CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

The various sources of the literature related to the subject of this study included books, journals, reports of research organisations and M. Phil. and Ph. D. theses. It was found that the available material could be classified into two broad categories, as follows:

a) Studies relating to the finances of urban local governments.

b) Studies relating to construction of roads and road transport in urban areas.

2.2 Studies relating to finances of urban local governments:

The finances of urban local governments have been studied by various researchers. These studies can be further classified into books, reports of organisations and unpublished M. Phil. / Ph. D. theses.

2.2.1 Books


This study has made a comprehensive analysis of the various aspects of the finances of the Municipal Corporation of Delhi (MCD). Specifically, the objectives of the study were to examine whether financial resources were efficiently raised, utilized and administered; to examine whether the resources of the Corporation were adequate for proper discharge of its functions; to suggest ways of increasing and improving use of resources and to make recommendations to the Central Government for improving the finances of the MCD.

A period of 21 years (1958-59 to 1978-79) was taken for the study. Data from the budgets, administration reports, minutes of meetings of the standing committees and General Council of the MCD has been used, supplemented by discussions with officials of the Corporation. Data has been taken at four-yearly intervals for the actual analysis. The actual income-expenditure data has been converted to constant prices (base 1958-59) and also to per capita figures. Further, the finances of the MCD have been compared with those of the Corporations of the other three metropolitan cities, viz., Mumbai, Chennai and Kolkata.

Trends in revenue expenditure of the MCD showed that this expenditure rose noticeably throughout the period under review. A comparison of the growth of
revenue expenditure of the four metropolitan city corporations showed that MCD had the lowest percentage of increase in per capita expenditure on revenue account.

The trends in the income of the MCD showed that the percentage increase in revenue over the period under review was healthy, but its major portion had been offset by the population and price rise, with the result that per capita revenue at constant prices had recorded only a marginal increase. Increase in revenue was much less than the increase in expenditure. The MCD again showed the lowest percentage increase in per capita revenue as compared to the other metropolitan cities.

An evaluation of the financial administration of the MCD revealed serious defects and irregularities such as unrealistic budget estimates, an absolute lack of control over expenditure and lack of control over revenue. Finally, the author has made several recommendations for the MCD as well as for the Government of India to improve the finances of the MCD.

This is a very detailed and meticulous study, whose distinguishing feature is the comparison with the other metropolitan cities. The suggestions are carefully thought out and practical. The book, which is based on the author’s Ph D thesis, is very well written.


This study of services provided by urban local governments in India has used data from 25 major cities in the country as well as 17 major towns, 22 medium towns and 22 minor towns in the state of Karnataka. Using data from the early 1970s, the authors have studied, firstly, the differentials in the availability and costs of provision of the various services supplied by the local governments and secondly, in order to explain these differences, they have tried to identify the important determinants of public expenditure at the local level.

The authors have selected this particular issue to study since they feel that there have been very few studies of the finance of the urban public sector. The few studies that have been carried out have focused primarily on the revenue side. An analysis of public sector outlay has rarely been attempted, even though this is the chief source of welfare maximization for the citizens of urban areas.

The authors have observed from the data collected by them that there were large differences in the services provided by local governments among the different size towns. There were also intra-size class differences i.e., towns of the same size also showed large variations in service provision. The study has analysed these differences
with respect to water supply, drainage, roads, public health, sanitation and conservancy and street lighting.

The second part of this study has tried to find the reasons for the differences in service provision observed in the preceding part. For this, the authors tried to identify the factors that determine public expenditure of urban local governments. The characteristics that explain the variations in expenditures were broadly divided into 3 categories, as follows:

a) **Fiscal characteristics** – included own tax revenue and grants received from other governments.

b) **Demographic characteristics** – the size of population, the effective population (resident + fringe area population), density of resident population, and the average annual growth rate of population.

c) **Socio-economic characteristics** – total housing density and the proportion of non-agricultural workers to the total work force.

d) **Political and institutional factors** – such as the party composition of the councils, tenure of the elected councils, political personalities in the higher tier governments, etc., were also recognized to be important but could not be included in the analysis.

The main conclusions of the study are:

i. The provision of important public services in urban areas was deteriorating due to financial, allocational, budgetary, managerial, technical and other problems.

ii. Levels of resource mobilization were low, as shown by low per capita investment in services.

iii. Financial aid from state government was necessary for provision of public services by urban local bodies.

iv. The disparities and variations among homogenous local bodies should be brought within tolerable limits otherwise this could lead to severe imbalances that could threaten national integration.

v. Lastly, the study revealed that the factors influencing different expenditure categories of different size classes of towns were not necessarily the same.

The author of this study has identified several problems affecting the finances of local governments in India, such as chronic financial stringency due to inadequate resources, a low level of provision of services, etc. Against this background, the intention of this study was to explore possibilities of reform, a proper diagnosis of the problem and finding out alternative means to increase the financial resources of municipal bodies. For this purpose, all the municipal boards of Varanasi Division in Uttar Pradesh were selected for study.

The study covered the period 1951-52 to 1978-79. For the purpose of analysis, data was taken at five year intervals. The Municipal boards were classified on the basis of their population into three categories, viz., small towns, medium towns I and medium towns II. Having studied the trends in and composition of the various sources of revenue and the different heads of expenditure of these local bodies, the study came to the following conclusions.

