Key Paper
On
Urban Local Self-Government Institution in Punjab: History, Structure, Capacity and Emerging Challenges

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Published by
Centre for Research in Rural and Industrial Development
2-A, Madhya Marg, 19-A, Chandigarh - 160019 (India)

Printed by :
Chandika Press Pvt. Ltd.
126, Industrial Area Phase - 1
Chandigarh
Cover Design : SaiKriti

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URBAN LOCAL SELF-GOVERNMENT INSTITUTIONS IN PUNJAB: HISTORY, STRUCTURE, CAPACITY, AND EMERGING CHALLENGES

India, the world's second most populous country with the second largest urban system, has been experiencing rapid growth in its urban population and is facing a serious challenge in coping with the urban growth. Within the federal structure, the central government at the highest level, the state governments at the middle level, and the local bodies at the local level manage the administration and governance. However, the local level governments do not have a defined power structure, functional/fiscal domain, and capacity like the higher levels of government. Historically, the provincial governments have controlled the urban local self-governments and have not devolved adequate powers and responsibilities to them. The capacity of the urban local self-governments has still not been strengthened to cope with the growing challenges of urbanization, poverty, environment, infrastructure, and services.

Urbanization trends in India, as shown in Table 1, indicate the growth of its urban population and the number of urban centers.

Table 1
Growth of urban population in India, 1901-2001

Census	No. of towns	Total urban population (million)	Level of urbanization (per cent)	Decadal growth of urban population (%)
1901	1811	25.6	11.00	-
1911	1754	25.6	10.4	0.0
1921	1894	27.7	11.3	8.2
1931	2017	33.0	12.2	19.1
1941	2190	43.6	14.1	32.1
1951	2795	61.6	17.6	41.3
1961	2270	77.6	18.3	26.0
1971	2476	107.0	20.2	37.9
1981	3245	156.2	23.7	46.0
1991	3609	212.9	26.1	36.3
2001	5161	286.1	27.8	34.4

Source: Census of India 1991,2001.

Urban population in India has grown more than eight-fold during the last 100 years. But the number of towns has increased only a little more than twice. This shows that a major growth of urban population has been to a large extent, in the existing towns. The spatial distribution of towns indicate that the large towns have grown in size as well as in population only in some particular regions. The metropolitan towns have witnessed a much higher growth of population, resulting in high population density, congestion, emergence of slums and deficiencies in the urban infrastructure and municipal services. Due to the uneven/spatial growth of the urban population, some states have witnessed a rapid growth of their urban population. A comparative picture of the rapidly urbanizing states is given in Table 2.

Table 2
Level of urbanization in five major urbanized states in India

(per cent of total population)

State	1951	1961	1971	1981	1991	2001
Tamil Nadu	24.4	26.7	30.3	33.0	34.2	43.86
Maharashtra	28.8	28.2	31.2	35.0	38.7	42.40
Gujarat	27.2	25.8	28.1	31.1	41.0	37.35
Karnataka	22.9	22.3	24.3	28.9	30.9	33.98
Punjab	21.7	23.1	23.7	27.7	29.7	33.95

Source: Census of India.

History, Trends, and Organization of Local Self-Government Institutions

The history of urbanization and urban governance in India dates back to the period of the Indus Valley Civilization. Subsequent periods saw a major transformation in the perception of urbanization and urban governance. In the pre-historic period, the origin and rise of civilizations, identified as urbanization, were normally governed by the local cultural process.

The concept of local self-government in India as an organized system of governance emerged during the late seventeenth century with the setting up of the Municipal Corporation of Madras by the East India Company in 1688. Subsequently, Mayor's Courts were set up in the presidency towns of Madras, Bombay and Calcutta in 1720. This followed the empowerment of the Governor-General in Council to appoint justices of peace in the presidency towns in 1793 mainly to levy taxes on houses and lands to provide sanitation in the towns. Efforts were made to further strengthen the municipal functions through resolutions by Lord Mayo, the then Governor-General of India in 1870 and by Lord Ripon in 1882, which approved non-official majorities in all municipalities and replaced even the district collector by a non-official chairman. A Royal Commission on Decentralization (1907), the Government of India Act, 1919, the Simon Commission Report, 1925, and the Government of India Act, 1935 replacing the Government of India Act, 1919, are a few important events during the British rule aiming at empowerment of local self-governments in India. The Government of India Act, 1919, enlarged the scope of taxation by local self-governments and introduced a dyarchical system of governance empowering the provincial governments to control the local institutions through a minister. Local self-governments continued to function under the control of provincial governments or the district administration.

Despite these developments, local government institutions in India as well as in Punjab continued to function without any significant functional, jurisdictional and financial autonomy. Whatever was done to empower the local bodies, exposed them to administrative lapses due to the lack of administrative experience and shortage of funds. Of late, the growth of the economic process in the form of rapid industrialization and economic development including globalization, has led to the emergence of vibrant urban centres in India. Mumbai, Calcutta, Chennai, Delhi, Hyderabad, Bangalore, Jaipur, Ludhiana, and Amritsar to name a few. With different levels of economic development, these urban centres have been categorized into different groups according to their population and income levels. The trend of urbanization is in favour of larger towns and the spatial/ribbon pattern of urbanization is creating demographic imbalances. Punjab is no exception to this general national urbanization scenario. The existing concerns and challenges of urbanization and local urban governance in Punjab owe a lot to the history and growth of urbanization and urban governance at the national level.

Punjab is the fifth major urbanized state after Tamil Nadu, Maharashtra, Gujarat, and Karnataka. How local self-governments meet the challenges of rapid urbanization and the problems of housing, poverty, environment, infrastructure and services, will largely determine the future of Punjab. But the history of urban local self-governments indicates that they have not been empowered to meet the growing challenges of urban growth in the state. No serious effort has been made during the last century to improve their capacity. Some important strategies need to be developed to improve the capacity of local self-government institutions.

In Punjab, the municipalities have been organized into three categories, namely, nagar panchayats for transitional areas, municipal councils for smaller urban areas (further classified in to class A, class B, and class C municipalities on the basis of their population and revenue generation capacity), and municipal corporations for the larger urban areas with a population of three lakh or more and a minimum revenue generation capacity as specified by the state government, from time to time by notification.

The Punjab Municipal Act, 1911, and the Punjab Municipal Corporation Act, 1976 govern the functioning of nagar panchayats, municipal councils and municipal corporations respectively, which were amended in 1994, after the 74th Amendment to the Constitution of India in 1992. But the Conformity Legislation of 1994 passed by the state seems to be a verbatim incorporation of the amended Act and not much change is visible in the functioning, power structure and the fiscal domain of urban local self-government institutions of Punjab.

The Constitution of India inserted the subject of local self-government in the Seventh Schedule, which gave autonomy to state governments to decide functional and fiscal jurisdictions of the local government institutions. Many initiatives such as the Local Finance Enquiry Committee, 1951; the Taxation Enquiry Commission, 1955; the Rural Urban Relations Committee, 1963; and the Committee on Augmentation of Resources of Local Bodies, were taken in Punjab to have a close look at the problems of local government institutions. The Seventh and the subsequent Finance Commissions, the Planning Commission's Task Force on Housing, 1983 and the National Commission on Urbanization, 1988, all statutory bodies set up by the Government of India, did not change the destiny of local self-governments in the states, which continued to suffer from lack of functional clarity and financial autonomy. The Punjab Municipal Corporation Act, 1976 did make an attempt to categorize specific functions of the municipal corporations under two heads, obligatory functions and discretionary functions. However, the 74th Amendment (1992), a landmark in the history of urban governance in India, prompted the Punjab government to frame a comprehensive Municipal Bill in 1999, in place of the earlier Municipal Acts. However, its implementation awaits approval of the central government.

Growth of urban population in Punjab: Major challenge of 21st century

Urban population in Punjab is growing rapidly. The increase in the proportion of the urban population from 21.72 per cent in 1951 to 33.95 percent in 2001, deserves special attention of the planners and policy makers. Table 3 indicates the growth pattern of urban population in Punjab during 1951 to 2001 (actual), 2011 and 2021 (projected).

Table 3
Growth of urbanization in Punjab

Year	Total population	Urban population (%)	Urban population (%)	Decadal growth of urban population (%) absolute	Total number UAs/towns	Annual compound growth rate (ACGR) (%) Total	Urban
1951	9,160,500	1,989,267	21.72	20.02/331,853	110	-	-
1961	11,135,069	2,567,306	23.06	29.06/578,039	106	1.96	2.78
1971	13,551,060	3,216,179	23.73	25.27/648,873	106	1.98	2.27
1981	16,788,915	4,647,757	27.68	44.51/1,431,578	134	2.16	3.75
1991	20,281,969	5,993,225	29.55	28.95/1,345,468	120	1.90	2.57
2001	24,289,296	8,245,566	33.95	37.58/2,252,341	157	1.82	3.24
2011	29,088,860	11,344,249	39.00	39.00/3,098,683	-	1.82	3.24
2021	34,836,818	15,607,417	44.80	44.80/4,263,168	-	1.82	3.24

Source: *Census of India* 1951,1961,1971,1981, 1991 and 2001.

Note: Projections for 2011 and 2021 are based on ACGR of 1991-2001 decade.

A large increase in the urban population of Punjab over the years, resulting in expansion of urban area limits and emergence of new towns, is the outcome of rapid industrialization, migration from rural to urban areas in search of employment, and better health and educational facilities in the towns and cities.

The local self-government institutions in Punjab have been facing major challenges in extending basic civic services to the fast growing urban population of towns of different categories, particularly in class I and class II towns and cities. Table 4 shows the growth of urban population in different categories of cities and towns of Punjab from 1951 to 2001.

Table 4
Trends in urban population in different categories of cities and towns

Years	Class I	Class II	Class III	Class IV	Class V	Class VI	All Classes
1951	3	2	17	20	36	2	110
	[33.11]	[7.73]	[26.17]	[14.44]	[13.18]	[5.37]	[100.00]
	(658,725)	(153,719)	(520,558)	(287,223)	(262,197)	(106,845)	(1,989,267)
1961	4	5	23	20	35	19	106
	[38.35]	[10.15]	[28.11]	[10.44]	[10.38]	[2.67]	[100.00]
	(981,890)	(260,707)	(721,684)	(267,913)	(266,439)	(68,673)	(2,567,306)
1971	4	8	2	31	29	12	106
	[40.52]	[15.84]	[22.20]	[13.32]	[6.84]	[1.28]	[100.00]
	(1,303,128)	(509,389)	(714,176)	(428,413)	(219,911)	(41,162)	(32,161,79)
1981	7	10	27	36	40	14	134
	[46.38]	[14.39]	[20.24]	[11.28]	[6.50]	[1.21]	[100.00]
	(2,155,714)	(668,780)	(940,482)	(524,505)	(301,905)	(56,371	(4,647,757)
1991	10	18	25	46	14	7	120
	[54.16]	[19.91]	[12.92]	[10.82]	[1.72]	[0.47]	[100.00]
	(3,246,224)	(1,193,171)	(774,453)	(648,230)	(102,945)	(28,202)	(5,993,225)
2001	14	19	35	54	28	7	157
	[58.38]	[16.45]	[12.50]	[9.82]	[2.52]	[0.33]	[100.00]
	(4,814,405)	(1,356,386)	(1,030,623)	(809,366)	(207,891)	(26,895)	(8,245,566)

Source: *Census of India*, 1951,1961,1971,1981, 1991, 2001.

Note: 1) Number of towns in each category (without bracket),
2) Percentage population in each class [ ]
3) Total population in each class ( )
4) Size of population:

Class I	=	100,000 and above	Class II	=	50,000 - 99,999
Class III	=	20,000 - 49,999	Class IV	=	10,000 - 19,999
Class V	=	5,000 - 9,999	Cass VI	=	Below 5,000

The larger towns, with sound industrial and commercial base, are engines of economic growth and attract a large number of migrants. Since land prices and rents are skyrocketing, a considerable section of migratory population encroaches on public land to set up temporary structures/shelters, which grow into slums. These slums with or without basic minimum services are growing in size and their problems grow into mega problems. The problem of managing slums in the peripheries of big cities and towns makes the task of local self-government more difficult.

