CHAPTER - II

AN INTRODUCTION TO FINANCE

In simple term, finance is arrangement of money for meeting specific requirements, which can be out of own saving, available funds, borrowing or on deferred payment basis. The financial planning is most important and critical factor to remain within the limits of resource availability. The requirements are innumerable and arranging funds for all the expectations is difficult or rather impossible. People accustomed of borrowing money are gripped in various problems and repayment of such borrowings becomes difficult causing tension, humiliation, indignity and defamation. There are various sudden requirements, which require funding from any of the available options and it depends on the person to select any of the available alternative to remain safe in timely repayment.

The science that describes the management, creation and study of money, banking, credit, investments, assets and liabilities. Finance consists of financial systems, which include the public, private and government spaces, and the study of finance and financial instruments, which can relate to countless assets and liabilities. Some prefer to divide finance into three distinct categories: public finance, corporate finance and personal finance. All three of which would contain many sub-categories.

In individual situation, it is safe to save money for future requirements, where various emergent expenses become inevitable and borrowing from any possible source remain pinching. In the present times, borrowing for various human requirements has become fashion and proper planning for repayment of borrowed money is essential as
resources remain limited and cannot be expanded immediately or suddenly. Easy borrowings are curse of human beings as repayment of such money on cumulative basis is always problematic and it becomes necessary to arrange another borrowing for repayment of earlier commitments. Thus the cycle of finance becomes most critical where litigation problems emerge.

Finance for business firm, institution, government etc are critical issues where planning for various requirements are done in advance and various requirements are deferred for future as funding of all the requirements is impossible. Financing needs aspects of matching the requirements as well as availability of resources from all possible means. In finance of institutions, planning is carried out which may also be called budgeting of availability of resources and requirements. In institutional cases, the forecasting of resources is carried out, which include all the sources. Similarly, repayment of old borrowings is carried out to deduct from the resources. Thus financing has broad spectrum in case of institutions of all types including the government.

The government has power to raise resources from taxes, duties, cess etc, which are possible in view of powers given by the Constitution. In addition to the powers of resource mobilization, the executive is responsible to the legislature for all its acts. And budget is to be passed by the legislature before beginning of the financial year, otherwise all the expenses of the government are stopped as per mandatory Constitutional provisions. Urban local bodies also have constitutional status, which entrusts various powers as well as responsibilities for financial management. Thus finance of the institutions is different from individual,
where powers to raise taxes and market borrowings are privileged with added responsibilities of effective management.

The finance is accounting of income and expenditure, where income from all sources is estimated to nearest accuracy. The expenditure on all the components is also estimated to match with the income. The difference of income and expenditure is treated as balance, which may be surplus or deficit. There is necessity to make timely assessment of the estimated income and expenditure to take remedial measures. There is every possibility of excess or shortfall in income or expenditure for various reasons which could not be foreseen while preparation of the estimates. The timely reporting is helpful in keeping the finance in control and to avoid unforeseen problems. Timely efforts are needed to review the actual income accrued up to review period and in case, there are large variations in the estimated finance, deductions in expenditure becomes inevitable.

Earlier the financial management was carried out by conventional method but in modern era various techniques of coding of items of income and expenditure are available to put them on computer and online updates are possible any time for review. The finances of constitutional bodies like governments or urban local bodies have undergone various reforms for better financial management

2.1 MEANING OF FINANCE :

Finance is a matter of income and expenditure accounting for short term and long term. The short term income and expenditure accounting is carried out for one financial year usually from April to March, where estimated income and expenditure are done for matching the expenditure
from the income. Here timely reporting has significant relevance, which is usually done on monthly basis. In cases of institutions, there are various agencies which remain involved in accrual of income and carrying out expenditure and accordingly, summation of all the agency accounting becomes necessary. In present time, online system provides daily status of income and expenditure. In general terms, the income and expenditure are the two main components of finance, but categorization of income and expenditure sources has also become necessary to know the trends of finance.

The long term finance is carried out for five years or even for longer duration as many activities do not remain limited for the duration of one financial year. Therefore the exit head can be classified into expenditure and investment, while loan is another factor for keeping in view. The expenditure and investment are two distinguished feature of finance, where the expenditure remain inevitable for various commitments but do not generate any income. The investment is another feature of finance, which generates income from created assets. Accordingly there remains necessity to maintain equilibrium in between the expenditure and investment as both the components are essential. Similar classification is made under the income sector, where tax, duty, etc income is called revenue income and income generated from created assets through earlier investments treated as capital income to generate resources for future.

Loan is third term of finance, as loan has become one of essential component of income and expenditure. Loan head also includes repayment component of loan anongwith the interest. The loan component is income for the year of receipt while it is liability for the
duration of the repayment, which is dependent on the terms of conditions of loan. Usually loan is taken for the investment components called capital works, which are helpful in generation of additional resources after completion of the task. Loans are advisable for capital works as investment made of the borrowed funds decreases direct liability of the institution and revenue generation or resource mobilization remains helpful in easing the additional liability of repayment.

As mentioned earlier the finance can be categorized into Income and Expenditure heads. Each of them having segments of Revenue and Capital. Revenue Budget consists of the revenue receipts of Government (tax revenues and other revenues) and the expenditure met from these revenues. Tax revenues comprise proceeds of taxes and other duties levied by the institution. The estimates of revenue receipts shown in the Annual Financial Statement take into account the effect of various taxation proposals made for coming year. Other receipts of institution mainly consist of interest and dividend on investments made by it, fees, and other receipts for services rendered by institution. Revenue expenditure is for the normal running of departments and various services, interest payments on debt, subsidies, etc. Broadly, the expenditure which does not result in creation of assets for institution is treated as revenue expenditure. All grants given is also treated as revenue expenditure even though some of the grants may be used for creation of assets. Capital Budget consists capital receipts and capital payments. The capital receipts are loans raised by institution, asset sale receipts and recoveries of loans from parties if any. Capital payments consist of capital expenditure on acquisition of assets like land, buildings, machinery, equipment and includes investments.
Thus in the income and expenditure there are various components, which have their own importance. In institutional finance, the expenditure component is most critical as revenue expenditure is essential feature, but do not generate any resources. The revenue expenditure is further classified into two categories e.g. recurring expenditure and non-recurring expenditure. The recurring expenditure is largely contains the committed liability and some new expenses, where expenditure is inevitable and there is no possibility to stop it. The non-recurring expenditure is the component of revenue expenditure, where no commitment exists, but essential to keep the administrative machinery functional. The recurring item is usually salary and honoraria which is essential to be done on every month, while the non-recurring component include travels, running of vehicles, maintenance of machinery and equipment, stationary, furniture and fixture.

Expenditure on recurring liabilities is essential but not helpful in generation of resources to any extent. The capital works or investment are further classified as buildings and others like roads, bridges etc, which have huge finance but there is no surety to be helpful in generation of resources as feasibility of revenue generation may or may not be there. In case of city roads and bridges, there is no possibility of revenue generation and such investment are capital works of general importance but do not provide any resource generation facility in view of nature of its origin and no feasibility for income in future. On the other side, water supply is capital work, where revenue generation is possible from charging the money from consumers, which is feasible also.

The investment classification of buildings and other capital works are assets of the institution and construction through borrowing from loan
remains a problem as institutional buildings do not generate resources but certainly assets for functioning of the activities of the institution. The loan component in institutional finance is usually taken for asset creation in the form of capital, which may or may not generate resources to the institution. In the case of institutional finance, various investments are necessary in view of the commitment of the institution to carry out welfare activities. However, there is necessity to maintain equilibrium in finance of revenue and capital works as more expenditure on revenue activities do not allow funding for capital works which are necessary for meeting the aspirations of the people.

The equilibrium in revenue expenditure and capital is necessary as revenue expenditure is commitment of the institution and cannot be waived for being necessary for functioning. The capital works are similarly necessary in view of the expectations of the people, who want various facilities at their doorstep. The loan component of finance is also necessary for asset creation, but in cases, where revenue generation is not anticipated, it becomes difficult for the institution to repay such borrowings from their available resources, which are hardly able to meet revenue and capital needs of the finance. Thus taking loan for non-resource generation activity is most critical feature in view of repayment problems. Problem of loan in finance of the institution is dependent on the feasibility in terms of revenue generation or general infrastructure development.