The conclusions of the study were as follows:

1. Despite an impressive growth in revenue receipts, the services rendered by them had remained inadequate due to the fact that urban population had increased rapidly and inflation had eroded the real value of money.
2. The bulk of the revenue came from municipal taxes. Although this appears to be a favourable development, the structure of the taxes revealed a different story.
3. A break up of the total tax revenue into its various components showed that Octroi constituted the largest share of total tax revenue and of their total revenue. The property tax had not been exploited fully. For other taxes such as profession tax, tax on animals and vehicles, tax on advertisements, pilgrim tax, etc. the cost of collection and administration of these taxes was higher than their yield.
4. Non-tax revenue had low yield due to leakages in collection and corruption among municipal employees. Grants-in-aid were an important source of revenue. Grants were being given in an ad hoc manner depending on the availability of funds with the state government.
5. The total expenditure of the Municipal Boards increased by more than nine times during the study period but the per capita expenditure increased only about four times. If the inflation rate is taken into account, there could even be a decline in per capita expenditure in real terms.
6. In the latter half of the study period the share of non-developmental expenditure in total expenditure had increased and the share of developmental expenditure such as
public safety, public health, etc., had actually declined. The largest share of development expenditure was incurred on establishment of water works, conservancy and public health.

7. The level of services in general was extremely poor. Roads, water supply and sanitation were inadequate and of very poor quality.

The author has concluded that despite a growth in municipal revenues and expenditures, the municipal authorities had failed miserably in providing basic amenities to the people.


The subject of this research was to study the financial administration of urban local governments in Orissa during the period 1961-62 to 1975-76. There were 91 urban local governments in Orissa at the time of study, of which 31 were selected for analysis. These bodies were either Municipalities or Notified Area Councils.

The aim of this study was to examine the adequacy of the existing tax and non-tax receipts, the efficacy of the methods of assessment and collection of taxes, the pattern of expenditure, the financial discipline practiced by these bodies in the form of financial controls, audits, etc., and to find whether accountability of these bodies to the state legislature amounted to a loss of their autonomy. The study has analysed the revenues and expenditures in detail.

a) Tax revenue: The tax revenue came from Property tax, Octroi, profession tax, terminal tax, education tax, etc. The study has shown that the collection of taxes in all the local governments was well below the potential. Due to inaction at all levels, huge amounts of taxes and fees remained unrecovered.

b) Non-tax revenue: The main sources of non-tax revenue were income from municipal property and income from municipal enterprises. This constituted a very small share of the total revenue of the urban local bodies in Orissa.

c) Grants-in-aid: Grants-in-aid came mostly from the state government and constituted important sources of income for urban local bodies in Orissa. There was no regularity in the flow of grants as the percentage of receipts from grants varied from year to year. Another important problem was non-utilisation of grants so that investment in development work also suffered.

d) Local borrowing: Most of the local bodies selected for the study had to borrow from the state government and other agencies to finance their capital expenditure such as building schools, offices, street lighting, etc. Loans were a small
percentage of total revenue. Loans were not invested properly or were seen to be lying unspent.

e) **Expenditure:** Expenditure was made on general administration, collection of taxes and charges, public health, water supply, public works like roads and building, education, repayment of loans, investments, etc. The study found that although total expenditure of these bodies had been steadily growing, per capita expenditure of these services was much below the required standard as recommended by various committees. Out of 31 bodies studied, only four had the desirable level of per capita expenditure.

The main objective of this study concerning expenditure was to study the controls on expenditure. In spite of various controls, the study found a very large number of irregularities in the expenditure.

The last part of the study dealt with the decision making process in the local bodies. The study has pointed out several problems in the local body decision making, some of which are - interference and excessive control by state governments, obstruction by members of the opposition, influence of the public through mass protests, populist decision-making and decisions not subject to legislative scrutiny. The study has given various suggestions for improving decision-making including training of councillors, and giving these bodies more power and autonomy.

This is a comprehensive study of urban local government finances, which has studied not just incomes and expenditures but has also included issues of state supervision and decision making, which are crucial to the performance of local bodies. While analysing incomes and expenditures, however, the study has dealt with the income side in great detail but has made only a perfunctory study of the expenditure side of the budget.

5. **Mudgerikar, Pratibha (1993):**

This study has selected the Pune Municipal Corporation (PMC) as being representative of other urban local bodies in India, to study the problems of its financial management, particularly the revenue raising capacity of this body, since no local government can function efficiently without adequate financial resources.

The author has studied the fiscal administration of the PMC during the period 1979-80 to 1990-91. The author has studied the budget and budgeting procedure of the PMC, its accounting and auditing systems and its tax administration, particularly in respect of the two largest sources of revenue for the PMC – the octroi and the property
tax. Finally, the internal and external controls on the finances of the Corporation have been studied.

