as between old and new properties, have also been reduced. Another impressive outcome is that there have been no cases of litigation against the assessments done under the new system.
- n *Overall financial condition:* The AMC is considered to be one of the most successful urban local bodies in India in terms of revenue mobilization. The initiatives described above have resulted in the corporation being able to generate a surplus on revenue account year after year. This revenue surplus is used to fund small capital projects or to leverage financing for larger projects.

**F) Sustainability:** In the area of octroi collection, the issue of sustainability is most pertinent because there is uncertainty about whether this form of taxation would continue in the future. The national policy on this issue is that octroi should be abolished altogether. However, as octroi is a state subject, it continues to be imposed in the states of Gujarat, Maharashtra and a couple of other states. In all other states octroi was either never imposed or it has been abolished. In Gujarat, octroi is imposed only in seven municipal corporations whereas it has been discontinued in municipalities since 2001. If one assumes that the octroi policy of the state would not change in the near future, then the AMC's initiative, which resulted in improvement of collection efficiency, is sustainable as most of the practices have been internalized in the department. The department heads would have to ensure that the effective vigilance is maintained. Regarding the initiative of using municipal bonds to finance



infrastructure projects, it is not clear as to how well and how fast the market for municipal bonds would develop at the national level. So far it has grown very slowly despite the fact that cities can obtain tax-free status for these bonds. AMC has shown sustained improvements in the property tax revenue collection. The new formula has been accepted by the public as indicated by the fact that the number of cases of litigation against assessment has gone down to negligible levels and is practically nil. There is also greater transparency in the system on account of the e-governance system implemented by the AMC. Citizens can access information about assessment of any property in the city and can pay their taxes either online using credit cards or at banks or at any of the seventeen civic centres that have been established by the AMC.

**G) Lessons Learned:** The main lesson of Ahmedabad's initiative on octroi collection is that the urban local body must project strength and determination, and above all, political will, to deal with those who break the laws in order to evade taxes. Similarly strict action against corrupt staff is also necessary. However, the most effective tool to check tax evasion is to set up vigilance systems equipped with best available technologies. Cooperation between the urban local body and the police department is essential for effective enforcement. The AMC's experience with municipal bonds shows that if a city wishes to earn credit worthiness in debt markets, it must set its house in order in terms of fiscal discipline. It is also important to introduce professional management approach in various departments. The property tax reforms at AMC show that a rational, equitable and transparent system of property taxation can be more acceptable to taxpayers while generating higher revenues for the urban local body. To administer the system, an excellent database is essential. It is very important to ensure that taxpayers are not inconvenienced by the procedures and facilities for obtaining information or making payments. There should be clear policies and rules to deal with tax defaulters and corrupt staff and these should be strictly enforced.

**H) Transferability:** The AMC's initiatives in the area of octroi collection especially how the vigilance squads operate could be replicated by other cities which impose

octroi. The AMC's experience with municipal bonds can be extremely valuable for other urban local bodies in terms of the process AMC adopted to get a credit rating and how AMC put its own financial house in order. Most ULBs in India still continue with the property tax assessment system based on notional standard rent or ratable value of properties. The AMC property tax reforms is already been implemented in some other cities of Gujarat and by all municipalities. Some state governments have shown interest in adopting a similar system for their urban local bodies.

**Practice 2 : Resource Mobilization for Upgradation of School Infrastructure  
(Greater Visakhapatnam Municipal Corporation, Andhra Pradesh)**

- A) Project objective:** To address the needs of the municipal schools in all aspects and to provide infrastructural facilities at par with the private schools.
- B) Pre project situation:** Most of the Greater Visakhapatnam Municipal Corporation (GVMC) Schools were handicapped in many aspects such as insufficient Class Rooms, lack of Infrastructure in schools, Lack of Furniture and sufficient Security Problem, Compound Wall, Sanitation Problems etc. There was a shortage of more than 120 Teachers at the Primary Level, and 59 Teachers in the secondary schools. 35 volunteers were required for the Academic Year 2007-08. There was a need for adequate furniture and security guards. Shortage of class rooms resulted in crowded class rooms, sanitary conditions were poor because of lack of maintenance and inadequate toilets.
- C) Project planning & implementation:** The objectives of the programme included improving the infrastructural facilities and overall development of the schools. Further the *G.V.M.C. Sweekaaram Education Society (S.E.S)* was formed. The proposed G.V.M.C. Sweekaaram Education Society would monitor receipt and finance details. Under the Societies Act donors are subject to exemption from Income Tax under Section 80G. Various options were offered to donors:

- i) If the 2<sup>nd</sup> party (the donor) wishes to avail the benefits of I.T exemption and use his own contractors for fulfilling the works, then he should remit his funds directly to S.E.S and execute the work. The work would be supervised by the officials and payments would be made to the contractor.
- ii) If the 2<sup>nd</sup> Party desires to contribute funds to a particular work in their choice of school, the estimates will be prepared by the Engineers of GVMC and the said work will be carried out by the 1<sup>st</sup> Party (S.E.S) as per Government Rules and necessary payment will be released by them(I.T exemption, the funds flows needs to be confirmed once with the authorities).
- iii) If the 2<sup>nd</sup> Party is not interested in IT Exemption under 80 G and desires to execute the work by hiring a Contractor as per his selection of school, he can carry out the work by obtaining necessary No Objection Certificate from the 1<sup>st</sup> Party and necessary supervision will be done by the Engineering Section Heads of GVMC.
- iv) The Primary School may be named after the donor who donates Rs. 5,00,000 /- if he is interested, the Upper Primary School may be named after the donor who donated Rs.7,50,000 /- if he is interested, the High School may be named after the donor who donated Rs. 10,00,000 /-.

**D) Impact on Financial Management:** Some 39 Organizations / Donors have voluntarily come forward to donate an amount of Rs. 7 Crores for the all-round development of schools. Out of which, during the year 2008 – 2009, 18 Private Organizations have so far been entered M.O.U.'s with G.V.M.C's S.E.S to take up various developmental activities in various GVMC Schools with an estimated amount of Rs. 300 Lakhs.

- E) Level of Preparedness Required:** In order for a programme of this magnitude to be successful, it is very important to involve the public in a big way and maintain a very high level of transparency in the entire process.
- F) Replication:** A project of this magnitude can be successful in any ULB with a successful Public Participation in the programme.
- G) Sustainability:** In order that the programme is sustained over a longer period of time would require continuous monitoring from the ULB and a completely transparent system of resource mobilization.
- H) Owned by citizens & representatives:** The citizens have appreciated this programme which is clearly visible from the fact that large scale donation has come from different sections of the population.
- I) Promotion of Social justices:** The students who cannot afford education in private schools get similar infrastructure and facilities in municipal schools.
- J) Monitoring & Evaluation:** A special autonomous team needs to be formed within the S.E.S which would take care of the monitoring and evaluation of all aspects of education and finances of this project.
- K) Possible measures for enhancing the practice:** The programme can further be enhanced by bringing in more professionalism in terms of recruitment of teachers, the day to day running of the programme and many other aspects, which are important to the project.

**Practice 3 : Optimization of Property Tax Collection using GIS  
(Hassan Municipal Corporation, Karnataka)**

- A) Project objective:** To manage the assets using technology of GIS and also to increase revenue by rationalizing the property tax.
- B) Pre project situation:** No systematic documentation was available on tax collection, bill collection, property, assessment and re-assessment, property tax zone maps, solid waste management system, public grievance redresses for Utilities, etc. Managing these services was a problem because of inaccuracy in collecting the ground details and the lack of timely updating of information. The citizen had to go through complex procedures and unnecessary delays when dealing with the administration. There was a lack of large-scale maps and lack of detailed large-scale public utility maps of sewerage, water utility, electrical / telephone facilities, etc. As result either service delivery suffered or the corporation lost money due to inefficient revenue collection.
- C) Project planning, implementation, period of successful implementation**
- i) Surveying and mapping of the entire ward number 9 was taken to build ground inventory of properties, utilities, facilities, CMC assets and other infrastructure details at surface and subsurface levels in 1:1000 scale
  - ii) Accurate information of each of the entries like plots, blurs-up properties, roads and every other infrastructure
  - iii) Integration of information to its spatial location
  - iv) Customization package with different modules
  - v) Collection and compilation of attributes information for each entity
  - vi) Preparation of maps and conversion to digital format
  - vii) Customization of packages on the MGIS software and meeting the specific requirements of CMC, Hassan
  - viii) Property search facility
  - ix) MIS reports and decision support tool

x) Completed during 2/12/2001 to 15/2/2002

**D) Post project impact**

- i) Expansion of property tax net
- ii) Regular updating of information
- iii) Better decision making
- iv) Tools for visualization for future planning of properties, roads, water supply, public health facilities, sanitation, slum improvement and up-gradation, etc.

**E) Impact on financial management:** On an average Rs. 1 Crore will be the income generation in each ward. The defaulters can be identified and by regularizing the encroachment through policies will raise the revenue generation. On an average each ward will give additional revenue of 5 to 7 lakhs as property tax.

**F) Sustainability:** The pilot project was submitted to government, to extend it to all the 35 wards. The government after deliberation came to the conclusion that this is the best way of enforcing tax compliances. Therefore, GIS is one of the components in Nirmala Nagar program. It represents paradigm shift in the governmental procedures in its greater effectiveness, efficiency, transparency and responsiveness. It is learnt that the practice experience a slack for some years in between but recently it is being replicated and scaled-up by the State Government to include many more ULBs in the State.

**G) Replication:** Municipal taxation demands that the details of each property are accurate and are available easily. If this is done through the use of GIS then the municipal taxation can be rationalized easily. The system will provide no scope for manipulation. So the scheme can be adopted and can be replicated in any ULB / development authority for improving tax collection and urban management. Similar initiatives have been reported from many cities in Maharashtra such as Mumbai, Pune, Pimpri-Chinchwad, etc.

**Practice 4: Regularization of Water Connections to Augment Revenue**  
**ULB: Nagpur Municipal Corporation, Maharashtra**

- A) Project Objective:** To regularize the unauthorized water tap connections (target being 35000) and increase the revenue
- B) Pre implementation situation:** Water Shortage: In early 2001 there were huge losses due unauthorized water tap connections. As a result, the citizens faced acute water shortage. Compared to the annual O&M expenditure of Rs. 50 Crores, the total revenue collection of the water supply department used to be only Rs. 17-18 Crores. The illegal water connections not only contribute to revenue loss but also lead to wastage of water, as these consumers do not have to pay for the water that they consume. Although all water connections in Nagpur city were required to be metered, there were nearly 18000 un-metered connections in the city, which had existed as authorized connections since long.
- C) Project planning & implementation:** There are approximately 200 plumbers in Nagpur city. They were organized into small teams and assigned to the 7 water zones in the city. Their responsibilities included door to door survey; convincing the illegal connection holders, filling the prescribed form, collecting the requisite charges, getting the connections sanctioned, depositing the requisite charges, and fixing the meter on illegal connections.
- i) First, it was announced that all plumbers would be required to pay a security deposit of Rs. 5000 to be paid by all licensed plumbers and the annual license renewal fee was increased from Rs. 25 to Rs. 300. A target of finding 35000 illegal connections was set.
  - ii) Citizens were instructed to buy only standard meters from approved manufacturers. The labor charges for meter installation were fixed at Rs. 150-200 and these were announced to the public.
  - iii) For every case of illegal connection that was found a monetary incentive of Rs. 50-100 was promised. Thus, a carrot and stick policy was used to co-opt the

plumbers in this scheme. Within a period of 4 months, nearly 25000 applications were received by NMC. The modification of application forms were modified and procedures were streamlined to make them more consumer-friendly.

- iv) Citizens' response: The time-bound regularization scheme received tremendous response due to the simplified procedures and reasonable charges. The citizens' feedback as reported in the media was very positive.

#### **D) Impact on Financial Management**

- i) A quantum jump in Water tax revenue for all future years.
- ii) The water tax revenue of NMC has shown substantial increase. The quantity of water billed in 1998-99 was 163 MLD, whereas in 2002-03 the quantity billed was 300 MLD.
- iii) Universal metering: This initiative has brought the NMC closer to its goal of universal metering in the city. Since 1998, about 75000 new connections have been metered.

#### **E) Limitations**

- i) Despite one time regularization, there is no guarantee that all illegal connections would cease to exist or that no new illegal connections would be added in future. Lack of punitive action may encourage such practice.
- ii) The NMC officers felt that more judicial powers should be given to urban local bodies to take action against those who commit this type of offence.

#### **F) Replication**

- i) This was an unusual strategy. However, prudent and effective use has shown that such innovative strategy can produce good result.
- ii) Since plumbers are available in sufficient quantities in all cities using this strategy does not pose any problem.
- iii) It does not involve high amount of preparation or logistic support.



**G) Sustainability**

- i) This one time measure can increase the annual revenues. Even forgoing the punitive action and giving incentives to plumbers could prove the system worth trying it.
- ii) This is a one-time process. It should be backed by some punitive action for the defaulters who are found to be continuing with unauthorized connections.
- iii) The Initiative did not require any substantial resources.

**H) Ownership by citizens & stakeholders:** The time-bound regularization scheme received tremendous response due to the simplified procedures and reasonable charges. The citizens' feedback as reported in the media was very positive.

**I) Promotion of Social Justice:** The initiative helped in providing legal water connection to a large number of citizens who were previously left out of the purview of this basic service.

**J) Monitoring & Evaluation:** The impact was directly measurable and evident.

**K) Enhancing quality of implementation:** Such kind of initiative can be used for regularizing property tax collection as well.

## 5.4 Practices in Expenditure compression, outsourcing & PPP

### Practice 1: Integrated City Transport Management through PPP (Bengaluru Municipal Corporation, Karnataka)

**A) Project background:** Today the public sector road transport in India has evolved into a multi-faced, multi-purpose utility.

- There are as many as 52 state transport undertakings in the public sector, besides a legion of private operators.
- These STUs have a total fleet of a mind-boggling 110000 buses, together crisscrossing the length and breadth of the country, literally from Kashmir to kanyakumari, from western coast to the eastern.
- What is equally mind-boggling is that they have together a total investment of Rs.60 billion!

It is therefore the need of the hour to evolve strategies of effective and sustainable management of urban transport.

**B) Project overview:** The Bengaluru Municipal Transport Corporation (BMTC) came into existence in 1997 after its separation from the Karnataka State Road Transportation Corporation (KSRTC).

i) Summary of daily operations of BMTC (November 2008):

- 5164 buses (largest in India)
- 4990 bus schedules
- Over 69,930 trips
- Over 38.50 lakhs passengers
- 11.54 lakhs service kms
- Rs 2.54 crore earning

ii) Support Infrastructure

- Bus Depots – 30

- Bus stations – 39
- Man power deployment: 26684
- Bus staff ratio: 5.3 (lowest in India)

### **C) Project planning and implementation:**

#### **i) Outsourcing of activities with private public partnership:**

- Bus body building (resulted in savings of .1million per vehicle)
- Hiring privately owned buses for operation on kilometer basis
- Sale of ticket/passes through franchises agencies
- Software, hardware and security personal hired on contract
- Online GPS based vehicle tracking process outsourced
- All the vehicles of BMTC are covered under comprehensive insurance scheme from Dec-2006 at premium of around Rs. 7 Crore per annum with United Insurance Company of India Ltd.

#### **ii) Extensive use of IT**

- E-Depot: Depot activities computerized
- E-Route Information: Bus route information on internet
- E-procurement: E-Tendering System adopted for Procurement of goods & services
- E-salary: ECS system of salary disbursement
- E-Cart: Quick issue system of casual contract services
- E-GPS: On-line vehicle tracking and monitoring system on 1,200 vehicles
- E-Ticketing: 813 Electronic Ticketing Machines for ticket issue by conductors introduced on pilot basis
- PIS: Passenger Information System & IVRS on the anvil
- Call Centre facility provided
- Up to date wbsite: [www.bmtcinfo.com](http://www.bmtcinfo.com)

### **iii) Utilities from GPS**

- Identification of the Vehicle Location at any time point
- Early and late departures of buses from depots and at bus stations
- Early and Late Arrivals of buses to depots and to bus stations
- Non-completion of the Trips by the buses
- Deviation in the Trips by the buses
- Cancellations of Trips in the scheduled program
- Calculation of Cancelled Kilometers
- Identification of Extra trips operated by the buses
- Non-performing of Trips due to various reasons like Breakdowns / accidents / Riots etc.
- Accounting of loss of time in non performing of trips
- Identification of the idle time of the vehicles
- Computation of Average Speed of the Vehicles
- Computation of Over Speed of the Vehicles
- Non-stopping of the Buses at bus stops - Skipping of bus stops
- Calculation of Kilometers performed
- Real time Tracking of the desired Vehicles
- Later linking to Passenger Information System and Interactive Voice Response System (IVRS)

### **iv) Cost cutting measures adopted:**

- Swapping of high cost loans and FCNR loans, 2004
- Introduction of prompt payment discount for chassis and other suppliers - saving of Rs.14.66 Crore in 2004
- Introduction of e-tendering: 2005
- Tendering of chassis procurement: 2003
- Tendering of Diesel procurement: 2003
- Consultancy and recruitment for other departments
- Price negotiations

- Auctioning of vehicles on running condition

v) **Tax-free Bonds and Convertible Debentures:**

- SBI Capitals has been hired
- Market downturn
- GOK have to take a decision

D) **Efficiency levels:** A comparison of BMTC with other major urban transport systems speaks for itself:

**Efficiency Levels of BMTC**

Benchmark	BMTC (Bangalore)	BEST (Mumbai)	DTC (Delhi)	MTC (Chennai)	STC (Calcutta)
Fuel Efficiency (km/ltr)	4.66	3.31	3.94	3.77	3.7
Bus utilisation/day (in km)	217.9	194.2	204.6	208.7	124.1
Effective km per staff/day	45.59	19.2	24.93	32.62	18.66
Staff per bus	5	11.5	9.07	8.15	11.54
Revenue per bus/day (in Rs.)	4,952	7,573	4,055	5,946	2,990
Cost per bus/day (in Rs.)	4,188	9,692	11,064	7,019	7,373
Number of buses in fleet	3,977	3,391	3,467	2,778	1,144
Average age of buses	4.47	5.56	4.7	8.39	6.41
Net profit/loss (Rs. in Million)	1,148.8	-2379.3	-5913.3	-851.6	-1054.1

E) **Project expansion:** Construction of Traffic Transit Management centers (TTMCs) under JNNURM and through PPP is in progress as part of Vision Plan for 3000 crore of BMTC. TTMC is a new concept that has been supported by the Department of Urban Development, GOI. The major features of TTMC are as follows:

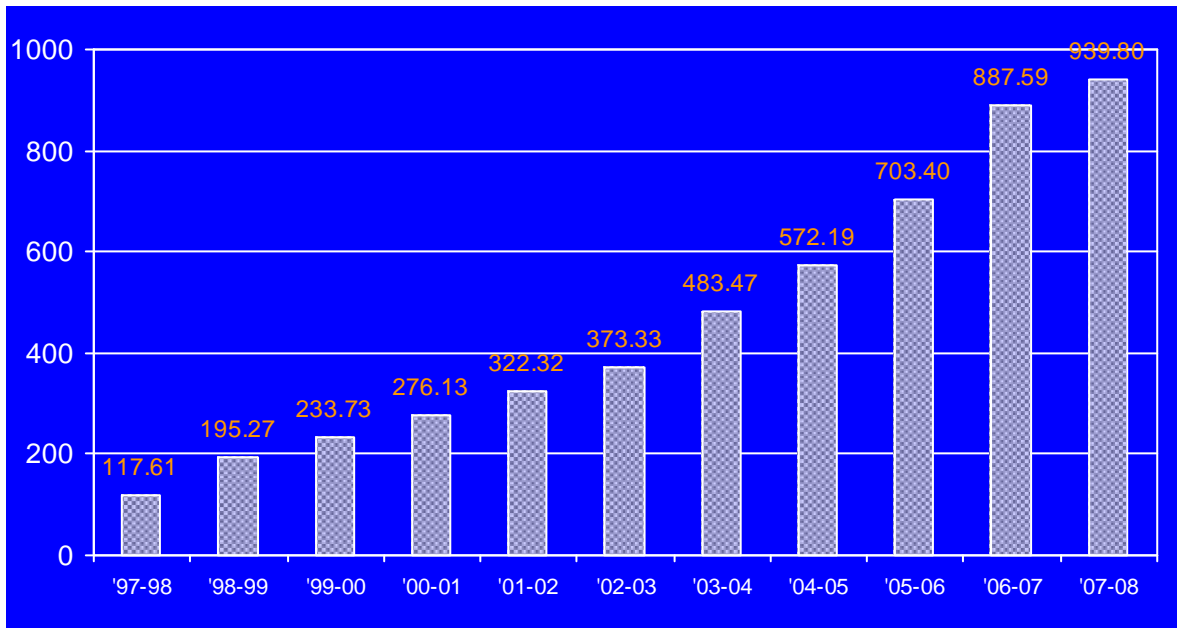
n **Bus Terminal**

- Bus bays
- Platforms
- Seating & lighting
- Public conveniences
- Information systems
- Safety and security

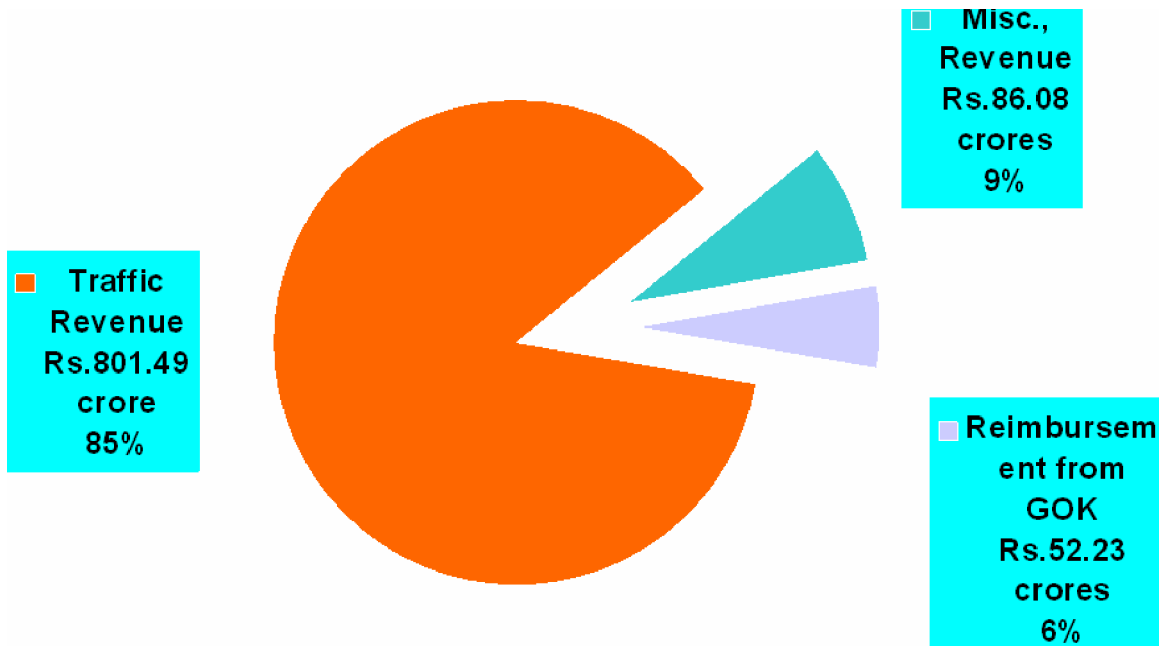
- n **Bus Maintenance Depot**
  - Maintenance bays, washing platform
  - Bus parking
  - Services and Utilities
  - Fuel filling station
  - Amenities for crew
- n **Passenger Amenities**
  - Bangalore One centers
  - Other citizen amenity centers
  - ATMs
  - Daily needs shopping
- n **Park and Ride Facilities**
  - First and last mile connectivity
  - Aim to provide at least 500 4W and 2W parking space
  - Integrated with main bus terminal building

**F) Financial sustainability:**

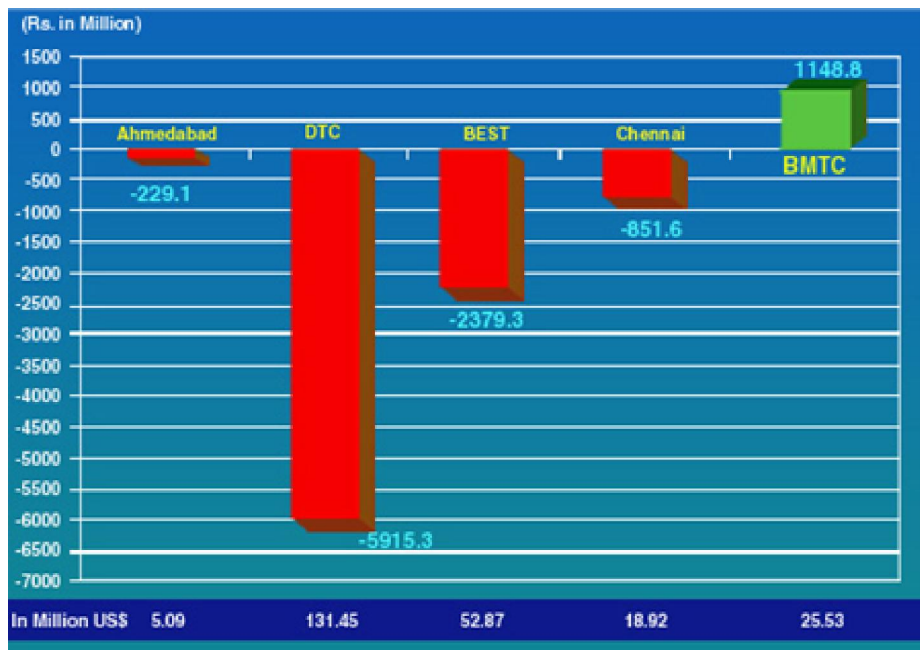
**Gross Revenue of BMTC**



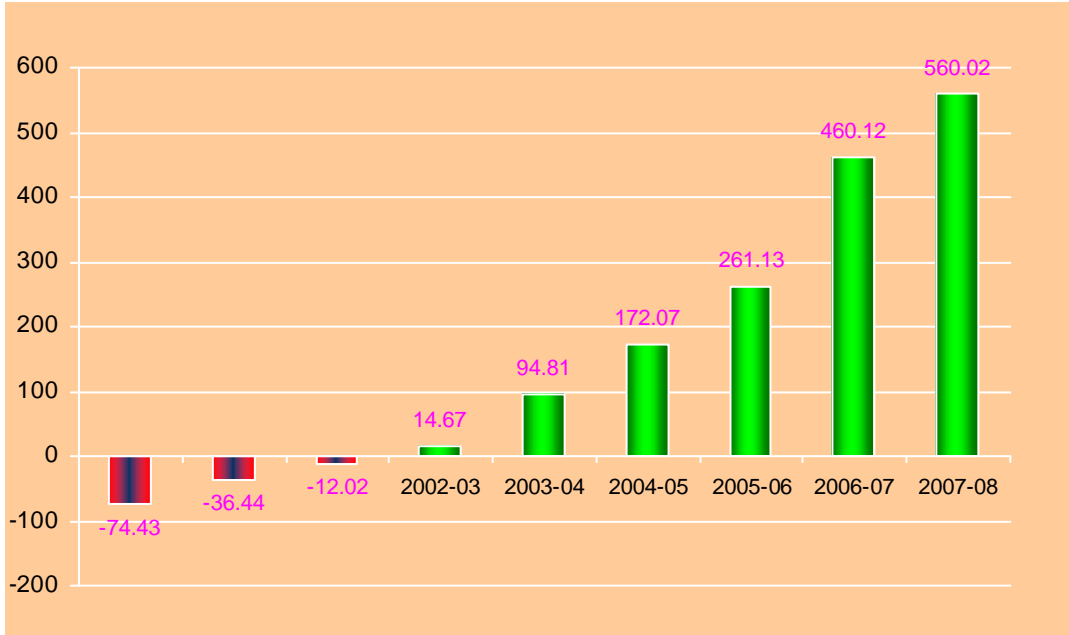
**Composition of Gross Revenue-2007-08 (Total Revenue - Rs.939.80 Crore)**



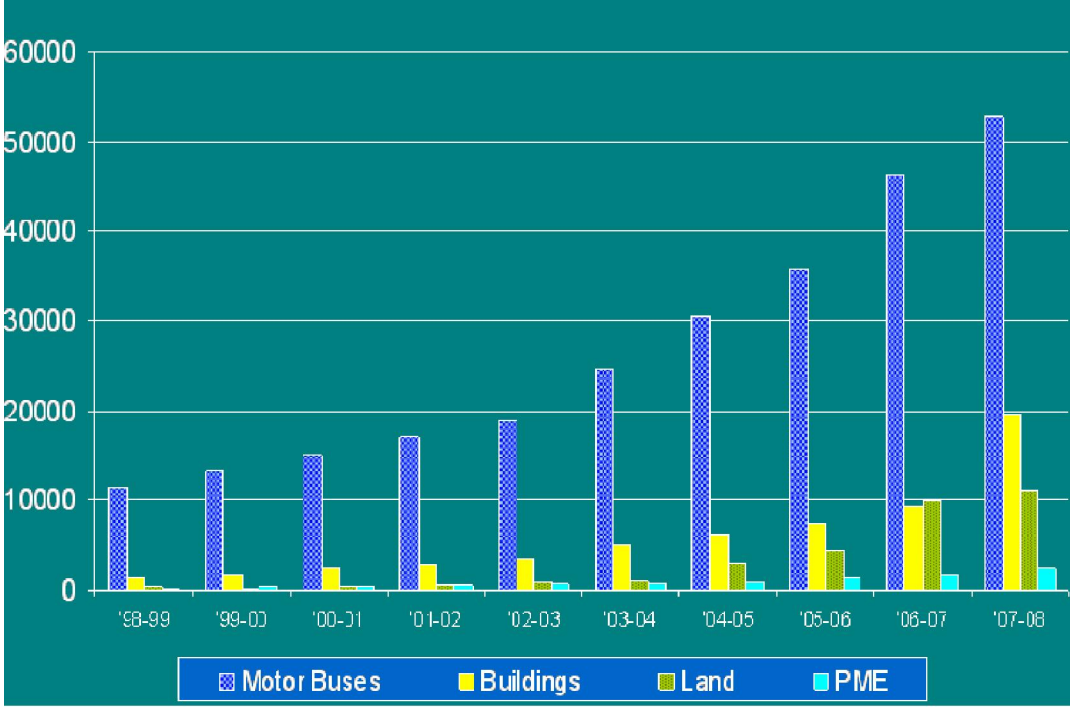
**Financial Status Compared to other STUs in 2006-07 (Source CIRT, Pune)**



**Accumulated Losses / Profits as on 31<sup>st</sup> march 2008**



**Value of Fixed Asset as on 31<sup>st</sup> march 2008**





**Practice 2: Sewage Treatment Plant on BOT basis through Citizens' Participation  
(Alandur Municipal Corporation, Tamil Nadu)**

- A) Project objective:** To ensure effective disposal of sewage through an exclusive drainage network using BOT arrangement
- B) Pre implementation situation:** Alandur did not have a proper sewerage system. Sewage was collected periodically in tankers. When the sewage overflowed from the household tanks, it was dumped in the open air, which got accumulated as stagnant water and thereby increasing health hazards and affecting ground water sources.
- C) Project planning & implementation:**
- i) Project involved a construction of 120 Kms of sewerage network and development of a Build, Operate and Transfer ( BOT) Operated Sewage treatment Plant through citizen partnership.
  - ii) Partners in execution : Alandur Municipality conceptualized the project and communicated the community through meetings and newspaper advertisements. Tamilnadu Urban Development fund managed project structuring and financing, Citizens contributed towards capital cost and IVRCL (A private sector Infrastructure Company) developed sewage treatment Plant on BOT Basis.
  - iii) Conventional mode of executing such projects through Engineering, Procurement and construction (EPC) had following risks
  - iv) Financial Risk :
    - a) Additional costs and time overruns because of execution by para-statal agencies.
    - b) Burden of repayment of loans on Municipality as collection of user charges was negligible.
    - c) Construction risk: Splitting of implementation into separate contracts for treatment, pumping stations, branch and main lines posed problems of construction risks.

#### D) Financing details

##### Total cost of project

Cost Items	Amount (Rs. Lakh)
Sewer Lines	1860
Pumping Main etc	595
Other costs :	
Pumping (Major)	245
House connections	225
Price (10%) and physical (5%) contingencies	450
<b>Total</b>	<b>3375</b>

##### Sources of Finance

Source	Amount (Rs. Lakh)	%
State Govt.	400	11.8%
Grant / Loan	1680	49.4%
Public Contribution	1087	32%
Interest on Public Deposit	233	6.8%
<b>Total</b>	<b>3400</b>	

**E) Implementation:** The project was implemented in two phases. The first phase targeted the completion of 50% of branch sewers, main sewers, pump house and one 12 MLPD capacity STP. The remaining work spilled over to the second phase. Professional Project Management Consultants were appointed to ensure timely implementation. Project was reviewed by the top officials on weekly basis. The project was to attain completion within five years from its date of completion.

**F) Impact on Financial Management:**

- i) Investment costs for the municipality was low. The corporation has saved Rs. 6.63 Crores, as a BOT operator has undertaken construction and financial risks
- ii) Cost of maintenance is being borne by the local body. Households are contributing Rs 180 per month. Further, the costs saved by adopting the newer approach than the conventional approach is substantial

**G) Incidental Impacts:** Environmental and Health related hazards expected to be reduced

**H) Limitations:** Preparing citizens for contributing towards cost of project was the most critical aspect.

**I) Replication:**

- i) Cost burden on ULB is reduced because of Citizens contribution. ( Citizens contribution enabled funding from World bank ?? ) The operation costs are borne out of monthly charges collected from households.
- ii) Communicating the citizens the need for their contribution was a tough job. Alandur ULB has shown that it is possible if the benefits of scheme on health and environment are properly explained.
- iii) Structuring of a project may be differing according to peculiarities of ULB. However with a proper advice from State level Infrastructure advisory services a suitable implementation and financing methods can be devised.

**J) Sustainability:**

- i) The most important hurdle was collection of funds for initial capital investment. Once the benefits become visible sustainability may not be a problem at all.
- ii) The Operating and maintenance expenditures are met through the monthly contribution by every households.
- iii) Transparency in operations will add to the degree of sustainability.

**K) Monitoring & Evaluation:**

- i) Sewage generated and treated can be monitored easily.
- ii) Evaluation of benefits can be monitored by frequent customer satisfaction surveys. This will enable timely redressal of grievances.

**Practice 3 : Maintenance of Street Lighting through Private Service Providers**

**ULB: Vijaywada Municipal Corporation, Andhra Pradesh**

**A) Project objective:** To save energy and costs in street lighting by using private sector participation.

**B) Pre implementation situation:** Vijaywada Municipal Corporation (VMC) was incurring an expenditure of Rs. 1 Crore every month towards energy bills for water supply, street lighting, drainage, pumping stations and buildings. Out of this, VMC spent Rs. 60 Lakhs towards street lighting only.

**C) Project details, planning & implementation:** In June 2005, a pilot project was undertaken in a small area to understand the feasibility of using energy saving technologies in street lighting. The results were very positive. There was a 35% reduction in power consumption.

- i) VMC drew expertise from experience of Bangalore for finalizing the private participation. Bids were called for the Operation and Maintenance (O&M) and initial upgradation of control systems. The firm selected by the VMC for the project had put forward the following details:
- ii) 41.5% savings of energy.
- iii) Firm offered to take 92.7% as their share of savings towards cost of installations and maintenance of street lighting. Remaining 7.3% would be transferred to the VMC.
- iv) No extra amount to be paid by the VMC for the maintenance of street lighting.

- v) The entire street lighting system with labor, maintenance etc was outsourced. The contractor was also required to make his investments on efficient lighting system upfront. Performance based incentives and penalties were included in the contract.
- vi) Project was implemented in December 2006.

**D) Impact on Financial Management:**

- i) An annual Savings of Rs 12 lacs in Electricity charges and Rs 53 Lakhs in maintenance (Amounts to confirmed)
- ii) VMC to acquire equipments worth Rs 2 Cr. (depreciated value) at end of 5 years i.e. after concession period is over

**E) Limitations:** Such initiative may not be feasible in smaller ULBs, however, the Municipal Corporations can certainly replicate the initiative in their cities.

**F) Replication:**

- i) ULB of say 5 Lakh population can easily deploy this mechanism and generate substantial savings
- ii) A proper energy audit needs to be carried out to gauge the scope of energy savings and extent of financial attractiveness of PPP
- iii) Such practice will not displace the existing staff of ULB as the ESCO is supposed to utilize the existing ULB staff relevant to street light service.

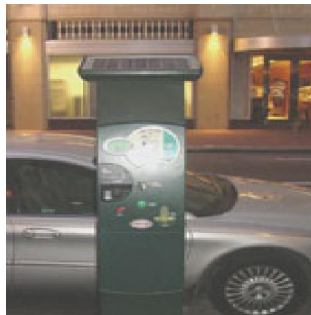
**G) Sustainability:**

- i) This practice is already prevailing in Metro cities like Bangalore and Jaipur and other such as Nasik as well. Hence the contract structure, operating and control mechanisms are quite stabilized.
- ii) Practice does not require any upfront investment from ULB. The contract periods will have to be decided depending upon the extent of savings and requirement of initial capital investment. A small support from State infrastructure financial advisory services and / or private consultants in structuring the project will suffice.

- H) Monitoring & Evaluation:** Practice can easily be monitored with precision. It is also every easy to identify the benefits out of savings in electricity charges and maintenance.
- I) Citizens support:** Savings in the service costs are indirectly enjoyed by citizens as the funds so saved are deployed in other areas.
- J) How far adopted by other ULBs:** Similar initiatives have been reported from the cities of Nasik, Bangalore and Jaipur.
- K) Enhancing quality of implementation:** The practice can further be deployed trying out for savings electricity charges used for water supply pumping stations, Municipal office building electricity etc.

**Practice 4 : Automated Parking System through Public Private Partnership  
(Bangalore Municipal Corporation, Karnataka)**

- A) Project objective:** The main objective was to improve parking on brigade road and provide for an orderly flow of traffic in the heart of the main commercial district in city and BMP desire to automate process with increased revenue



- B) Pre Project situation:** In the earlier system parking was manually handled hence there was no record of number of vehicles and the money collected. Apart from this the customers never had a time limit due to which vehicles where parked for hours together affecting the business of the shopkeepers and created inconvenience to other

customers who were looking for parking slots. BMP had to manage a wide range of issues due to parking on Brigade road. They had to combat the daily pressures of modern life and still maintain quality of service to the public. They realized that it requires manpower as well as mechanized support to perform this function efficiently

**C) Project planning & implementation:** BSEA had undertaken surveillance to determine parking patterns in view of location of offices, cinemas and restaurants to assess the nature of parking users. It also sourced different parking solutions and then presented options for the BMP to examine. BSEA came forward to make investments in getting the parking meters and installing them on Brigade Road with an investment of approximately 38 lakhs. BMP agreed to enter into an MOU with BSEA for the pay and park scheme on brigade road. A standard memorandum of understanding with the BOT partner was drawn up along with the working of an amortization schedule for the period of MoU. This was done after working out rates for parking, hours of parking, O&M costs including salaries for staff engaged for on- street supervision.

