

# Municipal Strengthening for Improved Urban Services



## NFSSM Alliance

The [National Faecal Sludge and Septage Management \(NFSSM\) Alliance](#), a national working group, comprises 30+ organisations and individuals across India. Supported by the Bill and Melinda Gates Foundation, the NFSSM Alliance was convened in January 2016, with a mandate to build consensus and drive forward the discourse on faecal sludge and septage management (FSSM) in India.

The Alliance works in collaboration with the Ministry of Housing and Urban Affairs (MoHUA) and the Department of Drinking Water and Sanitation (DWS), under the Ministry of Jal Shakti, which are the central ministries responsible for sanitation in India.

The vision of the Alliance is to create an enabling environment to accelerate progress towards universal access to safely managed urban sanitation and address the massive challenge of safe storage, collection, transport, treatment and reuse of human waste in India. It is focussed on all aspects of faecal sludge management across the sanitation value chain.

The NFSSM Alliance has been successful in enabling a range of policy initiatives, e.g., the National Policy for Faecal Sludge and Septage Management. In the past few years, the Alliance members have supported state governments with technical assistance and enabled commitments from select states on the scaling up of faecal sludge treatment plants (FSTP) and FSSM solutions.

While these scale-up commitments have been made by multiple state governments, the Alliance understands that strengthening municipal government bodies is necessary to ensure the delivery of quality and safe sanitation services across urban India. One of its key priorities is to act as a platform that addresses issues emanating from limited resources, severe constraints and institutional capacity of urban local bodies (ULBs), which prevent the delivery of high-quality and sustainable sanitation services to urban communities. In this regard, the NFSSM Alliance engages in collective research and consultations with experts to understand and address gaps that impede the strengthening of municipal governments, and provides recommendations to key stakeholders.

*Municipal Strengthening for Improved Urban Services* is developed under the aegis of the NFSSM Alliance. It highlights the need for strong municipal governance with a specific focus on the delivery of essential services, such as sanitation, in urban India. It also emphasises the need to adopt an inclusive lens to urban planning.

The report articulates the gaps and challenges in municipal governance that deter delivery of quality services; identifies mechanisms to enable municipal strengthening, especially in relation to institutional arrangements and financing; and offers a comprehensive list of actionable recommendations for adoption by the central, state and local governments in India.

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# Municipal Strengthening for Improved Urban Services





# Executive Summary





The demand for urban infrastructure and service delivery is set to increase, as India’s urbanisation rate is accelerating. Its urban population is expected to almost double from 460 million in 2018 to 876 million by 2050 (United Nations’ World Urbanization Prospects 2018). Over the past decade, the Government of India (GoI) has made a considerable investment in urban infrastructure, with a special emphasis on sanitation, under various national programmes. To translate these investments into sustainable service delivery enhancements at the municipal level, efforts are needed to improve municipal governance structures and strengthen the devolution of authority to urban local bodies and resources from the national and state governments.

Recognising the centrality of strengthened municipal governments and the impact the COVID-19 pandemic has had on urban systems and resources, the National Faecal Sludge and Septage Management (NFSSM) Alliance has developed this report – *Municipal Strengthening for Improved Urban Services*. It highlights the need for strong municipal governments with a specific focus on the delivery of essential services, such as sanitation and water supply, in urban India. It also emphasises the need to adopt an inclusive lens to urban planning. The paper articulates gaps and challenges that deter the delivery of quality services in cities and towns and identifies mechanisms to enable municipal strengthening. The focus is on institutional arrangements and financing. It identifies a comprehensive list of actionable recommendations for consideration by the national, state and local governments in India.

### Key Insight

India’s urban population is expected to almost double from 460 million in 2018 to 876 million by 2050

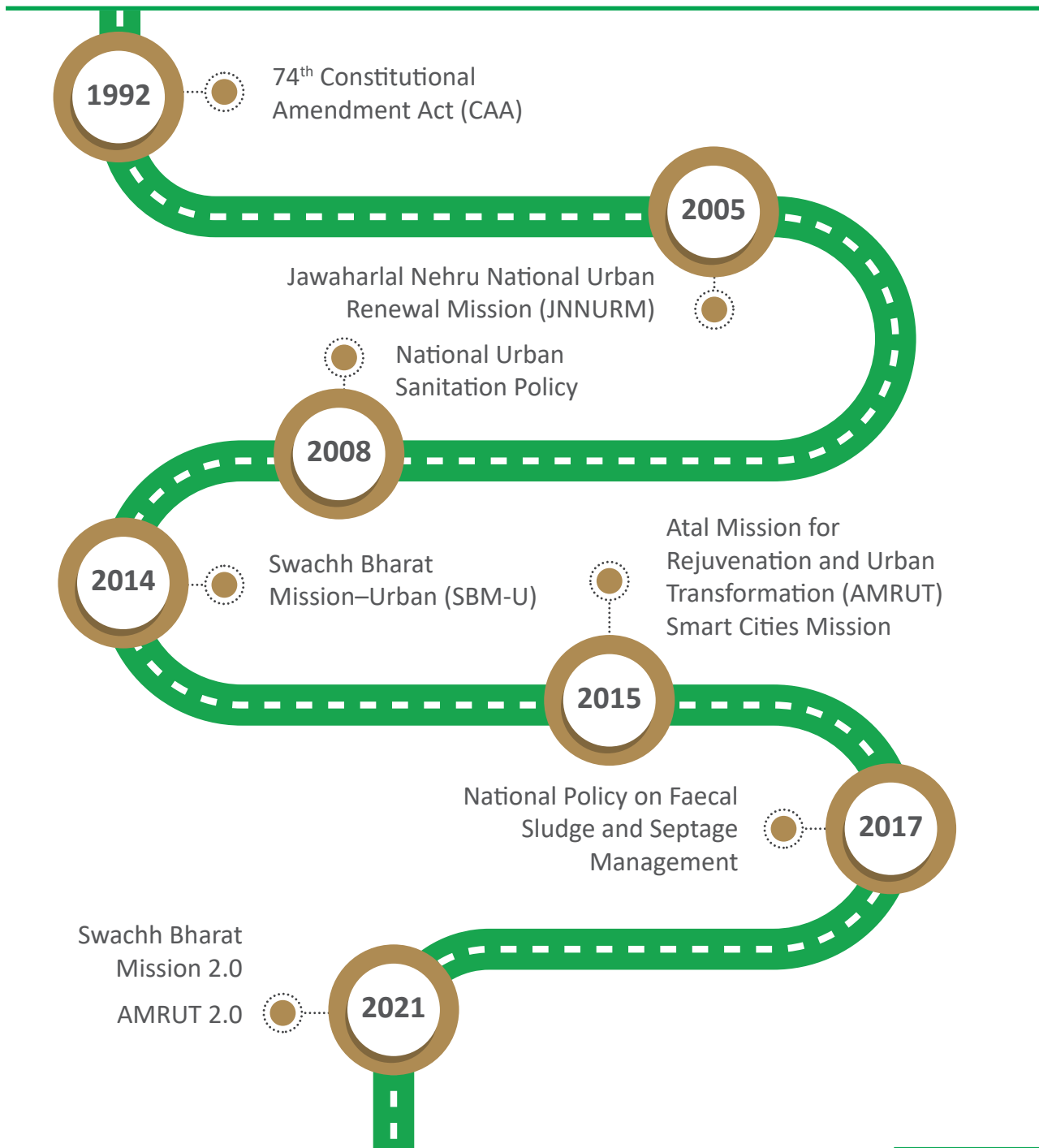
**The Government of India, including state governments, has made considerable progress in provisioning for urban infrastructure through reforms, policies and national programmes, but local governments need to be strengthened to ensure sustainable service delivery.**

Over the past several years, reforms and efforts have been undertaken to decentralise governance and service delivery to urban local bodies (ULBs). These were initiated with a focus on municipal governance under the 74<sup>th</sup> Constitutional Amendment Act (CAA), the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), as well as various national policies aimed at improving infrastructure and delivery of basic services. ULBs have been recognised as independent institutions of local self-government under the 74<sup>th</sup> CAA 1992, which gave constitutional status to this 3<sup>rd</sup> tier of government. Further, the 12<sup>th</sup> Schedule of the Constitution of India includes 18 functions, including sanitation and water supply, which state governments are supposed to devolve to municipal governments. However, despite these provisions, the process of devolution and empowerment of ULBs has been rather slow.

### Key Insight

Cities have not been able to initiate and sustain the reforms introduced under JNNURM due to dearth of capacity and financial resources, insufficient support from state governments, and a lack of administrative efficacy.

**Figure 01: Important policies and programs for municipal strengthening and FSSM**





## Key Insight

National policies have played a key role in driving capital and responsibilities to ULBs. The government has invested in sanitation infrastructure and service delivery through National Urban Sanitation Policy (2008), National Policy on Faecal Sludge and Septage Management (2018), as well as programmes like Atal Mission (AMRUT), Smart City Mission, AMRUT 2.0, and the Swachh Bharat Mission -Urban.

Following the 74<sup>th</sup> CAA, a set of mandatory reforms were introduced, along with infrastructure creation under the JNNURM in 2005. These reforms attempted to nudge states and larger cities to implement the provisions of the 74<sup>th</sup> CAA. They were aimed at improving the institutional efficiency of ULBs, decentralising urban governance, enhancing ULB revenue and improving infrastructure and service delivery. The reforms were consented to by states and ULBs through a tripartite agreement. However, over the years, cities have not been able to initiate and sustain these reforms. The potential reasons include lack of capacity and financial resources, insufficient support and consideration from state governments, and lack of administrative efficacy.

In addition to urban reforms, national policies and programmes have played a key role in driving capital and responsibilities to ULBs, especially with regard to essential services. For instance, the government has invested heavily in sanitation infrastructure and service delivery through the National Urban Sanitation Policy (2008) and more recent programmes, such as the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), the Smart City Mission, AMRUT 2.0 and the Swachh Bharat Mission–Urban (SBM-U).

While these programmes focussed on providing access to sanitation, essential services such as faecal sludge management (FSM) came to light through the launch of the National Policy on Faecal Sludge and Septage Management (2017), which focussed on FSM infrastructure and service delivery, especially in small and medium towns as well as the launch of Swachh Bharat Mission 2.0 by the Finance Minister in her budget speech in 2021 (Union Budget, 2021). In addition to this, the 15<sup>th</sup> Finance Commission has recommended 30% of the total grants to be earmarked for sanitation including management and treatment of human excreta and faecal sludge management in particular (Finance Commission, 2020). Thus, national programmes and policies related to the provision of services and citizens have increased the responsibilities of ULBs. For instance, under the NUSP, ULBs were responsible for the delivery and management of sanitation services due to their proximity to local communities; under Swachh Bharat Mission-Urban, ULBs are accountable for a broad spectrum of sanitation-linked responsibilities such as the construction of toilets, approving applications and plans, facilitating financial incentives to citizens, preparing DPRs for SWM, periodic desludging, implementing ODF strategies and IEC activities (SBM Guidelines 2017). In addition, under Swachh Survekshan, ULBs play a key role in documenting evidence, uploading monthly MIS and reporting on sanitation indicators and service level progress. (Swachh Survekshan 2020)

In addition to infrastructure creation, AMRUT also focussed on creating a roadmap for municipal strengthening through improved delivery of citizen services and enhanced financial health and devolution of funds. (Jha 2020). Further, service delivery for the increasing population of urban slums requires additional planning and resources, with the community at the centre. To meet this requirement, community platforms, such as self-help groups (SHGs) and area-level federations (ALFs), were formed under the National Urban Livelihood Missions (NULM) to mobilise the vulnerable population to participate in decision-making and livelihood generation.

## Key Insight

Government of India introduced the use of service level benchmarks (SLBs), to ensure regular monitoring and accountability in service delivery. These benchmarks are linked to performance-based grants for ULBs, which, in turn, have helped create a culture of regular reporting in some states through an online Performance Management System (PAS), endorsed by Gol.

To ensure regular monitoring and accountability in service delivery, the Gol introduced the use of service-level benchmarks (SLBs), which were further endorsed by the 13<sup>th</sup>, 14<sup>th</sup> Finance Commissions and continued by the 15<sup>th</sup> Finance Commission. The SLBs are a set of minimum standards that guide the quality levels of services commonly understood and used by all stakeholders; these are linked to performance-based grants for ULBs. Monitoring of SLBs to assess performance levels requires regular reporting by ULBs and state governments. Linking performance grants to reporting on SLBs (by the 13<sup>th</sup>, 14<sup>th</sup> and 15<sup>th</sup> Finance Commissions) has helped create a culture of regular reporting in some states. For this, an online Performance Management System (PAS) has been developed for urban water supply and sanitation; it has been endorsed by the Gol and is being used in several states.

In addition, ULBs in India, especially in small and medium towns (population less than 100,000), have limited human resources, finances and expertise. They receive a lower budget allocation in national and state programmes and do not have the capacity to deliver on their functions. Although the Integrated Development of Small and Medium Towns (IDSMT) scheme particularly focussed on the needs of small and medium towns, the fund allocation has been too small to address

most issues. Moreover, most centrally sponsored schemes (CSS), such as AMRUT and National Smart Cities Mission, focus on large and high population cities until for the first time the recent union budget 2021-22 indicated universal coverage of urban programmes under its proposed SBM 2.0 and AMRUT 2.0 for drinking water supply (Union Budget, 2021). Further, given that land and property value is much lower in smaller towns (as reflected in their per capita property tax, which is one-fourth that of larger cities), this poses a large challenge in raising own revenues for spending on urban services (Mehta and Mehta 2020).

## Urban Local Governments need to have the financial resources to meet their goals and deliver the responsibilities entrusted to them

Thus, to ensure sustainable and equitable service delivery, there is an urgent need to understand the challenges faced by ULBs and strengthen the institutional, administrative and financial capacity of municipal governments.

As the Constitution of India does not specify distinct fiscal resources for local governments, they are largely dependent on intergovernmental transfers (IGTs) made by the national and state governments, as well as their ability to raise own revenues (as assigned by state governments).

Globally, half of the urban local government revenues are dependent on IGTs. Global analysis shows that in India the share of IGT to ULBs, as a share of GDP, is only 0.45 percent (Ahluwalia et. al. 2019) compared

## Key Insight

In India, the intergovernmental transfers (IGTs) to ULBs, as a share of GDP, is only 0.45%, compared with 1.6-5.1% in developing countries like Brazil, Indonesia, and Mexico



Trained sanitation workers involved in desludging septic tanks - *Image Courtesy of NFSSM Alliance*

with 1.6–5.1 percent in developing countries such as Brazil, Indonesia and Mexico (Organisation for Economic Co-operation and Development (OECD) 2016). Additionally, according to the Indian Council for Research on International Economic Relations (ICRIER), municipal finances have been the worst hit by the introduction of the Goods and Services Tax (GST). The own resources of ULBs in India have been constrained further as buoyant local taxes, such as octroi, entry tax and local body tax, were abolished or are now lost due to the GST regime and the sharing of finances from GST has been 50:50 between the centre and states (ICRIER 2014). Many scholars have argued that the revenues generated through GST need to be shared with the third tier of government.

Besides their low levels, IGTs are often highly unpredictable. For example, compensatory grants, promised by state governments in lieu of octroi and other buoyant taxes after they were abolished, have been ad hoc and not close to the amount

## Key Insight

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required. The lack of predictability of IGTs makes it difficult for ULBs to take up any medium-term plan to improve urban services.

It is also important to note that state government grants constitute two-thirds of total IGTs to ULBs. However, they are beset with irregularities, as State Finance Commissions (SFCs), envisaged under the 74<sup>th</sup> CAA, have neither been formed regularly nor have SFC reports received due attention in most states. While SFCs are essential to ensure proper





Sanitation workers at a Faecal Sludge Treatment Plant in India - Image Courtesy of NFSSM Alliance

## Key Insight

According to ICRIER data, even within India, there are a lot of variations in per capita property tax revenues, and some states have shown better results.

fiscal decentralisation, unfortunately, only 13 states have constituted their 5<sup>th</sup> SFC. The SFCs have been hampered by inadequate data and lack of staff and many states have not been appointing SFCs in time. Therefore, the 15th Finance Commission in its recent report has emphasised that all states must constitute SFCs and act on their recommendations by March 2024, post which grants will not be released to states that fail to meet this condition. (Finance Commission, 2020)

In addition, as a large share of IGTs are tied to programmes or activities determined by the national or state government, it leaves little scope for municipalities to plan for local priorities and take up medium to long-term plans. Thus, financial constraints affect the level of autonomy within local governments for prioritising efforts and resources within cities.

Apart from IGTs, there is a tremendous potential to increase ULBs' own revenue sources through property and cost recovery of basic services. With regard to property tax, in 2017–18, India's property tax revenue stood at only 0.15 percent of GDP (Ahluwalia et al. 2019), which is rather low compared to other developing countries' 0.60 percent. This suggests the potential to increase property tax revenues by at least 4–5 times. According to ICRIER data, even within India, there are a lot of variations in per capita property tax revenues, and some states have shown better results. In order to leverage the full potential of property tax, the tax base itself will have to be increased. Chattopadhyay and Kumar

## Key Insight

In 2017–18, India's property tax revenue stood at only 0.15% of the GDP, which is rather low when compared with other developing countries' 0.6%. This suggests the potential to increase property tax revenues by at least 4–5 times.

(2019) suggests that in India, the assessed value of a property is only 8–10 percent of their market value. Moreover, most ULBs in the country calculate property tax based on the annual rent. However, globally, property tax is usually levied on the capital value of a property or as a percentage of its market value. Many states have set up Property Tax Boards for assessment of property values, as per the 13<sup>th</sup> Finance Commission’s recommendations; however, these boards are largely non-functional. More efforts are needed for this.

Besides better valuation, the property tax system also faces inefficiencies in relation to billing and collection. Data from 2016–19 shows that, on average, the efficiency of property tax ranged from 47 to 74 percent across states, largely due to inefficient billing and collection. Moreover, tax coverage of properties has been rather low in India, suggesting the need to add more properties to the tax net. For instance, during a property tax revaluation in Indore, the Municipal Corporation found that nearly 50 percent of properties did not declare their commercial or mixed usage (Das 2020). Property tax revenues are also affected by exemptions given to over 10 percent of the assessed properties (Chattopadhyay and Kumar 2019). Additionally, tax on vacant land remains unexplored in Indian cities.

Thus to enhance property tax collection, the 15<sup>th</sup> Finance Commission has recommended fixation of minimum property tax floor rates states, followed by consistent improvement in the collection of property taxes in tandem with the growth rate of the State’s own GSDP as a mandatory entry-level condition to eligible for finance commission grants. (Finance Commission, 2020).

Further, levying user charges on basic services enables the allocation of adequate resources to meet the demand for services and ensure the sustainability of delivery. In practice, however, while there is some progress on cost recovery for water supply services, it has lagged in the case of sanitation and solid waste management services. This is because these are not excludable services, i.e., non-payers cannot be denied services and they are public services for the reduction of environmental and health impact. Further, even within water charges, cost recovery

## Key Insight

Cost recovery for basic municipal services such as water supply and sanitation through user charges is essential to ensure sustainability. It is also crucial to ensure efficiency, inclusivity, and affordability, especially for the poor, in service provision.

can be improved, as many Indian cities manage to recover only 50–75 percent of their operational costs (based on PAS SLB data). Ensuring metered water connections, revising water tariffs regularly and enabling efficiency in water management (e.g., through computerised tracking to reduce leakages) can enable better cost recovery for ULBs.

In addition, given sanitation is a public service, a public-private partnership model that uses a performance-linked payment approach can be explored to ensure inclusive service delivery. For instance, two small cities in Maharashtra are providing city-wide scheduled desludging of septic tanks wherein the service is funded by the local government through sanitation and property tax revenues while maintaining a perception of it being a ‘free service’ to citizens. This model enables equitable charges and cross-subsidising service delivery for poor households.

While cost recovery for basic municipal services through user charges is essential to ensure sustainability, it is also crucial to ensure efficiency and inclusivity in service provision. Basic services such as water supply and sanitation should be affordable for the poor. This could be done by linking them to property tax or through cross-subsidisation, where needed. Besides property tax and user charges, local governments need to explore additional sources of revenue, such as entertainment tax and licensing and parking fee to increase their revenue from own sources.

## In addition to finances, due to inadequate devolution of power and authority, local governments face a severe lack of administrative capacity to deliver on their responsibilities

The 18 functions listed in the 12<sup>th</sup> schedule have been devolved to ULBs to a varied extent across different states, as many of these functions (such as sanitation, water supply and poverty alleviation) are still under the administrative control of the states. (Thornton 2011). Although some states have assigned functions to ULBs, several key functions continue to be undertaken by state government departments, their subordinate offices and parastatals as per pre-74<sup>th</sup> CAA mandates. The resultant multiplicity of agencies presents several challenges, especially since departments and parastatals are designed for accountability to state governments and not ULBs. This makes it difficult for ULBs to operate, as well as leads to duplication of resources and absence of accountability to citizens. (2<sup>nd</sup> ARC, 2007; MoUD, GoI, 2015; Pandey, 2012; United Nations Educational, Scientific and Cultural Organisation (UNESCO) and Centre de Sciences Humaines (CSH), 2011).

Overlapping responsibilities and lack of coordination between departments and parastatals, as well as geographic boundaries, pose a challenge for local governance. However, ULBs, especially small and medium towns, may not have the expertise to undertake all the functions of the 12<sup>th</sup> schedule (Vaidya, 2009); rather, they may be able to utilise the strength of parastatals, while having the parastatals accountable to them while still having the responsibility and supervision of the same. (Pandey 2012, Planning Commission (PC), GoI 2012, 2<sup>nd</sup> ARC 2007)

The envisaged schema, where local planning is to be undertaken by ULBs and regional planning steered by District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs), remains largely unrealised due to the multiplicity of agencies, and lack of constitution of committees in several states. This has implications for the coherence and quality of urban planning. With multiple agencies involved, there is a lack of integration between the

### Key Insight

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spatial and socio-economic aspects of planning. (PC, GoI, 2012). With respect to the urban poor, it is important to look at the broad spectrum of citizens that are often left behind and include them in formal networks to ensure equitable and inclusive planning. For instance, the Street Vending Act, 2014, enables states and ULBs to institutionalise street vendors. Similar efforts are needed to bring other neglected groups, such as construction workers, household helps, manual rickshaw pullers, plumbers, carpenters, artisans, porters, electricians and many others, into a formal network and city planning exercise.

In terms of functionary capacity, elected representatives need to be politically empowered to plan for service delivery. However, the composition of ULBs has been inconsistent due to the election process and tenure, state involvement in ULB composition, etc. (2<sup>nd</sup> ARC, 2007; McKinsey, 2010). Additionally, there has been ineffective co-ordination between the elected and administrative wings. Reservations for elected representatives have made a huge difference, in terms of bringing in diverse perspectives. However, as many of the elected representatives from reserved categories are first-time entrants into a public office, they have a limited understanding of legal and governance processes.

In terms of staff strength, ULB staffing levels have remained unchanged for years due to hiring freezes. Estimates from a study commissioned by the

## Figure 02: Challenges in Municipal Financing and Administration leading to Inadequate Service Delivery

With the accelerating rate of urbanisation in India, the demand for urban infrastructure and service delivery is set to increase. Municipal bodies need to overcome several financial and administrative challenges to meet this demand.



### FINANCIAL CHALLENGES

#### Inter-governmental Transfers (IGTs)



IGTs constitute merely **0.45% of India's GDP** as opposed to 1.6-5.1% in other developing nations



Planning autonomy of ULBs is limited, as IGTs are tied to activities under the scope of national or state policy



State grants to ULBs are inconsistent due to irregularities in the functioning of State Finance Commissions and uneven financial decentralization



The grants available to ULBs are inadequate and unpredictable, making it harder to make medium-term plans for ULBs

#### Own Sources of Municipal Revenue



ULBs have limited capacity to raise their income-base to reduce dependence on state and national governments



The GST regime has limited options available to ULBs to raise own revenue through octroi, entry and local body taxes



Property tax revenues of ULBs are insufficient, owing to non-functional tax boards, inefficient billing and tax collection, low tax coverage, and limited tax base



Cost recovery from user charges on basic services is inadequate, especially on non-excludable services (e.g. sanitation)



### ADMINISTRATIVE CHALLENGES



There is duplication of resources, and absence of accountability at ULB level, due to poor coordination between state and parastatal stakeholders, which have administrative control over sanitation and water provision



ULBs may lack the capacity to handle administrative functions, leading to inefficient urban planning



Elected representatives in ULBs are not politically empowered to deliver services due to state involvement, inconsistent election processes, and limited capacities of first-time representatives



Inadequate progress has been made in professionalizing the municipal cadre due to officials entering with limited skills and receiving insufficient capacity development, and hiring freezes causing critical staff shortages



ULBs face constraints in planning and decision making due to traditional accounting and audit arrangements, leaving room for misuse of public funds



## Key Insight

ULB staffing levels have remained unchanged for years due to hiring freezes, and there are critical capacity gaps in skill development and knowledge base of municipal cadres. Traditional accounting and audit arrangements have constrained information for planning, and also raised concerns over misuse of public funds and lack of transparency.

15<sup>th</sup> Finance Commission suggest that the average deployment of human resources is approximately 40 percent of the sanctioned human resources. (Haryana 5<sup>th</sup> SFC 2017). Beyond staff strength gaps, there are capacity gaps, in terms of skill development and knowledge base. Given that most city governments are not able to hire adequate and efficient human resources – primarily due to limited funds and position freeze – there need to be ways to professionalise the municipal cadre, including through hiring and performance evaluation.

Lastly, it is important to assess accountability and transparency, in terms of service delivery, within ULBs. The 74<sup>th</sup> CAA called for the maintenance and audit of ULB accounts, and the JNNURM ushered in the Community Participation Law and SLB process for key services. However, traditional accounting and audit arrangements at the ULB level – marked by cash-based accounting, incomplete books, absence of consistency in format and codes, lack of accounts certification, etc. – have constrained timely and reliable information for planning, decision-making and control, as well as raised concerns over the misuse of public funds (2<sup>nd</sup> ARC 2007). The idea of municipal shared service centres floated by the 15<sup>th</sup> Finance Commission's report would be the potential platform

to raise the voice of the urban poor to ensure easy access to municipal services. Further, the MoHUA has set up a national municipal information system, an online platform for municipal accounts; and the 15<sup>th</sup> finance commission has provided an incentive to municipalities for publication of audited annual accounts on the online portal in the public domain by including it as a minimum entry-level condition to become eligible for 15<sup>th</sup> FC grants.

Given these constraints, urban service delivery has been limited in terms of coverage and quality, especially in the area of water and sanitation due to a lack of data, digital enablement, autonomy and financial resources to plan for local priorities, the administrative capacity to undertake functions entrusted to ULBs and challenges around reaching marginalised groups such as informal settlements. The lack of expertise and resources has hindered ULBs from planning and delivering essential services to citizens such as Faecal Sludge and Septage Management, which are especially important for small and medium cities in the absence of sewage networks. Thus, while ULBs did gain a constitutional status through the 74<sup>th</sup> CAA, as a result of some of the issues discussed

## Key Insight

Urban service delivery in the areas of water and sanitation has been limited in terms of coverage and quality, due to lack of data, digital enablement, financial resources and autonomy to plan for local priorities, administrative capacity to undertake functions entrusted to ULBs, in addition to the challenges faced in reaching marginalised groups.



above, their financial and administrative capacities need to be strengthened to undertake planning, resource allocation and delivery effectively for all citizens in urban India, in a sustainable manner.

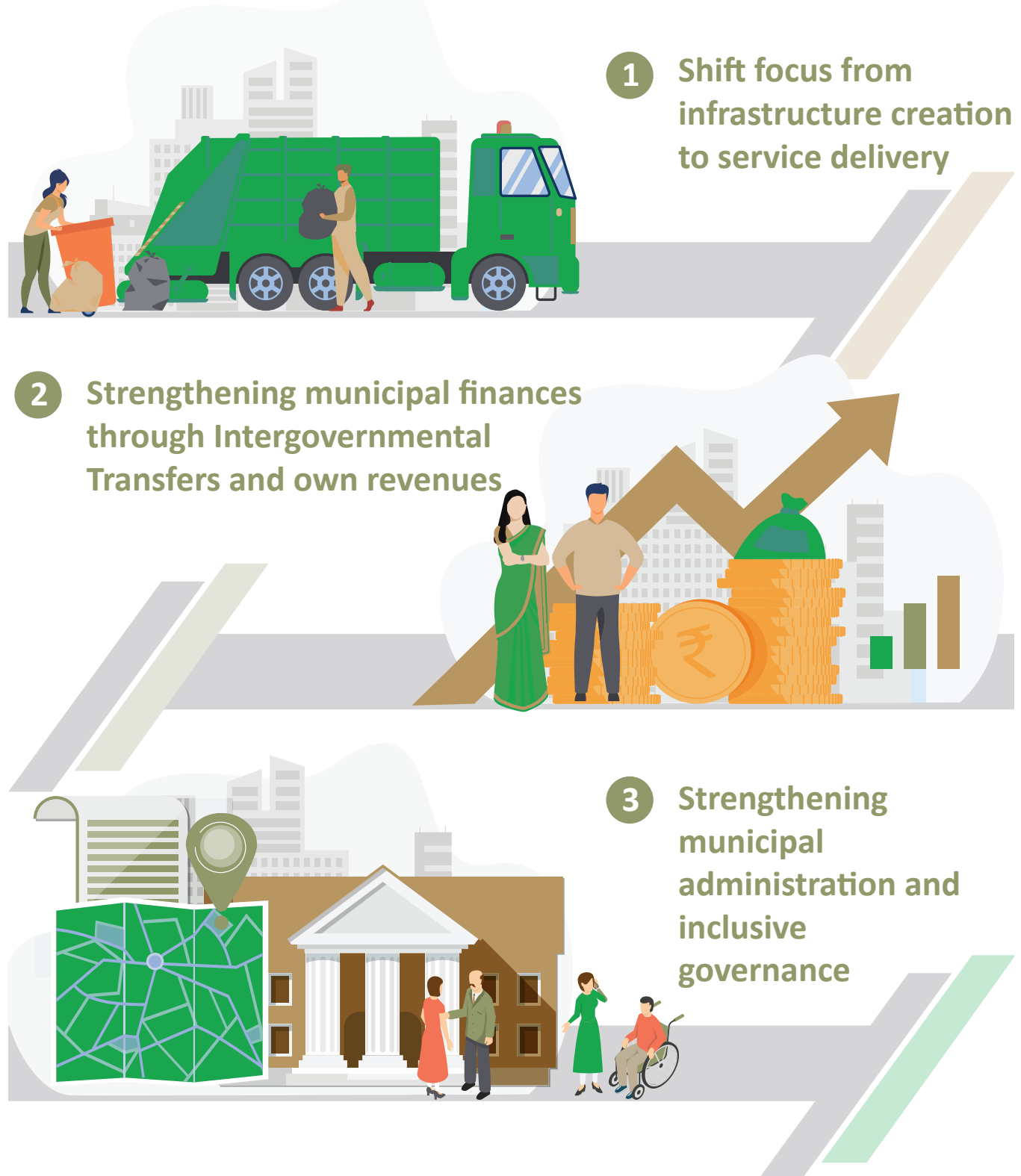
In addition, in 2020 the COVID-19 pandemic has exacerbated these challenges and highlighted the pressure on urban systems, and it has become imperative to focus efforts on empowering ULBs.



Female sanitation workers are critical to sustain development in this sector - *Image courtesy of NFSSM Alliance*

The NFSSM Alliance has made a number of key suggestions across relevant areas to empower local governments and improve the delivery of essential services, with a particular focus on sanitation.

Figure 03: Key Suggestions Across Relevant Areas





# 1. Shift focus from infrastructure creation to service delivery



## Use performance assessment systems for reliable service performance data

- Continued public reporting of service performance through SLBs will help sustain ULBs' accountability for quality service delivery.
- SLBs should also include disaggregated data on services provided in slum areas, and gender- and income-based data, where possible.



## Focus on marginalised groups and small and medium cities

- The central government should support special schemes and ensure dedicated resources for small and medium cities, for water and sanitation services, with a clear emphasis on universal and inclusive coverage.
- Universal coverage for sanitation (e.g., access to IHHT and treatment services to reduce exposure to faecal waste), water supply and solid waste management services must be affordable for poor and marginalised groups.
- Tariff structures need to be inclusive and differential, and pricing must be determined through consultations with women, differently-abled individuals, transgender citizens, migrants, urban poor communities, etc.



## Adopt a community-focussed approach

- Community voices must be represented in local planning, implementation and monitoring by formalising community platforms such as SHGs; slum-level committees; slum forums; and gender forums in slums, wards and city sanitation taskforces, etc.
- Livelihoods for communities engaged in service delivery must be enhanced through convergence with national programmes and efforts such as National Urban Livelihoods Mission and National Safai Karamcharis Finance & Development Corporation (NSKFDC).



## Build a platform for city officials

- Develop a network of city officials to engage in cross-learning, and empower them to lead new schemes and advocate for devolution of responsibilities.



## Focus on FSSM as part of safely managed sanitation

- There is a need to focus on the entirety of sanitation, including liquid waste management and cost-effective solutions, such as FSSM. This has been initiated by SBM-U 2.0 and AMRUT 2.0, as well as by the 15th Finance Commission explicitly including FSSM sanitation tied grants.



## 2. Strengthening municipal finances through IGTs and own revenues



### Increase untied, predictable and equitable IGTs

- **Increase in total IGTs to match global practice:** IGTs to municipal governments should increase by 4–6 times to match the global practice of allocating 2–5 percent of national GDP as IGTs. Additionally, GOI can consider transferring a share of income tax to local governments. Adding a list of local body finances to the Constitution of India to ensure appropriate revenue sources for ULBs, as well as a defined share of GST for the third tier of government, can also be considered.
- **Ensure grants are predictable and untied:** Central and state governments need to increase their share of untied grants and increase the predictability of transfers. It is also imperative to ensure horizontal equity by focussing on small and medium cities with lower fiscal capacity.
- **Strengthen SFCs:** SFCs need to be formed regularly and strengthened. For this, the 15<sup>th</sup> FC has recommended the mandatory constitution of SFCs and act upon their recommendations by March 2024 to become eligible for FC grants. However, GoI also needs to devise an incentives framework for the states that constitute SFCs and enable a more predictable devolution of resources to local governments.
- **Review urban service norms and standards, and related expenditure requirements:** A committee should be set up to review service-level standards, so that ULBs and state governments have better estimates

to assess their expenditure requirements, in line with the emerging standards of municipal functions.

- **Use IGTs to incentivise municipal performance and increase their own resources:** IGT-linked incentives should be provided to ULBs to improve the performance of services and increase own revenues. Program-linked IGTs can also be designed to promote borrowing by strong local governments through bonds.



### Enhance ability to raise own revenues

- **Increase property tax base:** Property tax rates should be re-evaluated every year so that the assessed value of a property is equivalent to market realities. This is crucial in view of meeting the entry-level condition on consistent improvement in the collection of property taxes in tandem with the growth rate of the State's own GSDP to avail the finance commission grants.
- **Increase coverage and collection efficiency:** City governments should shift to using digital systems, such as GIS mapping, computerised billing and online payments, to increase the efficiency of property tax billing and collection. Matching property records to utility services should be considered to add more properties to the tax net. Tax on vacant land needs to be explored
- **Explore non-tax sources and land value capture:** Local governments should explore alternate sources of revenue, including professional tax, advertisement tax and theatre tax, as well as value capture through Transfer of Development Rights (TDR) and impact fees.



### 3. Strengthening municipal administration and inclusive governance

#### Alter functional domain

- Institutional arrangements, roles and functions in relation to the 12th Schedule should be revisited to assign a leading role to ULBs, with parastatals and other public agencies made accountable to ULBs.
- In the long term, amendments to the constitution should be made to include a 'Local Government / Municipal List' to allocate municipal functions to the third tier of government.

#### Ensure inclusive urban governance

- Municipalisation exercises should be repeated quinquennially to undertake 'prospective planning' to prepare for increased population and density, and recognition of capacity limitations.
- It is also essential to analyse city-wide ULB staffing from an inclusive perspective and ensure at least 50 percent representation of women and marginalised groups.
- Lastly, for inclusive governance citizen, participation through ICTs and digital platforms and municipal shared services centres (as recommended by 15th FC) is imperative for governance, in addition to the formation of Ward Committees and Area Sabhas

#### Streamline overlaps in planning

- District Planning Committees and Metropolitan Planning Committees should be constituted and charged with the responsibility of preparing Spatial Development Plans (SDP) from a 20-year perspective, to be reviewed every 5 years by the State Planning Board.

- The SDPs should be developed through a participatory process that includes key stakeholders from ULBs, Ward Committees and Area Sabhas, supported by District Authorities.

#### Professionalise municipal cadre

- The central and state governments can provide incentives for capacity building and professionalisation of municipal cadres, including through hiring and performance review.
- Regional technical support units can be set up for core functions, with a resource pool of experts from the government and private sectors.
- Where municipal cadres are not feasible, ULBs should assess the skill gap to identify the best strategy for hiring staff, such as direct hiring, outsourcing, engagement of external consultants, or development of in-house capabilities.

#### Make financial management transparent

- Incentivise ULBs to adopt modern accrual-based double-entry accounting systems (DEAS) and adapt to the accounting framework proposed in the National Municipal Accounts Manual (NMAM).
- ULBs need to regularly furnish updated annual accounts to achieve greater transparency at the ULB level. A push towards complete IT enablement and digitising financial records and asset registry will play a key role in ensuring transparency in financial management and ensuring accountability of ULBs. For instance, MoHUA has set up a national municipal information system, an online platform for municipal accounts and the 15th FC has provided an incentive to municipalities for publication of audited annual accounts on this online portal.



# Acknowledgements

The COVID-19 pandemic has demonstrated the critical role of local governments in addressing the urgent sanitation and water supply needs of India's cities. Despite the fact that the pandemic has substantially expanded the role of urban systems, they continue to face resource constraints. The pandemic has highlighted the need to strengthen municipal structures and processes to ensure efficient and equitable delivery of public services, especially indispensable services such as urban sanitation and water supply. The 4500+ urban local bodies (ULBs) in India need to be empowered, equipped and capacitated financially and administratively to ensure universal and safe access to basic public services.

The National Faecal Sludge and Septage Management (NFSSM) Alliance is a collaborative platform of 30+ expert organisations and individuals working to inform policy, drive discourse and support governments at the national, state and city levels to accelerate steps needed for inclusive and safe sanitation. It is committed to improving the delivery of sanitation services across the country. In order to meet this objective, the Alliance aligns itself with the larger urban governance system that enables local governments to deliver sanitation services. It has created a specialised Urban Local Body – Strengthening (ULB-S) Taskforce to address issues that impede the delivery of quality sanitation services and the need to strengthen governance systems via recommendations, policy briefs and research.

In this report – *Municipal Strengthening for Improved Urban Services* – the NFSSM Alliance offers recommendations on strengthening municipal governance based on extensive research. The recommendations have also been shared with the Ministry of Housing and Urban Affairs (MoHUA) and the 15th Finance Commission. Some of the Alliance's recommendations have been considered in the 15th Finance Commission's report.