The conclusions of the study are:
1) The councillors tended to overestimate both revenues and expenditures while making the budget. All departments also overestimated expenditure. They asked for more money to clear pending bills and to have some funds for providing actual services. As a result, the budget became unrealistic.
2) The budget clearly showed that the revenue expenditure of the PMC was increasing continuously due to employment of more staff to provide basic services to the growing population, especially the new colonies being established on the periphery of the city. Consequently, the Corporation could not undertake work requiring capital expenditure, even though it was needed urgently.
3) The most important source of revenue was octroi. It was observed that the cost of collection of octroi was low, but drawbacks were seen in its rate structure. There were practical difficulties like evasion, obstacle to the smooth flow of traffic because of frequent stops at octroi posts, false claims for refund, delays in settling claims, etc.
4) The second important source of revenue for the PMC was the property tax. Its collection was less than octroi but its cost of collection was higher. Several problems were noticed with respect to property tax, such as fixation of wrong ratable values, delayed bills, no action taken against late payment or evasion and negligent staff.
5) Other taxes levied by the Corporation were theatre tax, hotel tax, vehicle tax, etc., whose yields were very small.
6) The PMC was subject to control by the state government, but the control was very lax and the leakages and wastages in municipal income had remained unnoticed by the state government.
7) The auditing function had inherent defects like delay in auditing, negligence towards settling audit objections by the administrative wing, etc.

This study showed that functioning of the PMC by and large was efficient, yet there was scope for streamlining its financial management. The author has suggested that this could be done by blocking the loopholes and creating certain institutional mechanisms that would enable the PMC to work as an effective unit of local self-government.

The aim of this research project was to make a comprehensive study of the financial problems of urban local bodies in Kerala and of their relationship with the state Government. There were three Municipal Corporations in Kerala at the time of the study, viz., Trivandrum, Cochin and Calicut and hence these were selected for study as being the most autonomous and viable of urban local governments. Another importance of the selection of these three Corporations was their unique functional characteristics. Traditionally, Trivandrum is a service-oriented city. Cochin is an industrially advanced area and Calicut has been a traditional trade centre.

The objectives of the research were to analyse the trends in the finances of the corporations and their variations among the Corporations, to understand the relationship between functional characteristics and expenditure patterns of Municipal Corporations, to examine factors which were squeezing both revenue and expenditure of Corporations and to probe into reasons for adequacy or otherwise, of grants-in-aid in a perspective of financial crisis and to relate it with institutional set-up.

The main sources of data were the budgets of the 3 Corporations. Time series budget data for the period 1965-66 to 1984-85 (20 years) was used for analysing the trends and patterns of revenue and expenditure of the selected Corporations. This data was supplemented by interviews and discussions with officials of the Corporations, mainly to understand the intensity of the problems and other useful qualitative information.

The study has brought out the reasons for the financial crisis in the Corporations. The author has shown that there are two major reasons for this crisis. Firstly, the institutional set-up is such that the sources of revenue of local governments are few and less buoyant, thus creating a big gap between their income and expenditure. This makes local governments dependent on state governments. Secondly, there is mismanagement of resources at the local level, leading to further problems.

The conclusions of this study can be divided into three parts.

a) Trend and pattern of revenue:
1. Taken at constant prices, the rate of growth of total receipts decreased in Trivandrum and Cochin, whereas Calicut maintained the same rate of growth.
2. Tax receipts increased in both Trivandrum and Calicut whereas Cochin showed a marked a decline in growth rate during the second sub-period, when taken at constant prices.
3. In all the Corporations, the share of entertainment tax to total tax had increased. The full potential of other taxes like property tax had not been fully utilized.

4. The contribution of the state government in the form of grants-in-aid was not proportionate to the increase in the need of local bodies.

b) Trends and patterns of expenditure:

1. Analysis of the trends in total expenditure at constant prices showed that Cochin Corporation registered the highest and Calicut Corporation the lowest average annual growth rate.

2. The structure of expenditure showed that recurring expenditure accounted for a higher share than capital expenditure in the total expenditure in all corporations.

3. The trend in recurring expenditure on various heads showed that the average annual growth rate of various expenditure heads moved in accord with their relative share.

4. The trend and pattern of capital expenditure showed that Calicut and Cochin presented almost similar picture whereas Trivandrum showed a different pattern.

5. Trivandrum accounted for the highest per capita recurring expenditure followed by Calicut and Cochin. However, the analysis showed that the services provided by Trivandrum were not actually better than the others.

c) Other conclusions:

1. An analysis of the test of significance of per capita expenditure growth rates showed variations in expenditure across different Corporations. It could be because of difference in functional characteristics of cities.

2. The study found that no Corporation in Kerala had provided minimum standard of services to their citizens, according to the criteria given by the Rural-Urban Relationship Committee.

3. The built in structural weaknesses and neglect by the state government had led to the financial problems of the urban local bodies in Kerala.

4. The existence of mismanagement along with the absence of well-defined functions, lack of finance and rigid rules and regulations of government reduced the efficiency of urban local bodies.
The author has suggested various remedial measures to reduce the financial problems of urban local bodies, such as improvement in evaluation and assessment of taxes, provision of grants, improving administration, and shift in the expenditure pattern. The author feels that unless such steps are taken, Municipal Corporations in Kerala would become more dependent on fiscal transfers from the state governments for meeting their expenditures, thereby negating the basic principles of democratic decentralization.