**D) Post project impact**

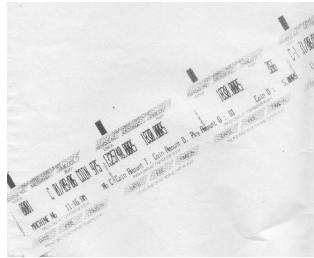
- i) Disciplined parking system
- ii) Statically data on revenue generation and the number of vehicle parked per day is maintained
- iii) Increase in track occupancy has resulted in revenue generation
- iv) Prevents vandalism
- v) The revenue generated is three times more than before

**E) Functioning of the Parking System**

- i) Park the car in the bay, punch the vehicle number, insert coins of values depending on the parking duration into the meter, obtain a parking ticket.
- ii) Punch in the license number, data, starting time and ending time
- iii) Leave the ticket inside the car on the windscreen
- iv) If the ticket is not placed in the car or if the time slot has exceeded, traffic police will tow the vehicle and fine of Rs 500 will be levied



- v) There is no manual access to the money collected. The system works with a canister, which is attached to the machine to draw money. The canister has a security lock, which can only be accessed by an authorized person when the canister is attached to the machine.



- vi) The machine gives a print of the amount withdrawn and the previous withdrawal therefore there is total transparency in the revenue collection.

#### **F) Financial involvement**

- i) Brigade Road with an investment of approximately 38 lakhs.
- ii) The 50% revenue generated will be given to BMP and rest 50% issued by BSEA for maintenance of parking meters

#### **G) Sources of information and implementation support**

- i) Provision of eight parking meters by the “Schlumberger Sema “ from France



- ii) Installation and maintenance by smart parking international Pvt. Ltd from Malaysia

#### **H) Sustainability:**

- i) **Economic:** The initiative is economically sustainable, even though the capital investment is high. The daily collection, which is done based on the parking rates, has proven to be profitable. For its long term sustainability regular maintenance of at least once in 3 months is required. The flexibility of this machine is that is solar operated, hence saves electrical energy.
  - ii) **Technical:** It is technically sustainable as it prevents corruption and vandalism. IT helps in monitoring the whole parking system and also maintains a data on number of vehicles versus the amount collected and the duration of time for which the vehicle was parked.
- I) Replication:** The new parking system has been model project for development of parking systems. This project is readily applicable and can be used for any city/ town where parking is one of the major issues. The flexibility of the project allows customizing the rates for parking depending on the activities and kind of customers who visit the street.

**Practice 5: Use of Waste Plastic Bags in Road Construction through PPP  
(Bangalore Municipal Corporation, Karnataka)**

**A) Project objective:** To utilize the waste plastic bags in the bituminous mix of concrete for cost saving and improved performance of Roads through public-private-partnership.



**Laying of road with bituminous mix blended with waste plastic**

**B) Pre project situation:** Bangalore city generates nearly 15 tones of waste plastic bags every day. The mixing up of these waste plastic bags with other degradable organic waste Materials in the garbage of the urban areas have been the main cause of the problem in handling wastes that are collected in the city.



**A portion of J P. Nagar Ring Road withstanding prolong pooling of water**

**C) Project planning and implementation:** Focuses on various fronts are being done to improvise the Properties of mixes. It has been possible to improve the performance of bituminous mixes used in the surfacing of road pavements with the help of various types Of additives to bitumen such as polymers, rubber latex, crumb rubber treated with some chemicals. Hence, the Bangalore Municipal Corporation has experimented using a compound made of waste plastic bags in the construction of roads in 2002. So far, 35kms stretch of road has been laid using this compound. The cost difference for the roads lay with compound as against without is Rs500/CubicMeter. i.e., the capital cost Will increase by 7 % compared to the original cost of laying for every cubic meter of road length. For a stretch of 35 kms, nearly 3-4 tones of compound were used. After 2 years, the roads have not developed cracks, and provide smooth riding surface displaying much better durability (now extended to 800 Kms in Bangaluru city).

#### D) Post project impact



**The same stretch of road unaffected by prolong pooling of water**

- i) The cost difference for the roads laid with compound as against without it is Rs. 500 / Cubic Meter.
- ii) Saving of 8% by weight of bitumen
- iii) Increase in compressive strength
- iv) Indirect tensile strength values increased by 3 times
- v) Provide smooth riding surface displaying much better durability
- vi) This initiative demonstrates scalability of the project and a win – win situation for both constructions of roads and handling of waste plastic bags

**E) Limitation:** K.K Plastics has retained the patent of the product.

**F) Lessons learned:** The whole process of collection of plastic can be regularized by integrating it with solid waste management plan of BMP

**G) Replication:** Based on the success of the project at Bangalore, Calcutta and Delhi government have entered into a dialogue with K. K. Plastics. BMP has also decided to use the poly blend compound for all its future of road construction projects

**H) Sustainability:** About 40 tones of compound can be generated from 100-120 tones of waste plastic bag. If the entire length of roads in Bangalore city is overlaid with the poly-blend compound it will require about 9022 tones of compound. The maintenance cost of the road will come down, as the road life is increased by 2 to 3 times



## 5.5 Practices in Accrual Accounting, Audit & Transparency

### Practice 1: Adoption of Accrual Based Accounting System (Greater Hyderabad Municipal Corporation, Andhra Pradesh)

- A) Project objective:** To adopt accrual based accounting system for achieving better Accountability, Transparency, Controls, Timeliness as well as to move from a proprietary system with know-how of limited personnel to generic and standardized best practices systems.
- B) Project Brief:** To enrich the benefits for improved book keeping practices, erstwhile Municipal Corporation of Hyderabad (MCH) initiated Accounting reforms in 2001. Business Process Re-engineering (BPR) was initiated as part of this reform and developed Accounting & Budgeting Manual to guide Financial Transactions Process, Codification, Internal Checks and Balances, Reconciliation, Slandered Reports. Software application developed to support the suggested process flow and codification structure. Erstwhile MCH switched over to “Modified Accrual Based Double Entry Accounting System” in computerized environment from 1<sup>st</sup> Apr 02. Erstwhile MCH felt the need for further improvements in the existing system by deploying integrated solution for greater reach across the organization and quality of the information. Oracle e-Business Suite (EBS) was chosen to implement across erstwhile MCH to capture the financial transaction from the inception as well as with the future plans of implementing HRMS, Payroll, Projects and Business Intelligence Modules. Erstwhile MCH smoothly switched over to Oracle EBS from 1<sup>st</sup> Apr 06 designed in line with National Municipal Accounting Manual. It is an integrated system from Budget to clearance in the bank statement as well as Demand to Realization in the bank System. The solution designed by using General Ledger, Cash Management, Approval Management, Receivables, Payables and Purchase Modules. After formation of Greater Hyderabad Municipal Corporation (GHMC) by amalgamating MCH and 12 surrounding Municipalities from 17<sup>th</sup> Apr 07, the same solution has been extended to GHMC and successfully completed first year of

transactions and financial statements were prepared up to 31<sup>st</sup> Mar 08. Online system made available from 1<sup>st</sup> Apr 08 onwards to all Zonal Offices to capture Budget Allotments, Receipts, Payments with a facility to centrally transactions monitoring.

**C) Pre project situation:** The Cash Based Single Entry Accounting system maintained in manual environment was in place in erstwhile MCH (up to 31<sup>st</sup> Mar 02) as well as 12 Municipalities (up to 16<sup>th</sup> Apr 07). Cash Based Account system does not require (compel) incorporation of Assets, Liabilities, Receivables, Payables, Surplus/(Deficit) information in the annual financial statements. Due to these reasons controls have become person dependent than system dependents. Though some of that information needs to be maintained in the Registers, the importance of this information not felt in the true sense as finalization of accounts does not incorporate these information hence no compulsion to mandatory updating of the registers with definite timelines. It allowed the system to drift down and generate empty registers. As the urbanization, urban population, demand for quality infrastructure & services on rise and old manual system are not ready to cope up the volume growth and hence there were some delays, errors and dissatisfactions in the system. Single Entry Accounting System is defined as incomplete system of Double Entry Accounting System and any incomplete system leaves scope for incomplete results. Though specifically designed Single Entry Accounting System caters the needs of ULBs to the larger extent, over period need for change was felt due to improper compliances with the suggested system. It has become impossible to reconcile bank transactions with the manually mainlined cash book due to huge volume of transactions and even with the expert's involvement. These draw backs led to revamp of the system and computerization.

#### **D) Project planning and implementation**

##### **i) First Level Reforms**

**a) Accounting Manuals:** System study was conducted to document existing procedures and practices with a view to develop an accounting manual, which can

be implemented in MCH. Uniform Codification Structures Suggested for Budgeting and Accounting. The codification structure suggested for easy identification, grouping, summarization and also computerization. Procedures, Policies, Controls, Process Flow and Accounting Entries for each activity was specified in the Manual. Separate Manual for Budget to explain the process for preparation, monitoring, re-appropriation was prepared. This manuals have become source for most of the reforms studies in India and basic concepts find place in National Municipal Accounting Manual also. GHMC is the first ULB to implement National Municipal Accounting Manual Suggestions and striving to improve in Revenue Demand Accounting and Assets Accounting.

- b) Modified Accrual Based Double Entry Accounting:** Move from Cash Based to Accrual Based system with low level system supports, it would be a big task and put unnecessary excess pressure on system. This might result in stronger resistance and lesser compliances with new system. Keeping these factors in mind and suggestions made in Technical Guidance Note Issued by ICAI, New Delhi, Modified Accrual Based Accounting System was implemented in MCH. The initiative has given positive results and MCH could implement and finalize accounts with compliances from 2002-03 onwards.
  
- c) Uniform Codification Structures for Budgeting & Accounting:** Uniform codification structure designed based on the functional requirements, easy identification, classification, grouping, summarizing of transactions. Same codification has been used for Budgeting as well as financial transaction recording.
  
- d) Computerization of Accounting Function:** To comply with the Accrual Based Double Entry Accounting Principles, Procedures and Codification suggested in the Manual, accounting software in client server environment was deployed. It eases the pressure on the system by reducing manual work by many folds and improves controls and compliances with various statutory and non-statutory



requirements. The system facilitated for semi-automated transaction process and provided vital information for reconciliations and reporting. MCH has stored financial transaction from financial year 2002-03 onwards and in a position to provide vital information as and when required.

## ii) Second Level of Reforms

**a) Financial Management:** Though the financial flows are mostly in predictable nature, but erratic and huge gaps between inflows and outflows timing resulted in un-utilized surplus or shortage of funds to meet the commitments. There were delays in the system to realize the money in various stages from serving demands to depositing cheques as well as sometimes due to volumes even delay in clearance by the banker. Multiple Bank accounts were being operated and most of the accounts were inoperative with balances. Short term surpluses were placed at nominal interest. Above practices have given scope for improvement to speedy realization and utilization of funds without compromising liquidity. Centralized Banking system has been established and placed all the reserve funds at good interest rates. Fund position has been monitored on daily basis to place any surplus funds in fixed deposits. Arrangements made with the bank to honour cheques irrespective of balance available in current accounts based on the security of fixed deposits. Ensured to maintain no favourable balances in current account and all collections have been pooled up at the end of the to the General Fund account to reduce adverse balance. These arrangements ensured enhanced earnings and MCH could save approximately Rs.15 Crores annually from financial year 2004-05 onwards.

**b) Integrated Solution Deployment:** GHMC is one of the first ULB to go-live with Oracle E-Business Suite from Financial Year 2006-07 onwards. Several improvements have been brought into the system continuously and because of the preparedness even for reforms implementation made easy for erstwhile 12

surrounding municipalities amalgamated with GHMC. Major functions have been automated.

- Bill preparation at respective drawing officer location
- Audit controls inbuilt in the system and approvals are being captured in the system
- Cheques preparation restricted to audit approved bills and amount only.
- Completely integrated with Budget Allotment and ultimate payment
- Receipts are captured at respective drawing officer location and collection points.
- Bank Statements are uploaded for all major accounts on daily basis. Reconciliation is being made automatic.

**D) Cost Benefit Analyses of Implemented Accounting Reforms (Approximately)**

Sr No	Activity	Lakh Rs.
	<b>Cost</b>	
1	Cost of Manual Preparation, Software Deployment, Training etc	27.00
2	Maintenance of System from 1 <sup>st</sup> Jun to 31 <sup>st</sup> Jan 04	12.00
3	Maintenance of System from 1 <sup>st</sup> Feb 04 to 31 <sup>st</sup> Mar 06	24.00
4	ERP Licenses & Implementation Cost ( CGG Rs.20 Lakhs)	Nil
5	ERP System Maintenance Cost from 1 <sup>st</sup> Apr 06 to 31 <sup>st</sup> Mar 08	72.00
6	ERP server & Additional Licenses	75.00
	<b>Benefits</b>	
1	Bills Processing Time Brought down from (4 – 30 Days)	1 – 3 Days with full compliance s
2	Realization of Cheques brought down from (4-30)	3 – 7 Days with a check of realization and bounced marking
3	Idle Money in Bank Current Account Made Close to Nil from Avg balance of Rs.50 Crores	900.00
4	Placed all the reserve funds at 11.25% avg interest Rate when market rates are around 9.50%	560.00

**E) Replication:** Many other ULBs in Andhra Pradesh as well as adjoining Karnatak have now switched over to the accrual based accounting system.

**F) Sustainability:** The financial sustainability of the system is well demonstrated by the cost-benefit analysis. Effective use of IT tools in the new accounting system has taken care of the technical sustainability too.

**Practice 2: Fund Based Double Entry Accrual Accounting System  
(ULBs in Karnataka through Directorate of Municipal Administration)**

**A) Project Objective**

- i) To bring about Transparency, Accountability and Accuracy in Accounting
- ii) Better Financial Management and Decision making
- iii) To develop standard Accounting policies and procedures, which are uniform through out the State
- iv) To develop a proper reporting system on financial performance & status of ULB
- v) To develop a proper internal check and control system
- vi) Computerization of accounts
- vii) To develop a proper system for preparation of budget
- viii) To facilitate Better Urban Governance.

**B) Pre project situation:** The Urban Local Bodies in Karnataka were maintaining their accounts under single entry, cash based system. It was an incomplete accounting system wherein ULBs were not aware of what they own and what they owe. There were no financial reports generated by the accounting system for fund management, resource mobilization and budgetary control.

- i) Except Cash book, there was no Books of accounts maintained
- ii) Financial information available was only about Receipts & payments
- iii) No check on accuracy of accounts
- iv) Report on Financial status & financial performance of ULB's was not available
- v) No differentiation between capital & Revenue items

- vi) Information was available in a fragmented manner, in various registers & documents spread across various sections
- vii) Standardization of account head & accounting procedures was not seen
- viii) Accruals of transactions were not made
- ix) Incremental budgeting was followed, which was not a scientific approach
- x) Manual accounting system was followed

C) **Project planning and implementation:** The Reforms initiatives are aimed at addressing the shortfalls of the old accounting system. A nodal agency was appointed at state level to study the best practices in other States, accounting standards and GAAPs (Generally Accepted Accounting Practices), to study the requirements of the ULBs of Karnataka and to design a proper computerised system of accounting.

- i) As reform initiative, Karnataka Municipal Accounting and Budgeting Rules 2006 (KMABR) introduced by the Government w.e.f 01.04.2006
- ii) Karnataka Municipal Accounting Manual(KMAM) was prepared based on National Municipal Accounting Manual
- iii) To study the feasibility, pilot implementation of the new system was done in three cities viz Maddur TMC, Byatarayanapura CMC and Mysore Corporation
- iv) Phase-wise implementation is carried out in 213 ULBs in following manner:
  - I phase – 51 Towns w.e.f 01.04.2006
  - II phase – 73 Towns w.e.f 01.04.2007
  - III phase – 89 Towns w.e.f 01.04.2009
- v) For effective implementation of this new system, B.com graduates are appointed as Accountants and Accounting consultants in ULBs.
- vi) For effective implementation of Fund based double entry accounting system, Chartered Accountants Firms were appointed as “Field level Consultants” for ULBs for handholding in the first year.
- vii) Extensive training programmes were conducted for accountants and accounting consultants and the other staffs of ULBs.
- viii) Monitoring of the implementation was effectively done by Expert Management Cell, specifically created for this purpose.

**D) Post project impact:** The above innovative process has resulted in a fool-proof Accounting system with following outcomes;

- i) Karnataka Municipal Accounting Manual is available as a ready reference to guide the ULB staff
- ii) For the first time in the history of ULBs in Karnataka, Opening balance sheets were prepared to incorporate the assets and liabilities in the accounts of ULBs
- iii) The Fixed Assets worth around 6600 crores of rupees otherwise unnoticed have been physically identified, enumerated and brought into records
- iv) The new accounting rules make it mandatory to prepare fund wise accounting reports with following funds;
  - o General Fund
  - o Water Supply & Sewerage Fund
  - o Enterprise Fund
- v) This will assist in determining the extent of recovery of cost of providing services to citizens and ring fence the funds allocated for each purpose
- vi) The web-based software has enabled the Government in accessing database of all the ULBs on centralized server
- vii) The new accounting rules have mandated the preparation of City Management Report for each ULB, including following;
  - o Audited financial statements;
  - o Details of major works carried out;
  - o Additional revenue generation measures for further developmental works;
  - o Cost & Performance Indicators
- viii) Introduction of pre-budget public consultations during budget preparation has resulted in higher transparency, general awareness about ULB accounts/finances and increased accountability.
- ix) Institutionalization of reforms has enabled grooming of in house experts who have conducted innumerable training for ULB staff regarding change in accounting procedure and their role and responsibility.

- x) First phase implementation of the new system is effectively completed, and financial statements of 51 ULBs are available.

**E) Other distinctive features/ accomplishments of the project:**

- i) Dedicated Expert Management Cell has been created to monitor, effective implementation, and to trouble shoot field level problems
- ii) Karnataka Municipal Data Society ( KMDS) has been established, with all ULBs and stake holders as its members, with the objective of taking the municipal reforms process forward
- iii) Training programme for elected representatives will be carried out to enable them to use the financial information effectively for decision making
- iv) First time in the history of ULBs, audit of financial statements by Chartered Accountant Firms is being carried out
- v) Internal controls, periodical reports, financial indicators & public participation in budget preparation are mandated in the accounting system
- vi) E-Gov Financials an web-based accounting software with central server architecture (Thin Client) is being used with centralised software installation.

**F) Citizen Centricity:** The major stake holders are Karnataka Urban Infrastructure Development Finance Corporation, State Accounts Department, Directorate of Municipal Department, Karnataka Electricity Board, Karnataka Water Supply and Sewerage Board and Urban local Bodies (ULBs) of Karnataka. During the development of new system, consultative work shops and meetings have been conducted. The project is divided into III phases, where first phase was started on 01.04.2006 covering 51 ULBs and effectively completed. II phase was started from 01.04.2007 covering 73 ULBs and final stage will start from 01.04.2009. Budget preparation, one of the key financial controls is now subjected to public participation through 2 rounds of public meeting for consultation. Preparation of financial statements, cost & financial indicators, budget variance & publicising them in two local newspapers promulgates the transparency & public accountability. Financial reporting helps in acquiring new sources of finances for emerging needs of

infrastructure development. Financial information helps in optimum utilization of funds for better citizen service. Finance related information is hosted on ULB website for public access and information. E-Gov financial software has been tested and certified by software testing and quality center, ministry of IT, Government of India.