This report is a collaborative effort by members of the NFSSM Alliance, including Centre for Water and Sanitation (CRDF, CEPT University), Indian Institute of Human Settlements, Ernst & Young India, Urban Management Centre (UMC), Bill & Melinda Gates Foundation and Dasra. Its insights and recommendations have been developed on the basis of secondary research, interviews with sector experts and government officials, and Alliance partners' experience in supporting governments in delivering services across India.

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The NFSSM Alliance will continue to engage with national, state and local governments to share the findings and support the adoption of the recommendations in this report. It will

also strengthen the discourse around improving municipal governance and empowering ULBs for quality service delivery to all citizens.








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# Abbreviations

AIC	Accessible India Campaign
ALF	Area Level Federation
AMC	Ahmedabad Municipal Corporation
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
ARC	Administrative Reforms Commission
AS	Area Sabha
ASCI	Administrative Staff College of India
ATI	[State] Administrative Training Institute
BMC	Brihanmumbai Municipal Corporation
BMGF	Bill & Melinda Gates Foundation
BSKY	Biju Swastya Kalyan Yojana
BSUP	Basic Services to Urban Poor
CAA	Constitution Amendment Act
CAG	Comptroller and Auditor General of India
CB	Capacity Building
CBOs	Community-Based Organisations
CDP	City Development Plan
CEO	Chief Executive Officer
CEPACs	Certificados de Potencial Adicional de Construção
CFC	Central Finance Commission
CIDCO	City and Industrial Development Corporation Limited
CMA	City Manager's Association
CPL	Community Participation Law
CSH	Centre de Sciences Humaines
CSS	Centrally Sponsored Schemes
CT	Census Town
DAY	Deendayal Antyodaya Yojana
DDP	Draft Development Plan
DEAS	Double Entry Accounting System
DEPwD	Department of Empowerment of Persons with Disabilities
DPC	District Planning Committee
DWC	Department of Drinking Water and Sanitation
EWS	Economically Weaker Section
FAR	Floor Area Ratio
FSI	Floor Space Index



# Abbreviations

FSM	Faecal Sludge Management
FSSM	Faecal Sludge and Septage Management
FSTP	Faecal Sludge Treatment Plants
GHMC	Greater Hyderabad Municipal Corporation
GIS	Geographic Information System
GoI	Government of India
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
HPEC	High Powered Empowered Committee
IAS	Indian Administrative Services
ICRIER	Indian Council for Research on International Economic Relations
ICT	Information and Communication Technology
IDSMT	Integrated Development of Small and Medium Towns
IGTs	Intergovernmental Transfers
IIHS	Indian Institute for Human Settlements
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
LBFL	Local Bodies Finance List
LFA	Local Fund Audit
LIG	Low Income Group
MIS	Management Information System
MML	Model Municipal Law
MMRDA	Mumbai Metropolitan Region Development Authority
MoHUA	Ministry of Housing & Urban Affairs
MoU	Memorandum of Understanding
MoUD	Ministry of Urban Development
MoUE&PA	Ministry of Urban Employment and Poverty Alleviation
MPC	Metropolitan Planning Committee
MRB	Municipal Revenue Boards
MSFC	Maharashtra State Finance Commission
NABARD	National Bank for Agriculture and Rural Development
NFSSM Alliance	National Faecal Sludge and Septage Management Alliance
NIUA	National Institute of Urban Affairs
NMAM	National Municipal Accounts Manual
NP	Nagar Panchayat
NPCSB	National Programme for Civil Services Capacity Building

# Abbreviations

NRW	Non-revenue water
NSDP	National Slum Development Programme
NSKFDC	National Safai Karamcharis Finance & Development Corporation
NULM	National Urban Livelihood Mission
NUSP	National Urban Sanitation Policy
O&M	Operation and Maintenance
ODF	Open Defecation Free
OECD	Organisation for Economic Co-operation and Development
OG	Outgrowth
PAS	Performance Assessment System
PC	Planning Commission
PDL	Public Disclosure Law
PFDF	Pooled Development Finance Fund
PMAY	Pradhan Mantri Awas Yojana
PMC	Pune Municipal Corporation
PMS	Performance Management System
RLB	Rural Local Body
SATIs	State Administrative Training Institutes
SBM-U	Swachh Bharat Mission-Urban
SC	Scheduled Caste
SCADA	Supervisory Control and Data Acquisition
SCM	Smart City Mission
SDG	Sustainable Development Goals
SDP	Spatial Development Plan
SEC	State Election Commission
SFC	State Finance Commission
SHB	State Housing Board
SHGs	Self Help Groups
SIRD	State Institute of Rural Development
SLA	Service Level Agreement
SLB	Service Level Benchmarking
SOP	Standard Operating Procedures
SPB	State Planning Board
ST	Scheduled Tribe
SWM	Solid Waste Management

# Abbreviations

TCPD	Town and Country Planning Department
TDR	Transfer of Development Rights
TERI	The Energy Research Institute
TGS	Technical Guidance and Supervision
TMRC	Training Module Review Committee
TNSFC	Tamil Nadu State Finance Commission
TNUDF	Trust Fund of the Tamil Nadu Urban Development Fund
UAV	United Area Value
UCD	Urban Community Development
ULB	Urban Local Body
UNESCO	United Nations Educational, Scientific and Cultural Organization
URIF	Urban Reform Incentive Funds
UWSS	Urban Water Supply and Sanitation
VAMBAY	Valmiki Ambedkar Awas Yojana
WASH	Water, Sanitation and Hygiene
WB	World Bank
WC	Ward Committee
WGFE	Working Group of Feminist Economists
WHO	World Health Organisation
YUVA	Youth for Unity and Voluntary Action

# Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>Acknowledgements</b>	<b>xviii</b>
<b>Abbreviations</b>	<b>xx</b>
<b>Table of Contents</b>	<b>xxiv</b>
<b>List of Figures</b>	<b>xxv</b>
<b>1. Introduction</b>	<b>1</b>
India's Urban Challenges	2
Scope and Objectives of the Report	6
Collaborative Approach	10
<b>2. History of Urban Local Governments and Service Delivery</b>	<b>11</b>
History of Urban Reforms	12
Urban Service Delivery and Major Reforms	14
Integrating the Urban Poor	19
Measuring service-level performance	20
Strengthening accountability, transparency and community engagement	25
<b>3. Strengthening Finances of Municipal Government</b>	<b>29</b>
Strengthening Municipal Financing is Essential for Vibrant Cities	30
Own Sources of Municipal Revenue	39
<b>4. Strengthening Municipal Administration and Governance</b>	<b>59</b>
Devolution to ULBs and Complexity of Transfer of Services	60
Urban Planning and Models of Service Delivery	64
Challenges Related to Elected Positions and Lessons from New Provisions	67
Lack of Administrative Capacity	70
Strengthening Transparency and Financial Management Capacity	75
Inclusive Governance and Access to Services	78
<b>5. Key Recommendations</b>	<b>85</b>
Strengthening Service Delivery	86
Strengthening Municipal Finances	89
Strengthening Municipal Administration and Governance	93
<b>6. References</b>	<b>99</b>
<b>7. Annexures</b>	<b>113</b>
ANNEX I: DEVOLUTION OF 12 <sup>th</sup> SCHEDULE FUNCTIONS TO ULBs	114
ANNEX II: INSTITUTIONAL ARRANGEMENTS FOR WATER SUPPLY AND SEWERAGE	116
ANNEX III: MODE of ELECTION of CHAIRPERSONS AND THEIR TEAMS	117
ANNEX IV: STATUS OF CONSTITUTION OF DPCs AND MPCs	118

# List of Figures

<b>Figure 01:</b> Important policies and programs for municipal strengthening and FSSM .....	14
<b>Figure 02:</b> Challenges in Municipal Financing and Administration leading to Inadequate Service Delivery .....	21
<b>Figure 03:</b> Key Suggestions Across Relevant Areas .....	24
<b>Figure 04:</b> Sanitation Value Chain .....	32
<b>Figure 05:</b> How Do Cities Become Resilient? .....	32
<b>Figure 06:</b> Functions of ULBs according to the 12th Schedule, 74th Constitutional Amendment Act, 1992 .	42
<b>Figure 07:</b> A Synopsis of the JNNURM Programme .....	43
<b>Figure 08:</b> Timeline of Programmes to Strengthen Infrastructure and Water & Sanitation Services .....	45
<b>Figure 09:</b> PAS - San Benchmarks to Assess Sanitation Services Across the Value Chain .....	51
<b>Figure 10:</b> IGT to Municipal Governments as a Proportion of GDP .....	58
<b>Figure 11:</b> Share of State versus Central Transfers .....	60
<b>Figure 12a:</b> Share of Programme Budget in Urban Sector Budget .....	62
<b>Figure 12b:</b> Influence of Central Schemes on Programme Expenditure .....	62
<b>Figure 13:</b> Measures for assessing fiscal decentralisation .....	63
<b>Figure 14:</b> Assessing Fiscal Decentralisation .....	64
<b>Figure 15:</b> Issuance of Municipal Bonds in India from 1997 to 2019 .....	65
<b>Figure 16:</b> Property Tax as a Percentage of GDP in Select Countries .....	67
<b>Figure 17:</b> Per Capita Property Tax in India by State, 2017–18 .....	68
<b>Figure 18:</b> Per Capita Property Tax as a Percentage of Per Capita GSDP .....	69
<b>Figure 19:</b> Per Capita Property Tax by Size of ULB .....	73
<b>Figure 20:</b> Average Collection Efficiency of Property Tax across States, 2016–18 .....	74
<b>Figure 21:</b> Collection Efficiency of Property Tax in Municipal Corporations versus Municipal Councils .....	75
<b>Figure 22:</b> Share of Arrears to Total Demand, in Percentage, 2018 .....	75
<b>Figure 23:</b> Extent of Cost Recovery in Municipal Services across Five States (India), 2018 .....	77
<b>Figure 24:</b> Extent of Cost Recovery of Municipal Services by City Size (India), 2018 .....	78
<b>Figure 25:</b> Extent of Water Metering across States .....	78
<b>Figure 26:</b> Extent of Water Metering by City Size .....	78
<b>Figure 27:</b> Share of Own Income and Per Capita Own Income .....	81
<b>Figure 28:</b> Types of non-tax revenue resources .....	83
<b>Figure 29:</b> Urban Planning Activities Recommended to State for ULBs .....	91
<b>Figure 30:</b> Type of Governing Bodies and Personnel of ULBs .....	94
<b>Figure 31:</b> Estimating Additional Funding Requirements for Staffing .....	102
<b>Figure 32:</b> Strengthening Service Delivery .....	114
<b>Figure 33:</b> Strengthening Municipal Finances: IGTs and Sources of Own Revenue for ULBs .....	119
<b>Figure 34:</b> Strengthening Municipal Administration and Governance .....	122



# 1. Introduction



This chapter sets the context for the report and lays out India's current urban challenges and the need for municipal strengthening. The NFSSM Alliance has adopted a collaborative approach to further the discourse around municipal strengthening, with a view to improving inclusive service delivery for citizens.

## India's Urban Challenges

India has been witnessing rapid urbanisation and needs to invest in cities, now more than ever.

In 2011, India's urban population stood at 377 million or 30 percent of the country's total population (Census 2011), as against 290 million in 2001. The number is expected to have reached 460 million or 34 percent of the population by 2018 (United Nations). This urban proliferation is expected to continue, potentially resulting in an urban population of 607 million by 2030 and 876 million by 2050 (United Nations' World Urbanisation Prospects 2018).

The urbanisation of India shows two spatial characteristics—an increasing number of metropolitan cities and a growth in the population of these cities. The number of metropolitan cities in the country increased from 35 in 2001 to 52 in 2011 (Census 2011). Furthermore, India's urban GDP is expected to make up almost 70 percent of the country's total GDP by 2030 (McKinsey Global Institute, 2010).

The accelerated urbanisation and flourishing economy of urban centres have invited a booming population into cities, which creates a demand for better infrastructure and service delivery.

However, the growth in urban infrastructure across India's cities has been disproportionate with population growth and has put local authorities and resources under immense pressure. India's accelerated urbanisation makes it imperative that the country invests heavily in strengthening its urban infrastructure.

While there has been considerable investment in infrastructure, the limited financial and

### Key Insight

To strengthen municipal capacity and empower ULBs to function effectively and ensure the delivery of quality services, it is important to strengthen their financial and institutional Strength through the adequate transfer of resources and institutional powers

institutional capacity of municipalities is a key challenge that hinders the delivery of quality and basic services across urban areas. To strengthen municipal capacity and empower ULBs to function effectively and ensure the delivery of quality services, it is important to strengthen their financial and institutional strength through the adequate transfer of resources and institutional powers.

### Steps in the right direction

The 74<sup>th</sup> CAA accorded constitutional status to ULBs and recognised them as independent institutions of local self-government. The legislation aimed at economic development by making provisions for the devolution of funds, functions and functionaries, so that ULBs can perform their duties as efficacious democratic institutions.

The 12<sup>th</sup> Schedule of the Indian constitution includes 18 functions that Indian states should devolve to municipalities. However, with respect to functional and fiscal devolution, the 74<sup>th</sup> CAA



only provides a broad remit for state governments to devolve through their functions, revenue, fiscal transfers, etc. Hence, the functional role of ULBs, while within the boundaries of the 12<sup>th</sup> Schedule, are dependent on state laws that devolve and empower them. State governments also define the fiscal powers of ULBs.

In 2005, the GoI launched the JNNURM, which guides cities to improve service delivery in a financially sustainable manner. The GoI has increased its engagement with urban systems since the launch of the mission. Under the JNNURM, fund disbursements are tied to specific reforms at the state and local levels, to incentivise governments to undertake urban reforms.

The launch of AMRUT fortified the government's commitment to wide-ranging municipal restructuring. Reforms under the scheme were focussed on enabling ULBs to perform their functions more efficiently through the use of modern technology (Jha 2020).

### The problem at the heart

Despite several measures, the process of empowering ULBs has been slow and has lacked fiscal decentralisation and functional autonomy. In many states, urban basic services are provided by state-level agencies, and ULBs still depend on state governments for funds and decision-making. Thus, ULBs face challenges in operating and maintaining infrastructure, as well as delivering services to citizens.

A similar situation can be seen in the case of sanitation infrastructure in urban India. Sanitation-related initiatives have received a large push towards universal access with programmes such as the Swachh Bharat Mission and policies such as the National Policy for Faecal Sludge and Septage Management (2017). Select states have also committed to scaling up FSTP and decentralising solutions over the past few years. However, the implementation of these initiatives could be impeded if ULBs do not have the requisite capacity for service delivery. Therefore, it is crucial that the GoI complements infrastructural investment with municipal strengthening to ensure basic services

## Key Insight

The key challenges faced by ULBs are related to institutional arrangements, administrative capacities and financing mechanisms. At present, the level of investment in urban infrastructure and services is low, while the capital requirement is high.

such as sanitation for all. There is a mismatch between the expectations from local governments and their financial and administrative capacity to deliver services and improve conditions for citizens.

### Local governance, urban service delivery and investment challenges

The key challenges faced by ULBs are related to institutional arrangements, administrative capacities and financing mechanisms.

At present, the level of investment in urban infrastructure and services is low, while the capital requirement is high. For instance, the Planning Commission's 10<sup>th</sup> Five-Year Plan (2002–07) focussed on the provision of water supply and sanitation facilities to 100 percent of the urban population and sewerage and sanitation provisions for 75 percent of the urban population by the end of 2007. Funds required for water supply, sanitation and solid waste management were projected at INR 53,719 crore. However, only INR 35,800 crore was made available by the government (shortfall of 33.4 percent) (Mohanty et al, 2007).

As funds of this size are beyond the budgetary resources of ULBs, IGTs and public-private partnerships are crucial to bridge this gap. Given that ULBs are entrusted with the responsibility to manage the delivery of essential services, the need to strengthen municipal finances becomes even more important.

## Key Insight

This report focusses on finding ways to ensure quality service delivery to citizens. The paper has also been written in light of the COVID-19 pandemic, which has made it apparent that urban systems in India are strained

While the 74<sup>th</sup> CAA listed the responsibilities of ULBs, it failed to mention the legitimate sources of revenue for local bodies. Although ULBs have been given the task of creating detailed plans for various important issues, the ability to increase finances (by incrementally adjusting tax rates) lies solely with the state legislature. As a result, there is a lack of balance between their revenue-generating powers and expenditure accountability. The current allocation of administrative duties weighs on ULBs' revenue-generating capacities and hinders their ability to effectively deliver services under the 12<sup>th</sup> Schedule of the Constitution (Gupta and Chakraborty 2019).

For ULBs, the financial hurdles range from transfer of funds by states, absence of performance-linked grant systems, inadequate mobilisation of existing revenue streams (e.g., property tax collection), inadequate financial autonomy to improve resources, and poor management and absorption of funds at the municipal level.

With regard to administration, ULBs' key challenges are overlapping responsibilities, lack of coordination between departments and parastatals, geographic barriers, low incentive to perform better and limited autonomy for mayors to steer better service delivery. Inadequate personnel, limited skills and weak human resource capacity are other insufficiencies that challenge ULBs. These result from various factors, including irregular elections, prolonged supersessions and inadequate devolution of powers and functions. Small and medium cities that have higher financial constraints are more affected by these challenges than their larger counterparts.

The need to address issues that impede the delivery of quality sanitation services is critical as ULBs continue to jostle with a lack of data and coordination, fiscal limitations and non-inclusive planning, etc.

## Empowering local governments to make cities more resilient

This report focusses on finding ways to ensure quality service delivery to citizens. The paper has also been written in light of the COVID-19 outbreak, which has been labelled a pandemic by the World Health Organisation (WHO). According to the WHO, COVID-19 is a global health emergency, as well as a social, economic and political crisis with long-lasting effects. The pandemic has made it apparent that urban systems in India are strained. The report discusses the need for cities to manage external shocks (emergencies, pandemics, etc.) and improve resilience.

In India, ULBs are using their financial and human resource capabilities to counter these challenges. However, their institutional limitations and dependence on state governments are roadblocks to the full realisation of their potential.

## How do cities become resilient?

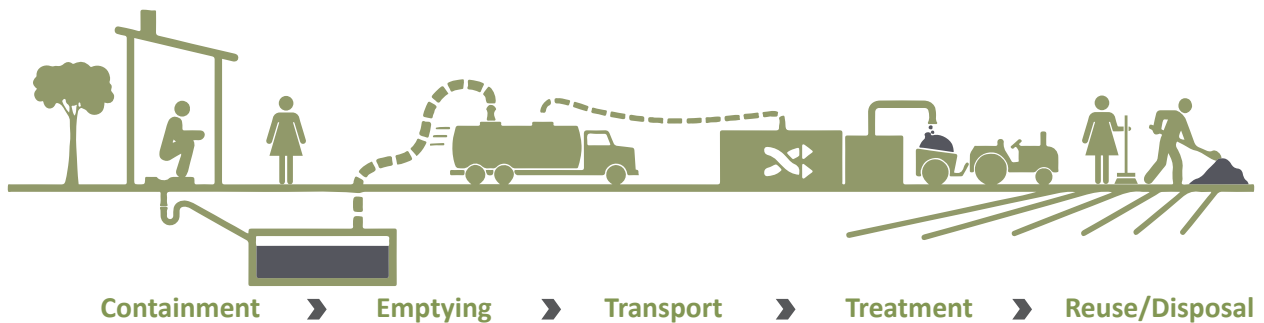
“Resilient cities are cities that have the ability to absorb, recover and prepare for future shocks (economic, environmental, social and institutional). Resilient cities promote sustainable development, well-being and inclusive growth.” – Organisation for Economic Co-operation and Development (OECD).

For cities to become truly resilient in the long run, they need strong local governance, sustainable

## Key Insight

Institutional limitations and dependence on state governments pose as roadblocks to realization of the potential of Indian ULBs

**Figure 04: Sanitation Value Chain**



urban systems and empowered institutions. In this paper, we discuss the two most important aspects of a resilient city:

This report aims to make recommendations to empower and capacitate ULBs. Stronger ULBs will result in more efficient and equitable delivery of

essential services, such as sanitation, water supply and solid waste management, and support more appropriate investment in civic infrastructure. It also outlines critical recommendations for policymakers to enable and support municipal strengthening, especially in relation to institutional and financing mechanisms.

**Figure 05: How Do Cities Become Resilient?**



**Financial resilience,**  
which can be achieved by

- a) Ensuring adequate, predictable and untied intergovernmental transfers to ULBs,
- b) Supporting measures to increase income, including the tapping of property tax potential,
- c) Linking service level benchmarks (SLBs) to finance infrastructure investment plans, and
- d) Empowering and capacitating ULBs to effectively manage their financial resources.



**Institutional resilience,**  
which can be achieved by

- a) Focussing on human capital using a cadre management system,
- b) Recognising and strengthening ULB and societal capacity,
- c) Building data systems and monitoring mechanisms that promote transparency and accountability, and
- d) Fostering close relations with the community and local stakeholders.

## Scope and Objectives of the Report

- **State of municipal governance in India and sanitation service delivery**
- **Need for focus on small and medium towns**
- **Inclusive and equitable service delivery**

### State of municipal governance in India and sanitation service delivery

At present, 45 percent of urban households in India depend on on-site sanitation systems (toilets connected to septic tanks and pits). The National Policy for FSSM, released by the Ministry of Housing and Urban Affairs (MoHUA) in 2017, acknowledges that more than 7000 small towns in India do not have proper sewerage systems. These towns will require town-wide FSSM plans and investment in infrastructure and service delivery (for regular desludging of septic tanks and treatment of faecal

### Key Insight

The 74<sup>th</sup> CAA has recommended the transfer of water and sanitation to ULBs. Sanitation is one of the core obligatory functions of ULBs, as per municipal laws passed by state governments. By 2014, most states in India had a developed sanitation function and 21 states had completed the JNNURM-mandated transfer of water supply and sanitation functions to ULBs.’

sludge and septage).

The 74<sup>th</sup> CAA has recommended the transfer of water and sanitation to ULBs. Sanitation is one of the core obligatory functions of ULBs, as per municipal laws passed by state governments. By 2014, most states in India had a developed sanitation function. In addition, 21 states, except large states such as Karnataka and Rajasthan, had completed the JNNURM-mandated transfer of water supply and sanitation functions to ULBs (Administrative Staff College of India, 2014, and Doreshor, 2015).

The National Urban Sanitation Policy (NUSP) 2008, the National Policy on FSSM 2017, and key schemes such as AMRUT and the SBM-U have defined the salient role of ULBs in the sanitation domain.

Policies and schemes usually entrust ULBs with the responsibilities for planning, financing, implementing and managing sanitation investments (revenue functions, local stakeholder engagements, etc.). The central and state governments are expected to render technical and financial support; develop enabling legal, policy and regulatory frameworks; and exercise strategic oversight. Despite the division in roles and responsibilities, ULBs face substantial challenges to realising the substantive role envisaged for them in urban governance, including in the sanitation domain.

This report analyses the state of municipal governance in India, based on examples from the water and sanitation segments. It highlights the need for strong municipal governments with a focus on the delivery of essential local services across urban India, emphasises the need to adopt an inclusive approach to urban planning and service delivery and examines the role of ULBs in the delivery of essential services. It argues that safe sanitation, particularly FSSM, is crucial to ensure that all Indian cities meet the Sustainable Development Goals (SDG), specifically SDG 6.

### Need for focus on small and medium towns

India has 3478 ULBs across towns with a population lower than 100,000 (Census 2011). This report argues that the efforts to strengthen municipal





Aerial view of Trichy, a town in Southern India - Image courtesy of IHS

## Key Insight

India has 3,478 ULBs across towns with a population lower than 100,000 (Census 2011) and this report argues that the efforts to strengthen municipal governance should primarily cover these small and medium towns, which often lack financial resources and do not have the capacity to deliver on their functions.'

governance should primarily cover these small and medium towns, which often lack financial resources, receive a lower budget allocation in national / state programmes and do not have the capacity to deliver on their functions. Although the government's Integrated Development of Small and Medium Towns (IDSMT) scheme focussed on the needs of small and medium towns, the allocation of funds has been too small to address most issues.

Moreover, at present, most urban programmes and centrally sponsored schemes (CSS) focus on large cities, rather than towns. For instance, AMRUT covers 500 cities with a population exceeding 100,000, while the National Smart Cities Mission covers about 100 high-population cities. Only the Swachh Bharat Mission Urban (SBM-U) is focussed on small and medium towns.

The problems of smaller cities are aggravated by their limited fiscal capacity. Land and property

## Key Insight

At present, most urban programmes and centrally-sponsored schemes (CSS) focus on large cities, rather than towns. For instance, AMRUT covers 500 cities with a population exceeding 100,000, while the National Smart Cities Mission covers about 100 high-population cities.



## This report aims to:

- Identify the gaps and challenges that impede the delivery of quality sanitation services.
- Highlight the need to focus on small and medium cities through redistribution of grants, as a majority of the recent urban programmes has focussed on larger cities.
- Portray the importance of keeping the marginalised sections at the centre of urban planning.
- Identify mechanisms, especially around institutional arrangements and financing, and make recommendations to strengthen municipal governance.
  - The recommendations include mechanisms that improve financing for universal coverage of water and sanitation services and sustained operation of sanitation systems, and
- Measures to strengthen municipal governance to ensure adequate human resources and a sound regulatory framework.
- Support the promotion of these recommendations by the central and state governments to ensure systematic implementation.
- Support engagement with government stakeholders to strengthen service delivery across cities and towns.

value is much lower in smaller towns, as reflected in their per capita property tax, which is one-fourth that of larger cities. This poses a large challenge in raising own revenues for spending on urban services (Mehta and Mehta 2020).

### **Inclusive and equitable service delivery**

This report focusses on vulnerable groups, including the urban poor and women, and explores how these groups can be at the centre of urban planning. It also discusses the challenges faced by these groups in accessing service delivery.

It recommends the empowerment of ULBs to ensure the availability of services for vulnerable groups, including individuals with physical disabilities, urban poor in informal settlements, migrant workers, pregnant or menstruating women and other marginalised communities. It

also suggests an infusion of equity and inclusivity at both the planning and service delivery (including design, operation and maintenance) stages, as it is pivotal to the success of any ULB programme.

In India, increased urbanisation has led to an increase in the number of urban poor. The lack of space, as well as economic constraints, hinder ULBs from reaching the urban poor in slum areas or informal settlements and limit the urban poor's ability to access services such as safely managed sanitation. The 12<sup>th</sup> Schedule entrusts ULBs with the responsibility of safeguarding the interests of the weaker sections of the society, improving and upgrading slum dwellings and alleviating urban poverty. However, there is a lack of an appropriate model of inter-governmental finance for local bodies to tackle the colossal problem of urban poverty.



Municipal strengthening requires concerted engagement of central and state governments with stakeholders -  
*Image courtesy of IIHS*

“Although the theory of public finance suggests that redistribution issues are best tackled by higher levels of government through the provisioning of inter-governmental transfers, there is no appropriate model of inter-governmental finance for local bodies in India to tackle the colossal problem of urban poverty”

(Mohanty et al, 2007). This suggests that to combat this enormous challenge of urban poverty, it is important to recognise the role of ULBs in ensuring service delivery to the urban poor and devolve finances to them in managing the needs of the weaker sections of the society.



## Collaborative Approach

This report draws on the NFSSM Alliance as well as other researchers' and practitioners' experience to capture various research opinions, expert views and on-ground observations. The alliance's discussions on issues related to municipal strengthening have also included a roundtable in which all partners and sector experts shared their on-ground experience and insights to aid collaborative research.

### Roundtable on municipal strengthening

The NFSSM Alliance and its partners regularly engage in cross-sector and cross-organisation collaboration to analyse challenges and develop recommendations on key urban services and sanitation-related themes. In January 2019, the Alliance created the ULB Strengthening Taskforce, which convened a roundtable in May 2019. The roundtable focussed on key challenges of municipal governments at the central, state and local levels, as well as provided recommendations to strengthen their institutional, administrative and financial capacity. It was attended by 40 urban development experts, including academics, experts, practitioners and retired senior administrative officers (IAS).

This report uses insights from the roundtable as the base for its recommendations. It is also a work of collaboration between a number of organisations, including the Centre for Water and Sanitation at CRDF, CEPT University, Ernst & Young, Urban Management Centre, Indian Institute of Human Settlements, Bill and Melinda Gates Foundation and Dasra. It incorporates feedback from a large

## Key Insight

The NFSSM Alliance supports central and state governments to empower ULBs for service delivery.

number of sector partners.

### Government Engagement for Adoption of Recommendations

Evidence developed as part of this report has also helped in the development of a memorandum shared by the NFSSM Alliance with the 15<sup>th</sup> Central Finance Commission to consider the inclusion of recommendations on municipal strengthening. Recommendations made by the NFSSM Alliance and the efforts towards empowering local governments yielded in acceptance of 6+ critical recommendations by the 15<sup>th</sup> Finance Commission, including the inclusion of FSSM in sanitation grants to ULBs, increase in allocation of united grants to ULBs, emphasis on raising own revenues, mandatorily instituting State Finance Commissions and strengthening of ongoing monitoring of service delivery through Service Level Benchmarks.

The NFSSM Alliance supports central and state governments to empower ULBs for service delivery. The Alliance will further share this report with the MoHUA, state governments and sector professionals. It will also be made available across appropriate platforms for government and sector officials.



## 2. History of Urban Local Governments and Service Delivery



This chapter provides an overview of urban reforms and national programmes undertaken to strengthen local governments and improve the delivery of essential services such as sanitation. The NFSSM Alliance seeks a participatory approach in governance and urban development by involving community voices, such as of the urban poor, women and marginalised groups. This chapter demonstrates the role of service level benchmarks and e-governance, calls for capacity building of ULB officials and focusses on the need to strengthen platforms so that representatives can advocate for municipal strengthening.

## History of Urban Reforms

As of 2017, India had 4,657 ULBs, including municipal corporations, municipalities and town panchayats, up from 3,723 in 2001 (CLGF, 2017-18).

It is imperative to consider the growth of small and medium towns while analysing urbanisation and population.<sup>1</sup> India had 5,627 towns in 2011, up from 3,975 in 2001 (Census 2011).

Towns in India are classified based on governance – (i) statutory towns (those notified under the law by the concerned state / UT government and governed by urban local bodies such as municipal corporations, municipalities and municipal committees) and (ii) census towns (those with predominantly urban characteristics but governed by state rural departments). In 2011, India had 3,892 census towns (population of 54 million), accounting for nearly 14 percent of the total urban population. During 1991–2001, the number of census towns surged a 186 percent vis-à-vis a 6 percent increase in the number of statutory towns (Aijaz 2019).

While the population share of small towns (i.e., towns with a population of less than 1,00,000) vis-à-vis total urban population increased from

19 percent to 36 percent during 2001–11, the share of census towns almost doubled from 7.4 percent to more than 14 percent. Considering the demographics and predominantly urban character of census and statutory towns, strong local governments are crucial for better urban service delivery.

## Provisions for ULBs under the 74<sup>th</sup> CAA

Until 45 years post-independence, municipal government functions were largely driven by federal principles of the Constitution of India and were under the administrative control of states (R. Jha 2007).

The 74<sup>th</sup> CAA adopted in 1992, proposed to form a uniform structure of municipal corporations for larger urban areas, municipal councils for smaller urban areas and Nagar Panchayats for transitional areas. The amendment provided more power and authority to ULBs and was the first serious attempt to ensure the stabilisation of democratic municipal government through constitutional provisions.

The CAA was a landmark for local governments, as it introduced fundamental changes in the administrative role of ULBs. Furthermore, the 12<sup>th</sup> Schedule of the Constitution entrusted

<sup>1</sup> The Census of India classifies urban areas with a population of 20,000 to 99,000 as medium towns, while those with a population of 5,000 to 19,999 are considered to be small towns.

ULBs with the responsibility to plan and regulate development activities for cities. It also included sanitation and other infrastructure service delivery as part of functions that can be devolved by states.

The Act focusses on reservations for women and weaker sections in municipal governance. For instance, it mandates reservations for Scheduled Castes (SCs) and Scheduled Tribes (STs) in proportion to their population in a municipal area. It also reserves one-third of every elected urban body, including positions of chairpersons of municipalities, for women representatives.

While the 74<sup>th</sup> CAA envisioned administrative and fiscal decentralisation to local governments, there have been certain challenges in implementation, such as disparity in devolution across states, limited capacities of ULBs and continued reliance on central and state funds.

- **Disparate devolution across states:** There is a disparity in the level of devolution of functions in some states where certain functions such as water supply, sanitation and poverty alleviation are still under the administrative control of states. As per the Comptroller and Auditor General's Performance Audit Report of JNNURM (2012–13), "11 out of the 31 states / UTs have transferred all 18 functions recommended under the 74th CAA to ULBs. However, in reality, most of the states that have implemented the 74th CAA have not transferred all the functions to ULBs; where the transfer has happened on paper, there is a lack of functional devolvement for all 18 functions" (Thornton 2011).
- **Limited ULB capacities:** Amid the lack of devolution, municipalities, especially those in small and medium towns, still depend on state and central government grants to provide infrastructure and improve services. This could be attributed to the fact that ULBs lack in-house capacity to take over functions (as per the 74th CAA and 12th Schedule).
- **The multiplicity of functions under the domain of ULBs:** In light of the weak capacity of cities, the state governments assumed a

## Key Insight

The 74<sup>th</sup> CAA adopted in 1992, proposed to form a uniform structure of municipal corporations for larger urban areas, municipal councils for smaller urban areas and Nagar Panchayats for transitional areas - which provided more power and authority for ULBs. The Constitution's 12th Schedule included sanitation infrastructure and service delivery as functions that can be devolved by states.

higher role and power in the performance of ULB functions through the setting up of parastatals. Irrespective of the improved capacity of municipal bodies, parastatals got institutionalised. These are typically controlled by the states and have usurped functions and revenues that are the domain of ULBs. There are different modalities in the involvement of parastatal agencies in service delivery. In some states, such as Odisha, the entire function is taken up by parastatal agencies (state water supply and sewerage boards), while in states such as West Bengal, the infrastructure projects are designed and implemented by parastatal agencies but handed over to ULBs for operation and maintenance (Thornton 2011).

- **Over-reliance on states:** The Act introduced State Finance Commissions (SFCs) to recommend taxes, levies and duties to municipal governments and share them with ULBs. However, these bodies have not been able to augment the fiscal deficiencies of municipal governments, primarily due to their limited administrative power (Mathur, et al. 2011). The 74th CAA is not specific about the types of taxes ULBs should levy. On the

other hand, the power to determine the revenue base of ULBs rests with state governments. This is leading to a considerable gap in the functional and fiscal autonomy of ULBs. SFCs have not challenged the state-level political resistance to devolve and as a result, “urban local governments have remained hamstrung by the lack of funds and are having to function with unfunded mandates” (Ahluwalia 2017).

Although the CAA has not been able to strengthen municipal governance to a large extent, institutional arrangements in India have shifted from a centralised approach during 1951–92, to a decentralised approach since 1992. The mandatory reforms introduced under the JNNURM in 2005 attempted to nudge states and cities to implement the provisions of the 74<sup>th</sup> CAA.

## Urban Service Delivery and Major Reforms

Traditionally, urban programmes in India have focussed on capital-intensive infrastructure creation. However, in the last decade, the scope of urban development has expanded to include a participatory approach, with the involvement of all stakeholders and citizens. New programmes are embracing innovation and technology for project development and service delivery.

Several national policies have focussed on the subjects highlighted in Figure 06.

### Reforms under Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

In 2005, the Gol introduced the JNNURM to focus on infrastructure creation and reform the urban sector.

The scheme was designed to help improve urban facilities, with partial support from the Gol. By July 2014, the Gol had disbursed INR521 billion for urban infrastructure projects (total cost of INR1.292 trillion). More than 50 percent of the amount was disbursed for projects in water and sanitation (Ahluwalia 2017).

## Key Insight

By July 2014, the Gol had disbursed INR 521 billion for urban infrastructure projects under JNNURM, more than 50% of which was for projects in water and sanitation.

For the 65 mission cities identified under the programme, ULBs were required to prepare a city development plan (CDP) and identify specific infrastructure projects for funding. State governments would approve the CDP and the projects. Thereafter, the project would be presented to the Gol for approval and part financing. The rest of the financing had to be arranged by the state and urban local governments. The investment support from the Gol was conditional on a set of 23 reforms to be made by the state and urban local governments (Ahluwalia 2017).

The reforms were primarily aimed at improving the institutional efficiency and revenue of ULBs, decentralising urban governance and developing urban infrastructure and service delivery mechanisms through appropriate planning, development and management.

The reforms were categorised into three types – mandatory at the state level, mandatory at the ULB level and optional. These reforms were agreed upon by the states and ULBs in a tripartite agreement and formalised as a Memorandum of Agreement.

The list of reforms was kept constant across states / ULBs and all reforms were required to be undertaken by states / ULBs irrespective of their population, willingness, preparedness, applicability, implementability, financial capacity, personnel capacity, etc.

Not all cities were able to initiate and sustain some of these reforms owing to the lack of capacity and resources, political instability, insufficient

**Figure: 06 Functions of ULBs according to the 12th Schedule, 74th Constitutional Amendment Act, 1992**



**The NFSSM Alliance focusses on inclusive and sustainable water and sanitation service delivery**

support and consideration from the respective state governments, and the lack of administrative efficiency and coordination. For example, as per the 12<sup>th</sup> Schedule of the Constitution of India, one of the reforms under the JNNURM required specific functions / subjects to be transferred from the state governments to municipalities. It was determined in the reform agenda that based on the Model

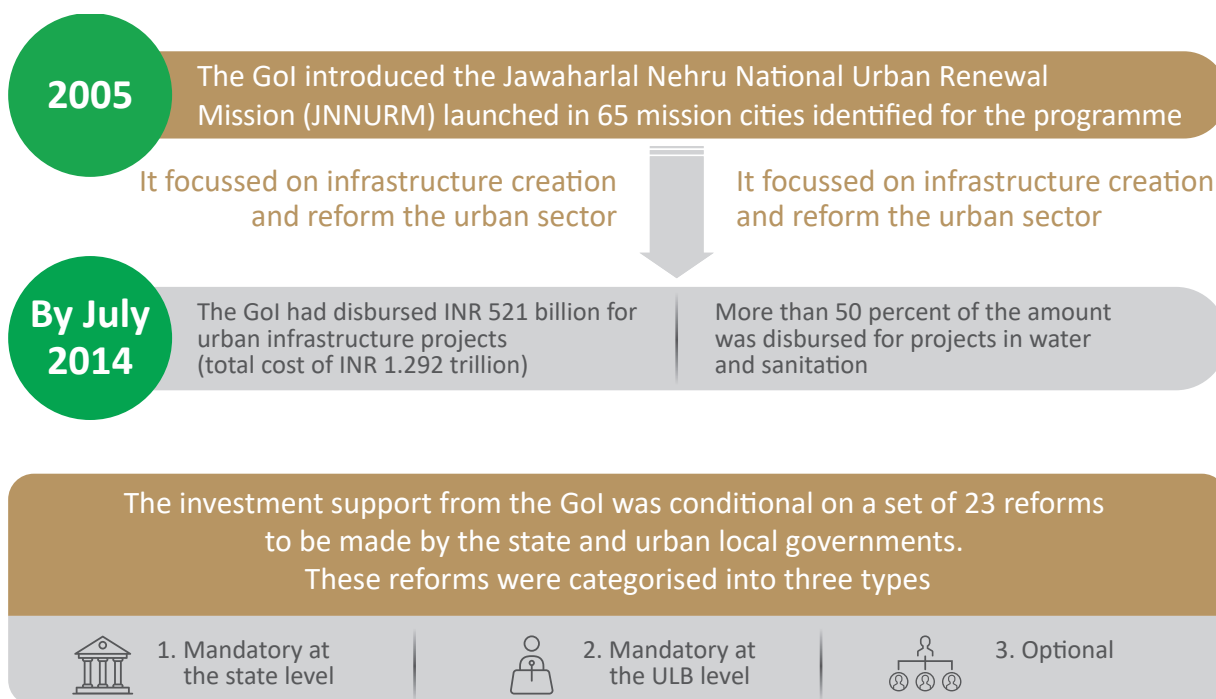
Municipal Law (MML), the states could tailor their own municipal acts and take up urban service delivery. However, several states were unable to formulate or modify their municipal acts; even if they did, they could not transfer the functions.