2.2.2 Reports of organisations:


This study of four Municipal Corporations in Maharashtra carried out by the author under the aegis of the All India Institute of Local Self Government consists of four separate studies of the Kolhapur, Solapur, Nagpur and Pune Corporations. The author has summed up the findings of the individual case studies in a comparative report and all four reports have been published together under the title ‘Finances of Municipal Corporations of Maharashtra’. This comparative report has been summarised below.

The four Corporations studied in this report were all established after independence, though each city has a long and unique history of its own. Each of these cities was first governed by a Municipal Council before being upgraded to the level of a Corporation.

The author has studied the finances of each of these Corporations for the period 1972-73 to 1978-79. Data relating to the incomes and expenditures of these Corporations was collected from the financial statements and budget papers prepared by the Corporations. This was supplemented by personal discussions by the author with the principal officers of the Corporations.

The main observations / conclusions of this study are:

1. The population of all cities had been growing rapidly, primarily through migration. This had created great pressure on the Municipal services.
2. In the process of their transformation from Municipal Council to Municipal Corporations, these cities had lost some financial assistance from the state government, which they used to receive earlier.
3. An important factor that had influenced the level of expenditure of these Corporations was inflation, which particularly affected labour costs. Due to this,
expenditure on necessary services had to be cut down, seriously retarding the development of the cities.

4. The levels of revenue and expenditure of all the four Corporations were not commensurate with the magnitude of the task of urban development they had to face.

5. The average annual increase in revenue during the 7 years covered by the study was highest in Pune, Nagpur lagging behind by a large margin.

6. In all the Corporations, octroi was the largest sources of revenue, as also the fastest growing one. The share of octroi in total revenue varied between 47% and 54%. However, the structure and rates of octroi were different in different cities.

7. Property Tax was the second most important tax, but the problem in all four cities was that the revenue from this tax was not growing fast enough and in fact, its share in total revenue had actually fallen in all four cities.

8. Among the service rates the more important were the water rates and conservancy cess. But the revenue from these charges was small due to low rates.

9. The cost of collection of taxes and rates was high and continuously growing. Costs of collection varied between 5 to 8% of revenue collected.

10. The Corporations levy several other taxes like theatre tax, hotel tax, etc., and several other fees, but their contribution to total revenue is not significant.

11. With respect to non-tax revenue, it was observed that its share in the total revenue of the Corporations is small and either stagnant or declining. This is due to the low rents charged by the markets and other buildings owned by the Corporations, and even these low rents remain unpaid.

12. Grants-in-aid received by Corporations in Maharashtra were for primary education, which, however, covered only about 50% of their costs. Other grants received by them included grants for slum improvement, family planning, malaria eradication, etc., but they were meagre in relation to the problems they were meant to tackle.

13. Compensation payment by the state government was mainly in respect of two taxes that had been taken over by the state from local bodies, the tax on mechanized vehicles and the tax on professions, trades and callings.

14. Revenue sharing arrangement of the State Government with these Corporations existed in respect of profession tax, land revenue and agricultural assessment and entertainment tax. For these, a certain proportion of the tax revenue is shared so that receipts can grow as total collection grows.
15. The sources of loans were mainly the state government and the public but some were given by the Central Government and Life Insurance Corporation. The main purpose of borrowing for all these Corporations was for water supply and drainage schemes. On the whole, these Corporations had been able to borrow without any difficulty.

16. Financial control on the working of these Corporations was exercised by the state government, the Standing Committee and General Body that approve the budget, the internal auditor and the external auditor.

17. Since independence, several committees and commissions have studied the financial problems of urban local bodies and made useful recommendations for their improved performance, but the state government has not implemented most of these recommendations.

18. Finally, the study has observed that no standards of performance have been laid down for urban local governments either by State Government or by local governments themselves, the result being extremely low level of performance of services in all Corporations.

The study has made a large number of recommendations for improving the finances of urban local bodies. Some of these measures are to be taken by State Government while some measures are to be taken by Municipal Corporations.


As part of the chapter on Urban Local Bodies in the India Infrastructure Report 2003, the authors have presented and analysed statistical data on the finances of urban local bodies in Maharashtra. They have pointed out the heterogeneity among the urban local bodies (ULBs) in Maharashtra, in terms of their population, area of jurisdiction and the Acts by which they are governed.

The authors have classified the 245 ULBs in Maharashtra into two groups for the purpose of analysis - the Municipal Corporations and Municipal Councils. They have used actual income and expenditure data from these bodies for the period 1995-96 to 1999-2000. They present the following conclusions regarding the expenditure and income of the Municipal Corporations:

a) Expenditure: The Corporations in Maharashtra had spent about 35.87% of their total expenditure in 1995-96 on core services, i.e. water, street lights, roads and sanitation. This expenditure had shown a gradually increasing trend, reaching 39.18%
of total expenditure in 1999-2000. If education and fire brigade were included, the ratio of expenditure rose to 46.02% in 1995-96 and 48.65% in 1999-2000. Expenditures on general administration and salaries were the single largest component of expenditure, comprising 40.06% of the total expenditure in 1995-96. However, a slight reduction to 37.93% was seen in 1999-2000.