The concentration (74.38 per cent of urban population) and disproportionate increase (39 per cent) of the urban population, in class I and class II cities in particular, have led to deficiencies in basic civic services, such as water supply, sewerage, solid waste management, and urban infrastructure, housing, transport and roads. In the two most urbanized districts, the fast growing class I and II towns namely, Ludhiana and Amritsar have acquired the status of metropolitan towns. A disproportionately high density of 8,755 persons per sq km in Ludhiana city, slightly lower then in Delhi, calls for special attention for the maintenance of infrastructure services and hygiene.

A district-wise analysis of urbanization presents an unbalanced picture but provides a decisive link between urban infrastructure and urbanization. Table 5 shows the district-wise trend of urban population in Punjab.

Table 5
Percentage of urban population to total population in districts

Districts	Percentage of urban population to total population in district		Decadeal growth of urban population (%)
	1991	2001	1991-2001
Ludhiana	51.81(20.74)	55.80 (20.51)	36.05
Jalandhar	40.63 (11.19)	47.45 (11.24)	38.28
Amritsar	34.08 (14.25)	40.00 (14.91)	44.01
Patiala	30.49 (7.78)	34.98 (7.80)	38.02
Faridkot	32.95 (2.50)	33.89 (2.27)	24.91
Kapurthala	25.76 (2.78)	32.59 (2.97)	47.14
Rup Nagar	25.82 (3.88)	32.46 (4.37)	55.11
Bathinda	26.98 (4.43)	29.78 (4.27)	32.36
Sangrur	24.80 (6.97)	29.26 (7.09)	39.91
Fatehgarh Sahib	22.17 (1.68)	28.08 (1.84)	50.26
Firozepur	25.70 (6.21)	25.81 (5.46)	20.94
Muktsar	23.40 (2.55)	25.81 (2.40)	29.44
Gurdaspur	21.99 (6.45)	25.46 (6.48)	38.15
Mansa	14.85 (1.42)	20.68 (1.73)	66.84
Moga	19.13 (2.48)	20.04 (2.16)	19.38
Hoshiarpur	17.10 (3.71)	19.66 (3.52)	30.84
Nawashahar	11.00 (0.98)	13.80 (0.98)	38.49
Punjab (Total Urban)			37.58

Source: *Census of India* 1991 and 2001.
Note: Figures in parenthesis indicate percentage of urban population of the district to total urban population of the state.

Ludhiana, Jalandhar, Amritsar, and Patiala are the most urbanized districts of Punjab. These corporation towns are situated on the Grand Trunk Road (GTR). A ribbon-type-development of urbanization along the major transport corridor (GTR) underlines the need and importance of providing quality infrastructure. The less urbanized districts, namely Rup Nagar, Sangrur, Fatehgarh Sahib and Mansa, being close to the more urbanized cities are also urbanizing at a fast pace and enlarging the problem of urban management. Prioritization of infrastructure development of the small and medium towns as viable regional growth centres and improving the capacity of the urban local self-government institutions for maintenance through devolution of necessary powers and authority of administration and management is necessary to promote equitable urbanization. The local self-government institutions in Punjab are faced with constraints of funds and functional decision-making, inadequate urban infrastructure, unsustainable basic civic services, and partial legal provisions in the management of local resources, thereby inviting flaws in their administrative and managerial capabilities. The situation calls for innovative strategic measures for the development of a sound urban infrastructure and efficient delivery of civic services through capacity building of urban local bodies to enhance their administrative and managerial skills by dissemination of information regarding provisions relating to powers, authority, duties and responsibilities delegated to them.

Urban Governance and Democratic Decentralization: Major Issues/Challenges

Urban governance in Punjab is at crossroads. In the wake of growing urbanization, it has been facing serious challenges to meet the requirements of urban infrastructure, municipal services, environmental conservation, and urban poverty alleviation. Historically, local self-governments depend on financial transfers from the higher levels of government namely, the state and/or the central government.

In Punjab, serious efforts have not been made to give autonomy to the local institutions despite the Amendment to the Constitution of India in 1992 and the Conformity Legislation passed by the State in 1994. The process of democratic decentralization comprising devolution of funds, functions, and functionaries to the local governments is tardy and several provisions of the Conformity Act have not been implemented in letter and spirit.

The ULBs in pre-independence period worked under bureaucratic control without any functional, financial, and jurisdictional autonomy. In the post-independence era, the local government, under the Constitution of India, was made a state subject. The ULBs of Punjab are still governed by the age-old Punjab Municipal Act (PMA), 1911, and the Punjab Municipal Corporation Act (PMCA), 1976, as amended in 1994 essentially to bring the two Acts in conformity with the Constitution (74th Amendment) Act, 1992 (CAA).

The 74th Constitutional Amendment Act (CAA) is a milestone in the history of urban governance. The purpose of the 74th CAA was to ensure that the urban local bodies Function efficiently as democratic units of self-governance with nominal interference of the state government in elections, functioning, powers, and authority of the ULBs. The 74th CAA came into force on June 1, 1993. The salient features of this Act are given in Box 1.

Box 1
Salient Features of the Constitutional (74th Amendment) Act, 1992

Continuity: CAA has ensured continuity of the municipalities with five years duration for an elected municipality and re-election of municipalities before the expiry of the five-year term or within six months of their dissolution.

Three-tier system: A uniform structure of three tiers i.e., municipal corporations for large urban areas, municipal councils for small urban areas and nagar panchayats for transitional areas has been provided. The constitution and composition of the municipalities has been left to the wisdom of the state, subject to all seats being filled by elected persons from the respective municipal constituencies.

Reservation of seats: In every municipality, reservation of seats for the SCs/STs has been provided in the CAA on the basis of proportional representation. Such seats may be allotted by rotation to different constituencies in a municipality and not less than one-third of the seats so reserved are further reserved for women belonging to the SCs/STs. And also, not less than one-third of the total number of seats in a municipality are reserved for women and such seats may be allotted by rotation by different constituencies in a municipality.

Powers, authority and functions: The 74th Amendment has provided for states to endow municipal powers and authority to enable them to function as institutions of self-governance. The municipal functions envisaged under Article 243W are of development nature such as: preparation of plans for economic development and social justice and the performance of functions and implementation of schemes as may be entrusted to the ULBs including those in relation to matters delegated through the Twelfth Schedule.

Constitution of Ward Committees: The CAA makes it mandatory to constitute ward committees in municipalities with a population of over three lakh with representation of women, SCs/STs and citizens' groups. The major objective of constituting the ward committees is to bring governance closer to the people and enhance their participation in local affairs including those listed in the Twelfth Schedule.

Constitution of District Planning Committees: The CAA provides for the constitution of the District Planning Committees (DPCs) with representation of elected local representatives to effect spatial and economic development by integrating rural and urban plans at the district level.

State Finance Commission: The CAA mandates the constitution of a State Finance Commission (SFC) every five years to strengthen the financial domain of the ULBs. The Commission reviews the financial position of the urban bodies, their revenue and capital account requirements, recommends devolution of taxes, charges, fees, tolls, duties, shared revenues, inter-government transfers and grants from the state to the municipalities and suggests other measures for the mobilization of municipal resources. After considering recommendations of the State Finance Commission, the Central Finance Commission has been mandated to suggest measures for augmenting the consolidated fund of the state, for supplementing the resources of the ULBs.

State Election Commission: The CAA provides for the constitution of a state election commission (SEC) every five year to regulate municipal elections. It is a progressive step towards ensuring democratic process at the local level. The SEC has a mandate to oversee, direct and control the preparation of electoral rolls and conduct elections of municipalities. The SEC will also ensure that elections to municipalities dissolved by the state government, are held within six months.

Constitution of municipalities (Article 243Q) and composition of municipalities (Article 243R)

Article 243 Q has largely been implemented in tune with the conformity legislation. According to the changed criteria for the constitution of the municipalities as described in the Punjab Municipal Bill, 1999, the following parameters of population and income have been considered to define the larger urban area as 'municipal corporations', smaller urban areas as 'municipal councils' and transitional urban areas as 'nagar panchayats':

Sr. No.	Class or urban local bodies	Population	Revenue generated (Rs)
1.	Municipal Corporation	3 lakh* or above	2 crore** or above
2.	Municipal Council Class-I	50,000 to 3 lakh	50 lakh to 2 crore
3.	Municipal Council Class-II	10,000 to 50,000	15 lakh to 50 lakh
4.	Municipal Council Class-III	upto 10,000	Upto 15 lakh
5.	Nagar Panchayat	5,000 and above	More than 150 per head

Note: * One lakh=100,000
**One crore=10 million

Powers, authority, and responsibilities of municipalities (Article 243W)

Article 243W, which defines the powers, authority and responsibilities of the municipalities is one of most important provision of 74th CAA which unfortunately has not been implemented in full and in right spirit. 'The Twelfth Schedule of the Constitution contains an illustrative list of municipal functions for transfer to the ULBs. In Punjab there has been no change in the functional domain of the ULBs in the post-CAA regime. No doubt, the transfer of functions listed in the Twelfth Schedule is not mandatory, but the intention to transfer these is clear'.

The important role of preparing plans for economic development and social justice has not been given to the ULBs. Fragmented municipal functioning by parastatal agencies, has been affecting the local functional domain of the ULBs. Even in the performance of the functions, which are strictly the functions of the municipalities, such as water supply and sewerage, there is parallel participation of the state through parastastal agencies such as the Punjab Water Supply and Sewerage Board. This dilutes the authority and autonomy of the municipalities. The Punjab Urban Planning and Development Act, 1995, and the creation of the Punjab Urban Planning and Development Authority has diluted the authority of the municipalities in the matter of urban planning'.

According to the Municipal Corporation Act, 1976 amended in 1994 the municipal authorities charged with carrying out the provisions of this Act, shall be: Corporation, Finance and Contract Committee and the Commissioner. The ‘Mayor’ has not been included as an authority. 'Though the Constitution through the CAA envisages empowered units of local self-government, executive powers vest in appointed bureaucrats. The State Municipal Acts make the bureaucracy the supervisory and controlling authority of the municipal bodies. Elected members of the municipal bodies feel that the executive wing of the state government is influenced by Members of the Legislative Assembly (MLAs) and Members of Parliament (MPs) who look upon the elected members of the local municipal bodies as trespassers in the game of power sharing. Devolution of functions and authority and fiscal autonomy to the ULBs, therefore, demand a fresh look at the existing laws and, above all, a strong political will to translate the spirit of the CAA'.

Power to impose taxes by, and funds of, the municipalities (Article 243X)

Article 243X of the CAA has not been implemented as 'power to impose taxes' is still exercised by the state government and not by the municipalities as envisaged in the 74th CAA. Financial control of the state over the municipalities does not leave any scope for fiscal autonomy. Budget estimates are approved by the higher levels of the government. The rates of municipal taxes are fixed by the state government and development grants and transfers are decided by the state government. There was no tradition to share state taxes with the municipalities before the 74th CAA. A revolutionary change has been possible only after recommendations of the State Finance Commission, which entitled the municipalities a share in the consolidated fund of the state.

Sections 61 of PMA, 1911, and Section 90 of PMCA, 1976, deal with taxation powers of the ULBs in terms of taxes and fees. But the state government decides rates of taxes, exemptions and revisions. Due to the policies of the state government, there are serious deficiencies in valuation, rate determination, administration and management of important taxes such as octroi, property tax and user charges etc. The recommendations of the First Punjab State Finance Commission (FPFC) and the Second Punjab State Finance Commission (SPFC) to restructure these taxes have not been implemented by the state.

There is no political will at the state level to revise the rates of taxes and user charges. Octroi, the most important source of municipal income, which was abolished on 1 December 2001, was re-imposed on the interference of the Hon'ble High Court of Punjab and Haryana. The user charges (water and sewerage rates) which were revised in July 2003 were 'held in abeyance' in February 2004, that too just before the Parliamentary elections. Although these rates have again been implemented in February 2005, but this gives a wrong signal to the consumers, who still consider these services as social goods.

The municipalities are not yet collecting the taxes such as profession tax, development tax and scavenging tax despite being provided for in the PMA, 1911 and PMCA, 1976 and recommended by the FPFC and the SPFC to strengthen the fiscal base of the ULBs.

Except the Ludhiana Municipal Corporation (LMC), which accessed the capital market in 1999 through private placement of municipal bonds, no ULB in the state has raised any loan. The highly erratic and unpredictable ‘transfers’ and ‘grants’ from the state and the central government, do not allow ULBs to plan development works. Since state government has not authorized the municipalities to levy and collect taxes and duties through an Act of the legislature, as provided under Article 243 X of the CAA, fiscal autonomy of the municipalities as envisaged in the 74th CAA is still a distant dream.