**G) User convenience:** Financial information, one of the key for financial management is well established with accuracy, timeliness, relevancy, reliability & rationality in reporting. User-friendly application software for accounting is used. Preparation of Accounting records & financial statements is automated & readily available at all point of time for a particular period. Role based access system is enabled in the software resulting in delegation of work responsibilities & internal check. Each ULB has its own website and key financial information, budgets, various downloadable forms like property tax, trade license, birth and death, and other details of the ULB are hosted in that web site. Key Financial indicators of the ULB will be hosted in such website at the year end which is useful for various stakeholders.

**H) Efficiency Enhancement:** Use of computers makes the process of accounting less burdensome, like, updating of vouchers will automatically result in preparation of accounting records & financial information, Application software is web-based which supports multi-user & can work on multiple windows. Integration with other application modules helps automatic updation of records by other departments apart from accounts department resulting in non-duplication of work. All the transactions of the ULBs will be updated on real time basis in the central server, and all reports and financial information are available instantly.

**I) Cost effectiveness:** Existing staff of the organization are used after training them on job under the new system & only accountant who is a B.com graduate is appointed in accounts section for carrying the accounting process. The application software used is web-based with central server architecture, which uses centralized software technology & reduces the cost of installing software at the client end. Centralized data

management, specialized personnel at the data centre, integrity & security of data at one place reduces the cost.

- J) Capacity Building and Organizational Sustainability:** Existing staffs of the organizations were trained section-wise on their roles & responsibilities under the new accounting system & Field level consultants who are Chartered Accountants were put on board for each organization to train them on job & assist them in implementation during inception period. Accountant post which has to be held by a B.Com. graduate is created to carry on the accounting job. Accountants were well trained in manual as well as in application software of accounting. Financial statement auditor who is a Chartered Accountant is appointed for auditing of financial statements for vouching the True & Fair view of financial reports.
- K) Accountability:** Urban Local Bodies are having various sections, which are assigned with specific roles & responsibilities under this new accounting system. Each section is responsible for carrying their part of work, proper internal check & internal controls are established to vouch the authenticity & accuracy of transactions at all levels. Financial statements & budget documents are to be published in Local news paper for transparency in its transactions. All key financial information and tender details will be hosted in website of the ULB. Office head is responsible for establishing & maintaining the accounting system as per the rules & attest each transaction for its veracity & completeness.
- L) Innovation:** Obtaining financial information was tedious in the earlier system. Through the implementation of new accounting system information can be made readily available, through reports generation periodically. A view of the financial status & Performance of the ULB's can be prepared which was not done earlier, corporate reporting style has made the ULB's to prepare themselves to cope with the future economic developments. Asset revaluation & exposing themselves to external finances are made possible in this new accounting system. Fund-wise reporting has



made the ULB's to be more rational towards its service delivery by analyzing the cost-benefit from each such activity & plan for self-sustenance.

**M) Appropriate Delegation:** State Level Nodal Agency for consultation on accounting reforms was appointed for framing the implementation strategy. A special cell called Municipal Reform cell has been created to carry on municipal reforms, under this a dedicated team headed by Deputy Controller, a Chartered accountant & 6 trained accountants were placed to monitor the Accounting Reforms implementation & at ULB level Field level Consultants were appointed to hand hold them during inception for one year. At the ULB level, Institutional head along with the accountant has been made accountable along with all section heads of ULB's for their roles & responsibilities.

**Practice 3: Adoption of Accrual Based Accounting  
(Vijaywada Municipal Corporation, Andhra Pradesh)**

**A) Project objective:** To introduce accrual based accounting in the corporation as per the decision of Government in general, and as a mandatory reform under JNNURM in particular.

**B) Pre project situation:** Accounts were being maintained under the cash based accounting system resulting in serious limitations with regard to municipal budgeting, expenditure review, public disclosure of accounts, etc.

**C) Project planning and implementation:** The process of planning and implementation took place in the following ways:

- i) On the 23<sup>rd</sup> December 2006, a meeting took place between the Commissioner of Vijayawada Municipal Corporation (VMC) and the Commissioner and Director Of Municipal Administration (CDMA) to discuss preliminary issues about the project. It was decided that a visit to Bangalore would be made to study eGov

Financials software. The software was being used in 57 ULBs across Karnataka and was specifically designed for the ULBs

- ii) On the 18<sup>th</sup> January 2007, a team of officials made a visit to Bangalore for the same
- iii) On the 23<sup>rd</sup> January 2007, the Commissioner informed through the letter that the software would be suitable for VMC
- iv) On the 9<sup>th</sup> February 2007, the CGG entered into an Implementation Agreement with the VMC. The cost of the entire project would be only Rs 9.79 lakhs
- v) On the 22<sup>nd</sup> and the 23<sup>rd</sup> March, 2007 a team of officials from CGG and eGov visited Vijayawada to give a hands on training and to study the existing process
- vi) The software went live w.e.f the 1<sup>st</sup> April, 2007
- vii) On the 28<sup>th</sup> April, 2007, CGG issued guidelines to VMC on identification and valuation of assets and liabilities
- viii) Other regular visits by CGG and eGov officials to resolve the on-site problems
- ix) On the 17<sup>th</sup> December, 2007 the Standing Committee adopted the manuals published by the Government Of Andhra Pradesh and agreed to switch over to accrual system of accounting
- x) Regular visits by eGov and CGG officers in the month of July 2007, October 2007, January 2008, April 2008 and June 2008 to resolve the on-site problems
- xi) The VMC was successful in the preparation of the Balance Sheet from the FY 2007-08
- xii) The financial statements were prepared in conformity with National Municipal Accounting Manual (NMAM)/Andhra Pradesh Municipal Accounts Manual (APMAM)
- xiii) The training of the employees of the VMC took place in the following manner
- xiv) On the 22<sup>nd</sup> and the 23<sup>rd</sup> March, 2007 a team of officials from CGG and eGov visited Vijayawada to give a hands on training to about 35 employees and to study the existing process
- xv) During 2007-08, CGG had organized 5 training programme
- xvi) While one programme was of 2-days duration in the form of sensitization programme for commissioners and other section heads of municipalities, 4

programmes of 4 day duration were detailed training programmes for 37 municipal employees

- xvii) A session on Change Management was also included to make the employees accept the change from single entry system to double entry system and from manual to computer based system.

**D) Post project impact:**

- i) The following reports could be easily generated on public demand:
- a) Budgetary utilization (planned vs. actuals)
  - b) Revenue vs. capital expenditure
  - c) Summary of Zone-wise, department-wise, function-wise income/expenditure (classified by revenue and capital expenditure)
  - d) Summary of the ULB financial position (e.g. City Management Report)
- ii) The other benefits that accrued from the system are as follows:
- a) Bottom-up budgeting (including revised budgets) with budgetary controls
  - b) Budgetary control with options for cash based and/or accrual based budgeting and the ability to configure the level of budgetary control for each account code
  - c) Deductions Module for automatic calculation, remittance of deductions and generation of year-end certificates (Contractor TDS certificate) (to be released)
  - d) ECS for automatic payments to contractors/suppliers
  - e) Integration with Asset Management for full asset lifecycle tracking
  - f) Integration with e-Gov Works and e-Gov Purchasing/Inventory ensures comprehensive controls on all expenditure items
  - g) Integration with e-Gov EIS/Payroll for recording the financial impact of the monthly pay bills and salary transfers
  - h) Automatic generation of all subsidiary and general ledgers with real-time data

**E) Monitoring & Evaluation:** The project has brought about a lot of ease in terms of monitoring and evaluation of the accounting system of the ULB. This also facilitates regular monitoring of the project itself.

**F) Replication:** The project can be replicated in other ULBs of the country at such a rapid pace only with an in depth knowledge of the functioning of the project.

**G) Sustainability:** The project is sustainable as it has successfully demonstrated its utility towards better financial management of ULB and there is will in the system to keep the initiative going.

**Practice 4: Adoption of Transparency and Audit Measures through E-Governance  
(Ahmedabad Municipal Corporation, Gujarat)**

**A) Project objective:** To make citizen's transaction with Corporation offices hassle-free and to make the functioning of corporation efficient, effective, transparent and citizen friendly through E governance.

**B) Pre Project situation**

- i) Citizens had to go through complex procedures, unnecessary delays and corruption for paying taxes or for accessing simple services.
- iii) Citizens were required to make unnecessary visits of the corporation and still could not clarifications about even simple work like computation of the taxes. Works like getting approval of the building plans and permissions involved far more tedious process and required huge efforts. The citizens were exploited by middlemen
- iii) Workflows of the most of the departments were so inefficient and disorganized. It resulted in the insufficient revenue collection and unnecessary loss of revenue.

### **C) Project planning and implementation**

- i) Project was implemented in 8 months. It commenced in January 2002. Total Solution Provider (TSP) has partnered with AMC in implementation of the project
- ii) It has basically Modified the system flowchart, developed System Requirement Specification (SRS) and activity based program software for the project
- iii) Project had a visible impact on the overall working and especially on following..
- iv) The simplified Automated Tax collection system with transparency in tax calculation and another information
- v) Easy tax payment facility for citizens at 6 city civic centers
- vi) Automated system for Octroi data management and motor vehicle tax system
- vii) Integrated transaction process with ICICI Bank
- viii) Online and hassle free complaint registration system and database of these information
- ix) Quick services for issuance and renewal Issuance of Shops and Establishment Licenses
- x) The most important lesson of this initiative is that a smart approach for introducing IT based e-governance system in Urban Local Body is to involve corporation staff in development. This strategy is more cost effective than hiring external consultants to develop the system and then training the staff to operate it. , Municipal staff and official were actively involved and motivated throughout the project preparation and implementation phase and it generated the feeling of the ownership of the project amongst them. In fact the success of the project is dedicated to the ULB staff motivation and their efforts.

**D) Replication:** The System developed under this project is integrated to all the departments of the Municipal Corporation and most of the procedures and employees are sufficiently familiar and internalized with the system.

- E) Sustainability:** The project and the established system is developed and owned by the Urban Local Body for the better system and governance.
- F) Limitation:** This practice can be comparatively easily adopted at Metro cities as the staff is likely to be tuned to the such working. In small cities it will require greater efforts to get the staff aligned to working on computers and IT systems. However once the benefits are visible the system can invoke support from staff as well as Citizens.
- G) Impact on Financial Management:** The entire Capital investment of around Rs. 2.5 Crores has made by Municipal Corporation for the project. It includes the cost of Hardware, Communication Equipment and Software development. The project has financed by Municipal corporation from its own source of Revenue but it increased revenue and other benefits that weigh far more than the cost of project. Also, there is significant increase in the revenue of the Municipal Corporation. The other impacts of the project include improved service delivery, better grievance redressal and quicker solutions to the citizen's complaints.
- H) Replication:** A similar initiative has been reported from Mumbai. The established advantages of e-governance in municipal finance management can drive its rapid replication.

## 5.6 Practices in Delegation of powers to ULBs : 3Fs

**Practice 1: Delegation of Powers to ULBs**  
**(ULBs and the State Government of Kerala)**

**A) Background :** In spite of the long tradition of local initiatives for development and the presence of an educated and civil society, Kerala remained one of the most backward states in terms of decentralisation of governance till 1996. The Kerala Panchayat Raj Act came into being on 23 April 1994 subsequent to the 73rd and 74th Constitutional Amendments, which resulted in numerous possibilities for decentralisation. The first polls to three-tier local bodies were conducted in 1995. The devolution of powers to ULBs in 1996 was part of an effort to tap the potential offered by the enactment of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments. It also placed bottom-up initiative for local level planning against conventional top-down decentralisation efforts.

**B) Devolution of Functions to ULBs:** The functions listed in the Schedule 12 to the Constitution have been incorporated into the State Municipal Act and thus transferred to ULBs.

### Devolution of Functions to ULBs

No.	<i>Functions listed in 12<sup>th</sup> Schedule</i>	<i>Incorporated in the Act1</i>	<i>Transferred to ULBs2</i>
1	Urban Planning including town planning	Completely	Completely
2	Regulation of land-use and construction of buildings	Completely	Completely
3	Planning for economic and social development	Completely	Completely
4	Roads and bridges	Completely	Completely
5	Water supply- domestic, industrial and commercial	Partly	Partly
6	Public health, sanitation, conservancy and SWM	Completely	Completely

No.	Functions listed in 12 <sup>th</sup> Schedule	Incorporated in the Act1	Transferred to ULBs2
7	Fire services	No	No
8	Urban forestry, protection of environment and ecology	Completely	Completely
9	Safeguarding the interests of weaker sections society including the handicapped and mentally retarded	Completely	Completely
10	Slum improvement and upgradation	Completely	Completely
11	Urban poverty alleviation	Completely	Completely
12	Provision of urban amenities and facilities- parks, gardens and playgrounds	Completely	Completely
13	Promotion of cultural, educational, and aesthetic aspects	Completely	Completely
14	Burials and burial grounds, cremations, cremation grounds and electric crematoriums	Completely	Completely
15	Cattle pounds, prevention of cruelty to animals	Completely	Completely
16	Vital statistics including registration of births and deaths	Completely	Completely
17	Public amenities including street lighting, parking lots, bus stops and public conveniences	Completely	Completely
18	Regulation of slaughter houses and tanneries	Completely	Completely

### C) Sector-wise Distribution of Functions

- i) **Agriculture:** Bring into cultivation barren land and surrounding land, ensure optimum utilization of land, Soil Conservation, Production of organic manure, Establishment of nurseries, Promotion of Co-operative group farming, Organizing self-help groups among farmers, Promotion of horticulture and vegetable cultivation, Implementation of fodder crop development, Encourage



plant protection activities, Development of seed production, Implementation of farm mechanization, Running of Krishi Bhavans, Organize Agricultural exhibitions.

- ii) **Animal Husbandry and Dairy Farming:** Implementation of cattle improvement programmes, Increase the production of milk., Poultry farming, bee keeping, piggery development, goat rearing and rabbit rearing, Running of veterinary hospitals, Running of I.C.D.P sub-centres, Formulation and implementation of preventive-health programme for animals, Prevention of cruelty to animals, Implementation of fertility improvement programmes, Control of animal origin disease, Running of veterinary poly-clinics and Regional Artificial Insemination Centres, Providing of speciality services in animal husbandry, Conduct cattle poultry shows.
  
- iii) **Minor Irrigation:** Implementation and maintenance of all minor and lift irrigation projects within the Municipal areas, Implementation and maintenance of all micro-irrigation projects, Carry out conservation of water, Implementation of ground water resources development.
  
- iv) **Fisheries:** Implementation of pici-culture in ponds, fresh water and brackish in water and development of marine products, Promotion of fish seed production and distribution, Distribution of fishing implements, Providing assistance for fish marketing, Providing of minimum basic services for fishermen families, Implementation of fishermen welfare scheme, Development of traditional landing centres, Administrative control of fisheries schools.
  
- v) **Social Forestry:** Growing of trees for fodder or fuel and growing of fruit trees, organize campaign for planting of trees and environmental awareness, Afforestation of wasteland.

- vi) **Small Scale Industries:** Promotion of cottage-village industries, Promotion of handicrafts, Promotion of traditional and mini industries, Establishment of Mini Industrial Estates, Encourage the industries with investment of one-third of SSI limit, Formulate and implement self employment schemes in Industrial Sector, Promotion of small scale industries, Implementation of the entrepreneur development programmes.
  
  - vii) **Housing:** Identify the homeless and *purampoke* dwellers and to provide house sites and houses, Implementing housing programmes, Implementing the shelter rejuvenation programmes, Popularizing the low-cost housing, Encourage housing co-operative societies, Implement the development of housing complex and infrastructure, Mobilize fund necessary for housing.
  
  - viii) **Water Supply:** Maintain water supply schemes within the respective Municipal area, Arrange water supply schemes within the respective Municipalities.
  
  - ix) **Electricity and Energy:** Install street lights, To encourage the consumption of bio-gases, Promote non-conventional energy sources
  
  - x) **Education:** Run the Government pre-primary schools, primary schools and high schools, Implement literary programmes, Run the Government Industrial Training Centres in the Municipal area, Run the Government Higher Secondary Schools in the Municipal area, Run the Government Technical Schools in the Municipal area, Run the Government Vocational Training Centres and Polytechnics in the Municipal area, Run the Government.
- D) Integrated Participatory Planning:** Kerala has evolved a nationally recognised model for convergence of all the functions transferred to the urban local governments initiated through the People's Plan Campaign in 1997. Now the State has a coherent methodology for integrated participatory planning for local level development. In order to upgrade the quality of planning the following decisions have been taken for

implementation during the Eleventh Five Year Plan:

- a) Preparation of City Development Plans by all Urban Local Governments.
- b) Preparation of the following plans in each Urban Local Government as part of the decentralised planning process:
  - (i) Plan for local economic development
  - (ii) Plan for governance improvement including improvement of public services.
  - (iii) Health Plan
  - (iv) Education Plan
  - (v) Anti-poverty Sub-Plan with a distinct component for destitutes
  - (vi) Special Component Plan for Scheduled Castes
  - (vii) Women Component Plan
  - (viii) Plan for children, aged and disabled
  - (ix) Tribal Sub Plan for Scheduled Tribes wherever applicable
  - (x) Energy Plan
  - (xi) Sanitation Plan
  - (xii) Water Supply Plan
  - (xiii) Connectivity improvement Plan

**E) Population size of ULBs:** Of the total State population, 8.58 percent live in area under Municipal Councils. There are 53 Municipal Councils in Kerala. The average population in Municipal Councils is 51530.

<b>Range of Population</b>	<b>Municipalities (Number)</b>
Below 25000	6
Between 25,000 and 40,000	18
Between 40,000 and 50,000	9
Between 50,000 and 60,000	7
Between 60,000 and 75,000	8
Between 75,000 and 1,00,000	2
Above 1,00,000	3
<b>Total</b>	<b>53</b>

**F) Trend of Grant-in-aid to ULBs (1997-2007):**

Year & Type of ULB	No. of ULBs	Grants in Crore Rs.			
		General	SCP	TSP	Total
<b>1997-1998</b>					
Municipalities	<b>55</b>	49.54	12.15	0.65	62.34
Corporations	<b>3</b>	27.86	5.44	0.24	33.54
<b>2006-2007</b>					
Municipalities	53	88.7	25.06	0.68	114.44
Corporations	<b>5</b>	70.5	21.49	-	91.99

**G) Barriers faced:** The all pervasive top-down approach in the development planning was the biggest barrier to the meaningful decentralization of powers to urban local bodies. The attitudinal resistance among the key stakeholders was an issue that had to be resolved – officials, elected representatives, experts, and the people at large. The devolution of powers necessitated every official to work under the elected representatives. Even some line departments were hesitant to part with their powers. The attitude of the people viewing themselves as mere beneficiary objects of the development process rather than participants in a social process of community improvement was to undergo change. Above all, the devolution of functions and funds required the day-to-day involvement of elected people’s representatives in development administration at the grassroots level. The resistance of the political class who held power at each layer against devolving power to the next level had to be overcome. Another major section who opposed the effort was the lobby contractors who found chances of corruption decreased owing to the supervision of the beneficiary committees. The ambience of partisan and sectarian division in the political culture of the State too proved a major hindrance to the process of decentralization initiative.