This is the reason for slow development activities in urban areas as finance is most critical issue with long-term impact. In big cities, development activities of asset creation are carried out but small towns face various problems in honouring the commitment to the people. The
finance of expenditure is essential in terms of revenue expenditure of the institutions and the capital works are equally important for maintaining the growth pattern. The urban economy is largely different from rural economy as urban areas have limited space in comparison to rural areas and need dense infrastructure leading to extra financial requirements. The individual institution has to manage its finance in the manner to prioritize various activities and select few to execution as per priority of them.

Finance of income component of institutions is equally important and most tedious task as sources of income are limited and not flexible to indefinite extent. In case of institutions the grant-in-aid is major component of finance. The grant component is admissible from central and state funds, where most of funds received from the centre to the state are in the form of 70 percent loan and 30 percent grant. The State grants to institutions are receivable in the form of grant. The total grant component from central and state funds are known to all the institutions in advance and payable in two half yearly installments. Borrowings to institutions is admissible from financing agencies as per their terms and conditions and receivable to institutions for specific activities on guarantee of the state government.

Other sources of income generation are taxes, duties, fee, cess etc for which the institutions are empowered under the respective Act, but such sources have their own limitations. The taxes, duties etc. levied on persons or institutions have very limited sphere in view of resentment of the affected people. In case of business firms and private sector activities, there is capacity of shifting of the tax or duties on the respective consumers, having impact as price rise. The institutions are to manage various regulatory activities, where provision of penalty exists but such
activities are rare and occasional. The regulatory activities have source of earning but their remains problem of collection of penalty, which requires persons for enforcement.

There are various features of tax or duty imposition and collection, which are treated as measures of resource generation under finance. The cost of the collection in comparison to total accruals should not exceed. In case the collection charges are equal to resource generation, there is no benefit in such tax or duty collection as resentment of people is always problematic for no source of net income. Similarly, manipulation in tax and duty collection creates serious loss to the institution as persons are waived from payment through various illicit measures. Thus the taxes or duties should be such, where clear interpretation of items and tax levied should be incorporated to decrease malpractices.

For this purpose, the institution should have total record of the persons or firms who are to be taxed or imposed duty and there should be printed receipt for payment at respective identified venues. In case the due payment has already been made by the person or firm as the case may be, reason for sending bill should be enquired and all the facts of such irregularity should be traced. There must be complete clarity of the total funds receivable from the tax or duty and reasons for any deviations be sorted out as such cases defame the institutional working system. If the transparent system is maintained in income generation, this gets good response and easy accrual.

Timely reporting of income from all the sources of finance is necessary as the finance wing of the institution must remain aware of accrual of money on the fixed date and in case of any deviation, reasons for such a situation should be known immediately as the total transaction
of expenditure system can be disturbed with such situation. The alternate means of revenue generation need to be searched along with its potential in finance terms. The responsibilities of the institution are multi-faceted and urban people remain aware of the lapses causing concern. Stock taking of assets and property of the institution is the most important task, which need to be kept in record and rent collection from such property, given on rent need to be verified in terms of status and maintenance.

In absence of proper records of assets and property of the institution, there are encroachments by persons or by firms for vested interests. Various sites of such institutions remain unprotected as the institution is not aware about the possible use and property get encroached. Because of this the property of the institution is lost and another problem of growth of slum becomes critical issue for evacuation in view of resentment of settled persons. In absence of proper records of property with the institution, it becomes quite difficult to retain the property. Similarly in absence of proper tenancy documents over the property being used by person or business firm, it becomes difficult to raise rent or get the property vacated. The litigation issues continue for years with no result and property of the institution becomes uneconomic holding with no chance of returning back. The financial mechanism of the institution should be clear and transparent, as the persons responsible for the task are transferred and new persons face various problems in handling the situation.

2.2 NEED AND IMPORTANCE OF FINANCE:

Finance has to be managed well, on the one side its availability from all possible sources and second is its judicious use. Finance is most scarce resources, which is quite limited in terms of its occurrence, while
the requirements are plenty. Matching both the issues in amicable manner is the requirement, which is quite critical. The receipt side of the finance is dependent on the searching avenues where the limitations are many, while the expenditure side is wide and long. The objective of finance is to manage both the ends in the manner, where most of the requirements are managed to every possible extent. In the case of institutions like urban local bodies, where expectations are many and sizeable funds are necessary to meet the committed liabilities, in such a situation, finance is most critical issue. It is best way to prioritize the issues, which are most essential to meet and defer others for some time.

Size and spread of the institution is main issue, as availability of finance is dependent on the potential areas of its accrual, while the requirements are in accordance of the institution as area, density and population are the most relevant factors. The potential of finance of the institution remains dependent on the spread of area and activities and it is also related with the expectations of the people, who are the subject of the institution. In a democratic pattern of governance, finance is necessary for institution as expectations of public in growing area is quite accelerating. In Urban local bodies the running of institution as well as to meet the spiralling aspirations of urban folks for infrastructural requirements leads to hunger for financial heaps.

After enactment of Seventy Fourth Constitutional Amendment Act 1994, there are revolutionary changes in the status of institutions as there are total 18 defined tasks to be handled by the institution. Though the process of handing over the activities is quite slow. Even after more than twenty years of the enactment of the Act, total process of handing over the activities to the institution is still uncertain. This problem is not of
any single state but most of the states had very slow process of decentralization of the powers, which need to be transferred to urban local bodies.

The urban local bodies have been assigned various responsibilities to perform in their respective city or town. Finance is necessary for performing all the designated activities. In addition, beautification is the overall task of the urban local bodies, as various country and forest tourist visit various cities in view of its historical, archeological, cultural, heritage and other important peculiarities persisting in the area. In addition, urban institutions are business and trade centers contributing significant share in the gross domestic product of the state and the country. Process of development is continuous feature of urban areas and acceleration of development activities is need of the time. Urban areas are fast developing industrial and business centers, which cause various types of pollution and environment degradation.

Infrastructure development is first and foremost necessity of faster growth of the urban areas. In Rajasthan, as per census 2001 concentration of urban population is 23.39 percent but some districts have fast growth of urban population like Kota 53.46 percent, Jaipur 49.36 percent and Ajmer 40.09 percent of district population, while there are districts like Banswara 7.15 percent, Barmer 7.40 percent, Dungarpur 7.40 percent and Jalore 7.59 percent urban population. As per 2011 census 24.9% is urban population. Various cities are at the different levels of growth of population, where employment opportunities exists due to acceleration of industry, business and trade activities. This variation would continue and would create further gap in concentration of urban population. The growth of urban population requires faster development and coping with
the developmental activities becomes essential to manage all the requisite facilities and amenities in the proportionate manner.

Importance of each urban area is different from others depending on the prospects, problems and potentials and it is necessary to cope up the development activities with the growth trends. There cannot be any proto-type solution of all the urban areas of the state and necessity of finance is to accelerate with the concentration of population, industrialization, business and trade. In this regard, expectations of urban local bodies are to manage requisite land for residential, industrial, business and trade activities. All these activities require finance to manage in requisite manner.

In view of globalization and liberalization, various infrastructure activities are carried out by central and state agencies like airport, railway network, connectivity from roads, speedy dispatch of finished goods to other parts of the country and abroad, but urban local bodies are required to cope up all the requisite facilities like availability of land for industrial, residential as well as control of growth of slums, cleanliness, control of pollution, proper planning for various urban amenities and smooth functioning of all the activities. Presently various activities in urban areas are managed by respective government departments like drinking water facilities, development of industrial and commercial sectors, urban forestry and pollution control. All these responsibilities created the need for increased financial inflows to urban local bodies. Being the Constitutional authorities these were to search own resources in addition with grants from state government.