Partial implementation of recommendations of First and Second State Finance Commissions

The Government of Punjab implemented Article 243Y of the CAA by constituting the First Punjab Finance Commission on 22nd April, 1994, under the chairmanship of Shri JP Gupta, IAS (retd), which submitted its report in December, 1995. The Second Punjab Finance Commission was set up in September 2000, under the chairmanship of Shri BB Mahajan, IAS (Retd) and it submitted its report in February, 2002. The recommendations of both the Commissions were accepted by the state government and action taken reports were placed before the legislature of the state. The SPFC has made a detailed analysis on recommendations of the FPFC and their implementation. It stated that-

i. Twenty per cent share of five state taxes as recommended by the FPFC was not devolved to the ULBs in full. Against the original budget provisions of Rs.180.65 crore, only Rs. 78.04 crore was transferred to the ULBs with a shortfall of Rs. 102.61 crore during 1996-97 to 2000-01. The general purpose, specific purpose and incentive grants recommended by the FPFC were not given to the ULBs.

ii. The additional excise duty payable to the ULBs from seven per cent to 10 per cent on country liquor was accepted by the state government, but no action has been taken on the recommendation to enhance the additional excise duty from 16 per cent to 20 per cent on Indian made foreign liquor and its payment to the ULBs. Out of the amount of Rs. 283.07 crore due as their share of auction money and excise duty, only Rs. 231.87 crore was released to the ULBs.

iii. Other recommendations of the FPFC regarding rationalization of user charges, reforms in octroi, property tax and other taxes have also not been implemented. The deficiencies in administration, collection and management of tax and non-tax revenues continue even after the recommendations of the SPFC. Tax on professions, trades, callings and employments have not been introduced. The municipalities have been unable to cash in on the potential of tax on advertisements and hoardings. There is no periodic revision of non-tax levies and the state control on the fixation of rates of local taxes continues.

The result of this apathy is that the municipalities continue to experience fiscal stress and are unable to take up essential infrastructure projects.

The Second Punjab Finance Commission recommended-

i. The SPFC recommended the transfer of four per cent of the net receipts from all state taxes to the local bodies during the period 2002-03 to 2005-06 and to allocate it between the ULBs and PRIs in the ratio of population living in areas of ULBs and panchayats as per the census of 2001, viz 32.43 per cent and 67.57 per cent or say 32.5 per cent and 67.5 per cent respectively. The estimated amount of taxes to be transferred to the ULBs is Rs. 324.27 crore during the above period.

ii. The SPFC recommended the setting up of an incentive fund of Rs. 10.00 crore for the ULBs to promote reforms in municipal resource mobilization. It has suggested performance-linked incentives, computerization to check tax evasion and improve tax administration and also economy in expenditure.

Although recommendations of the First and the Second State Finance Commissions, were accepted by the state government, but recommendations regarding funds to the local bodies were not implemented in full.

The Twelfth Finance Commission

In addition to the State Finance Commissions (SFC), set up every five years under Article 243 of the Constitution for determining financial transfers from state to the local bodies, the Central Finance Commissions, set up by the central government every five years to determine transfers of funds from federal government to the state governments, have also been mandated, under Article 280 (3)(bb) and (c) of the Constitution of India, to suggest measures needed to augment the consolidated fund of the state to supplement the resources of the local bodies, taking into account the recommendations made by the State Finance Commissions.

The Eleventh Finance Commission (EFC) recommended adhoc annual grant of Rs. 16000 crore for panchayats and Rs. 400 crore for municipalities to support specified activities such as maintenance of accounts, development of data base, audit and to partly fill the gap in the deficit in the operation and maintenance expenses.

However, the states made several submissions to the next Commission i.e. the Twelfth Finance Commission, the important are as follows:

- A formula based approach should be followed for grants from Central Finance Commission to the local bodies of the state.

- The central grants should be conditional upon the implementation of the State Finance Commission recommendations by the state government.

- Funds should be made available to meet the revenue account gap, as estimated by the SFC.

- The divisible pool of central taxes should be expanded by 10 per cent for devolution to local bodies.

- Federal support is required to bridge the resource gap of local bodies for upgrading the infrastructure to provide services as per norms.

- Fifty per cent of the transfers from the state government to the local bodies should be funded by the center.

- The transfers recommended by the SFC should be treated as committed expenditure of the state government.

The Ministry of Urban Development and Poverty Alleviation (MUD&PA) estimated resource gap of Rs. 76,896 crore for all the states during the period 2005-10 in the matter of operation and maintenance of various civic services in urban areas. It was pleaded that this gap should be bridged through a grant-in-aid by the Twelfth Finance Commission (TFC).

The other major suggestions of the Ministry were that:

i. cost of public utility services should be recovered by charging appropriate fees from the user of the services.
ii. municipalities must progressively recover fully the cost covering operation and maintenance, bill collection and capital.
iii. borrowing should be one of the primary source of capital funding for municipalities.
iv. grants given for development of infrastructure should be utilized to leverage additional financial resources.

The MUD&PA submitted a separate Memorandum highlighting deficiencies in urban waste management arising out of poor financial health of the urban local bodies. It was noticed that 42 million tones of municipal waste is produced annually in urban areas with a per capita generation varying from 0.2 to 0.6 kg per day. The waste generated is expected to grow @ five per cent per annum.

On an average, the urban local bodies spend about 60 to 70 per cent of their budget on this important activity.

The Ministry, therefore, suggested devolution of sufficient funds by the TFC to assist ULBs through allocation of adequate funds. It has worked out a total outlay of Rs. 3763 crore at an average per capita cost of Rs. 220/- for implementing the project in 400 class-I towns.

After examining the memorandum submitted by the MUD&PA and the states and keeping in view the spirit of 73rd and 74th Amendment and Article 280 (3) (bb) and (c), the TFC decided to recommend a sum of Rs. 25000 crore for the period 2005-10 as grant in aid to augment the consolidated fund of the states to supplement the resources of the municipalities and panchayats. This is equivalent to merely 1.24 per cent of the sharable tax revenue and 0.9 per cent of gross revenue receipts of the center as estimated during the period 2005-10.

The inter se allocation amongst the states was in accordance with the formula laid by the Commission. Based on the formula, share of Punjab state in allocation for the period 2005-10 is as follows:

Local self-government institutions	Rural	-	Rs. 324 crore
	Urban	-	Rs. 171 crore

An important recommendation of the Commission suggested that at least 50 per cent of the grant-in-aid provided to each state for urban local bodies should be earmarked for the scheme of solid waste management through Public Private Partnership (PPP). The municipalities should concentrate on collection, segregation and transportation of solid waste. The cost of these activities whether carried out in house or out sourced could be met from the grants.

The transfer from central government to the local self-government institutions, rural and urban, are nominal. However, the recommendations establish a claim of local bodies on the consolidated fund of federal government for a share, similar to that of states of the country.

Elections

Prior to 1994, elections were extremely irregular in local self-government in institutions in Punjab. Suppression and dissolution of municipalities was common and frequent. The elections of municipal corporations, constituted in 1976, were held for the first time in 1991. The municipal committees were also kept suspended for more than 13 years and elections held only in 1992. After passing of 74th Constitutional (Amendment) Act, the Punjab State Election Commission Act, 1994 was enacted and elections rules were framed. The state government still holds the prerogative to dissolve an elected municipality.

Functional Domain

The Twelfth Schedule to the 74th CAA is an illustrative list of functions to be performed by the municipal bodies and not a directive one. The state government decides as to which of the functions in the Twelfth Schedule be devolved to ULBs. The incorporation of Article 243W, which deals with powers, functions, and responsibilities of municipalities has not made any change in the functioning of the municipalities as major functions are preformed through departments like Education, Health, Public Works Department or through parastatal agencies like Punjab Water Supply and Sewerage Board (PWSSB), State Urban Development Agency (SUDA), Town Country Planning (TCP), and Punjab Urban Development Authority (PUDA). A statement of functions in the Twelfth Schedule performed by ULBs and other departments/agencies is given in Table 6.

Table 6
Performance of municipal functions (Article 243W) by ULBs and other departments

Municipal Functions listed in the 12th Schedule of CAA	Performed by
1. Urban planning including town planning	Town and Country Planning/PUDA
2. Regulation of land use and construction of buildings.	Town and Country Planning/PUDA
3. Planning for economic and social development.	Deptts. of Planning and Social Welfare
4. Roads and bridges	Public Works Department (PWD)
5. Water supply for domestic, industrial and commercial purposes	PWSSB and ULBs
6. Public health, sanitation conservancy and solid waste management	Solid waste management (ULBs) and sewerage (PWSSB and ULBs)
7. Fire services	ULBs
8. Urban forestry, protection of the environment and promotion of ecological aspects.	Deptt. of Forest, State Pollution Control Board, State Council for Science, Technology and Environment & ULBs
9. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded	Social Welfare Deptt.
10. Slum improvement and upgradation	ULBs
11. Urban poverty alleviation	ULBs
12. Provision of urban amenities and facilities such as parks, gardens and playgrounds	ULBs
13. Promotion of cultural, educational and aesthetic aspects.	Departments of Culture, Education and Public Relations
14. Burials and burial grounds, cremations, cremation grounds and electric crematoriums.	ULBs
15. Cattle ponds and preventions of cruelty to animals	ULBs
16. Vital statistics including registration of births and deaths	ULBs
17. Public amenities including street lighting, parking lots, bus-stops and public convenience	ULBs, Deapartment of Transport
18. Regulation of slaughterhouses and tanneries.	ULBs

Fiscal Domain

Fiscal domain of ULBs in Punjab is unsatisfactory due to low tax rates and absence of periodic revision of taxes and user charges. Deficiencies in administration, management, billing and collection and accounting practices are also responsible for poor fiscal performance of municipalities. The power of fixing rates of municipal taxes vests in the state government and municipalities do not have freedom in fixing user charges based on cost of provision of services. The municipalities are not free to raise loans/funds from the capital market without prior approval of the state government. Not only the amount of loan, the rate of interest to be paid for loans and the terms and conditions, the date of floatation, the time and method of repayment are subject to the approval of the government.

Municipalities largely depend on transfers and grants from state and central governments, which are not adequate and are not likely to increase with the growing revenue and fiscal deficits of the state government and federal government. The own revenue mobilization of municipalities is in adequate to meet the increasing demand of infrastructure services. In Punjab, the octroi is the major source of own municipal revenue. In case it is abolished, there is no buoyant alternative to it. Property tax is the second major source of municipal income, but exemptions to residential and many institutional/charitable properties from paying tax have blocked its future growth. The pricing and cost recovery of user charges from water supply and sewerage is poor and there is no concept of full recovery of Operation & Maintenance (O&M) costs. Grants are highly erratic, unpredictable being dependent on the exigencies of state's own financial position. Despite specific recommendations made by the First and Second SFCs to enhance the fiscal strength of ULBs, the financial position of ULBs remains unchanged as devolution of resources from the state to ULBs as recommended by SFC is not fully implemented.

Improving quality of governance and strengthening democratic decentralization: Recent initiatives at the national level

The Government of India has recently formulated a Model Municipal Law (MML) which has been circulated by the Ministry of Urban Development to implement in totality the provisions of 74th CAA. Some of the salient features of the MML are given below:

- A unified law for three levels of ULBs.
- Executive power of ULBs should be exercised by an Empowered Standing Committee instead of Bureaucracy as at present.
- Municipal fund with separate accounts for various services should be set up.
- Indirect election of Mayor/Chairperson for a term of five years.

- Constitution of a ward and ward committee should be expedited.
- State level Municipal Establishment Audit Commission to review the staff strength.
- Classification of functions into: (a) Core municipal functions (including water supply, drainage and sewerage, solid waste management, roads etc.); (b) Functions assigned by government; and (c) Other functions. The 'functions assigned by government' may be undertaken subject to the underwriting of the costs by the concerned levels of government.
- State government can dissolve an elected body if it shows default in performance or abuse of powers, after giving due notice and review by a committee. Elections to take place within six months.
- Time bound implementation of recommendations of State Finance Commission.
- Improved system of accounting should be adopted by the state.
- The state government should appoint a professional chartered accountant as auditor, wherever necessary.
- The ULBs should prepare annual balance sheet of the assets and liabilities.
- Appointment of municipal accounts committee.
- The ULBs must prepare an inventory of properties of the municipality.
- The state government should empower the ULBs to generate internal resources.
- Property tax assessment on area or capital value basis should be allowed to be introduced.
- The state government should enable participation of private sector in construction, financing and delivery of services including billing and collection.
- The state government should enable the setting up of State Municipal Regulatory Commission that will determine user charges and suggest avenues of private sector participation and ensure fair deal to citizens.
- The state government should set up District/Metropolitan Planning Committees.
- The provision should be made for implementation for development plans prepared by ULBs.