Growth rates for various categories of expenditure were calculated which showed an average growth of 16% over the whole period. This was higher than the inflation rate (which means there was an actual increase in the output of the service) and also higher than the growth rate of the economy. Salaries, pension and general administration did not show an unduly large relative rise. Expenditure on other services like solid waste management, street lighting etc., did not show much variation in growth rates except what may be expected due to capital or scheduled maintenance spending. An emphasis on solid waste management and sewerage was seen. Another finding of the study was that several ULBs were having deficit budgets in spite of the stipulation in the Municipal Acts that their budgets need to be balanced.

The authors have also compared the income – expenditure patterns when all 15 Municipal Corporations are taken together, when 14 Municipals Corporations (i.e. all except Mumbai) and 12 Municipal Corporations (i.e. excluding Mumbai, Pune and Nagpur) are considered. The following inferences have been drawn from this comparison:

1. BMC had been consistently running large deficits throughout the period.
2. Expect for BMC, the administrative costs of all other Municipal Corporations were in the range of 13-18%.
3. Smaller Municipal Corporations were spending more education, water supply, roads, and street lights.
4. Pune and Nagpur seemed to be spending less on sanitation, sewerage and solid waste management and comparatively more on water supply.
5. Expenditure on roads and street lights was a higher proportion of total expenditure for smaller cities, indicating the importance given to infrastructure development.

b) Income: As far as the income patterns of Municipal corporations are concerned, this study concluded that –

1. Grants from the State Government have remained about 5% of income during the study period which shows reliance on own funds.
2. The share of loans, however, increased from 4.75% in 1995-96 to 11.73% in 1999-2000.

3. Of the own sources of income of the Municipal Corporations, octroi represented over 50% in 1995-96 but had gradually declined to about 47% in 1998-99. However, it still remained the largest source of income.

4. Loans and grants from state government have grown most rapidly. But important sources of income such as property tax, water rates, conservancy and sanitation charges etc. have grown at rates significantly above inflation.

5. In analysing the growth rates for the various sources of own revenue, the authors found that the growth rate of octroi is decreasing over the period 1996-97 to 1998-99, especially in the smaller cities which actually depend more on octroi than the larger cities. They also found that the number of properties grew faster in the smaller cities, but since the recovery rates there were lower, the actual collection did not show much change. They also noted large variations in the recovery rates of property tax across Municipal Corporations.

6. Lastly, a fair amount of the analysis pertained to grants. It was found that grants from state government varied widely from year to year, even becoming negative in some years. Not only was the amount of grants varying, but also the growth rate of grants showed significant variation over the study period. From the point of view of the state government, however, it was found that only about 1.27% of the total revenue receipts of the state government were given to ULBs as grants, even though they account for 75% of the urban population of the state.

2.2.3 Ph. D / M. Phil Theses

1. Suklikar Avinash (1968):

   In this thesis an attempt has been made to analyse the finance i.e. income and expenditure of Madhya Pradesh during the period 1921-22 to 1955-56, i.e. from the British rule to the end of the first Five Year Plan. During this 35 year period, the State Government passed through all the stages of the business cycle, and each period had an impact on the State’s Budget and its financial policies. This thesis has analysed the financial problems faced and the policies adopted by the Government of Madhya Pradesh during each phase which had different economic situations.
The main analysis done in this study pertains to the expenditure incurred and income earned by the State Government. Public expenditure on education, public health agriculture and industrial research, creation of capital assets like roads, bridges, public buildings, irrigation water, power projects, etc., has been studied. On the income side, both revenue receipts (especially taxes) and capital receipts have been analysed through the three periods. The major part of this study has focused on the trends in public expenditure of Madhya Pradesh. The study has analysed revenue expenditure and capital expenditure separately.

The study has concluded that the yearly analysis of state budgets clearly brings out the impact of the economic situation on the total available funds and their uses by the State Government. For example, in times of depression the budget estimates of revenue were always more than the actual collections in spite of Government efforts to the contrary. In times of inflation, brought about by war, revenue exceeded the budget expectation and the State Government’s strong urge for development spending had to be kept under constant restraint in view of the anti-inflationary measures adopted at the instance of the Central Government.

Expenditure on roads – while analyzing various heads of public expenditure, the author has shown that a major portion of expenditure on roads was incurred from the revenue account during the first and third periods. The total mileage of roads including provincial roads under the management of district councils in the state increased very slowly during the first two periods, but in the last, post independence period there was rapid increase in the roads built in the state, mainly due to post-war development and Plan schemes.


The urban local government in Pune was upgraded from a Municipal Council to a Municipal Corporation in 1950. This research was carried out in order to ascertain how far the Corporation had been able to generate sufficient internal resources to extend and to improve the range of its services and amenities after its upgradation. In order to study this problem, the period 1951-52 to 1975-76 was taken, as reliable data was available for this period. Pune city was selected for study since it
was a medium sized city, governed by a Corporation that was neither too old nor too new and hence could be taken as representative of most cities in the country.

Although finance is not the only constraint in the running of the Corporation, it is certainly one of the most important factors influencing the effectiveness of any administration and more so in a local body that provides many non-paying services. The main task of this study, therefore, was to identify the nature of the financial problem which is that of matching resources and responsibilities. The local body has to raise sufficient internal and external resources on a continued basis for meeting current and capital expenditure. Further, it must do this without imposing an intolerable burden on the tax payers and without becoming unduly dependent upon assistance from the state or national government.