**H) Strategies to overcome the barriers:** The Government of Kerala through Department of Local Self Government: Conceived and implemented the Devolution of Functions, Funds, and Functionaries to Urban as well as rural local bodies. It ensured co-ordination between numerous state agencies and local self governments. State Planning Board played the key role of giving policy direction to the whole exercise. A High Level Council of Guidance comprising of leaders of political parties, Vice-Chancellors of Universities, heads of Centres of Excellence, cultural leaders, and State-level leaders of mass organizations also facilitated this process. The learning and academic institutions of Kerala were brought in for conducting training programmes for capacity development of local governments particularly in the development planning of different sectors. As part of the sectoral training programmes the following institutions were engaged in organising specialised training programmes. Community members participated right from Ward Sabha sessions for preparations of Development Reports. The Development Reports became the basis of the Development Seminars organised at the ULB level. Development experts and bureaucrats together with the representatives of ward sabhas contributed to debates. The sessions formed task forces for each major development sector. Task forces constituted elected representative as chairperson and officials of concerned departments, non-official experts, and volunteers. They prepared projects with technical and financial details.

**I) Committees within ULBs:** One of the salient features of devolution of powers to urban local bodies is the decentralisation within local bodies by means of committee system. Following are the important committees within urban local bodies.

**i) Standing Committees:** There are five Standing Committees in Municipal Council and seven Standing Committees in Municipal Corporation as listed in the Table below.

<b>A) Municipal Councils</b>	
<b>Standing Committees</b>	<b>Powers and Functions</b>
Finance	Supervision of the utilisation of the budget for Finance grants, watching the assessment and collection of taxes, fees, rents and other sums due to the Council; Inspection of Accounts; Watching of release of grants from govt. and its utilisation; monthly audit of accounts and check the monthly demand, collection and balance and abstracts of receipts and expenditure of the preceding month; Writing off the irrecoverable funds; Scrutiny of Annual Accounts, Demand, Collection and Balance; Preparation and Presentation of Budget Estimate before the Council; verify whether any amount proposed to be expended by the Municipal Council is within the budget provision approved by the council and whether there is sufficient fund for this purpose; Enquire into the allegations against the employees of the Council if directed by the Council; and dispose of appeals on taxation and to give directions to the Secretary to levy tax in respect of cases which escaped assessment and to reassess undervalued cases.
Development	Matters of Agriculture; Soil Conservation; Social Forestry; Animal Husbandry; Dairy Development; Minor Irrigation; Fisheries; Small Scale Industry; Co-operation and Institutional Finance; and Preparation of the Development Plans for Municipal Council integrating the proposals of other Standing Committees
Welfare	Welfare of Women and Children; Development of SC/ST; Social Welfare; Social Security Pension and Financial Assistance; Poverty Alleviation, Slum Improvement; & Public Distribution System.
Health & Education	Public Health and Health Services; Sanitation; Control of dangerous & offensive trade; Education; Art; Culture; and Sports
Works	Publics Works; Housing; Town Planning including regulation of building constructions; Environment; Electricity; and Water Supply; Drainage and Sewerage.

<b>B) Municipal Corporations</b>	
<b>Standing Committees</b>	<b>Powers and Functions</b>
Finance	Supervision of the utilization of the budget grants, watching the assessment and collection of taxes, fees, rents and other sums due to the Council; Inspection of Accounts; Watching of release of grants from govt. and its utilisation; monthly audit of accounts and check the monthly demand, collection and balance and abstracts of receipts and expenditure of the preceding month; Writing off the irrecoverable funds; Scrutiny of Annual Accounts, Demand, Collection and Balance; Preparation and Presentation of Budget Estimate before the Council; verify whether any amount proposed to be expended by the Municipal Council is within the budget provision approved by the council and whether there is sufficient fund for this purpose; and Enquire into the allegations against the employees of the Council if directed by the Council.
Development	(Matters of Agriculture; Soil Conservation; Social Forestry; Animal Husbandry; Dairy Development; Minor Irrigation; Fisheries; Small Scale Industry; Co-operation & Institutional Finance; and Preparation of the Development Plans for Municipal Council integrating the proposals of other Standing Committees.
Welfare	Welfare of Women & Children; Development of SC/ST; Social Welfare; Social Security Pension and Financial Assistance; Poverty Alleviation, Slum Improvement; and Public Distribution System.
Health & Education	Public Health and Health Services; Sanitation; Education; and Sports.
Works	Publics Works; Housing; Electricity; and Water Supply; Drainage and Sewerage.
Town Planning	Matters of Town Planning including regulation of building constructions; Environment; Urban Beautification; Promotion of Art and Culture; Preservation of Monuments and places and buildings of archaic importance; Heritage value and Natural Beauty.
Appeal Relating to Tax	Dispose of Appeals on taxation and giver directions to the Secretary to levy tax in respect of cases, which escaped assessment, and to reassess undervalued cases.

- ii) **Steering Committee:** There is a Steering Committee consisting of the Chairperson, Deputy Chairperson and Chairpersons of Standing Committees for coordinating and monitoring the Standing Committees.
- iii) **Joint Committee:** The Municipal Council may join with any other Local Self Government Institution and constitute a Joint Committee for matters of common interest.
- iv) **Managing Committee:** There is a Managing Committee consisting of not more than fifteen members including its chairman for public health institutions transferred to the Municipality.
- v) **Ward Committees and Ward Sabhas:** In every Municipality where the population exceeds one lakh Ward Committees are constituted in each ward (constituency of a Councillor). In the case where population does not exceed one lakh, Ward Sabhas are constituted and all persons included in the electoral roll of that ward are members of the Ward Sabha. The Councillor who represents the Ward is the Convenor of the Ward Sabha. The Ward Sabha has to meet at least once in three months and the meeting will be presided over by the Chairperson of the Municipality.
- vi) **District Planning Committee (DPC):** District Planning Committee is constituted with 15 members. The District Panchayat President of the concerned district is the Chairperson and the District Collector is the Secretary. The plan documents of local bodies have to be approved by DPC.
- vii) **State Development Council:** There is a State Development Council for formulating policy for local level development and regional level development and for co-ordinating the District Plans and the State Plans. The Chief Minister is the Chairman and the Leader of Opposition is the Vice-Chairman. The other



members of the Development Council are Chairpersons of District Planning Committees, Mayors of Municipal Corporations, Vice-Chairman of State Planning Board and nominated persons from Panchayats and Municipalities. The Chief Secretary is the Member Secretary. The State Development Council also handles the common issues concerning development, among the districts.

#### **J) Monitoring and Evaluation System:**

- i) Appellate Tribunals:** In the context of the emerging scenario of decentralisation in the State, conflicts may arise and dependence on the existing Judiciary for appeals would cause much delay in getting verdict. An Appellate Tribunal consisting of one Judicial Officer, having the rank of District Judge, will be appointed by the Government in consultation with the High Court. The Tribunal will have the same powers as that of a civil court. The Tribunals are expected to be citizen-friendly by means of adopting simple procedures.
- ii) Ombudsman:** Ombudsman independently investigates complaints from individuals, groups, and from Government relating to defective administration by local bodies. It is envisaged as a cost-free mechanism for complaint redressal and is essentially investigative in character. The Ombudsman goes beyond the judicial process, as after redressal of a grievance, it can choose to monitor the behaviour of the local authority concerned and it can point out systemic deficiencies and suggest improvements. To be more specific, the Ombudsman will conduct investigations and inquiries on any complaint with regard to any action involving corruption, misadministration or irregularities in the administration by the LSGIs and disposal of such complaints.
- iii) Performance Audit:** In view of the increased delegation of powers and devolution of funds to LSGIs, a new set of financial procedures have been evolved. The LSGIs need to be guided properly in maintaining records and following the principles of financial procedures and propriety. In this context, a

new audit system, namely Performance Audit, has been introduced. It is a running audit system, which is friendlier, helpful, and acts as on-line corrective system, which would detect irregularities and deviations, almost instantaneously, allowing for easy rectification. At the State level, the Secretary, Local Administration Department, is the Performance Audit Authority. The Authority will be supported by a State Performance Audit Officer, at the state level, and by the Performance Audit Officers at the regional level. Under the Performance Audit Officers, Performance Audit Teams will visit each Panchayat once in three months for conducting the audit.

**K) Impact of devolution:** Kerala has used decentralisation as a vehicle for bringing about fundamental reforms in different spheres. These are outlined below:

**a) Development Reforms:**

**i) Participatory budgeting** has become a reality in Kerala and a sound methodology has been evolved applicable even in the urban environment including needs assessment through Ward Sabhas, situation analysis through comprehensive Development Reports akin to City Development Plans, consultation with stakeholders, involvement of professionals from within and outside the Government in plan and project preparation. This has helped the Corporations in understanding the development issues confronting them and given them capacity to deal with them strategically. An important component of participatory development is poverty reduction. Every poor family within the City Corporation is identified through a socially understood set of transparent non-monetary criteria. At the local level all such families below poverty line are brought together into a Neighbourhood Group (NHG), with each family being represented only by a woman, making the system a vehicle for empowerment of women as well. NHGs in a Ward are organised into an Area Development Society (ADS) and all the ADSs within a city are federated into a registered organization called Community Development Society (CDS).

At each level of this three-tier networked organization there are a set of volunteers from among the women who look after health, education, community infrastructure, economic development and general management. Thus this inclusive organization of the poor has become a powerful medium for poverty reduction. It has strengthened the poor to access entitlements and gain capabilities to move towards social and economic empowerment. It is this community based organization of the poor which plans from below for an integrated Anti Poverty Sub-plan in the Corporation. It has succeeded in generating well-articulated demand for pro-poor public services.

- ii) **Gender budgeting:** Ten percent of the Government grants given to a Corporation have to be set apart for a Women Component Plan. This has opened up possibilities of engendering development at the local level. Similarly a good portion of the allocation to the Corporation is earmarked for development of Scheduled Castes for which it has to prepare a Special Component Plan. The City has also to develop a proper plan for the children, the aged and the challenged. A new initiative has just been launched to identify the destitutes who are expected to constitute about two percent of the population and prepare an integrated plan to tackle it. This initiative called “Asraya” has the potential of inducing the City Corporation to be compassionate and care giving.
  
- iii) **Service delivery planning:** All Corporations now have to prepare a Service Delivery Plan listing out the various services which they provide to citizens, determining the present quality and quantity of the services, setting realistic target for their improvement and developing a plan of action for attaining them.
  
- iv) **Asset maintenance planning:** Since a lot of assets have been transferred from Government to the Corporations in addition to their own assets, Corporations have been directed to prepare Maintenance Plans for managing

their physical assets in a scientific manner utilizing their own funds as well as the earmarked Maintenance Fund devolved by Government.

**b) Financial Reforms:**

i) **Fund transfer:** In order to strengthen the financial position of Corporations Government of Kerala provides grants in three streams – Development, Maintenance and General Purpose. These funds have been earmarked on the basis of transparent criteria. The Local Government-wise allocation is shown in a separate document of the budget ensuring legislative approval and preventing whimsical diversions or non-transfer by the executive. The funds are given in monthly instalments and are untied and the Local Government can decide their application. Thus the devolution satisfies the key criteria of fiscal decentralization like predictability, sufficiency, freedom of use, equitability of sharing and timely flow.

ii) **Tax reforms:**

- Introduction of plinth area based Property Taxation to be effective from the second half of 2006-07
- Introduction of seating capacity-linked taxation for Entertainment Tax.
- Introduction of presumptive taxes for certain categories of professions under Profession Tax
- Introduction of a new Service Tax to realize the cost of providing special services to localities, as a kind of benefits tax
- Linking general non-tax revenues like rents, license fees to the value of money through a system of graduated automatic increases linked to indices reflecting value of money
- Linking devolution of a portion of the Development Fund to increased revenue efforts on the part of the local governments
- Tax mapping to reduce escaped tax
- Updation of asset registers.

- iii) Accrual accounting:** As part of the ADB supported Kerala Sustainable Urban Development Product (KSUDP) a Technical Assistance programme has just been approved to convert the cash based accounts of City Corporations into a modified accrual system. This exercise is to be preceded by updating of accounts.
- iv) Financing of urban development:** To enable the Local Governments to tap institutional finance as well as funds from the market, the Local Authorities Loans Act is in force. Also there is a Kerala Urban and Rural Development Finance Corporation (KURDFC), which was set up in the early seventies, the first of its kind in the country exclusively for Local Governments. Now a policy decision has been taken to restructure it into the Kerala Local Government Fund on the lines of the Tamil Nadu Urban Development Fund.
- v) Fiscal accountability:** In order to improve fiscal governance and ensure fiscal accountability certain important initiatives are currently on. They include:
- Preparation of modern manuals for budgeting, accounting and auditing.
  - Preparation of a new procurement manual for local governments.
- Government have decided in principle to set up an independent Audit Commission for Local Governments on the lines of the Audit Commission for Local Governments in UK. Thus, the fiscal reforms of Local Governments undertaken in Kerala are fundamental and pioneering with the potential of transforming fiscal governance.

#### **L) Replication:**

The fundamental principles followed by Kerala in the process of decentralisation, which could be replicated elsewhere are:

- i) Autonomy:** The autonomy of LSGIs is guaranteed by limiting the supervision of the State Government to the obligatory and regulatory functions. The LSGI

autonomy has got three dimensions: 1. Financial autonomy; 2. Functional autonomy; and 3. Administrative autonomy. Autonomy implies that various levels of LSGIs should not be seen as hierarchically organised, with one unit controlling the others below it. However, there exist active ‘cooperation, coordination, complementation, and integration’. The State Government has a very pro-active role in formulating the state priorities within the framework of the national perspective. Thus, a multi-level exercise of developmental functions implies, “the existence of a sphere of independent action, at each level, a sphere of cooperative and coordinated action, a sphere of delegated agency function, and a sphere of agency from above, in the descending order of magnitude” (Committee on Decentralisation, 1996).

✓ Subsidiarity

This principle governs the division of functions among different tiers of LSGIs. Subsidiarity implies what can be done best at a particular level shall be done at that level and only residual functions are given to the higher level. The process starts from below, transferring functions and powers from the level of Ward Committees and goes up to the Union Government.

✓ Complementarity

Integration is perhaps the most important task in decentralised planning. The entire system has to work with unity of vision and diversity of means. While integrating the functions, there must not be any chance for overlapping and repetition. This means that the activities of higher levels should complement those of the lower levels and the programmes implemented by all the agencies in a given local body will be consistent with local needs and priorities and will, in turn, converge into an integrated local plan.

✓ Uniformity

The principle of uniformity stipulates that norms and criteria for selection of beneficiaries, identification of sites, prioritisation of activities and pattern of

assistance within a given local body shall be the same for a particular programme, irrespective of the agency sponsoring such programmes. This helps in formulating criteria for decision making, which may be made open to the people so that transparency can easily be ensured.

✓ Participation of People

In decentralised governance, participation of the people is envisaged by empowering them to take their own decisions after they analyse their problems themselves. In fact, the ULBS provides an institutional framework for participatory democracy. People's participation is expected in all the stages of a development programme, including identification of needs, formation of scheme, its implementation, monitoring and evaluation. The reservation of seats for women, Scheduled Castes and Scheduled Tribes is one of the ways of ensuring participation of the vulnerable sections in the mainstream development activities. The institutions like Ward Committees are meant for facilitating people's participation in terms of mobilisation of resources in cash, kind and of decision making. Participation also helps in ensuring transparency by examining the activities at various stages. Furthermore, the citizen's pro-active role is expected in enhancing harmony among various sections of the people, promotion of literacy, improvement of public health, etc.

✓ Transparency and Accountability

Local Self-Government Institutions are primarily accountable to the people and this is guaranteed by ensuring transparency in its function. This calls for a social audit system for examining the performance of the local bodies. Social auditing is performed by the Ward Committees by examining the activities of development programmes in the respective area. Every decision taken has to be based on certain predetermined norms and criteria, which are evolved on the basis of social consensus and the rationale behind each decision has to be made public. In such a system, people have the right to know the details of

project documents, procedures of execution, estimates, monitoring, financial expenditures and evaluation. People are also expected to play a facilitative role for the smooth functioning of the developmental activities.



## 5.7 Practices in Transfer of Funds to Local Bodies

### **Practice 1: Urban Infrastructure Development through Urban Development Fund (All ULBs of Tamil Nadu and the State Government)**

#### **A) Project objective**

- i) Fund Urban Infrastructure Projects, which improve the living standards of the urban population
- ii) Facilitate private sector participation in infrastructure through joint venture and public-private partnership
- iii) Operate a complementary window, the Grant Fund, to assist in addressing the problems of the urban poor
- iv) Improve the financial management of Urban Local Bodies (ULBs), enabling them to access debt finance from markets.

#### **B) Project Brief:**

- i) Tamil Nadu Urban Development Fund was established on November 29, 1996, as a Trust under The Indian Trust Act 1882 to finance urban infrastructure projects in the State of Tamil Nadu in South India. TNUDF was formed by conversion of erstwhile Municipal Urban Development Fund (MUDF), with contribution from Government of Tamil Nadu along with three Financial Institutions viz., ICICI Bank Limited, Housing Development Finance Corporation Limited (HDFC) and Infrastructure Leasing & Financial Services Limited (IL&FS). TNUDF is the first public-private partnership providing long term finance for civic infrastructure on a non-guarantee mode. TNUDF is managed by a Corporate Trustee viz., Tamilnadu Urban Infrastructure Trustee Company Limited (TNUITCL).

- ii) The Board of Trustee Company viz., TNUITCL is headed by the Chief Secretary, Government of Tamil Nadu (GoTN). There are four nominees of GoTN viz., the Special Secretary, Finance Department; the Secretary, Municipal Administration and Water Supply Department; the Secretary, Housing and Urban Development Department; the Secretary of Planning, Development & Special Initiatives Department; two nominees of ICICI and one nominee each of HDFC and IL&FS.
- iii) The size of unit capital as of now is INR 2 billion of which INR 1.43 billion is contributed by GoTN and the balance of INR 0.57 billion is contributed by the three FIs.
- iv) TNUDF is functionally managed by an Asset Management Company (AMC) viz., Tamil Nadu Urban Infrastructure Financial Service Ltd., (TNUIFSL), 51% equity of which is owned by the above mentioned 3 FIs and 49% by GoTN. The Company is managed by a full time Managing Director and Chief Executive Officer.

**C) Project planning & implementation:**

- i) The fact that improved urban infrastructure facilitates economic growth and human development is well known. However, the urban sector calls for major reforms in both the financing and management of urban infrastructure. Thus, the vision of TNUDF is to develop urban areas on a self-sustainable basis.
- ii) The experience in operating the Fund underscores three basic urban sector issues. First, the need for capacity building within city governments for efficient and responsive urban service delivery. Second, given the investment requirements, the imperative to access long tenor debt and eventually create a market of municipal debt, thereby linking urban needs with domestic debt market. Third, since debt financed projects require substantial tariff changes,

the need for political consensus and participatory project structuring. These three components would form the basis of any future urban work plan.