- ULBs should prepare annual environment and subsidy reports for accountability and transparency.

These important amendments, as discussed above, deserve to be inserted in the Punjab Municipal Bill, as changes in the existing municipal laws are necessary to cope with the international changes in urban governance, financing and management practices.

Urban Infrastructure and Municipal Services in Punjab: Issues Relating to Coverage, Quality and Financing

At national level *Task Force on Management of Urban Development* (Planning Commission, 1983), *Report of the Task Force on Financing of Urban Development* (Planning Commission, 1986), *National Commission on Urbanization* (1988), *India Infrastructure Report* (NCAER, 1996) and the *Task Force on Urban Governance and Financing* (2001), *Report of the Committee on India Vision* 2020 (Planning Commission, 2002) and *Eleventh and Twelfth Finance Commissions* have highlighted deficiencies in urban infrastructure and municipal services comprising water supply, sewerage, surface drainage, solid-waste management, roads, street lighting etc. and have assessed the financial requirement for improving coverage and its quality. Punjab is not exception to this general scenario and pressure on these services is escalating with the rapidly growing urbanization. The *First Punjab Finance Commission (1995), Second Punjab Finance Commission (2002), Punjab Development Report and many reports and articles* on municipal services have discussed the deficiencies in urban infrastructure and municipal services with regard to the coverage, level and quality and availability of funds. The FSFC (1995) of Punjab reveals that water supply is a big casualty, sewerage is inadequate, and even where sewerage facilities exist there is no proper arrangement for sewage disposal and its treatment. There are many pockets where even rudimentary surface drainage does not exist. Solid waste collection, transportation and disposal leave much to be desired. The condition of roads and streets is unsatisfactory with about 40 per cent of the roads and streets needing extensive repairs. There are municipal areas without pucca roads and proper street lighting. Large segments of the population live in slums and lack access to basic civic services. The population served with water and sewerage in Punjab is given in Table 7.

Table 7
Coverage of population with water supply and sewerage

Type of towns	Number of Towns	Coverage of population in percentage	
		Water supply	Sewerage
Municipal Corporations	4	70	57
Municipal Councils Class I	26	74	63
Municipal Councils Class II	42	77	41
Municipal Councils Class III	30	79	14
Nagar Panchayats	32	46	5
Total	**134**	**71**	**52**

Source: *Report of the Second Punjab Finance Commission (2002).*

It is striking to note that even in the corporation towns 30 per cent people do not have water supply facility and 43 per cent are without sewerage connections. The coverage of population with water supply and sewerage in Nagar Panchayats is only 46 per cent and five per cent respectively. The coverage of solid waste management is no better either. There is not even one operational solid waste treatment plant in the state. Sewage treatment facilities are also inadequate. As the population served with water supply is more than the sewerage, it results in environmental degradation, as excessive water is not disposed off properly and gets accumulated in low-lying areas. It creates air-water- and soil-pollution and adversely affects the health of the people.

The fact that infrastructure services do not pay for themselves and the government does not have the resources to subsidize the beneficiaries has resulted in poor availability of funds. With increasing requirements, there is deficiency in volume as well as quality of services. It is high time that a commercial approach is adopted for providing these services (NCAER 1996).

Physical targets and financial requirements for financing urban infrastructure

First and Second Punjab Finance Commissions assessed physical targets of services and projected financial requirements for civil services. The First Finance Commission observed that the coverage and quality of urban infrastructure and services was very poor and situation was worst in larger cities due to the existence of a large number of slums and rehabilitated colonies. Therefore, for assessing the requirements of funds for urban infrastructure, slum improvement and upgradation of fire services were also included in order to achieve the above-mentioned targets. The FSFC made the following financial projections of cost to improve coverage and quality of urban infrastructure (Table 8).

Table 8
Financial requirements for services projected by the FSFC (Rs. in crore)

Services	Projected cost (1996-97 to 2000-01)
Upgradation of water supply and sewerage and escalation and maintenance of new assets.	1990.00
Upgradation of roads and streets, surface drainage, scavenging, sanitation, solid waste disposal, street lighting, slum improvement and upgradation of fire services and maintenance of new assets.	1797.71
Total	**3787.71**

Source: *Report of the First Punjab Finance Commission (1995).*

Non-implementation of the recommendations of the FSFC such of tariffs, recovery of user charges by linking it with the hike in electricity charges and the recovery of expenditure on O&M, billing and collections and the capital cost of services are major reasons for the shortfall in the income from water supply and sewerage charges. Since user charges were not extended to water supply, sewerage, parking lots and solid waste management and the principle of full cost recovery was not adopted for reasons of 'political populism' or otherwise, also resulted in non-availability of funds for projected services.

The Second Punjab Finance Commission:

At present only 47 per cent of expenditure on operation and maintenance of water supply and sewerage schemes is recovered by ULBs. In some ULBs the recovery is even less than 25 per cent of O&M expenditure (SPFC, 2002). It was largely due to non-revision of supply and sewerage charges by most ULBs since March 1993, except in Ludhiana (with effect from 5 April 1999), Jalandhar (with effect from 10 December 1999) and Patiala (with effect from 28 February 2000) municipal corporations. There is no uniformity of rates of user charges, which are highly subsidized in a number of municipalities.

There is no system of regular revision of user charges. The present O&M cost for water supply has been worked out by SPFC at Rs. 2.73/- per KL, though the cost including depreciation and interest is Rs. 6/- per KL. It recommended the following targets to recover 100 per cent O&M cost of water supply and sewerage as in Table 9.

Table 9
Targets for recovery of O&M costs projected by the SSFC (2002-03 to 2005-06)

Year	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Targets for Recovery of O&M Costs (%)	60	80	90	100

Source: Report of the Second Punjab Finance Commission (2002).

According to SPFC, it is necessary to adopt volumetric water supply otherwise much of the advantages of tariff reforms to cover O&M expenses in terms of saving water and preventing wastage will be lost.

A strong urban infrastructure and service support is necessary to realize the objectives of the state government to achieve higher economic growth, industrialization and improve quality of life in urban areas. To ensure sustainable urban development, adequate provision of urban infrastructure/ services is essential. To achieve higher urban productivity and ensure environment friendly growth, the objectives should be to accomplish the targets in the next five years. After taking into account the escalation in cost, the estimated cost for financing urban infrastructure/services for the period 2002-03 to 2005-06 was estimated by the SPFC (Table 10).

Table 10
Physical targets and financial requirements for O&M and creation of new assets projected by SPFC (2002-03 to 2005-06) (Rs. in crore)

Particulars	Targets for coverage by the year 2005-06	Financial requirements for O&M and creation of new assets from 2002-03 to 2005-06	
		Without escalation	With escalation (@7 % per annum)
Water Supply	85%		
Sewerage	70%	642.00	728.29
Sewage Treatment Plants	Amritsar, Patiala, Gobindgarh, Rajpura, Batala, Bathinda and Malerkotla	166.61	189.62
Solid waste management	100%	138.08	162.25
Solid waste treatment plants	Four corporation towns and a few class I & II Towns	87.85	103.25
Storm water drainage	For corporation towns only	291.50	342.20
Roads & Streets	100%	586.44	689.04
Street lights	100%	270.76	318.16
Surface drainage	100%	187.81	220.71
Sanitation	100%	655.56	770.56
Other services	--	117.84	138.44
Grand Total		**3144.45**	**3662.52**

Source: Compiled from the Report of the Second Punjab Finance Commission (2002).

In the State Development Report prepared by CRRID for the Planning Commission of India, the financial requirements were estimated in consultation with the Local Government Department and the Punjab Water Supply & Sewerage Board, for water supply, sewerage, solid/liquid waste management/ treatment and other important services as in Table 11.

The proposed investment is beyond the normal fiscal capacity of ULBs of Punjab. Therefore, serious efforts are required to mobilize municipal resources and also to access funds from capital market, commercialization of urban infrastructure and improvement in pricing of basic municipal services. Privatization of municipal services is another option to reduce the functional burden of municipalities and bring in the management and technical efficiencies in municipal management.

Table 11
Physical targets and financial requirements for water supply, sewerage, solid waste management and other infrastructure services from 2002-03 to 2006-07

(Rs. in crore)

Particulars	Target of coverage (%) by the year 2006-07	Financial requirements					Total (2002-03 to 2006-07)
		2002-03	2003-04	2004-05	2005-06	2006-07	
Water supply	100	106.0	111.0	121.0	122.0	122.0	582.0
Sewerage	100	210.0	270.0	310.0	380.0	440.0	1610.0
Drainage	25	63.0	81.0	93.0	114.0	132.0	483.0
Sewage treatment Plants	100	168.0	168.0	168.0	168.0	171.0	843.0
Solid waste Management							
(a) Extension and augmentation of collection and transportation	100	20.0	20.0	20.0	20.0	25.0	105.0
(b) Treatment and disposal	1000	25.0	25.0	25.0	25.0	25.0	125.0
O&M of water supply & sewerage system							
		167.5	171.0	174.0	177.5	187.0	877.0
Roads & Streets	100	140.0	140.0	140.0	140.0	140.0	700.0
Street lights	100	60.0	60.0	60.0	60.0	60.0	300.0
Fire services	100	35.0	35.0	35.0	35.0	35.0	175.0
Parks, gardens, urban forestry, parking and bus stands etc.	-	40.0	40.0				
	40.0	40.0	40.0	200.0			
Grand Total	**-**	**1034.5**	**1121.0**	**1186.0**	**1281.5**	**1377.0**	**6000.0**

Source: Gupta, J P & Manoj Kumar Teotia (2002), 'Urban Development' in Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

Proposed financing of urban infrastructure:

The annual revenue surplus of the local bodies in Punjab is about Rs. 90 crore per year. The additional resource mobilization per year consequent upon suggested reforms in subsequent sections will be as follow:

i.	Revision of tariff on user charges	-	Rs. 20 crore
ii.	Increased income from property tax	-	Rs. 30 crore
iii.	Enhanced recovery from fees and rents	-	Rs. 10 crore
	Total	-	Rs. 60 crore

The contribution of the local bodies towards financing the proposed infrastructure is estimated at Rs. 150 crore. The Punjab Infrastructure Development Board in its constitution is mandated to promote urban infrastructure also. It is presently confining its financing to roads, bridges and other infrastructure projects. Based on the recommendations of two State Finance Commissions, it is anticipated that transfers from the state government to the local bodies will be a regular feature. For the proposed funding of projects of urban infrastructure and services, contribution from the internal resources and transfers is as follows:

i.	Contribution by urban local bodies	-	Rs. 150 crore
ii.	Transfer from the Punjab Infrastructure Development Board	-	Rs. 75 crore
iii.	Contribution by the State Government out of devolution of funds	-	Rs. 75 crore
	Total	-	Rs. 300 crore

With seed money of Rs. 300 crore, the ULBs should raise Rs. 900 crore per annum from the capital market for funding infrastructure and basic services to the tune of Rs. 1200 crore per year. The Finance Minister of the state has announced on the floor of the House in the last budget speech, the creation of a Municipal Development Fund to the tune of Rs. 200 crore per year. The contributions from this source added to the seed money should be leveraged to raise resources from the capital market. This credible financial base will attract good credit rating for raising funds from Institutions like Housing and Urban Development Corporation (HUDCO), Infrastructure Leasing and Financial Services (IL&FS), Infrastructure Development Financial Corporation and even the commercial banks. A part of the assured income of the ULBs could be dedicated to the ESCROW account to ensure timely payment of principal and interest to enhance the confidence of investors in the municipal debt instruments. The aims and objectives of raising funds are attractive being developmental covering entire community including the poor and the under privileged.

Accessing central government incentives schemes is another source of garnering additional resources. This includes participation in the 'City Challenge Fund', Urban Reform Incentive Fund (URIF) and National Urban Renewal Mission. The eligibility of the state government to seek assistance under these programmes is fairly satisfactory. The Urban Land Ceiling Act has been repealed, stamp duty has been rationalized, computerization of registration is in progress, measures have been taken for adopting double entry system of accounting and a cabinet decision has been taken to rationalize user charges. In addition, levy and collection of property tax based on unit area or capital value method is under active consideration of the state government.