The main analysis of this study focused on the various items of income and expenditure of the Corporation. On the income side the study has analysed (for the period 1951-52 to 1975-76) the growth and comparative contribution of various sources of revenue such as different taxes, grants, borrowing, advances, etc. The study found that the rise in the total income was gradual for the first 10 years and became steep in later years, substantially so in the last five years covered by the study. An analysis of the comparative contribution of the different sources of revenue showed that tax had always been the major source of revenue, almost constant at about 76% of total revenue. Growth in tax revenue had been at an increasing rate during the study period. Out of taxes, octroi and property tax had been the most significant contributors to total income. Non-tax revenue growth in absolute terms was rather slow and its contribution to total income was almost constant at about 15%. The grants received from the state government were mostly for expenditure on pre-primary, primary and secondary education. The Corporation had been borrowing mostly from the public, but also from the state government and the Life Insurance Corporation for funding the construction of water supply schemes, drainage, roads, bridges, school buildings, etc.

On the expenditure side, expenditure on the various services provided was analysed as also the repayment of loans and interest and other general expenditure of the Corporation. It was found that total expenditure increased by a staggering 1152% during the 25 years of the study. The rate of growth also increased in every successive
5 year period from 22% in the first five years to 116% in the last. Expenditure on staff and establishment accounted for the largest share of the total. Of the various services, expenditure on public health had all along maintained its lead. Education came next, followed by water supply and drainage. The provision for roads, bridges and street lighting always remained rather low.

Per capita income and expenditure were calculated as per capita expenditure is an indicator of the level of services provided by the Corporation. This analysis showed that during the study period, expenditure increased at a faster rate than income. Till 1972-73, the income and expenditure figures were very close to each other, leaving a small margin. After that the picture changed and the expenditure exceeded the income.

Having identified the financial problems of the Corporation, the study has further discussed the various factors contributing to them. The study has identified the interplay of different social, political, geographic, demographic and economic factors that have influenced the financial outcome. Some of the major factors that had contributed to the financial problems of the Corporation were identified as increase in population, problems created by slums, rapid industrialization and urbanization, expansion of geographical limits and spread of population, inefficient budgeting system, reluctance to increase the rates of taxation, high cost of debt servicing, etc.

Some of the important conclusions of the study were:

1. The problem of a gap between financial resources needed and financial resources available to the Corporation emerged as the main issue.

2. As a result of shortage of funds, the services provided were inadequate and their quality was being eroded over the years.

3. The important reasons for the shortfall in funds were the phenomenal growth of the city in terms of its area as well as population.

4. Another important factor was the creation of the Pimpri - Chinchwad Municipal Council (PCMC) on the outskirts of the city. The PCMC had experienced tremendous growth of industry due to establishment of MIDC.
The workers in these industries chose to live in Pune. The result was that the resources generating activities were concentrated in PCMC, while PMC had to provide civic services to the employees of the industry.

5. In the initial years, whenever a financial gap arose, the state government was able and willing to bridge it to some extent, but not so in later years.

6. After the formation of the Corporation, the financial position had improved considerably, when compared to that of the earlier Municipality. At the same time, however, shortage of funds was also experienced while trying to make up the backlog of capital assets required for providing better civic services to the citizens.


The financial resources available to a local government determine the level of specific local services. This study aimed at analyzing the fiscal behaviour of local governments, particularly municipal administrations in India. Fiscal behaviour of local governments may be viewed as decisions taken by them in the fulfilment of their responsibilities under resource constraints and fiscal dependence on other governments. It was assumed that these governments take rational decisions regarding expenditures and revenues with a view to maximizing the welfare of their residents, at least that part of welfare that relates to services provided by these governments.

In the first part of this study, an attempt was made to analyse the finances of the urban local governments in India using cross-section data with a view to highlighting differences in the provision of civic services and the pattern of their financing. The analysis was done by grouping cities by their population size as well as State-wise for understanding the variation in the level of services provided in different parts of the country. The conclusion of the analysis was that there were large inter-state and inter-class variations in the provision of services and in per capita expenditure on these services. The study found that as far as service provision was concerned, there was more uniformity in the mega cities, although there were large inter-state differences. There was no clear-cut relationship between the level of local services in a state and its level of development as indicated by its per capita income.
Overall, the dependence of the local bodies had increased over time. Finally, the pattern of expenditure showed a shift in favour of social services.

The second part of this study is a case study of the Municipal Corporation of Delhi (MCD). The MCD is the largest urban local government in India, serving almost the entire territory of the National Capital Region. The study has first analysed its expenditure and income both at the aggregate level as well as their components. For this, the researcher has used time series data for the period 1970-71 to 1989-90, collected from the budget papers and administrative reports of the MCD.

A very comprehensive statistical analysis of the expenditure and income data revealed that growth of expenditure on all heads, both in nominal and real terms (at 1970-71 prices) had been very large. Growth of capital expenditure had been higher than current expenditure. Growth had also been higher during the eighties as compared to the seventies. However, real per capita expenditure, which reflects the standard of service provision, had not shown much improvement. Function-wise, expenditure on roads recorded highest annual rate of growth, followed by up-keep of city. Expenditure on education and medical relief were more stable.