Thus the object of finance is arrangement of funds for meeting various requirements expected from the institution as per democratic
decentralization process. Matching both the ends is difficult as requirements are many and meeting few of them is the most critical issue. The factual situation of the delegated activities is the base of activities in the present. The financial abundance is pre-requisite for faster urban development consequently enhancing the economic growth of the region. In post-globalization era the speed of urbanization got its top gear having components of industrialization. The enhanced movement towards urban conglomerate compelled the inhabitants to update with skills in the hope of better living standards. The shining dreams of middle class shown its real presence on canvass of vast horizons of civilization in terms of realization of their hopes. This class of urban area has the burning desire to get maximum economic activities in cities. This paralleled with enhanced demand for world class infrastructure requirements. The responsibility for this part is shouldered on urban local bodies. But the devolution of function, fund and functionaries remained half-dream for them. Even in those arenas where this transfer was done, the efficiencies of these remained far behind average. The major reason for inefficient and inadequate functioning was due to shortage of funds. Thus, there is extreme need for financial strengthening of these bodies. While the day to day running of these bodies is essential but the developmental needs are supreme. These bodies have certain functions which are inevitable for which committed funds are to be kept, need for extra resources and its mobilization is key for better financial health.

2.2.1 Importance of Finance for Acquisition of Land:

Presently land acquisition related issues are handled by urban improvement trusts and in case of Jaipur and Jodhpur by respective development authorities. Land in such urban areas remains problem, for
which city area is increased by coverage of surrounding villages and the agriculture land is acquired for meeting various land based requirements. Cost of acquisition of land, its development is primarily remains the responsibility of acquisition agency. All the legal and procedural formalities are carried out, which take significant time and problems of litigation. The compensation is decided by the state government as per prevalent acquisition rates and all the litigation issues are settled by designated court.

Once the industrial area or estate is developed and plots for various prospecting industries are allotted, money inflow from sale of plots start coming. In case the state government continues to handle land acquisition and allotment, due share to respective urban local body is to be given in proportionate manner to raise their resources. Problem of acquisition of land is significant in fast growing cities, where land is required for various needs of domestic, industrial and commercial purposes. Cities and towns facing serious immigration, need to acquire land for meeting various demands of residential colonies, industrial areas and estates, marketing complexes, etc with assured infrastructure facilities and basic amenities. People intending to reside in extended areas remain well aware that the land allotted to them would be supplemented by all civic facilities by the municipal agency and total area would become worth living.

The land based activities need various formalities at the administrative level, which requires approval and assessment of the acquisition process. The land acquisition process has been in controversies over the years as earlier this was done under archaic Land Acquisition Act 1894 having provisions detrimental to the interests of farmers. This caused a lot of agitations by farmers as it provided very low
prices in comparison with market prices, as compensation to farmers. In many cases the work remain held up for years and all the development activities intended to be carried out are sidetracked. Due to these problems in many cases the project remains in limbo for many years leading to cost escalation of project to be borne by ULBs. Recently new Land Acquisition ordinance/law has been promulgated. This is supposed to redress the grievances of farmers as well as acquisition agencies. The housing area of residents included in city boundary, is not disturbed in terms of its ownership, but most of the persons sale their houses in view of enhanced cost and prefer to reside in another village purchasing house site and agriculture land from the money received from such transactions. The rates of land have increased in past decade tremendously creating problem of acquisition of land.

The housing is a major issue in urban area. The welfare of its citizens is primary responsibility of government. And to provide housing specially to poor and weaker sections of society is priority of Governments and urban local bodies. Provision for EWS (Economically weaker sections) and LIG (Low Income Group) families have been provided with specific housing schemes. The private colonizers provide high cost houses but it has been mandated that certain percentage of houses should be for EWS and LIG families. Despite these efforts the housing shortage is main issue in urban area. Due to increased cost of land it has become almost impossible for poor to get house in market. Looking to this and statutory duty casted upon them, the urban local bodies attempts to create its own residential colonies in which low cost houses are provided. For that they need land which if not available in the form of government land than these go for land acquisition which costs them dearly. In addition to housing sector other areas like-water supply
plants, bridges, roads, bypasses, parks etc also require land acquisition. So there is always a felt need for finance to be used for land acquisition. Also the long pending land acquisition linked projects needs to be reconsidered.

2.2.2 Finance for Slum Area Development:

The requirement of finance to each urban area is dependent on nature and trends of growth of various activities as well inflow of population in the city area. Poor people reaching in cities in search of employment are accommodated in respective industry or business centre but various activities of unorganized sector make no provision for their stay and such people cannot afford rental accommodation to match their budget. Such people stay with some one known for some time and later search for the place or stay on road side platforms. Growth and origin of slums is the resultant impact of inflow of poor people in search of employment. Urban local bodies cannot provide them cheap accommodation, as number of immigration is significantly higher in larger cities.

Slum areas grow due to negligence of enforcement machinery and become problematic after large crowd is inhabited in most haphazard manner. Even the light and water availability has become necessary and such facilities are given in unapproved housing colonies. The slum areas are most ugly centers of urban sites and need to be impoved. Some earnest efforts have been made to improve the area with the help of private sector, where flats are prepared in some part of the site and given to residents and remaining area is developed and used for commercial activities. This approach has been appreciated as private sector take interest in view of profit motive and slum residents get clean residential
facility. The urban body needs to convince the residents for allotment of flat of specified size and every thing is managed amicably.

The urban body has to manage finance from credit institutions for housing activities, for which there is no problem and people need to pay in affordable installments. If the urban local body is able to convince the slum residents for vacating the site for some time and reside in camps, the work is carried out without any problem. This is most safe and secure mode of eradication of slum areas from the cities and there remains only necessity to keep vigil of growth of other slums as people given flats try to search another site for residing and sale the flat for short benefit. Even in cases, the slum dwellers have been rehabilitated to another site, the residents do not vacate area by making various excuses. In last couple of years under IHSDP and JnNURM the housing facilities have been provided in some of the urban local bodies.

2.2.3 Finance for Various Maintenance Activities:

The assets are created without keeping in view of various quality standards for various reasons. In very short time various activities require maintenance. Roads are the most concurrent issue of such nature as newly constructed or repaired roads are damaged during rainy season and repair requires money. Usually the quality road of any specification does not require maintenance for about five years but quality norms are not fully adhered causing regular damage. In case of Prime Minister Grameen Sadak Yojana, the contractor is bound to repair all such roads for the period of five years and with this condition, the contractor manages quality standard. Such practices are necessary for all road construction activities in any area. The Defect Liability system should be adopted.
If the maintenance condition is made mandatory in all the construction activities, the contractor would remain alert from the beginning and make total construction perfect to remain unaffected for longer duration without damage. If all the construction activities have such in-built riders, the quality of the assets would prove their worthiness. This process is also helpful in decreasing maintenance cost to large extent. In addition to such conditions, residents need to fine for exhausting house waste water on road causing damage. In addition, various facility providers damage roads of every specification. It is usual practice that roads are cut for laying pipeline, telephone line, electricity, line, sewerage facilities etc.

There are specific instructions to intimate to all user agencies about adherence of making advance work before construction or maintenance of roads. In addition, if the quality standards are maintained and in case of instances of poor quality, the supervising engineer needs to be sacked for such irregularities as such tasks are carried out for corrupt practices. In many cases the funds are spent but there is felt necessity for repair in few months and the same engineer justifies its necessity. Therefore, such illicit linkages need to be broken in the interest of quality control as there is no end to requirement of money. In addition, there are various experiments like rubber road, cemented road etc, where well-finished roads are destroyed for making innovative work.

2.2.4 Assessment of Committed Liabilities:

Every institution has its committed liabilities of salaries of staff, essential office expenses, honoraria to chairman and members and maintenance of available machinery and equipment. This component is treated as committed liability which is to be borne by the institution as
most essential feature. If the committed liabilities are lower than the ensuing grant-in-aid from the central and state governments, there remains scope for some activities to be carried out with the available finance. In case the committed liabilities are more than the grant component, the finance factor becomes most critical as there is necessity to search avenues for meeting the committed liabilities. In most of the institutions, the situation of finance is most critical as the staff of the institution and officers deputed by the state government as per placement criteria is charged from the head of the institution.

Elected members of the institution are paid honoraria as per approved rates and various facilities made available to elected persons are part of the committed liability. In addition, there are various vehicles meant for carriage and transport, which require maintenance and regular running cost, which is also part of the committed liability. Fire station with various vehicles with trained staff is also the liability of the respective institution. All this squad of vehicles remains dependent on the category of the institution in terms of population and area, in view of assigned tasks. In many cases the available funds under grant is not sufficient for meeting the committed liability, it becomes difficult for the institution to run its work in effective manner and all the elected dignitaries and officers feel helpless to manage the situation.