Strategic planning for financing urban infrastructure and municipal services

Broad reforms in tax and non-tax sources are necessary for additional generation of resources. The Local Government Department should improve buoyancy of existing taxes and use tools of resource mobilization to finance urban infrastructure. The following steps can improve pricing and cost-recovery of water supply and sewerage improve fiscal health of ULBs and improve coverage and quality of urban infrastructure and municipal services:

- Metering of water supply, being fair and equitable to both providers and consumers.
- Rationalization/revision of water supply and sewerage charges linked with electricity tariff.
- Detection of arrears and charging interest on delayed payments.
- User charges should cover all civic services that qualify for levy of user charges.
- Involvement of citizens in fixation of tariffs, checking misuse of services including detection of thefts.

These objectives can best be achieved through political will, peoples' participation and better use of information technology, i.e., computerization of billing and collection, creation of database and display of all important information/events on websites. According to the India Infrastructure Report (NCAER 1996) 'cost minimization needs appropriate technology, proper attention on maintenance, curbing misuse of services and efficient service provisions'. Technological innovations in water supply, sewerage and solid waste management can promote low cost options and commercial viability of the projects. Recycling of water and re-charging/conservation of rainwater should be promoted.

There is good scope for private sector participation (PSP) in infrastructure development and delivery of services. PSP can help in developing commercially viable projects and ensure efficient provision/delivery of services, customer satisfaction, and pricing and cost recovery. The Ludhiana Municipal Corporation has succeeded in mobilizing resources and upgrading the level and quality of environmental infrastructure through public-private partnership. Similarly, Chandigarh Municipal Corporation has revised water tariffs twice in less than three years, introduced property tax and sewerage-cess, privatized parking, maintenance of roundabouts to mobilize municipal resources for financing urban infrastructure.

Municipal Finances in Punjab: Status, Trends, and Major Issues

Municipal finances mainly comprise internal sources (tax and non-tax revenues) and external sources (borrowings and grants-in-aid/share in state taxes and transfers from the central government). Constitutional provisions such as Articles 243X, 243Y and 280(3) (c) are concerned with the transfer of funds from higher levels of government to ULBs. Article 243W deals with 18 functions (Twelfth Schedule) to be devolved to the urban local self-government institutions and therefore there is need of close relationship between these articles to eliminate existing mismatch between functions and resources.

Taxation powers of municipalities in terms of taxes and fees have been provided under Sections 61 of PMA, 1911, and Section 90 of PMCA, 1976. A number of taxes and charges have been provided under these sections but, octroi, property tax, water supply and sewerage charges are the major sources of income of ULBs, but these taxes are not growing to their full potential due to deficiencies in management and collection practices. Table 12 depict growth trends of major items of revenue of ULBs.

Table 12
Major items of own revenue of urban local bodies

(Rs. in crores)

Components of Receipts	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Estimated 2004-05
Property Tax	34.70	34.92	42.42	54.31	66.73	66.63	69.68	75.84	94.42
Octroi	217.63	226.45	271.65	406.69	456.82	390.85	432.66	473.65	508.04
WSS Charges	30.05	31.18	38.04	43.68	57.73	59.39	61.33	78.76	93.41
Total	**282.38**	**292.55**	**352.11**	**504.68**	**581.28**	**516.87**	**563.67**	**628.67**	**695.87**

The percentage share of property tax and user charges, the two important sources of income has been nominal. The property tax, which is the second most important source of own revenue, is almost stagnating as depicted in Table 13.

Table 13
Percentage share of major items in own revenue of urban local bodies

Components of Receipts	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Estimated 2004-05
1.Property Tax	10.57	10.24	10.26	9.11	9.73	12.89	12.36	12.07	13.57
2. Octroi	66.26	66.39	65.72	68.26	66.60	75.62	76.76	75.39	73.01
3. Property Tax & Octroi	76.83	76.63	75.98	77.37	76.33	88.51	89.12	87.46	86.58
4. Water & Sewerage Charges	9.15	9.14	9.20	7.33	8.42	11.49	10.88	12.54	13.42
1,2 & 4 as percentage of total own revenue	**85.98**	**85.77**	**85.18**	**84.70**	**84.75**	**82.03**	**85.79**	**86.38**	**85.28**

The growth rates of revenue income have been tardy and unpredictable.

Table 14
Growth rates of various components of own revenue of urban local bodies

Components of Receipts	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Estimated 2004-05
1. Property Tax	0.63	21.48	28.03	22.87	-0.15	4.58	8.84	24.50
2 Octroi	4.05	19.96	49.71	12.33	14.44	10.70	9.47	7.26
3. Other taxes	54.90	1.17	-18.56	12.54	-	-25.32	-6.13	13.81
5. Total tax revenue	4.13	19.86	45.90	13.37	-4.01	6.47	8.36	9.88
Water supply and sewerage	3.76	22.00	14.83	32.17	2.87	3.77	28.42	18.60
6. Total non-tax revenue including capital receipts	2.88	25.82	38.28	21.28	-21.93	-4.32	21.29	21.57
Total own revenue	**3.85**	**21.17**	**44.15**	**15.11**	**-8.87**	**4.32**	**9.66**	**12.20**

Octroi, the most important source of income, has not grown to its full potential due to deficiencies in valuation, collection and management. The political uncertainty in its continuation have also affected its growth. The income of ULBs was affected badly after abolition of octroi (excluding on electricity). However, it was reintroduced within five months on the direction of the Hon'ble High Court of Punjab and Haryana as State Government could not compensate the ULBs for the loss on account of abolition of octroi. The uncertainty about continuation of this buoyant source of municipal income still persists as state government, in its party manifesto had declared to abolish it.

After octroi, Property Tax (PT) is the next major source of municipal income, but it is plagued with several deficiencies. Entry 49, read with Entry 5 of the State List in the Seventh Schedule of the Constitution of India, enables the ULBs to levy tax on land and buildings. Its income continues to be meagre due to poor valuation/rate structure, exemptions on self-occupied residential properties (from 1 April 1997 onwards), and deficiencies in assessment and collection procedures. The FSFC, noticed that growth of income from PT is constrained by existing rent control laws. It highlighted several deficiencies in fixation of tax base, tax rate, tax assessment, tax collection, tax exemptions/concessions and lack of uniformity in the laws for municipal corporations and municipal councils. Though Punjab has liberalized its Rent Control Legislation to make it fall in line with the Model Rent Control Law, 1992, of the central government, the desired result of boosting tax revenue, as a result of changes in the formula for determining the standard rent, have been limited, as most of the old high-priced inner city properties have continued to be assessed at a very low rateable value.

The income of water supply and sewerage charges, the next contributor to own sources of municipal income is nominal due to political and administrative reasons such as faulty pricing and poor cost recovery, system losses, theft, excessive energy consumption, poor billing and collection, high capital cost, non-volumetric supply of water and lack of periodic revision of user charges. The FSFC noticed that the principle of 'user charges' is not being properly enforced by ULBs for providing civic services. As a result, most of these services, which could be financed through 'user charges', are heavily subsidized or given free. It has also highlighted several deficiencies in the management of the water supply and sewerage system such as large-scale evasion due to unsatisfactory billing and collection of water charges, expenditure on maintenance is out of proportion and far in excess of the recovery by way of user charges from the consumers, lack of system of revision of rates for water supply and sewerage to provide for cost escalation including labour cost, wages, spare parts and hike in power tariffs and too much wastage of water by public and street taps, theft through illegal connections and supply to unauthorized settlements.

The municipal income from other sources is not adequate to meet the growing demands of ULBs for infrastructure development and rising expenditure on establishment. ULBs do not levy Professions tax provided in the PMCA, 1976, and PMA, 1911, development tax in the PMCA, 1976, and scavenging tax. Total revenue of ULBs from various sources as shown in Table 15 is not growing and is fluctuating from year to year although there is good potential in many sources of tax as well as non-tax revenue. The transfers as recommended by the state finance commission have not been given to the ULBs in accordance with the recommendations. Grants from central government for centrally sponsored schemes have been inadequate. The total revenue income of urban local bodies of Punjab from 1996-97 to 4004-05 (Table 15).

Table 15
Total revenue of the urban local bodies (Rs in crore)

Components of Receipts	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Estimated 2004-05
1. Tax Revenue	255.08	265.63	318.38	464.51	526.62	505.51	538.21	583.16	640.78
	(65.44)	(61.95)	(63.60)	(68.03)	(64.02)	(72.81)	(65.25)	(75.85)	(58.62)
2. Non-Tax Revenue	73.36	75.47	94.96	131.31	159.25	124.32	118.81	144.11	175.20
(including capital receipts)	(18.82)	(17.61)	(18.97)	(19.43)	(19.36)	(17.90)	(14.40)	(18.75)	(16.03)
3. Revenues from	328.44	341.10	413.34	595.82	685.87	629.83	657.02	727.27	815.98
own Sources	(84.26)	(79.56)	(82.57)	(87.46)	(83.38)	(90.71)	(79.65)	(94.60)	(74.65)
4. Share from auction	41.34	43.71	45.04	38.34	63.44	48.03	35.87	33.67	38.32
money and excise duty on liquor	(10.61)	(10.20)	(9.00)	(5.62)	(7.71)	(5.47)	(7.33)	(4.38)	(6.04)
5. Share from taxes as	-	36.26	10.82	13.18	17.78	3.66	61.97	105.94	
per recommendations of Ist SFC/SSFC		(8.46)	(2.16)	(1.93)	(2.16)	(0.53)	(7.51)		(9.69)
6. Grants:									
a) as per	-	-	7.65	9.56	5.74	-	17.02	-	11.54
recommendations of 10th & 11th Finance Commissions			(1.53)	(1.40)	(0.70)		(2.06)		(1.06)
b) For Centrally	18.89	5.40	22.42	23.75	45.77	28.38	28.38	24.68	93.68
sponsored and state plan schemes	(4.84)	(1.26)	(4.48)	(3.8)	(5.56)	(3.29)	(3.44)	(2.17)	(9.62)
c) Others	1.14	2.24	1.30	2.10	4.01	-	-	-	-
	(0.29)	(0.52)	(0.26)	(0.31)	(0.49)				
d) Total (a+b+c)	20.03	7.64	31.37	35.41	55.52	22.83	45.24	24.68	105.22
	(5.13)	(1.78)	(6.27)	5.19	(6.75)	(3.29)	(5.50)	(3.21)	(9.62)
7. Total revenue	389.81	428.71	500.57	682.75	822.61	694.30	824.87	768.59	1093.14
(3+4+5+6(d)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)

Source: Director, Local Self-Government, Punjab.
Note: Figures in the parenthesis shows percentage share of main components.

The expenditure on administration, tax collection, provision of services and debt servicing constitutes major components of municipal expenditure as in Table 16.

Table 16
Expenditure of urban local bodies (Rs. Crores)

Expenditure Head	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Estimated 2004-05
1. General Administration	15.42 (4.18)	17.86 (4.95)	26.09 (6.44)	28.97 (4.89)	37.37 (5.13)	67.52 (9.28)	66.69 (9.90)	72.85 (9.76)	94.89 (9.43)
2. Tax Collection	35.90 (9.74)	39.14 (10.85)	50.85 (12.55)	59.54 (10.05)	49.75 (6.83)	50.22 (6.91)	52.52 (7.80)	54.76 (7.34)	63.71 (6.33)
3. Provision of Services	261.64 (70.95)	244.45 (67.78)	256.93 (63.41)	424.63 (71.71)	457.16 (62.75)	450.22 (61.91)	442.32 (65.69)	472.04 (63.26)	640.60 (63.64)
4. Debt Servicing	-	-	-	-	-	-	-	-	-
a) Interest	2.78 (0.75)	2.80 (2.80)	1.55 (0.38)	1.58 (0.27)	1.67 (0.23)	10.46 (1.44)	9.39 (1.39)	11.69 (1.57)	21.33 (2.12)
b) Repayment of Principal	6.86 (1.86)	7.20 (7.20)	8.07 (1.99)	6.84 (1.16)	6.87 (0.94)	19.22 (2.64)	5.05 (0.75)	10.62 (1.42)	25.91 (2.57)
c) Total	9.64 (2.61)	10.00 (2.78)	9.62 (2.37)	8.42 (1.43)	8.54 (1.17)	29.68 (4.08)	14.44 (2.14)	22.31 (2.99)	47.24 (4.69)
5.Miscellaneous	46.17 (12.52)	49.19 (13.64)	61.72 (15.23)	70.59 (11.92)	175.72 (24.12)	129.63 (17.82)	97.37 (14.46)	124.22 (16.65)	160.12 (15.91)
Total	**368.77 (100.00)**	**360.64 (100.00)**	**405.21 (100.00)**	**592.15 (100.00)**	**724.54 (100.00)**	**727.27 (100.00)**	**673.34 (100.00)**	**746.18 (100.00)**	**1006.56 (100.00)**

The First and Second Punjab Finance Commissions and Twelfth Finance Commission of India have highlighted that all municipalities incur unduly large expenditure on establishment. The excessive cadrization with fixed strength, as determined by the government, is responsible for this trend. Unplanned expenditure on ad hoc and temporary workforce for sanitation, roads, water supply, etc. also contributes in increasing expenditure on salaries and wages. The SSFC has analyzed that the cost of establishment was 42.03 per cent of the total own revenue and 39.57 per cent of the total expenditure of ULBs in 2000-01. It was higher than the limits fixed by Local Government Department, which provides that not more than 35 per cent of the total expenditure should be spent on salaries etc.