The MML classifies municipal functions into three categories, namely, core municipal functions,

functions assigned by the government, and other functions. Core municipal functions include water supply, economic and social development plans and management of transportation systems. Despite water supply being a core function, states did not perform well in transferring water supply services to municipalities, which are still managed by parastatal agencies (Thornton 2011).

The JNNURM focussed on concerted support for Urban Infrastructure Development Scheme for Small & Medium Towns (UIDSSMT). However, the amount invested in UIDSSMT was not significant enough to bring about any appreciable improvement in the infrastructure of cities to make them investment destinations for industry and trade (Thornton 2011).

**Figure: 07 A Synopsis of the JNNURM Programme**



- Challenges**
- Not all cities were able to initiate and sustain some of the reforms owing to the lack of capacity and resources, political instability, insufficient support and consideration from the respective state governments, and the lack of administrative efficiency and coordination.
  - Several states were unable to formulate or modify their municipal acts; even if they did, they could not transfer the functions under the 12th Schedule of the Constitution.
  - Despite water supply being a core function, states did not perform well in transferring water supply services to municipalities, which are still managed by parastatal agencies.
  - The amount invested in Urban Infrastructure Development Scheme for Small & Medium Towns (UIDSSMT) was not significant enough to bring about any appreciable improvement in the infrastructure of cities to make them investment destinations for industry and trade.



## Other programmes that have strengthened infrastructure and water and sanitation services

### Atal Mission for Rejuvenation and Urban Transformation (AMRUT)

The AMRUT scheme was launched in 2015 as a continuation of the JNNURM. The scheme is aimed at improving infrastructure for water supply, sewerage and septage, stormwater drainage, non-motorised urban transport and green spaces / parks in 500 Indian cities over a 5-year period. It has a budget allocation of INR500 billion (Ahluwalia 2017).

AMRUT aims to improve the delivery of essential services to citizens at a lower cost, boost their financial health, strengthen the delivery of online services, augment resources, enhance transparency and prepare GIS-based master plans.

In 2015, AMRUT's water supply coverage across its catchment area stood at 64 percent; it aims to achieve 100 percent coverage by the end of its tenure by 2020. The scheme aims to install 13.9 million water tap connections across its coverage area; 2.3 million had been installed until April 2019. It aims to expand sewerage coverage from 31 to 62 percent of the households within its coverage area. Besides creating an infrastructure for basic amenities, AMRUT focusses on reforms related to the establishment of municipal cadre and capacity building for ULBs.

With regard to fund devolution, AMRUT has made provisions to ensure the transfer of the 14<sup>th</sup> Finance Commission devolution to ULBs, the appointment of SFCs, implementation of recommendations by state finance commissions and transfer of all the 18 functions (identified in the 12<sup>th</sup> Schedule) to ULBs. It has set aside 10 percent of its annual budget as an incentive for states / UTs that accomplish goals within specified timelines (<http://amrut.gov.in/content/>).

### Swachh Bharat Mission–Urban (SBM–U)

Launched in 2014, Urban (SBM–U) is the world's largest cleanliness mission. It aims to make urban India open defecation free (ODF) and achieve 100% scientific treatment and disposal of solid waste.

Besides eliminating open defecation, the mission aims to end manual scavenging by creating public awareness and by constructing toilets (Ministry of Urban Development, Government of India, 2011).

The estimated cost required to cover all statutory towns under the SBM–U is INR620 billion. Of this amount, the Gol will contribute INR150 billion, while the remaining has to be funded by state governments, ULBs and the private sector (Ahluwalia 2017).

Under the mission, the Gol has constructed 6.2 million individual household toilets and 0.6 million community and public toilets. It has also achieved 66 percent waste processing coverage, with 100 percent door-to-door collection of waste in 81,783 wards and 100 percent source segregation in 64,940 wards (SBM–U, 2019).

The second phase of the mission, Swachh Bharat Mission (Urban) 2.0 announced in 2021, has a total outlay of INR 1,41,678 crore over 5 years. In addition to components like solid waste management and sustainable sanitation through the construction of toilets, SBM 2.0 will also focus on wastewater treatment, including complete FSM across ULBs with less than 1 lakh population. (Ministry of Housing and Urban Affairs 2021).

### Smart City Mission (SCM)

The SCM uses a challenge-based approach under which cities can self-select their development vision; proposals are ranked based on the quality of plans. The SCM grants significant room for innovation in service delivery models and new services, as well as for participation by citizens and local businesses. It aims to introduce and leverage technology in development projects. The Gol has committed INR480 billion over a 5-year period for 100 selected cities under the SCM. State governments are expected to contribute about the same amount, taking the total fund to about INR1,000 billion (Ahluwalia 2017).

### National Urban Livelihood Mission (NULM) or Deendayal Antyodaya Yojana NULM (DAY NULM)

The NULM focusses on the occupational and social vulnerabilities of India's urban poor. It creates

opportunities for skill development to enable market-based employment and self-employment ventures. The mission promotes livelihood opportunities and enables the scaling of community platforms such as self-help groups (SHGs). About 0.5 million SHGs had been constructed under the mission, as of March 2020.

### Jal Jeevan Mission

Launched in 2019, this mission was implemented by the Department of Drinking Water and Sanitation, Ministry of Jal Shakti. It aims to provide safe and adequate drinking water through individual household tap connections to all households in rural India by 2024. It will also guide the mandatory implementation of source sustainability measures, such as recharge and reuse through greywater management, water conservation and rainwater harvesting.

In 2021, AMRUT 2.0 has been announced “to provide **universal coverage of water supply to all households** through functional taps in all 4,378 statutory towns in accordance with SDG Goal- 6.”

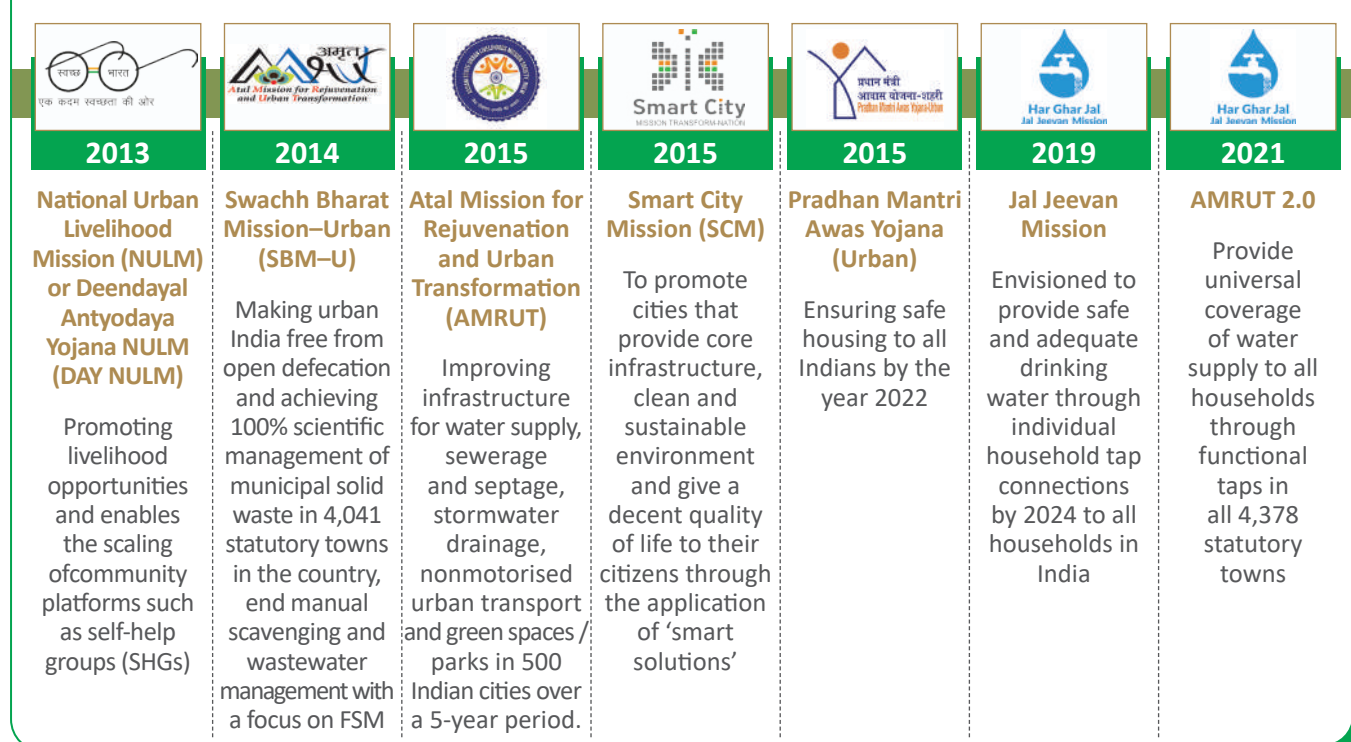
The total outlay proposed for the mission is INR 2,87,000 crore, including INR 10,000 crore for continuing financial support to AMRUT Mission. In addition, to promote Public-Private Partnerships, the government has mandated large cities (million-plus population) to undertake PPP projects worth at least 10 % of total project allocations. (Ministry of Housing and Urban Affairs, 2021)

### Pradhan Mantri Awas Yojana (Urban)

This scheme, launched in the same year as AMRUT, aims to provide housing for all Indians by 2022. It promotes multiple models of development and options for beneficiaries, thereby benefiting a larger urban populace and broader sections of the society. The scheme is being implemented across statutory towns.

The GoI has also launched many schemes to provide technical and financial support to states and cities for infrastructure improvement. However, many of these schemes did not adequately focus on strengthening city capacity to meet the government’s goals.

**Figure: 08 Timeline of Programmes to Strengthen Infrastructure and Water & Sanitation Services**



## Integrating the Urban Poor

The increasing number of urban slums is a key challenge for local governments, as their growing population requires planning and resources. Strengthening municipal infrastructure will provide the ability to cater to the most marginalised urban poor. The GoI has implemented several schemes in the areas of health, basic education, mother and childcare, community-level water supply and toilets, vocational training and employment generation, to improve the life of the poor.

India's first Urban Community Development (UCD) project was initiated in 1958. It was designed to cover a population of 50,000 and had approximately eight area-level committees, with a population of 6,000 each. These committees were further subdivided into 12 primary units consisting of a population of 500. Each neighbourhood had its own 'Neighbourhood Committee.' The UCD had a project officer and eight community organisers, who were supported by volunteers (Chandra, 1972).

The community-focussed approach was implemented in several subsequent government projects, which emphasised the need for development through community participation. A key way of garnering community participation in development programmes is by fostering livelihood opportunities for the poor and women.

In the early-1980s, the National Bank for Agriculture and Rural Development (NABARD) started promoting self-help groups (SHGs) in rural areas. The concept was later introduced in urban areas and has been used in several government schemes.

### Key Insight

The increasing number of urban slums is a key challenge for local governments, as their growing population requires planning and resources.

### Key Insight

The Government of India has rolled out several schemes to upgrade and rehabilitate slums, including the Accelerated Urban Water Supply project, Integrated Low-Cost Sanitation, Rajiv Awas Yojana (2009), and the Pradhan Mantri Awas Yojana (2015).

The JNNURM also provided Basic Services to the Urban Poor (BSUP), including the security of tenure; improved housing, water supply and sanitation; and better convergence of universal services for education, health and social security.

Under BSUP, it also laid out reforms for ULBs that mandated

- Internal earmarking within local body budgets for basic services to the poor, in proportion to their share in the total population
- Implementation of a seven-point charter for the provision of basic services to the urban poor (BSUP)
- Earmarking at least 20–25 percent of developed land in all housing projects (both public and private agencies) for the economically weaker section (EWS) and low-income group (LIG) with cross-subsidisation

### Improvements in slums and access to water and sanitation

From 1970 to the early-1980s, the GoI aimed at achieving 'slum-free cities.' This often meant forced or voluntary resettlement of slum dwellers. However, the GoI soon realised the ineffectiveness of the idea and shifted its focus on upgrading and rehabilitating slums.

It focussed on providing targeted water and sanitation improvement through the National Slum Development Programme (NSDP) and Valmiki Ambedkar Awas Yojana (VAMBAY). The





Women's self-help group (SHG) involved in sanitation work at Angul, Odisha - Image courtesy of NFSSM Alliance

### Example

The Ahmedabad Municipal Corporation (AMC) had initiated the Slum Networking Programme (SNP) in the mid-1990s. In this programme, slum communities partnered with government and non-government organisations to improve conditions in slum dwellings. Under this programme, slum dwellers received better access to water, sanitation, education, health and livelihood opportunities. This was one of the first city wide examples of provision of a bundle of services to the urban poor in a partnership mode.

government rolled out several schemes to achieve these goals, including the Accelerated Urban Water Supply Project, Integrated Low Cost Sanitation, Rajiv Awas Yojana (launched in 2009) and the Pradhan Mantri Awas Yojana (PMAY) (launched in 2015). The last two of these programmes focussed on upgrading slums and construction of low-cost housing for slum residents.

## Measuring service-level performance

For new investments in water supply and sanitation to be effective, it is important to assess the performance of the existing service delivery systems. To enable such performance measurement, the GoI introduced the use of service-level benchmarks (SLBs). These are broadly defined as a minimum set of standard performance parameters aimed at ensuring accountability in service delivery. The use of SLBs was first adopted under JNNURM to ensure accountability in service delivery. The mechanism paved the way for a shift in focus from infrastructure creation to service delivery.

In 2008–09, the Ministry of Urban Development (MoUD) (now MoHUA) released a handbook stating national benchmarks for four key sectors – water supply, sewerage, solid waste management and stormwater drainage. It included 28 performance indicators for these select sectors.

The 13<sup>th</sup> Finance Commission had included SLBs as one of the nine conditions for the allocation of

## Key Insight

The Ministry of Urban Development (MoUD) (now MoHUA) released a handbook in 2008–09 that included national service-level benchmarks for four key sectors – water supply, sewerage, solid waste management and stormwater drainage.

performance-based grants to ULBs, amounting to approximately INR80,000 million, over 2010–15 (Thornton 2011). The 14<sup>th</sup> Finance Commission also recommended the publication of SLBs as one of the eligibility criteria for performance-based grants. The 15<sup>th</sup> Finance Commission has recognised the importance of SLBs and recommends continue publication and monitoring of all the service level benchmarks. It further states that “This will facilitate transparency and accountability in service delivery and sustainability of the entire service level benchmarks initiative, which is now of almost fifteen years’ vintage.” (Finance Commission, 2020)

Introduced in February 2009 across 28 pilot cities in India, SLBs have come a long way since. In 2011–12, 1,202 ULBs across 14 states, and in 2012–13, 1067 ULBs across 8 states had implemented SLBs (PAS 2014).

### Scaling up regular use of SLBs across India

The use of SLBs for regular performance measurement received a boost in 2010, when the 13<sup>th</sup> Finance Commission included the publication of the status of these indicators as one of the nine conditions for the allocation of performance-based grants to ULBs. The 14<sup>th</sup> Finance Commission also continued the publication of SLBs as one of the eligibility criteria for performance-based grants to ULBs. As a result, most ULBs across India have reported their service performance across these 28 indicators over the past 10 years.

The continued use of performance grants will encourage performance reporting by ULBs. State

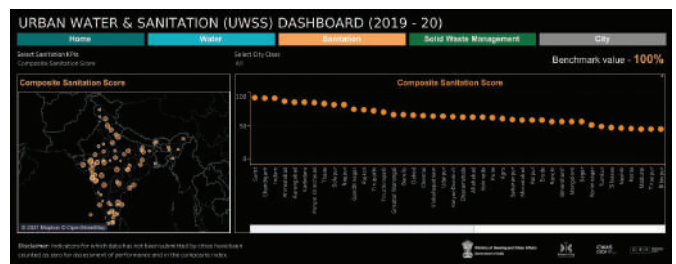
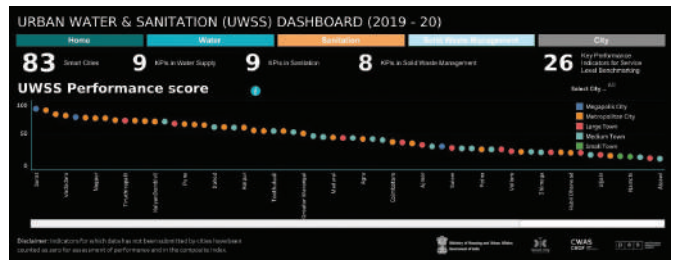
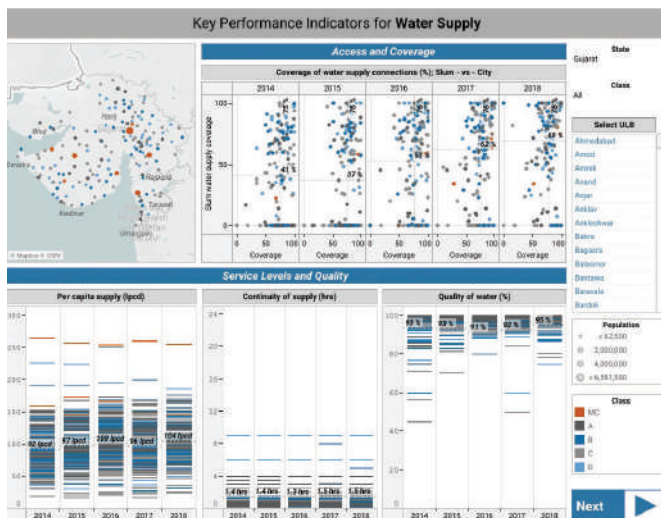
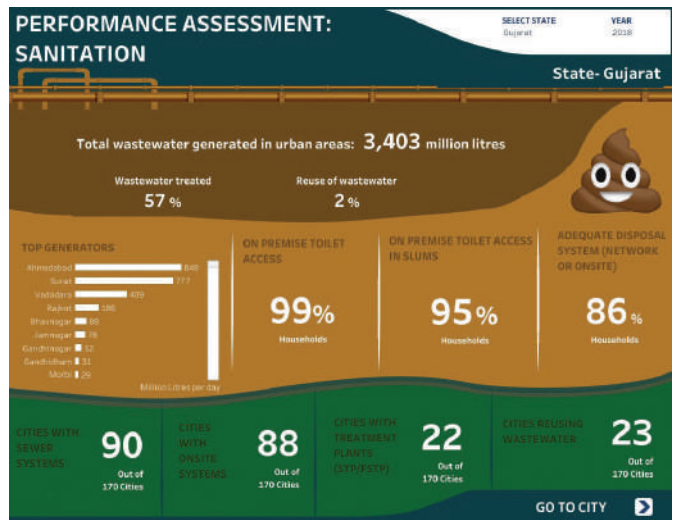
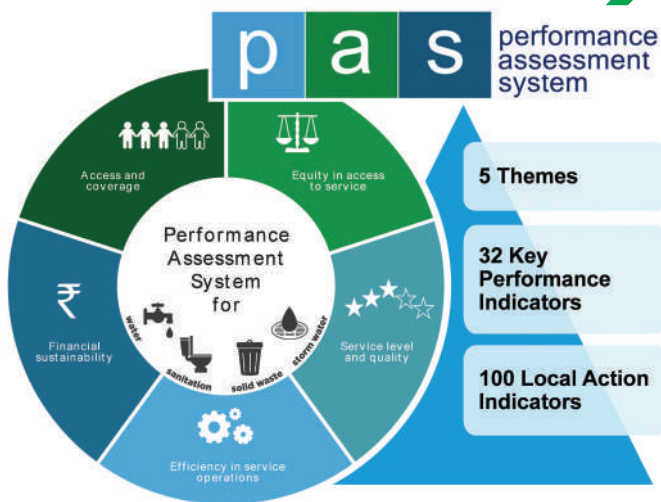
governments can set up performance assessment cells for better reporting and use of information for urban planning and reporting. The regular monitoring of service delivery outcomes and ULB finances will also provide useful data for State Finance Commissions.

### Online digital platform PAS-SLB for service performance assessment

A performance measurement framework (PMF) was developed for state-wide implementation of the benchmarking of water and sanitation service delivery under a major project on Performance Assessment System (PAS). The system was developed after reviewing international benchmarking efforts, past benchmarking studies in India and the use of performance information at the state and local levels. It is aligned with the Gol’s SLBs. In addition, it captures aspects of equity, on-site sanitation system and local action indicators. It also includes a standardised reliability assessment for performance indicators. This highlights the need to improve data availability to generate reliable performance measurement.

## Key Insight

The Online Performance Assessment System (PAS Online) - developed by CEPT and TCS - has been implemented across ULBs in Gujarat and Maharashtra since 2010 as a self-assessment tool. It captures aspects of equity, on-site sanitation system, local action indicators and a standardised reliability assessment for performance indicators. Since then, its use has expanded to three more states, in addition to being adopted by the Smart Cities Mission



Dashboard of the Performance Assessment System (PAS) — Image courtesy of CWAS

To ease the regular monitoring of SLBs, the Centre for Environmental Planning and Technology (CEPT) University (Ahmedabad) collaborated with the Urban Management Centre and the All India Institute of Local Self Government in July 2008 to develop a PAS for Urban Water Supply and Sanitation (UWSS). The project developed a reliable and sustainable system to measure and monitor the performance of urban water and sanitation services. PAS online was developed by

CEPT with support from Tata Consulting Services under an academic-industry partnership. Since 2010, it has been implemented across ULBs in Gujarat and Maharashtra as a self-assessment tool. The system is now being used in three other states and has also been adopted by the Smart Cities Mission for various smart cities.

The sector-wise interactive dashboards under PAS online provide state officials with easy access to powerful and visually intuitive data analysis



## Key Insight

A new set of indicators called San Benchmarks has been developed to reflect the prevailing situation in urban India, where both sewerage and on-site sanitation systems are prevalent - and this framework has been adopted by the Government of India in the National Faecal Sludge and Septage Management Policy.

capabilities. The PAS platform has helped cities to shift from 'non-availability of data or very little data on physical copies' to 'online data availability'. Government agencies at the national, state and local levels have used information and analytics from the PAS platform for policy interventions, programme monitoring, impact assessment and service improvement actions (PAS, Performance Assessment System for Urban Water Supply and Sanitation 2018).

The implementation of PAS was supported through large-scale capacity building of state and local government personnel. Several online courses and training modules have been developed to support state and local governments. Many training workshops are being regularly conducted in different states.

### San Benchmarks to assess safely managed sanitation across the service chain

In the sanitation sector, the SLB indicators suggested by MoHUA only capture the performance of sewerage systems. A new set of indicators called San Benchmarks has been developed to reflect the prevailing situation in urban India, where both sewerage and on-site sanitation systems are prevalent. This framework has now been adopted by the GoI as revised SLB indicators in the National Faecal Sludge and Septage Management (NFSSM) Policy. It has been incorporated in the online SLB-

PAS system and is being used in 900+ cities across five states in India. The use of these indicators provides a more appropriate assessment (as seen for Maharashtra and Chhattisgarh). These indicators will enable cities and state governments to identify appropriate sanitation policies that focus on onsite sanitation and related Faecal sludge and septage management systems.

### Service-level improvements

The benchmarking efforts and other programmes have created opportunities for ULBs to improve service levels and ensure better management. For example, the SBM-U has been developed with a framework of competitive ranking of cities to motivate them to achieve better positions. To encourage cities to improve urban sanitation, the MoHUA has been conducting the Swachh Survekshan survey since 2016. The 2016, 2017, 2018 and 2019 editions of the survey covered 73; 434; 4,203; and 4,237 cities, respectively. In 2016, Mysuru led the survey and was the cleanest city in India. However, Indore topped the survey and has been the cleanest city in the last three years (MoHUA 2019).

The survey has evolved as a powerful and transparent mission governance and implementation tool. It also sparks healthy competition among states and cities in their race towards becoming 'swachh' (clean).

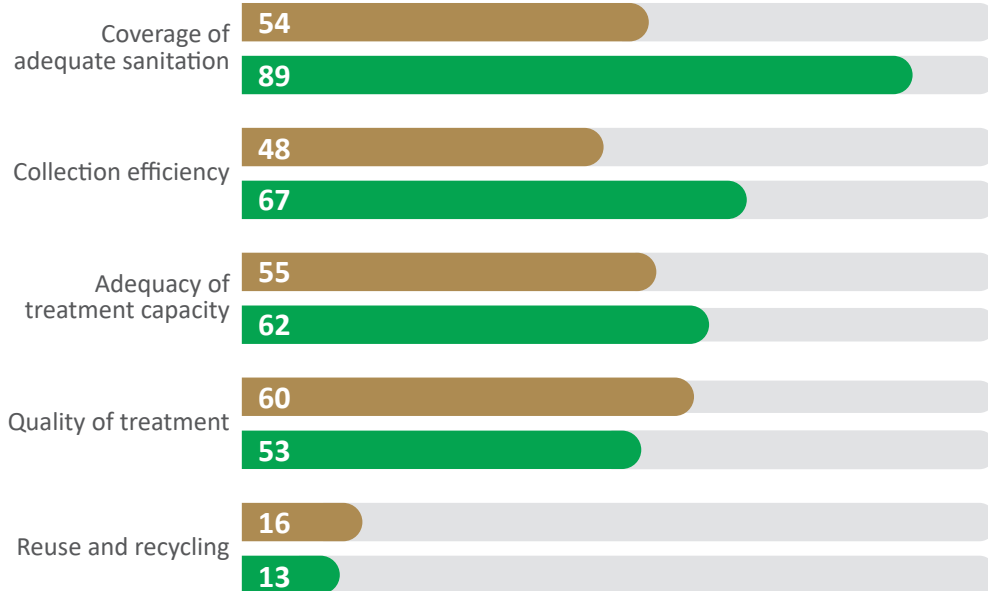
The SBM-U has pushed cities towards better management of waste and services. Following the

## Key Insight

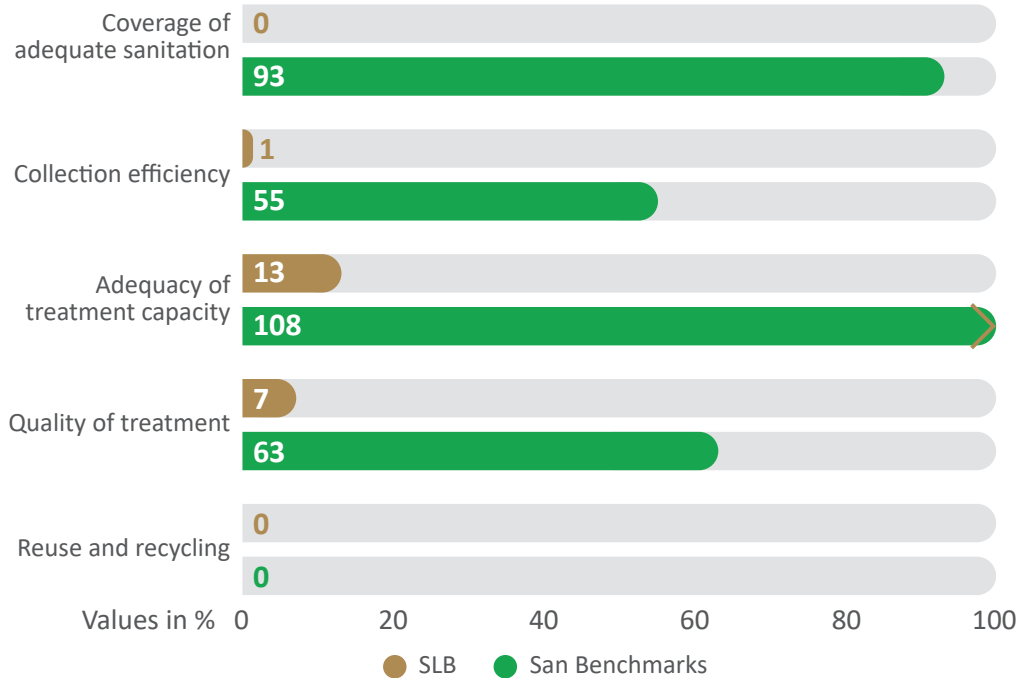
The SBM-U has pushed cities towards better management of waste and services. Following the launch of the programme, the waste collection levels of most cities in India have improved from nearly zero to 100 percent of the population.

**Figure 09: PAS - San Benchmarks to Assess Sanitation Services Across the Value Chain**

**Sanitation assessment using SLB and San Benchmarks indicators Urban Maharashtra**



**Sanitation assessment using SLB and San Benchmarks indicators Urban Chhattisgarh**



Source: Analysis based on information for Maharashtra and Chhattisgarh from the PAS online platform

launch of the programme, the waste collection levels of most cities in India have improved from nearly zero to 100 percent of the population. While the primary target of the programme was to make India free from open defecation, the scope and coverage have expanded significantly over the years. It started with only 75 cities in the first year and now covers more than 4,000 cities. It has also shifted the focus of municipal bodies from providing services to ensuring their sustainability. The large-scale construction of individual and community / public toilets has significantly increased the access to sanitation services (especially in slums) (UMC 2016).

To ensure high-quality service delivery as per the standards set under the SLB framework, it is critical to continue strengthening the ongoing monitoring of urban services, including financial management and service delivery outcomes. The SLB framework needs to include safely managed sanitation and focus on access to urban basic services for the poor. ULBs can also use online resources such as the PAS to monitor service delivery.

## Strengthening accountability, transparency and community engagement

A local government is an important point of contact between a state and its citizens. Ensuring good governance is key to maintaining a healthy relationship between citizens and the state.

The JNNURM encouraged the enactment of a public disclosure law to ensure the preparation of midterm fiscal plans for ULBs and parastatals, and the release of quarterly performance information to all stakeholders as a mandatory reform at the state level (e.g., the disclosure of audited financial statements and indicators and service levels of ULBs). Most states have enacted or are in the process of enacting these laws.

Gujarat has carried out the reform through a government resolution, which poses some challenges as the resolution is guided by acts, rules and regulations. Chhattisgarh has also issued

### Example

E-governance has been gaining importance across states since the early-2000s. Many states are making an effort to provide online services to citizens.

In Andhra Pradesh, the government has set up E-Seva Centres for ULBs. These centres focus on the provision of services such as payment of utility bills, reservation of train tickets, as well as issuance of birth and death certificates, vehicle permits and driving licenses.

Gujarat is a leader in the implementation of key e-governance infrastructure, policies and projects. Its eNagar portals were designed and developed for the provision of online citizen-centric services by ULBs. The portals provide a wide range of services such as registration of shops and establishments; complaints and grievance submission; registration of birth, death and marriage; submission of professional tax and issuance of building permissions, estate management, with online payment facilities.

a government order to undertake the reform by enacting a separate law. A review of the laws passed by Andhra Pradesh, Haryana, Manipur, Gujarat and Himachal Pradesh shows that while the nature of records and their disclosure has been identified, some aspects such as the constitution of state-level monitoring agency (Public Disclosure Committee, Service Benchmarking Advisory Committee, etc.) are yet to be addressed. (Thornton 2011)

### E-governance

Under JNNURM, e-governance was listed as a mandatory reform to be undertaken at the ULB level. All states and municipalities have taken steps to achieve this goal. E-governance in India has steadily evolved from the digitisation of government departments to initiatives that encapsulate the finer points of governance, such as citizen centricity, service orientation and transparency. (Thornton 2011)

E-governance has also been given significant importance in recent national programmes such as

## Key Insight

With ULBs creating robust e-governance portals, many crucial civic services are now being provided online with a focus on citizen centricity, service orientation and transparency. National programmes like SBM-U and Smart Cities Mission have adopted Management Information Systems.

the SBM-U and Smart Cities Mission. The SBM-U introduced a management information system (MIS) that capacitated ULBs to collect and record information digitally.

Many crucial civic services are now provided online, as ULBs have created robust e-governance portals.

Under the Smart Cities Mission, many cities have established state-of-the-art command and control centres to monitor traffic, regulate service delivery such as solid waste collection, issuance of death and birth certificates, and grievance redressal.

Although these initiatives have made government services more accessible to citizens, they have not necessarily led to process re-engineering for operational improvements. For instance, the wide use of SCADA in water and wastewater operations has been limited to a few large cities. Also, the use of technology for vendor management is still not widely prevalent across ULBs.

### Enhancing ULB Capacity

Considering the multitude of schemes and grants for cities, there is a need to professionalise local governments, as well as articulate the

## Some platforms that currently address ULBs' capacity building needs



**The City Managers' Association (CMA)** – These are state-based associations of cities and helped collaboration between ULBs and facilitates learning and sharing among them to channelise efforts to achieve common goals. These were supported by the Urban Management Centre and ICMA from 1997 to 2006<sup>2</sup> across Gujarat, Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, Madhya Pradesh, Rajasthan, Uttarakhand, West Bengal, Punjab and Himachal Pradesh.



**The Mega Cities' Association** – Formed by 10 of the largest cities in India, this was a platform created to foster cross-learning and collaboration among the largest cities of the country. This was also supported by UMC and ICMA.

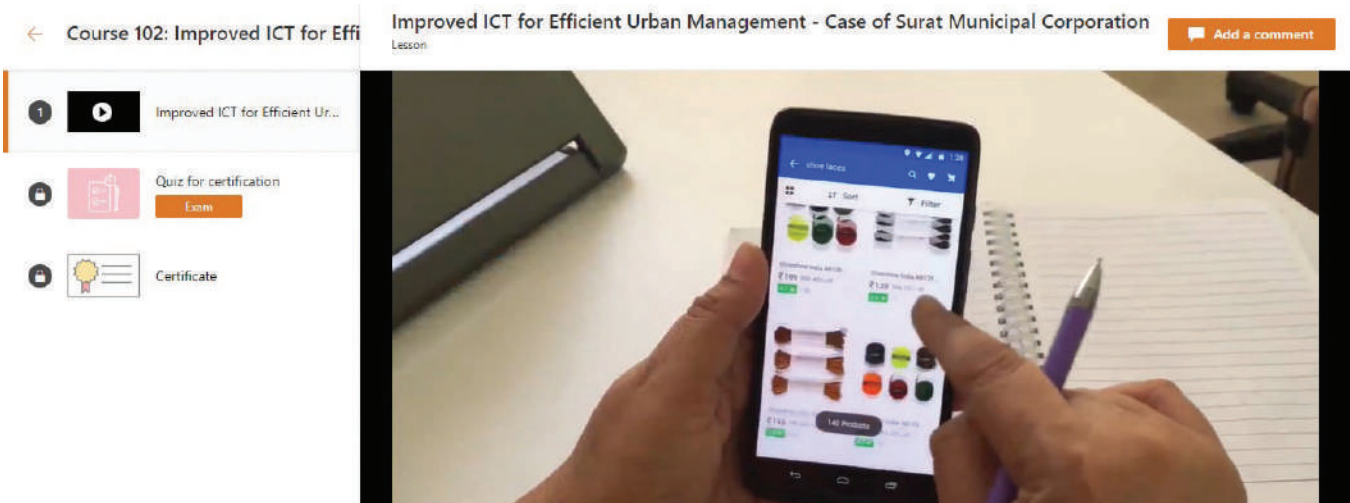


**Sanitation Capacity Building Platform** (an initiative by the National Institute of Urban Affairs) – Supports capacity enhancement of cities and key stakeholders in the urban sanitation ecosystem and improves service delivery through the implementation of non-sewered sanitation and FSSM.

- It also anchors the Training Module Review Committee (TMRC) of the NFSSM Alliance and mandates the development of innovative training content to ensure quality control, delivery of FSSM training and capacity building efforts across India (SCBP, NIUA).

<sup>2</sup> This programme was supported by International City/County Management Association (ICMA) and funding from USAID





Training/skilling programmes and modules - available on [Swachh Bharat e-Learning Portal](#) - Image courtesy of UMC and SBM

concerns of city governments. ULBs do not have the expertise to address the enormous and complex urban problems, nor do they have access to information about local government innovations in India or internationally. Success stories on technologies or management best practices available to national and international institutions are also not shared with or among urban managers.

These associations and platforms have connected more than 1,600 ULBs and helped cities to learn from each other and advocate their issues to higher levels of government. Over the years, these associations have taken different roles in different states and have been involved in various stages of operations.

### Learning and development initiatives

The associations and platforms discussed above also highlight that training and capacity building functions must have a comprehensive design and an integrated plan, as well as lead to the all-rounded professional development of a city manager.

As a significant move from traditional capacity-building efforts, the MoHUA has initiated an e-learning platform<sup>3</sup> that can offer digital training

## Key Insight

The MoHUA has initiated an e-learning platform that offers digital training and capacity building through relevant courses and tutorials, launched in August 2015.

and capacity building through relevant courses, pedagogy and tutorials. The SBM-U launched an e-learning portal in August 2015. It is aimed at building the capacity of block and district-level functionaries, as well as sharing best practices.

All capacity-building efforts must be complemented by a national platform that advocates municipal strengthening, particularly in small and mid-sized cities. City- and state-level associations / platforms have to be expanded and replicated at the national level. Empowering local representatives and formation of a network of mayors, city managers, presidents and counsellors who can provide impetus to make cities more resilient and collectively advocate for the strengthening of local governments.

<sup>3</sup> This platform was developed by UMC along with Microsoft Research India. UMC designed the course framework, pedagogy and prepared content for a majority of the tutorials. (<https://swachhbharat.azurewebsites.net/#/>)



# 3. Strengthening Finances of Municipal Government



This chapter discusses how the finances of municipal governments in India can be strengthened. It reviews both inter-governmental transfers and municipal own revenues. It compares the system in India with that in other countries, to highlight municipal governments' need for adequate and predictable financial resources. This is important for the sustainability of municipal services.

## Strengthening Municipal Financing is Essential for Vibrant Cities

India's urban centres are considered 'engines of growth,' as they account for nearly two-thirds of the country's economic growth. However, India suffers from a situation of 'rich cities, poor city governments' (Mehta and Mehta, 2011).

Municipal governments continue to derive their functional and financial powers from state governments, despite the 74<sup>th</sup> CAA recognising municipalities as the third sphere of government. While the 74<sup>th</sup> CAA introduced political decentralisation, it did not provide for appropriate fiscal decentralisation. Therefore, municipal governments in India are unable to benefit from the economic growth in cities and lack functional autonomy.

Moreover, the Indian constitution does not specify distinct fiscal resources for local governments. Thus, they remain dependent on intergovernmental transfers (IGT) made by both the national and state governments, and a few of their own sources, as assigned by state governments.

### Intergovernmental Transfers are Critical for Strong Municipal Governments

Funding from central and state governments is a key source of revenue for local governments across the globe.