On the receipt side of the budget, the growth rate of grants was higher than both own source receipts and shared taxes. The share of capital account receipts had gone up and the share total transfers including its component shared taxes had gone down. Relatively, the share of property tax was stagnant in own source receipts. The grants received for building roads had increased, but grants for other purposes had decreased. Growth in current receipts and transfers was more stable.

The researcher had developed an arithmetical model to find the effect of the various factors that influence the expenditure incurred by the MCD. Using this model, it was seen that bureaucracy had no direct impact on the level of aggregate expenditure, but political parties’ decisions had a positive relationship with the level of expenditure, as had all the revenue variables. Fiscal transfers did not have a stimulating effect on expenditure.

This is a very comprehensive study using several econometric models to estimate the various factors that influence the incomes and expenditures of urban local bodies. This study is superior to other studies in that it not only identifies the factors that affect finances of urban local bodies but actually quantifies the relationships so
that the relative importance of the various factors becomes clear. By estimating income and price elasticities, this study provides a policy guideline to ULBs to plan their revenues and expenditures in a situation of changing incomes and prices. The bibliography is also very extensive and relevant information has been provided in the appendices.


This study is an attempt to demonstrate how an elected urban local government is able to bring about rapid development of a city in contrast to a nominated body. The researcher has selected the Nashik Municipal Council for this study. The Municipal Council of Nashik was established in 1864, but industrialization started only after 1964. The development of the city started, but at a slow pace, from 1965. In 1974, a system of elected representatives was introduced and since then the process of development of the city gathered momentum. The researcher has tried to show how the Municipal Council under an elected President was able to contribute to the all round development of the city. The period from 1965 to 1982 has therefore been selected for study and has been divided into two sub periods, 1965 to 1974 and 1974 to 1982 to bring out the difference in the rate and nature of development of the city. The conclusions of the study were:

1) During the first period, the budget of the Municipal Committee was surplus in most years, which shows a sound financial condition. Taxes were the largest source of revenue, followed by subsidies. Revenue expenditure was more than capital expenditure, and most of it was spent on health and education. No large schemes were started for the development of the city. Per capita expenditure was less than per capita income. The maximum earning of the Municipal Council was from octroi and property tax, but tax collection was low due to evasion by citizens and inefficiency on the part of the staff appointed for collection. Revenue expenditure was low, particularly on roads and other amenities.

2) The second period (1974-82) saw several changes. The Maharashtra Municipal Committee Rules changed in 1973 which called for the President of the Committee to be elected by the people. The financial condition of the Municipal Committee of Nashik was good during this period, as there was a surplus in the
budget. Revenue came mostly from taxes, grants and non-tax sources. Octroi was the most important tax, but because of the efforts of the Municipal Committee, the collection of the property tax improved. Subsidies were given by the government for paying dearness allowance to employees, for primary education, etc. But most importantly, expenditure increased on facilities like water supply, health, street light, roads, etc., which was more of capital expenditure than revenue expenditure.

The study concluded that the overall rate of political, social and economic development was slow in the first period and much faster in the second. This was because the Municipal Council contributed in a big way to the overall development of the city during the second period. This study concluded that the development of Nashik was in a large way attributable to the efforts of the elected local government.

2.3 Studies relating to construction of roads and road transport in urban areas.
2.3.1 M. Phil / Ph. D. Theses

1. George, Sheena (1994):

In this review of the available literature on the subject of urban transport problems, the researcher has studied several aspects of this issue, using reports of various organisations, books, journals, etc.

The researcher has shown that the major problems in urban transport in both developed and developing countries include the following:
1. Growth of the central business district due to which there had been a separation of the workplace and the place of residence. This increased commutation and trip length as residential areas moved further away from the business districts.
2. Greater reliance on private vehicles.
3. Public transport was subsidised, which created huge transport companies requiring heavy investment and which were difficult to maintain and hence made losses. Costs were high particularly for trips to low density areas.
4. Availability of road space was limited in urban areas and there was also a shortage of funds for growth of roads.
5. Another problem was the traffic mix – slow moving cycles, animal drawn vehicles, buses and trucks, etc., that hindered the movement of other vehicles.

The result of all such problems was congestion, environmental hazard, high costs, traffic jams, loss of time, accidents, pollution, etc.
An analysis of transport problems in major cities showed some common problems and also some problems peculiar to each. The conclusions of this study were as follows:

1. Government financed public transport had encouraged growth of urban sprawl in developing countries, but inefficiency of public transport had caused greater use of personal vehicles.
2. Urban transport scene in India was a picture of chaos and indifference.
3. Lack of resources to implement capital intensive solutions was seen in all major cities.
4. The transport problem in urban areas was mounting fast and its neglect had severe negative impact on the quality of life of the population.
5. Planning for urban transport remained on paper and action was withheld due to lack of political support, lack of enforcement and unwillingness of people to accept new measures.


The researcher has carried out a study of the need for and effectiveness of private sector participation in building roads. The study is limited to the State of Maharashtra and is supplemented by a case study of one such road in Pune district.