The state government limits its responsibility to the extent of payment of grants and for other requirements regrets for additional funds, which create problem of various natures. Borrowing money from credit institutions for committed liabilities is not possible as the institution is not in a position to manage its functioning with available funds and repayment of borrowed money may create similar problem. Reduction in
committed liability is not possible as total staff charged from the institution finance cannot be reduced and maintenance of machinery and equipment is the foremost necessity for execution of the activities. Senior executives have to face various problems in management of finance where the committed liabilities are over the grant in aid and there is no condition of reduction in any of the sphere.

In most of the institutions the situation was expected to improve after availability of funds from the central government. The institutions are constitutional bodies having their well defined responsibilities and dependence on the grant in aid component is like spoon feeding to such bodies. It is general feature of finance, the institutions surviving on the grant in aid never try to stand on its feet but remain viewing at the state government to extend grant in aid to meet their requirements. It becomes difficult to the government to survive these institutions with the grant for indefinite duration as the institution has practically no view to stand on its feet, but continue to raise voices to increase grants for meeting their committed liabilities.

The state grant should not be treated as permanent situation, but efforts should be made to generate its own resources through all possible means. There seems no such situation as the institutions cannot raise its resources but select easy option to sell available land for meeting the committed liabilities. It is also necessary to keep all the machinery and equipments fully functional to meet the emergency requirements. The finance for committed liabilities becomes critical in view of growing needs and it becomes difficult to manage the tasks with the available finance.
2.2.5 Reducing the Sphere of Committed Liabilities:

Urban local bodies are engaged in various activities like cleaning of streets, collection of domestic waste, dumping of the city or town waste, solid waste management, sewerage facilities etc. There are various activities, which the urban local bodies are carrying out creating committed liabilities. In the interest of keeping the cities and towns clean, various activities carried out by urban institutions need to be given to private sector on tender basis. On the one side, this process would function effectively in view of the control of urban institutions and would reduce the committed liability to great extent. In addition, the tender task would provide them earning to some extent.

The Government of India provides significant subsidy for installation of energy generation units based on city and solid waste. Such units can be established in private sector on the guarantee of urban institutions, where the city waste would be used for the purpose and energy generation would provide significant income to the private sector involved in the task. The tender cost would provide some earning to the urban institution. The persons deployed in the task on roll of urban bodies and vehicles functioning for the task may be adjusted suitably. The persons can be deployed in vacant posts of the government and vehicles can be disposed off. This is purposeful option to reduce the committed liability and officers and officials need to supervise the activities of private sector for better and assured results.

Fees and duties for various services rendered by the urban institutions like birth and death certificates, approval of house construction, penalty over dumping of construction material on roads, throwing house waste and similar waste material on road and streets
should be made effective at the enhanced fees and penalties respectively. Creation of various facilities at the burial grounds, crematory etc are being charged by the respective bodies and those should be made responsible to create various requisite facilities at the given locations. Urban people are getting various facilities for better life should be shared suitably to reduce the committed liability of institutions, which are creating problem in terms of finance.

It is worthwhile to relieve from various tasks, which are putting extra burden of finance on urban bodies. In the best interest of assured services and cleanliness of the cities and towns, it is certainly the responsibility of urban institutions but they can get it managed under their own authority rather than getting activities done with their own staff, which are not providing result oriented task and remain burden on the urban institutions. Plantation activities can also be entrusted to private sector to provide result oriented services. These measures would prove worthy to reduce the committed liability and help in resource mobilization.

2.2.6 Borrowing for Activity Execution:

Borrowing money is not possible without the permission of the state government as the credit institutions want guarantee for repayment. The activities where assets are created and there is possibility of receipt of finance from created assets is the mode of admissibility of activity execution. City roads, bridges, various buildings, renovation of drainage systems are the activities, where finance generation is not possible and accordingly it is not feasible to execute the activities from borrowed funds. Government of India manages external borrowings for execution of various infrastructure activities in urban areas and repayment is the
responsibility of the state government as institutions are unable to repay such finance. This is treated as notional approach of raising the finance to urban local bodies, where the activities are executed in the urban areas and no liability exists over the institutions for repayment.

Such borrowings are simply the execution of the activities by the state government in the urban areas, where the activities remain limited and there is no possibility to consider local problem, as the finance is possible for specific tasks admissible under the agreement from the donor agency, where the central and state governments are the signing authorities. The state government in such a situation prefers to make separate agency for execution of the urban activities to retain their authority to the execution system. In case, there is provision of sharing the expenses by the municipal bodies, there share is deducted from grant funds.

The total decentralization is not true in real sense, when the institutions are capable to sense their responsibilities and interference of the state government would continue. The agreements signed for various infrastructure activities in areas of the institutions are the legal responsibility of the respective institutions and instead creating another agency of execution is problematic of systematic urban development, but this usually happens. The thinking for separate agency is also considered for enhance efficient and timely completion of work to honour the agreements with various agencies. Other issues involved related to it are- contract work, purchase of machinery and equipment, monitoring mechanism, timely response to outside agencies etc

Struggle for finance makes the institutions capable to stand on their foot and if the umbrella of state government would remain over them,
where the activity execution is dependent on the mercy of the state, then the true delegation of powers is defeated. Financing in such a manner has no relevance as the institutions have no involvement in decision-making process and also have no option to convey its own priorities of execution of activities. Similarly, borrowings from credit institutions are managed by the state government on the basis of admissibilities of the credit institutions for borrowings for respective activities. The state government prepares list of such urban areas where the activities are needed and proceed to the activity of execution.

Finance for the activities remain difficult for the institutions, where resource generation through the created assets is not feasible. Borrowing for such activities is not feasible and unless there is assured availability of resources on perennial basis, institutions can not put them in to risk for such activities. Even after about two decades of the enactment of Act, credit institutions did not raised their activities for credit to urban local bodies mainly because of the fact that there is complete risk of repayment and entering into such areas is not possible for the credit institutions. The credit institutions want assured repayment of borrowed money and unless of any surety of such nature, it is totally risky to help the institutions for their development activities.

This deadlock in finance to institution would continue, unless the institutions are themselves become capable to raise their own finance based upon its resilience, ability to repay and feasibility. The municipal boards are elected on the basis of assurance to the people to carry out activities of their requirements without knowing the status of finance of respective urban bodies. And when they become part of the institution in total decision-making process, know the status of finance mainly limited
to meet the committed liabilities. They feel quite helpless over their own situation as meeting the expectations of the people remains beyond the capacity of the institution. Management of finance to these bodies is quite difficult task as most of the elected members and chairperson are unable to know the measures to make urban local bodies self-dependent and have their own discretion of execution of activities in the manner they dream in view of expectations of their own people. Management of finance is the responsibility of their own and they have to search avenues with the expert of finance to manage the situation in effective manner. The norms has been fixed by Zakaria Committee in 1963 for Operation and maintenance of core civic services to be provided by urban local bodies. As per Zakaria Committee it is as follows in table-

**Table: 2.1**

**Per capita norms for Operation and Maintenance of core civic services as per Zakaria Committee 1963**

(Rs in crores)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewerage and Sewage disposal and storm water drainage</td>
<td>11.90</td>
<td>10.80</td>
<td>9.30</td>
<td>8.70</td>
<td>8.20</td>
</tr>
<tr>
<td>Roads and Paths</td>
<td>2.20</td>
<td>1.80</td>
<td>1.35</td>
<td>1.20</td>
<td>1.10</td>
</tr>
<tr>
<td>Street Lighting and Electric Distribution</td>
<td>2.85</td>
<td>2.50</td>
<td>2.30</td>
<td>2.15</td>
<td>2.00</td>
</tr>
<tr>
<td>Fire Services</td>
<td>0.40</td>
<td>0.30</td>
<td>0.20</td>
<td>0.10</td>
<td>0.05</td>
</tr>
<tr>
<td>Horticultural Operation</td>
<td>0.38</td>
<td>0.20</td>
<td>0.08</td>
<td>0.06</td>
<td>0.05</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------</td>
<td>------------</td>
<td>---------------</td>
<td>---------------</td>
<td>----------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Sewerage and Sewage disposal and storm water drainage</td>
<td>359.87</td>
<td>326.61</td>
<td>281.25</td>
<td>263.10</td>
<td>247.99</td>
</tr>
<tr>
<td>Roads and Paths</td>
<td>66.54</td>
<td>54.45</td>
<td>40.82</td>
<td>36.28</td>
<td>33.27</td>
</tr>
<tr>
<td>Street Lighting and Electric Distribution</td>
<td>86.19</td>
<td>75.61</td>
<td>69.55</td>
<td>65.01</td>
<td>60.48</td>
</tr>
<tr>
<td>Fire Services</td>
<td>12.09</td>
<td>9.08</td>
<td>6.05</td>
<td>3.01</td>
<td>1.51</td>
</tr>
<tr>
<td>Horticultural Operation</td>
<td>11.49</td>
<td>6.05</td>
<td>2.43</td>
<td>1.81</td>
<td>1.51</td>
</tr>
<tr>
<td>General Municipal Administration includes Gen. Admn. Tax Admn. Debt Service and Misc.</td>
<td>120.97</td>
<td>90.73</td>
<td>60.48</td>
<td>60.48</td>
<td>30.24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>657.15</strong></td>
<td><strong>562.53</strong></td>
<td><strong>460.58</strong></td>
<td><strong>429.69</strong></td>
<td><strong>375.00</strong></td>
</tr>
</tbody>
</table>