To assess the financial needs of ULBs, it is necessary to estimate the expenditure on functions assigned to this level of government. In India, the first attempt at setting urban service norms

## Key Insight

Municipal governments continue to derive their functional and financial powers from state governments, despite the 74<sup>th</sup> CAA recognising municipalities as the third sphere of government. There are no provisions for appropriate fiscal decentralization.

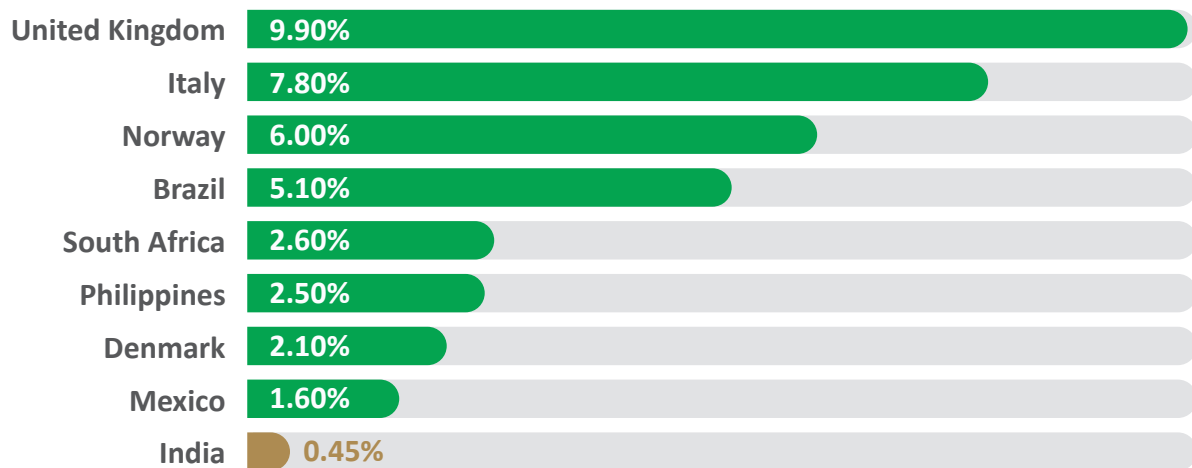
and standards was made in 1963, by the Zakaria Committee. The committee laid down the physical and corresponding expenditure norms for five services – water supply, sewerage, stormwater drainage, urban roads and street lighting.

Mathur et al. (2007) have compiled various estimates by updating the Zakaria Committee estimates. However, the key challenge has been to ensure that urban local governments have the requisite financial resources to meet their estimated expenditure. It is also necessary to have new 'Zakaria Committee type' estimates to better assess the expenditure requirements of local governments, in accordance with emerging standards for various municipal services.

### Need for India to emulate IGT allocation levels of other countries

Some analysts believe that the share of IGTs has increased over time, while the share of municipal own revenues has declined. However, this view

**Figure 10: IGT to Municipal Governments as a Proportion of GDP**



*Sources: UK, Denmark, Norway, Italy and India – Mohanty (2016) as cited in Ahluwalia et al. (2019) p.11; Brazil – Organisation for Economic Co-operation and Development (OECD) (2016a); Mexico – OECD (2016b); South Africa – OECD (2016c); Philippines – Diokno-Sicat, J. (2019) p. 10*

is misleading. It is important to assess the extent of grants transferred to municipal governments in relation to total government revenues or gross domestic product (GDP). The share of municipalities in the country’s total tax resources has continued to stagnate (1.7 percent), despite an improvement in the tax-to-GDP ratio (Mathur et al., 2011).

More recent data from the Report on Municipal Finances submitted to the 15<sup>th</sup> Finance Commission shows that the share of IGTs to municipal governments is only 0.45 percent of GDP, much lower than across the globe (Ahluwalia et. al. 2019). Figure 10 shows that IGTs to local governments stood at 2.0–2.5 percent even in developing countries such as the Philippines (Diokno-Sicat, 2019). In Brazil, Indonesia and Mexico, IGTs accounted for 5.1 percent, 5.4 percent and 1.6 percent of the GDP, respectively (Organisation for Economic Co-operation and Development (OECD), 2016).

Figure 10 shows that IGT, as a percentage of GDP, stands at 9.9 percent, 7.8 percent, 6 percent and 2.1 percent, across the UK, Italy, Norway and Denmark, respectively (Mohanty, 2016).

It is necessary to emulate the successful experience of federal countries such as Brazil, where municipalities receive significant transfers (called Municipalities’ Participation Fund), which are 23.5 percent of their income taxes and industrialised products taxes. (Mehta and Mehta, 2015). In the Philippines, the Local Government Code of 1991 mandates that 40 percent of the internal revenue collections of the third preceding fiscal year have to be transferred to local government units, which oversee local governance across the country (Diokno-Sicat, 2019).

### Impact of GST and need for a significant increase in IGT

The need to increase IGT has become increasingly important because of the adverse impact of the Goods and Services Tax (GST) on municipal bodies’ own revenues. It is widely accepted that cities in India account for nearly two-thirds of India’s GDP. For example, a recent study by the MoHUA suggests that urban areas accounted for between 52.6 percent and 64.89 percent of the national GDP output in 2011–12 (MoHUA, 2019).

However, cities do not benefit from their economic vibrancy, as buoyant local taxes, such as octroi,

## Key Insight

Municipal finances have been adversely impacted by the loss of local taxes (octroi, entry tax, local body taxes) being abolished, or lost to the Goods and Services Tax regime. ICRIER suggests GST revenues must be shared with municipal bodies as well, and not just among the centre and state.

entry tax and local body tax, were abolished earlier, or are now lost due to the GST regime. According to the Indian Council for Research on International Economic Relations (ICRIER), municipal finances have been the worst hit by GST. It suggests that to maintain fiscal balance across the three levels of government, the combined revenues from GST must be shared among them. Instead, the sharing of finances has been 50:50 between the centre and states, which in turn has curbed the ability of local governments to raise their own revenue.

The GST has subsumed local taxes such as octroi, including accounts-based octroi, in the form of local body, entry, as well as advertisement taxes. To address these issues, the Ministry of Urban Development has asked for a specific share of revenue in the GST for ULBs (*Economic Times*, 2020).

The GST (Compensation to States) Bill provides compensation to states for any revenue loss due to its implementation. The compensation was supposed to be provided to a state for five years from the date on which it enforces the State GST Act. The compensation payable to a state was to be provisionally calculated and released at the end of every two months. However, since the introduction of GST in 2017, states have been facing several difficulties due to delayed payments.

In compliance with the new GST regime, the Municipal Corporation of Greater Mumbai

(MCGM) had to abolish octroi, which, on average, accounted for almost 35 percent of its annual revenue. (Udas-Mankikar 2018). Maharashtra is the only state that has promised a share of GST to ULBs in lieu of octroi and local body tax. However, the state government has been quite irregular in transferring the promised share.

The long-term solution to the fiscal imbalance resulting from the GST is another constitutional amendment to introduce the sharing of GST revenue among all three levels of government (Ahluwalia et al.; 2019). In a similar vein, Kelkar (2019), in a recent memorial lecture, highlighted the vertical imbalance in India's federalist structure and advocated for a greater share, that is one-sixth of GST resources, for the third tier (Kelkar; 2019; p. 11).

Many scholars believe that the constitution should include a separate list of revenue sources for local governments. While the 74<sup>th</sup> CAA suggested a list of functions for urban local governments in the 12<sup>th</sup> Schedule, it did not provide a list of municipal resources to match the functions. Municipal bodies depend on state governments to allocate the resources from a state list. Unfortunately, the State Finance Commissions (SFCs), which were responsible for the allocation, have also not been successful. The High Powered Empowered Committee (HPEC) in its report had recommended an appropriate amendment of the constitution / other measures to insert a Local Bodies Finance List (LBFL) along the lines of the union and state lists. (Ahluwalia et. al 2011, p. 129).

## Key Insight

Municipal bodies are dependent on state governments to allocate resources, as the 74<sup>th</sup> CAA only suggested a list of functions for ULBs in the 12<sup>th</sup> Schedule, but not the municipal resources to match those functions.

### Making IGTs predictable, untied and focussed on the vulnerable

State governments account for nearly 75 percent of IGTs to urban local governments. This scenario is compounded by three interrelated problems – irregular setting up of SFCs, the lack of acceptance of SFC recommendations and the lack of predictability of state grants.

Article 243I of the Constitution of India prescribes that “The Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (73<sup>rd</sup> Amendment) Act, 1992, and thereafter at the expiration of every 5<sup>th</sup> year, constitute a Finance Commission.”

State governments are required to devolve resources to local bodies based on the recommendations of their respective SFCs. However, only 13 states have constituted their 5<sup>th</sup> SFC. A recent report shows that SFCs have been disadvantaged by a lack of data, staff and operational space. It highlights that many states have not appointed SFCs in time or provided adequate support to them (Chakraborty et al., 2018). To overcome challenges related to SFCs, ideally, the Central Finance Commission and central government programmes should provide incentives to states that constitute SFCs regularly and provide a more predictable

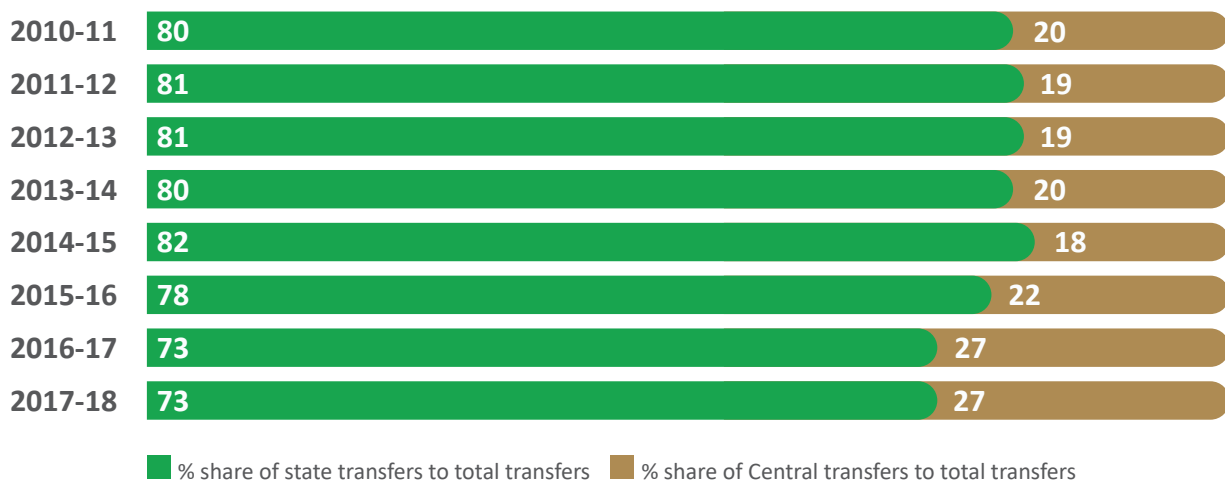
### Key Insight

State governments are required to devolve resources to ULBs based on recommendations of State Finance Commissions. However, only 13 states have constituted their fifth SFC. State grants are irregular and unpredictable, stalling medium-term plans.

devolution of resources to local governments. On this, the 15<sup>th</sup> Finance Commission recommends that “All States must constitute SFCs, act upon their recommendations and lay the explanatory memorandum as to the action taken thereon before the State legislature on or before March 2024. After March 2024, no grants should be released to a State that has not complied with the Constitutional provisions in respect of the SFC and these conditions.” (Finance Commission, 2020)

The lack of predictability of state grants makes it difficult for municipal governments to take up a medium-term plan to improve urban services in their jurisdictions. After the removal of buoyant

Figure 11: Share of State versus Central Transfers



Source: Ahluwalia et al. (2019), pp. 92–93.



### Example

Learnings from states such as Kerala and Tamil Nadu need to be assessed further and transferred to other states. It is worth highlighting that access to regular and adequate funding from SFCs, when linked to an institutional mechanism such as the Tamil Nadu Municipal Development Fund, can become the basis for strengthening ULBs, inculcate a culture of borrowing, and help even small ULBs to build a credit history.<sup>4</sup> Kerala is another example of a state with good SFCs, as it has had regular, large and untied transfers to local governments over the past 20 years (Government of Kerala (GoK), 2015a, 2015b).

municipal revenue resources, such as octroi or local body tax, state governments had promised compensatory grants at the same annual rate of increase. However, most state governments have not kept their promise; their compensatory grants have been ad hoc and nowhere near the amount the abolished tax would have fetched.

Meanwhile, a large share of IGTs is tied to programmes or activities determined by the central and state governments (see Figure 12a). This leaves less scope for municipal governments to develop plans to address local priorities. For example, an inquiry into the urban development budgets of four states suggests that programme-related allocations ranged from 39 to 73 percent in Maharashtra, Tamil Nadu, Odisha and Andhra Pradesh.

Only Tamil Nadu provided 61 percent of its transfers to local governments as untied or non-programmatic transfers (see Figure 12a). Even within the programme budget, a significant proportion was linked to priorities set by the GoI through centrally-sponsored schemes (see Figure 12b). Kerala provides a large part of its transfers to local governments as untied transfers. The recommendations of the Kerala SFC were accepted and used to determine allocations to

### Key Insight

A problem with centrally sponsored schemes is that most urban development programmes - such as AMRUT and Smart Cities - are limited in their focus on only large cities.

local governments in the state budget (GoK, 2015a, 2015b, 2020).

A problem with centrally sponsored schemes is that most urban development programmes, such as AMRUT and Smart Cities, focus on large cities. The SBM-U covers all cities but focusses mainly on solid waste and toilet construction and a vital service such as FSSM had not been covered by any central or state programme for the small and medium cities. However, for the first time, the recent union budget 2021-22 indicated universal coverage of the urban programme under its proposed SBM 2.0 and AMRUT 2.0 for drinking water supply (Union Budget, 2021).

### Key Insight

Given that FSSM is a cost-effective solution for good sanitation and the achievement of SDG 6.2, the focus on FSSM is being expanded under the aegis of the ODF++ framework. This is now being backed by programmatic funds under SBM 2.0 and 15<sup>th</sup> Finance Commission funding by central, state, and local governments.

<sup>4</sup> At a recent Round Table on Municipal Strengthening held by the NFSSM Alliance, the previous managing director of the Tamil Nadu Urban Development Fund (TNUDF), pointed out that the TNUDF's success was clearly linked to a good system of regular and predictable transfers by the state government to ULBs. Similar experience was also found in Brazil.

Figure 12a: Share of Programme Budget in Urban Sector Budget (percent)

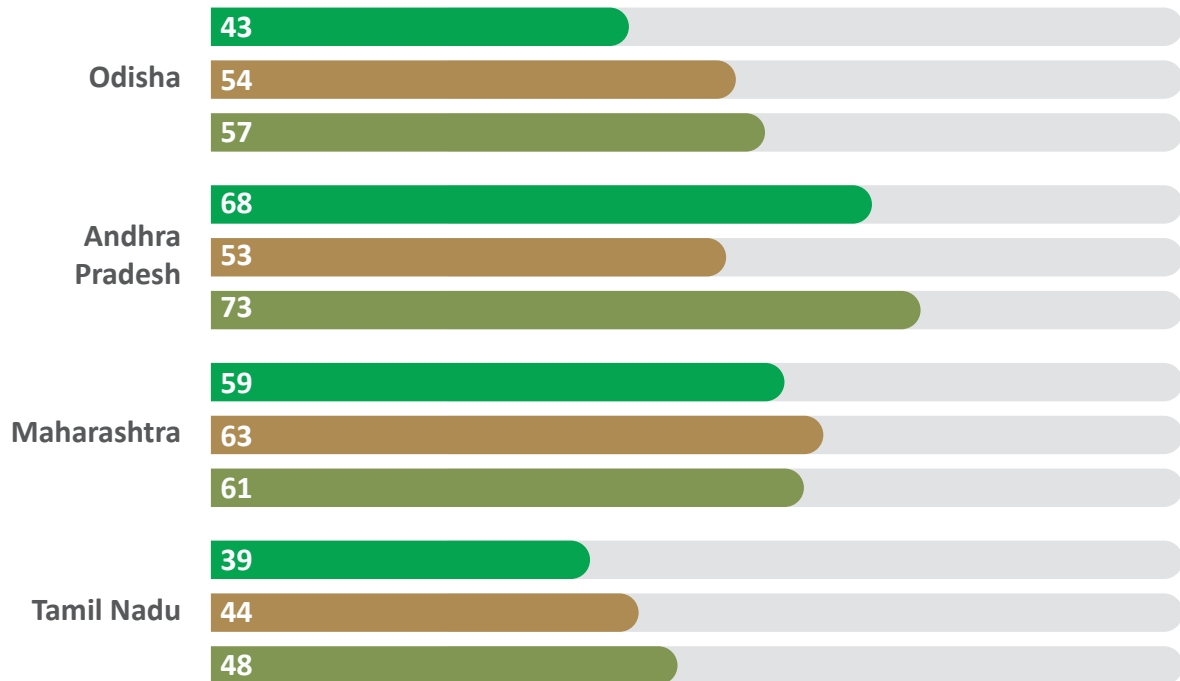
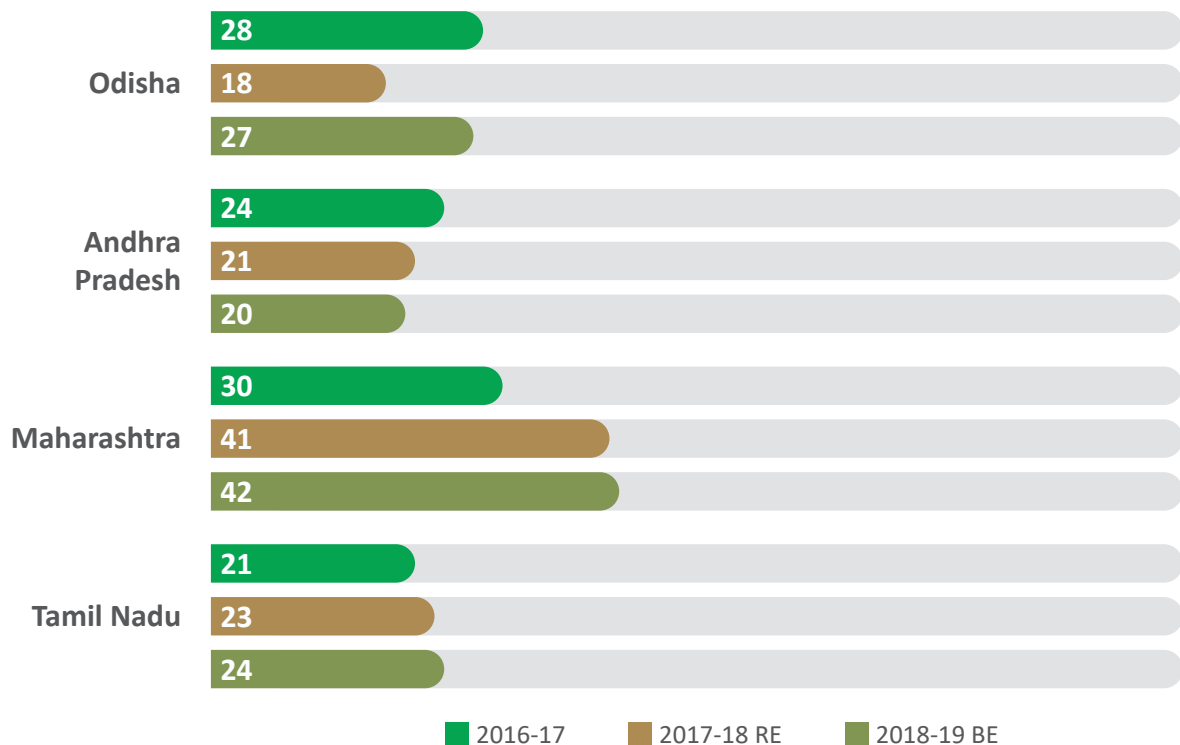


Figure 12b: Influence of Central Schemes on Programme Expenditure (percent)



Sources: Urban Housing Budget, Odisha; Urban Development Department Budget, Odisha (2018–19); Municipal Administration and Urban Development Department Budget, Andhra Pradesh (2018–19); Urban Development Department Budget, Maharashtra (2018–19); Municipal Administration and Water Supply Department Budget, Tamil Nadu (2018–19)

FSSM can be a cost-effective solution to achieve good sanitation and meet Sustainable Development Goal 6.2 at the national level (Mehta and Mehta, 2020). The finance minister has also emphasised the need for complete faecal sludge management and waste water management in her budget speech for 2021-22 (Union Budget, 2021). In addition, the 15<sup>th</sup> Finance Commission has recommended 30% of the total grants earmarked for sanitation including management and treatment of human excreta and faecal sludge management in particular (Finance Commission, 2020). The focus on FSSM is also being expanded under the aegis of the ODF++ framework. This is now being backed by programmatic funds under SBM 2.0 and 15<sup>th</sup> Finance Commission funding by central, state and local governments.

### Assessing fiscal decentralisation

CWAS (2011a) provides four aspects for evaluating fiscal decentralisation: predictability, local autonomy, earmarking for vulnerable groups and horizontal equity across large and small cities. Figure 14 shows that the predictability of transfers

is low, a significant amount of funds is earmarked for large cities and earmarking funds for the poor is not common. It is clear that both central and state governments need to increase the share of untied grants and increase the predictability of IGTs. They also need to focus on the needs of smaller cities and vulnerable sections of the population. Although small cities house only 30 percent of the population, they have a higher need for fiscal support due to their much lower fiscal capacity.

### Using IGTs to promote municipal borrowings / bonds

Along with own revenue, it is important that programme-linked IGTs support the use of commercial resources. India has relatively better developed financial systems. Before the launch of the JNNURM, many local governments had initiated borrowing from capital markets, using a municipal bond route. Most of these bonds were issued with appropriate credit rating and delivered strong performances. However, from

**Figure 13: Measures for assessing fiscal decentralisation**



#### Predictability

Predictability is estimated based on the share of formula-based transfer in relation to total funds. Formula-based transfers include untied grants from the Central Finance Commission and predefined shares in state taxes (e.g., entertainment and professional taxes in Gujarat). The share of formula-based transfers has been declining over the years.



#### Local Autonomy

Local autonomy is estimated based on the share of untied funds in relation to total funds. With an increase in program-linked funding, local autonomy has been declining. Local governments have to use the funds on specific activities as earmarked under various national and state programs.



#### Earmarking for Vulnerable groups

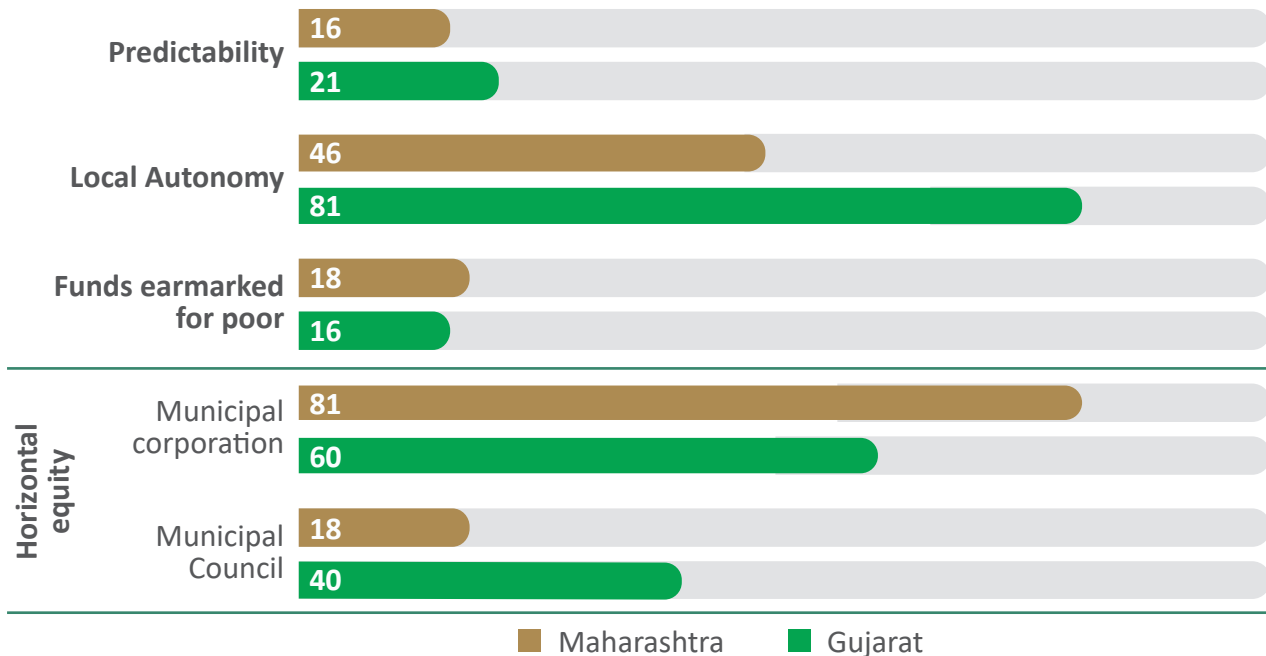
Earmarking for vulnerable groups is estimated based on the share of total funds earmarked for the poor and vulnerable. Many state governments have specific programs for vulnerable groups, such as Scheduled Castes, Scheduled Tribes, and below-poverty-line families. Some state municipal legislations also require ULBs to earmark funds for specific groups.



#### Horizontal Equity

Horizontal equity refers to share of resources available to large and small cities. Many central and state urban programs are meant for municipal corporations in larger cities. Some central and state grants (for instance, from Finance Commissions) are based on per capita allocations. Smaller towns in dire need of grant funding are thus at a disadvantage.

Figure 14: Assessing Fiscal Decentralisation (Percentage of Transferred Funds)



Source: CWAS (2011a) p. 15; and CWAS (2011b) p. 12.

2005 to 2017, as Figure 14 suggests, only a few bonds were issued. Municipal bond issuances seem to have stopped, except for the issuance of a few pooled bonds by the Water Services Trust Fund of the Tamil Nadu Urban Development Fund (TNUDF). Across India, however, even though ten municipal corporations had received a rating of AA- or higher and 55 ULBs received at least investment rating grade, no local governments issued any bonds as it was easier to get grants from the GoI under JNNURM and other programmes (MoHUA, 2017).

Mehta and Mehta (2010) have argued earlier that programmatic grants from both central and state governments failed to provide incentives to ULBs to leverage commercial resources. This resulted in crowding out of municipal bonds by easy access to funds under the JNNURM, and later under AMRUT. Neither did the share of total funding to be mobilised by ULBs force them to explore any market-based resources nor did the programme mandate the condition.

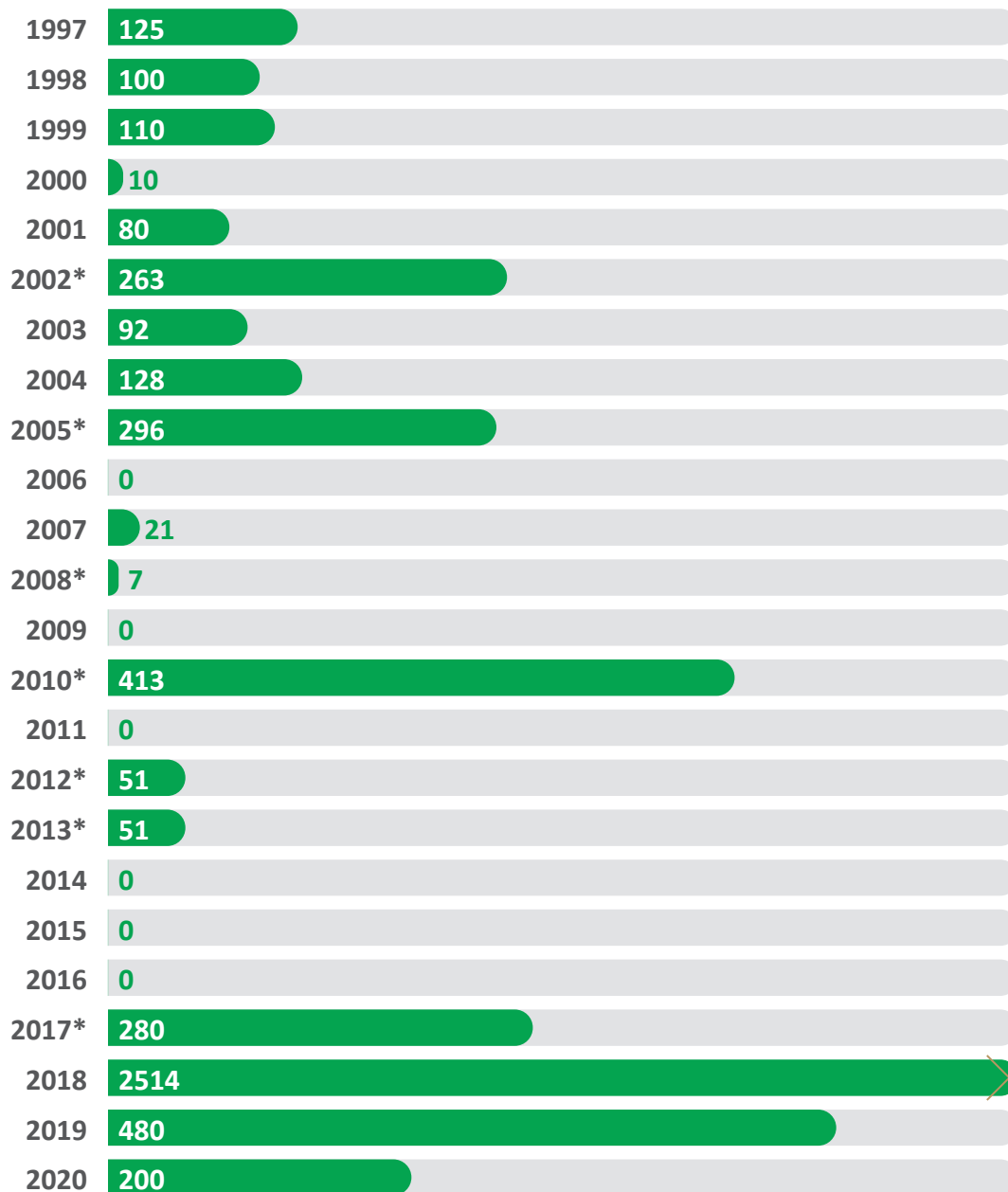
Even the new Securities and Exchange Board of

### Key Insight

Before launch of JNNURM, many local governments borrowed from capital markets using municipal bonds, mostly issued with appropriate credit rating and delivering strong performances. However, after 2005, few bonds were issued by local bodies as it was easier to obtain grants from GoI under JNNURM and other programmes.

India (SEBI) guidelines, issued in 2015 (SEBI, 2015), did not propel the use of commercial resources for funding. These new guidelines made credit rating mandatory, but that was already a part of the process. Further changes, including issuer changes and audit requirements for bond issuers, were incorporated in 2019 (SEBI, 2019).

**Figure 15: Issuance of Municipal Bonds in India from 1997 to 2019  
(INR million)**



\* Pooled bonds issued years marked

Sources: Chakrabarti (2014); Kapoor and Patil (2017); Tamil Nadu Urban Infrastructure Financial Services Ltd (2019); World Bank (2016); BSE listing of a new debt security of Pune (2017, June 21), Andhra Pradesh (2018, August 24), Hyderabad (2018, February 15), Surat (2019, March 5) and Visakhapatnam (2019, January 8); Economic Times (2019); Press Trust of India (2018); Indore Municipal Corporation (2018); Institute of Chartered Accountants of India (2018); and Pathak (2019, January 25); Lucknow Municipal Corporation (2020)



## Key Insight

Central and state governments programmes in the past two decades have lacked strong performance incentives for commercial borrowing by ULBs. There is need for an improved design for performance-linked grants that incentivize mobilisation of commercial resources, such as borrowing from commercial banks and municipal bonds.

However, pooled bonds issued by the TNUDF for small ULBs have done well; there has been a secondary market for these bonds. The link between a strong system of IGTs and the presence of a financial institution focussed on local governments has helped to create a situation where market borrowing has been possible through a number of bond issuances using the pooled fund route even after 2005 (see Figure 15). It is important to review why similar attempts in several other states such as Karnataka, Andhra Pradesh, Telangana, Rajasthan, Bihar and Maharashtra have not yielded good results, and later the reasons for no state taking up the Gol's Pooled Finance Development Fund scheme.

It is also important to discuss the possibility of borrowing from commercial banks, which is a route often used for infrastructure financing in India. The recent addition of sanitation-related credit to the 'priority sector lending requirements' of scheduled commercial banks provides another incentive for borrowing from banks. However, banks and private service providers will need considerable support to develop viable project proposals.

Most ULBs in India lack any significant credit history. Even in Tamil Nadu, where ULBs have good history due to the TNUDF, they do not have any experience in borrowing from banks. A municipal fund can help promote borrowing from

commercial entities. For instance, in Colombia, FINDETER provided refinancing to banks, enabling them to lend to municipal governments (Mehta, 2003, p. 70; World Bank 2016a).

Since 2018, ULBs have issued seven municipal bonds. These were mainly spurred by incentives offered by the Gol. There is scope for significant mobilisation of resources using this route, as evident from the US and China's municipal bond market, which are worth USD3–4 trillion (Patil, 2020, based on data from Bloomberg). However, the central and state government programmes in the past two decades have lacked strong performance incentives for commercial borrowing.

It is essential to design programmes that incentivise ULBs to mobilise commercial resources. However, a review of schemes such as Urban Reform Incentive Funds (URIF) and Pooled Development Finance Fund (PDDF) shows that there has not been much success. The answer may lie in introducing an improved design for performance-linked grants that provide incentives for mobilising commercial resources.

## Own Sources of Municipal Revenue

### Sustainability of Services also necessitates a Focus on Municipal Own Sources

Strengthening municipal finances is essential for both creating new infrastructure and improvement on service levels, as well as ensuring their sustainability. This makes it essential that along with IGTs, the municipal governments also have adequate own resources. These are essential to ensure that municipal governments are able to meet the expenditure on operation and maintenance from their own revenue sources. This has been at the forefront of municipal reforms over the last one-and-a-half decade since it was introduced under the JNNURM and later under AMRUT programmes.

### For own sources, the main focus has to be on property taxes

For urban local governments, property tax is one of the most important sources of own revenue.

## Key Insight

While several efforts have been made under JNNURM and AMRUT to improve property tax revenue by streamlining billing and collection systems, property tax mobilisation in India is weaker than in other developing countries. There is scope to increase such revenue by at least 4-5 times to match other developing nations.

The economic rationale for property tax is that it enables ULBs to capture a part of the ‘unearned’ increase in property values. The argument is that urban property values rise as a result of infrastructure investments by ULBs (for example, a road-facing property or a park-facing property has a higher value than other types of properties in the same location). It is also a ‘progressive’ tax, as bigger and higher value properties pay higher taxes.

“However, politicians often prefer to rely on indirect taxes that are less visible. In Brazil, property tax comes second in importance after Tax on Services.

In the past, Indian municipalities relied heavily on octroi (import taxes in urban areas) and neglected property tax. In China, local governments often rely on taxes levied on property transaction rather than on possession.” (Salm, 2014, p. 68).

### There is a significant untapped revenue potential of property tax

“All local bodies should be fully enabled to levy property tax (including tax for all types of residential and commercial properties) and any hindrances in this regard must be removed.” (Finance Commission (13th), para 10.161).

Many efforts have been made to undertake a series of reforms under the JNNURM and AMRUT, in recognition of the importance of property tax as a key source for local governments. These efforts were mainly focussed on streamlining billing and collection systems. Despite these efforts, property tax mobilisation in India is weaker than in other countries.

Figure 16 shows that in 2017–18, property tax revenue as a share of GDP in India was 0.15 percent (Ahluwalia et al., 2019, p. 9). This compares rather unfavourably with the 0.6 percent in developing countries and 2.1 percent in developed countries. It also suggests that there is a scope to increase property tax revenues by at least 4–5 times when compared with developing countries, and by as much as 15 times when compared with developed countries.

**Figure 16: Property Tax as a Percentage of GDP in Select Countries**

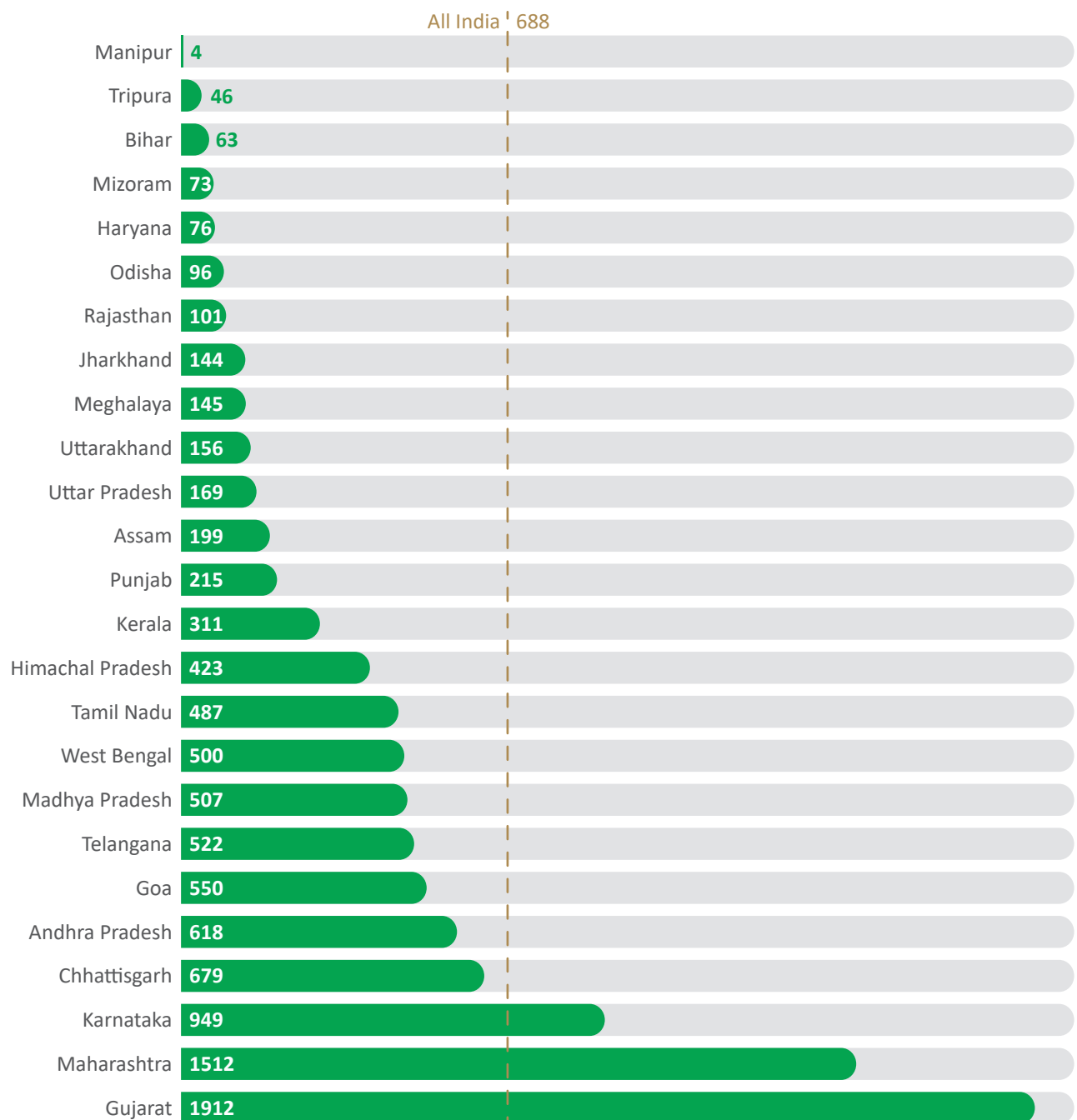


Sources: For India 2017-18: Ahluwalia et al. (2019), p. 9; for Organisation for Economic Co-operation and Development (OECD) and developing countries in the 2000s: Bahl and Martinez (2007), Table 1, p. 16; and for 18 OECD and 29 developing countries, based on International Monetary Fund Government Finance Statistics, various years.