- iii) As a financial intermediary, TNUDF is in the process of developing its business and marketing plans that would address the above issues. In this context the following are the core objectives and strengths of TNUDF that would be the basis for developing such plans.
- iv) Core Strengths of TNUDF:
  - Project Development
  - Project appraisal
  - Financial structuring
  - Access to capital market
  - Flexibility in operation

#### **D) Operations and Resource Plans:**

- i) The major challenges in the urban sector are to reduce the demand-supply gap in infrastructure investment and to improve basic urban service delivery in terms of both quality and quantity. This is an ongoing process. On the policy front, the GoTN is undertaking major urban sector reforms to promote financial and functional devolution to urban local bodies. With a view to continuously make available resources for urban infrastructure, the third Tamil Nadu Urban Development Project has been evolved with financial assistance from the World Bank.
- ii) TNUDF has successfully implemented Tamil Nadu Urban Development Project II (TNUDP II) with the IBRD Line of Credit during the period from 1999 – 2004. The project size was USD 80 million.
- iii) The World Bank mission has observed that Government of Tamil Nadu has

made considerable progress towards fulfilling the sector wide conditions agreed with Government of India under the Urban Reforms Incentive Fund. Accordingly, the Third Tamil Nadu Urban Development Project (TNUDP III) has been approved by the World Bank for implementation. The project size is USD 434 million.

- iv) The objectives of TNUDP III would be to further consolidate the achievement of the TNUDP II projects, continuing to improve urban infrastructure services in the State of Tamil Nadu in a sustainable manner. This objective would be achieved through an institutional development component and an urban investment component. The TNUDP III is proposed to strengthen the managerial, financial and technical capacities of ULBs through an institutional development programme, in line with the urban sector reforms.
- v) **Institutional Development Component** :The Institutional Development Component is to be utilized for-
- Capacity building of municipal staff through continued training programs for enhancing the responsive managerial and technical capabilities at the ULB level;
  - Information and communication technology, expanding e-governance and networking of municipal functions;
  - Establishment of a Debt Monitoring Cell (DMC) for maintaining up to date information on ULB finances.
  - Technical Assistance to ULBs for project preparation and supervision (Project Preparation Facility);
  - Project Management, including incremental operating costs, strengthening the municipal monitoring framework, performance benchmarking and increasing transparency and accountability.
- vi) **Urban Investment Component**: Urban Investment Component consists of Capital Grant and Loan to ULBs. This component aims at developing

sustainable urban investments such as water supply, waste water collection, solid waste management, storm water drains, roads and common facilities such as transportation networks and sanitation facilities, based on demand driven investment plans developed by ULBs. While investments will be spread over ULBs throughout the State, part of the component will also support grants for urban road infrastructure and traffic management programs in the Greater Chennai Metropolitan Area which includes the surrounding peri-urban areas. The investments would include road widening, bridges, traffic studies and traffic management, as well as road safety sub-components.

**vii) The Urban Investment Component** includes support to TNUDF through a line of credit and provision of grant funds for the Project Development Advisory Facility (PDAF) for preparing and/or supervising projects that involve innovative sub-project financial structuring and Capital Grant component to finance environmental and social mitigation actions and sub-projects serving the lowest income groups. However, in addition to the line of credit, project design would seek to expand TNUDF's financial role to include credit enhancement support through other instruments—such as debt service reserve funds, partial guarantees, first loss guarantees, bond insurance and subordinated debt instruments which would assist the overall objective of providing sustainable access to the capital markets and commercial financing to ULBs.

**viii) Capital Grant:** The Capital Grant shall be used to assist urban local bodies towards:

- c) Financing projects, which directly benefit urban low income populations such as for water supply, sanitation, storm water drains, street lighting, sewerage systems, etc. financed under TNUDP III (the amount should not exceed 30% of the cost of the subproject being financed under the Tamil Nadu Urban Development Project, subject to a maximum of INR 100 million per project).

- q To provide project Viability Gap funding of sub-projects financed under TNUDP. The grant towards such gap funding shall not exceed INR 100 million (with the limits specified in (i) above. This will also be used to assist the Urban local bodies to put in place the institutional mechanism for tariff administration in the first 3 years.
  - q Meeting the cost of resettlement and rehabilitation related to sub-projects to be financed by the Tamil Nadu Urban Development Project.
  - q The grant will be subject to the following conditions:
    - The financial resource of the Local Bodies and financial assistance given by Government should be in the ratio of 3:1.
    - 80% of property tax should have been collected in the past three years prior to the project investment year.
    - The local body should have repaid all loan dues for two years prior to the project investment year.
  - q For basic services such as water supply, sewerage removal, roads, streetlights and solid waste management, grant assistance will be available if more than 20% of project beneficiaries are people living below the poverty line.
  - q In case of projects that directly benefit urban low-income populations, the justification for the use of the Capital Grant should be substantiated in the grant proposal by indicating the number of targeted urban low-income population and specific project areas as well as the expected impact on the improvement in the living standard of the targeted population.
  - q The sub-projects to be financed by the Capital Grant shall follow IBRD procurement guidelines.
- ix) Loan to ULBs:** If the project is eligible for Capital Grant the funding pattern will be Loan 60%, Grant 30% and the contribution from ULB 10%. If the project is not eligible for Grant, the loan amount may be up to 90% based on the repayment capacity of the ULB. TNUDF will finance the cost of civil works, services, goods and materials. However, the funding will not be available for

land acquisition cost and working capital. TNUDF will lend up to 20 years with a moratorium period of 5 years. The repayment will be decided based on the type of project, project cash flow and repaying capacity of the ULB.

**D) Lessons Learned:** The lessons learned by TNUDF are summarized below.

- i) State-level commitment to urban policy reform is essential to enhancing fiscal, administrative and management capacities at the local level. It requires agreement on the scope of reform and demonstrated up-front actions at both state and local level. GoTN has proved its commitment in previous projects and has now adopted a very proactive strategy to transfer more responsibilities to ULBs within the medium term fiscal framework.
- ii) A consistent state wide policy towards financial institutions will be essential to maintain a level playing field for participating financial institutions and ensure maximum resource mobilization for ULBs
- iii) Transparent rules of engagement for sub-loans help ULBs to understand the cash flow implications of borrowing and to plan and prioritize the commitments entered into. TNUDF must actively market a range of financing products to the ULBs to help them make better informed choices
- iv) Information on ULBs' loan repayment capabilities has been relatively limited. The ongoing improvements in ULB accounting practices, which will be consolidated and extended under the project, will make their financial statements more transparent and enhance their creditworthiness. The debt monitoring cell to be established will be responsible for consolidating this information on a consistent basis.
- v) In the past there have been long delays in obtaining technical approval for ULB subprojects from the overseeing state agency. This was due partly to lack of qualified and experienced staff in the state agency, but also due to lack of

ownership by the state agency. To resolve this issue, the state agency's human resources have been strengthened and a closer working relationship established between TNUDF and the state agency.

- vii) In the case of road sub-projects, where multiple jurisdictions are involved, the use of a nodal agency would facilitate the implementation of these sub-projects by streamlining implementation issues.
- vii) One of the most important lessons learnt from TNUDP II is the need for more flexible interest rate guidelines. TNUDF was caught in a downward interest rate market with lagged benchmarks and fixed margins which made its on-lending rates uncompetitive. New, more market responsive benchmarks have been designed under TNUDP III..
- viii) Achievement of long-term sustainability is the key for TNUDF to achieve its stated objectives and have a greater impact on linking ULBs to the capital markets for infrastructure investment needs.

**E) Appraisal Mechanism:** The following are the norms followed while doing the appraisal.

- a) The project should be technically feasible, financially viable, environment friendly, socially acceptable and economically sound. The norms prescribed are:
  - Average ratio of total expenditure / total revenue (tax and regular non-tax revenue) < 1.
  - Debt service (Interest + repayment of principal) / total revenue < 30% on an average for ULBs
  - Debt service (Interest + repayment of principal) / total revenue < 50% on an average for statutory boards and State Public Sector Undertakings.
- b) In case where the ULB or Statutory Body fails to meet (ii) or (iii) as the case may be, but the financial rate of return exceeds the lending rate plus 2%, then



TNUDF will require the borrowers to put in place special recovery and credit enhancing mechanism such as escrow account arrangement, hypothecation and the bank guarantee.

- c) In the case of private sector borrowers, the following norms would be applied:
  - q debt / equity ratio < 2: 1
  - q asset coverage (net fixed asset / total debts)> I
  - q Debt Service Coverage Ratio >1.5
- d) The Project should comply with the environmental resettlement and social standards set forth in the TNUDF's Environmental and Social Framework (ESF).
- e) The Economic Rate of Return of the projects is at least 12%

**F) Innovative Mechanisms of Financial Leveraging and Resource Mobilization:**

- i) Public Private Partnership: Alandur is a town adjacent to Chennai City, in which TNUDF assisted in promoting an underground sewerage project under public private partnership. The project cost was INR 340 million and the user charges have been fixed at INR 150 per month per household. The users participated in the project by way of upfront deposit. Further the Sewerage Treatment Plant (STP) was installed with Private Participation on BOT basis, by which the private agency constructs maintains and operates the STP on annual chargeable basis. Due to this the loan component has been reduced and thereby interest commitment has also been reduced. The users' participation by way of deposit and sewerage treatment plant on BOT basis helped the municipality to reduce the user charges to INR 75 per month per household instead of INR 150 as originally envisaged. Now the project is named as "Alandur Model" and it is being replicated in other cities in Tamil Nadu.

- ii) Linking the ULB to capital market: Madurai Inner Ring Road is the first toll road developed by a ULB in India. The road is a 27 Kms two-lane road with two RoBs and one high level bridge. The project cost is INR 460 Million. TNUDF provided loan assistance of INR.334 Million at an interest rate of 15.5% for execution of the project. Based on the toll collection efficiency TNUDF facilitated the municipality to access the capital market by floating bonds of INR 290 million at an interest rate of 12.50%. The amount has been used to swap the existing borrowings with TNUDF. By assisting the ULB to access market borrowings, there was a cost saving of about 3%.
  
- iii) Private Participation on BOT basis: A bridge across the river Amaravathi is the first Municipal BoT (Build Operate and Transfer) project in India by a ULB. The project is a 600 meters bridge at Karur and the project cost is INR 160 million. In the project, the private participant was allowed to build a bridge, collect the toll during the concession period and hand over the bridge to the municipality after the completion of the concession period. By this the municipality has created a service facility without any financial outgo from the municipality.
  
- iv) Pooled Bond: A separate vehicle was created as trust in the year 2002 in the name of Water and Sanitation Pooled Fund to promote the “Municipal pooled bond” in the State of Tamil Nadu. The first pooled bond in the country was floated in the year 2002 by combining 13 ULBs in a size of INR 304 million at an interest rate of 9.20%. The tenure is 15 years with equal annual repayment. The funds mobilized by issue of bonds were utilized to swap the high cost borrowings taken earlier at an interest of 16% by the assisted ULBs. The following are the credit enhancement mechanisms adopted:
  - a) Escrow of property tax and other collections
  - b) Creation of Bond Service Fund equivalent to one annuity
  - c) USAID guarantee to the extent of 50% of the principal amount

- d) Intercept of State devolved transfers to the ULBs, in the case of failure on the part of ULBs to remit the dues

**G) Efforts at Improving Repayment Capacity of ULBs, including Fiscal Discipline:**

- i) As a first step to bring the financial discipline in the ULBs, all the ULBs in the State of Tamil Nadu have been mandated to follow the accrual based double-entry system of accounting. Tamil Nadu is the first state to introduce the double-entry system of accounting in ULBs.
- ii) TNUDF is analyzing the financials of each and every ULB and depending upon the ground realities, expert advice will be given from time to time to improve the revenue generation and cost reduction measures like energy efficiency measures, privatization of O&M and outsourcing.
- iii) TNUDF is preparing the City Corporate Plan cum Business Plan for 46 towns to identify the infrastructure requirements of the towns and suggest ways and means of improving the service delivery and finances, with the overall objective of providing sustainable infrastructure development.
- iv) TNUDF is proposing a study on Integrated Solid Waste Management in select towns to suggest the best possible ways of improving the Solid Waste Management, including segregation, collection, transportation, treatment and disposal of waste which will help improve the environmental conditions. It is also proposed to simultaneously develop a statewide strategy for Integrated Solid Waste Management.
- v) TNUDF is proposing to implement energy efficiency measures in water pumping and street lighting in 45 towns to help municipalities save energy and minimize the expenditure on energy consumption using innovative financing options.

**H) Measures for enhancement:** The State and Central government should provide clear policy initiatives and strategy to promote municipal infrastructure. The Government should act as a catalyst to approach the international funding agencies for financial assistance. A separate vehicle should be created to develop projects, seek funds from capital markets, project and financial structuring management of funds, monitoring the implementation, timely repayment and reporting system.

## 5.8 Practices in Accountability of Local Bodies

### Practice 1: Public Record of Operations and Finance (PROOF) (Bangalore Municipal Corporation, Karnataka)

**A) Project objective:** To bring transparency and accountability in ULB's working and to involve citizens in enhancing quality of services by providing timely and accurate information about financial and operational performance of its various services.

**B) Pre-implementation situation**

- i) Information on financial and operational performance of ULB was not available for public knowledge. Hence Citizens were not able to participate in service delivery quality enhancement process
- ii) Lack of such disclosure tend to breed complacency in ULB
- iii) Existing data management did not assure accuracy and there was low confidence level to share the information with the public.

**C) Project planning and implementation**

- i) In year 2001 PROOF (Public Record of operations and Finance) took initiative for promoting disclosures by Bangalore Municipal Palike (BMP) in areas of: Financial Statements, Performance Indicators and Management Discussion & Analysis. PROOF believed that such disclosure will lead to better public information, meaningful interaction with BMC authorities thereby leading to improved and efficient services.
- ii) Following Partners of PROOF work extensively to coordinate various activities through out the process:
  - a) Janagrah : Mobilization of Citizens to participate in the campaign
  - b) VOICES: Implement community communication strategy through electronic and print media
  - c) Akshara Foundation: Design and implement performance measurement system for BMP's primary schools

- d) Center for Budget & Policy Issues: Involved in analysis of Financial Statement with help of qualified volunteers
- iii) Disclosures involved following areas:
- a) Financial performance
    - Revenue & Expenditure compared to original Budgetary figures
    - Indicative Balance sheet with detailed information about current and long term assets,
    - Short term and long term liabilities.
  - b) Operational performance indicators based on
    - Inputs
    - Outputs
    - Efficiency Indicators
    - Explanatory Notes
    - Management Discussion & Analysis
- iv) After release of quarterly statements by BMP, partner NGOs take up the task of review and analysis with citizen groups in a well organized and structured half-day workshops. On average 20 representatives attend such meeting. On a pre-announced date BMP officials present the information before the general public. The financial reports which started with very basic data has become more rigorous and the public participants have moved from individual grievances to deeper questions of performance and strategic decision-making (latest public disclosure format to be obtained and reproduced)
- v) “**Proof of the Poor**” focused on issues relating to slums and poor was initiated into the campaign along with the participation of the Slum board, Water supply board etc.
- vi) Expert individuals and agencies were brought into the campaign to bring in objective inputs to the design, analysis and dissemination of the financial information being provided by the BMP. CRISIL has assisted in the trend

analysis of the BMP and provided critical views and suggestions for improvement of the financial management of the BMP

vii) Continuous monitoring of earlier feedback and its application in every subsequent quarterly discussion has been integrated. The media has been a supporting force in enabling public dissemination of the idea, activities and citizen feedback on PROOF

#### **D) Post project impact**

- i) Based on experiences of PROOF over last two years, the local fund fiscal responsibility Act 2003 was passed by the government of Karnataka
- ii) Comptroller and Auditor General (CAG) of India is preparing a note on Disclosure , which is based on PROOF
- iii) World Bank Suggested PROOF as a concept, which should be extended to the state Governments
- iv) General Accounting Standards Board has hailed the PROOF campaign and extended all assistance to project

**E) Impact on Financial Management:** Disclosures of Financial performance led the civic staff examine deeper into the financial aspect of civic services. Performance indicators, which are being steadily added and improvised, are expected to generate critical evaluation of cost benefit analysis of each and every civic service. Interactions of citizens and civic authorities will lead to efficient and effective allocation of resources, removal of revenue leakages and cleaner administration. Performance indicators will bring sharp focus on loopholes in services quality and costs. Management discussions and analysis: This helps ULB administrators in communicating the citizens about their constraints and limitations thus creating an atmosphere of trust .

**F) Replication:** This practice can be easily implemented provided there are some citizens groups willing to initiate the action and build up sufficient awareness. Such efforts do not have any legislative support. Hence it is absolutely necessary that the top

executives and political parties are willing to participate / support such practice. The extent, frequency and areas of disclosures can start in a modest scale. These can expand as the meetings between citizens and ULB officials keep on progressing and both sides realize the benefits. Formats and quality of information, which is tried and tested in one city, can be easily used in other ULBs after need-based modifications. No fresh experimenting is necessary. A major precondition for replication is that a minimum level of IT applications in the accounting and data management systems must have been sufficiently stabilized.

**G) Sustainability:** It will be little optimistic to expect that such initiative will sustain for a long period without very persuasive and hard efforts on the part of Citizens groups. It is also necessary that top executives and local representatives are committed to make such practice successful. Hence a suitable legislative support is very necessary. Jannagraha, one of the partners in PROOF has drafted a model Public Disclosure Law. Such law needs early implementation in all states. Further, it is also required that all the expenses incidental to the efforts of NGOs efforts for scrutiny of performance, public meetings, advertisements for meetings etc should be adequately compensated by ULBs. CRISIL was engaged with PROOF to undertake an analysis of the financial statements and trends in the BMP. Participation of a professional experts can make the discussions more meaningful and effective. This is absolutely necessary.

**H) Limitation:** The practice will survive so long as the citizens group, top executives of the ULBs and citizens elected representatives are committed to continue. The practice may take a longer time to stabilize. It requires change in mindsets of the aforesaid parties / stakeholders. A very matured leadership is required from each of the constituents so that broader issues are not lost in differences over modalities and partisan issues. Party politics should be strictly kept aside so as not to vitiate the process.



**I) Monitoring and evaluation System:** The quarterly financial and operational results themselves serve as effective monitoring and evaluation system for this practice. As mentioned earlier the efficacy of the practice depends upon the effective use of IT applications in data management and accrual base accounting system. All activities and data gathered by PROOF is available online for public access. [<http://janaagraha.org/node/1304>]

**J) Enhancing the quality of best practice:** Financial and performance disclosures can be integrated with accounting and operational data. The performance parameters can be produced ward-wise so as to constitute a report card of the member elected from the ward. The most unfortunate part of the current democratic process is that there is no mechanism available for objective assessment of performance of the elected member. Eventually the electorate has no means to find out whether the elected member of the ULB has contributed for the betterment of the services tangibly. Ward-wise performance and analysis thereof will enable the elected representatives to focus on the desired results and enable the electorate to decide whether the member should be continued or not.

**H) How far adopted by other ULBs:** This is now a mandatory reform under the Jawaharlal Nehru National Urban Renewal [JNNURM] mission. JNNURM insist that ‘Public Disclosure law’ and ‘community participation law’ is required to be enacted. States like Andhra Pradesh, Assam, Tripura, Gujarat and Maharashtra have already enacted the Public Disclosure Law. Many cities have shown interest in implementing the practice.