Based on the above per capita norms the total requirements of funds for operation and maintenance for civic services and adjusted Census 2011 population for 2010-11 are estimated and are shown in table below-

**Table - 2.3**

**Estimated requirements for O & M costs of core civic services**
for 2010-11

(Rs. In crore)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sewerage and Sewage disposal and storm water drainage</td>
<td>226.68</td>
<td>102.03</td>
<td>79.96</td>
<td>61.57</td>
<td>46.33</td>
<td>516.57</td>
</tr>
<tr>
<td>Roads and Paths</td>
<td>41.91</td>
<td>17.01</td>
<td>11.61</td>
<td>8.49</td>
<td>6.21</td>
<td>85.23</td>
</tr>
<tr>
<td>Street Lighting and Electric Distribution</td>
<td>54.29</td>
<td>23.62</td>
<td>19.77</td>
<td>15.21</td>
<td>11.30</td>
<td>124.19</td>
</tr>
<tr>
<td>Fire Services</td>
<td>7.62</td>
<td>2.84</td>
<td>1.72</td>
<td>0.71</td>
<td>0.28</td>
<td>13.17</td>
</tr>
<tr>
<td>Horticultural Operation</td>
<td>7.24</td>
<td>1.89</td>
<td>0.69</td>
<td>0.42</td>
<td>0.28</td>
<td>10.52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>337.74</strong></td>
<td><strong>147.39</strong></td>
<td><strong>113.75</strong></td>
<td><strong>86.40</strong></td>
<td><strong>64.40</strong></td>
<td><strong>749.68</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>413.94</strong></td>
<td><strong>175.73</strong></td>
<td><strong>130.94</strong></td>
<td><strong>100.55</strong></td>
<td><strong>70.05</strong></td>
<td><strong>891.21</strong></td>
</tr>
</tbody>
</table>


**2.2.7 Resource Mobilization:**

The boards of urban local bodies need to understand clearly that their task of managing the institutions is not an easy issue but requires
hard work in generation of finance for meeting the expectations of their own people. It must be known to them clearly that every development activity requires finance, which is to be managed from resource mobilization. The urban local bodies are elected bodies and entrusted with the powers to raise finance for various development activities to meet the expectations of the people. They should know very well that development is their own responsibility and unless they would not carry out various activities to beautify the urban area, people would not recognize their capability.

It is also not genuine to pose problem of non-availability of finance to express their helplessness. The only option left before them is to raise resources for betterment of the area and carry out activities to accelerate the development environment and show their capability to the people. The boards have to create various capital assets on their own and these should know that works are possible only with raising of finance.

The boards can convince their people that raising resources for betterment of the urban area is the necessity but the mode of finance mobilization should be such where the poor people have lesser burden and resentment of the people remain within the bearing limits of the people. Selecting the activity of finance mobilization, where persons can bear it without any resentment and there are minimum collection charges. It is better to select few items for raising finance and burden of finance is shared by different people. It may also be clear that people residing in urban areas get all the assured facilities at the doorstep or at minimum distance, there is no harm in sharing the cost.

Finance mobilization is also possible with donations from the people as many persons of business community or business associations
can agree to donations but may like their participation in execution of the activity and there should be no hesitation as people may come forward for other activities in the said mode of execution. There should be no harm if the activities are carried out within the permissible framework and no objectionable issue exists. Various urban bodies in the country have carried out innovative development activities with the active participation of the people and such activities are replicated in other parts of the country.

The existing options of resource enhancement are many. The Municipal Act provides for powers of these urban local bodies regarding taxes, duties, fee, service charges, cess etc. The efforts for better collection mechanism, perfect and comprehensive coverage, the efficient monitoring mechanism and efforts to do away with populist measures can be the panacea for realization of real and perfect potential of existing resources. In addition to this, the new areas where financial accrual can be made, should be tapped. The increased diversification of urban activities due to trends of globalization and service sector activities can be a potential sector where urban local bodies can get extra resources.

2.3 SCOPE OF FINANCE:

The urban local bodies remained ceremonial institution till the enactment of 74th Constitutional Amendment Act 1992, which proved a landmark in development of urban sector with focus shifting towards local bodies and their finances. The Act proved the earnest will of the Government of India to entrust most deserving responsibilities to urban local bodies for evolution of urban sector in India. A large number of issues related to central, state and local finances have come to the fore. Cities and towns are emerging as engines of economic growth and
contribute majority of the gross domestic product of the country. It is therefore enjoined upon the urban institutions to deliver quality service to urban areas to enlarge the scope of accelerated growth to face newly emerged challenges.

Almost all the urban local bodies in developed and developing countries face fiscal stress in view of growing expectations of the people. And it compelled the urban institutions to search for finance for meeting the growing needs of the people. The salient feature of development is enhancement of expectations with the creation of infrastructure facilities and basic amenities particularly in urban areas. Indian cities are not exceptions of these international trends. The perpetual problem of fiscal imbalance between the elastic expenditure and inelastic revenue sources in majority of urban local bodies continues to accentuate their fiscal crisis leading to their growing dependence on state and central governments. The grants are admissible under a transparent pattern based on various indicators but these finances have their own limitations.

Two provisions of 74th Constitutional Amendment have evoked lot of interest in the role of municipal governments in financing urban infrastructure and services. The first pertains to schedule 12 of the Constitution according to which, municipalities are an appropriate tier for urban planning including town planning, planning for economic and social development, urban forestry, urban water supply, improvement of slum areas, urban poverty alleviation etc. This aims at enhancing the role of municipalities in the state set up by expanding their expenditure profile and creating an institutional arrangement for balancing the supply of financial resources to meet the expectations of the people of various sections of the society.
Issues relating to fiscal space are embodied in Article 243 Y of the Constitution of India, where the state government is required to constitute once every five years a Finance Commission to review the financial position of the municipal bodies at all levels and make suitable recommendations for distribution of state resources to the municipalities out of net proceeds of the taxes, duties, tolls and fees leviable by the state, which are to be divided under them on the basis of transparent system of distribution. In addition there should be clear recommendations for determination of taxes, duties, tolls and fees, which may be assigned to or appropriated by the municipalities. In addition, the commission is to recommend grant in aid to the municipalities out of consolidated funds of the state.

The provisions of the Constitution, which has been incorporated into the state municipal statutes under Article 276 A of the Rajasthan Municipal Act 1959 as amended in 1994, alters the fiscal relations between the municipalities and the state government. Another change in the fiscal system, which has profound interest on the profile of municipalities, lies in the amendment of Article 280 and insertion of a sub-clause 3(C), which requires the Finance Commission of India, to recommend measures needed to augment the consolidated fund of a state to supplement the sources of municipalities in the state on the basis of recommendations made by the Finance Commission of State.

The significant fall out of this amendment has been the direct assessment of finances of the municipalities being done at the national level, which was hitherto confined to central assistance via centrally sponsored schemes and related development programmes. However, the funds received to the state government from the Government of India in
response to the new pattern where specific funds have been allocated for the urban local bodies, were transferred to the extent of the activities transferred to urban local bodies out of 18 identified activities and remaining amount was retained by the state for distribution among the activities retained by the state. The First and Second Finance Commission of Rajasthan have observed various constraints relating to financing of the municipalities, viz.