Even within India, there are significant variations in per capita property tax revenue (see Figure 17). Gujarat, Maharashtra and Karnataka have higher per capita property tax levels. These states may benefit from more regular property

reassessments. On the other hand, some large states such as Tamil Nadu, Uttar Pradesh and West Bengal have very low levels of per capita tax, suggesting irregular revision / assessment of property value.

**Figure 17: Per Capita Property Tax in India by State, 2017–18 (INR)**



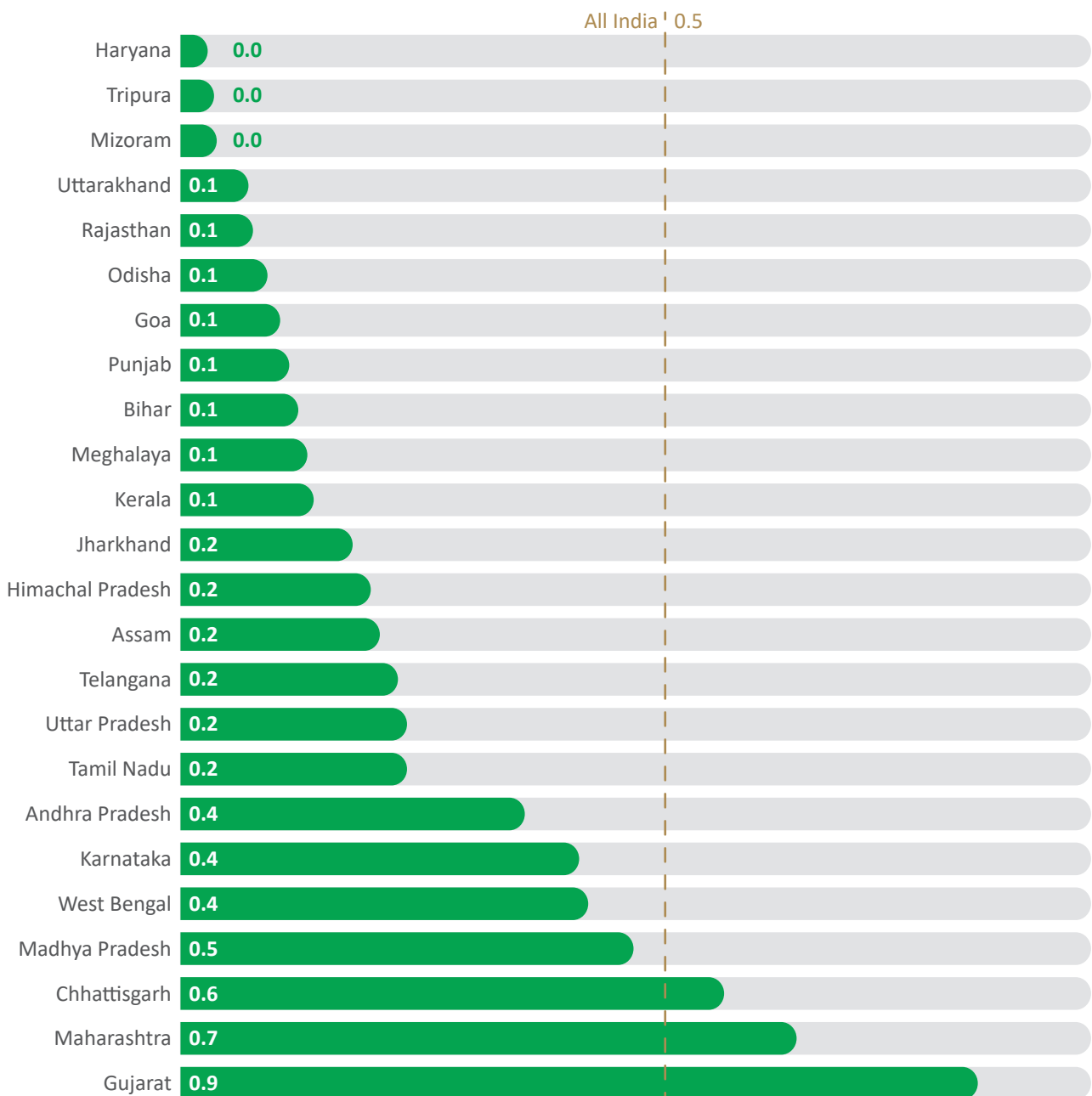
Note: Data is not available for Arunachal Pradesh, Jammu and Kashmir, Nagaland and Sikkim.

Source: State of Municipal Finances in India, ICRIER.

There may be a difference in per capita tax across states because property tax revenues are linked to the overall development of a state. However, Figure 18 shows that high property tax is linked to Gross State Domestic Product (GSDP) in Gujarat and Maharashtra, while states

such as Punjab and Haryana have high GSDP but low property tax yield. Thus, property tax revenue is also linked to the assessment regime (tax base and rate), frequent reassessment and proper administration (billing and collection efficiency).

**Figure 18: Per Capita Property Tax as a Percentage of Per Capita GSDP**



Sources: Ahluwalia et al. (2019) p. 91; per capita GSDP derived from data available in Ahluwalia et al. (2019) p. 99; Census, 2011 population; and for Telangana and Andhra Pradesh population was considered from their state websites.

## Linking Property Tax Base to Market Prices of Property

“Property tax is characterised as the tax everyone loves to hate because its visibility and other characteristics make people particularly aware of it. Therefore, any reform initiatives entail significant local political challenges and administrative difficulties.” Chattopadhyay and Kumar (2019) (p. 3).

Reforms were initiated under the JNNURM and later continued under the AMRUT programme. With these, most states have shifted to a simpler Unit Area Value (UAV) method for assessing ARV. This was first initiated in Patna in 1993 (Singh, 1996; Vaidya, 2000). Under this system, the price per unit value of the area (built-up / carpet) is fixed and is used to determine tax returns from property to take into account aspects such as property type, location and size. This has also helped minimise the arbitrariness in fixing property values and enabled self-assessment of tax by property owners.

The recent Telangana Municipalities Act, 2019, mandated all ULBs to undertake a self-assessment system for property tax. Many cities such as New Delhi, Navi Mumbai, Chennai, Pune and

## Key Insight

The capital value of a property - on which the property tax is levied - is usually based on a ‘ready reckoner rate’, determined by the state’s revenue department, or local authorities. This rate, rarely revised or updated, is usually considerably lower than market rate.

Bangalore have implemented self-assessment, wherein property owners provide the information on property assessment. This has helped free taxpayers from harassment by tax collectors and lowered the cost of tax compliance.

Globally, as pointed out by Chattopadhyay and Kumar (2019), property tax is usually levied on the capital value of a property. The tax is levied as a percentage of the market value of a property. The use of the capital value method was introduced in Bangalore, Karnataka. The Greater Mumbai



Property tax reforms were initiated under JNNURM and continued under AMRUT



Municipal Corporation has also adopted the capital value-based method for property tax. However, in Mumbai “the shift ... has not been smooth. The steep tax increase led to a spurt of litigation against the new system. The Bombay High Court gave an interim order in 2014 to levy tax with half the expected increase. Only recently, in 2019, the Court upheld the capital value system while directing certain changes in the assessment method” (Ahluwalia et al. (2019) (p. 26)).

The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, in its Section 105 on municipal taxation, states, “The property tax levied on the basis of the capital value of any buildings or lands ... shall not, in any case, exceed 40 percent of the amount of the property tax payable in the year immediately preceding the year of such revision.” It further states that for small properties (500 sq ft or less), the property tax assessed on capital values will not exceed tax payable before revision for five years.

The capital value of a property is usually based on the ‘ready reckoner rate’, which is determined by a state government’s revenue department or by local development authorities. The ready reckoner rate is usually considerably lower than the market rate.

In addition, many states do not revise the ready reckoner rates regularly. For example, in Gujarat, the ready reckoner rates were revised nearly 10 years ago in 2011, though as John and Dave (2019) point out, the Gujarat government now plans to do this every year. The lack of updated property values also adversely affects resources, gathered from the transfer of stamp duty, cess and surcharge, which are shared with municipal governments.

#### Example

A recent survey by the State Stamp Duty and Registration Department in Navi Mumbai, Maharashtra, indicates that ready reckoner rates were lower by 47 to 113 percent in different locations than market rates (Kulkarni, 2016).

On May 17, 2020, the Finance Minister of India increased the limit on state government borrowing, from 3 percent of GSDP to 5 percent of GSDP, subject to certain conditions. One of these conditions provides an incentive by allowing 0.25 percent additional borrowing for state governments that notify floor rates of property taxes in urban bodies, in consonance with prevailing circle rates. The condition also requires notification of floor rates for water, drainage and other charges (Financial Express, 2020). In addition to this, the 15<sup>th</sup> Finance Commission has also recommended fixation of minimum property tax floor rates by the relevant state followed by consistent improvement in the collection of property taxes in tandem with the growth rate of the State’s own GSDP as a mandatory entry-level condition to eligible for finance commission grants. (Finance Commission, 2020). To meet these conditions, states and ULBs will need to undertake periodic increases in both, based on inflation.

Many states, for example, Karnataka and Maharashtra, have already moved to capital value-based property taxation, where capital values are linked to circle rates. In most states, the authority to set circle rates lies with the state governments. Many states have set up Property Tax Boards for this purpose, as required by the 13<sup>th</sup> Finance Commission. However, these boards are largely dysfunctional. For example, the memorandum submitted by the MoUD to the 14<sup>th</sup> Finance Commission states, “The Property Tax Boards have been constituted by several states. However, the understanding of the subject and its effective implementation is doubtful” (Ministry of Urban Development (MoUD), 2014b, p. 18). For example, a recent SFC report from Maharashtra also states, “The Municipal Property Tax Board Act 2011 came into force in March 2011 ... however, the Board has not been established” (Maharashtra State Finance Commission (MSFC), 2019, p. 6). Similarly, the Tamil Nadu SFC also reported that while a Property Tax Board was established, it had not started functioning (Tamil Nadu State Finance Commission (TN SFC) 2014, p. 114).

Despite the relative non-performance of property tax boards, there have been new recommendations for setting up Municipal Revenue Boards (MRBs). For example, Awasthi and Nagarajan (2020) (p. 25) suggest that MRBs “could be an appropriate institutional structure to administer the fiscal cadastre (property register), such as an autonomous board to be created by an act of the state legislative assembly.”

These recommendations must be assessed properly, as they suggest transferring municipal powers to a state entity. These suggestions are often made by national and international institutions, but state agencies and property tax boards have not always been successful. It is possible that the existing State Directorates of Municipal Administration can support this function and strengthen the capacities of municipal governments, rather than take away municipal autonomy.

### Regular periodic revision of base and rates for property taxes is essential

Along with the fair valuation of property, periodic reassessment of the property tax base is critical to bring assessed values in line with market realities. The municipal acts of many states

## Key Insight

In spite of non-performing property tax boards, expert bodies suggest setting up Municipal Revenue Boards, transferring municipal powers to a state entity. Rather than taking away municipal autonomy, it is possible for existing State Directorates of Municipal Administration to support and strengthen capacities of ULBs.

## Key Insight

Periodic assessment of the property tax base is necessary to bring assessed values in line with market realities and this will allow for gradual hikes in tax rates.

recommend the assessment of properties once every five years (Uttar Pradesh, Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Odisha) or four years (Maharashtra, Gujarat and Rajasthan). Awasthi and Nagarajan (2020) have made similar recommendations.

Despite regular assessments, a sudden increase in tax payable in the year of reassessment may lead to a drop in collection efficiency, as illustrated by Jadhav (2019) for two small cities in Maharashtra. This can be avoided by increasing tax rates gradually instead of increasing them in one go. However, the implementation of gradual hikes may require amendments in prevailing municipal acts.

### Continued focus is needed on reforms to increase coverage and collection efficiency

Based on data reported in Ahluwalia et al. (2019), Figure 19 shows that the per capita property tax of municipal corporations is nearly five times that of municipal councils and 10 times that of Nagar Panchayats (NP). Interestingly, this is despite the fact that the property tax collection efficiency of municipal councils and NPs is higher. This reflects their lower fiscal capacity due to lower property values and highlights the need for higher IGT support from the central and state governments.

Apart from under-assessed values, the current property tax system faces major billing and collection-related inefficiencies. The inability of urban local governments to cover all taxable properties leads to poor billing efficiency. The

**Figure 19: Per Capita Property Tax by Size of ULB (INR)**



Source: Ahluwalia et al. (2019)

### Key Insight

India's current property tax coverage - ranging from 63% to 80% - suggests there is potential to add more properties in the tax net through improved billing and collection efficiency.

rapid expansion of cities has made tax assessment and collection from new properties a challenge for ULBs. On the other hand, the low collection efficiency reflects the inability to recover taxes due to inadequate collection systems. Experience in many cities across India and globally shows a considerable need to increase billing and collection efficiency by using digital systems (such as geographic information system (GIS) mapping and computerised billing and collection).

The implementation of e-governance was one of the mandatory reforms directed by JNNURM. It was believed that cities should establish systems to bring transparency and accountability to ULB operations and help improve the delivery of services to citizens. Under AMRUT, a set of municipal services were listed to be covered by E-municipality as a Service (E-MAAS). It included computerised billing of property tax, water and sewerage charges, and other fees and taxes.

Studies suggest that India's current property tax coverage ranges from 63 to 80 percent (Mathur et al., 2009; McKinsey, 2010). Thus, there is considerable potential for the addition of more properties in the tax net. Bhan (n.d.) suggests several good practices of using GIS to improve billing efficiency. For example, when ULBs in Mirzapur and Kanpur (Uttar Pradesh) deployed GIS, the former's taxable properties increased 10-fold and revenue surged three times in three years, while the latter's property coverage doubled in four years. Raj (2020) shows that the use of spatial analytics made it possible to double the built-up area reported in the property tax database in nine wards in Bangalore.

A recent World Bank study states, "But the challenge in using technological solutions does not end with the initial GIS mapping of urban properties. The challenge is in keeping the data

### Key Insight

Technology innovations such as GIS mapping, matching property records with utility data from electricity companies, digitizing building permits and linking it to the property tax system, etc. can improve efficiencies in tax collection systems.

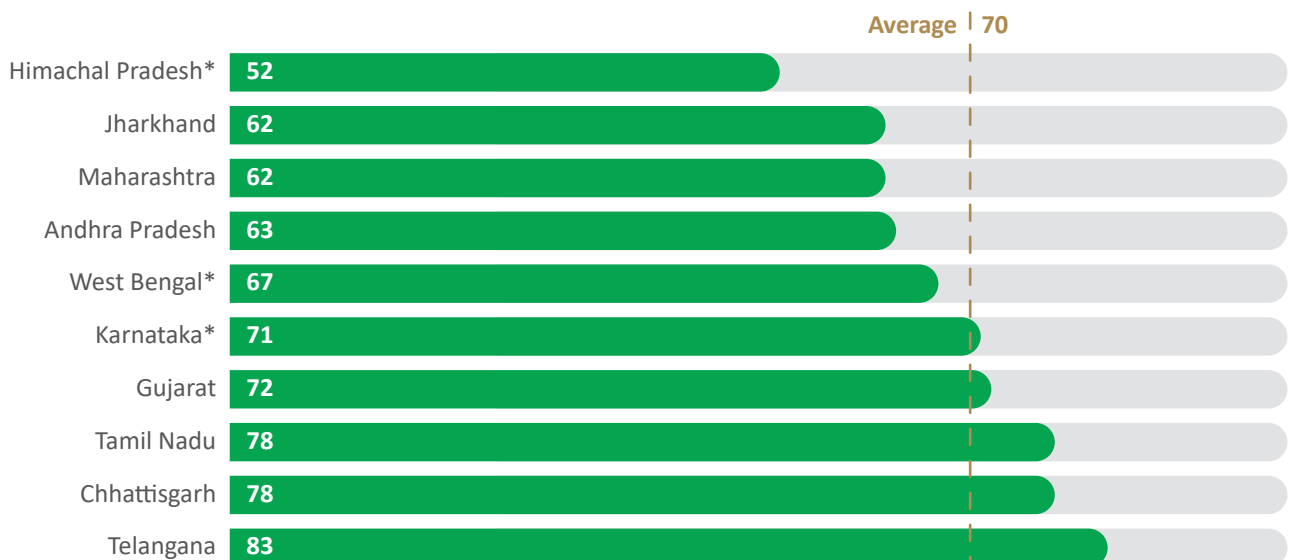
dynamic and up-to-date for additions of property, additions to the existing property and change of ownership” (Awasthi and Nagarajan, 2020, p. 10). To improve the property tax coverage, municipal governments can match the property records with utility data records from electricity companies. For example, during a property tax revaluation, the Indore Municipal Corporation matched property tax records with electricity records and found that “total commercial power connections in a zone were 5,198, while property tax records showed only 2,570, which means 51 percent of properties did not declare commercial / mixed usage” (Das, 2020, p. 1).

ULBs can also digitise the building permit process and link it to the property tax system. The Greater Hyderabad Municipal Corporation (GHMC) has implemented this measure, as many house owners, developers and builders avoided paying property tax to the civic body. The GHMC aligned building

permissions with the property tax database within 15 to 20 days of receiving it – an alert is automatically sent to the revenue department to generate property tax receipt, based on the constructed plinth area (Singh, 2019).

Property tax reforms under the JNNURM had mandated cities to increase collection efficiency to 90 percent. Collection efficiency is defined as the amount billed versus the amount collected. This reform was also pursued under the AMRUT programme. Figure 20 shows that despite efforts by many cities, the collection efficiency of property tax ranged from 47 to 74 percent across different states during 2016–19. However, it also shows that property tax collection can be doubled by improving collection efficiency. Many local governments have made efforts to simplify bill generation and payment by introducing online systems and providing incentives for early payment of dues.

**Figure 20: Average Collection Efficiency of Property Tax across States, 2016–18**

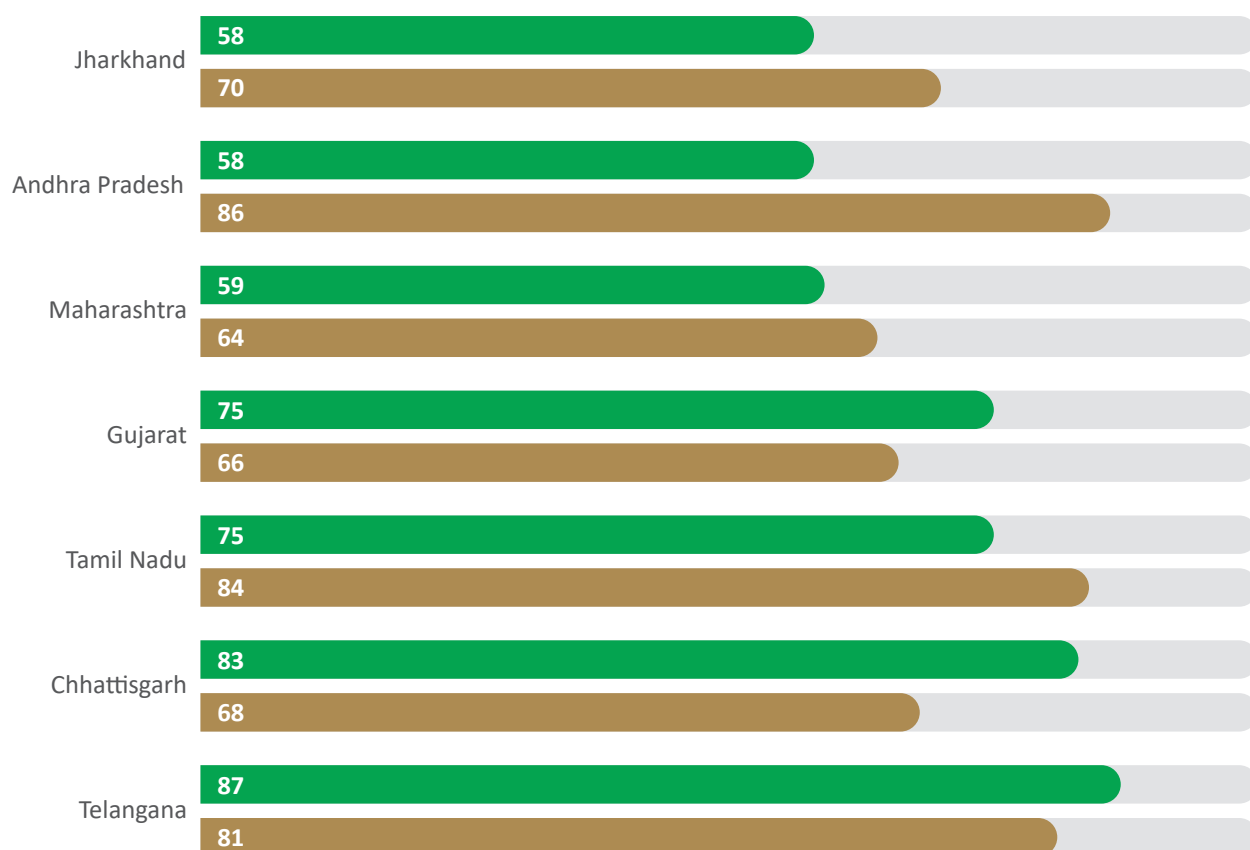


\*For these states, the information is only for municipal corporations; for Maharashtra, data for 12 municipal corporations are not available; and for Telangana, data for Greater Hyderabad is not available.

Note: Average is the weighted average using the 2011 urban population across the given states.

Source: Gujarat PAS SLB data (2017–18); Chhattisgarh PAS SLB data (2017–18); Maharashtra PAS SLB data (2017–18); Telangana PAS SLB data (2017–18); Jharkhand PAS SLB data (2017–18); Andhra Pradesh CDMA report (2015–17); Himachal Pradesh CAG report (2013–14); Tamil Nadu SFC report (2014–15); West Bengal CAG report (2011–14); and Karnataka CAG report (2011–16)

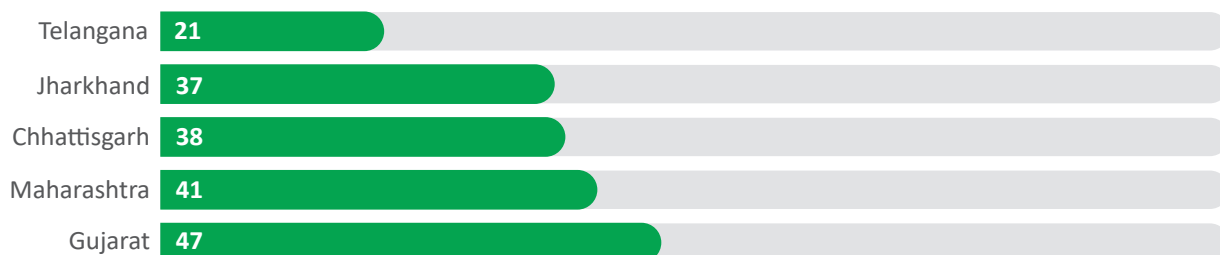
**Figure 21: Collection Efficiency of Property Tax in Municipal Corporations versus Municipal Councils**



Note: Average percent values reported for each state.

Sources: Gujarat PAS SLB data (2017–18); Chhattisgarh PAS SLB data (2017–18); Maharashtra PAS SLB data (2017–18); Telangana PAS SLB data (2017–18); Jharkhand PAS SLB data (2017–18); Tamil Nadu 5th SFC report (2014–15); Andhra Pradesh CDMA report (2015–17); for Maharashtra, data for 12 municipal corporations is not available; and for Telangana, data for Greater Hyderabad is not available.

**Figure 22: Share of Arrears to Total Demand, in Percentage, 2018**



Note: Data analysis for a number of cities: Chhattisgarh – 168; Gujarat – 169; Maharashtra – 376; Jharkhand – 36; and Telangana – 69; for Maharashtra, data is not available for major municipal corporations such as Greater Mumbai, Pune, Nagpur, Pimpri Chinchwad; for Telangana, Greater Hyderabad data is not available.

Source: PAS SLB data (2018).



It is important to ensure that pending cases of defaults and arrears are taken up in a fast track manner. Data from five states (Figure 22) suggests that most cities face mounting arrears, which comprise nearly 30 to 50 percent of tax demand. The collection efficiency of these arrears ranges from 20 to 40 percent. However, some cities have made special efforts to improve the collection of arrears. For example, the Pune Municipal Corporation (PMC) enabled nearly 120,000 property owners to clear their outstanding payments through an amnesty scheme, thus mobilising INR2250 million over a short period. (PMC, n.d.)

Consultation and involvement of the public at various stages of planning, design and implementation of property tax reforms is critical for its success. The willingness of property owners to pay increased taxes is likely to be higher if they are made aware that their tax payments are going towards service improvements. Thus, there is a need for transparency and greater awareness among the public about the costs of services in their cities. This may also help reduce court litigations and increase the collection efficiency of property taxes.

### Cost recovery for basic services through municipal own resources

Various reforms by the GoI have put considerable emphasis on cost recovery for basic municipal services such as water supply, wastewater management and solid waste management (SWM). Cost recovery has been one of the key focus areas in programmes initiated by the central government, starting with the JNNURM in 2005. It required the levy of reasonable user charges, with the objective of recovering the full cost of operation and maintenance within seven years.

The main economic reason for levying user charges is the principle of ‘allocative efficiency,’ that is, allocating resources efficiently to meet the demand for services. However, the emphasis

## Key Insight

The primary economic principle behind levying user charges is ‘allocative efficiency’ to meet demand for services. In practice, however, cost recovery ensures availability of adequate resources for ULBs, and sustainability of service delivery. Cost recovery on sanitation and SWM has lagged in comparison to water supply due to its non-excludable nature.

on cost recovery in practice under the various reforms has been more to ensure the availability of adequate ‘local resources’ for ULBs and thus, to ensure the sustainability of service delivery. In practice, however, while there is some progress on cost recovery for water supply services, it has lagged in the case of sanitation and SWM services.

It is important to distinguish the charges for water supply and sanitation services. Piped water supply services have direct beneficiaries and hence offer private benefits to households and enterprises. It is thus an ‘excludable’ service, that is, the service is provided only to those who pay for it. Sanitation and SWM are not easily ‘excludable’, that is, non-payers cannot be denied services (for example, street cleaning). Sanitation is considered a public service as it provides wider environmental and public health benefits.

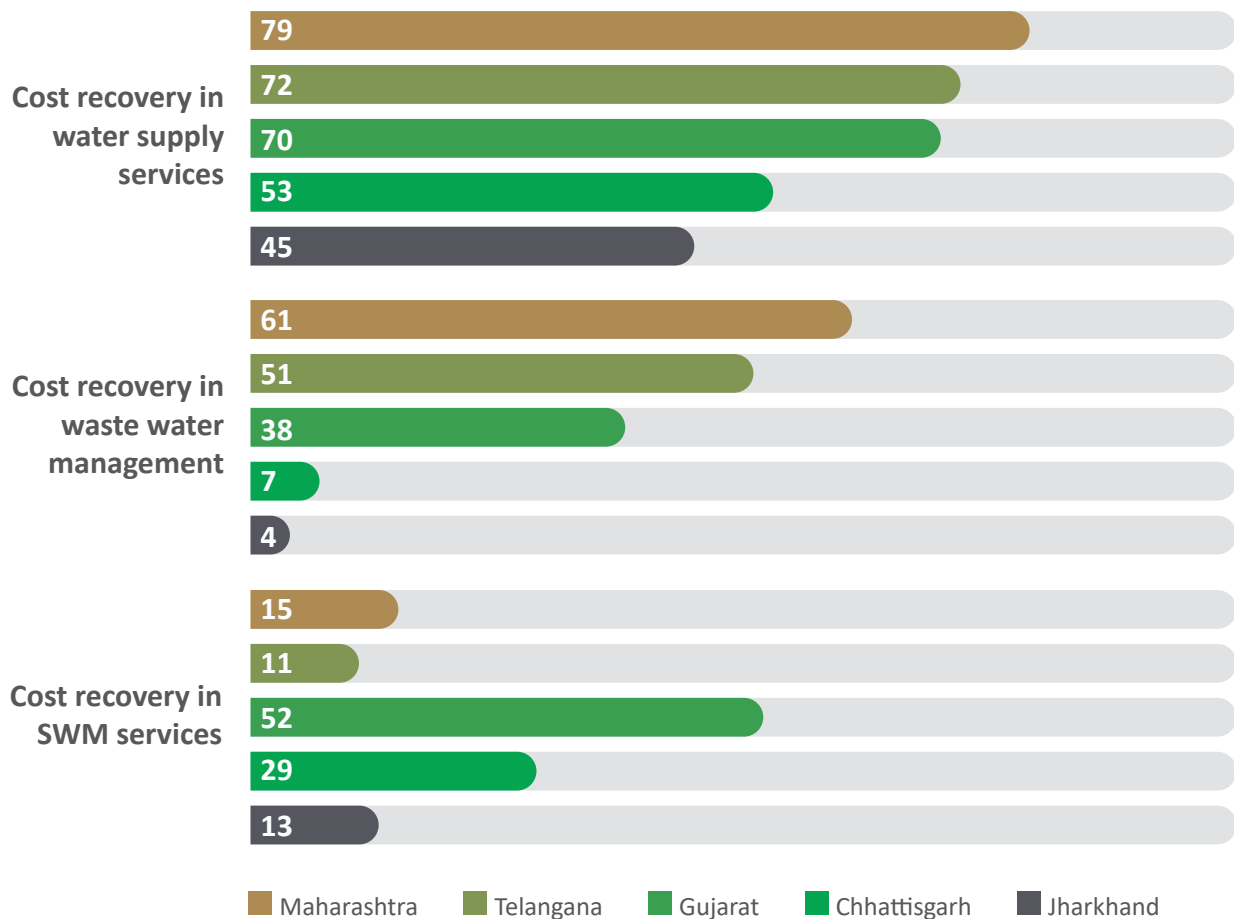
It is in this context that we assess whether Indian cities recover the costs of water and sanitation services. The Energy and Resources Institute (TERI, 2010) suggests that Chennai Metro Water and Bangalore Water Supply Board comes close to meeting their operational costs, while all other

cities manage to recover only 50–75 percent of their operational costs. This is also similar to findings from the five states where urban services have been regularly monitored for the past six years. It shows that there is a better cost recovery for water supply, as compared with SWM (Figure 23). Metro cities with million-plus populations have higher cost recovery than smaller towns (Figure 24).

Maharashtra seems to have done relatively better than other states because the Government of Maharashtra requires ULBs to regularly revise water charges to ensure full cost recovery. This seems to have yielded positive results.

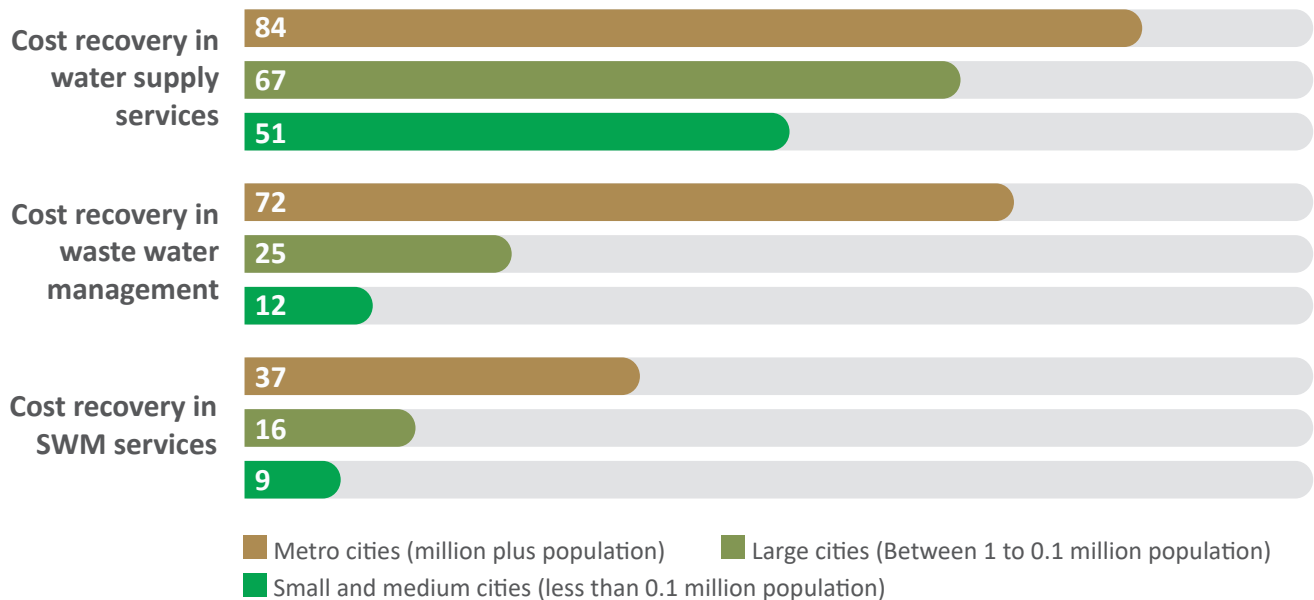
The state also has a large number of metered connections. This enables better cost recovery, although smaller cities typically have fewer metered water supply connections

**Figure 23: Extent of Cost Recovery in Municipal Services across Five States (India), 2018 (percent)**



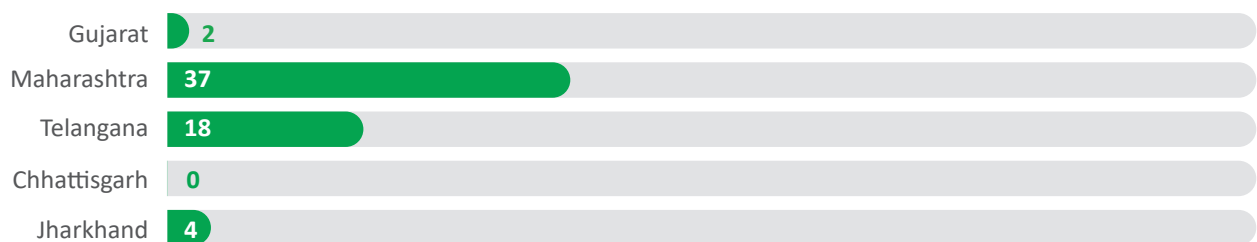
Source: PAS SLB data (2018).

**Figure 24: Extent of Cost Recovery of Municipal Services by City Size (India), 2018**



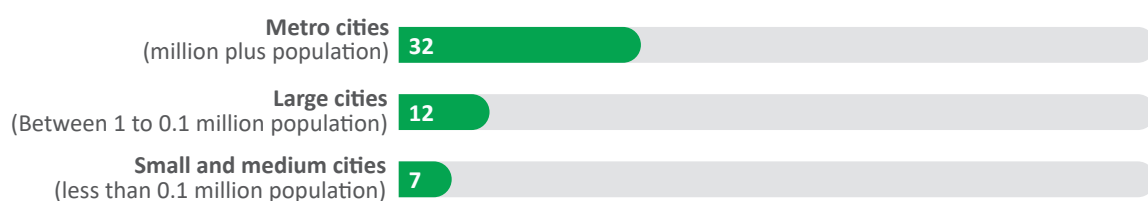
Source: PAS SLB monitoring in Maharashtra, Gujarat, Chhattisgarh, Telangana and Jharkhand.

**Figure 25: Extent of Water Metering across States**



Source: PAS SLB data (2018)

**Figure 26: Extent of Water Metering by City Size**



Source: PAS SLB data (2018).

(Figures 24 and 25). As wastewater charges are also linked to water charges; hence, the cost recovery for wastewater management is also better in Maharashtra and Telangana.

Unlike electricity tariff, water tariff is not revised regularly. This is despite the fact that a large part of water supply expenditure is for electricity charges. The Bangalore Water Supply and Sewerage Board revises its water tariff every three years. It also passes on electricity charges, which account for nearly 60 percent of the operating costs of water supply bodies, to customers (TERI, 2010). This practice can be adopted in other states to meet a part of the operating cost of water supply.

Another important aspect that can ensure adequate cost recovery is efficiency in service provision. For example, in water supply services, an important concern is the extent of non-revenue water (NRW), which increases costs and reduces revenues, thus adversely affecting cost recovery. Many cities have adopted measures for efficient water management. For example, several municipal corporations in Gujarat have installed Supervisory Control and Data Acquisition (SCADA) systems in transmission networks (from sources to distribution stations). These computerised systems gather and analyse real-time data, enabling municipal engineers to check water flow and identify leakages. The Rajkot Municipal Corporation has also reduced water loss through leakage and illegal connections with the help of real-time water loss monitoring systems.

### **Water and sanitation as essential public services**

The perspective of water and sanitation as basic services that deserve full coverage has influenced policy and practice in urban areas. Drinking water is considered a basic facility, and political leaders often feel that people should not be charged for it. “There is wide interest in, and support for, the idea of treating water as an economic good. However, the role of water – as a basic need, a merit good, and a social, economic, financial and environmental resource – makes the selection of an appropriate set of prices exceptionally difficult” (Perry, et al., 1997, p. v).

## **Key Insight**

**A full-cost recovery approach of urban services may exclude poorer households that are unable to pay charges. Differentiated levels of tariffs and subsidies could ensure provision of essential urban services to them.**

A full-cost recovery approach for pricing of urban services may exclude households that are unable to pay connection and monthly charges, and yet these are precisely the households that need assistance. Differentiated levels of tariffs, including subsidies for the lowest income bracket, could benefit poorer households. They need to be subsidised for access and could gradually move up the water and sanitation ladder, rather than face outright exclusion due to their inability to pay high connection charges.

While evaluating the discussion on subsidies, it is critical to assess that a good subsidy has to be based on an assessment of genuine needs and accurately target the intended beneficiaries. It should avoid creating perverse economic incentives that might encourage customers to wastewater, and it can be scaled up to achieve significant coverage levels (Mehta, 2003). These principles were demonstrated by South Africa when it introduced the right to adequate water in its constitution in 1996. It introduced the concept of free basic water to every household.

Taking a cue from South Africa, the Government of Delhi introduced a similar ‘free basic water’ scheme in 2015 by, a) Providing free water for all metered connections, which consume up to 20 kilolitres of water per month; b) Extending piped water supply to unauthorised colonies over the next three years; and c) Reducing development charges for water connections to enable residents of unauthorised colonies to afford connections (Safe Water Network, 2016).

## Key Insight

Delhi Government’s “Free Basic Water” scheme led to the ‘formalisation’ of a large number of illegal water connections, enabled extension of piped networks in poor communities, increased billing efficiency, and reduced water consumption. Over time, however, losses increased, and the utility was forced to increase the price of water above the basic limit.