**Practice 2: 24-Hour Control Rooms for Public Grievance Redressal  
(Hubli-Dharwad Municipal Corporation, Karnataka)**

- A) **Project objective:** To provide efficient service to citizens and to bring transparency and accountability in the functioning of ULB.
- B) **Project brief:** Hubli-Dharwad Municipal Corporation has started a 24-Hours Control Room on 21st June, 2004 to attend the public grievances. Corporation attends to the public grievances like, road repairs, under ground drainage cleaning, maintenance of street-lights, removal of garbage and carcass of stray dogs / pigs.
- C) **Pre project situation:** Hitherto, there was no system to record complaints logged by citizens, pertaining to health & civic amenities. Most of the time the officers concerned was not available on telephone and there was no system of maintaining the register to record the complaints. As a result it used to take days together for attending the complaints after pressure from the area councilors.
- D) **Project planning and implementation:** A full-fledged control room has been set up in the Corporation premises with 4 persons in each shift working round the clock. It is headed by an officer who regularly monitors the nature of complaints and takes necessary steps to address them. The control room is equipped with a computer along with Internet connection, 2 walkie-talkie receiving sets and 2 telephones. All complaints received from the public of Hubli Dharwad twin cities are entered along with date and time and immediately informed to the officers concerned for further course of action. As many as 165 walkie-talkie handsets are provided to officers of all levels and they have to keep it on for 24 hours. Once the complaint is attended they need to inform the control room to enter it in the register. Sometimes, the Commissioner himself calls the complainant to ascertain to a particular staff member is attended or not. The Commissioner checks every day a printout of all the complaints received is maintained in the file and that. The complaints registers filed for further reference.

- Ø Total cost invested in control room is around Rs 15 lakhs
- Ø Sum of RS 5 lakhs was sponsored by KUIDC and the remaining Rs 10 lakhs from corporation funds
- Ø 2.5 lakhs was spent on the software's like Microsoft access and visual basic

**E) Post project impact:** The control room receives around 40-50 complaints from Hubli City & 20-30 from Dharwad City every day. This has helped in creating an impression among the tax-payers that the Corporation is there to attend to their grievances. The influence of the elected representatives or officers is not required as the complaints are automatically passed to the officers concerned over the walkie-talkie and attended immediately. There are two methods to lodge complaint in HDMC:

- i) Dial 1913
- ii) Online registration through [www.hdmc.gov.in](http://www.hdmc.gov.in)
- iv) HELPLINE staff will listen to grievance carefully and asks the details like complaint location, complainant name, telephone number, email address and HELPLINE staff will give you a complaint number
- v) Status of the complaint can be checked online
- vi) Complaint reports can be viewed online

**F) Problems faced:** The major problem faced in establishing the control room was bringing in familiarity to the staff about this new concept. The system was streamlined by making the related department heads accountable. There were little indifferences in the beginning between the elected representatives. There was no proper network of the walkie-talkies initial because lack of antenna.

**G) ULB staff motivation and Citizens involvement:** Plans are afoot to give incentives to those officers who attend the work in shortest period. This will naturally motivate them to do more work. An amount to the tune of Rs. 68,000 per year will be given to the top three performers who attend to the citizen's complaints. The top three

performers will be recognized every month and once in six months and once in a year.

- H) Monitoring and Evaluation System:** It was realized over a period of time that continuous monitoring is required for the function of the effective control room, for which the head of departments (HOD) of IT departments is held responsible. Every Wednesday there is board of meeting compromised of all the HoDs, elected representatives and commissioner
- I) Sustainability:** The system is sustainable as it provides easy accessibility to the corporation and the data maintenance happens by the click of a button.
- J) Possibility of replication** The idea can be modified a per the need of citizens at any ULB. Each ULB can have a control room as they provide citizen services round the clock. As all ULB shall manpower in order to deploy effectively and they are alert all the time. The wireless system is basic necessity for a control room. With such a facility, the efficiency of an ULB increases multifold. To start with, ULBs can focus on essential services.

## 5.9 Practices in *in-situ* Slum Development

### Practice 1: Slum Networking for Improved Slum Infrastructure and Services (Ahmedabad Municipal Corporation, Gujarat)

**A) Project overview:** Project planned in 2005 and implemented in the same year. AMC provides the basic infrastructure like toilets, street lighting, drainage, sewerage and health facilities with the partnership of NGO's, private players like The Arvind Mills Ltd. and the slum dwellers. NGO's like SAATH, SEWA and Mahila Housing Trust played an important role. The estimated cost of the project is Rs.350 crore. The slums families compulsorily needs to contribute Rs. 2000 towards physical development. The amount for NGO and private player is respectively Rs. 300 and Rs. 2000. This is the first demand based innovative project initiated in India by AMC where the slums residents decide their priorities and AMC works on their decisions regarding providing basic amenities. The efficient use of slum contribution is ensured by the CBO's and the SEWA bank. This project is sustainable as community members and NGO's are taking active part in every stage of infrastructure development. SEWA bank provides the slum dwellers with loan to meet their contributions at a very negligible interest rate. Till date 47 slums have successfully implemented it and many slums are in the process of replicating this strategy. This is the 1<sup>st</sup> project carried out in India where slums have contributed more than Rs. 1.36 crore as their contribution and this provides them with a sense of ownership in the project.

#### **B) Project Objective:**

- i) The project is aimed at providing the basic infrastructure requirements like water, sanitation, sewerage, drainage and primary health services to substantially improve the amenities in the slum areas where it is partially or absolutely lacking.
- ii) To integrate the slums into the main stream of the city by upgrading them with an active partnership of the slum dwellers, industrial houses, NGO's and AMC.

**C) Project Brief:** The Ahmadabad Municipal corporation has adopted the slum Networking approach (SNP) project named “PARIVARTAN” in the city for providing the basic infrastructure like water supply, drainage, sewerage and health facility in the slum area with the partnership of NGOs, private players like **The Arvind Mills Ltd., Lions Club, State Bank Of India Employees Association and Sanatan Trust** and slum dwellers. In this project along with Municipal Corporation, the local NGOs and slum dwellers themselves have contributed their efforts and resources for the successful implementation.

- i) This project will be implemented only to those slums where the slum dwellers unanimously agree to contribute towards the physical development charges of Rs.2000
- ii) The slum dwellers are given the assurance that they would not be removed at least for a period of ten years from the existing location
- iii) NGO’s like SEWA and SAATH assist the community in the formation of neighborhood communities/associations, motivate the slum dwellers to participate in the project as partner, mobilize financial resources within the community and facilitate access to assistance from the micro finance institutions through NGO’s and initiate health, education and income generation activities like AANGANWADI and BALWADI within the community.

#### Financial contribution of Project Partners

Components	Contribution per household in slum	NGO	Industry	AMC	Total
Physical development	2000		2000	2000	6000
Community development		300		700	1000
External linkage with city infrastructure				3000	3000
Individual toilet cost				5800	5800
Community corpus	100*				100
<b>Total</b>	<b>2100</b>	<b>300</b>	<b>2000</b>	<b>11500</b>	<b>15800</b>

iv) AMC also runs urban community development programs in the places where NGO's cannot reach.

**C) Pre Project situation:** In the city, more than 20 % of the population comprising of 1,75,754 families lived in (slum) conditions in around 710 slum areas. These were a complete or partial absence of basic infrastructure like water supply, drainage, roads, toilets and street lights etc. in all the slums. It was very critical condition for the slum dwellers to live in such a over polluted and congested place that also lead to some other serious social issues like Basic minimum education, insufficient skill, low incomes and very poor standard of living.

**D) Project planning and implementation:** The project was planned in the year 2005 and the implementation started in the same year.

- i) The project was planned in the year 2005 and the implementation started in the same year
- ii) The amount of Rs.2000 which was taken from the slum families for the physical development includes individual water supply, underground sewerage, individual toilets & pay use facilities, solid waste disposal service, storm water drains, street lighting and plantation
- iii) AMC worked on community development by:
  - ✚ Setting up neighborhood groups, women's groups and youth groups with the help of NGO's
  - ✚ Mobilizing community savings for undertaking physical works by way of micro finance through SEWA banks.
  - ✚ Educational activities for children and illiterate adults
  - ✚ Community health education and other interventions by providing vocational training, job accesses to the unemployed persons
  - ✚ Developing linkages for formal sector finance to help people start small business and trades

- iv) The total project cost is estimated at Rs.350 Crores spread over a period of 5 – 7 years. If the contributor from the private sector is not available, all the cost is to be borne by AMC
- v) A pilot project was implemented in 2 areas covering 2700 families where The Arvind Mills was the private partner ( for the purpose of CSR) and SAATH ( An NGO) actively involved for community development
- vi) This is the 1<sup>st</sup> project having a demand driven concept in India where the slum dwellers, the industry, the NGO and the AMC are working in partnership
- vii) The phases of implementation involves: identifying the primary demands of the slum dwellers, going for a survey for the same, getting clearance from the town planning, inviting the tender for the construction of infrastructure and then carrying on with the work.

**E) Post project impact:** The project has resulted in up-gradation of the basic infrastructure and services in the city slums. The improvement is visible in the areas such as access-mobility, provision of safe drinking water, waste management, sanitation, etc., in nearly 41 slums in the city. The project has also addressed some of the social and qualitative issues of the slums. It has brought betterment in the scenario of the basic amenities, effective use of space, cleanliness, etc. The change is also visible in the qualitative indicators such as the attitudinal change amongst slum dwellers, health and hygiene conditions, education levels, social empowerment of slum communities, etc.

**F) ULB staff motivation / citizens' involvement:** The ULB staff has put in huge amount of efforts in coordinating with other stakeholders during the implementation of project. They have also encouraged all the participants to maintain the continuity of the project and its extension to other slum areas. The citizens and communities have also extended their support to the project and cooperated throughout the implementation and post implementation.



**G) How it leads to better financial management:** The innovative approach has substantially reduced the financial burden on the Municipal Corporation as the other stakeholders also have contributed financially. It has facilitated effective pooling of financial resources from various sources and their utilization collectively by the project partners.

#### **H) Monitoring & Evaluation**

- i) Monthly monitoring meeting: AMC and NGO partners hold monthly meetings to review the progress of the work. It also facilitates all partners and communities to share their views and perceptions.
- viii) Joint Planning: The plans and layouts of the design prepared by AMC and it is shared with the partners and necessary Amendments also made. In this way all the work is also evaluated for the project.
- ix) Interaction with Public: The post-lunch office hours are allocated for open interaction of AMC officials with the public, communities and NGO partners to discuss the project strategies.

#### **I) Lessons learnt:**

- i) The partnership between various stakeholder such as the Municipal Corporation, NGOs, CBOs, slum community and private agencies works effectively for the slum improvement
- ii) The strategy of networking and alliance-building works effectively for creating such partnerships
- iv) The slum dwellers need to be given the status of partners and not mere beneficiaries
- v) In-situ approach to slum improvement works better as the slum community feels a sense of ownership of the initiative
- vi) Attitudinal change brought by this process among the various stakeholders is very crucial for the sustainability of the initiative.

- J) Sustainability:** The slum networking approach (SNP) has been adequately internalized in the ULB system and its officials and staff have actively participated in the project throughout its implementation. The initiative is extending over to the other slums in the city in spite of periodic change in the administration / leadership in the ULB. The involvement of NGOs, communities and private agencies has also ensured that the initiative keeps rolling. The key elements of sustainability of the project are -
- i) Long term commitment of the slum dwellers partnering in the project
  - ii) Formation of a separate cell in AMC for the implementation of project
  - iii) Establishment of neighborhood groups, which work under the NGOs
  - iv) Introduction of demand based programmes and activities
- K) Social justice:** From the social justice point of view, the initiative has brought a positive change in the human development scenario of the slum dwellers who represent the disadvantages sections of the society. It has given the marginalized sections an access to better standards of living, education and health that is primary requirement for the development of a better society.
- L) Replication:** Adoption, extension and replication of the Parivartan model is in process in 6 municipal corporations and 20 towns in the State of Gujarat. The Vadodara Municipal Corporation has also adopted the same concept to improve the slum areas in the city. The NGO partners in the project and other representatives have been advocating this networking approach to the to the State Government for its inclusion in the State's slum development policy so that the initiative can be further enhanced and implemented in other cities.

**Practice 2: Slum Improvement through Partnership with Community and NGO  
ASHA (NGO) and Delhi Municipal Corporation, Delhi**

**A) Project objective:** To establish self-reliant, healthy communities through partnership between the slum residents themselves, to provide holistic community based health care, environmental improvement and empowerment through educating, sourcing and encouraging the community to receive and enjoy their basic human rights.

**B) Pre project situation:**

- i) About 4 million people, i.e. approx. 30% of population, live in chronically overcrowded colonies, which lack even the most basic amenities.
- ii) Environmental disadvantages: Average slum dwelling, measuring 6 x 5 feet houses around 6 - 8 people. Slum dwellers are constantly exposed to stagnant water, open drains, floods, rubbish, and noise and air pollution. Access to clean, safe water is extremely limited. The narrow lanes separating slum dwellings allow fire and diseases to spread with terrifying speed.
- iii) Water and sanitation difficulties: It was estimated that one hand pump, if at all working, serves an average of 125 households (which would contain a minimum of 750 people). There is an average of one latrine for 25 households (around 125 people), with the result that 40% of people defecate outside in the fields or the drains.
- x) Health problems: Poor living conditions, lack of income and scarce education form the basis for serious health problems that would otherwise be preventable. Maternal health is poor, infant mortality is high, Tuberculosis, diarrhoea and respiratory tract infections are very common amongst children. Around 80% of children are malnourished and only 1 in 3 children are immunized against childhood diseases. The Child (under 5 age) mortality at 142 per 1000 births and birth rates at 40 per 1000 are amongst highest in world. 40% of children are severely malnourished
- xi) Social, cultural and economic disadvantages: Only 25% men and 10% women were able to read & write. Only 20% of children attend upto primary school,

even though it is provided free. Child labour is rampant. Slums have high percentages of unemployment and most households have an income of less than Rs 50 per day. .

- xii) Effects of displacement, disappointment and stress result in high levels of violence and alcohol or drug abuse.

### **C) Project planning and implementation:**

- i) ASHA, a voluntary organization registered as public charitable trust approached the problem differently. In their initiative, people in the slums set their own agendas and there is a wide range of programs and activities relating to their needs. The model aims to establish self-reliant, healthy communities through partnership between the slum residents. ASHA found that in the conventional approach the government agencies and NGOs do not consult slum communities, interventions are limited, not supported by education and other issues
- ii) Over the last 18 years, ASHA has developed a unique model that has transformed entire slum colonies in Delhi. The living conditions in the slums in which ASHA works are still poor. The houses are still around 6 x 8 feet, still accommodate around 7 people and lack nearly all the amenities, which an urbanite enjoys. However, the dwellings are clean, the lanes between them are swept and drains are kept clear. The occupants are clearly proud of their homes and happy for visitors to enter and look around. Some of the women hold healthy, bright-eyed babies and all know immediately where to find the yellow cards on which their children's weight, growth and vaccination details are recorded. The women are brimming with confidence and realize that, as a group, they have the ability to persuade important people listen to their needs and concerns, and to get results.
- iii) ASHA's approach : The deprivation and hardship of slum conditions often cause people to feel helpless. This leads to apathy and acceptance of the situation, and people can become trapped in a downward spiral of poverty and despair. ASHA has devised a solution that covers healthcare, community

involvement and empowerment, and environmental improvements. Combined, these initiatives give people living in slum colonies the confidence and the means to make positive changes that last.

**D) Impact on Financial Management:** Without such voluntary organizations ULB's will be required to spend huge amounts for cleanliness and sanitation. Slum-dweller involvement has made the improvements quicker and sustainable. Improvement which come from within the beneficiaries are likely to last longer.

**E) Replication:**

- i) Slums in all cities have the same characteristics, same problems and same set of people. Hence the process and activities can be easily implemented provided there are some citizens groups willing to initiate the action and build up sufficient awareness or just join or create such groups
- ii) Asha has more than 60 branches around the world. [<http://www.asha-india.org/AboutAsha/index.aspx>]
- iii) ASHA is working in India since 1996.

**F) Sustainability:**

- i) ASHA has been working in slum empowerment, education to downtrodden and other fields also. It mostly works on donations and volunteers' efforts. It has been in existence for more than a decade in Delhi
- ii) ASHA works on the principle that slum-dwellers themselves need awakening. Improvement thrust on them may not last longer. This is an important learning for all those are concerned with slum development
- iii) The donations play a substantial part in sustaining this activity. NGOs in all cities may not be able to generate the donations in large volumes. However, the main ingredient for success in such initiatives is contribution from dedicated NGOs. ULBs / State and central Govt. need to make concerted efforts to support and encourage such NGOs and implement the schemes with their involvement.

### **G) Limitations**

- i) ASHA works on the backdrop of a particular religious faith (as reported on their website) and works on support from donations from around the world. As such not all ULBs can have this kind of voluntary organization working for slum development
- ii) Affinity of NGOs to particular religion may not work productive
- iii) However ASHA's model can be studied and deployed at slums in any of the city provided ULBs are able to back efforts of volunteers by allocating funds. The practice will survive so long as the citizens group, top executives of the ULBs and citizens elected representatives are committed to continue
- iv) This work may take good time to produce visible results. Sufficient time span is required to be given to this initiative.

**I) Monitoring and Evaluation System:** This practice involves good amount of patience and efforts. Monitoring and evaluation with a predetermined time frames may not be very appropriate. However still a qualitative assessment about education health, living conditions can be evaluated with periodic visits and surveys.

### **J) Enhancing the quality / implementability of best practice**

- i) ASHA's experiments can be studied in depth. There are many NGOs and voluntary groups who work in the area of slum empowerment. ASHA success can be documented and improved in a detailed manner and showcased.
- iv) State Govt. can create a wider network of ASHA-like organizations. Donors and volunteers can be suitably supported / compensated / acknowledged / rewarded by canalizing additional funds at disposal of ULBs. Donors can be provided concession in municipal taxes. NGOs can be provided office and other infrastructure and be compensated by sharing their administrative expenses etc.
- iii) Sufficient publicity of success stories can invite good amount of interest from voluntary organizations and donors.

**K) How far adopted by other ULBs:** Many NGOs at local level could be contributing a lot. However, ASHA operating through a wider network could be a unique experiment.

## 6. Observations & Recommendations

### 6.1 Observations Regarding the Finances of ULBs

- i) It is observed that on the whole the ULBs are under-financed in terms of both their own revenues and the grants from States. The mismatch between funds and functions becomes glaring when one looks at the range of responsibilities assigned to ULBs under the 12<sup>th</sup> Schedule to the Constitution.
- ii) The own revenues of ULBs are limited by the following factors :
  - a) Many ULBs are not aware of the opportunities and avenues of generating revenues through levying taxes and non-tax charges.
  - b) Even where ULBs are aware of such opportunities, the data systems required for optimizing the tax and non-tax revenue such as the listing of properties, water connections, rentable assets, etc., are not available with most ULBs. Adherence to manual systems of documentation and a lack of use of the modern Information Technology has severely hampered the revenue potentials of ULBs.
  - c) Even where the own revenue generation of ULBs is impressive, its effective use for local planning and development is hampered by the fact that in many States the revenue sharing between the States and ULBs is not clear and hence the local revenue cannot be effectively recycled into the local development activities.
  - d) Further, most ULBs are yet to switch to the double entry accrual based accounting and they also lack good systems of finance statistics, which prevents them from consolidating their revenue and using it for local development.



- e) Lastly, most ULBs, especially the smaller councils, cannot demonstrate the credit-worthy-ness necessary for raising loans from the market. Instruments like public bonds cannot work effectively in small cities and towns unless ULBs are given a helping hand in designing such bonds innovatively. Alternatively, States needs to help the neighboring ULBs float the suitable bonds collectively.
- With the launch of JNNURM, many ULBs appear to be plush with funds. However, this programme has left out more cities and towns, especially the smaller ones, than it has included. As a result, urban development funding seems to have a bias towards the larger cities and metros whereas the smaller municipal councils, which are perhaps worst off in their financial capacities, are left without assistance.
  - Also, the State / Central grants are strongly tied to predetermined schemes, programmes or services, which do not necessarily fit into the local priorities of ULBs. This results in underutilization of funds on the one hand and underdevelopment of municipal areas on the other.
  - Due to the lack of synchronization of the tenures of the previous State and Central Finance Commissions, the norms used for devolution to ULBs are not based on rigorous data. Therefore, it is not clear if such grants have really helped ULBs in overcoming their financial constraints.