(a) Poor utilization of revenue resources,

(b) Wastage and leakages of revenue,

(c) Poor recovery efforts,

(d) Lack of cost consciousness in expenditure,

(e) Spiral establishment expenditure,

(f) Absence of mechanism for periodic revision of fees, fines charges and penalties to bring them in line with changing times.

(g) Lack of will to use hard options for augmenting revenue, and

(h) Inadequate financial support from the state government.

The Second State Finance Commission further observed that the abolition of octroi in the state had seriously eroded the financial autonomy of the urban local bodies and taken away the initiatives and discretion, which was available to them for expanding the scope of octroi on goods or revising the rates to mobilize additional resources. Rajasthan is one of the few states of the country, which has not incorporated all the schedule 12 functions into primary expenditure portfolio of municipalities. Many of the important functions e.g., town planning, land
use, water supply, urban forestry and safeguarding the interests of the handicapped and mentally retarded persons remain outside the ambit of municipal bodies.

The state government places senior officers in all the urban local bodies to function as commissioner, finance officer and legal personnel to handle the activities effectively but there is greater need for institutionalization of urban local bodies.

The urban local bodies have been empowered with the financial assistance in well defined manner. They have knowledge of availability of funds in advance to be received in next 5 years, the responsibilities of the institution is management of expenditure within the income. The scope of finance is quite limited as the grant from central and state government is assured but that is not enough to meet all the responsibilities shouldered upon the institutions. Thinking on other modes of financing should be done, when the working environment is conducive and the political functionaries have some vision of development of specific urban areas.

2.3.1 Conducive Environment of Resource Mobilization:

Municipal elections are fought on political party basis, where the chairperson is elected indirectly from ward members. There is unstable political situation as ward members and chairperson continue their conflict over various issues of seizing the power. There are conflicts between chairperson and commissioner as well as other officers over functional methodology and delegation of powers. Thus the work environment does not remain favourable for making strategy for adopting various measures to raise the finances for speedy development. The
elected functionaries and bureaucratic machinery need to work in coordinated manner showing confidence to each other, but such situation does not persists in the urban local bodies.

The chairperson of every urban local body need to coordinate with all the functionaries and in case there is no coordination between chairperson and commissioner, the other subordinates would also remain unguided and creating problems of various natures. The subordinate staff would also not attend the task in desired manner. In such an environment, thinking for raising finance for acceleration of development environment cannot be feasible. Urban local bodies have been strengthened constitutionally, but the working environment cannot be created with any legal system, but the municipal boards have to create smooth environment from their own side and prove like leader of the team.

There are some urban bodies functioning in most sophisticated manner creating example of urban governance. Accordingly, the chairperson has to manage its team comprising of elected representatives and bureaucratic functionaries in most conducive manner, as bureaucrats would join other department but political representatives would cease to functional atmosphere. In democratic system of governance, political heads have to take work from bureaucracy and make conducive environment according to their own ability.

If the board is able to manage its office environment effectively, scope for finance can be considered in peaceful manner. Every urban area has some specific activity of business and trade and there is necessity for marketplace and well managed forward and backward linkages. The business and trade require some facilities from urban governance and willing to pay for smooth services. Similarly there are many business and
trade activities being carried out in residential areas. The municipal board can think of regularizing such activity sites by imposing penalty.

The conducive environment can have many components—like efficient and eager members of municipal board, better and dedicated human resources, availability and use of technology, effective handholding from the state institutions, rationale and effective chairpersons, responsive citizenary etc. By invoking these factors the speed and scope of financial resource mobilization can be enhanced manifold.

2.3.2 Scope of New Taxes:

The urban local bodies need to assess the possibilities of imposing new taxes within the permissible limits of their jurisdiction. In this context, feasibility of imposition as well as anticipated amount of realization is essential to work out. Usually new taxes create resentment in the people who are affected and start agitating for withdrawal of the tax. At such occasions, the municipal boards need to take lead to convince the people about the importance of the tax for new development activities in the area. If such tax is prevalent in other local bodies of the state or country, the citation of such issues is helpful in convincing the people and this depends on the capability of municipal board to create situation that people accept the new tax and the situation becomes normal.

The chairperson and team need to search various avenues of taxes, as there is always possibility of new ways to bring additional means of finance. The urban development needs some sacrifices from the people for betterment of the area and ability to convince the people is the most
appropriate mode to go ahead for various innovative activities. Once the urban people are convinced that money collected from them is being used for betterment of city, there remains no problem in searching other avenues of similar nature. Therefore, there is no tailor made approach for searching new means of finance, but beginning of any new tax remains problematic and overcoming the resentment of the people creates suitable environment for acceleration of the development.

House tax was an important source of municipal revenue but it was waived by the government and later decided to charge Urban Development tax (UD Tax) on houses having area of more than 250 sq metres. This has significantly disturbed the revenue of the urban bodies. It is desirable for the state government to allow all the municipal bodies to charge tax at the rates fixed by these bodies. Now the status of land based property is possible to access through global positioning system and bills can be deposited on annual basis. The defaulters be penalized suitably to create habit in people to deposit the tax in time.

The provisions in Municipal Act 2009 have specially mandated the ULBs to impose taxes.

2.3.3 Raising Rates of Existing Taxes:

There is possibility of raising rates of the existing taxes, but the people of the urban body need to be convinced about the reason for such enhancement. If the people are convinced with the situation and necessity for new development works, the acceptability of the people remains helpful to the urban institution to work in accelerated manner. Usually, revision of tax rates is pinching to the people but ability of the chairperson and team is the main issue to manage the situation. In the
development environment, the quantum of finance automatically increases with the increase in business transactions and price escalation factors, which is a natural phenomenon in all the commodities and services.

It is necessary to ascertain that the revision of tax rates needs to bring additional finance to proportionate increase. In case the realization is lower than the anticipated estimates, this reveals evasion of tax exists. In business and trade, there is every possibility of tax evasion as hiding the quantum of business transactions is usual practices in various unorganized activities. The enforcement machinery needs to be kept vigilant to enlighten such cases, as there are various means to trap irregularities. There very few items of direct taxes are left with the urban institutions as most of the taxes are collected by state agencies and urban institutions are given its share under grant in aid.

2.3.4 Review of municipal properties:

In every urban area, there exist various properties lying unused, which are usually illegally encroached by various sections of society. Such encroachments are done by some influential groups or people of criminal background. The beginning may be very slow but within some time total area is occupied by poor migrants and there are other huts constructed by the stakeholder to collect unauthorized rental value. It is surprising to know that 20 to 40 percent huts are prepared by various stakeholders for rental income. The total process from origin to strengthening of slums remains disguised and enforcement machinery keep their lips closed.
This is mode of loss of urban properties, as municipal bodies could not take timely decision to use the venue or sell it at market price. In the master plan, use of such property is given but many urban institutions have no funds to use the land for assigned purpose. Stock taking of total urban property is essential to take appropriate decision of each land. The chairperson should take timely decision over the municipality property, if there is no anticipated plan to use the land for any specified purpose; it is better to sell the land or property with open tender rather than to wait for encroachments. There should be an open approach that if the land area remained unoccupied for any specific task, that would be encroached and it is better to sell it for purposeful task.

Old buildings and vacant lands are usually uneconomic assets where problem of protection remains serious and the urban institutions do not get any financial return. Urban areas are dense populated sites, where market price of vacant land is quite high and old buildings with no use need to be sold for one time return from the urban property. Selling the land after changing its category is quite remunerative. It is always better to purchase land for residential purpose and sell it after requisite site development, rather than waiting cooperative societies to sell the land. Land with free hold sold by government body has significant value as facilities of loan for construction of building is possible by the purchasers. Various cooperative housing societies are encouraged, when urban bodies remain inactive in meeting the land requirement of the people.

Cost of land in urban localities continues to increase on regular basis and people purchase plots for future return. It is better for urban bodies to take action of sale of their own land or agriculture land came
into urban area due to expansion of area. The urban local bodies can take lead in sale of available land for easing the housing and commercial needs. In such transaction, purchase of government land is preferred by people, as there are no complications of regularization of land in future. Migration of people to urban areas is regular feature and poor people try to search land in slum areas, while rich persons purchase any available land at prevalent price. Urban bodies need to initiate sale of land to help the needy persons and save people from various frauds in land deals by housing societies.