This policy led to the ‘formalisation’ of a large number of ‘illegal’ connections, enabled the extension of piped networks in urban poor communities, increased billing efficiency and reduced water consumption to remain below the free water limit. However, over time, the losses increased and the utility had to increase the price of water above the basic limit.

With regard to sanitation services, two small cities in Maharashtra are providing city-wide services to all residents for scheduled desludging of septic tanks through a public-private partnership model that uses a performance-linked payment approach. Although citizens perceive this as a ‘free service’ as they do not pay any user charge at the time of desludging, it is being funded by local governments through sanitation and property tax revenues. This model enables city-wide service provision and equitable charges, as those with higher value property pay higher taxes, thereby cross-subsidising service delivery charges for poor households.

Distributing the burden among households and communities (front-end users) and users of treatment plant outputs (back-end users) can help offset consumer tariffs. This can be done by leveraging demand for the products of treatment plants, such as treated wastewater, compost

and alternative fuel. This would also be a more environmentally relevant solution.

## Incentivising local governments to increase own revenues

Fiscal decentralisation policies, discussed above, must ensure that increase in IGTs does not dampen efforts of municipalities to increase own revenue. Figure 27 shows that for municipal corporations, the share of own revenue has been more or less constant over the past seven years, although there has been a small increase in per capita own revenue. For municipal councils, there is a gradual decline in the share of own revenue, despite a minor increase in per capita own revenue.

This was the logic for the 14<sup>th</sup> Finance Commission to stipulate growth in own income as one of the requirements for availing performance grants. A well-designed performance-linked IGT can provide incentives for increasing own revenues. In the case of urban local governments, performance improvement should be focussed on increasing own revenue, as well as service performance. This necessitates regular and reliable measurements of both revenue and service performance.

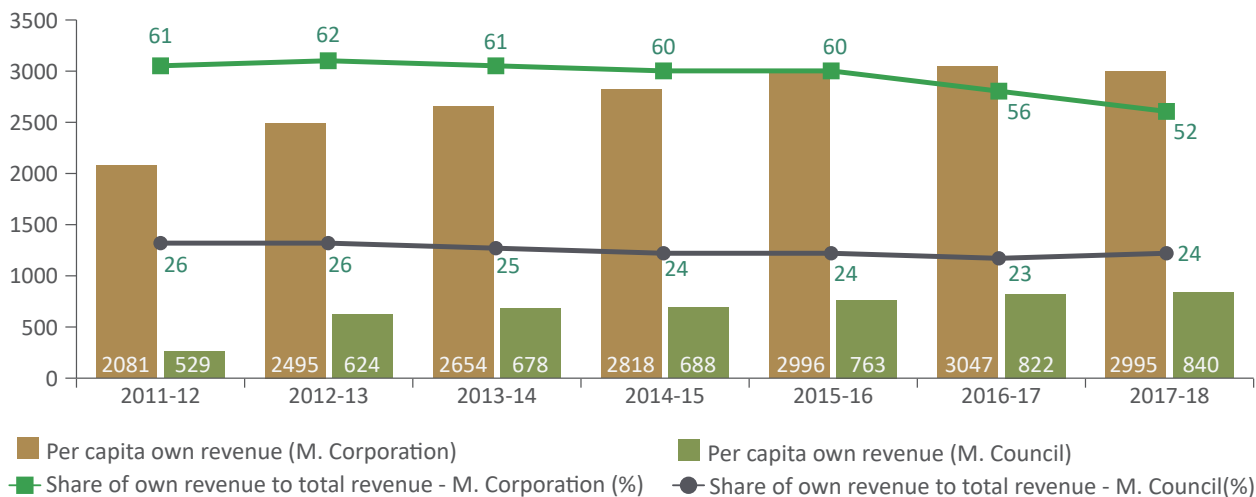
It is sometimes argued that an increase in IGTs will create disincentives for local governments to increase or even sustain their own revenues. As pointed out by Awasthi and Nagarajan (2020), “While no rigorous analysis has been done to

## Key Insight

Two cities in Maharashtra have enabled the provision of city-wide services for scheduled desludging, where the cost is recovered through property and sanitation tax revenues without user charges. This is an equitable, progressive cross-subsidization model.



**Figure 27: Share of Own Income and Per Capita Own Income**



Source: Ahluwalia et al. (2019), p 39-47 and p 83-90

test for a flypaper effect of the impact of grants, it seems the sizable amount of transfers may be crowding out the demand for additional revenues from own sources” (p. 6).

It is, therefore, necessary to design measures to incentivise local governments to improve their own resources, while maintaining and increasing IGTs and keeping them untied and predictable, as argued above. Many finance commissions have been advocating an increase in municipal revenue as a condition for grants. More recently, the finance minister has also announced this as one of the

conditions for an increase in states’ borrowing limit along with ensuring periodic increases.

Though limited, the Indian experience does demonstrate the use of such incentives. Various finance commissions have made it conditional for municipal governments to raise revenues. For example, the 14<sup>th</sup> Finance Commission said, “...we are providing performance grants to address the following issues, (i) making available reliable data on local bodies’ receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure and publish service level benchmarks for basic services” (Finance Commission (14<sup>th</sup>), p. 113).

The 15<sup>th</sup> Finance Commission, in its full report, goes a step further and states that “to qualify for any grants for urban local bodies in 2022-23, states will have to appropriately notify floor rates and thereafter show consistent improvement in collection in tandem with the growth rate of state’s own GSDP” (Finance Commission (15<sup>th</sup>), p. 202). This condition is even more surprising as most state governments had earlier indicated to the 14<sup>th</sup> Finance Commission that the basic grant by the Finance Commission should be untied (TN SFC, p. 103).

### Key Insight

It is necessary to design measures to incentivise local governments to improve their own resources, while maintaining and increasing Inter-governmental Transfers (IGTs) and keeping them untied and predictable.

## Key Insight

Researchers argue against increasing performance-based grants, which reduce the untied funds available for local governments. A different approach, adopted by Gujarat and Maharashtra, provides additional incentives for improved performance, rather than making grants to the local governments based on their performance.

Unlike the Central Finance Commission, none of the SFCs seems to have provided any incentives for ULBs to increase own revenues. While the Tamil Nadu SFC did mention that property tax needs to be increased from 0.2 percent of state GDP to 0.6 percent, it did not provide any incentives for this (TN SFC, 2016, p. 105–106).

The Gujarat and Maharashtra SFCs had sought suggestions related to performance-based grants linked to improvements in ULBs' own revenues, particularly from property tax. The key suggestions were based on key minimum conditions, as well as improvement in select performance measures (Mehta et al., 2013a, 2013b). While these were recognised in a Maharashtra SFC report, no specific recommendations were made (MSFC, 2019, p. 6). In Gujarat, the SFC report was not placed before the legislative assembly at all (Ahluwalia et al., 2019, p. 100).

Other researchers have raised doubts about such flypaper effects of intergovernmental grants. They argue against more performance-based grants, which in fact reduce the untied funds available for local governments. To address this, a different approach could be to provide additional incentives for improved performance rather than making grants to local governments based on performance.

This is the approach used by the state governments of Gujarat and Maharashtra. Both these governments have introduced incentives for an increase in property tax collection by urban local governments. For example, as per a 2014 resolution of the Government of Maharashtra, two incentives are provided, (a) ULBs whose water tax or charges recovery is more than 90 percent get a subsidy to cover the costs of salary and pension of their employees and (b) ULBs that recover 90 percent of the property tax are to be permitted to use the 13<sup>th</sup> and 14<sup>th</sup> Finance Commission grants for processing the salary and pensions of their employees (Government of Maharashtra, 2017). The Government of Gujarat also introduced an incentive for disbursement of basic / salary allowance grants to municipal councils linked to the collection efficiency of property tax. Municipal councils receive 50 percent of the approved establishment expenditure of council as grant-in-aid against achieving property tax collection efficiency of greater than 80 percent. This reduces to 40 percent and 30 percent if they achieve property tax collection efficiency of 60–80 percent and <60 percent, respectively, (Government of Gujarat, 2012).

### Exploring non-tax sources and land value capture to enhance local resources

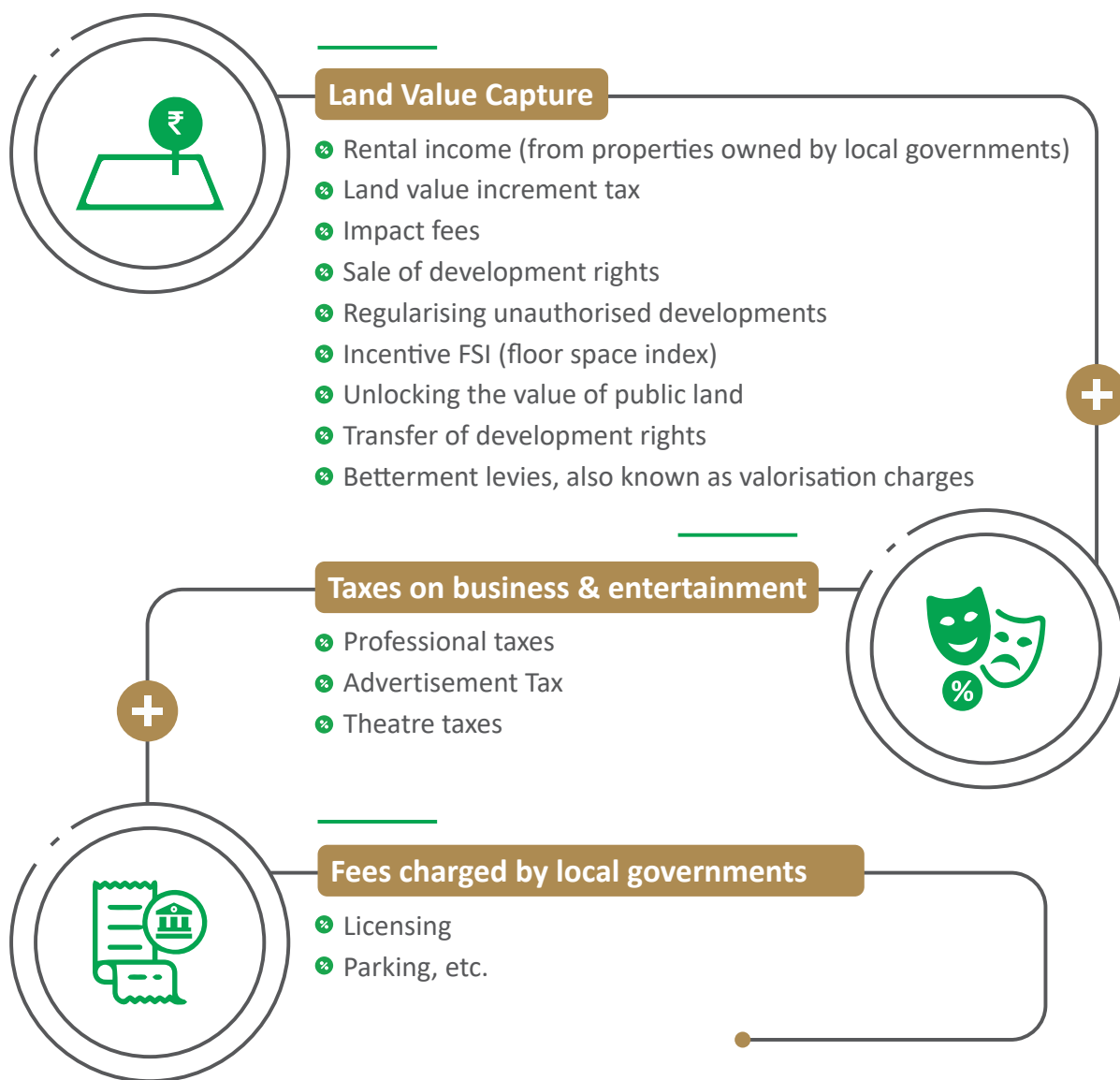
Apart from property tax and user charges linked to basic services, several other sources contribute to municipal governments' own income in India. These mainly include taxes on business and entertainment (professional, advertisement and theatre tax) and various fees that local governments charge on licensing, parking and so on. Rental income from their own properties is another important revenue source for many local governments.

While the information on property tax and charges for municipal services is available, information on municipal revenues from other sources is not readily available. The 14<sup>th</sup> Finance Commission had recommended that the books of accounts of local bodies should capture these details. However, the recommendation has not been implemented yet. Unless efforts are made to address these suggestions, it will be difficult to assess trends related to municipal revenues from other sources.

In recent years, there has been an emphasis on exploring ways for local governments to

## Figure 28: Types of non-tax revenue resources

Apart from property tax and user charges linked to basic services, several other sources contribute to municipal governments' own income in India



mobilise resources through land value capture. For example, Mohanty (2019) suggests a toolbox of land-based instruments including taxes, development financing and land value capture methods. To some extent, local governments use their own land and property assets to mobilise revenue such as rental income. However, other measures of land value capture, such as “land value increment tax, impact fees, sale of development rights, regularising unauthorised developments,

incentive FSI (floor space index) and unlocking the value of public land” are also being practiced in some cities (Indian Council for Research on International Economic Relations (ICRIER), 2014, p. 7). Essentially, these methods represent ways to raise finances by leveraging the increasing urban land values using different mechanisms (Gandhi and Phatak, 2016, p. 31).

Gandhi and Phatak (2016) point out that there has not been much research in India on land value

## Key Insight

In recent years, local governments have explored mobilising resources through land value capture: via rental income, land value increment taxes, impact fees, sale of development rights, regularising unauthorised development, incentive FSI, and unlocking value of public land. These methods leverage increasing urban land values.

capture. However, there is considerable evidence from other parts of the world, particularly from Latin America, where such approaches have been used. Transfer of development rights, where landowners pay a government entity a fee to transfer the density potential – for example, FSI or floor area ratio (FAR) – of one tract of land to a non-contiguous parcel of land that is better suited to greater densities. The fee generates revenue for public investment, and the transfer of density can further propel urban planning objectives. For example, in Brazil, CEPACs (*Certificados de Potencial Adicional de Construção*) are charges levied on building rights that are sold on a securities exchange. São Paulo has generated nearly USD2 billion from CEPACs to fund infrastructure and planning programmes within a designated redevelopment area (Germán and Bernstein, 2018).

In India, a similar concept is used in the form of the transfer of development rights. Karnataka, Gujarat and Maharashtra have made provisions for enabling the transfer of development rights to buy additional FSI / FAR. In Mumbai, charges for premium FSI are levied on developers who wish to build more than permissible floor space.

Betterment levies, known as valorisation charges in Colombia, have been used to defray, in whole or in part, the cost of a specific improvement or services that is presumed to be of general benefit

to the public and special benefit to the owners of such properties” Ochoa (2011, p. 1). It is quite successful in Colombia as “Bogotá currently has about USD 1 billion worth of investment in public works from this levy, and eight other smaller cities combined have another USD 1 billion.” In Indian cities, betterment levies have not yielded significant revenues. In Gujarat, the betterment levy is linked to town planning schemes. However, little effort by the local governments is made to collect this levy regularly.

Impact fees are common in many US states. Developers pay the municipality a one-time charge designed to cover the costs associated with a development’s impact on certain public services and infrastructure, and the municipality invests this revenue in public services and infrastructure. In India, some cities have adopted impact fees, but not of the type used in the US. Hyderabad levies a city-level impact fee on all buildings above 15 meters or with more than five floors (Gandhi and Phatak, 2016, p. 39). In Ahmedabad, a fee to ‘regularise’ all illegal constructions was termed as ‘impact fee.’

The Mumbai Metropolitan Region Development Authority (MMRDA) and City and Industrial Development Corporation Limited (CIDCO) have used different value capture methods including betterment levies, to finance infrastructure development in the urbanising areas. However, the funds that development authorities, such as MMRDA, CIDCO and DDA, generate from land development

## Key Insight

The COVID-19 lockdown has gravely affected municipal revenues and for cities to remain at the forefront of the fight against the pandemic, they need to be equipped with adequate financing, especially for continued service delivery on water and sanitation.

do not accrue to the ULBs in which they are located. Tamil Nadu and Maharashtra have made land value tax applicable to urban areas too, under which an increase in land value is tapped through increased revenue tax. However, in Gujarat, vacant urban land tax has often been proposed but never imposed. West Bengal has formulated a system to capture gains from land-use conversion (MoHUA, 2017).

As one can see from the above, land value capture financing is often a one-off activity. For example, both Hyderabad and Ahmedabad generated significant revenues from impact fees, but it was only for a few years. Building permissions, rental from municipal properties, parking fees, etc., are recurring revenues but the amount is often too small compared with property tax and water and sanitation charges. Hence, less attention is paid to such non-tax revenues by state and local governments.

### **COVID-19 pandemic has enhanced the need for strengthening municipal finances**

The COVID-19 pandemic has affected revenues of all levels of government. However, cities have borne a major brunt of the pandemic. The prolonged lockdown has affected municipal revenues significantly as suggested by a study for a small town in Maharashtra. The collection from property tax and rental income in this town dropped by nearly 40 percent as compared with the previous year.

For cities to remain at the forefront of the battle against COVID-19, it is critical to ensure that they have access to adequate and predictable financial resources. Adequate financing is also essential to enable municipal governments to continue providing the services and functions assigned to them. Continued and regular delivery of these services for water supply and sanitation is critical.





# 4. Strengthening Municipal Administration and Governance



This chapter discusses the challenges that prevent ULBs from realising the substantive roles envisaged for them in urban governance. It mainly focusses on challenges related to the functional domain, political empowerment, municipalisation, staffing, accountability and transparency, and capacity building. These challenges have also been brought to the fore by the impact of COVID-19 on cities. As ULBs across India are trying to respond to the best of their financial and human resource capabilities, their institutional limitations are becoming even more evident.

## Devolution to ULBs and Complexity of Transfer of Services

Policy articulations and scheme guidelines entrust the responsibility of planning, financing, implementation and management of sanitation investments, including revenue functions and local stakeholder engagements, to ULBs. Central and state government agencies are expected to render technical and financial support, develop enabling legal policy and regulatory frameworks, and exercise strategic oversight.

However, ULBs continue to remain highly reliant on state governments, when it comes to responding effectively to any crisis or supporting citizens' needs.

### Complex and varied transfer of services across states

The 12<sup>th</sup> Schedule of the Constitution of India indicates that states may, by law, assign functions to ULBs. The objective is to establish ULBs as institutions of self-governance and endow them with the authority necessary to perform functions and implement schemes related to the 12<sup>th</sup> Schedule. However, many states have been reluctant to 'effectively empower' ULBs (2<sup>nd</sup> ARC, 2007).

The freedom available to states on the assignment of 12<sup>th</sup> Schedule matters has led to the enactment of differing municipal laws by states, as well as a variation

## Key Insight

The 12<sup>th</sup> Schedule of the Indian Constitution allows states the freedom to assign functions to ULBs. This has led to enactment of differing municipal laws, and variation in number and nature of matters assigned to ULBs. Moreover, the assignment of a matter does not necessarily mean that ULBs are fully empowered to undertake all related functions. Urban water supply and sewerage services are often managed by state and city-level water supply and sewerage boards / public health engineering departments for capital-focussed work.

in the number and nature of matters assigned to ULBs (see Annex-I). While some states claim to have assigned all 12<sup>th</sup> Schedule matters to ULBs, others report the assignment of only a few.

Moreover, the assignment of a matter does not necessarily mean that ULBs are fully empowered to undertake all related functions. Several key

functions continue to be undertaken by state government departments, their subordinate offices and parastatals.

In the case of urban water supply and sewerage services, state and city-level water supply and sewerage boards / public health engineering departments often undertake capital-focussed work and revenue functions, either separately or alongside ULBs, even in states where the matter of sanitation is assigned to ULBs (see Annex-II).

The multiplicity of agencies presents several challenges, especially as departments and parastatals are designed for accountability to state governments and not ULBs (2<sup>nd</sup> ARC, 2007; MoUD, GoI, 2015; Pandey, 2012; United Nations Educational, Scientific and Cultural Organisation (UNESCO) and Centre de Sciences Humaines (CSH), 2011). Some of the key challenges are listed below:

- **Lack of space for ULBs to operate:** The persistent presence and sizeable footprint of other public actors shrink the space available for ULBs to act as institutions of self-governance.
- **Fragmented approach:** ULBs are not empowered to coordinate and control the working of public actors, which continue to work in isolation. This has resulted in a fragmented approach and duplication of resources, with implications for collective efficiency, as well as pace and quality of output.
- **Lack of accountability to citizens:** Unlike ULBs, departments and parastatals are not directly accountable to citizens and, hence, less amenable to responding to local voices and priorities. Further, the overlap in tasks undertaken by various agencies makes it difficult for citizens to identify agencies they should approach for grievance redressal.

### Planned involvement of parastatals as a positive strength behind ULBs

Parastatals take up tasks pertaining to finance, poverty alleviation, housing, planning, planned

#### Example

A few models that allow ULBs to benefit from parastatals' expertise, even while playing the envisaged role of a 'mother institution' (Pandey, 2012) are as follows:

- Parastatals could work as outsourcing agencies of ULBs with output parameters / deliverables clearly specified and agreed upon through memorandum of understanding or service level agreements (Planning Commission (PC), GoI, 2012).
- ULBs could be responsible for all downstream activities of a parastatal in areas under their jurisdiction (2<sup>nd</sup> ARC, 2007).

development and services such as water supply, and sewerage and slum improvement (Pandey, 2012). However, not all states have all the parastatals.

The challenges caused by a multiplicity of agencies have led many to argue for the phasing out of parastatals, seeing them as impediments to municipal empowerment. However, given the profile of their personnel, accumulated institutional experience and state-wide remit, parastatals bring specialised skills and scalar efficiencies to their engagement with urban issues. Therefore, ULBs should have the option of accessing parastatals' services, as long as they enjoy the powers necessary to hold them accountable for such services.

A similar approach is seen in the case of Karnataka. The 4<sup>th</sup> SFC for Karnataka (2018) states, "The responsibility of providing the infrastructure and services in the urban areas is with the ULBs. However, the participation of parastatals is a necessity. Due to capacity constraints and shortage of manpower for taking up large infrastructure projects and lack of expertise in new, emerging technologies and new models of project implementation, most ULBs, except a few big corporations are found wanting, and it is here

## Key Insight

While parastatals are often seen as impediments to municipal empowerment, they bring specialised skills and scalar efficiencies to their engagement with urban issues. As long as ULBs possess powers to hold them accountable, parastatal services may be utilised.

that the role of parastatals becomes important.”

In addition, the 4<sup>th</sup> SFC for Maharashtra (2016) calls for parastatals to work under the overall supervision and guidance of local bodies and to be bound by the terms and conditions of agreements between them.

The recent 15<sup>th</sup> finance commission report has recommended setting up municipal shared service centres backed by the financial assistance of INR450 Cr and a centralised digital platform for municipal service delivery. About 86 such clusters have been identified to set up such service centres across the states of India. These centres are intended to serve as citizen civic centres which act as a centralised platform for service delivery, accounts and payment collection centres, grievance redressal etc. This could

## Key Insight

The 15<sup>th</sup> Finance Commission report has recommended setting up municipal shared service centres, which are centralised civic centres for service delivery, grievance redressal and collection.

be the game-changer for peri-urban areas and small and medium satellite towns located in the vicinity of major urban centres.

Such an arrangement would be especially important for small and medium towns that may not be in a position to manage all 12<sup>th</sup> Schedule matters on their own (Vaidya, 2009). Their unique sanitation-related issues and requirements add to the case for accountable parastatal support.

In small and medium towns, on-site sanitation systems (the dominant arrangement) and FSM often occupy a fuzzy, semi-formal territory. As ULBs tend to view these as household-level responsibilities, they are unlikely to be circumspect about the extent to which they should engage with the subject (Dasgupta, et al, 2015). Constrained staffing and capacities, along with limited space for engagement with sanitation issues in ongoing schemes, could add to the potential inertia. For instance, SBM-U does not focus significantly on treatment and disposal, while AMRUT focusses on treatment and disposal only in larger towns.

Measures proposed to address the situation, such as recognising the importance of on-site sanitation

## Key Insight

In small and medium towns, on-site sanitation systems (the dominant arrangement) and FSM often occupy a fuzzy, semi-formal territory and ULBs often are unaware of what responsibilities lie with them in this regard. Integrating OSS as part of city-wide sanitation, and ensuring a nodal agency is established to manage it, are necessary measures.





Masons of containment infrastructure involved in a training workshop - Image courtesy of NFSSM Alliance

systems as an integral part of city-wide sanitation and the need for a nodal local agency (Murty, 2013), underline issues related to the functional domain as well as the relationship between ULBs and other public actors.

It is critical to revisit institutional arrangements, roles and functions related to the 12<sup>th</sup> Schedule matters assigned to ULBs. The objective should be to assign a leading role to ULBs locally, with

parastatals and other public agencies working as service providers accountable to ULBs.

## Urban Planning and Models of Service Delivery

The 74<sup>th</sup> CAA envisages a key role for ULBs in urban planning. It calls on states to devolve upon ULBs the powers and responsibilities needed for the

**Figure 29: Urban Planning Activities Recommended to State for ULBs**



## Challenges in Local and Regional Planning

District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) are assigned consolidation responsibilities from ULBs in terms of resources, financials, *inter alia*, at the district and metropolitan level, respectively. However, the envisaged schema, wherein local planning is undertaken by ULBs and regional planning is steered by DPCs and MPCs, remains largely unrealised due to the following:

- Multiplicity of agencies:** Local and regional planning continues to be undertaken by multiple agencies. Town and Country Planning Departments (TCPDs) and Development Authorities (DAs) undertake spatial / master planning functions as per their legislative mandates; state government departments / agencies undertake planning for several sectors / programmes at the

state, district and ULB levels; and district and ULB authorities prepare plans for centrally sponsored schemes.

- Scope of DPCs and MPCs:** Several states have not constituted DPCs, and still fewer have constituted MPCs (see Annex-IV). In states where DPCs and MPCs have been constituted, there remains ambiguity over the nature and scope of the Draft Development Plan (DDP) consolidation exercise, particularly around the extent to which it can address issues that require a macro view. There is uncertainty about whether DDPs should restrict themselves to matters devolved to RLBs and ULBs or engage with the entire spectrum of issues that bear on an area's development and future (2nd ARC, 2007).



preparation of plans for economic development and social justice. This is critical to ULBs emergence as vibrant institutions of self-governance.

Among 12<sup>th</sup> Schedule matters, a few urban planning related activities (such as town planning, regulation of land use, construction of buildings and planning for economic and social development) have been recommended to states for assignment to ULBs.

The prevailing arrangements have implications for the coherence and quality of urban planning. With multiple institutions involved in planning, and each working on a specific aspect of planning, there is a lack of integration between the spatial and socio-economic aspects of planning (PC, GoI, 2012). However, the 15<sup>th</sup> Finance commission has made an effort to mainstream Metropolitan Governance for the first time since 74<sup>th</sup> CAA, 1992 through allocating Rs 38,000 crore for 50 million-plus urban agglomerations (UAs). These UAs will be held responsible for quality service delivery in this jurisdiction related to air quality and sanitation. This would become a milestone recommendation for strengthening the metropolitan governance model.

### Limited outlook of different types of planning exercises and their impact

A number of quality issues afflict different types of planning exercises across India.

#### Key Insight

With multiple institutions involved in urban planning, and each working on a specific aspect of planning, there is a lack of integration between the spatial and socio-economic aspects of planning. This discord has led to a lack of consideration of infrastructure needs of the marginalised, and inappropriate laws on informal spaces.

For example, spatial planning has an overwhelming focus on land use zoning and development control regulations. It tends to view cities in isolation from the larger region, misses perspectives on the future trajectory of a city and the integration of peripheral and peri-urban areas, and is rarely supported by systematic financial and operating strategies (MoUD, GoI, 2011; PC, GoI, 2012).

Meanwhile, with DAs playing the role of both planners and developers, physical development considerations supersede planning concerns (2<sup>nd</sup> ARC, 2007). Socio-economic planning is driven by sectoral and programmatic requirements, and struggles to holistically address the concerns and aspirations of the disadvantaged.

DPCs and MPCs have played a minimal role in urban planning and governance (Vaidya, 2009). For example, the 4<sup>th</sup> SFC for West Bengal (2016) noted that the state's DPCs have not yet been effective. Issues of routine planning, inconsistency between proposals and local needs, and the lack of resources for the implementation of proposals have remained intact.

Often, planning systems lack a formal mechanism of representing the aspirations of a city's population, leading to a disregard for

- **Infrastructure needs of marginalised groups:** The complex work-home relationship for the poor (where proximity to the workplace or affordable public transport must be prioritised) and women (where work and domestic responsibilities have to be balanced and caregiving infrastructure provided) commonly go unrecognised (Mahadevia, et al, 2009).
- **Inappropriate laws on informal spaces:** Zoning laws and development control regulations and by-laws exclude informal spaces, residences and working places of the poor (Mahadevia, et al, 2009). This leads to a sharp divide between income groups, in terms of access to housing and basic services (PC, GoI, 2012), as well as the concentration of the poor and marginalised in less developed parts of cities.

## Key Insight

Groundwater contamination due to on-site sanitation systems are a result of inadequate design and building regulations. Small towns need to plan for the needs of an increasing population and this requires expanding the capacity to manage sanitation programmes in small towns.

Another omission in urban planning is the process of land development and enforcement of regulations with master plans that lack a strategy and vision to integrate peri-urban and rural areas within a regional framework. This has resulted in new developments coming up in random locations, with most cities witnessing haphazard development at their periphery. It has also resulted in unforeseen consequences with respect to infrastructure adequacy, overcrowding of existing urban centres, and the environment (PC, GoI, 2012).

The planning issues discussed above mean that sanitation (and other) services are particularly constrained in peripheral and peri-urban areas inhabited by the poor.

Another key concern, reflecting on issues of coherence, quality and equity in urban planning, is groundwater (the common water source in such areas) contamination due to on-site sanitation systems (TERI, 2020). Inadequately designed and enforced building regulations add to the challenge (Murty, 2013; Singh, 2018). In small towns, there is a need for prospective planning that prepares for increased population and density, and recognises the capacity limitations in such towns for planning and managing sanitation programmes (TERI, 2020).

## What is needed and how urban governance can be redesigned to achieve it

With respect to the urban poor, it is important to look at the broad spectrum of citizens left behind, and include them in formal networks. For instance, the Street Vending Act 2014 enables states and ULBs to institutionalise street vendors. Similar efforts are needed to bring other neglected segments / informal groups, such as construction workers, household helps, e/manual rickshaw pullers, plumbers, carpenters, artisans, porters, electricians and many others into a formal network and city planning exercise.

Streamlining and improving the planning process will require a clearer delineation of institutional roles and relationships, so that ULBs can meaningfully shape local and regional plans and draw upon the expertise of TCPDs and DAs.

According to one report, perhaps the most detailed formulation that has been proposed for this (PC, GoI, 2012), given the crucial role of DPCs and MPCs, is that they should be constituted and charged with preparing spatial development plans (SDPs) for areas under their jurisdiction to solve the problem of overlapping responsibilities and to ensure cohesion in urban planning. The SDPs could have a 20-year perspective and a formal review frequency of five years.

The SDP process must adopt a participatory approach involving engagement with ULBs, WCs,

## Key Insight

Streamlining and improving the planning process will require a clearer delineation of institutional roles and relationships, so that ULBs can meaningfully shape local and regional plans and draw upon the expertise of TCPDs and DAs.

## Key Insight

The concept of Municipal Shared Service Centres, floated by the 15th Finance Commission report, would be a potential platform to raise the voice of the urban poor to ensure easy access to municipal services.

ASs and their rural counterparts, as well as other key stakeholder groups, and should be supported by DAs. To ensure this, guidelines on participatory planning must be established and DAs have to be formally weaned off project implementation and land development roles.

The responsibility of reviewing and approving SDPs should be entrusted to SPBs (drawing technical support from TCPDs). Any change proposed by SPBs to SDPs should be recorded. Further, DPCs / MPCs must get an opportunity to respond before SDPs are approved.

ULBs should be entrusted with full responsibility for sanctions, approvals and enforcement envisaged under an SDP. Technical support from DAs and the simplification of development control regulations and relevant procedures will enable ULBs in this regard.

It is critical to ensure that urban planning is effective and takes into account the needs of marginalised groups. The overlapping roles at the planning level make the efficient delivery of services by ULBs increasingly difficult and, thus, have to be modified for better results. An innovative and out of box idea for an alternative municipal service model is the need of the hour. The idea of municipal shared service centres floated by the 15<sup>th</sup> Finance Commission report would be the potential platform to raise the voice of the urban poor to ensure easy access to municipal services.

## Challenges Related to Elected Positions and Lessons from New Provisions

The deliberative (political) wing of ULBs comprises an elected body of ward councillors and municipal chairpersons (called mayors in corporations and presidents / chairpersons in Municipal Councils and Nagar Panchayats). The executive wing comprises nodal administrators (commissioners at the corporation level and executive / municipal officers at the Municipal Council and Nagar Panchayat levels) and technical and administrative staff. It complements the deliberative wing.

To strengthen local self-governance, the deliberative wing has to have the space to

Figure 30: Type of Governing Bodies and Personnel of ULBs

### Deliberative Wing

Elected body of ward councillors and municipal chairpersons



### Executive Wing

Nodal administrators  
Technical and administrative staff

determine institutional agendas and oversee an executive officer's efforts to realise such agendas. Irregular ULB elections and prolonged supersession of ULBs weaken the deliberative wing, "(eroding) the very basis of local self-government and... (having)... a negative effect on democracy at the grassroots level." It also leads to an accumulation of power in the executive wing (MoHUA, Gol).

Against this backdrop, the 74<sup>th</sup> CAA aims to strengthen grassroots-level democracy and leadership with provisions for the position of chairpersons and regular and direct elections of ward councillors. The emphasis on political empowerment is evident in the reservation provisions made to accommodate SCs, STs and women in the ward councillor and chairperson positions.

However, political empowerment has not occurred as per expectations. Chairpersons lack the power and tenure to drive meaningful action and play a largely peripheral role in urban governance (2<sup>nd</sup> ARC, 2007) due to the following:

- **Weak election process and limited tenure:** The 74<sup>th</sup> CAA leaves it to states to decide the manner of elections for chairpersons. This results in chairpersons being mostly elected and chosen by ward councillors from among themselves. They serve terms ranging from one to five years (see Annex-III.). This short and often uncertain tenure undermines a chairperson's authority and inhibits long-term thinking (2<sup>nd</sup> ARC, 2007; McKinsey, 2010).
- **State presence through representation:** States, taking advantage of the provisions in the 74<sup>th</sup> CAA, often envisage representation for parliamentarians and legislators in ULBs. Their imposing presence can subdue the emergence of local leadership (2<sup>nd</sup> ARC, 2007).

Another key concern has been the ineffective coordination between the elected and

administrative wings. There is a need for strong project management units to enable coordination and communication between ULB officers and councillors, as well as clear identification of the duties of mayors and commissioners for improved transparency in roles and responsibilities (NIUA 2015).

### Status of reservation and its impact on ULBs

Reservations have made a substantial difference in the composition of ULBs. Although there have been instances of elected representatives from reserved categories bringing new perspectives and enthusiasm to their office, it would be an exaggeration to suggest that the promise of empowerment has been fully realised.

Many elected representatives from reserved categories are first-time entrants into public office. Their limited understanding of legal and governance processes and a certain diffidence arising from social conditioning make it difficult for them to engage with their new role. The lack of any systematic capacity building effort and support from experienced elected colleagues and ULB staff does not help the situation.

### Key Insight

There is a need for strong project management units to enable coordination and communication between ULB officers and councillors, and improved transparency in roles and responsibilities of municipal officials.

On the other hand, women face added challenges due to domestic workloads (Prasad, 2014). Improvements in Maharashtra have led the way in terms of allocating 50 percent reservation for women in councils (The Maharashtra Municipal Councils, Nagar Panchayat and Industrial Township Act, 1965 – Modified up to May 11, 2016).

Another factor impeding the realisation of reservation objectives is the system of single-term, rotational reservation. For elected representatives, limited period rotation offers little opportunity to gain experience and grow in stature, as well as little incentive to exert beyond a point. It also tempts entrenched local elites to nominate proxy candidates in reserved seats in anticipation of rotation after a term.

“...political empowerment remains a worthy objective to pursue across all types of ULBs. This assumes importance in the sanitation context too where elected office bearers...are (found) more positively tuned to the growing problem of unsafe disposal of Faecal waste and the need for its treatment” (National Institute of Urban Affairs (NIUA), 2017).

Efforts to realise political empowerment must prioritise the empowerment of chairpersons and ensure that elected representatives from reserved categories have opportunities to optimise their potential.

### Need and mode of political empowerment of ULB office bearers

There is some consensus that the function of chairing a ULB and exercising executive authority should be combined in the office of the chairperson. Ward councillors should handle functions such as budget approval, oversight and framing of regulations and policies, and administrators should handle functions delegated to them by the deliberative wing (2<sup>nd</sup> ARC, 2007; Vaidya, 2009). These functions must be delegated to administrators by relevant ULBs and not states.

There is also broad agreement that chairpersons should enjoy a five-year tenure under

#### Capacity-building for Office-bearers

Capacity building plans for elected representatives should be built after assessing systematic needs and must recognise the need for speedy implementation (for instance, within the first 6–9 months of assuming office). It should also factor in the unique requirements of women and first-time representatives.

normal circumstances, ULB membership of parliamentarians and legislators should be avoided, and states should have the flexibility to choose between the mayor-in-council and executive mayor systems for electing a chairperson (MoUD, GoI, 2011).

Advocates of the executive mayor system, where the chairperson is directly elected by a city’s / town’s residents and acts as the chief executive officer (CEO) of a corporate body, believe it is more suitable for service delivery institutions such as ULBs and has the potential to ensure enhanced direct accountability to the people.

On the other hand, the mayor-in-council system, where the chairperson is indirectly elected and is accountable within a framework of collective responsibility, may provide for greater cohesion between chairpersons and ward councillors and be less vulnerable in situations where the directly elected chairperson belongs to a political party different from the majority of the councillors.

#### Key Insight

Efforts to realise political empowerment must prioritise the empowerment of chairpersons and ensure that elected representatives from reserved categories have opportunities to optimise their potential.



## Key Insight

Measures proposed to address issues arising from rotational reservations include rotation after at least two terms of five years and municipal elections for multi-member instead of single-member constituencies (2<sup>nd</sup> ARC, 2007).

Capacity building is also recommended for the effective empowerment of elected representatives from reserved categories, particularly for the large proportion of first-time entrants into public office. Measures proposed to address issues arising from rotational reservations include rotation after at least two terms of five years and municipal elections for multi-member instead of single-member constituencies (2<sup>nd</sup> ARC, 2007).

As municipal governments do not have the capacity to make decisions on raising finance, mayors / presidents / chairpersons need support from finance commissions to make decisions. Thus, power structures need to be examined to ensure mayoral autonomy. Currently, there is no incentive for central or state governments to devolve power.

The empowerment of elected representatives is vital for ULBs to become truly self-reliant. Mayors / presidents / chairpersons need to collaborate, as their representation in important forums, such as the GST Council, may offset some of the challenges around municipal financing for ULBs.