Mobilization of additional municipal resources

There is need to mobilize additional municipal resources. The reforms in existing taxes such as property tax and octroi and non-tax sources such as water supply and sewerage charges are the pressing need to strengthen the financial position of ULBs. The first and second Punjab Finance Commissions have recommended reforms in administration, collection and management of own sources of revenues as well as raise funds from the capital market. The Eleventh and Twelfth Finance Commissions of India have also recommended that ULBs must recover full O&M cost of municipal services and no exemptions should be given in property tax. In addition, the wasteful expenditure on establishment should be compressed to enable ULBs to invest in urban infrastructure and municipal services.

Ludhiana Municipal Corporation (LMC) has achieved significant growth in income from octroi by implementing innovative measures and through effective tax administration. By implementing reform measures LMC has made remarkable growth in its revenue from octroi in comparison to other municipalities corporations and municipal councils/nagar panchayats (MCs/NPs) as depicted in Table 17.

Table 17
Income of urban local bodies from Octroi from 1996-97 to 2001-02 (Rs. in crore)

Year	MCs/NPs (A)	Municipal Corporations (B)				Total (B)	Grand Total (A+B)
		Ludhiana	Amritsar	Jalandhar	Patiala		
1996-97	101.15	54.12	26.96	25.84	9.56	116.48	217.63
	(46.48)	(24.87)	(12.39)	(11.87)	(4.39)	(53.52)	(100.00)
1997-98	101.73	58.68	29.86	28.1	8.08	124.72	226.45
	(44.92)	(25.91)	(13.19)	(12.41)	(3.57)	(55.08)	(100.00)
1998-99	123.09	73.49	34.77	31.26	9.04	148.56	271.65
	(45.31)	(27.05)	(12.80)	(11.51)	(3.33)	(54.69)	(100.00)
1999-2000	182.84	114.18	46.97	50.28	12.42	223.85	406.69
	(44.96)	(28.08)	(11.55)	(12.36)	(3.05)	(55.04)	(100.00)
2000-01	226.64	117.26	50.11	50.78	12.03	230.18	456.82
	(49.61)	(25.67)	(10.97)	(11.12)	(2.63)	(50.39)	(100.00)
2001-02	264.17	145.5	44.95	63.24	13.86	267.55	531.72
	(49.68)	(27.36)	(8.45)	(11.89)	(2.62)	(50.32)	(100.00)

Source: Gupta, J P & Manoj Kumar Teotia (2002), 'Urban Development' in *Punjab Development Report 2002*, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

Note: Figures in parentheses indicate percentage share in the total income from octroi in a particular year.

While the income from octroi in Ludhiana has increased almost three times it has not shown adequate growth in Amritsar, Jalandhar, and Patiala Municipal Corporations.

Property tax reforms:

Property tax is a premier tax of local self-governments globally and it has potential to grow in Punjab also. Property tax administration should be streamlined to improve income from this important source of tax revenue. Efforts should be made to improve tax base, tax rate, tax assessment, tax collection, reducing tax exemptions and resolution of disputes relating to outstanding arrears. According to the guidelines for PT reforms prepared by the

Ministry of Urban Development (MOUD), Government of India (GOI), a good PT structure should have the following characteristics:

- A low rate of tax to make it acceptable.
- Assessment and collection should be simple and transparent.
- Equity between different classes of tax payers.
- Minimum discretion of assessors.
- Facilitating self-assessment by owners/occupiers.

Since existing annual rental value system has inherent deficiencies, a consensus has now evolved on `area based' property tax. Hon'ble Supreme Court of India has held that the ‘property tax is the principal source of income of the urban local bodies. It is unfortunate that the property taxes are levied at very low rates, which have been generally rent based and not revised for five years. Regrettably, large-scale exemptions and concessions are given to property holders. A lot of disparity is also seen in the manner of assessment of property tax. There is a need to have area based property tax reforms to make the system of assessment rational, transparent, simple and fair with minimum exemptions’. The EFC and TFC too have suggested that there is a need to improve revenue from property tax and reduce exemptions.

Patna, Ahemedabad, Tamil Nadu, and Andhra Pradesh have initiated reforms in property tax, which are worth looking at for reforming this tax in Punjab. The Hon'ble Supreme Court of India, in a recent judgment on the Andhra Pradesh PT system, has upheld the area detail system of property tax, provided the methodology and the procedure of valuation and assessment of rental value are stipulated in the municipal laws. There is need to adopt innovative practices in valuation and assessment and also in tax administration as well such as use of Geographical Information System (GIS) for tax mapping, valuation and tax collection, computerization of PT records for effective billing and collection, a scheme of incentives and penalties for tax payers to enhance collection ratio, and strict monitoring of tax collection through ABC Analysis to streamline the deficiencies in property tax system in the state.

The LMC has gone in for several innovations as discussed above to mobilize its income from property tax, It has enhanced its income from PT from Rs. 14.06 crore in 1997-98 to Rs. 32.41 crore in 2001-02 as shown in Table 18.

Table 18
Income of urban local bodies from property tax from 1996-97 to 2001-02

(Rs in crore)

Year	MCs/NPs (A)	Municipal Corporations (B)				Total (B)	Grand Total (A+B)
		Ludhiana	Amritsar	Jalandhar	Patiala		
1996-97	12.46	12.83	3.18	3.83	2.40	**22.24**	**34.70**
	(35.91)	(36.97)	(9.16)	(11.04)	(6.92)	**(64.09)**	**(100.00)**
1997-98	12.35	14.06	2.8	3.2	2.51	**22.57**	**34.92**
	(35.37)	(40.26)	(8.03)	(9.16)	(7.18)	**(64.63)**	**(100.00)**
1998-99	14.81	16.94	3.41	4.12	3.14	**27.61**	**42.42**
	(34.91)	(39.93)	(8.04)	(9.72)	(7.40)	**(65.09)**	**(100.00)**
1999-2000	19.61	22.13	3.99	5.04	3.54	**34.7**	**54.31**
	(36.10)	(40.75)	(7.35)	(9.28)	(6.52)	**(63.90)**	**(100.00)**
2000-01	24.04	27.19	4.58	6.77	4.15	**42.69**	**66.73**
	(36.02)	(40.75)	(6.86)	(10.15)	(6.22)	**(63.98)**	**(100.00)**
2001-02	18.83	32.41	4.51	7.01	3.88	**47.81**	**66.64**
	(28.26)	(48.63)	(6.76)	(10.53)	(5.82)	**(71.74)**	**(100.00)**

Source: Gupta, J P & Manoj Kumar Teotia (2002), 'Urban Development' in Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

Note: Figures in parenthesis indicate percentage share in the total income from property tax in a particular year.

The LMCs share in total PT collection is almost 49 per cent of the total income from property tax in Punjab, which is more than double that of three municipal corporations taken together and almost twice all other MCs/NPs of the state. 'The innovative practices adopted by LMC are growth oriented and sustainable and can be replicated in other municipalities of Punjab to mobilize income from PT'.

Pricing and cost recovery through rationalization of user charges:

According to the FSFC, the user charges should be extended to all municipal services, such as water supply, sewerage and parking lots and later to solid-waste management. The principle of full cost including operation and maintenance costs, billing and collection costs and capital costs should be incorporated in user charges. Periodic revision of user charges, at least every three years, and a system of charges based on the level of consumption and cross-subsidies to weaker sections should be introduced. The SSFC set the target that by the year 2005-06, ULBs should recover 100 per cent O&M cost of water supply and sewerage.

Through its improved urban management practices, LMC was able to increase its revenue from water supply and sewerage. Table 19 shows comparative growth of income of municipal corporations and MCs/NPs from water supply and sewerage charges.

Table 19
Income of urban local bodies from water supply and sewerage charges

(Rs. in crore)

Year	MCs/NPs (A)	Municipal Corporations (B)				Total (B)	Grand Total (A+B)
		Ludhiana	Amritsar	Jalandhar	Patiala		
1996-97	11.13	5.4	7.33	4.04	2.15	**18.92**	**30.05**
	(37.04)	(17.97)	(24.39)	(13.45)	(7.15)	**(62.96)**	**(100)**
1997-98	10.19	6.69	7.52	4.38	2.4	**20.99**	**31.18**
	(32.68)	(21.45)	(24.12)	(14.05)	(7.70)	**(67.32)**	**(100)**
1998-99	13.54	8.87	7.7	5.06	2.87	**24.5**	**38.04**
	(35.59)	(23.32)	(20.24)	(13.31)	(7.54)	**(64.41)**	**(100)**
1990-2000	19.93	7.02	8.17	5.46	3.1	**23.75**	**43.68**
	(45.63)	(16.07)	(18.70)	(12.50)	(7.10)	**(54.37)**	**(100)**
2000-01	21.38	17.4	8.31	6.18	4.46	**36.35**	**57.73**
	(37.03)	(30.14)	(14.39)	(10.71)	(7.73)	**(62.97)**	**(100)**
2001-02	22.56	17.56	8.03	6.57	4.90	**37.06**	**59.62**
	(37.84)	(29.45)	(13.47)	(11.02)	(8.22)	**(62.16)**	**(100)**

Source: Gupta, J P & Manoj Kumar Teotia (2002), 'Urban Development' in Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

Note: Figures in parenthesis indicate percentage share in the total income from water supply and sewerage charges in a particular year.

The income of LMC from water supply and sewerage charges increased from Rs. 5.4 crore (17.97 per cent) in 1996-97 to Rs. 17.56 crore (29.45 per cent) in 2001-2002. The percentage share as well as absolute increase of income of LMC from water and sewerage charges is indication of innovative urban management.

Devolution of resources to urban local bodies as recommended by the SFC

The FSFC and SSFC have given recommendations to devolve state taxes to ULBs but resources have not been transferred in toto. As recommended by the FSFC, 20 per cent of the net proceeds of the following five taxes and duties were to be transferred to ULBs and PRIs, with defined principles of sharing inter se among them:

1. Stamp Duty
2. Electricity Duty
3. Punjab Motor Vehicle Tax
4. Entertainment Tax
5. Entertainment (Cinematograph Shows) Tax.

Table 20 shows that state government did not transfer the full amount of five state taxes to ULBs although recommendations of FSFC were accepted.

Table 20
Share of urban local bodies in five State taxes

(Rs. in crore)

Year	Receipts from 5 divisible state taxes #	Cost of collection	Net tax receipts (Col 2-Col 3)	20% share of net tax receipts (PRIs + ULBs)	Budget provision for ULBs	Amount transferred to ULBs	Shortfall Col. 6-Co. 7) for ULBs
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1996-97	450.54	5.15	445.39	22.27*	11.89**	-	11.89
1997-98	476.59	6.03	470.56	94.11	50.97	36.26	14.71
1998-99	542.21	12.81	529.40	105.88	45.57	10.82	34.75
1999-2000	701.26	11.36	689.90	137.98	40.00	13.18	26.82
2000-01	912.63	11.42	901.21	180.24	32.22	17.78	14.44
Total	**3083.23**	**46.77**	**3036.46**	**540.48**	**180.65**	**78.04**	**102.61**

Source: Gupta, J P & Manoj Kumar Teotia (2002), 'Urban Development' in Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

Note: # 1. Stamp Duty, 2. Electricity Duty, 3. Motor Vehicle Tax, 4. Entertainment Tax, 5. Entertainment (Cinematograph Shows) Tax.