In urban areas, where urban limit is extended to ease the concentration of people, agriculture land is purchased by various societies well in advance of formal declaration of urban expansion. If urban local bodies take lead in this task and purchase such land, which is permissible in rules and people are given due compensation, sale of land for residential and commercial purposes is most remunerative task for urban bodies and such opportunities need to be availed by urban institutions on priority basis. Urban bodies have to create infrastructure facilities in society lands when the people are settled, but managing land sale at their own is best course for urban bodies. Such transactions are transparent and remunerative to urban institutions also, which requires timely action by issue of notification for occupation of land by urban bodies.

Sale of land is important source of income, which need to be entrusted to urban local bodies instead to the urban improvement trusts or development authority, which are authorized to acquire land, develop it and sale for residential and business purposes. This has ceased the important source of revenue and in case, the government does not feel it proper to hand over this task to municipalities, they should be given due
share in sale. Raising parallel body to urban local bodies is costly affairs and depriving the constitutional bodies from their legitimate power is not justified from any point of view.

The urban local bodies have been empowered to charge license fees for different activities, including construction activity, putting hoarding for advertisements. The rates of various fees have not been revised for many years creating low earning to urban institutions. There should be proper mode to allow all the urban local bodies to charge fees at their own discretion and authorized to increase fees etc on annual basis. It is not genuine to seek state approval for each and every issue of minor nature and keeping everything at the mercy of the state government is not justified and need to be waived with changes in rules or bye-laws.

2.3.5 Change in Land Use Category:

Urban area are centers of business and trade for which land is required for facilitating new business activities by construction of business complex. For this purpose change in land use category is necessary for which permission of urban local body is necessary. There is necessity to control illegal practices prevalent in such transactions and every proposal received for change of land use category need to be settled after fulfilling all the legal and procedural formalities. This task is remunerative to urban local bodies and illegal practices prevalent need to be stopped strictly.

In many residential areas, front line houses have constructed shops, which are functional for many years and no decision about their fate has been taken. This is common tendency of the people to construct shop for business or processing activities. Usually industrial activities in
residential areas are restricted legally, but various industrial, manufacturing, business activities are started with the connivance of the enforcement machinery. In many cases, no action is initiated to stop such activities or regularize, if permissible. In indecisiveness, the revenue earning from regularization are not materialized and stopping such activities remain problematic. There is necessity to take quick decision, as such practices encourage others to replicate similar task.

In case of legal or procedural problem, the administrative department need to be approached to take appropriate decision as such practices should not be allowed for any reason. If stoppage of such activities or demolition of shops etc in residential area is not possible, government should take appropriate decision rather than lingering on the problem. This problem is prevalent in all the urban areas but no action has been taken so far and people continue to carry on construction of shops without any restriction. If the activities are regularized with one time penalty or annual fees from every defaulter, the urban local bodies can get substantial return on perennial basis.

Every urban body is supposed to have master-plan of land-use in their area. Master plan provides horizontal future year by which what kind of land use will happen. This document should ideally govern the direction in which the city will grow and with phased planned manner. Anybody desiring to use land in contrary to land-use described in Master-plan need to get it changed by competent authority in urban local body. This process generates revenue for urban local body. There is vast scope of revenue generation in peripheral area as this part is shown as land-use of green belt. With the expansion of cities the outer most limit expands and shifts quickly. Hence, the inhabitants in peripheral area
needs change of land-use. Though concerns of environmental balance is to be kept intact but with proper planning this zone can be a boon from ecological as well as economic point of view.

2.3.6 Imposition of Penalties:

Penalty cannot be treated as source of finance to any institution, but its imposition is essential to stop such activities by others. There are various activities the people are accustomed to carry out without thinking of cleanliness of the city. This is the duty of the enforcement machinery to have regular round of total city or assigned area and impose penalty on the spot over the defaulters of various categories. Problems of various nature increase in city if no action is taken to penalize those, who do not follow urban rules and practices. Accumulation of construction material outside house creating traffic problems, flowing water out of house damaging roads, throwing house waste on road, leaving cattle on road, exhaust of chemical and other pollutants from industrial units and various types of polluting and environment loss activities need suitable penalty.

Keeping city clean is the responsibility of the people and it is duty of urban body to enforce such practices effectively and penalty provisions exists for imposing over the defaulting people. This is helpful in keeping the people to follow urban sense and negligence or disobedience need suitable penalty, which also helps in raising income of urban bodies. Usually, the enforcement machinery of urban local bodies comes in action, where there is some reporting in papers about various irregularities and disobedience by the people. Some action is taken and the matter is stopped completely. People also feel that there is no harm in creating various irregularities by habit or due to negligence.
2.4 LIMITATION OF THE FINANCE:

Finances of urban local bodies are limited but the activities for finance are unlimited. There are various limitations in raising finance to urban institutions. The grant-in-aid received from central and state government at the recommendations of central and state finance commission are given to all the urban local bodies in accordance of the laid down pattern of distribution, where population of each urban body is important factor. In case of recommendations of Central Finance Commission, the money received to urban local bodies for the activities entrusted out of total 18 activities and the central funds are given to each state for this purpose keeping in view that total activities are entrusted to urban institutions.

The state grants are given to urban institutions as share from the taxes realized by the state government and various taxes, duties charged earlier by urban local bodies. Most of the grants from the state to ULBs are based upon the recommendations of the State Finance Commission. Total consolidated funds made admissible to urban institutions is distributed among 184 urban bodies in accordance of laid down pattern, where smaller urban institutions get meager share, which is usually not enough to meet committed liabilities and some petty works essential to carry out. The 74th Constitutional Amendment had authorized urban local bodies to generate their own funds through taxes, duties, fees etc but in such cases, most of the urban bodies have no capability to think over the means through which the resources can be raised.
2.5.1 Permission of State Government for Raising Finance:

For raising of finances for carrying out various development activities, the urban local bodies need to forward proposal to Local Self Government and Urban Development Department for seeking permission. Such issues received from any one or more urban bodies are examined from administrative angles for its viability and admissibility. Usually permission is not accorded to various proposals for imposing new taxes, duties and fees as well as revision of rates. This is most critical issue in smooth functioning of the urban local bodies. In such cases the situation of urban local bodies, which are not capable to think for additional resources and those proposed for new resources remain equal as permission is not accorded by the state government. This may be because of lack of proper documentation, imperfect following of procedure, legal hiccups, viability and impact status on public. Various fees and duties were permitted to urban local bodies but revision in rates is not permitted, though the cost of various activities has increased to significant extent. In such a situation, the urban institutions remain helpless to think over various development activities.

2.5.2 Limitation over Land Related issues:

The state government has given land related powers to urban improvement trusts, Jaipur and Jodhpur Development Authorities. These authorities are directly administered by state government through Local Self Government and Urban Development Department. The delimitation of urban areas in terms of expansion would remain with the state government in all the situations. The land provided to urban local bodies through acquisition, would remain in the jurisdiction of the state government. Discretionary powers of land allotment with parallel body
like urban improvement trusts and city development authority are controlled by the state government and there seems no possibility to handing over such powers and authority to urban local bodies.

The limitation in raising finances by ULBs through land related matters have manifolds. The activities in this bracket can be termed as- Conversion of land, Land-use change permissions, building plan approval permissions, sub-division and reconstitution permissions, illegal plot regularization powers ,compounding permission for illegal buildings or set-back violations ,land acquisition process ,development of residential colonies etc. The rules and bye-laws governing these permissions and processes are determined by the state governments. The financial resources from these processes depends upon the rates fixed by the state governments and the various legal sanctions from state government. Over the years the cost of land has risen several times but due to welfare part of ULBs they have to provide housing needs of poor. Land being the scarce and non-renewable resource in urban area is major components of expenditure of ULBs. The cost benefit ration normally remains adverse in such matters.

2.5.3 Grants to Urban Local Bodies through State Finance Commission:

The provision of constitution of state finance commission for sharing the taxes collected by state government departments and share in consolidated funds of state are admissible to urban local bodies on the basis of its recommendations. Usually the recommendations are made by the state finance commission, where role of state finance department, administrative department of Local Self Government prevails to vital extent. The most of the recommendations of the State Finance
Commission includes various issues of incompetence and incapabilities of the urban local bodies to show their immaturity and reflect on the working system of these institutions to great extent.