### Lack of Administrative Capacity

Insufficient capacity and capabilities lie at the heart of India's urban challenges (PC, Gol, 2012). These affect planning, execution and delivery of services; implementation of reforms; maintenance of records; and, at a larger level, municipal governance.

The increase in ULB staff has not been commensurate with the pace of urbanisation and expansion of functional domains (2<sup>nd</sup> ARC, 2007). Indeed, staffing levels have remained unchanged for years in several states, following hiring freezes as part of economic measures or establishment cost rationalisations (ASCI, 2014). In ULBs where hiring freezes were not applicable, there have been enormous delays in hiring (MoUD, Gol and World Bank (WB), 2014).

Estimates from studies commissioned by the 15<sup>th</sup> Finance Commission suggest that the average deployment of human resources is approximately 40 percent of the sanctioned human resources, that too against staffing norms from 2001 (Haryana 5<sup>th</sup> SFC, 2017). Even these dated norms may not be informed by systematic analyses (MoUD, Gol and WB, 2014).

Staff shortages have prompted ad hoc measures that offer sub-optimal solutions, at best. Daily wage workers, contractually engaged staff and outsourced staff, which is considered as the prevalent arrangement in most states (MoUD, Gol and World Bank, 2014), are often recruited without rules and on extraneous considerations (2<sup>nd</sup> ARC, 2007), and pose problems of continuity, motivation and accountability (Chhattisgarh 3<sup>rd</sup> SFC, 2018). Further, staff from neighbouring ULBs struggle to balance added workloads, while those

## Key Insight

The increase in ULB staff has not been commensurate with the pace of urbanisation and expansion of functional domains. Staffing levels have remained unchanged for years in several states due to hiring freezes as part of economic measures or cost rationalisations.



## Key Insight

While there are administrative capacity gaps relating to development of human resources, building and improving skills, and imparting new knowledge, there is an organisational development dimension that tends to be left out on whether the ULB is enabled to address contemporary and future challenges, establish effective internal working relationships, and ensure responsive services.

deputed from other government departments do not have relevant ULB experience (Chhattisgarh 3<sup>rd</sup> SFC, 2018).

Beyond headcount gaps, there are capacity gaps. The capacity issue is commonly viewed as one relating to the development of human resources, building new skills, improving existing skills and imparting new knowledge. However, it has an organisational development dimension relating to organisational enablement (to address contemporary and future challenges, establish effective internal working relationships and ensure responsive services) that tends to be left out.

The organisational development dimension aims to enable organisations to enhance their capacity to pursue their objectives and goals (2<sup>nd</sup> ARC, 2007). In the municipal context, it implies attention to a range of issues, including those related to recruitment, the balance of 'in-house' provision versus outsourcing, management structure, delegation, performance measurement and management, business processes, legal and regulatory frameworks, management information systems (MIS), etc. In the absence of any substantive engagement with these, even the best designed and delivered individual capacity-building efforts will yield only limited results.

ULBs face challenges on both the individual and organisational development fronts, including

- **Demand for skills and training method:** There is a lack of explicit demand for specialised skills (PC, GoI, 2012), despite the fact that a range of critical subjects is unavailable with ULBs.
  - Capacity-building efforts to address these gaps, normally anchored by State Institutes of Rural Development (SIRDs) and State Administrative Training Institutes (ATIs), have suffered on several counts. They are sporadic and focus more on aspects of municipal law, accounting, office procedures and scheme guidelines and less on larger, more fundamental themes of governance (2<sup>nd</sup> ARC, 2007).
  - Training is primarily classroom-based and not responsive to the requirements of urban managers (PC, GoI, 2012). Capacity-building institutions are under-equipped and understaffed (Karnataka 4<sup>th</sup> SFC, 2018; West Bengal 4<sup>th</sup> SFC, 2016).
- **Lack of formal systems:** At an organisational level, there is an absence of formal structures, dedicated cadres, staffing norms, organisational procedures, job descriptions and pay scales (PC, GoI, 2012).
  - Posting and transfer decisions are amenable to lobbying, appraisal systems need to be more reflective of performance and reward systems are weak (MoUD, GoI and WB, 2014).
  - The frequent transfer of state-deputed officers does not provide them with adequate opportunities or incentives to engage in long-term sustained improvements at the ULB level (NIUA, 2015). Cumulatively, these translate into difficult work circumstances for municipal employees.
- **Complexity of procedures:** Rules and procedures for regulatory services, such as granting of permissions or issue of licenses and connections, are complex and outdated. They leave much to the discretion of functionaries,

cause delays in approvals and put citizens through a lot of hardship especially given the causal relationship between the complexity of procedures and the degree of corruption involved (2nd ARC, 2007).

- This can be particularly challenging for poorer households that, unlike the privileged, lack the social and class status to access bureaucrats and talk to them as equals (UNESCO and CSH, 2014). Further, the simplification of legal procedures may ease the process for other stakeholders as well, including the private sector and citizens. For instance, legal provisions through government resolution and rules to enable cluster-level approach (for services to be provided to multiple ULBs through a single tender), so that one unit can service a number of ULBs and strengthen existing institutional arrangements.
- **Gender inequities:** The number of women cadres in ULBs across India is limited, resulting in negligence towards gender integration in many urban initiatives. In the case of water and sanitation (WASH), women have historically been one of the key clients for these services. However, a 2019 World Bank study across 64 WASH utilities revealed that fewer than 1 in 5 women works in the water and sanitation sector (World Bank, 2019).
- While the 74th CAA advocated for increased participation of women in ULBs, the supporting awareness, training and resources for women in their career trajectory are limited.
- There has been a representation of women in leadership roles but the overall proportion of women leaders in urban governance anchoring urban development services is limited.
- Awareness and training on gender mainstreaming methods are critical for integrating the gender angle into services, planning and budgeting. Gender mainstreaming will enable the

operationalisation of gender impact assessments for continued improvement in these efforts. The transition of women into leadership roles is critical to ensure equity and much-needed representation for gender integration initiatives (Sethi, 2015).

Staffing and capacity issues are more pressing in small and medium towns. The 4th SFC for Odisha (2014) makes a case for continuing parastatal activity and planning through specialised agencies on the grounds of weak capacities in such towns. The 3rd SFC for Chhattisgarh (2018) speaks of the critical problem of capacity in newly upgraded Nagar Panchayats.

In a typical small town, as far as sanitation is concerned, the administrator may be in charge of an additional town and may not have the time or capacity to oversee sanitation issues. There may not be a single, dedicated engineer or the staff might be preoccupied with keeping streets cleaned and drains flowing to oversee the design and construction of on-site facilities. This situation also leads to inefficient enforcement of relevant regulations, in-house desludging services and recordkeeping of private desludging operators (Murty, 2013).

Thus, this report advocates that it is critical to ensure staffing norms are developed / updated for each ULB category. Skill and knowledge gaps must be identified for each ULB, based on a suitable assessment framework. Plans for capacity

### Key Insight

In small towns, as far as sanitation is concerned, there may not be administrators and engineers with the capacity to ensure appropriate management of drains, design and construction of on-site facilities, desludging etc.

### COVID-19 and the role of small and medium towns:

The pandemic has increased the ULBs' responsibilities and challenged their efficiency in data management and outreach. While metropolitan cities have been able to deploy the required human resource for the management of COVID-19, smaller ULBs were unable to do so.

The NDMA act assigns the responsibility to manage human resources to a district collector, who takes administrative decisions for small ULBs. However, the on-field data collection and management activities are carried out by local administrative staff, as they are well aware of a city's dynamics. City governments in small and mid-sized towns should be strengthened so that they can take administrative decisions and deploy resources accordingly.

building of ULB staff will need to build on this. Strengthening and networking of existing capacity building institutions should be preferred over forming new ones.

### Cadre and staff reforms and development of cadre management systems

Given that most city governments are not able to hire adequate and efficient human resources, primarily due to limited funds and hiring freeze, there is a need to professionalise municipal cadres. This can be achieved through effective hiring and performance evaluations. The municipal cadre constitution process must focus on roles related to management, accounting, technical support and gender service delivery.

It may also include the creation of regional technical support units for core municipal functions, with a pool of key human resources drawn from the government and private sectors. Further, introducing and professionalising performance management systems and continuous training are important to sustain and manage an efficient system.

At present, the status of municipal cadre implementation is in different stages of progress in different states, as are recruitment and staff hiring norms. While the centre has been calling out to states to professionalise municipal cadres in terms of recruitment, filling vacancies, etc., only a few states have taken initiatives to standardise the process. For example, Assam initiated a model staffing pattern study to understand ideal staffing numbers

for ULBs, taking into account work / time study principles. States with well-established municipal cadres are said to have made significant progress in terms of urban governance initiatives, progress on reforms, external funding and technological innovations in contrast to states with no exclusive municipal cadres (MoUD, GoI and WB, 2014).

This cadre system has been a much-discussed option and may be an appropriate one to pursue. The MoUD, GoI and the World Bank have already laid out a roadmap for this system, and states can follow and build on this further for their own cadre systems. It can even benefit states that have municipal cadres by introducing improved human resource management practices.

### Key Insight

At present, the status of municipal cadre implementation is in different stages of progress in different states, as are recruitment and staff hiring norms. While the centre has been calling out to states to professionalise municipal cadres in terms of recruitment, filling vacancies, etc., only a few states have taken initiatives to standardise the process.



If cadre creation is not feasible, states can review their staffing norms and access necessary skills and support via a mix of measures such as outsourcing, engagement of external consultants and development of in-house / outsourced talent pools (maintained either by federations of ULBs or professional agencies) for ULBs to access. Whatever the option, the terms of engagement must be such that they empower ULBs to seek accountable services from, and ensure continuity and motivation among, service providers. Notably, these issues are also affecting similar engagements.

Frameworks that enable the assessment of individual and organisational development dimensions are needed for effective capacity

building. Such assessments would reveal actual capacity building requirements and identify approaches to responding to them, including strengthening and networking among existing training institutions and identifying business processes in need of improvement.

Training must involve the most relevant curriculum for service delivery. For instance, the inclusion of decentralised and non-networked sanitation solutions in the academic curriculum for staff training institutions. Capacity-building workshops are critical for agencies involved in decision-making at the state / district level (such as parastatals, as well as technical and administrative approval agencies) to support inter-departmental coordination.



SHGs of women sanitation workers, drive the sector forward - Image courtesy of NFSSM Alliance

A time-bound programme should be undertaken to simplify regulatory services and associate time limits for approval and relief available to citizens to avoid any delay in services. These should also be institutionalised via Citizen’s Charters. Where Citizen’s Charters are being used or are in the pipeline, emphasis should be placed on the proper dissemination of ULB commitments as per the charters and reflection on lapses in response, and scrupulous provision of relief in case of delayed response deviating from the Citizen’s Charters.

It is important to recognise that although a lot of training activity is being carried out by some states, it is impromptu and insufficient. There is a need for states to implement obligatory induction training or in-service training for newly recruited officials. Experts suggest that the inefficiencies of municipal cadre training programmes are born from a lack of organised administrative procedures and funds. States such as Assam, Bihar and West Bengal must especially alter their functions to prioritise training municipal cadre officers (Venkataramani et al, NIUA 2014).

The financial implications of paying for the full strength of employees is a major hurdle in the cadre constitution. It is also a key reason for multiple vacancies across offices. While states have asked for funds from the 14<sup>th</sup> Finance Commission to hire cadres, the central government too should provide financial assistance. An incentive-based financial assistance plan will help states

## Key Insight

Training activities carried out by some states are impromptu and insufficient. Experts say inefficiencies of municipal cadre training programmes stem from lack of organised administrative procedures and funds.

to institutionalise cadres. According to NIUA estimates, the per annum staff costs of statutory towns in India is approximately INR40.53billion. The report prepares three scenarios (shown in Figure 31 below) to estimate additional funding requirements.

Support for states in different scenarios can cost INR20–28 billion per annum. (Venkataramani et al, NIUA 2014). This makes the availability of funds a key step towards building administrative capacities.

## Strengthening Transparency and Financial Management Capacity

As discussed in earlier chapters, there is a strong need to assess municipal bodies’ financial data, including audited accounts and financial statements. It is critical to establish accountability

Figure 31: Estimating Additional Funding Requirements for Staffing

Scenario	Scenario	Scenario
I	II	III
About 30 percent staff availability (funds needed for an additional 70 percent staff)	About 40 percent staff availability (funds needed for an additional 60 percent staff)	About 50 percent staff availability (funds needed for an additional 50 percent staff)



and transparency in ULB functioning, in terms of service delivery, accounting, audit arrangement and information disclosure vis-à-vis investments, plans and performance indicators. In this regard, the 74<sup>th</sup> CAA called for maintenance and audit of ULB accounts; the JNNURM ushered in the Community Participation Law (CPL) and service level benchmarking (SLB) for key services.

Traditional accounting and audit arrangements at the ULB level are marked by cash-based accounting, incomplete books, inconsistent formats and codes, lack of account certification, etc. These hinder timely and reliable information needed for planning, decision-making and control, and raise concerns over the misuse of public funds (2<sup>nd</sup> ARC, 2007).

Emphasis on these challenges by successive central and state finance commissions has led to some changes (ASCI, 2014). For example, ULBs are adopting double-entry accrual-based accounting systems (DEAS). Several states have adopted an accounting framework proposed in the National Municipal Accounts Manual (NMAM). At the same time, Local Fund Audit (LFA) agencies of state governments have started availing technical guidance and supervision (TGS) from the Office of the Comptroller & Auditor General of India (CAG).

## Key Insight

**Traditional accounting and audit practices at ULB level are marked by cash-based accounting, incomplete books, inconsistent formats, lack of certification, which hinder timely and reliable information needed for planning and decision-making, and raise concerns over misuse of public funds.**

### Example

#### **Karmayogi – National Programme for Civil Services Capacity Building (NPCSB)**

An NIUA study conducted in 2015 to qualitatively assess the capacity-building needs of six ULBs across India identified that many training programmes are restricted to certain deliverables and do not comprehensively provide continuous practical learning experiences (NIUA, 2015).

A government mission ‘Karmayogi – National Programme for Civil Services Capacity Building (NPCSB)’ was approved in 2020. One of the key objectives of the programme is to support capacity-building initiatives through role-based training programmes for government officials through a common integrated government online training - (iGOTKarmayogi) platform (PIB-1650633, 2020). The programme was launched in September 2020. Its impact and success in the long run are yet to be evaluated.

Moreover, the CAG and LFA agencies annual reports are being tabled in legislatures.

Despite these changes, some challenges remain. For example, DEAS (often confused with computerisation) are less common outside municipal corporations or the large ULBs; registers and records are not maintained as per the NMAM; finalisation of accounting statements take unduly long; and audit information is often inconsistent and incomplete (Haryana 5<sup>th</sup> SFC, 2017).

The quality and timeliness of ULB accounts have been affected by a shortage of skilled personnel and a range of accounting software-related issues, including a lack of uniformity in application software and modules and delay in software updates (Tamil Nadu 5<sup>th</sup> SFC, 2018). LFA agencies are concerned about the accumulation of a large number of audit objections and ULBs’ failure to address them (Chhattisgarh 3<sup>rd</sup> SFC, 2018).

## Key Insight

There is a need to improve accounting and audit arrangements, periodic disclosure of information, and enlargement of space for citizens' participation in order to realise accountability and transparency

Following a push from JNNURM, many states (23 out of 31 by 2015, according to Doreshor) have amended their municipal laws to focus on reporting SLBs. However, for disclosures to be meaningful, it is necessary to frame rules to eliminate ambiguities related to information, periodicity and manner of disclosures (PC, GoI, 2012).

There is a need to improve accounting and audit arrangements, periodic disclosure of information (including on services) and enlargement of space for citizens' participation in order to realise accountability and transparency.

The emphasis on switching to DEAS (as guided in the NMAM and after receiving TGS support from the CAG) has to be complemented by incentivising ULBs to furnish updated and audited annual accounts, strengthening LFA agencies, appointing competent internal auditors to ULBs and regular tabling of annual CAG and LFA reports before legislatures. In time, outcome auditing can also be introduced (2<sup>nd</sup> ARC, 2007).

Ombudsmen of local bodies have been asked multiple times to look into complaints of corruption and administration against both elected representatives and ULB and RLB staff (13<sup>th</sup> CFC, 2010; 2<sup>nd</sup> ARC, 2007; PC, GoI, 2012). ULBs could create a platform where citizens can voice grievances, highlight systemic deficiencies and seek remedial action.

It is best left to states to determine the level of an ombudsman's office (covering a district or a group of districts). However, rules must reinforce the independent nature of the office, its investigative

powers, the enforceability of its recommendations (in ordinary circumstances) and the need for transparency if / when an ombudsman's recommendations are rejected.

SLBs, periodic performance measurement, use of insights from measurement exercises to inform service improvement plans and dissemination of data and plans to citizens have the potential to focus and steer civic (and institutional) engagement on issues of service quality, delivery and improvement. Municipal regulators at a state level will play a crucial role in realising the full potential of SLB exercises.

The HPEC recommends the creation of a reform and performance management cell (RPMC) to assist state governments and ULBs in monitoring service performance. A municipal information unit within an RPMC will be responsible for the collection, collation and analysis of data on municipal services and finances and for making it available to the public. This process will encourage ULBs to better monitor service performance and focus on aspects beyond programme monitoring (HPEC & MoUD, 2011).

ULBs that are introducing gender-responsive budgeting will benefit from gender-sensitive indicators that assess relevant needs in programmes / schemes / projects (Mahadevia et al, 2019). In 2002, the UN Women in Karnataka funded a 'building budgets from below' project, which enabled women representatives to analyse and identify spatial gender needs to influence local-level planning and budgeting (Chakraborty, 2013). Although the results indicated that the bargaining powers of women representatives did not improve, the introduction of gender-sensitive indicators can be a start to creating evidence for gender-responsive expenditure.

Thus, for effective financial management, ULBs need to be incentivised to switch to DEAS, follow the NMAM and furnish updated annual accounts and audit functions. This can be achieved by engaging competent internal auditors for ULBs, strengthening LFA agencies, continued TGS support from the CAG, and regular tabling of annual CAG and LFA reports before legislatures.

## Key Insight

Financial management is a critical step towards ensuring transparency and assessing the performance of ULBs. The MoHUA has set up an online platform for municipal accounts which will be responsible for management and operationalisation of 15<sup>th</sup> Finance Commission grants.

Financial management is a critical step towards ensuring transparency and assessing the performance of ULBs. The MoHUA has set up a national municipal information system, an online platform for municipal accounts i.e. [www.cityfinance.in](http://www.cityfinance.in) which will be responsible for management and operationalisation of 15<sup>th</sup> finance commission grants. The 15<sup>th</sup> finance commission has provided an incentive to municipalities to the publication of audited annual accounts on an online portal in the public domain as it is a minimum entry-level condition to become eligible for 15<sup>th</sup> FC grants.

In April 2010, the Government of Kerala introduced a software application, called Saankhya, which digitised the accounts of all municipalities and panchayats in the state. Saankhya oversees functions related to account management, voucher preparation and preparation of annual financial statements (Oomen, 2018).

## Inclusive Governance and Access to Services

### Focus on municipalisation and prospective planning

In India, the pace of municipalisation, or the process of bringing urban areas into the municipal fold, is slow. According to an estimate, ULBs

cover only about 85 percent of the country's urban population (ASCI, 2014). Discrepancies in census figures and the number of statutory towns, delays in completion of areas developed by public developers, and debatable regularisation of processes have prompted the view that almost all urban centres suffer from one or the other type of delay in municipalisation (Pandey, 2012).

Municipalisation involves four types of activities: (a) Notification of statutory towns; (b) notification of boundaries of statutory towns; (c) intra-city transfer of colonies and assets created by public developers (state housing boards (SHBs), city-level development authorities (DAs) and improvement trusts); and (d) regularisation of unauthorised land use and construction (Pandey, 2012).

The 74<sup>th</sup> CAA leaves it to states to notify statutory towns; determine the criteria for classifying a statutory town into a Nagar Panchayat, a Municipal Council; or a corporation, and notify the boundaries of statutory towns. Therefore, municipalisation decisions lie largely with state governments. ULBs are not consulted on a regular basis even though the onus of offering services in municipalised areas falls upon them.

Delays in municipalisation decisions can be attributed to several factors. Local resistance, stemming from a fear of losing benefits associated with rural development programmes and increased burden of urban taxes (mainly property tax), makes the creation of statutory towns and extension of boundaries difficult (PC, GoI, 2012).

## Key Insight

The 74<sup>th</sup> CAA allows municipalisation decisions to lie largely with state governments; ULBs are not consulted regularly, even though the onus of offering services in municipalised areas falls upon them.

## Key Insight

In many areas that have undergone municipalisation, the key challenge is related to unrealistic expectations from ULBs at a time when their resources are stretched. With regard to sanitation services, this implies limited municipal intervention in challenging locations, particularly peripheral and peri-urban areas and informal settlements of the poor.

Even if new statutory towns are created / boundaries extended, there is often a delay in the handing over of responsibilities to relevant personnel. This may be a result of ULBs' reluctance to assume additional responsibilities amid constrained staffing and finance, or public developers' reluctance to lose control over land (Pandey, 2012). Regularisation decisions tend to be political and not always driven by a systematic assessment of infrastructure and service cost.

A separate set of issues is observed in the case of municipalisation where a newly created town is too small to operate as an independent unit. The 3<sup>rd</sup> State Finance Commission for Chhattisgarh (2018) cites instances where 2–3 distant habitations were clubbed together to form a Nagar Panchayat, and refers to the high cost of infrastructure creation in such Nagar Panchayats. The 5<sup>th</sup> State Finance Commission for Haryana (2017) has highlighted administrative concerns arising from unsystematic handovers when rural local bodies (RLBs) are converted to ULBs. As a result, there are many instances of new ULBs in which all services are not available. Moreover, some colonies only have notional services available to them.

A larger issue relates to the different definition of Nagar Panchayats, Municipal Councils and

corporations across states. This prevents a uniform pattern of categorisation across states, leading to lack of clarity in 'understanding the nature of ... (ULBs)... across states' and inhibits 'adoption of a structured approach... (that could contribute to) ... a more systematic national planning process and... devolution of funds' through central and state finance commissions (2<sup>nd</sup> ARC, 2007).

The non-availability of municipal services or inefficient service delivery in areas with markedly urban characteristics (but outside the municipal fold) is a key challenge with respect to municipalisation. In many areas that have undergone municipalisation, the key challenge is related to unrealistic expectations from ULBs at a time when their resources are stretched. With regard to sanitation services, this implies limited municipal intervention in challenging locations, particularly peripheral and peri-urban areas and informal settlements of the poor.

Peripheral and peri-urban areas are marked by poor water and sanitation infrastructure and are vulnerable to the negative impact of wastewater and solid waste disposal from nearby urban locations (TERI, 2020). Informal settlements are often denied services by ULBs, fearing it would legitimise unauthorised land use and set unhealthy precedents (UNESCO and CSH, 2011). The disengagement with informal settlements also means that there is less rigorous enforcement of regulations for on-site sanitation and perverse incentives at the household level to continue with sub-optimal options (Murty, 2013).

A frequent suggestion regarding municipalisation has been to adopt a common categorisation of ULBs in the interests of systematic planning and fund devolution (2<sup>nd</sup> ARC, 2007; ASCI, 2014; Vaidya, 2009). A sound case also exists for bridging the time gap between urbanisation and municipalisation (Pandey, 2012); delinking questions of land tenure from service provision (UNESCO and CSH, 2011); and introducing standard operating procedures (SOPs) for transfer of assets, liabilities and personnel when adding a new territory to ULBs (Haryana 5<sup>th</sup> SFC, 2017).



## Key Insight

**Citizen participation in urban governance is insufficient and in a situation where 'elected representatives, as well as officials, are not sufficiently accountable. This is observed in sanitation as well, where the urban poor are not included in decision-making and implementation.**

Data from the proposed 2021 population census would be useful in identifying the categorisation of ULBs, creating new ULBs and redefining the existing ones. Jharkhand has a provision for incorporating peripheral, peri-urban, or contiguous areas to existing cities or towns, after the publication of census reports every 10 years (ASCI, 2014). States can build upon this to set the pace for municipalisation, going forward.

Census data should be managed and leveraged for a common, nationwide categorisation of ULBs (with exceptions for special category states, if needed) to bridge the gap between urbanisation and municipalisation. Municipalisation exercises should be repeated every five years, based on decadal census data and projections for intercensal periods.

### **Citizen participation and formation of ward committees**

Some positive trends have been observed with regard to citizen's participation in urban governance in India (UNESCO and CSH, 2011). The use of information and communication technologies (ICTs) by ULBs for bill payment, complaint management and information dissemination initiatives (such as single-window service centres and citizen's charters) have led to some form of confidence-building among citizens.

Schemes have adopted a participatory approach to incorporate citizen's voices in determining local priorities and ensuring project ownership. The civil society has been engaged in consultations and implementation activities.

While these are welcome, there is still a long way to go on the citizen's participation agenda. Despite encouraging results in several locations, there are concerns over the sustainability of participatory schemes. This is on account of their focus on ensuring community cost contributions (less so on capacity building of community institutions), exclusion of informal settlements and potential incentivisation of abdication tendencies among service providers.

Use of ICT and initiatives such as service centres and citizen's charters are driven more, at least in practice, by impulses of customer convenience and issue / dispute resolution than citizen empowerment. Civil society engagement, a proxy for direct citizen engagement notwithstanding its value, is either not institutionalised or accounted for in contractor-service provider paradigms.

Citizen participation in urban governance is insufficient and an 'important lacunae' in a situation where 'elected representatives, as well as officials, are not sufficiently accountable' (2<sup>nd</sup> ARC, 2007). This plays out in the sanitation domain too, with the urban poor in particular not always included in the implementation and management of urban sanitation. (TERI, 2020)

The 74<sup>th</sup> CAA promotes ward committees (WCs) in urban centres with a population of over 300,000. WCs are envisaged as sub-municipal spaces of interaction among residents, councillors and officials, at the level of the smallest municipal constituency – the ward (UNESCO and CSH, 2011).

However, the potential of WCs remains largely unharnessed (Vaidya, 2009). A 'restrictive' interpretation of the 74<sup>th</sup> CAA has meant that WCs in most states 'exist at the level of a cluster of wards – a scale that does not qualify as local' (UNESCO and CSH, 2011).



## Key Insight

**Population size is not the only factor affecting Ward Committees (WCs). Member nomination processes limit citizen representation, and WC mandate does not correlate with the funding available at ward level.**

The population served by WCs may exceed 3,00,000–5,00,000 in some cases (2<sup>nd</sup> ARC, 2007), making meaningful citizen participation and local decision-making infeasible and defeating the very purpose of WCs. Notably, smaller WCs in Kerala and West Bengal function as mechanisms for meaningful participation and achieve effective proximity of citizens to elected representatives, unlike larger WCs in other states (Vaidya, 2009).

Size is not the only factor affecting WCs. Member nomination processes leave a sizeable scope for nomination on political and party considerations, and limit citizen's representation (Nath, 2015). Moreover, the mandate for WCs does not correlate to the funding available at the ward level (PC, GoI, 2011).

The CPL, mandatorily linked to JNNURM support, attempts to institutionalise Area Sabhas as a local participatory space where elected representatives, municipal officials and citizens interact on a regular basis. The Area Sabhas comprise registered voters in a polling booth or a group of local polling booths. With Area Sabhas representatives proposed to be members of WCs, it is envisaged that these two entities may be linked to function as one unit.

While 23 states have already enacted the CPL, there is no sight of any result yet. Area Sabhas' mobilisation efforts have not always engaged communities, capacities for envisaged roles are not systematically built, and there is ambiguity in the process of selecting representatives to WCs. This combination of factors poses risks of elite capture

of Area Sabhas. As Area Sabha membership is based on electoral rolls, there is also a risk of potential exclusion of migrants.

Forming WCs at the ward level, firming their linkage with ASs, and mobilising and preparing WCs and ASs for envisaged roles would be important in ensuring substantive citizens' participation. A key issue that would need attention is clarifying the roles and responsibilities for WCs and ASs. In principle, ULBs could share executive powers related to ward-specific functions / initiatives with WCs, while participatory and accountability mechanisms are granted to ASs (2<sup>nd</sup> ARC, 2007; PC, GoI, 2012). Broadly, ASs could perform functions similar to Gram Sabhas, such as prioritising local developmental activities, identifying beneficiaries under various schemes and undertaking a social audit of interventions made locally (2<sup>nd</sup> ARC, 2007).

To ensure more participation from citizens, it is crucial to form WCs and ASs on priority. WCs should be created at the ward level and ASs should include residents (not registered voters alone) in areas covering one or more polling booths. ASs should be represented in WCs. Rules should be designed such that the roles of WCs and ASs are clearly delineated, and elite capture of these institutions is avoided.

### Participation of women in planning

The success rate has been good when women have been involved in the planning and post-implementation maintenance of many development initiatives. For instance, the

## Key Insight

**The success rate has been good when women have been involved in the planning and post-implementation maintenance of many development initiatives.**

Course 117: Mainstreaming Livelihoods in the Sanitation Sector

Lesson

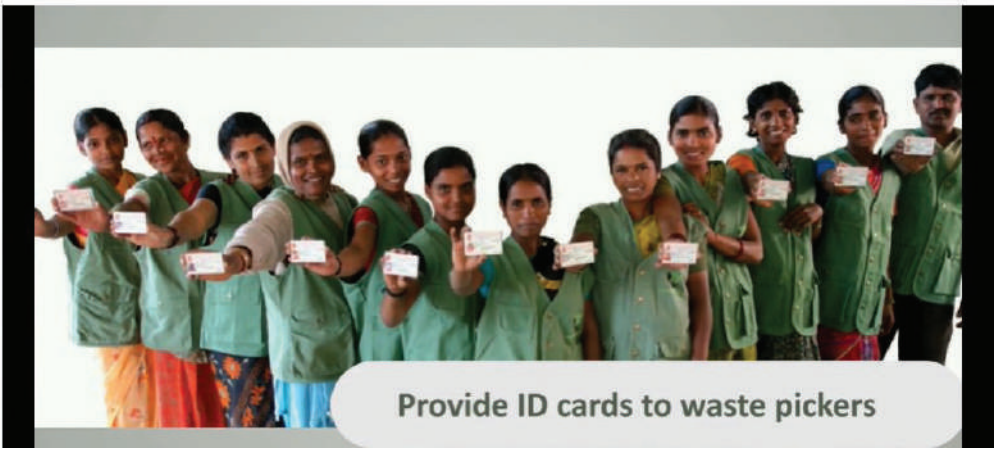
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## Key Insight

Efforts to expand the coverage of sanitation services can be improved by involving the urban poor to ensure that the measures are tailor-made to their needs.

constitution of the Working Group of Feminist Economists (WGFE) during the preparation of the Eleventh Five Year Plan (2007–2012) assisted in highlighting the role of women in all sectors, including inclusive growth industry, agriculture, education, environment and health.

The WGFE stated that local self-governments enabled women to raise issues but did not acknowledge their knowledge or capacity to plan. It also emphasised the need for covered toilets for the dignity of women and stated that improvement in health was only possible when provisions for sanitation, clean drinking water and a clean environment were made available hand-in-hand (Planning Commission, 2010).

The formation of SHGs and federations has played a critical role in various initiatives. The engagement of SHGs in the operation and maintenance of community and public toilets in Pune and Tiruchirapalli have demonstrated that community-led monitoring mechanisms create a sense of ownership, ensuring better monitoring of services, in comparison with top-down monitoring mechanisms. The Deendayal Antyodaya yojana-National Urban Livelihoods Mission (DAY-NULM) has helped set up SHGs and federations in urban areas. This has increased the role of women, the urban poor and the community in urban governance. For instance, an Area Level Federation (ALF) in Siddipet city assisted the Siddipet municipality to conduct door-to-door surveys to identify households with individual household latrines, thereby facilitating the application process to access government subsidies for the construction of toilets (MoHUA, 2019).

## Platforms for participation of urban poor

Current spaces for citizens' participation often lead to exclusion of informal settlements and the urban poor. There is a need to create platforms that are inclusive of these sections and strengthens their representation in urban planning and governance. Community engagement is critical to ensuring that initiatives take the unique characteristics, assets and constraints of each slum into consideration. For example, slums in Dharavi construct toilets that take into account the supply of water and area (Venkatchalam & Memon, 2020).

ULBs offer incentives to the urban poor to engage in participatory programmes. As a part of a slum networking programme, the AMC guaranteed participants non-eviction for 10 years, provided they contributed INR2,000 for the development of an infrastructure and community-level O&M fund. The incentive acted as the interface between AMC and slum dwellers as it involved and trained slum residents to implement capital works (Mahila Housing Trust, 2018). While incentives of non-eviction are successful in engaging informal settlements, it does not ensure the longevity of a programme.

Efforts to expand the coverage of sanitation services can be improved by involving the urban poor to ensure that the measures are tailor-made to their needs. This is integral to the sustainability of programmes. For instance, the Mahila Housing Trust in Ahmedabad worked on capacity building for slum residents by educating them on their civic rights. Emerging leaders of the slum were able to place sanitation-related demands, based on local requirements, to ULBs, thus engaging in urban planning (Mahila Housing Trust, 2018).

Some engagement models have empowered the community, enabling them to act as collective units and to design solutions according to their needs (especially during the COVID-19 pandemic). Youth collectives in the Appa Padda and Ambedkar Nagar slums in Mumbai, which were trained by Youth for Unity and Voluntary Action (YUVA), demanded services such as sanitation,



clean water and disposal of waste through social media campaigns to influence local businesses and authorities. As a result, the Brihanmumbai Municipal Corporation (BMC) cleared 10 tons of solid waste and took the responsibility of weekly cleaning and sanitation of slums, including community toilets (Venkatchalam & Memon, 2020).

### Way forward

The above evidence makes it clear that ULBs are constrained in delivering high-quality, responsive and equitable services in an accountable and transparent manner. The constraints are particularly pressing in small and medium towns. The cost of municipal under-performance is concerning for the poor. Ensuring municipal administration and governance consistent with the spirit of the 74<sup>th</sup> CAA requires the roles and jurisdictions of ULBs to be clarified; political wings to be shored up; individual and organisational capacities to be ramped up; and accountability, transparency and participation mechanisms to be strengthened.

Working towards this broad agenda, there is a need to be conscious of serious capacity gaps in small and medium towns. There is also a

## Key Insight

Ensuring municipal administration and governance consistent with the spirit of the 74<sup>th</sup> CAA requires the roles and jurisdictions of ULBs to be clarified; political wings to be shored up; individual and organisational capacities to be ramped up; and accountability, transparency and participation mechanisms to be strengthened

need to remain cautious about the potential for restrictive interpretation and perversion of ideas and proposals at the political, executive and community levels. This, in turn, implies that amendments to the law, executive orders, action plans and analytical frameworks need a pragmatic posture when it comes to re-shaping institutional arrangements and avoiding ambiguities that can become backdoor entry points for status quo-ism.

# 5. Key Recommendations





This chapter outlines a few actionable recommendations that policymakers can adopt to strengthen ULBs. These are based on the evidence analysed in the previous chapters and the conclusions derived from collaborative research. The recommendations are intended to aid the strengthening of municipal administration and the provision of adequate financing for ULBs so that they can improve service delivery across urban India.

## Strengthening Service Delivery

Over the past decade, India has made a substantial investment in sanitation infrastructure programmes and schemes. To sustain the gains and continue offering efficient and quality services to citizens, the government needs to lay adequate emphasis on revenue generation and capacity enhancement for local governments. Moreover, there is a need to shift focus from infrastructure creation to service delivery at the municipal level. There is a need to provide incentives to ULBs for service improvement and incentives to states for ensuring predictable devolution towards ULBs.



### A. Use assessment systems for reliable performance data

Service level benchmarks (SLBs) were introduced by the Ministry of Urban Development (now Ministry of Housing and Urban Affairs), Government of India, and later endorsed by the 13<sup>th</sup> and 14<sup>th</sup> finance commissions and now continued by the 15<sup>th</sup> finance commission as well. The main objective of using SLBs is for regular monitoring. It also enabled the introduction of performance-based grants to ULBs. Continuation of performance-linked grants will help sustain this important initiative.

Policymakers may consider an increase in the proportion of performance grants to encourage better reporting and improved performance by urban local governments. The Central government can also make it mandatory for states to set up state performance assessment cells to support better reporting and information usage for planning. These cells can also help monitor

municipal finances and support state governments to introduce performance-linked funding for their own allocations.

Further, given the need for inclusivity in service delivery, it is important for local bodies to constantly gather and analyse sex and income data, as well as develop gender and urban poor-focussed SLBs. This will enable ULBs to recognise gaps in service delivery to vulnerable groups, and accordingly inform policies, guidelines and budget allocations.



### B. Provide small and medium cities with untied grants

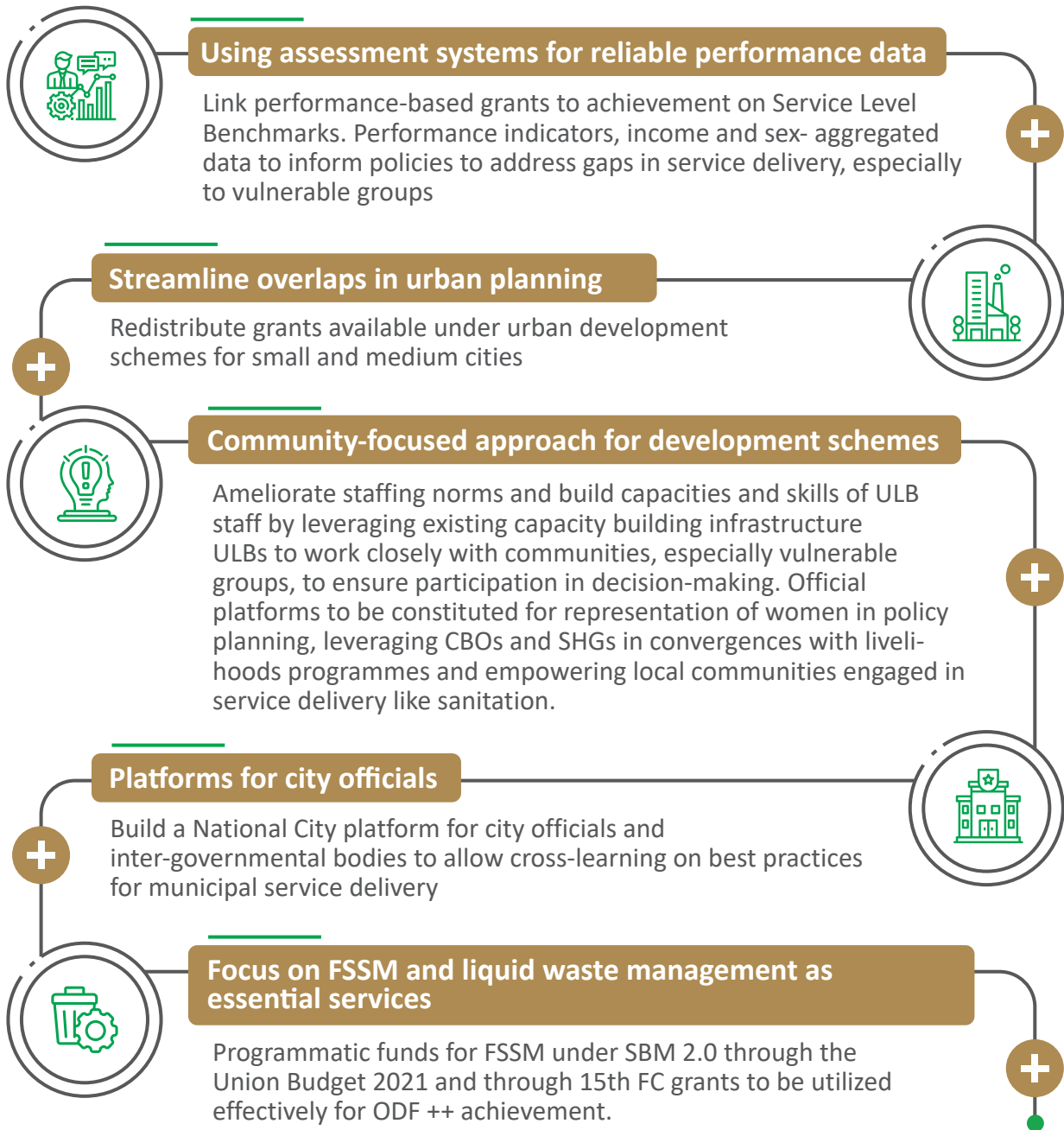
Recent urban development programmes in India have focussed on larger cities, thereby widening their resource and capacity gap vis-à-vis small and medium cities / towns. Governments should increase their focus on small and medium cities through the redistribution of grants. The situation of small cities is aggravated by the fact that most centrally sponsored schemes, such as AMRUT, work towards funding cities that have a population of above 100,000. Many small and medium towns struggle with low budget allocations and remain over-reliant on municipal grants. The central government should therefore provide higher per capita grants for these cities to empower small demographics.