* 20 per cent share for fourth quarter of 1996-97 calculated by taking one-fourth of total net receipts for 1996- 97.

** Revised budget outlay.

Since transfer of shared revenue to municipalities still unpredictable, municipalities find it difficult to plan and prioritize their developmental activities. The poor transfers to ULBs are affecting their fiscal health.

The SSFC recommended four percent of net proceeds of state's tax revenue should be transferred to ULBs and PRIs during the period of 2002-03 to 2005-06 and should be shared by them based on the share of their population percentages. The devolutions recommended by the SSFC is in Table 21.

Table 21
Estimate of transfers to PRIs and ULBs

(Rs. in crores)

Year	Estimated amount to be transferred to local bodies	Estimated amount to be transferred to PRIs	Estimated amount to be transferred to ULBs
2002-03	222.65	150.29	72.36
2003-04	239.38w	161.58	77.80
2004-05	257.76	173.99	83.77
2005-06	277.97	187.63	90.34

Source: *Report of the Second Punjab Finance Commission (2002).*

Revenue sharing should be predictable and, in principle, the full amount should be transferred to ULBs to strengthen their fiscal base. The transfers as recommended by the SSFC should be devolved in toto to strengthen the fiscal domain of ULBs.

Taxation of central government properties:

According to the EFC, 'all government properties whether they belong to the Central or the State Governments, should be subject to the levy of user charges and should be regulated by a suitable legislation'. This will improve fiscal domain of ULBs.

Improving local tax authority and internal revenue efforts:

The introduction of profession tax, license fee on privately-bored tube wells, surcharge on water pumped into the sewerage system, exploitation of full potential of the tax on advertisements and hoardings, along with periodical revision of non tax rates, and relaxing state control on fixing rates of local taxes are necessary for enhancing local tax authority and raise internal revenues.

Accessing capital market:

National and international capital market is becoming goal for raising funds for financing urban infrastructure. 'Municipal Bonds', as an instrument to finance urban infrastructure for accessing the capital market on the strength of commercially viable projects took its birth in the mid-nineties. The New Economic Policy (NEP) along with liberalization have opened an alternative source for financing urban infrastructure.

Now a large number of municipalities such as Ahemedabad (twice), Nagpur, Nasik, Indore, Ludhiana, Bangalore, Madurai, and Hyderabad are raising funds through municipal bonds as in Table 22.

Table 22
Access of municipal bond market in India by municipal corporations

Name of municipalities	Year of issue	Size of issue (Rs. in crore)	Government Guarantee	Credit rating
Ahemedabad Municipal Corporation	1998	100.0	NO	AA (SO)
Bangalore Mahapalika	1997	100.0	NO	A (SO)
Ludhiana Municipal Corporation	1999	17.8	NO	AA (SO)
Nasik Municipal Corporation	1999	100.0	NO	AA (SO)
Nagpur Municipal Corporation	2000	50.0	NO	AA- (SO)
Madurai Municipal Corporation	2001	30.0	NO	A +(SO)
Indore Municipal Corporation	2001	10.0	Yes	N.A
Ahmedabad Municipal Corporation	2002	100.0	NO	AA (SO)
Hyderabad Municipal Corporation	2002	82.5	NO	AA+(SO) and LAA+(SO)

Source: Gupta, J P & Manoj Kumar Teotia (2002), 'Urban Development' in Punjab Development Report 2002, prepared by CRRID, Chandigarh, New Delhi: Planning Commission of India.

The policy of issuing of tax-free municipal bonds has given a fillip to the tendency of raising funds from capital market. The raising of funds through this mode calls for reforms in municipal fiscal and financial management. The introduction of accrual-based double-entry accounting system, reforms in property tax and user charges, effective tax administration, billing and collection, asset management and upgrading professional skills of municipal staff through extensive training are necessary for raising funds from capital market. National financial institutions such as ICICI, IDFC, IL&FS and HUDCO are important financial institutions. Punjab Infrastructure Development Board (PIDB), established under the Punjab Infrastructure Development Act, 1998 can also raise funds for ULBs. Recently the state government has announced to set up state level urban development fund (UDF) to meet the growing needs of urban local bodies for infrastructure. With the seed money provided by the state government, a 'Special Purpose Vehicle' can raise funds from the capital market for commercially viable infrastructure projects. The repayments can be ensured through ESCROW mechanism already in vogue in the country.

Growing Slums in Urban Areas

The Census of India, 2001, defined slums as 'areas notified as slums by the state/local government under any Act', and 'all areas recognized as slum by state/local government, which have not been formally notified as slum under any Act' and 'a compact area of about 300 persons or about 60-70 households or poorly-built congested tenements, in unhygienic environment, usually with inadequate and lack of any proper sanitary and drinking water facilities'.

Punjab has fairly high proportion of slum population, which is growing in the wake of rapid urbanization, shortage of low cost housing and high prices of land. In some of the larger towns of Punjab such as Ludhiana and Amritsar slums are growing without minimal basic infrastructure and services, which is affecting environmental conditions. The Census of India, 2001, collected data from 28 towns (10 class I and 18 class II towns as per 1991 Census), except Mohali, where no slum pocket was identified. Table 23 shows slum population in Punjab in 2001.

Table 23
Slum population in Punjab, 2001

Particulars	2001
Population living in slum pocket/areas in the state (in lakh)	11.52
Total population of the 28 towns in which slums have been identified (in lakh)	58.88
Percentage of slum population of 28 towns to the total population of these towns	19.56
Percentage of slum population to total urban population of the state	13.97
Percentage of slum population to total population of the state	4.74

Source: Census of India, 2001.

To improve the environmental infrastructure and services in slum areas is a major challenge for urban policy makers. The schemes sponsored by central as well as state government for slum developments have not been effective to cope with the situation. There is a need to effectively implement National Slum Development Programme (NSDP), which is fully funded by the Government of India. The slum rehabilitation/clearance and resettlement programmes should be implemented carefully to address the genuine needs of slum dwellers. The formulation of state level slum policy is necessary to address the complex problems relating to growth of slums.

Urban poverty

Poverty is a multidimensional and multifaceted problem that represents deprivation in its starkest form. James D. Wolfenshon, President of the World Bank, has rightly pointed out that, 'Poverty amid plenty is the world's greatest challenge' (World Development Report 2000-01: Attacking Poverty). The Planning Commission has estimated the incidence of poverty at national and state levels, using the methodology formulated in the Report of the Expert Group on Estimation of Proportion and Number of Poor (Lakdawala Committee) and applying it to consumption expenditure data from the large sample surveys on consumer expenditure, conducted periodically by the National Sample Survey Organization (NSSO). Poverty trends in Punjab as depicted below (Table 24) show a declining trend but number of urban poor is still considerable and is a major challenge for urban policy makers.

Table 24
Poverty trend in Punjab (in lakh)

NSS Rounds	Year	People below poverty line		
		Rural	Urban	Total
28	1973-74	30.47	10.02	40.49
		(28.21)	(27.96)	(28.15)
32	1977-78	18.87	11.36	30.23
		(16.37)	(27.36)	(19.27)
38	1983	16.79	11.85	28.64
		(13.20)	(23.79)	(16.18)
43	1987-88	17.09	8.08	25.17
		(12.60)	(14.67)	(13.20)
50	1993-94	17.76	7.35	25.11
		(11.95)	(11.35)	(11.77)
55	1999-2000	10.20	4.29	14.49
	(30 day recall basis)	(6.35)	(5.75)	(6.16)

Source: Planning Commission of India, New Delhi.

Note: Figures in parenthesis are percentage of people below poverty line.

The incidence of urban poverty is alarming in some of the populous districts of the state. A survey of below poverty line (BPL) families conducted by the State Urban Development

Agency (SUDA), Punjab, is indicative of the concentration of BPL families in a few districts (Table 25).

Table 25
Distribution of urban poor in different districts in Punjab, 2002

Districts	Number of families below poverty line	Percentage
Ludhiana	62431	28.27
Jalandhar	50039	22.66
Patiala	22684	10.27
Amritsar	20292	9.19
Firozepur	10854	4.92
Sangrur	9365	4.25
Gurdaspur	7467	3.38
Bathinda	6411	2.90
Mansa	5702	2.59
Kapurthala	4537	2.05
Faridkot	4224	1.91
Nawanshahr	3802	1.72
Roopnagar	3732	1.69
Muktsar	3251	1.47
Hoshiarpur	2499	1.13
Moga	1794	0.81
Fatehgarh Sahib	1753	0.79
Total	**220837**	**100**

Source: *Tenth Five-Year Special Component Plan 2002-2007 and Annual Special Component Plan 2002-03 for Scheduled Caste*, Government of Punjab (June, 2002).

Data indicates high concentration of urban poor in highly urbanized districts. Punjab is an attractive place for poor migrants of neighboring states who prefer to stay in larger cities. The alleviation of poverty in most of the towns is becoming a major challenge for urban managers.

The Swarna Jayanti Sahari Rojgar Yojana (SJSRY), an important centrally sponsored scheme, which was initiated in 1997 after merger of Urban Basic Services for the Poor (UBSP), Nehru Rojgar Yojana (NRY) and Prime Minister's Integrated Urban Poverty Alleviation Programme (PMIUPAP) has not made any visible dent in alleviating urban poverty in Punjab due to deficiencies in its implementation such as improper identification of beneficiaries, poor support by implementing agencies including banks and poor skill upgradation. There is a need to effectively implement poverty alleviation programme by mobilizing local community and converge line department schemes focusing on urban poverty alleviation, slum development, environmental conservation, housing and welfare of women and children. The Self-Employed Women's Association (SEWA), Ahemedabad, Area Development Society (ADS) and Poverty Alleviation Fund of Kerala are good examples of successful initiatives for Poverty Alleviation programmes, which can be replicated in Punjab with modification.

Urban Management Practices: Towards Innovative Urban Management

Urban management practices followed by the municipalities in Punjab are outdated and involve wasteful expenditure on most of the services. The quality of urban governance is poor due to poor fiscal management, lack of transparency in functioning and the absence of a regulatory mechanism. Data is seldom available for policy formulation and for preparing schemes to improve urban management. Participation of the citizens and the private sector is negligible.

Measures for improving quality of urban management

Accounting and budgeting:

There are serious deficiencies in the accounting and budgeting practices followed by the urban local bodies. Cash-based single entry system of accounting followed in Punjab has several demerits and shortcomings. There is need to switch over to accrual based double entry system of accounting, which has been recommended by the Ministry of Urban Development and Poverty Alleviation and a national municipal accounts manual has been circulated among the state governments.

One of the advantages of adopting the accrual accounting system is easy in financial appraisal by financial institutions which facilitates credit rating by credit rating agencies, which is a pre-requisite for mobilising funds in the financial markets through debt instruments.

Budgeting practices followed by the ULBs are time consuming and formats used for the purpose are outdated and bulky. Many entries in the budget formats have become redundant but have not been deleted. A task force constituted by the Comptroller and Auditor General of India (CAG) have recommended budget and accounting formats for the urban local bodies. The task force report covered budget and accounting formats and significant accounting principles.

Data-base on finances and management information system (MIS):

The non-availability of a data base of the local bodies is a major concern of urban policy makers. The EFC observed that `in the absence of reliable financial/budgetary data, no realistic assessment of the needs of the municipalities for basic civic and developmental functions can be made nor can any information be generated on the flow of funds to the local bodies for the implementation of schemes for economic development and social justice'.

Creation of a data base on major aspects of municipal finances should be a priority to enable the ULBs to manage and prioritize development works. Data collection, evaluation and development of a management information system and its dissemination to various stake-holders like the state and central governments and the finance commissions is essential for seeking funds. This also brings transparency and accountability to municipal management.

Billing, bill delivery and collection practices:

Although private institutions and companies are using the best techniques for preparing bills, their delivery and collection by using modern information technology options, yet the ULBs are way behind. The collection of octroi, property tax and user charges is still done manually in a number of ULBs.

Property and asset management:

At present there is no system to manage municipal properties and prepare their inventory, essential to improve the 'fiscal base' and quantify the capital supporting the assets. Land and municipal properties should be inventorized for the recovery of rents. The Ludhiana Municipal Corporation (LMC), with technical support from Infrastructure Professionals Enterprise (P) Ltd., has done a comprehensive land-inventory exercise and identified several properties including large tracts of land. The total monetary value of these assets is reported to be Rs. 350 crore.