The Thirteenth Central Finance Commission had already given its recommendations for the duration of 2010-15 and every state government is well aware of its share in central funds. The Fourth state finance commission has also given its report.

The finance of urban local bodies is largely dependent on the state government and all the important activities are still controlled by the state. One of the reason for lesser devolution of power is that urban local bodies are alleged with inefficiency, incompetence and immature to handle all the tasks of their powers and jurisdictions. Unless the urban local bodies are made fully empowered and delegate all the powers to impose taxes, duties and fees as per feasibility, the financial situation of urban local bodies would not improve and they would not be able to work in the spirit for which the efforts have been made at central level. The urban local bodies of the country are doing commendable work, where powers and responsibilities have been entrusted to full extent.

2.5 NEED FOR MULTI-STRATEGY FINANCING APPROACH:

India embarked upon the programme of economic and structural reforms in 1991 and the country is through with the first stage of reforms. The economic and structural reforms did not contain or address, except one or two urbanization issues directly. The two landmark reforms in the field of urbanization which came through in this epoch making era of reforms were: democratic decentralization of urban governance addressed through the 74th Constitutional Amendment and the issue of financing
urban infrastructure addressed through Indo-USAID Financial Institutions Reforms and Expansion (FIRE-D), creation of Infrastructure Development Finance Company (IDFC), tax exemption to infrastructure companies, municipal bonds etc.

Indian municipal bodies have mainly three types of resources- own resources in the form of tax and non-tax, transferred resources in the form of government revenue and capital grant and borrowings to finance urban infrastructure. There is no qualitative and quantitative change in first two types of resources i.e., own resources and government grants in the pre and post reforms era. It is only the third source that has undergone a complete change due to the process of economic and infrastructure reforms. This source started undergoing of the sea change with the recommendation of USAID-FIRE-D programme for developing long term debt markets in India for urban infrastructure projects was launched in 1994 and concluded in September 1998.

FIRE-D programme introduced and demonstrated successfully new concepts like financing urban infrastructure through municipal bonds, commercial viability of urban infrastructure projects, credit rating of municipal and other entities providing urban infrastructure and public-private partnership in its provision. These non-conventional concepts and tools have gained currency in policy formulations at all levels of governments. Now only the FIRE-D programme has also succeeded in creating interest among financial institutions for funding urban infrastructure projects. The FIRE-D programme and other reforms have turned the otherwise grossly neglected archaic, lifeless field of financing urban infrastructure into an exciting, colourful and modern one.
To place in right perspective, the FIRE –D programme has completely revolutionized the field of financing the urban infrastructure. But even after the successful completion of phase-I of the programme and the host of other structural reforms, two issues loom large over the urban financing scenario. First, there are few takers of these new non-conventional concepts and tools and second to utilize various concepts, tools and conventional and non-conventional resources judiciously to finance urban infrastructure. These newly introduced non-conventional methods of financing urban infrastructure are not aimed at the replacement of the conventional methods but to co-exist with them. The overall reforms has rejuvenated some of conventional sources of financing infrastructure

2.6.1 Pre-Reforms Era:

Prior to the FIRE-D programme and the structural and economic reforms, the field of financing urban infrastructure was underdeveloped, limited to gross neglected. In this period financing of urban infrastructure was confined to revenue surplus of the municipal bodies, government grants and borrowings. So far as borrowing as source of finance is concerned, the municipal bodies and other urban agencies had to rely on government loans, privately placed debt papers with banks backed with the state government guarantee, unguaranteed bonds, loans from banks, loans from international agencies through the state government. Except for commercial bank loans, no other source was outside the purview of the planning mechanism.

The annual plan and Planning Commission of India mechanism controlled all these resources. There were minor variations from state to state and from source to source but the macro system was the same
throughout the country, characterized by capital rationing. The inadequate plan funds were dolled out to municipal bodies without any consideration to their financial position, funds requirements and efficiency of utilization of such funds. The situation was such that municipal bodies had to take loan funds allocated, otherwise those were lost for ever and postponement was not possible.

The only source outside the planning mechanism was also of not much help to municipal bodies. The term loans from commercial banks carried out highest interest rates. In addition, the commercial banks were not in a position to give long term loans of a sizeable amount due to asset-liability mismatch. The banks were also not very keen to finance urban infrastructure, as they were flooded with enough business from the private sector. Other important characteristics of loan funds through annual plan mechanism were no accountability, no performance and other covenants. Besides, highly inadequate loan funds available through annual plan budgetary process, the occasional short-term bank funds with high rate of interest, no other source was available to finance urban infrastructure.

2.6.2 Post Reforms Era:

The economic and structural reforms programme embarked upon in 1991, completely transformed the area of financing urban infrastructure directly through Indo USAID FIRE-D programme and directly through the capital debt market and other reforms, where FIRE-D programme demonstrated successfully various conventional methods of financing urban infrastructure by accessing the debt market through municipal bonds and private participation in provision to it. The programme also created awareness among all concerned groups, people and institutions.
The new economic policy with an aim to control fiscal deficits has reduced the plan and budgetary allocations. The state governments were not free to stand guarantee for unlimited amount. As a result the private placement of debt papers backed by state government guarantee were stopped fully. The loan given to state government for municipalities became costly as the policy of borrowing funds by financial institutions under its control was abandoned by the Government of India. This has also resulted in freeing municipal bodies from the clutches of low equilibrium trap of plan and budgetary funds. Another impact of new economic policy is greater autonomy in bank and financial sector, lowering the inflation rate and lending rates of the banks, which made the banking system more competitive.

Banks are now required to observe strict prudential norms while lending their funds and specifically allowed to finance urban infrastructure by giving banks greater autonomy. The development of capital and debt market and policy of allowing foreign direct investment are areas, which have reduced the excessive strain of financing each and every sector of economy. The economic and structural reforms have created an atmosphere of competitiveness, cost consciousness and innovation. This has rejuvenated various conventional financing options. The commercial banks were ready to provide loan for activities, where repayment was assured.

2.6.3 Municipal Bonds

This option is based on financial position of municipal body, viability of project and prevailing market condition. This is useful for municipal bodies, which are efficient and financially sound, where total cost of the project could be financed. Several critical issues associated
with such financing are related to decision making where decisions are required regarding size, tenure, coupon rate and timing of issue. Slightest mistake in decision making can cost heavily to the organization. In addition the interest cost starts from day one and the organization raising funds through bonds must have high capital absorption capabilities. The coupon being market based, required lot of preparation, credit rating and has to follow lengthy legal procedure. The organization accepting municipal bonds must have sound accounting, auditing and financial operation system.

Indian municipal bodies are characterized by very low capital absorption capacity. Barring six or seven municipal corporations, no other municipal body is in a position to absorb capital of Rupees 250 million in year. Administering an issue of less than Rs. 250 million is an uneconomical affair and any municipal body can spend this much money for gainful purpose. The municipal bodies are not allowed to invest its surplus in securities other than government and they do not possess investment management capability. The system was publicized but not found viable to functional level.

2.7 CONCLUSION:

Finance in common use is stocking of income and expenditure of individual, firm, institution or government. Resource mobilization is problematic issue as responsibilities for incurring expenditure are many and coping up of each of the activity is difficult. Accordingly, prioritization of activities is essential, which require immediate finance, which can be deferred for some time and which are essential for creating an environment of resource generation from created assets. The urban local bodies get grant-in-aid from state government through centre and
state finance commission recommendations, which is well known in advance for the duration of five years. In addition the urban local bodies are empowered to impose taxes, duties and fees, which require approval from the state government.

Borrowings from credit agencies are possible with the initiatives of the state government and guarantee to repayment on time bound nature. Procedure of Municipal Bond is quite critical issue for management and capability of urban local bodies to manage the finances as per terms and conditions. There are various limitations in finance of resources to meet growing responsibilities. The urban local bodies have been entrusted 18 activities as per 74th Constitutional Amendment Act, of which some of the activities have been entrusted to urban local bodies and remaining will be handed over to them as per suitability of the state government. There are various political and administrative issues in transfer of delegated tasks by the state government.

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