### C. Adopt a community-focussed approach for development schemes

The rapid expansion of urban spaces and informal settlements, due to migration, has challenged local governments, which need to allocate resources

**Figure 32: Strengthening Service Delivery**



to ensure uninterrupted, equitable and inclusive services. This includes vulnerable groups such as women, the urban poor, differently-abled, transgender and other marginalised communities.

ULBs must adopt a community-centric approach and work with vulnerable communities

to empower them and ensure their active participation in decision-making. Cities must be made responsible for delivering to marginalised groups and for keeping women and the urban poor at the centre of planning. The focus on inclusivity can be enhanced in convergence with

national programmes and schemes, for instance, the Department of Empowerment of Persons with Disabilities (DEPWD) and the Ministry of Social Justice and Empowerment's flagship campaign Accessible India Campaign (AIC) is focussed on ensuring that persons with disabilities have equal opportunities and can lead productive, safe and dignified lives (Accessible India Campaign, 2015). This is done by undertaking audits of building, making transport accessible and ensuring online platforms and information are accessible to all persons with disabilities.

Further, formalised platforms are important to ensure the representation of marginalised groups and effective urban governance. The voices of women and the urban poor must be represented across various stages of urban governance, starting from planning and implementation to monitoring. ULBs must formulate formal structures with guidelines and specified roles for marginalised communities. For instance, MoUs with communities can be used at the district and city levels to formally assign power as well as ownership for maintenance of community infrastructure (e.g., toilets). City sanitation task forces (CSTFs) may be formed with the representation of women (at least 50%) as well as the aged, differently-abled, transgender, migrant, marginalised and urban poor to ensure that their voices are included in both implementation and decision-making.

Community-based organisations (CBOs), such as self-help groups (SHGs), slum level committees, slum forums and gender forums can be formed in slums, wards and cities to represent community voices in local planning, implementation and monitoring. Ward and slum level sanitation committees can be formed and entrusted with the responsibility of monitoring public infrastructure. Formal structures for community engagement should also include the establishment of local complaints committees, as per the Sexual Harassment of Women at Workplace Prevention, Prohibition and Redressal Act, 2013.

A convergence-based approach can also help scale CBOs significantly. For instance, in Odisha, the convergence of Deendayal Antyodaya Yojana (DAY),

National Urban Livelihood Mission (NULM) and Swachh Bharat Mission Urban (SBM-U) has been leveraged to promote livelihood opportunities for SHGs.

In addition, it is critical to ensure the empowerment of local communities engaged in livelihoods related to service delivery. For instance, in sanitation, the safety and dignity of sanitation workers are essential to ensure service delivery and are also means to uplift marginalised communities. Organisations such as National Safai Karamcharis Finance & Development Corporation (NSKFDC) set up by the government play a key role in socio-economic uplifting Safai Karamcharis (manual scavengers) and their dependents through various loan and non-loan-based schemes, with a focus on elimination of manual scavenging.



#### **D. Build platforms for city officials to advocate for municipal strengthening**

Fragmented responsibilities, ranging tenure, small budgets and limited formal powers have made it very difficult to ensure mayoral autonomy and empowerment of elected representatives. Development of networks that can be used by city officials to engage in cross-learning will help them to lead, initiate new schemes and deliver high-quality results.

A national city platform will not only provide an organised channel of communication between inter-governmental bodies but also aid in the advocacy for devolution of responsibilities to ULBs from states. Further, best practices on management should be documented and shared within these networks.



#### **E. Focus on faecal sludge and septage management (FSSM) and liquid waste management as essential services**

Over the past few years, ULBs in India have received funding for solid waste management under SBM-U, leading to good overall progress. However, there is a need to focus on the entirety of sanitation, including liquid waste management and cost-effective solutions, such as FSSM, to ensure better public health and sanitation for citizens. Finance Minister,

Gol has also recognised the need for complete faecal sludge management and wastewater management in her budget speech for 2021-22 as part of SBM 2.0. Given the huge success of the first phase, the government is now moving towards targeting 100 percent sustainable sanitation and FSSM with all cities being declared ODF++ (defined by the Ministry of Housing and Urban Affairs as a city wherein “at any point of the day, not a single person is found defecating and / or urinating in the open, all community and public toilets are functional and well maintained, and faecal sludge / septage and sewage are safely managed and treated, with no discharging and / or dumping of untreated faecal sludge / septage and sewage in drains, water bodies, or open areas”). In addition to this, the 15<sup>th</sup> Finance Commission has recommended 30% of the total grants earmarked for sanitation including management and treatment of human excreta and faecal sludge management in particular for non-million cities. This is now being backed by programmatic funds under SBM 2.0 and 15<sup>th</sup> Finance Commission funding by central, state and local governments.

In addition, State Finance Commissions, constituted to provide predictable devolution of resources to local governments, must include budget allocations for liquid waste management in their recommendations to state governments.

## Strengthening Municipal Finances

Municipal governments need adequate financing to fulfil their mandate on services and functions. Robust finances are also important to attract strong political leadership and retain good administrative functionaries. However, the Indian Constitution does not specify distinct fiscal resources for local governments. Thus, local bodies are dependent on intergovernmental transfers (IGTs) from both the national and state governments, and revenue sources assigned by state governments.

### Intergovernmental transfers (IGTs)



#### A. Increase IGTs to local governments in relation to total revenue or national GDP

In India, the share of IGTs is substantially lower than in other developing countries (only 0.45

percent of GDP). Consequently, ULBs do not have the resources to fulfil the responsibilities assigned to them under the 74<sup>th</sup> CAA. Governments must increase IGTs to municipal governments by 4–6 times to match the global IGT share of 2–5 percent of GDP. The Gol could consider transferring a share of income tax to local governments, as is done in the Philippines and Brazil. An HPEC report suggests amending the constitution to insert a ‘Local Bodies Finance List’ (LBFL). This list is foreseen to follow the same structure as the Union and State lists, and serve to ensure appropriate revenue sources for ULBs.



#### B. Make IGTs predictable and untied, and focussed on small cities

Predictability of grants allows municipal governments to take up medium-term plans to improve urban services. However, as a large share of IGTs in India is tied to programmes / activities determined by the national and state governments, there is little room for ULBs to develop plans to address local priorities. Therefore, the share of untied funds needs to be kept at 80 percent, as was the norm in the last decade; both central and state governments need to increase their share of untied grants and increase the predictability of transfers through central finance commissions and state finance commissions. It is also necessary to ensure horizontal equity by focussing on small and medium cities in central and state-level programmes and missions. Grants tied to urban services must include essential but neglected services, such as FSSM and liquid waste management.



#### C. Strengthen state finance commissions to ensure predictable state transfers to ULBs

SFCs are essential to ensure fiscal decentralisation; however, only 13 states have constituted their 5<sup>th</sup> SFC. To ensure strong and well-functioning SFCs, the 15<sup>th</sup> FC has recommended the mandatory constitution of SFCs and action taken report by state legislature on or before March 2024 to become eligible for FC grants. However, the Gol also needs to devise incentives framework for the states that constitute SFCs and enable a more predictable devolution of resources to local governments. It is

important to study and learn from well-performing states, such as Kerala and Tamil Nadu, which have been forming SFCs regularly. These states have also been accepting and taking action on their SFCs' recommendations, supported by significant and untied transfers.



#### **D. Review urban service norms and standards, and related expenditure requirements**

The Zakaria Committee made the first attempt to set up urban service standards in India in 1963, by laying down physical norms and corresponding expenditure norms. It is suggested that a new committee is set up to look at service level standards. This will provide ULBs with estimates, and enable them to assess expenditure requirements in line with emerging standards of various municipal functions.



#### **E. Account for impact of GST on ability to raise own revenues**

The imposition of GST has resulted in a fiscal imbalance between the three levels of government, due to the sharing of revenues only between the centre and states. Additionally, the abolishment of buoyant local taxes, such as octroi, entry tax, etc., has left local governments with no independent power to raise their own revenue. This calls for an urgent need to amend the GST-related provisions in the Constitution of India so that GST revenues are shared among all three levels of government. Alternatively, state governments can be advised to allocate a portion of GST to ULBs (as has been done by the Government of Maharashtra).



#### **F. Use IGTs to incentivise performance improvement and raising of own funds**

The use of SLBs as a pre-condition for performance-based grants (as provided by the 13<sup>th</sup> and 14<sup>th</sup> FCs) has enabled state governments to establish monitoring systems to assess ULBs' performance levels. This data can be used to provide IGTs-linked incentives to high-performing ULBs. Central and state governments can introduce incentives for ULBs that successfully increase own resources. The governments of Gujarat and Maharashtra provide incentives based on property tax collection

efficiency. Program-linked IGTs will also incentivise borrowing by strong local governments; incentives can be provided for mobilising commercial resources from banks or capital markets through bonds.

### **Own Sources of Municipal Revenue**



#### **A. Tap into revenue potential of property tax and increased tax base**

Compared with other countries, Indian cities are less efficient in mobilising property tax. In 2017–18, property tax accounted for only 0.15 percent of India's GDP. To tap the country's property tax potential, the tax base itself will need to be increased significantly. Moreover, at present, the assessed tax value of properties in India is only 8–10 percent of their market value (Chattopadhyay and Kumar 2019). Although property tax boards have been set up in states as the authority to set property values, these have not been functional. It is recommended that the property tax base should be assessed on capital value instead of annual rental value. Property tax rates should be re-evaluated periodically and increased in line with inflation every year, so that the assessed value is equivalent to market realities, while also being acceptable to property owners. This is becoming significant in view of meeting the entry-level condition on consistent improvement in the collection of property taxes in tandem with the growth rate of the State's own GSDP to avail the finance commission grants.



#### **B. Focus on increasing property tax coverage and collection efficiency**

Data from 2016–19 shows that, on average, the efficiency of property tax collection ranged from 47 to 74 percent across states, largely due to inefficient billing and collection systems. City governments can consider using digital systems, such as GIS mapping, computerised billing and online payments, to increase their billing and collection efficiency. A simple reform that enables the matching of property records with data records of electricity companies can improve property tax coverage. It is important to hold public consultations at various stages of planning,



design and implementation to influence property owners to pay higher taxes. City governments can explore incentives for timely payments and strict enforcement of interest payments on outstanding dues, disconnection of services, etc., for defaulters.

Property tax revenues across states are also affected by exemptions; nearly 10 percent of the total urban properties currently avail such exemptions. Additionally, taxes on vacant land remains untapped in Indian cities. State governments should introduce a vacant land tax of 1–2 percent on the capital value of vacant land (like in Latin American countries).

 **C. Develop robust plans with a focus on Gender Responsive Budgeting (GRB) and adopting an inclusive lens for cost recovery**

Cost recovery for basic municipal services, by levying user charges, is essential to ensure sustainable service provision. However, unlike electricity tariffs, water and sanitation-related tariffs are not revised regularly, despite a large part of the expenditure being on electricity charges. It is therefore recommended that ULBs increase

their water and sanitation charges annually and aligned them with annual inflation to ensure higher cost recovery. States can share learnings from Bangalore, where water tariffs are revised every three years but electricity charges are passed on to customers. Cities should also be supported to introduce water meters along with appropriate supervisory control and data acquisition systems to reduce non-revenue water and improve the efficiency of water services.

However, it is essential to adopt a gendered lens towards cost recovery. For instance, in the case of public toilets, women end up paying a larger amount for using toilets due to a lack of separation of urination and defecation facilities. Additionally, the care economy function leads to women using public toilets for washing clothes, supporting children / elderly with use, etc., thus making them pay more than men on average, even though there is a high capital investment on men for sanitation. These gendered imbalances need to be taken into account while devising charges for cost recovery from citizens.

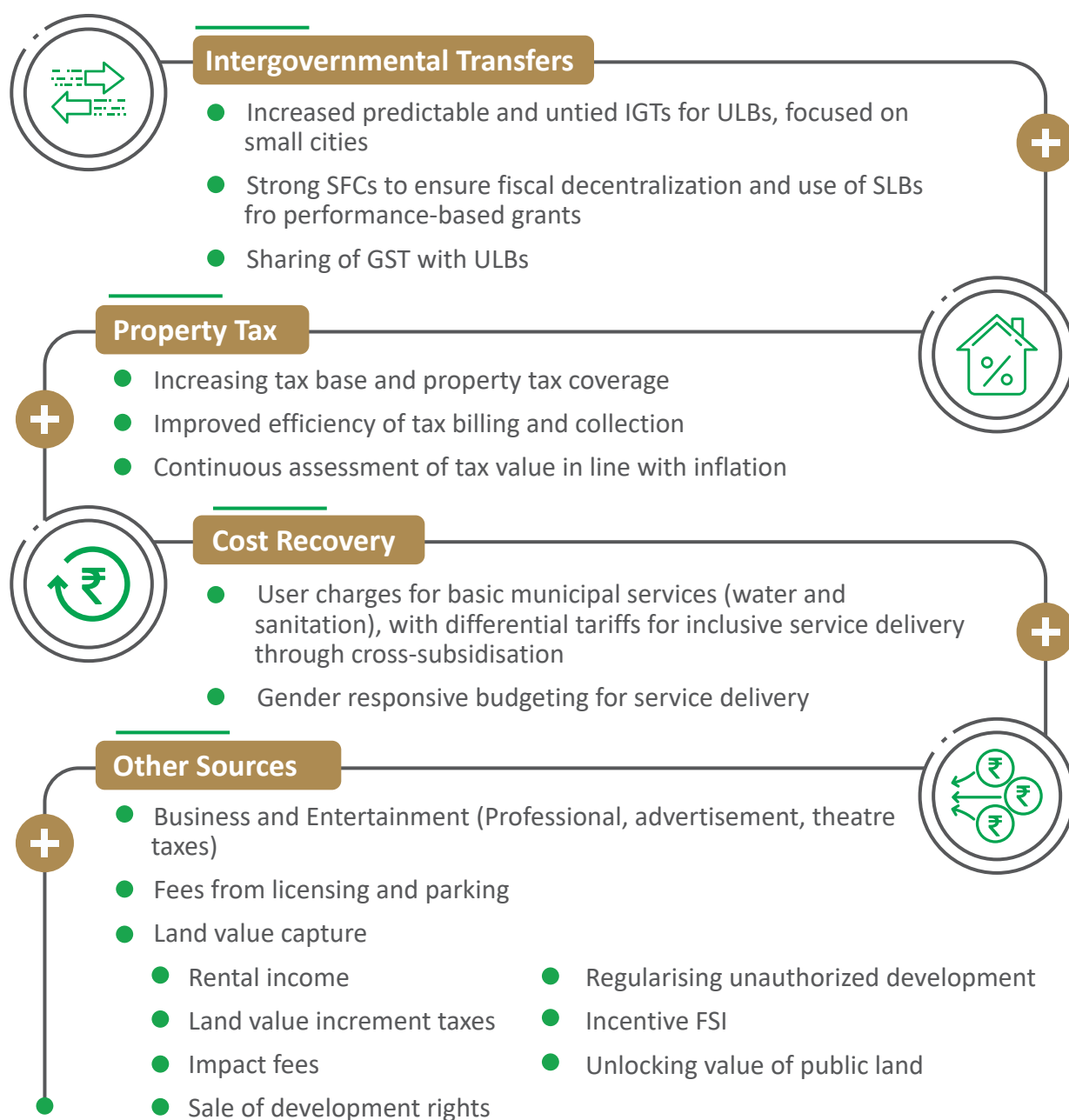


Women and transgender sanitation workers are involved across the value chain, including Operations & Maintenance of treatment plants - *Image courtesy of NFSSM Alliance*

It is imperative to allocate dedicated resources towards ensuring service delivery to women, as the lack of basic service has different implications for men and women. For instance, water infrastructure has a disproportionate implication for women, particularly marginalised women, in terms of time poverty, cost burden, wage loss, health and so on. Similarly, the lack of treatment


of sewage and faecal waste leads to increased illnesses. Given the role women play in the care economy, the burden of caring for ill children and relatives falls on women, which may lead to wage losses. Many such examples make it critical to prioritise resources in infrastructure development and service delivery towards women. (Mahadevia, Bhatia, Sebastian 2019).

**Figure 33: Strengthening Municipal Finances: IGTs and Sources of Own Revenue for ULBs**



A gender-sensitive analysis of budgets focussed on understanding the use and impact of public spending is critical to bridge this gap. For instance, a higher per capita expenditure on women had a direct correlation with a higher satisfaction level of services to women, as well as the proportion of women using the service across sanitation, water supply and transport in Pune, as compared with Bhopal (Mahadevia, Bhatia, Sebastian 2019). Incorporating the diverse need and priorities of women, gender relations into analytical frameworks, budgets and policy-making in efforts that are directed beyond awareness and sensitisation programmes are critical to ensure gender integration in development.

In addition, given the role of the central, state, ULBs and parastatals in urban development, it is important to prioritise gender in schemes and funds for the provision of services at all levels. GRB learnings from Kerala, Odisha, Bihar and Karnataka on their gender budget can be replicated. For instance, on average, Odisha earmarks more than 36% of its annual budget allocations to meet gender needs. The Odisha government has also prioritised universal healthcare schemes under the Biju Swastya Kalyan Yojana (BSKY) and the provision of annual healthcare coverage of INR500,000 per family and INR1,000,000 for women members of the family, for over 700,000 vulnerable families. (Mehta 2020).



#### **D. Ensure equitable coverage of water, sanitation and solid waste management services**

In India, water, sanitation and SWM are recognised as basic essential public services. It is important to ensure universal coverage of these services while also recovering the cost of operations and maintenance. These services should be subsidised for the poor. Examples of free basic water from South Africa and New Delhi can be studied to provide universal access, with a rising block tariff to ensure that operation and maintenance costs are recovered.

Tariff structures need to be inclusive and differential and pricing must be determined

through consultations with women, differently-abled individuals, transgender citizens, migrants and urban poor communities and marginalised groups. Thus, poorer households could be gradually moved up the water and sanitation ladder through subsidisation, rather than face outright exclusion due to their inability to pay. The example of water and sanitation (conservancy) tax linked to property tax in Ahmedabad Municipal Corporation provides a good example of the extent of cross-subsidisation for the poor and its effectiveness as an equitable tax.



#### **E. Enhance local resources through non-tax sources and land value capture**

Local governments should explore other sources of revenue, including a tax on business and entertainment (professional, advertisement and theatre tax), fees from licensing and parking, and add to property tax. Local governments can also explore land value capture through Transfer of Development Rights (TDR), Impact fees, etc. Cities can keep an inventory of land under public ownership and identify ways through which monetary values can be captured as additional revenue.

## **Strengthening Municipal Administration and Governance**



#### **A. Advance political empowerment for better functioning of municipalities**

Currently, ULBs face issues in delivering high-quality, responsive and equitable services in an accountable and transparent manner. Therefore, institutional arrangements, roles and functions (in relation to 12<sup>th</sup> Schedule matters assigned to ULBs) should be revisited. The objective should be to assign a leading role for ULBs locally, with parastatals and other public agencies imagined as service providers working for, and accountable to, ULBs. The political empowerment of chairpersons at the ULB level should be prioritised with a special focus on elected representatives from reserved categories. To ensure this effective political empowerment capacity building of

elected representatives, representatives from the reserved categories, inclusive of the large proportion of first-time entrants into public office, must be capacitated. The limited tenure ranging from 1 to 5 years restricts long-term thinking of chairpersons, and thereby, recommendations for rotation after at least two terms of five years have been suggested (2nd ARC, 2007).

In the long term, the solution to urban governance-related challenges lies in the empowerment of ULBs through reforms at the national and state levels. The Constitution of India should be amended to create a 'Local Government / Municipal List' and to allocate municipal functions to the 3rd tier of government. Moreover, state laws should be amended and aligned to recognise the primacy of ULBs and to move parastatals under local government oversight.



### **B. Ensure inclusive governance**

A key challenge to efficient municipalisation is the non-availability of services in areas that have a markedly urban character but lie outside the municipal fold. There is a need for 'prospective planning' to prepare for increased population and density, as well as recognition of capacity limitations in relation to planning and management of sanitation programmes. Census data should be managed and leveraged for a common, nationwide categorisation of ULBs (with the exception of Special Category states, if needed) and to bridge the gap between urbanisation and municipalisation. Municipalisation exercises should be repeated quinquennially, based on decadal census data and projections for intercensal periods.

It is also essential to analyse city-wide ULB staffing from the inclusion perspective to ensure that women and marginalised groups are consciously included in budgeting, planning, designing and implementation of local priorities, with at least 50 percent, representation across departments and levels including decision-making spaces.

In addition to representation, citizen participation is critical to ensure inclusive governance and hold ULBs accountable for their functions. The use of information and communication technologies (ICTs)

by ULBs for bill payment, complaint management and information dissemination initiatives (such as single-window service centres and citizen's charters) have shown to build confidence among citizens and can enable enhanced, efficient and fast citizen-focussed services. Schemes that adopt a participatory approach to incorporate citizen's voices in determining local priorities and ensuring project ownership are also key to enhancing citizen participation. The civil society can be engaged for consultations and implementation activities.

However, to ensure the sustainability of citizen participation in urban governance, it is critical to build the capacity of local community institutions, avoid abdication from service providers, ensure informal and marginalised groups are represented in governance and strengthen civil society engagement with a view to move from citizen participation to citizen empowerment. For this, a robust ecosystem supported by a digital platform is the need of the hour to provide municipal services to all. The recent 15<sup>th</sup> finance commission report has earmarked grants of INR450 crore for setting up such municipal shared services centres in 86 clusters across Indian states. These centres are intended to serve as citizen civic centres from which act as a centralised platform for service delivery, accounts and payment collection centres, grievance redressal etc.

It is also crucial to form Ward Committees (at ward level) and Area Sabhas (including residents, not registered voters alone, in areas covering one or more polling booths) to enhance citizen participation. Area Sabhas should be represented in Ward Committees and rules should be designed such that the roles of Ward Committees and Area Sabhas are delineated, and elite capture of these institutions is avoided.



### **C. Streamline overlaps in urban planning**

The envisaged schema, under which local planning is undertaken by ULBs and regional planning by District Planning Committees (DPCs) and Metropolitan Planning Committees (MPCs) remains largely unrealised. This is mainly due to the multiplicity of agencies and the absence of committees in many states. To solve the overlapping



**Figure 34: Strengthening Municipal Administration and Governance**





of responsibilities and ensure cohesion in urban planning, DPCs and MPCs should be constituted and charged with preparing Spatial Development Plans (SDPs) for areas under their jurisdiction. The SDPs could have a 20-year perspective and a formal review frequency of five years.

The SDP process must adopt a participatory approach involving engagement with ULBs, Ward Committees, Area Sabhas, their rural counterparts, and other key stakeholder groups, and should be supported by Development Authorities (DAs).

The 15<sup>th</sup> Finance commission has made an effort to mainstream Metropolitan Governance for the first time since 74<sup>th</sup> CAA, 1992 through allocating INR38,196 crore for 50 million-plus urban agglomerations (UAs). These UAs will be held responsible for quality service delivery in this jurisdiction related to air quality and sanitation. This would become a milestone recommendation for strengthening the metropolitan governance model.



#### **D. Professionalise human resource management systems**

Municipal units are often insufficient and ineffective, in terms of staff and their skill levels. Thus, ameliorating staffing norms and prioritising capacity building protocols are important steps. The central government can promote capacity building by providing incentives to ULBs that deliver structured training to municipal officials. In general, ULBs should facilitate these plans by strengthening existing CB institutions, rather than forming new ones. A suitable assessment framework should be developed to help identify skill and knowledge gaps for each ULB category.

Most city governments are not able to hire adequate and efficient human resources, primarily due to limited funds and position freezes. Municipal cadre functioning must be professionalised, including through suitable hiring and performance evaluation, amongst others. The constitution of

the cadre must focus on key roles for management, accounting, technical aspects and service delivery. This may include the creation of regional technical support units for key core municipal functions, with a pool of key resource persons, drawn from the government as well as the private sector. As states face a major financial hurdle in constituting cadres as well as paying them, it is critical to ensure fund availability for these activities. Increasing fund availability and human resource reforms will also enable ULBs to effectively fill capacity gaps by hiring professionals from the private sector and recruiting at competitive market rates.

In states where municipal cadres are not considered feasible, ULB-level plans should be developed to access necessary skills and fill knowledge gaps. Options such as direct hiring, outsourcing, engagement of external consultants and development of in-house / outsourced talent pools, maintained either by federations of ULBs or professional agencies, should also be considered.

In addition, there is a need to train all ULB staff on inclusive policies, with a focus on Prohibition of Employment as Manual Scavengers and their Rehabilitation Act, 2013<sup>5</sup>; Sexual Harassment of Women at Workplace Prevention, Prohibition and Redressal Act, 2013; gender sensitisation; gender-inclusive frameworks; and gender-responsive budgeting.



#### **E. Make municipalities more transparent and accountable through financial management**

One of the biggest challenges for urban governance is the opaque nature of the public sector. Therefore, it is critical to set up municipal finance information (including audited accounts and financial statements) in standardised formats, backed by data recording manuals, budget software, income-expenditure management systems, etc. To achieve greater transparency, ULBs must be incentivised to adopt modern accrual-based double-entry accounting systems (DEAS), adapt to the

<sup>5</sup> Prohibition of Employment as Manual Scavengers and their Rehabilitation Act, 2013-The broad objectives of the act are to eliminate unsanitary latrines, prohibit the employment of manual scavengers and the hazardous manual cleaning of sewer and septic tanks, and to maintain a survey of manual scavengers and their rehabilitation.



Strengthening WSH infrastructure is critical to disaster resilience

accounting framework proposed in the National Municipal Accounts Manual (NMAM) and furnish updated annual accounts. Additionally, audit functions can be strengthened by empanelling competent auditors to ULBs, strengthening Local Fund Audit (LFA) agencies, and regularly tabling annual Comptroller & Auditor General of India (CAG) reports before legislatures. Further, a push towards complete IT enablement and digitising financial records and asset registry will play a key role in ensuring transparency in financial management and ensuring accountability of ULBs.

The MoHUA has set up a national municipal information system, an online platform for municipal accounts. The 15<sup>th</sup> finance commission has provided an incentive to municipalities to publication of audited annual accounts on an online portal in the public domain. This would bring a higher degree of transparency in financial management and making municipalities accountable.

An ombudsman of local bodies can be created for a district, or a group of districts, to look into complaints of corruption and maladministration. Audited annual accounts may be tied to incentives (performance grants) and disincentives (such as legal penalties) to ensure improved management and service delivery at the ULB level. Governments may also consider the creation of a municipal finance index, with financial incentives and national recognition in the form of awards.



#### **F. Focus on water, sanitation and hygiene (WASH) as part of emergency response**

The COVID-19 pandemic has brought to light the fragility of India's urban systems and increased awareness about the risks of such a crisis. It is critical to focus on urban resilience and to enable cities to manage the stress on its citizens and resources. Further, in line with the 15<sup>th</sup> Finance Commission's vision for comprehensive

primary health care wherein the FC has earmarked a sum of INR70,051 crore out of the grants for the health sector for local governments over the award period of five years, it is critical to prioritize primary healthcare infrastructure and services for vulnerable groups and urban poor communities through Urban health and wellness centres (HWCs).

In addition, while the national and state governments have detailed guidelines on disaster management, such as the National Disaster Management Plan 2019, there is a need to incorporate a higher focus on WASH interventions in guidelines across mitigation, response and recovery.

This includes interventions such as fool-proofing public infrastructure; undertaking periodic audits of WSH facilities; conducting awareness campaigns / IEC to make the community aware of the need for sanitation and hygiene practices; capacity building of relevant stakeholders including ULB engineers, administrators and service delivery personnel; ensuring that WSH infrastructure (Individual household toilets, Water Treatment and Storage, distribution / conveyance, FSTP / STP) is resilient and aligned to Disaster Risk Reduction frameworks; and provisions for essential WASH services (water supply, desludging services, hand washing stations and clean toilets).

Lastly, there is a need to prioritise these in urban poor settlements for vulnerable groups by undertaking inclusive planning for infrastructure in urban slums (e.g., mobile treatment units), ensuring provision for the safety of sanitation workers through protective gear and health check-ups and focussing on the specific needs of women with respect to spaces with privacy and the availability of menstrual products and disposal mechanisms.



This paper perceives the need to devolve budget allocations and administrative responsibilities to ULBs. This is being reflected in the recent union budget 2021-22 with budget allocations to the tune of INR1.41 lakh crore and INR2.87 lakh crore for Swachh Bharat Mission 2.0 and the AMRUT 2.0 respectively. The NFSSM Alliance advocates that to ensure inclusive, equitable and efficient service delivery to citizens, the central and state governments must devolve powers, functions and finances to local bodies, and ensure that they have adequate budgets as well as the autonomy to raise their own funds to deliver services. It is important to note that the GoI has recognised the indispensable linkage between 'Swachhta' and 'Swasthta' (sanitation and health) through budget allocation in sanitation, liquid waste management and water supply under the health and wellness budget.

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# 7. Annexures



## ANNEX I: DEVOLUTION OF 12<sup>th</sup> SCHEDULE FUNCTIONS TO ULBs

**Table 2.1: Devolution of 12th Schedule Functions under the Constitution to ULBs**

#	State	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Andhra Pradesh	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y
2	Arunachal Pradesh*																		
3	Assam	P	P**	P	P***	Y	N	P	Y	N	P	Y	N	N	N	N	N	N	-
4	Gujarat	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
5	Haryana****																		
6	Himachal Pradesh	N	NA	N	N	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
7	Karnataka	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
8	Kerala	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
9	Madhya Pradesh	NA	NA	Y	NA	NA	NA	NA	NA	NA	NA	NA	NA	Y	Y	Y	NA	Y	NA
10	Manipur	Y	NA	NA	NA	NA	NA	Y	NA	NA	Y	NA	NA	NA	NA	NA	NA	NA	NA
11	Odisha	Y	Y	Y	Y	NA	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	NA
12	Punjab	NA	NA	NA	NA	NA	NA	Y	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
13	Rajasthan	NA	NA	Y	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
14	Sikkim	NA	NA	NA	Y	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
15	Tamil Nadu	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N	N	Y	Y	Y
16	Tripura	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
17	Uttar Pradesh	NA	NA	Y	Y	N	NA	Y	Y	Y	Y	Y	Y	NA	N	N	N	NA	Y
18	Uttarakhand	NA	Y	NA	Y	Y	Y	Y	Y	Y	Y	Y	NA	NA	NA	Y	Y	Y	Y
19	West Bengal	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y

Source: Topic Notes and Statements Submitted by State Governments to the 14<sup>th</sup> Finance Commission

Y – Transferred; N – Not Transferred; P – Partially Transferred; NA – Not Available

Bihar, Chhattisgarh, Goa, J&K, Jharkhand, Maharashtra, Meghalaya and Mizoram did not provide any data

1 - Regulation of land use and construction of buildings, 2 - Roads & bridges, 3 - Water supply, 4 - Public health, sanitation, conservancy & SWM, 5 - Slum improvement and upgradation, 6 - Urban poverty alleviation programme, 7 - Provision of Urban amenities and facilities, 8 - Cattle pounds, prevention of cruelty on animals, 9 - Vital statistics -registration of birth and deaths, 10 - Street lighting, parking, bus stops & public convenience, 11 - Regulation of slaughter houses and tanneries, 12 - Urban Planning including town planning, 13 - Planning of Economic and Social development, 14 - Fire Services, 15 - Urban forestry, protection of environment, 16 - Safeguarding interest of weaker sections, handicapped, etc. 17 - Promotion of cultural, educational and aesthetic aspects, 18 - Burial grounds, cremation grounds and electronic crematoriums \*Municipal election was held on May 16, 2013 and till date no function or staff have been transferred to ULBs

\*\*Main Roads and Bridged under PWD, \*\*\*Public Health with State Department

\*\*\*\*Functions/services of ULBs already stood identified which were being performed by them even before the constitutional amendments. Hence no additional functions/services were transferred to ULBs subsequent to constitutional amendments and award of 1st, 2nd and 3rd SFC.

An example of the multiplicity of institutions involved in sanitation delivery in the case of Tamil Nadu is mapped below

Institutional set up for water and sanitation in Tamil Nadu							
Responsible agencies	Policies	Planning	Project Development	Financing	Implementation	O&M	Monitoring
Municipal Administration and Water Supply Department	•			•			•
Tamil Nadu Water Supply and Drainage Board		•	•		•	•	
Commissionerate of Municipal Administration		•	•				•
Directorate of Town Panchayats		•				•	
Urban Local Bodies		•	•		•	•	
Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited				•			•
Tamil Nadu Urban Development Fund			•	•			•

Source: TNUSSP Analysis, 2017



## ANNEX II: INSTITUTIONAL ARRANGEMENTS FOR WATER SUPPLY AND SEWERAGE

**Table: Institutional Arrangements for Urban Water Supply**

State	Capital Works	O&M	Revenue Functions
Andhra Pradesh	PHED	Municipal Body	Municipal Body
Bihar	PHED Municipal body	PHED Municipal body	Municipal body
Gujarat	GWSSB Municipal body	Municipal body	Municipal body
Haryana	PHED	PHED	PHED
Karnataka	KUWSDB	Municipal body	Municipal body
Kerala	KWA	KWA	KWA
Madhya Pradesh	PHED Municipal body	PHED Municipal body	Municipal body
Maharashtra	MJP Municipal body	Municipal body	Municipal body
Orissa	PHED Rural Water Supply and Sanitation Department Housing and Urban Development Department	PHED Rural Water Supply and Sanitation Department	PHED Rural Water Supply and Sanitation Department
Punjab	PWSSB	PWSSB Municipal body	Municipal body
Rajasthan	PHED	PHED	PHED
Tamil Nadu	TWAD Board	TWAD Board Municipal body	Municipal body
Uttar Pradesh	Jal Nigam Municipal body	Jal Sansthan Municipal body	Jal Sansthan Municipal body
West Bengal	PHED Municipal body	PHED Municipal body	Municipal body

Source: NIUA (2005)

PHED- Public Health Engineering Division; GWSSB- Gujarat Water Supply and Sewerage Board; KUWSDB- Karnataka Urban Water Supply and Drainage Board; KWA- Kerala Water Authority; MJP- Maharashtra Jeevan Pradhikaran; PWSSB- Punjab Water Supply and Sewerage Board; TWAD Board- Tamil Nadu Water Supply and Drainage Board.

## ANNEX III: MODE of ELECTION of CHAIRPERSONS AND THEIR TEAMS

**Table: Mode of Election of Municipal Chairperson and Their Term**

State	Election	Term
Andhra Pradesh	Indirect	Five years
Assam	Indirect	One year
Delhi	Indirect	One year
Gujarat	Indirect	Two-and-half years
Haryana	Indirect	One year
Himachal Pradesh	Indirect	One year
Karnataka	Indirect	One year
Kerala	Indirect	Five years
Madhya Pradesh	Direct	Five Years
Maharashtra	Indirect	Two-and-half years
Orissa	Indirect	One year
Rajasthan	Indirect	Five years
Tamil Nadu	Direct	Five years
Uttar Pradesh	Direct	Five years
West Bengal	Indirect	Five years

*Source: NCRCW, A consultation paper on Decentralisation and Municipalities.*

## ANNEX IV: STATUS OF CONSTITUTION OF DPCs AND MPCs

**Table: Status of District Planning Committees (Article 243-ZD)**

S. No.	State/UTs	State of Constitution of DPCs
1.	Andhra Pradesh	Not yet Constituted. However, an ordinance has been issued by the Govt. of AP in December 2003 for constitution of DPCs.
2.	Arunachal Pradesh	Not Constituted
3.	Assam	Not Constituted
4.	Bihar	37 districts out of 38 Districts constituted on ad hoc basis. Chairman ZP in the Chairperson of DPCs.
5.	Chhattisgarh	Constituted. Minister is the Chairperson of DPC.
6.	Goa	Constituted. President of ZP Chairperson of DPC.
7.	Gujarat	Not Constituted
8.	Haryana	Only in 16 Districts out of 19 Districts.
9.	Himachal Pradesh	Constituted only in 6 Districts out of 12 Districts. Minister is the Chairperson of DPC.
10.	Karnataka	Constituted. President of ZP Chairperson of DPC.
11.	Jharkhand	Panchayat Elections yet to be held.
12.	Kerala	Yes, Chairman of District Panchayat (DP) is Chairman of DPC.
13.	Madhya Pradesh	Yes, District incharge Ministers are Chairperson.
14.	Maharashtra	Not Constituted
15.	Manipur	Yes, in 2 Districts out of 4 Districts. Adhyaksha, DP is the Chairperson.
16.	Orissa	Only in 26 Districts. Minister is the Chairperson of DPC.
17.	Punjab	Not Constituted
18.	Rajasthan	Constituted. Chairperson of DP is Chairman of DPC.
19.	Sikkim	Yes
20.	Tamil Nadu	Yes, Chairperson, DP is Chairperson.
21.	Tripura	Not Constituted
22.	Uttar Pradesh	Not Constituted
23.	Uttarakhand	Constituted. Minister is Chairperson of DPC.
24.	West Bengal	Constituted. Chairperson, DP is Chairperson.
25.	A & N Islands	Constituted. Chairman of DP is Chairman of DPC.
26.	Chandigarh	Not Constituted
27.	D& N Haveli	Constituted. Chairman, DP is Chairman of DPC.
28.	Daman & Diu	Constituted. Chairman, DP is Chairman of DPC.
29.	Lakshadweep	Constituted. Collector-cum-Development Commissioner is Chairperson of DPC
30.	Pondicherry	Not Constituted. Panchayat Elections not held

Source: Ministry of Panchayati Raj



# Notes

A series of horizontal dashed lines for writing notes.











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