The mapping, survey of properties and inventory of old and newly identified assets by the LMC is a distinctive achievement for controlling the taxable properties and its own assets.

Private sector participation (PSP):

The private sector has not been explored to meet the growing needs of funds for the development of urban services in Punjab. The PSP may take the form of contracting-out, or public-private partnership which may bring in management efficiency, quick and effective decision-making, efficient delivery of services leading to greater consumer satisfaction. PSP can ensure operational efficiency, provide finances for new investments and involve innovative practices and improve the environment wherever provided in the contract.

The Municipal Corporation of Hyderabad, contracted out 60 per cent of the total work of its solid waste management; Tirupur Water Supply and the Sewerage project of Alandur Municipality are the success stories of private sector participation.

The Rajkot Municipal Corporation has contracted out the maintenance of streetlights, solid waste removal and transportation, cleaning of public toilets, maintenance of gardens and fire stations; New Mumbai, has contracted out maintenance of sewerage pumps and water pumps, meter reading and billing, maintenance of parks and gardens; the Karnataka Water Supply and Sewerage Board (KWSSB) has handed over O&M and augmentation of water supply and sewerage system of four cities to a private company. The Surat Municipal Corporation (SMC) has entrusted the delivery of municipal services, especially solid waste collection, maintenance of street lights, construction of roads, tree planting and operation of water treatment plants to private contractors.

It would be a good practice for the municipal bodies of Punjab to offload selected functions and responsibilities to the private sector.

People's participation:

Peoples' participation is essential for successful completion of projects involving infrastructure and services. The following areas are suitable for involving the local community:

i. Water and sewerage sector
ii. Sanitation/solid waste management
iii. Urban poverty alleviation
iv. Slum development
v. Environmental conservation

In the water sector, local citizens can be involved in the operation and maintenance of tubewells by neighborhood tubewell operators, detection of leakage, theft, water conservation and monitoring of water quality. Pricing and cost recovery is another area where citizens can be helpful in implementing revised rates and their recovery.

There is need for mobilizing people to recycle waste water and use harvested rainwater for lawn irrigation and domestic purposes. In the sewerage sector, people can be sensitized to protect sewerage pipes and to ensure smooth flow of sewage.

People's participation in the Ludhiana and Chandigarh helped in upgrading sanitation services and improving environmental conditions. People's participation can be secured in segregation of waste at source and its collection, creating awareness against littering solid waste which is emerging as a menace of growing dimensions.

Creation of a regulatory mechanism:

According to India Infrastructure Report (NCAER 1996), 'a state level Regulatory Body should be set up to monitor the quality of services provided and the price charged'. To promote PSP in project development, financing, pricing and cost recovery (user charges) and quality control it is necessary to create a regulatory mechanism. It can also help in ensuring equity in long-term contracts, leases and concessions. An independent regulatory mechanism not influenced by short-term populist measures of political parties for electoral benefits will attract investors for lending to the ULBs.

Conclusions and Way Forward

India is urbanizing rapidly and so is Punjab. Historically, the provincial governments have controlled urban local self-governments and have not devolved adequate powers to them. The capacity of urban local self-governments has not been strengthened to cope with the growing challenges of urbanization, poverty, environment, infrastructure and services.

The functional, jurisdictional, and financial empowerment of local self-government is not significant despite the legal and constitutional developments at the central and state level. The implementation of 74th Constitutional Amendment Act in Punjab is partial and the functioning of municipal corporations, councils and nagar panchayats is still governed by old municipal Acts i.e. the Punjab Municipal Act, 1911, and the Punjab Municipal Corporation Act, 1976. The Conformity Legislation of 1994 seem to be verbatim incorporation of the 74th Amendment Act. There is no significant change in the functioning, power structure, functional and fiscal domains of urban local self-government institutions in Punjab.

It is gratifying that decentralization and empowerment of municipalities envisaged in the 74th Amendment of the Constitution have been implemented which include:

- Constitution of municipalities
- Composition of municipalities
- Substantial reservation of seats in municipalities for under-privileged citizens including women
- Specified fixed tenure/duration of municipalities
- Constitution of state finance commissions
- Constitution of state election commissions
- Amendment of Article 280 which mandates the Central Finance Commission to suggest measures to augment the consolidated fund of the state to supplement the resources of the municipalities on the basis of recommendations made by the state finance commissions.

Two elections to the municipalities in Punjab have been held and the Constitution ensures a tenure of five years for each elected committee. Two State Finance Commissions and Tenth, Eleventh and Twelfth Central Finance Commissions recommended the transfer of specified share from the Consolidated Fund of the state and the federal government's Consolidated Fund.

These are revolutionary measures which establish the status of the municipalities as constitutional bodies commonly known as 'third tier of government', entitled to a share in state and federal government revenues.

However, the municipalities have not been empowered to prepare plans for economic development and social justice and to levy taxes to perform functions because local government continues to be a state subject.

Despite their not so efficient skill base, managing local municipal affairs including preparation and execution of urban infrastructure projects necessary to maintain a minimum level of quality of life in rapidly growing urban centres in India, capacity building of local government institutions has not been taken seriously. The local self-government in Punjab has been suffering for want of funds, excessive involvement of parastatal agencies in municipal functioning, poor managerial and administrative capabilities during the pre and post independence period. The existing urban management practices and technologies are out dated, time consuming and involve wasteful expenditure.

With the deficiencies in urban management practices, coupled with poor functional and financial base, local self-governments have been unable to cope with the rapid growth of urban population and provide adequate urban infrastructure and services to the entire urban population which is affecting the quality of life of the urban population particularly the disadvantaged sections.

The situation calls for innovative strategic measures for the development of sound urban infrastructure and efficient delivery of civic services through capacity building of urban local bodies and enhancing the administrative and managerial skills of elected the representatives by disseminating enough information on provisions related to power, authority, duties and responsibilities delegated to them. Capacity building and training of elected and appointed representatives is necessary to upgrade their managerial skills and institutional development of the ULBs.

Recently, the Punjab Municipal Bill, 1999, was adopted to replace the Punjab Municipal Act 1911 and the Punjab Municipal Corporation Act 1976. But the President of India has not approved the new legislation, perhaps it had not included the provisions of the CAA in the right spirit. There is need to strengthen the local bodies through devolution of adequate powers, finances and responsibilities to them, and include provisions of the CAA in the amended municipal Bill to give functional and fiscal autonomy to the municipal institutions. The Government of India recently formulated a model municipal law (MML), which was circulated by the Ministry of Urban Development. The important features of the model municipal law should be inserted in the Punjab Municipal Bill 1999, to ensure implementation of plans and programmes in the light of the 74th Amendment and strengthen the functional, and fiscal domain of the ULBs. The urban development policy must dwell on enabling legal, financial and regulatory framework for urban governance and development.

The ULBs must mobilize income from property tax, octroi, user charges and other taxes and levies to raise funds to improve the performance of the municipalities and financing their future growth. Tax administration must be improved by tightening control on municipal management.

Sanitation services are often in a worse condition than the water sector but attract less investment. The treatment of liquid and solid waste is necessary for protection for the environment and improvement of life in the urban areas even though sanitation with full treatment is expensive and may require subsidy.

The 74th Amendment should be implemented to ensure autonomy to the Institutions of local self-government. The district planning committees as provided in Article 243 ZD, should be constituted so as to enable them to prepare consolidated development plans of the municipalities.

The need for an investment of Rs. 6,000.0 crore estimated for the period 2002-03 to 2006-07 is beyond the existing fiscal domain of the ULBs. Serious efforts are required to mobilize additional resources and also access funds from the capital market. Commercialization of the urban infrastructure is necessary to improve pricing and cost recovery of basic municipal services.

Privatization of municipal services is a viable option to off-load the functional burden of the municipalities and bring efficiency to municipal management. There should be no place for political populism. Broad contours of reforms in tax and non-tax sources are necessary for the generation of additional resources and also direct and indirect cost recovery. The municipalities should improve buoyancy of the existing taxes and draw on alternative avenues of resource mobilization to finance urban infrastructure.

There is good scope for private sector participation in infrastructure development and delivery of services. Private sector participation can help in developing commercially viable projects and ensure efficient provision/delivery of services, customer satisfaction, and pricing and cost recovery.

There is need for the levy of service charges on central government properties in Punjab to improve the income of the ULBs. The capital market may be accessed for financing the urban infrastructure and services.

Rapid growth of slums is a matter of grave concern and serious efforts are required to address this problem. Alleviation of urban poverty also requires intensive efforts.

The future growth of the urban sector will depend on how it taps sources from financial institutions by adopting good business practices.

The elected representatives are close to the problems of the people and can, therefore, effectively mitigate their hardships. They have the onerous duty to affect economy, reduce wasteful expenditure and eliminate inefficiency.

The Constitution (74th) Amendment Act 1992, while laying down the procedures for the constitution of municipalities and providing safeguards against their arbitrary suspension or dissolution, has not changed the structure of fiscal federalism in the country. The legislature of a state continues to enjoy absolute powers to endow the municipalities with such authority as it considers necessary. The state government determines the fiscal options of municipal governments. State laws specify the taxes that the municipalities can levy and collect.

Incentives are crucial for the municipal governments to initiate reform and improve their functioning. The role of incentives has been recognized and underlined by the Eleventh Finance Commission (EFC) which recommended 20 per cent of the grant to be allocated on the basis of the progress achieved by the states on decentralization as visualized in the Constitution (74th) Amendment Act, 1992. Setting aside such sums as incentives or creation of dedicated incentive funds are important measures for accelerating implementation of different provisions of the Constitution (74th) Amendment Act, 1992.

Capacity building is a process not restricted only to augmenting human skills and knowledge. It also involves institutional capacity building, thus, comprise value added instructions, training of trainers, activities with multiplier effects, networking and follow-up and creation of adequate training material for sustainability of a long-term capacity building programme. Though it seems promising, the challenge lies in appropriately designing the capacity building programme and its successful execution. The Punjab government and other parastatal agencies working for the municipalities should recognize the need to make the officials and elected representatives of the ULBs aware and train them about the working of municipalities. Learning from the experiences of local self-government institutions in Europe, already in an advanced phase of urban management will help the ULBs in a big way to adopt and replicate good urban management practices.

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ABBREVATIONS

ADS	Ahemedabad, Area Development Society
BPL	Below Poverty Line
CAA	Constitution Amendment) Act
CAG	Comptroller and Auditor General of India
CRRID	Centre for Research in Rural and Industrial development
DPCs	District Planning Committees
EFC	Eleventh Finance Commission
FPFC	First Punjab Finance Commission
GIS	Geographical Information System
GOI	Government of India
GTR	Grand Trunk Road
HUDCO	Housing and Urban Development Corporation
KL	Kilo Liters
KWSSB	Karnataka Water Supply and Sewerage Board
LMC	Ludhiana Municipal Corporation
MCs	Municipal Councils
MIS	Management Information System
MLAs	Members of the Legislative Assembly
MML	Model Municipal Law
MPs	Members of Parliament
MUD&PA	The Ministry of Urban Development and Poverty Alleviation
NEP	New Economic Policy
NPs	Nagar Panchayats
NRY	Nehru Rojgar Yojana
NSDP	National Slum Development Programme
O&M	Operation & Maintenance
PIDB	Punjab Infrastructure Development Board
PMA	Punjab Municipal Act
PMCA	Punjab Municipal Corporation Act
PMIUPAP	Prime Minister's Integrated Urban Poverty Alleviation Programme
PRIs	Panchayati Raj Institutions
PSP	Private Sector Participation
PT	Property Tax
PUDA	Punjab Urban Development Authority
PWD	Public Works Department
PWSSB	Punjab Water Supply and Sewerage Board
SCs	Scheduled Castes
SEC	State Election Commission
SEWA	Self-Employed Women's Association
SFC	State Finance Commission

SJSRY	Swarna Jayanti Sahari Rojgar Yojana
SMC	Surat Municipal Corporation
SPFC	Second Punjab Finance Commission
SSFC	Second State Finance Commission
STs	Scheduled Tribes
SUDA	State Urban Development Agency
TCP	Town Country Planning
TFC	Twelfth Finance Commission
UBSP	Urban Basic Services for the Poor
UDF	Urban Development Fund
ULBs	Urban Local Bodies
URIF	Urban Reform Incentive Fund