## **6.2 Observations Regarding the Best Practices of ULBs**

- i) The good practices and innovative initiatives of ULBs are mainly concentrated in larger cities, where the Municipal Corporations have greater revenue base and better access to technology and specialized services. Very few among the smaller municipal councils have attempted path-breaking

strategies of city management as they still struggle with basic issues of their existence.

- ii) The distribution of good practices also shows sharp regional imbalances. While numerous practices have been reported from the south and north-west regions of India, there are fewer ones known in the central and north-east regions. It can be presumed, therefore, that ULB initiatives are in some way linked to the environment of reforms in their parent States. The States need to encourage, support and incentivize the ULB reforms.
  
- iii) A majority of best practices seem to be concentrated in the areas of resource mobilization and public-private-partnership for creating urban infrastructure and services like urban transport. Creation of urban infrastructure is undoubtedly an important area of ULB functioning but it is a worrying trend that fewer initiatives are seen in the areas of basic human development such as health, nutrition, school education, etc. In any model of PPP or BOT there has to be a strong incentive to the private player and the cost of the incentive has to be ultimately borne by the citizen in the form of user charges. User charges are usually fixed in view of the project costs and investments and can adversely burden the ordinary citizen. The projects for up-gradation of roads executed through the public-private partnership resulting in permanent imposition of heavy toll are a good example of the problems associated with PPP and BOT. Therefore, the enthusiasm of entering into PPP or BOT arrangements needs to be carefully balanced with the considerations of social justice.
  
- iv) Most ULB initiatives / good practices are found to be very fragmented and segmental in nature. They focus on just one or two areas of the larger functional domain of ULBs. The innovation or reform in one particular function does not get reflected in the other functions even within the same

ULB. As an example, efforts of reform in the process of property tax collection may have no impact on the similar processes involved in the collection of other municipal taxes in the same ULB. In other words, the reforms or innovations are mostly ad-hoc and hence do not bring a fundamental change to the ULB system. A more serious, systematic and integrated effort of ULB reforms is thus the need of the hour.

- v) Related to this is the problem of a very small degree of institutionalization of best practices into the ULB systems. Most practices seem to have emerged out of the leadership provided by particular individuals or the political climate prevailing at that time. Therefore, very few initiatives have been able to maintain a consistent profile over long periods of time.
- vi) A large number of good practices are being driven by the urban / metropolitan development authorities and other public sector agencies operating in the urban areas. Though these are not the ULBs' own initiatives, there is a growing trend of partnership between ULBs and such agencies, which has its own advantages. ULBs, especially the smaller municipal councils, can draw technical resources from such partnership, which they probably cannot mobilize on their own. Such partnerships can also bring in some uniformity in the ULBs' efforts to reform their systems. It may also facilitate a certain degree of external monitoring, which may be totally absent in case of pure ULB initiatives.

### **6.3 Recommendations for Strengthening the Finances of ULBs**

- i) The States and SFCs, as provided in the Constitution, should realistically assess the revenue needs of ULBs on the one hand and their revenue base on the other and then suitably empower them to levy various kinds of taxes and user charges.

- ii) Merely listing down the taxes and user charges to be levied by ULBs does not empower them to actually generate revenues effectively. Some of the best practices in ULB resource mobilization clearly indicate that automation of tax fixation / collection procedures and the use of Geographical Information System (GIS) for expanding the tax net in case of property tax, water tax, etc., have a significant impact on the ULB's revenue augmentation. Therefore, the State Governments need to take proactive measures to enable the ULBs to adopt the process reforms necessary for revenue augmentation. Instead of individual ULBs struggling to devise technical solutions to the process bottlenecks, the States can evolve certain standard solutions and help ULBs in adopting those.
- iii) The States also need to monitor on priority the expected accounting reforms in ULBs to enable them to keep a track of their revenues, expenditures, assets, liabilities, etc., so that the ULB revenues and grants can be utilized more meaningfully for the local development. The States may consider the possibility of evolving a portal for ULB finance statistics on the lines of the Treasury database in some States. The possibility of linking the ULB finance database to the Treasury database may also be considered since the transfer of funds to ULBs essentially happens through the State Treasuries.
- iv) While apportioning the State revenues to ULBs, the States and SFCs should assess the actual rate of growth of urban areas / populations and also the actual pattern of sharing of public sector functions between the States and ULBs. It appears that ULBs have to tackle ever-growing quantum of public services / functions on account of rapid urbanization but the norms of devolution are not sensitive to this reality.
- v) The Central and State grants to ULBs may be released in a more untied fashion so as to allow greater involvement of ULBs and citizens in the local planning and programming of development activities. The States may

consider the possibility of constituting a ‘State Urban Development Fund’ as the consolidated kitty for ULB funding. The minimum necessary funds for the establishment matters and basic services of ULBs may be released in advance and then each ULB may be asked to formulate specific projects against which the actual disbursement could be made. This would allow better prioritization of allocation of the available funds and also, the items of expenditure would be closer to the felt needs of ULBs and citizens. In other words, there is a need to break the frame of rigidly predetermined schemes and to introduce more flexible and demand driven planning of ULB activities.

- vi) On similar lines, the States may also consider the establishment of a ‘State Urban Development Finance Corporation’ as the one-stop facility for credit and lending to ULBs. The Corporation can help ULBs, especially smaller councils with inadequate technical resources, to formulate bankable proposals for loan thereby also helping them in streamlining their business design.

#### **6.4 Recommendations for Enhancing Best Practices of ULBs**

- i) The States need to consider the possibility of establishing ULB Reform Cells, which would track, monitor and actively support the reform initiatives of ULBs. The Cell may consist of experts in all basic functional domains of ULBs including the urban finance. The Cell should continuously monitor the existing and new initiatives of ULBs. In case of new initiatives, the Cell should provide design inputs in such a way that the initiative does not run into trouble later on. Services of private experts, consultants may also be provided to ULBs for this purpose through the Cell. The smaller municipal councils will especially benefit from this arrangement as they are not in a position to hire the technical support on their own. On the whole, the Cell may perform the following functions:

- a) Identify good practices of ULBs and maintain a dynamic database of such practices;
  - b) Help the new practices in project design and project finance;
  - c) Track and monitor the existing practices and help them in project management;
  - d) Arrange expert intervention for troubleshooting / crisis management to save the practices from a collapse;
  - e) Document the practices and create a repository of knowledge on the best practices of ULBs;
  - f) Continuously disseminate the information on best practices through suitable media so as to encourage ULBs to take up similar initiatives;
  - g) Specially encourage good practices in the remote, backward, disadvantages areas of the State so as to strike regional balance in the ULB reform trends;
  - h) Work towards evolving the systems for grading / rating of practices so as to enhance the credit worth of ULBs and their projects;
- i. To help the State Government, SFCs and such other bodies in utilizing the wisdom of best practices for appropriate policy formulation.
- iii) On similar lines, a 'National Urban Reform Cell' may also be established to carry out similar functions at the national level. The National Cell can help the Central Finance Commission in taking appropriate views on the issues of fiscal devolution to ULBs.

## **6.5 Specific Recommendations to the 13<sup>th</sup> Finance Commission**

A steadily increasing number of ULBs are engaging in initiatives of public-private-partnership for resource mobilization, cost compression, infrastructure augmentation, better service delivery, etc. Most of these initiatives are market driven and therefore quite prone to rapid replication at least as long as they are

profitable to the partnering agencies. Over a period of time such initiatives will proliferate on their own without the State having to make conscious efforts for their propagation.

More fundamental reforms to the ULB financial management, however, still remain a rarity. Reforms in municipal accounting, municipal finance statistics and municipal fund transfers together form the foundation on which all other financial reforms of ULBs rest. These are the areas where market forces may not help ULBs much and a conscious intervention of the State may be necessary, at least in the beginnings. The Finance Commission, therefore, may focus its reform agenda for ULBs on the following three areas:

- Ensuring municipal accounting reforms;
- Creation of municipal finance statistics;
- Establishment of consolidated urban development fund at the State level.

From the experience and lessons of best practices, certain broad strategies for promoting these fundamental reforms are proposed in the following sections.

**i) Ensuring municipal accounting reforms:**

Adoption of double entry accrual accounting forms a precondition for meaningful reforms in other aspects of financial management of ULBs. Accounting reforms can be best achieved with the help of IT tools such as software applications and process automation tools. Therefore, accounting reforms cannot be entirely left to individual ULBs. Many ULBs, especially smaller ones, may not have the capacity to evolve such tools. Even if they develop the capacity, it can lead to too much of variation in the accounting systems of ULBs. Therefore, States need to play a major role in facilitating and ensuring uniform accounting reforms across ULBs. The broad steps could be as follows.

- a) On the lines of the initiative taken by the State of Karnataka, every State should prepare and publish a State Municipal Accounting Manual at the earliest making it mandatory for ULBs to make two basic reforms to their accounting:
  - The cash based accounting must be replaced by an accrual based system;
  - Manual accounting must be replaced by a computerized system.
  
- b) Once the Manual is finalized, each State should evolve a suitable software application for accrual accounting and make it freely available to ULBs. All ULBs should be brought to a minimum level of computerization and internet connectivity to facilitate automation of accounting processes. A special drive should be initiated for the training of concerned ULB officials in the software operations. Similarly, a standing arrangement should be made to tackle initial teething troubles till ULBs are able to internalize the software usage. The State Urban Development Department and the State Directorate of Municipal Administration should do the overall coordination of this initiative.
  
- c) If necessary, the Central Urban Development Ministry may acquire suitable software solutions from the States like Karnataka and Andhra Pradesh, which have pioneered the initiatives in municipal accounting reforms, and freely disseminate such applications among the other States. However, States will have to carefully customize such applications to suit the accounting procedures as specified in their respective Municipal Accounting Manuals.
  
- d) The Central Ministry may also announce deadlines for crucial steps to be taken by States for municipal accounting reforms such as finalization of the State Municipal Accounting Manual, development of a software application, basic computerization of ULBs, training of ULB staff in software operations, replacement of manual accounting by computerized system, etc.



- e) Once all steps have been taken by States to establish a computer-enabled accrual accounting system of ULBs then the regular use of such a system should form a precondition for release of funds and grants to ULBs including the funds under JNNURM, SJSRY and such other centrally sponsored programmes.
- f) The State Finance Commissions should also rigorously assess the extent of reforms in municipal accounting and should link it to the funding of ULBs.
- g) The Central Government, in turn, should make it conditional for States to provide evidence of significant reforms in municipal accounting in order to avail of the central funds and grants in the urban sector.
- h) States demonstrating excellent initiatives in municipal accounting reforms may be incentivized by the Centre through additional packets of funds under JNNURM or other suitable programmes. Similar incentives may be extended by States to individual ULBs demonstrating excellent adoption of computerized accrual accounting.

**ii) Creation of Municipal Finance Statistics:**

- a) As in case of municipal accounting reforms the establishment of municipal finance statistics also requires a strong intervention of States. In States like Karnataka, the accounting reforms have been very well integrated with municipal finance statistics. The Municipal Accounting Manual of Karnataka makes provision for creation of financial database of ULBs along with adoption of accrual accounting. Also, the software applications evolved by these States take care of both accrual accounting and the larger finance statistics. In fact, accrual accounting serves as a crucial tool for gradually building up the finance statistics of ULBs. Therefore, all the measures recommended for ensuring accounting reforms also apply to the task of

establishing finance statistics.

- b) In addition, the creation of good municipal finance statistics demands measures such as:
- Listing of all municipal properties and assets;
  - Use of additional IT and GIS tools for mapping, valuation and taxation of properties and for expanding the revenue net of ULBs in general;
  - Consolidation and integration of information on all types of revenues, expenditures, assets and liabilities;
  - Effective use of financial information for enhancing the credit rating of ULBs so that they can raise loans, bonds, etc.
  - Effective use of financial information for the processes of municipal budgeting and planning;
  - Public disclosure of financial information for grievance redressal, transparency and accountability.
- c) Almost all these aspects have been very well demonstrated by ULBs of the cities of Mumbai, Hyderabad, Bangalore, etc. Therefore, these models can be followed by other ULBs with the necessary customization.
- d) States should make it mandatory for the ULBs to provide complete finance statistics in their city development plans or other proposals for funding. This will enable the government to assess the financial management of ULBs more realistically and also to determine the feasibility of plans / proposals. If the presentation of complete finance statistics is made a precondition for approval of ULBs plans / proposals then it will create a strong incentive for ULBs to start maintaining sound financial database.
- e) Like accrual accounting, here also it will be useful if the Central and State Governments announce deadlines to ULBs for completing the tasks of property / asset listing, revenue and expenditure mapping, debt and liability

assessment, etc., and thereafter attach financial incentives to the well-managed ULB finance database.

**iii) Establishment of Consolidated Urban Development Fund at the State Level:**

In the era of decentralization it is necessary that ULBs are provided funds as minimally tied as possible and in a manner that is timely and need driven. Ideally, the funds should be provided on project basis rather than in lump-sum packets rigidly tied to predetermined schemes / programmes. Also, there is a need to optimize ULB funding through combination of different elements such as grant-in-aid, loans / credit, public bonds, private grants / sponsorship, multilateral funding, etc. The grant-in-aid from the Centre and State can be prioritized for basic municipal services and mandatory functions of ULBs whereas instruments like loans, bonds, multilateral funding, etc., can be used for infrastructure up-gradation, urban renewal, special projects, etc.

All these things point to the need for a consolidated urban development fund at the State level out of which resources could be mobilized to ULBs in a timely and need-based manner and also in the right combination of grants and loans. The Tamilnadu Urban Development Fund demonstrates most of these features. Certain basic characteristics of an urban development fund can be generalized from the Tamilnadu experience so that the other States could also try to replicate it suitably:

- a) The fund should be under the firm control of the State government. A special vehicle such as finance corporation or government company can be created for this purpose with representation of the State Departments of Urban Development and Finance as well as the State Directorate of Municipal Administration.

- b) All urban development funds of the State as well as those received from the Centre (including the grants under JNNURM) may be first consolidated in the urban development fund and then redistributed to ULBs suitably.
- c) Other partners in the urban development fund should include public and private banks, investors and sponsors, insurers and credit rating agencies, etc.
- d) Whenever opportunities arise the multilateral funding for urban development should also be pooled into the urban development fund.
- e) Certain grants for supporting the establishment and basic operational costs of ULBs may be released as fixed and assured grants. Funds necessary for delivering the essential and mandatory municipal services may also be provided in the form of assured grants.
- f) Once the basic funding needs of ULBs are taken care, then the further funding should be project based. Annually, a broad fund-envelop may be communicated to each ULB for development activities but the actual release of funds should be against specific and well-formulated projects.
- g) The advantage of this approach is that if ULBs come out with promising project proposals then the funding horizon can be expanded well beyond the available government grants through pumping in loans, multilateral sponsorships, funds from public bonds, etc.
- h) The involvement of banks and credit agencies can prove useful in better screening of project proposals to ensure that they are viable and bankable.
- i) Similarly, involvement of credit rating agencies can help ULBs in better designing of public bonds and similar instruments of fund raising from the open market.

Here again, it will be perhaps necessary for the Central governments to issue time deadlines for establishment of such a fund and then make it a conditionality for all kinds of Central grants to States.

## **6.6 Linking ULB Best Practices to the JNNURM Reform Agenda**

JNNURM is currently the most prominent driving force for urban development initiatives as well as urban governance reforms in the country. The peculiarity of JNNURM lies in its effort to link the funding incentives to the reform conditionalities. The reform agenda of JNNURM consists of mandatory reforms at the State and ULB levels such as accrual accounting, e-governance, property tax augmentation, etc., along with certain optional reforms. The reform framework adopted by JNNURM is quite comprehensive and these reforms alone can bring a great positive transformation in the urban governance in India.

However, JNNURM does not provide an effective mechanism for linking reform conditionalities to financial assistance when it comes to actual screening and approval of funding proposals. Therefore, it is not clear how these reforms are to be ensured as part of JNNURM implementation within the Mission period. For a majority of ULBs, the expected reforms appear to be of a tall order given the immediate wherewithal and capacities available with them. The issue of assurance of support from respective States for facilitating ULB reforms remains a blind spot in the reform vision of JNNURM. The availability of funding for initiating and sustaining reform activities is in itself a question mark. The eligibility criteria of financial assistance under JNNURM are based only on the population size and existence of an elected local government. There is no explicit mention of the level of reforms initiated or achieved as an eligibility criterion. Finally, there is no clear mechanism of linking financial incentives (or disincentives) to reform efforts.

As a result, while large chunks of JNNURM funds are seen flowing to certain cities the impact of such funding on the municipal governance reforms is not clear. On the other hand, it has been observed that wherever State governments have taken lead in reforms like municipal e-governance or accrual accounting, those reforms have grown much beyond the ambit of JNNURM and have encompassed almost all cities in those States. Therefore, it is necessary to evolve an overall strategy of encouraging and incentivizing reforms, which works well for JNNURM as well as the larger financial framework of ULBs.

**i) Suggestions for incentivizing governance reforms under JNNURM:**

- a. The Central and State Steering Committees under JNNURM should set aside a certain proportion of JNNURM funds purely for governance reform projects and should consciously encourage such proposals during the process of screening of proposals. In absence of such division of available funds, most ULBs will tend to seek funds only for infrastructure augmentation or urban renewal and the governance reforms would always take a back seat.
- b. The Steering Committees should also adopt clear criteria for making governance reforms truly a conditionality for project approval. ULBs providing an evidence of governance reforms should be provided grants more liberally as they would have a better capacity and accountability in fund management and utilization. At least during the last couple of years of the Mission period, grants should be denied to ULBs, which have failed to achieve governance reforms stipulated under JNNURM. Alternatively, during this period their eligibility for funding should be restricted only to the governance reforms projects. In other words, at least towards the end of the Mission period the JNNURM funds should be strongly prioritized for governance reforms as against infrastructure development, urban renewal, etc.

- c. The Steering Committees should maintain a compilation of best practices in ULB governance reforms and should encourage and guide ULBs in formulating more and more proposals in this area.
- d. The Central Steering Committee may proactively provide more grants to States, which have taken initiative in facilitating ULB governance reforms under JNNURM.

**ii) Suggestion for incentivizing governance reforms in general:**

If the 13<sup>th</sup> Finance Commission is planning to recommend more urban sector grants to States either through JNNURM framework or otherwise, then such grants should be reserved for governance reform projects **only**. There are several other sources of funding available for supporting urban infrastructure development such as market investments and multilateral funding. However, currently there is a total absence of a fund that is dedicated only to municipal governance reforms. This is because such reforms do not hold popular value nor is their impact immediately visible. Therefore, neither governments nor market players are keen to prioritize investments on such reforms. Even ULBs do not consider them important and tend not to ask funds for reform projects. Therefore, it would be apt for the 13<sup>th</sup> Finance Commission to create a dedicated fund for promotion of ULB reforms & best practices and along with that to recommend the measures suggested in section 6.5 of this chapter for making such reforms mandatory. Once dedicated funds are made available to support the reform projects then neither States nor ULBs will have a valid reason for not taking them up. The Central government can then issue cut-off dates and thereafter link all future funding to the fulfillment of reforms.

## Sources of Information on Practices

In addition to the information provided by individual ULBs on their practices, the following sources have also been used to compile such information. YASHADA is grateful to the authors for the valuable information.

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