The Public Works Department of the Government of Maharashtra has primary responsibility for developing roads, bridges, flyovers, etc. However, due to severe shortage of funds, the Government of Maharashtra has taken a policy decision in June 1989 to implement some of the important road projects through private sector participation.

The objectives of this study were to study the privatization policy and its outcome with special reference to development of roads through private participation in Maharashtra; to study and analyse the performance of projects completed on a BOT basis; to study and analyse various problems faced by BOT entrepreneurs; to study the impact of the Financial Institutions towards financing BOT project as well as analyse the experience of BOT financing. The study also aimed at studying the impact of such projects on economic development and at analysing the impact on vehicle operating cost and time as against toll payment and the facility users
experience in respect of speed, comfort, reliability and safety of BOT roads. The hypothesis of this study was that a well planned, comprehensive, all inclusive policy of development of roads, bridges, flyovers etc., through private participation would lead to faster economic growth.

Secondary data was collected from the BOT cell of the Government of Maharashtra and from various libraries and websites. Primary data was collected through questionnaires administered to Government authorities, BOT entrepreneurs, officers of banks and financial institutions and consultants. A survey of the road users was also carried out at various toll stations.

In order to evaluate the performance of BOT projects, the researcher has discussed various benefits from them such as employment generation in road construction as well as construction machinery and other related industries, growth of automobile, construction machinery, and other related industries, growth of small business supplying sand, stones, etc., growth of service industries like telecommunications, software, finance, etc., increase in government’s revenue through sales tax, service tax and saving of resources which would have been used in these projects. Other benefits included opportunities for related business like petrol pumps, restaurants, etc. and vehicle operating costs saved by vehicle operators.

A case study has been carried out to verify the exact implications of all the above factors. For this, the researcher has collected data in respect of one BOT project near Chakan. The economic analysis of this project is based on all costs and benefits. The researcher has calculated the employment generated, equipment required, cement, steel, and bitumen consumed, wayside business opportunities, etc. Also actual data of vehicles passing on this road and their savings in vehicle operating costs have been analysed.

The study concluded that although there were some problems with the BOT roads, the advantages in terms of better road quality, time and cost savings, safety, etc., greatly outweighed the disadvantages.

2.4 Conclusion
The various studies described above have examined the finances of urban local governments in different states of India and at different times, between 1968 and 2003. All these studies have clearly brought out the unsatisfactory condition of the finances of urban local governments in India. It can be concluded from these studies that -

1. Local revenues were highly inadequate, given the wide responsibilities of these governments. Most urban local bodies depended heavily on just one or two taxes, the yields from which were low due to inefficient collection, corruption, low rates, etc. This caused these bodies to depend heavily on loans and grants from state governments as a result of which state government control was pervasive, leaving very little autonomy in the working of these bodies.

2. Local expenditures were typically very low, both in absolute and per capita terms. Different urban local bodies were seen to be giving priority to different heads of expenditure so that there was no common pattern of expenditure all over the country. What was common was the fast growth in the expenditure of these bodies.

It was observed that although these studies had looked at both revenues and expenses of urban local bodies, the emphasis was definitely on the revenue side. Less importance was given to the study of local expenditure.

2.5 Significance of the present study

Analysis of government finances is a growing area of research within Public Economics. There is a large literature on the subject of fiscal federalism both in India and other countries. A large part of this research has concentrated on centre-state relations and a few studies on state-local financial relations which focus on transfer of resources from one level to another. Local government finance, per se, has received less attention than the area of fiscal federalism. Even within the studies carried out on local government finances, most researchers have dealt with the income side of the of the local government budget. Some studies, like the ones described above have studied both income and expenditures of local governments. But here too, the emphasis has been on the income side.
As pointed out by several authors, local expenditure has received less attention so far, even though it is a major source of enhancing the welfare of the society. Martin Feldstein, in the introduction to his book ‘The Economics of Public Services’ observed that ‘Even the specialised literature on public finance has focused on problems of taxation and has largely ignored issues of public expenditure’ (Feldstein 1977: i).

Rao and Rao who have conducted a detailed study of urban public expenditure write that, in India, very few studies of public expenditure have been made as compared to studies of public revenue. Secondly, they say that more attention has been paid to the finances of central and state governments. They feel that ‘the importance of urban local public sector has not received the attention it deserves at the hands of the academicians …. In spite of the fact that it is the local public sector that is close to the pulse of the public, a study of their financial system and particularly of the allocation branch appears to have received scant attention …. The need for studies in this area is clear enough’ (Rao and Rao 1983: 1-6).

The situation is gradually changing and urban local finance is being studied more often at present, particularly due to the movement towards decentralisation all over the world that started from the 1980s (De Mello 1999: 1779). In India, attempts at decentralisation began from the mid-1980s (Chelliah 1999: 4). However, studies on this subject in India are few and far between.

This study has made an attempt to fill this gap by making a study of the expenditure patterns of an urban local body. Moreover, the earlier studies of urban public finance had studied expenditure on all items incurred by the local bodies. This study has selected only one type of expenditure (on roads) of an urban local government. No other study of this kind was found by the researcher.

The urban local body taken up for this study of local public expenditure was the Pune Municipal Corporation, which is the local government in the city of Pune in Maharashtra. The next chapter gives an introduction to the city of Pune and to the Pune Municipal Corporation.
References


